

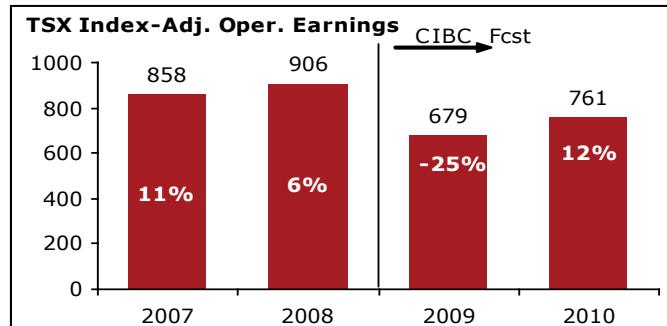
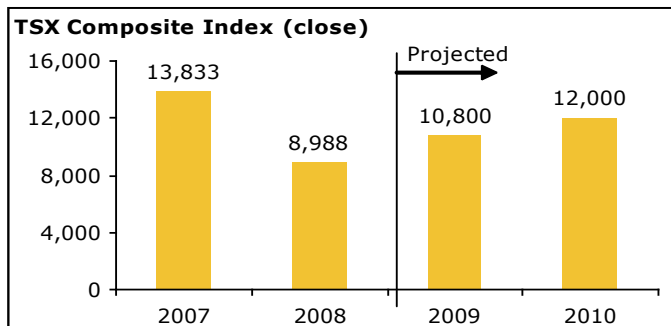
## STRATEGY AND EARNINGS OUTLOOK

- While stocks still aren't expensive against full-cycle earnings, leaving room for a multi-year rally, we expect a bit less ebullience in the next few months. That argues for a neutral, rather than overweight, position in equities. Signs of a turnaround in the still-troubled US economy remain tentative, notwithstanding pulses of improvement. Canada's economy also faces a tough climb back, even though the Q1 GDP decline didn't quite match the horrific advance billing.
- While the Canadian economy and S&P 500 may still march to a largely North American drumbeat, our analysis suggests Canada's stocks have become more and more levered to the global economy, including areas like Asia where recovery signs are more advanced. As reflected in our targets for the Composite and S&P 500 going forward, we expect that growing offshore focus to stand the Canadian market in good stead over the next two years. Not only have Asian economies moved first, but that region and the oil-exporting economies are likely to be significant sources of economic growth in the coming decade.
- To catch the first wave of global economic recovery, we added a further two points to our already overweighted position in materials, reflecting that sector's concentration in metal and fertilizer stocks. We financed the additional weight in materials by reducing our holdings in two defensive sectors, consumer staples and utilities, as investors' risk aversion subsides, making defensive plays less rewarding.

ASSET MIX (%)	Benchmark	Strategy Recommendation
Stocks	50	50
Bonds	39	37
Cash	11	13
<b>GICS SECTOR EQUITIES (%)</b>		
Consumer Discretionary	3.8	1.8
Consumer Staples	2.8	2.8
Energy	28.8	28.8
Financials	29.4	29.4
-Banks	18.4	18.4
-Insur., REITs, other	11.0	11.0
Healthcare	0.4	0.4
Industrials	5.2	2.7
Info Tech	4.5	4.5
<b>Materials</b>	<b>18.7</b>	<b>23.2</b>
-Gold	11.0	12.0
-Other Metals	3.0	5.0
-Chemicals	4.3	5.8
Telecom	4.8	4.8
Utilities	1.5	1.5

Note: Bold indicates recommended overweight.

TSX - Earnings Outlook & Forward PE						
	Operating Earnings (% ch)				4-qtr Fwd PE	
	2006	2007	2008	2009	Latest	Last 10 yrs.
Energy	6.7	49.2	-56.5	15.5	20.1	12.0
Industrials	8.8	24.5	-28.0	0.4	13.5	14.9
Materials	21.1	10.8	-19.7	36.3	23.0	28.9
Financials	14.0	-18.2	-6.1	8.3	11.9	12.0
Utilities	25.9	-65.3	142.3	10.0	13.2	17.4
Consumer Staples	-4.2	8.5	16.1	9.0	10.9	17.8
Consumer Discretionary	26.1	-0.6	-11.5	3.3	11.5	15.7
Info Tech	50.2	65.1	24.5	19.5	15.0	44.5
Health Care	-36.2	-18.8	36.9	0.4	10.6	22.0
Telecom Services	33.1	-6.6	13.4	-3.0	8.5	29.8
<b>TSX Composite</b>	<b>11.4</b>	<b>5.6</b>	<b>-25.0</b>	<b>12.0</b>	<b>14.9</b>	<b>16.1</b>



Source: Thomson First Call, CIBC WM