CIBC World Markets

Canadian Portfolio Strategy Outlook

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Strategy

Jeffrey Rubin
Economics & Strategy
(416) 594-7357
jeff.rubin@cibc.ca

Peter Buchanan
Economics & Strategy
(416) 594-7354
peter.buchanan@cibc.ca

Avery Shenfeld
Economics & Strategy
(416) 594-7356
avery.shenfeld@cibc.ca

Quentin Broad
Canadian Equity Research
(416) 594-7294
quentin.broad@cibc.ca

Yin Luo
Quantitative Strategy
(416) 956-3291
yin.luo@cibc.ca

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Executive Summary

by Jeff Rubin

The Société Générale-triggered equity selloff may have been a head-fake but the imploding US housing market is not. We are reducing our weighting in equities to market weight in view of near-term weakness in the US economy and further asset writedowns linked to the US subprime mortgage market.

In addition, we are cutting our weightings in banks and telecoms by a half-percentage point each and adding a percentage point of weighting to the high-yielding and relatively low risk utilities sector.

The tandem of falling housing prices and rising default rates should trigger as much as another US$30-50 billion in asset writedowns by North American banks over the next quarter, which, together with a visibly struggling US economy, could be the catalyst for another 5% correction for the market.

While the Bank of Canada may not match the Federal Reserve Board basis point for basis point, it will nevertheless be following the Fed in direction. We now see the Bank of Canada cutting its overnight target rate to 3%, creating 30-40 basis points of rally room at the long end of the Government of Canada yield curve, even with further curve steepening. Accordingly we are adding a 9 percentage-point weighting to our fixed income portfolio.

We continue to believe that the energy and resource side of the stock market provides the best protection against both the subprime mortgage market and North American economic weakness in the short run, and the best growth opportunities once we get past mid-year. The advent of triple-digit oil prices, US$1,000 per ounce gold, and continued strength in base metals prices should support a 14,500 TSX by year-end and a 16,200 level by the end of next year.

Strategy's Recommended Asset Mix & TSX GICS Sector Weights vs. Current Benchmark

ASSET MIX (%)	*Bench-mark*	Strategy Recom-mend.	vs Bench-mark	chg vs mon. ago*
Stocks	*56*	**56**	0.0	-9.0
Bonds	*38*	**42**	+4.0	+9.0
Cash	*6*	**2**	-4.0	0.0
GICS SECTORS (%)**				
Cons. Discretionary	*4.7*	**2.2**	-2.5	0.0
Cons. Staples	*2.4*	**2.9**	+0.5	0.0
Energy	*27.3*	**31.3**	+4.0	0.0
Financials	*29.8*	**28.3**	-1.5	-0.5
-Banks	*16.5*	*15.0*	*-1.5*	*-0.5*
-Insur., REITs, oth.	*13.2*	*13.2*	*0.0*	*0.0*
Health Care	*0.5*	**0.5**	0.0	0.0
Industrials	*5.4*	**3.4**	-2.0	0.0
Info Tech	*4.7*	**3.7**	-1.0	0.0
Materials	*18.4*	***20.4***	*+2.0*	*0.0*
-Gold	*8.7*	*9.7*	*+1.0*	*0.0*
-Other Metals	*4.8*	*5.8*	*+1.0*	*0.0*
Telecom	*5.1*	**3.6**	-1.5	-0.5
Utilities	*1.6*	**3.6**	+2.0	+1.0

Note: Shading indicates recommended overweight.
**chg in %-pt underweight/overweight from last month.*
*** Benchmark weights are for TSX Composite.*

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Further Writedowns Warrant Near-Term Caution—Jeff Rubin, Peter Buchanan and Avery Shenfeld

Société Générale and the 5% daily market decline that it sparked may have been a head-fake but the 15% decline in global stock markets that preceded it was not, and its underlying cause—the still-imploding US subprime mortgage market—remains problematic. So too, is the near-term outlook for the US economy, with growth already grinding to a halt in the fourth quarter and likely staying flat during the first quarter (Table 2). The prospect of further significant writedowns by North American banks as well as further economic weakness in the US has led us to shift to a neutral stance on stocks, moving nine percentage points of weighting from equities to fixed income.

Over the next quarter North American equity markets remain vulnerable to as much as a 5% correction on anxiety over the size and economy-wide consequences of further asset writedowns of securities tied to the US housing market. However, given the rapid rate-cutting response by the Federal Reserve Board, we do not think the market is vulnerable to a systemic credit crunch that some bears fear. While interest rate cuts and fiscal stimulus will not salvage US housing prices or prevent subprime mortgage default rates from rising, they should go a long way in containing broad contagion effects to the rest of the economy.

Beyond the near-term horizon of the next couple of quarters we remain longer-term bullish on the TSX, a reason we have not chosen to go to an underweight in stocks. Our longer-term bullish outlook is reflected in our continued overweighting of energy, base metal and gold stocks. Assuming that the bloodbath in credit markets does not go measurably beyond subprime mortgage assets, a 2.5% federal funds rate should resuscitate the US economy and North American equity markets by the second half the year. Continuing strength in overseas economies and the prospect of triple-digit oil prices over the next twelve months should set the stage for a powerful second-half rally in the market that will see the TSX end the year at 14,500. Although we see it now taking a whole year longer to get to, we ultimately see the energy and resource-based TSX hitting our original 16,200 target by the end of 2009 (Table 1). As we move toward those targets, we would expect to be adding weight back to our equity position over the latter half of this year.

Table 1 — **Equity Projections**

		Year-end			
	Latest	2006	2007	2008	2009
TSX Composite	13,155 (1/31)	12,908	13,833	14,500	16,200
% total return, YTD	(4.7) *(2008)*	17.3	9.8	7.9	14.1
TSX Operating Earnings - index adj	—	732	824	898	1,006
- yr/yr % chg	15.0 (07:Q4)	*17.4*	*12.5*	*9.0*	*12.0*
S&P 500	1,379 (1/31)	1,418	1,468	1,500	1,600
-% total return, YTD	(6.0) *(2008)*	15.8	5.5	4.7	8.9

Table 2 — **Economic Forecast**

		07Q4	08Q1	08Q2	08Q3	2007	2008
Canada	Real GDP Growth (AR)	1.6	0.9	1.9	2.6	2.6	2.1
	Real Consumption Growth (AR)	2.9	2.8	2.8	3.0	4.1	3.1
	CPI - Headline (y/y)	2.4	1.6	1.5	2.1	2.1	1.9
	- Core (y/y) ex taxes	1.6	1.3	1.1	1.1	2.1	1.3
	Unemployment Rate (%)	5.9	6.0	6.1	6.2	6.0	6.1
US	Real GDP Growth (AR)	0.6	0.2	1.5	2.0	2.2	1.8
	Real Consumption Growth (AR)	2.0	0.2	1.5	1.5	2.9	1.6
	CPI - Headline (y/y)	4.0	3.9	3.1	3.9	2.9	3.7
	- Core (y/y)	2.3	2.4	2.4	2.6	2.3	2.5
	Unemployment Rate (%)	4.8	5.0	5.2	5.3	4.6	5.2
World	Real GDP Growth (% chg)	-	-	-	-	4.9	4.3

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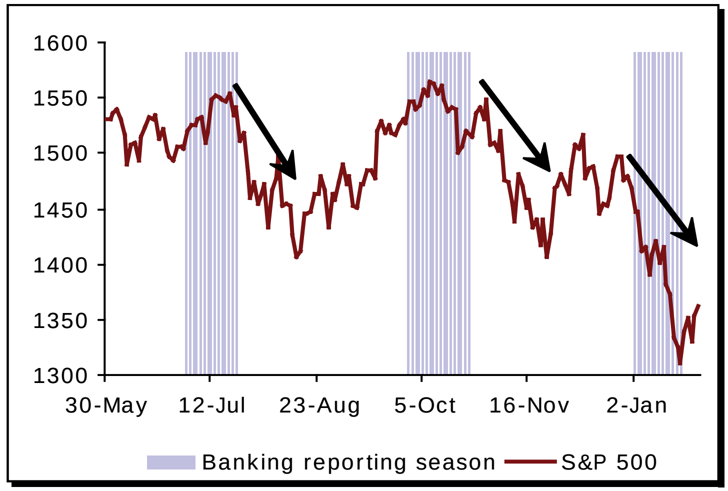
Subprime Mortgage Losses Will Peak Next Year at Around US$265 Billion

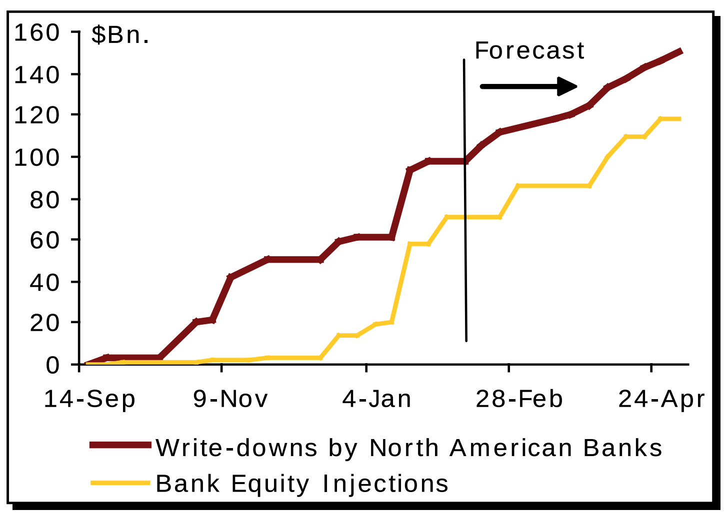
The last three reporting sessions for US banks have prompted share pullbacks in the S&P 500 (Chart 1) and we see no reason why the next one coming up in April should prove any different, with equity markets on both side of the border facing as much as a 5% potential downside. We expect to see North American banks return to the confessional disclosing another US$30-50 billion dollars of writedowns associated with the still-imploding subprime mortgage market following last quarter's US$77 billion tally.

Chart 1 — **S&P 500 and US Bank Reporting Season**



Banks, for the most part, have moved aggressively to shore up their balance sheets. Some US$70 billion of new equity financing has bolstered bank Tier 1 capital positions (Chart 2). This should go a long way in allaying concerns of a credit contraction along the lines seen by the balance-sheet-impaired Japanese banks of the early 1990s. Nevertheless, banks' share values remain exposed to further writedowns of subprime mortgage assets.

Chart 2 — **Further Writedowns Compel More Capital Injections**



Already at US$140 billion, world-wide writedowns on US subprime and related mortgage assets are likely to peak in the US$265 billion range over the next year. Those losses are likely to occur in spite of both Fed easing and efforts by Washington to spare over 300,000 mortgage holders from painful mortgage resets.

While much attention has been focused on alleviating the rate-reset burden on subprime mortgages, the whole refinancing issue may be a bit of a red herring. Default rates on 2006 vintage subprime mortgages have already climbed over 25%, even at the so-called 8% "teaser" rate. Hence, neither Bush nor Bernanke's efforts to ease the reset burden are likely to prevent further rises in default rates.

As long as falling house prices continues to generate significant negative home equity among subprime mortgage holders, default rates will continue to rise even if subprime mortgage rates do not (see upcoming February *StrategEcon*).

Already down almost 9% from its 2006 peak, the Case-Shiller housing price index will likely see a cumulative decline approaching double-digit territory by spring and will likely breach that threshold by summer. Housing prices

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are expected to trough early in 2009, recording a nearly 20% decline from the peak in mid-2006—the largest post-war US housing price decline on record. A double-digit decline in housing prices will bring a concomitant increase in default rates which will likely approach just under 30% by the fourth quarter of this year (Chart 3).

Chart 3 — **Housing Prices and Default Rates**

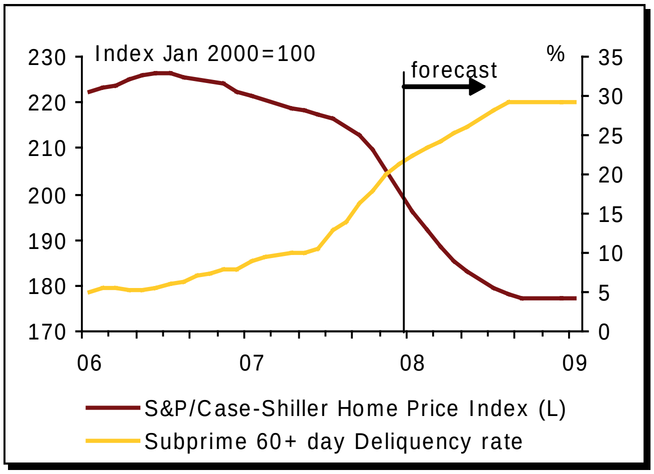
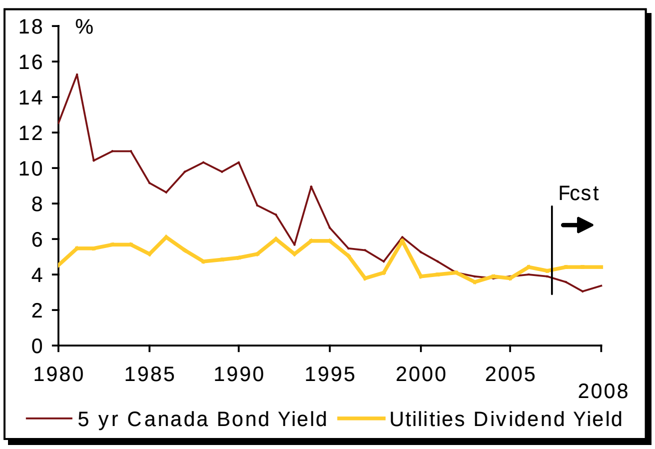


Chart 4 — **Utilities Yields Now Surpass Bonds**



In addition to reducing our exposure to the broad equity market, we are reducing our weighting in banks, which have been underweighted in our portfolio since November, by another half-percentage point. We are also taking another half-percentage point of weighting from the telecoms, another sector that we have already underweighted in our portfolio. The telecom sector is not only vulnerable to further market de-leveraging but may also face the prospect of leaner margins in the future as Ottawa moves to bolster competition in the lucrative wireless segment by reserving spectrum for new entrants.

The funds taken from banks and telecoms have gone into utilities where we have added a percentage point of weighting. With the Bank of Canada now compelled to follow, if not match Fed cuts, long Canada yields now have a good 30-40-bp rally room, even with a steepening yield curve. Pre-tax dividend yields from utilities are already over mid to long Canada yields and are likely to become even more attractive over the next six months (Chart 4).

Energy and Materials Will Take TSX to 16,200 Next Year

We continue to like the energy and commodity side of the market which is largely detached from the problems of the US housing market and even the more general

Table 3 — **Valuations & Earnings Growth by Sector**

	4-Qtr Fwd Earnings	Index Level	Forward PE Current	Forward PE Last Decade	TSX Op. Earnings (% ch) 2005	2006	2007(f)	2008 (f)
Financials	158.7	1775	11.2	10.9	12.8	17.3	14.4	4.5
Consumer Staples	120.9	1475	12.2	17.0	1.4	-2.5	-2.0	7.0
Telecommunications	67.6	872	12.9	34.7	5.0	29.8	20.7	6.0
Energy	218.3	3091	14.2	13.0	54.5	10.8	9.9	13.8
(Energy-cash flow basis)	370.2 *	3091	8.2 **	13.0 **	31.1	7.5	14.2	12.2
Consumer Discretionary	80.2	1155	14.4	18.6	5.7	7.6	15.7	-3.0
Industrials	83.3	1204	14.5	15.6	18.7	12.2	2.5	6.0
Health Care	23.6	362	15.3	49.7	1.4	10.4	-35.4	-12.8
Utilities	117.5	1936	16.5	13.9	10.4	15.2	29.3	8.0
Materials	147.0	3245	22.1	27.5	32.5	89.8	3.1	12.2
Info Tech	14.7	340	23.1	32.3	260.9	-47.6	25.2	19.1
TSX Composite	**935.5**	**13155**	**14.1**	**17.9**	31.2	17.4	12.5	9.0

Note: Indexes as of Jan 31st; 4-qtr fwd earnings are proj. 07:Q4 thru 08:Q3
**Forward cash flow* ***Price to Fwd Cash Flow*

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outlook for the US economy. If the US economy is going into recession, it's amazing how little impact that has had on global commodity prices. The CRB is at a record high with oil prices (Chart 5) around US$90 per barrel and copper prices around US$3.25 per pound seemingly defying US economic gravity.

Old habits die slowly and Americentric financial markets continue to grossly exaggerate the contribution of the American economy to global economic growth. Over the last three years of near-record strong global growth, that contribution has been running in the 12% range, less than half the contribution the same US economy made to world growth only a decade ago. The largely services-based US economy carries even less punch when it comes to contributing to the growth in global commodity demand as opposed to the growth in global GDP. From oil to base metals that contribution has, in recent years, been nil or even negative

While the US economy undoubtedly remains the fuel hog of the world economy, consuming approximately 21 million barrels of oil per day, crude consumption over the last two years has not grown at all. US consumption of copper, zinc and aluminum has actually fallen over the same period while consumption of nickel has remained flat (Chart 6). By contrast, China's consumption of these metals during the same period has grown at double-digit annual average rates. Its consumption of base metals is now two-to-three times the consumption of the US economy.

Chart 5 — **Resource Prices Remain Near Record Despite US Weakness**

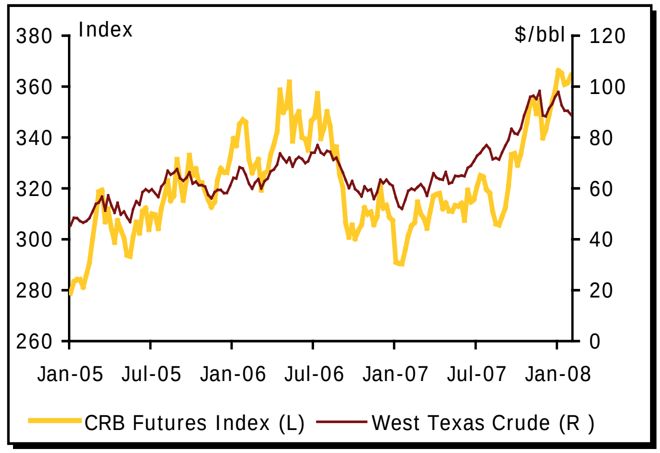
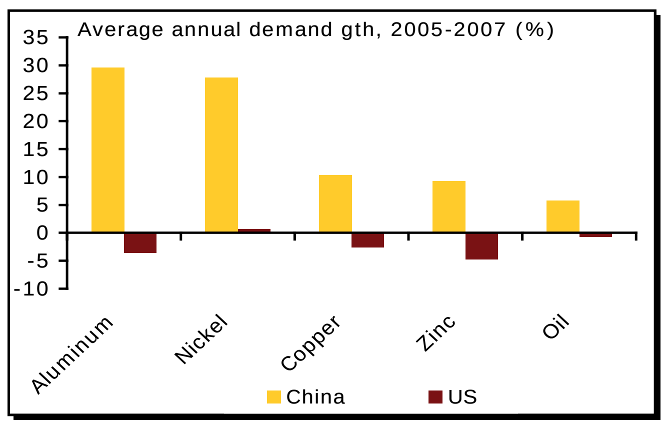


Chart 6 — **US and China's Contribution to Demand Growth of Selected Commodities**



While subprime mortgage woes aren't having much of an effect on commodity prices they nevertheless have had a noticeable effect on the valuation of commodity stocks by casting a pall over the broad equity market. In the near-term commodity prices are likely to continue to outperform commodity stocks, as jitters about the financial system's ability to absorb asset writedowns triggers further episodes of broad index selling.

Table 4 — **Commodity Price Forecast**

					Average		
		31-Jan	2005	2006	2007	2008 (f)	2009 (f)
Oil (WTI)	$/bbl	92	57	66	72	95	105
Natural Gas (Henry)	$/Mn Btu	8.10	8.89	6.73	6.97	8.50	9.25
Gold	$/troy oz.	923	444	604	695	1000*	1050*
Copper	$/lb	3.34	1.67	3.06	3.24	3.30	3.50
Aluminum	$/lb	1.22	1.23	1.17	1.20	1.00	1.00
Nickel	$/lb	12.35	6.71	10.98	16.86	11.50	10.50
Zinc	$/lb	1.13	0.63	1.48	1.48	1.15	1.15
Uranium (contract price)	$/lb	95	31	50	95	110*	120*

*Year-end

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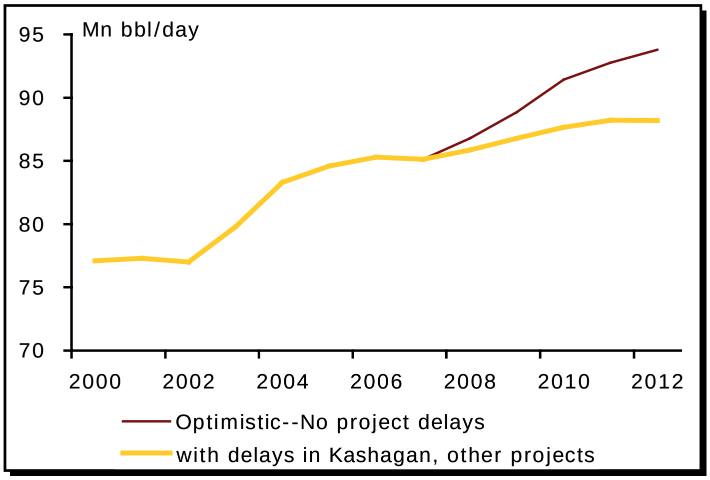
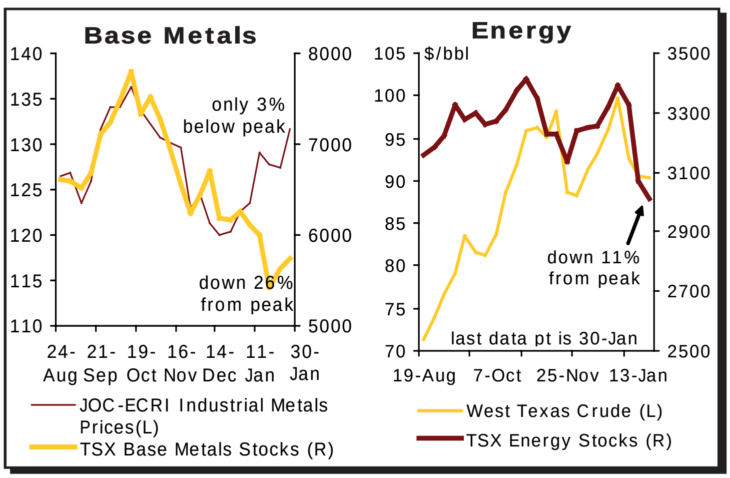
With energy stocks accounting for almost 30% of TSX market capitalization, energy stocks bear a proportionately large share of such selling. But energy prices, and in particular oil prices, will continue to rise as surging demand in the developing world, led by oil-producing countries themselves, more than makes up for any slack in US or for that matter OECD demand. Note crude prices averaged over US$90 per barrel in the fourth quarter when US GDP growth was flat. Recession or no recession, US crude demand is likely to drop by 2 million barrels per day over the next five years as retail gasoline prices climb to US$4.50 a gallon.

Chart 7 - **Project Delays Will Drive Oil Prices Above US$100**



Even more problematic is the supply side. Project delays and mammoth cost overruns have now become the norm, not the exception, among the world's largest 200 oil mega-projects (see *Occasional Report #65, "Delays Will Tighten Oil Markets"*). The delays will subtract as much as 5 million barrels per day from global production growth over the 2008-2012 period (Chart 7), leaving room for less than 1% per year growth in oil supply, net of the 4 million barrels lost every year due to depletion. With oil prices poised to hit triple-digit territory in the next 12 months, energy stocks look undervalued relative to energy prices.

Chart 8 — **Commodity Stocks Will Continue to Underperform Prices**



That's also true of base metal and gold stocks (Chart 8). Bullion prices have remained strong and are likely to get even stronger as further Fed rate cuts weaken the US dollar. We are raising our target for bullion prices to US$1,000 per ounce this year and are reaffirming our overweight in this sector. Base metal prices, while not keeping pace with gold prices, should remain at historically high levels despite the performance of the US economy, reflecting robust economic growth not only in China but in other resource-intensive developing economies like India and Brazil.

Table 5 — **Fixed Income & Exchange Rate Projections**

	Jan 31/08	Mar 31/08	Jun 30/08	Sep 30/08	Year-End 2006	Year-End 2007	Year-End 2008
B of C Overnight Target (%)	4.00	3.50	3.00	3.00	4.25	4.25	3.00
2-Year GOC	3.18	2.85	2.80	3.10	4.03	3.75	3.25
10 Year GOC	3.88	3.75	3.40	3.70	4.09	3.99	3.95
30-Year GOC	4.18	3.95	3.85	4.00	4.14	4.10	4.10
S&P TSX Cdn Bond Index (% YTD total return)	0.6	2.3	4.1	3.8	4.0	3.8	4.0
Fed Funds	*3.00*	*2.50*	*2.50*	*2.50*	*5.25*	*4.25*	*2.50*
10-Year US Note	*3.60*	*3.55*	*3.50*	*3.65*	*4.70*	*4.03*	*3.95*
C$ in US cents	*99.7*	*101.0*	*101.5*	*104.7*	*85.8*	*100.2*	105.0
US$/EUR	*1.49*	*1.49*	*1.45*	*1.43*	*1.17*	*1.46*	*1.40*
Yen/US$	*106*	*106*	*109*	*110*	*119*	*112*	*110*

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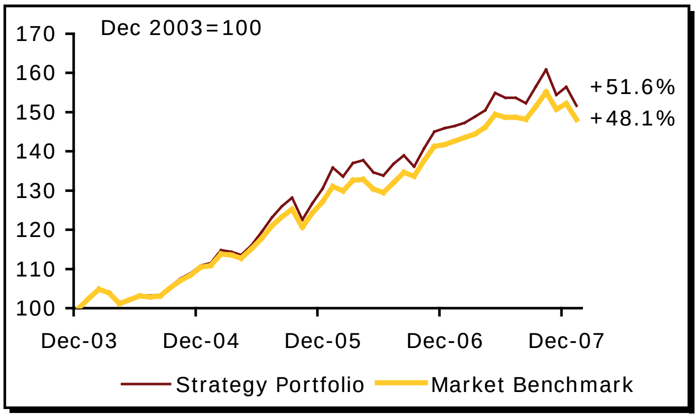
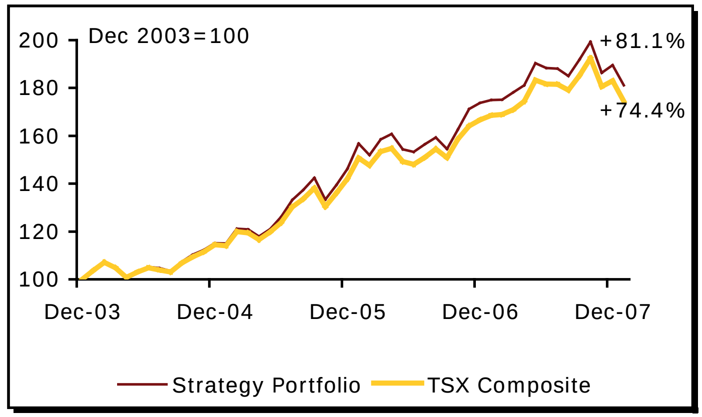
PERFORMANCE OF STRATEGY PORTFOLIO VS BENCHMARK

All Asset Classes



TSX Only



(1) *Total return for the recommended portfolio is the index return multiplied by the individual asset mix or sector weight recommended by Economics & Strategy. Recommen ded portfolio weights for the current month appear in the front table.*

HISTORICAL PERFORMANCE: CIBC WM BENCHMARK AND ASSET CLASSES

	Total Return (%)*		
Asset Classes	**2007**	**2008 YTD**	**Last 3 Mos.**
Stocks (TSX Composite Total Return Index)	9.83	-4.72	-9.45
Bonds (S&P TSX Cdn Bond Index)	3.84	0.53	2.66
Cash (1-Month Bills)	4.07	0.31	-3.01
Market Benchmark(2)	**7.22**	**-2.66**	-4.57
-Strategy Portfolio	**7.20**	**-3.09**	**-5.77**
TSX Stocks by Sector (Total Return) (3)	**2007**	**2008 YTD**	**Last 3 Mos.**
Consumer Discretionary	4.22	-10.63	-17.49
Consumer Staples	-5.34	-6.73	-15.51
Energy	8.23	-6.83	-9.22
Financials	-1.63	-4.06	-11.29
-Banks	-6.84	-0.50	-10.22
-Insurance, REITS, others	5.20	-9.45	-13.79
Health Care	-24.25	-5.76	-14.28
Industrials	10.51	-3.86	-9.83
Info Tech	48.22	-13.76	-15.46
Materials	30.26	4.46	1.61
-Gold	5.73	18.49	15.30
-Other Metals	16.51	-6.63	-16.59
Telecom	19.87	-12.13	-17.65
Utilities	11.89	-2.30	-4.58

**as of Jan.31/08*

(2) *Market benchmark weight is the actual mix for stocks, bonds and cash held by the broad base of pension funds, segregated funds, mutual funds and insurance companies. This totals about $1 trillion of which pension and mutual funds are the biggest (45% & 37%) with life insurance and segregated funds at 11% & 7% respectively. The cash, stock and bond breakdown varies significantly among the 3 basic components such that the benchmark for any of the 4 categories may vary significantly from the published aggregate (eg. equities can vary from 10% for life companies to 75% for the other 3 categories). Data is Statistics Canada/Bank of Canada published data updated to current based on correlation analysis from the most recent partial actuals. The total return for the index will differ slightly from the summed weighted return for the sectors due to the weight shifts on a day-to-day basis.*

(3) *Equities by GICS sector benchmark weights are TSX data. Sector index levels are total returns.*

Equity Research

TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR FEBRUARY 2008

Consumer Discretionary – B. Bek

the CRTC unveiled a new set of rules to ensure a diversity of voices remain in Canadian media, following the completion of a hearing that was launched last April. The key rules are: 1) an entity cannot control more than two types of media in a market; 2) an entity cannot control more than 45% share of TV audience through M&A; and 3) M&A between cable or satellite BDUs cannot lead to an entity effectively controlling the programming distribution in any market. The CRTC rules are clearly negative for further media M&A. While the rules do not impact completed deals nor do they apply retroactively, the new thresholds place a constraint on future M&A **(Bek: Communications & Media – Market Weight)**.

Consumer Staples – P. Caicco, K. Wong, R. Piticco

We would continue to avoid the Canadian grocery stocks. Pricing is collapsing once more in Ontario. Supercenter and Superstore are hungry for volume and price declines are in motion. This will deepen sales erosion at other stores, and reduce the margin performance everywhere. Rising food inflation could also be a tough issue to deal with in a market where competitive pressure is mounting **(Caicco: Merchandising & Consumer Products – Market Weight).**

Energy – R. Plexman, M.Bridges, B.Borggard, W.Lee & J. Fetterly

Crude oil inventories at the beginning of 2008 are tight, and most energy economists expect that global oil demand growth will be robust this year as expanding Asian economies offset an economic slowdown in the U.S. We expect that global oil demand will increase faster than non-OPEC production, which should keep the system tight **(Plexman: Oil & Gas – Overweight)**.

Despite the arrival of the seasonally strong first quarter, we believe that the oilfield services sector continues to face strong headwinds and that the current downturn is expected to extend into at least the second half of 2008 **(Fetterley: Energy Equipment Services – Market Weight)**.

In 2007 the CIBC Junior 35 Index posted a decline of 11% on the back of the weakness in natural gas prices, a strong Canadian dollar and the government of Alberta's royalty review process. However, since the beginning of December, the continued record strength in WTI oil prices and the recent firmness in spot AECO prices have supported the winter rally and the Index has posted a 10% gain **(Bridges, Borggard and Lee: Oil & Gas Junior E&P – Market Weight)**

Financials – D. Mihelic, R. O'Reilly, S. Boland

The recent turmoil in financial markets has created downside risk to bank earnings, while the banks' extremely strong results in F2007 create difficult comps in F2008. We expect EPS growth to slow down significantly and recommend Market Weight **(Mihelic: Banks – Market Weight)**.

In 2008, we expect REITs' growth in funds from operations (FFO) to average 7%, driven by internal same-portfolio growth and accretive acquisitions financed with unused debt capacity. Investment returns should stem from high current distribution yields and appreciation in unit prices as FFO grows and P/FFO multiples recover. We estimate that total returns in the next 12 to 18 months could approach 25% on average on this basis **(O'Reilly: Real Estate – Overweight).**

Health Care – J. Walewicz

With close to 70% of the S&P/TSX Health Care Index driven by just three stocks, company-specific news should drive sector performance more than broader macro trends. We maintain our Market Weight sector weighting, as we view the risk/reward profile for the dominant Canadian health care stocks as balanced. In 2008, the sector heavyweights must focus on operating results and the integration of acquisitions. The diversity of the Canadian health care space demands that investors continue to focus on stock selection **(Walewicz: Health Care – Market Weight).**

Industrials – M. Willemse, J. Bout

North American vehicle sales have been resilient over the past few months despite economic headwinds. However, until the U.S. economy shows signs of a rebound and until Canadian auto suppliers report favorable results with the high Canadian dollar, we believe investors may hold a cautious view on Canadian auto-related equities **(Willemse: Automotive – Market Weight)**.

Our Market Weight rating reflects the balanced fundamentals in the steel sector, which have improved significantly since the end of 2007. Steel prices have declined moderately over the past few months, but are poised to increase over the coming months due to service centre restocking and limited import activity. Most steel sectors continue to experience strong demand, although soft demand in automotive and housing markets and still too many small steel players pose a risk to the industry pricing environment **(Willemse: Steel – Market Weight)**.

Our Market Weight rating on the capital equipment sector reflects the complexity of the underlying drivers of this group. We believe there is likely to be ongoing softness in U.S. commercial and residential construction while robust economic growth in Asia should continue to drive demand for commodities. The capital equipment sector is typically a late-cycle

Equity Research

TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR FEBRUARY 2008

performer **(Bout: Capital Equipment – Market Weight)**.

Our Market Weight rating on the Canadian rails reflects the mixed outlook for the global economy (more buoyant for international markets and muted for North America). As the transporter of all things commercial, residential and industrial, historically, the Canadian rails' performance has mirrored economic conditions. However, given the sector-specific issues facing the trucking industry (highway congestion, higher fuel costs for trucks versus rails, and increased regulation for trucks), we expect the Canadian rails to capture a disproportionate amount of the freight volume growth (at the expense of trucks) and, with an improved level of service, generate revenue growth higher than GDP **(Bout: Railroads – Market Weight).**

Information Technology – P. Lechem, T. Coupland

The main issue for many Canadian software companies through 2007 was dealing with the impact of a rising Canadian dollar, as much of the industry's costs are in Canadian dollars, but sales are primarily in the U.S. and internationally. With the dollar stabilizing, for now, at around par with the U.S. dollar, this gives the industry more time to structurally adjust to the changes in exchange rates (e.g., by off-shoring). As we head into Q4 earnings season, sector performance appears solid with very few software preannouncements to date **(Lechem: Technology-Software – Market Weight)**.

The common themes among Business and Professional Services are: (1) transaction-based / contract-based revenues (often long-term, or repeatable); (2) profitability depends largely on project management to deliver high utilization rates; (3) the core business model is leveragable across clients and geographies; and, (4) customers are increasingly looking for a range of solutions from their service providers. These trends are driving both company diversification and industry consolidation. **(Lechem: Business and Professional Services – Market Weight).**

Although our coverage universe is quite diversified, the hardware sector has started to benefit from growth in certain emerging markets and resurgence in capital spending in networking. We expect this to continue as developing regions look for high-quality and lower-price solutions for communication networks and infrastructure. Key emerging themes: 1) the deployment of WiMAX and other wireless networks; 2) hardware and software to support the rollout of the triple and quadruple play in the telecommunications market; and 3) solutions for dealing with network congestion **(Coupland: Technology Hardware – Market Weight)**.

Materials – J. Bout, H. Carreau, B. Cooper, D. Roberts, C. Hale-Sanders, B. Humphrey

We have increased our 2008 and 2009 gold price forecasts to $875/oz. from $800/oz. and to $1,000/oz. from $850/oz., respectively. We think there is a high probability of a price correction in the next two months, although this would only set the stage for a strong H2/2008 where the elusive $1,000/oz. gold price could be met (Cooper, Humphrey: Mining, Precious Metals – Overweight). In 2008 base metals continue to face uncertainty as the question remains whether emerging market economies can offset a slowdown in the Western World. As we continue to transition through a period of uncertainty regarding future global growth and, thus, metals demand, we expect volatility to continue as the market looks to establish the net impact of the ongoing credit crisis not only on the U.S. economy in terms of demand but also in terms of funds flow in the market. That said, demand from key emerging markets has remained strong, suggesting overall global demand may not be as bad as the fear in today's market would suggest **(Hale-Sanders: Mining, Metals and Minerals – Market Weight)**.

Solid fundamentals should continue to support the agriculture/fertilizer sector in 2008, with the current corn future price of ~$5/bu supporting higher fertilizer prices. Biofuel demand has tightened the grain market, and it is likely to remain this way for the next three to four years until the next-generation biofuel technology is introduced **(Bout: Chemicals & Fertilizers – Market Weight).**

Most companies in the Canadian paper & forest products industry are implementing plans for "cash preservation." A key variable for investors is how much of a company's asset base will remain intact over the next 12 to 18 months. Given the strong Canadian dollar, we expect ongoing rationalization throughout the Canadian forest products sector **(Carreau, Roberts: Paper & Forest Products – Underweight).**

Utilities – A. Pavao

Recent declines in long bond yields to below 4% should support the Canadian pipeline and utility stocks at their current high valuation levels (group is trading at around 18x forward earnings and 8.8x EBITDA). Notwithstanding broader market turbulence, we believe the fundamental growth drivers for Canadian pipelines & utilities remain strong **(Pavao: Pipeline & Utilities – Market Weight).**

Quantitative Strategy

QUANTITATIVE TACTICAL ASSET ALLOCATION (QTAA) STRATEGY — by Yin Luo

January 2008 was a challenging month. The TSX index was down more than 5%. Other than the materials sector, all nine sectors fell in the month. The information technology, telecom services, and consumer discretionary sectors were down more than 10%. Despite the rise in crude oil and natural gas prices, the energy sector dropped almost 9%. Gold price rose sharply. Interest rates fell as a result of the central banks' effort to stimulate the economy.

Our QTAA strategy uses a statistical technique called logit model to make asset allocation decisions (model methodology is described in the report, *Quantitative Tactical Asset Allocation Strategy: An Introduction*, November 6, 2003). Our QTAA model (see Exhibit 1) is suggesting stocks as the best asset class for February 2008, outperforming both bonds (probability = 86%) and cash (probability = 61%).

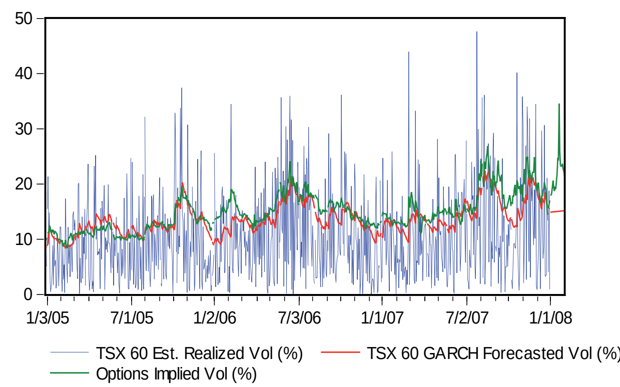
We recommend overweighting stocks and underweighting cash. The market volatility jumped again, matching the magnitude in the summer of 2007 (see Exhibit 2).

Exhibit 1. Macro Factor Contribution — QTAA

Factor	Stocks/ Cash*	Stocks/ Bonds*	Bonds/ Cash*
Yield spread	3	NA	3
Equity Yield Gap	NA	2	NA
U.S. Equity Yield Ratio	5	NA	NA
TSX Dividend Yield	2	2	NA
Change in 3-Month T-Bill Yield	NA	5	NA
TSX GARCH Volatility	5	5	NA
Change in TSX GARCH Volatility	1	NA	NA
Oil Price	4	4	4
CRB Commodity Index	NA	5	NA
Canadian Dollar	3	NA	3
Put-Call Ratio	3	3	3
Leading Economic Indicator	NA	1	NA
M3 Money Supply	NA	3	3
ISM Index	2	NA	NA
Probability of Outperformance	**86%**	**88%**	**61%**

* 5 indicates the strongest positive contribution to outperformance, while 1 means the strongest contribution to underperformance.
Source: CIBC World Markets Quantitative Strategy

Exhibit 2. Market Volatility



Source: CIBC World Markets Quantitative Strategy

QUANTITATIVE SECTOR ROTATION STRATEGY

Compared to the recent average, our quant model assigns more weight to growth factors and reduces weight on value and quality factors for February 2008.

Our QED model suggests overweighting the materials, information technology, energy, and utilities sectors. We also recommend underweighting the health care, telecom services, and consumer discretionary sectors. For stock-specific analysis, please refer to our *QED Model Monthly Forecast*, February 1, 2008 for individual stock rankings.

Exhibit 3 provides our QED model ranking for the 10 GICS sectors, using the bottom-up approach on a capitalization-weighted basis. Exhibit 4 decomposes the QED score for each sector by the six sources of alpha: value, growth, momentum, analyst revisions, quality, and market.

The suggested overweight on the materials sector is driven mainly by positive stock and sector momentum, strong growth profile, and reasonable valuation. We also recommend overweighting the information technology sector, due to strong stock momentum and earnings growth. The energy sector is also at overweight, because we believe the stock/sector momentum, growth, and attractive valuation for the sector will be rewarded. Utilities sector provides good hedge.

We recommend underweighting the health care sector, mostly due to the negative sector alpha and stock momentum. The underweight stance on the telecom services sector is based on the negative sector momentum and expensive valuation. We also suggest underweighting the consumer discretionary sector, mostly due to negative sector alpha.

Within the income trust universe, we still prefer power & pipeline trusts and business trusts, and suggest underweighting REITs and oil & gas trusts. Analyst revision and growth factors are the driving forces behind our current recommendation (see Exhibit 5). For individual income trust ranking, please refer to our *QED-TRUST Model Monthly Forecast*, February 1, 2008.

QUANTITATIVE STRATEGY

QED Model Methodology

This section provides a brief overview of our QED model methodology. For a more in-depth discussion on model methodology and back tests, please refer to *Quantitative Strategy – Quantitative Equity Dynamic (QED) Model: An Introduction*, dated August 3, 2005.

In essence, the QED model is a multivariate model, based on panel data economics, to forecast stock returns (or alpha).

The QED model is first estimated on 27 alpha factors from six categories (value, growth, momentum, analyst revisions, quality, and market). We strive to find factors that are not highly correlated, have high "T" statistics, are jointly statistically significant, and more importantly, provide excellent out-of-sample forecasting ability.

We then use macroeconomic variables to build a dynamic time series model to forecast the factor returns (or returns from a unit exposure to the various alpha factors). The weightings in the QED model are dynamically adjusted based on the economic and market environment. Two other methods, simple moving average and exponentially weighted moving average, are also used to predict factor returns.

The QED model is rigorously back-tested with true out-of-sample portfolio simulations. Based on monthly rebalancing, the annualized spread between the top decile and the bottom decile is about 66% before transaction costs, and positive over 85% of time.

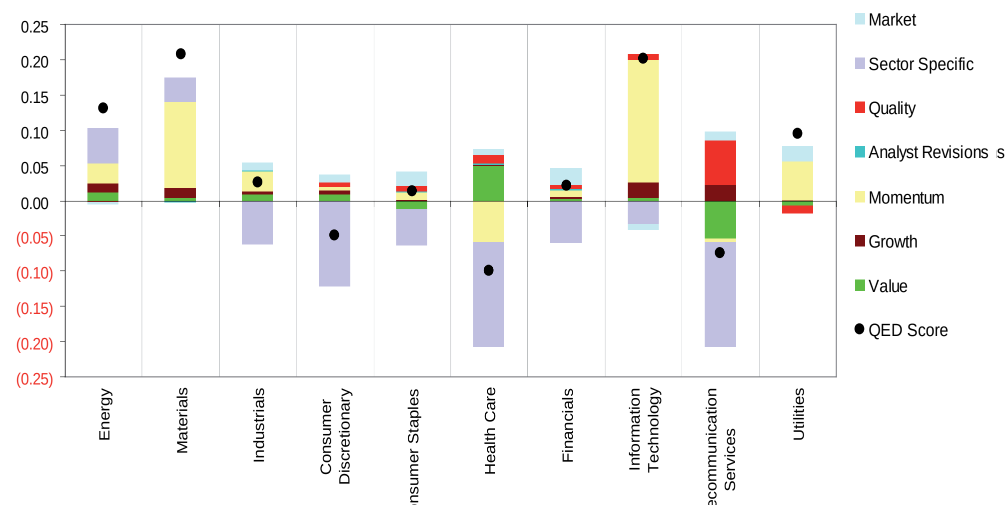
The real power of our QED model is, however, on stock selections. Please refer to our monthly *Quantitative Strategy Outlook* or weekly *QED Model Forecast* for details.

Exhibit 3. Common Equity Sector/Size QED Ranking

Sector/Size QED Ranking	# of Stocks	Market Cap ($Mlns)	Wgt in TSX Comp (%)*	QED Rating (10=Best)	Relative Rating**
Energy	42	295,186.20	24.1	8.8	1.22
Materials	51	243,795.30	19.9	9.0	1.25
Industrials	15	67,348.60	5.5	6.0	0.83
Consumer Discretionary	21	52,177.20	4.3	3.3	0.47
Consumer Staples	12	33,013.00	2.7	5.5	0.77
Health Care	3	4,298.10	0.4	2.4	0.33
Financials	27	383,196.90	31.2	5.8	0.81
Information Technology	7	57,400.20	4.7	9.1	1.27
Telecommunication Services	3	37,547.70	3.1	2.5	0.35
Utilities	5	18,346.70	1.5	8.1	1.13
Total TSX Composite	*186*	*1,192,309.90*	*97.2*	*7.2*	*1.00*
TSX 60	53	957,536.70	78.0	7.4	1.02
TSX Completion	133	234,773.20	19.1	6.5	0.90
Non-TSX Composite	203	52,020.30	NA	5.6	0.78
TSX SmallCap	123	68,455.30	3.8	6.0	0.83
Total Universe	*389*	*1,244,330.10*	*NA*	*7.1*	*0.99*

* The sum of all sector weights may not equal to 100%, because we exclude companies in the process of being taken over.
** A relative QED rating above one indicates buying/overweighting signal. Sector relative ratings are relative to the TSX Composite Index, while the size relative ratings are relative to the whole universe.
Source: Bloomberg, CompuStat, CPMS, IBES, S&P, TSX, CIBC World Markets Quantitative Strategy

Exhibit 4. Sector QED Alpha Decomposition



Source: CIBC World Markets Quantitative Analysis

Exhibit 5. QED Income Trust Ranking

Income Trust Sector/Industry Group QED Ranking	# of Trusts	Market Cap ($Mlns)	Wgt in Trust Universe (%)*	QED Rating (5=Best)	Relative Rating**
Energy	42	79,671.60	55.9	2.7	0.89
Materials	9	8,740.30	6.1	4.3	1.42
Industrials	14	7,195.80	5.0	3.6	1.17
Consumer Discretionary	12	12,669.50	8.9	3.5	1.15
Consumer Staples	5	1,427.10	1.0	3.2	1.04
Health Care	2	1,682.10	1.2	4.8	1.59
Financials	19	20,620.40	14.5	2.4	0.77
Information Technology	1	1,372.60	1.0	5.0	1.64
Telecommunication Services	1	3,581.30	2.5	5.0	1.64
Utilities	9	5,550.40	3.9	4.3	1.40
Business	47	38,488.70	27.0	4.0	1.30
Oil & Gas	34	70,494.50	49.5	2.5	0.81
Power & Pipeline	17	14,727.50	10.3	4.6	1.50
REIT	16	18,800.40	13.2	2.2	0.72
Total Trust Universe	*114*	*142,511.10*	*0.0*	*3.1*	*1.00*

** A relative QED rating above one indicates buying/overweighting signal. All sectors and groups are relative to the CIBC WM Quant income trust universe.
Source: CIBC World Markets Quantitative Strategy

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*"We have compiled our analysts' views in accordance with the TSX sectoral breakdowns. We would note, however, that an analyst's coverage universe might not correspond exactly with the constituents of the TSX sectors noted above. As such, we refer readers to **CIBC World Markets *"Canadian Research Review and Common Stock Universe"*** publication where each analysts' specific universe is broken out. Analyst weightings are based solely on the specific constituents of that analyst's universe and might not correspond with the constituent in the TSX sector breakdowns."