



Canadian Portfolio Strategy Outlook

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EXECUTIVE SUMMARY

Global stock market contagion from the recent sell-off in the sizzling Chinese market gives investors who have been light TSX exposure an excellent opportunity to add to their stock position at discounted values. While there are legitimate concerns about the US housing market and the US economy, there is far less to worry about in either the Chinese or the global economy. The 9% one-day plunge in Chinese stock valuations must be viewed from the perspective of a previous 140% run-up over the past year. Moreover, the Chinese economy, like the economies of Japan, Italy, UK and Germany are all showing strength, in fact more than equity markets were giving them credit for earlier in the year. That underlying strength in overseas economic growth has increasingly

been reflected in rebounding commodity markets. Oil prices, after plunging to a 20-month low earlier in the year, have rallied back to over US\$60 per barrel. More rapid-than-expected depletion in conventional fields like Mexico's Cantarell, together with still-robust demand growth outside of the OECD, should push crude prices above US\$70 per barrel by summer. Most base metals prices have firmed, and gold should resume its rally on future US\$ weakness.

Consequently we remain heavily overweight stocks, with a 10%-point overweight at the expense of a reduced bond weighting and a zero cash position. Moreover, our portfolio remains tilted towards the cyclicals, with overweights in both materials and energy, reflecting the TSX's closer correlation to global growth than to Canadian growth. Within materials, we are retaining our gold target of US\$700 per ounce, and recommend an overweight position in the fertilizer sector, which is soaring on US plans to dramatically boost ethanol production.

On the interest rate front, a problematic US housing sector should ultimately subdue the consumer, prompting the Fed into an easing stance by the second half of the year. Risk of an unwelcome appreciation of the Canadian dollar on the back of rising energy prices should have the Bank of Canada following suit. Falling interest rates favour the financial sector, and in particular REITs, where we are adding weight this month. REITs not only have a very high sensitivity to falling bond yields but are also benefitting from their exemption from recently announced tax changes to the rest of the trust sector.

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

ASSET MIX (%)	Bench- mark	Strategy Recom- mendation	versus Bench- mark	chg vs mon. ago*
Stocks	56	66	+10.0	0.0
Bonds	38	34	-4.0	0.0
Cash	6	0	-6.0	0.0
GICS SECTORS (%)**				
Consumer Discretionary	5.3	2.3	-3.0	0.0
Consumer Staples	2.6	0.6	-2.0	0.0
Energy	26.7	29.7	+3.0	0.0
Financials	32.3	36.3	+4.0	0.0
-Banks	18.0	21.0	+3.0	-1.0
-Insurance, REITs, oth.	14.3	17.3	+1.0	+1.0
Health Care	0.8	0.8	0.0	0.0
Industrials	5.4	3.4	-2.0	0.0
Info Tech	3.8	1.8	-2.0	0.0
Materials	16.6	18.6	+2.0	0.0
-Gold	6.4	7.4	+1.0	0.0
-Other Metals	5.5	6.5	+1.0	0.0
Telecom	5.1	5.1	0.0	0.0
Utilities	1.3	1.3	0.0	0.0

Note: Shading indicates recommended overweight.

*change in %-pt underweight/overweight from last month

** Benchmark weights are for TSX Composite

Jeff Rubin—Chief Strategist

STRATEGY

Strong Overseas Economies Still Favour Cyclical—Jeff Rubin & Peter Buchanan

Global stock market contagion from the recent sell-off in the Chinese market opens up an attractive buying opportunity for those wishing to add to TSX equity holdings. The correction in the Shanghai Composite is nothing more or less than a local adjustment to speculative froth, as evidenced by the preceding 140% rise in Chinese valuations prior to the one-day 9% decline (Chart 1). In fact, the economic news from China, as from a number of other places like Japan, UK, Italy and Germany has been decidedly better than equity markets were counting on at the beginning of the year. Indeed global industrial production look like it's heading for another banner year of growth (Chart 2). That's bullish for a stock market like the TSX, which is more levered to global growth than domestic growth. Notwithstanding the market turbulence of the last several days, we believe that solid overseas fundamentals support a 14,250 TSX level by year-end and a healthy 10%-pt overweight in stocks.

Chart 1 - Despite Market Volatility, China's Economy Remains Strong

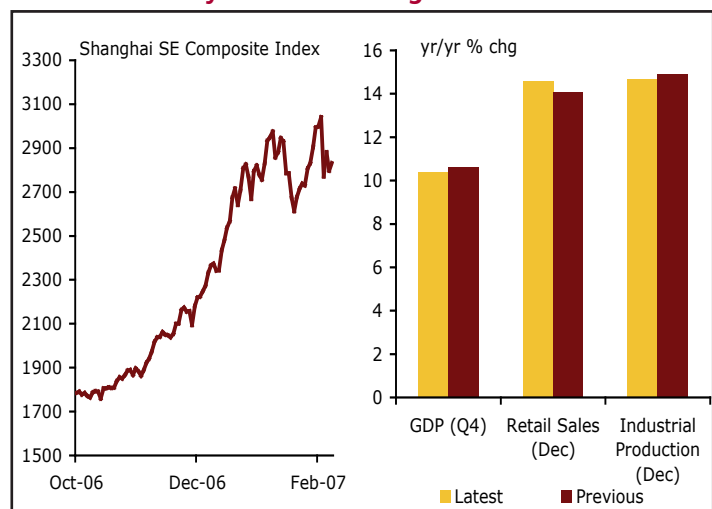


Chart 2 - Overseas Industrial Production Remains Strong

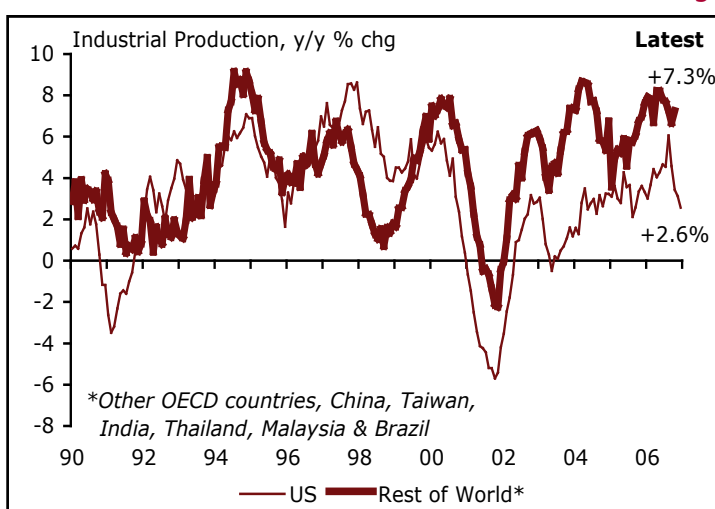


Table 1 - Equity Projections

	Latest	Year-end		
		2005	2006	2007
TSX Composite - level	13,045 (2/28)	11,272	12,908	14,250
- % total return	1.4 YTD	24.1	17.3	12.7
TSX Operating Earnings - index adj	—	643	768	875
- yr/yr % chg	7.7 (06:Q4)	31.2	19.5	14.0
S&P 500 - level	1,407 (2/28)	1,248	1,418	1,500

Table 2 - Economic Forecast

	06Q4	07Q1	07Q2	2006	2007	2008
Canada						
Real GDP Growth (AR)	1.4	2.8	2.0	2.7	2.1	2.7
Real Consumption Growth (AR)	3.1	2.7	2.5	3.7	2.8	2.6
CPI - Headline (y/y)	1.3	1.5	1.4	2.0	1.9	2.2
- Core (y/y) ex taxes	2.2	2.1	2.0	1.9	1.9	1.9
Unemployment Rate (%)	6.2	6.2	6.3	6.3	6.3	6.3
US						
Real GDP Growth (AR)	2.2	3.3	1.6	3.3	2.3	3.0
Real Consumption Growth (AR)	4.2	3.4	2.2	3.2	2.9	2.7
CPI - Headline (y/y)	1.9	2.2	1.5	3.2	2.1	2.7
- Core (y/y)	2.6	2.5	2.1	2.5	2.1	2.0
Unemployment Rate (%)	4.5	4.6	4.6	4.6	4.8	4.9
World						
Real GDP Growth (% ch)	-	-	-	5.1	4.8	4.6

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While there is little in our view to warrant fears of a global slowdown, there are legitimate reasons to remain cautious about the US economy and in particular its problematic housing market. An ongoing drop in home prices is a poignant reminder to markets that we are still a long way from working out the adjustment in US real estate (see upcoming March *Monthly Indicators* for an in depth analysis of the US housing market). While tight labour markets will keep the Federal Reserve Board on the sidelines for the first half of the year, potential contagion effects from a crumbling housing market will compel second-half rate cuts. Those cuts are likely to be matched in Canada, where a rebound in energy prices would otherwise create some unwelcome strength for the Canadian dollar and additional challenges for an already beleaguered manufacturing sector in central Canada. A still-firm C\$ might not be particularly good news for industrial stocks but the prospect of rate cuts on the horizon will be a silver lining for the largest component of the TSX: financial stocks.

Carbon War Supportive of Natural Gas and Uranium

As various jurisdictions in North America begin to pass and implement carbon abatement programs, it's only a matter of time before carbon emissions are priced in the economy. Due to its large resource weighting, we estimate that 40% of the market cap of the TSX could be potentially impacted by carbon pricing (see February *Monthly Indicators* and Chart 3). Most at risk are coal-fired utilities, which emit almost twice as much GHG per unit of power as gas-fired power plants. Oil sands producers are also vulnerable, given the huge energy requirements that are associated with the production of bitumen and its refining into synthetic oil. The CO₂ emissions are about three times as much as those associated with conventional oil. Right now projected energy requirements are being met through burning natural gas, adding to the huge emission trail from the sector. Metal refining and smelting also rank high on our vulnerability index although the mining process itself is not particularly emission-intensive (Chart 4).

While gas stocks are clearly a loser from a warming North American climate, they may come out an overall winner from the carbon wars. Nearly 60% of the energy content from ethanol comes from natural gas, which is not only used in the production of fertilizer, but is needed for the distillation of corn into ethanol and the conversion of the by-product effluent into animal fodder. We estimate that meeting President Bush's 35-billion-gallon/year production target would in and of itself raise US natural gas consumption by as much as 8% over the next decade (Chart 5), tallying up the need for expanded fertilizer production as well as the fuel required for distillation and other process steps. At the same time, the much-called-for shift from coal-fired to gas-powered electrical generation could lift demand by a further 6% over the same period. Together, the expansion of ethanol production in the US and the

Chart 3 - 40% of TSX Will be Directly Impacted by Emissions Trading

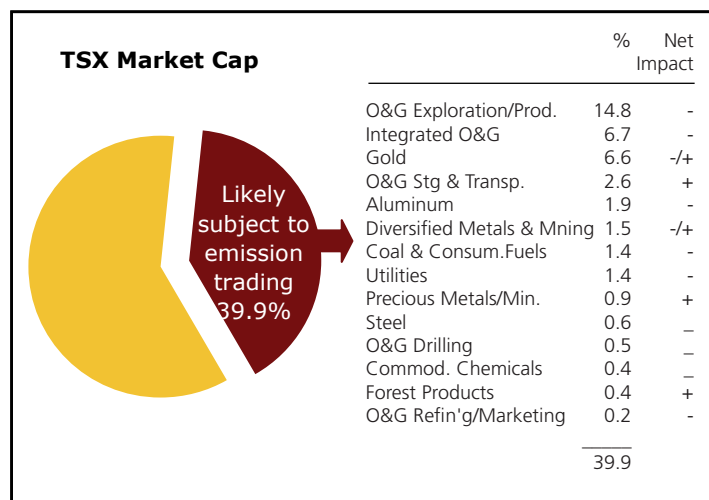
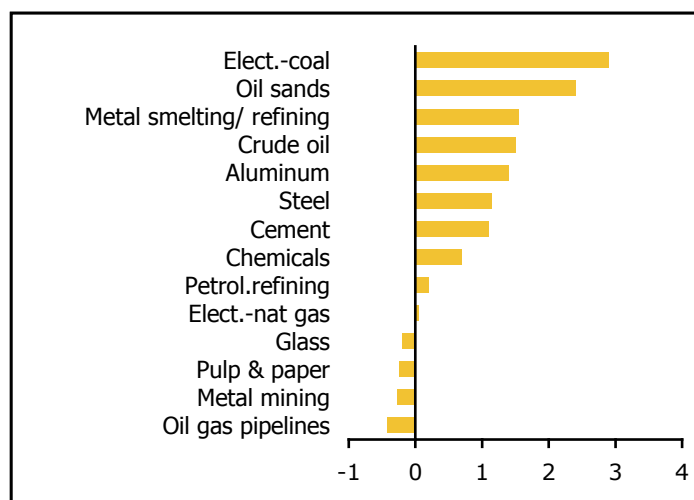


Chart 4 - Carbon Vulnerability Index



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Chart 5 - Impact of President Bush's Ethanol Target on Natural Gas Consumption

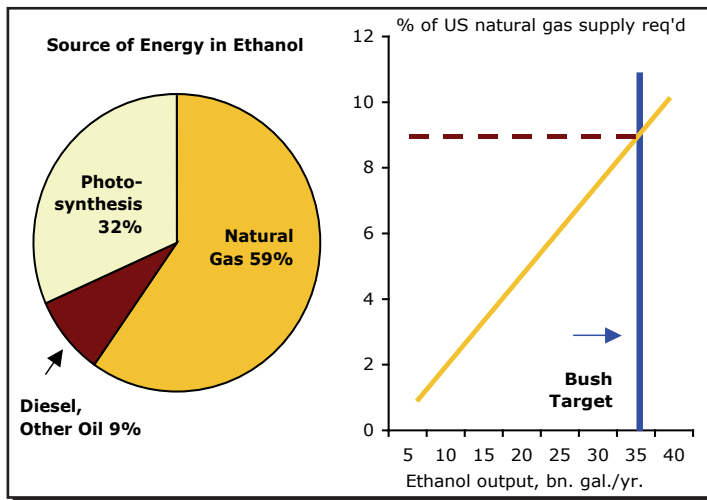
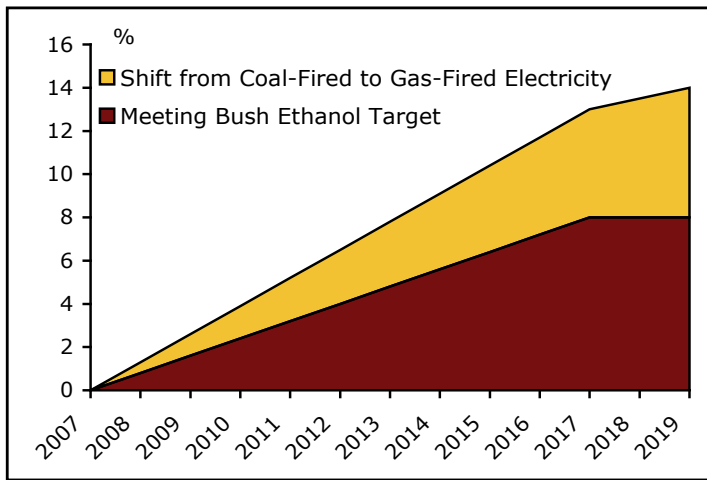


Chart 6 - GHG Abatement Could Boost US Natural Gas Use 14%-Pts



substitution of natural gas power for coal-fired power could add as much as 14% to total US natural gas consumption over the next decade (Chart 6). While still cognizant of the direct weather impact, we are raising our natural gas price target to a US\$7.50-\$8/Mn Btu average for the rest of the year.

OECD oil consumption fell last year for the first time in two decades, a testament to the growing impact of both the carbon wars and the huge increases in retail gasoline prices. Policy-mandated demand destruction, either in the form of traffic congestion charges, legislated increases in the ethanol content of gasoline, or more stringent fuel economy standards for vehicles will continue to weigh on OECD crude demand. But demand for oil has never been stronger outside of the OECD where rapidly developing countries like China, as well as oil-producing countries themselves, are consuming like never before.

At the same time there is growing evidence that depletion is occurring at an even faster rate than we had anticipated. Production in Mexico's huge Cantarell field has dropped by a staggering 500,000 barrels per day, and the recent Saudi production cuts, twice that pledged, look suspiciously more depletion-driven than policy-driven. Saudi Arabia hasn't been able to sustain production at the nearly 10 million barrel a day mark in over 25 years, and it looks like it may be challenged to support even 9 million barrels a day of output (Chart 7). Tighter supplies are likely to see oil prices recover to the US\$70 range within the next four months and move to set new highs during the second half of the year.

Table 3 — Valuations & Earnings Growth by Sector

	4-Qtr Fwd	Index	Forward PE		TSX Op. Earnings (% ch)		
	Earnings	Level	Current	Last Decade	2005	2006	2007
Financials	153.6	1977	12.9	10.9	12.8	15.5	12.9
Energy	233.3	3066	13.1	13.0	54.5	12.1	24.2
(Energy-cash flow basis)	418.7 *	3066	7.3 **	5.4 **	31.1	15.0	20.0
Utilities	115.3	1699	14.7	13.9	10.4	20.1	8.1
Industrials	80.0	1222	15.3	15.6	19.7	13.9	11.9
Materials	160.5	2509	15.6	27.5	23.3	99.3	11.9
Telecommunications	54.8	886	16.2	34.7	2.4	32.8	9.2
Consumer Staples	100.5	1704	17.0	17.0	2.4	3.1	-4.9
Health Care	28.6	515	18.0	49.7	-6.1	3.3	-6.4
Consumer Discretionary	61.9	1307	21.1	18.6	6.5	14.7	-8.0
Info Tech	7.5	288	38.3	32.3	260.9	-50.2	25.2
TSX Composite	855.6	13045	15.2	17.9	31.2	19.7	14.1

Note: Indexes as of Feb 28th; 4-qtr fwd earnings are proj. 06:Q4 thru 07:Q3

*Forward cash flow

**Price to Fwd Cash Flow

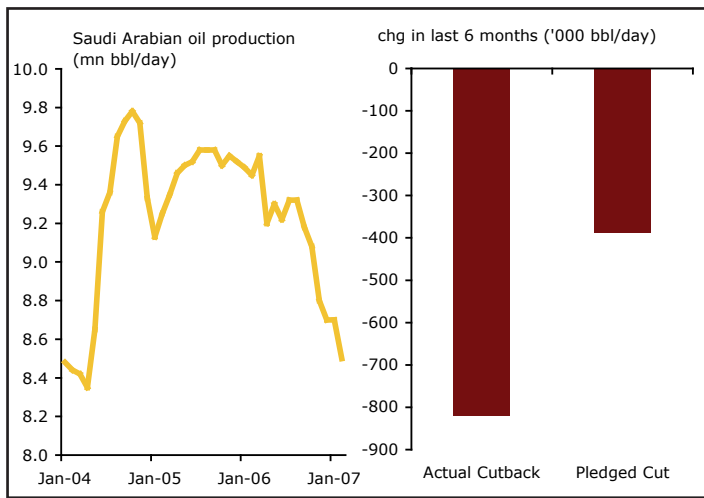
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But clearly the biggest winner in the energy sector will be uranium stocks, which are rallying on ever-rising uranium prices. Uranium oxide prices have recently hit US\$85/lb, and are likely to reach as high as US\$100/lb by year-end. As more and more jurisdictions move to control GHG emissions from utilities, carbon pricing will incent a significant shift from coal-fired to emission-free nuclear power.

Strong Global Growth Supports Materials Sector

Our overweight in material stocks, and in particular the fertilizer sector, has so far been working well. Material stocks are the sector's third best performer, paced by a blistering 13% gain in agricultural chemical and fertilizer stocks. With over 40% of US fertilizer consumption going into growing corn, fertilizer stocks have soared on President Bush's announcement that he wants US ethanol production to jump from under 6 billion gallons per year to 35 billion gallons annually by 2017. While we are highly sceptical that the US will ever meet President Bush's targets, as we are of the full-cycle energy benefits of corn-based ethanol, we recommend, at least in the short-run, an overweight exposure to fertilizer stocks.

Chart 7 - Why Have Saudis Cut Production Twice as Much as Promised?



While gold has given back some of its recent run-up, we are sticking with our forecast for a rise to back to the US\$700 by year-end on expected greenback weakness. We consequently remain overweight gold mining stocks. Bullion prices are likely to have another leg up later this year when Fed rate cuts intensify pressure on the dollar. There is still little, if any, evidence from the deteriorating US current account position that the dollar's descent is anywhere near over. Efforts by central banks to diversify their reserves and limit their exposure to a weaker dollar could also bolster bullion prices. Gold presently makes up less than 2% of the holdings of China and Japan, two of the largest reserve countries.

Base metals prices are likely to maintain their levels throughout the year as global growth surprises the markets on the upside. As was the case in recent years, China will continue to dominate base metals demand, as its robust pace of growth shows little sign of abatement. As with oil, rising development costs are also putting a floor under metals prices. The average cost of new nickel mine capacity, for example, has trebled in the last five years.

Shifting Some Weighting from Banks to REITs

Financial group earnings continued to show traction in the latest quarter, coming in roughly 7% above consensus expectations. We continue to view the sector as a strong candidate for market outperformance, based in part,

Table 4 — Commodity Price Forecast

		28-Feb	2005	Average 2006	2007 (f)
Oil (WTI)	\$/bbl	62	57	66	69
Natural Gas (Henry)	\$/Mn Btu	7.23	8.89	6.73	7.50-8.00
Gold	\$/troy oz.	664	444	604	700*
Copper	\$/lb	2.72	1.67	3.06	2.90
Aluminum	\$/lb	1.30	1.23	1.17	1.25
Nickel	\$/lb	20.32	6.71	10.98	18.50
Zinc	\$/lb	1.58	0.63	1.48	1.70
Uranium	\$/lb	85	28	47	100*

*12-month target

on our expectation of lower interest rates over the second half of the year. While we are still maintaining a significant overweight in bank stocks, we are moving some funds out of banks this month and into the high-flying REIT sector. Unscathed by recent tax changes, REITs are an obvious beneficiary of the changes that will ultimately eliminate oil and

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gas royalty trusts as well as business trusts from the marketplace. Moreover, declining office vacancy rates suggest that commercial real estate returns will continue to compare favourably with returns from other asset classes, including long Canada yields (Chart 8). REITs also offer a potential play on lower North American interest rates, if indeed the Fed and the Bank of Canada are compelled to cut rates during the second half of the year. Our research indicates a 1% drop in rates lifts the value of the typical REIT by about 11%, proving to be one of the most sensitive financial instruments to rate changes (Chart 9).

In contrast, we continue to take a neutral stance on the utilities group. While the utilities group is positively exposed to any second-half rate cuts, it is also the most vulnerable to any effort by Ottawa to cap carbon emissions. Nearly 60% of the privately owned power generation capacity in Canada is coal-fired, and thus highly carbon-intensive. Weak manufacturing activity in central Canada also continues to weigh on wholesale power demand and prices, hurting the revenues of some power generators.

Chart 8 - Sensitivity to Interest Rate Cuts

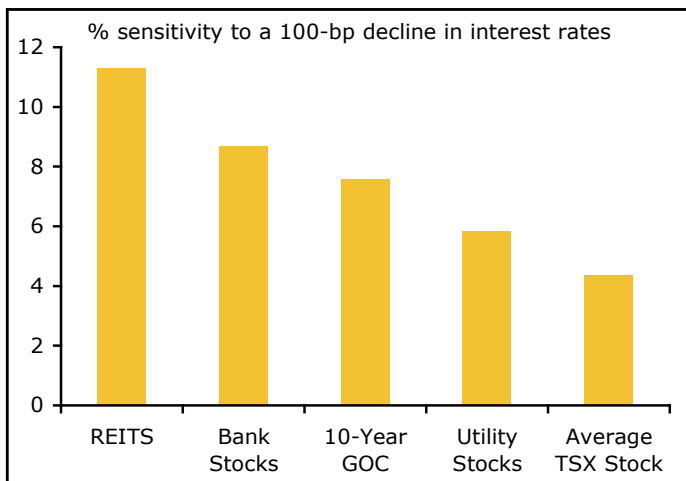


Chart 9 - Commercial Property to Hold Appeal as Vacancies Decline

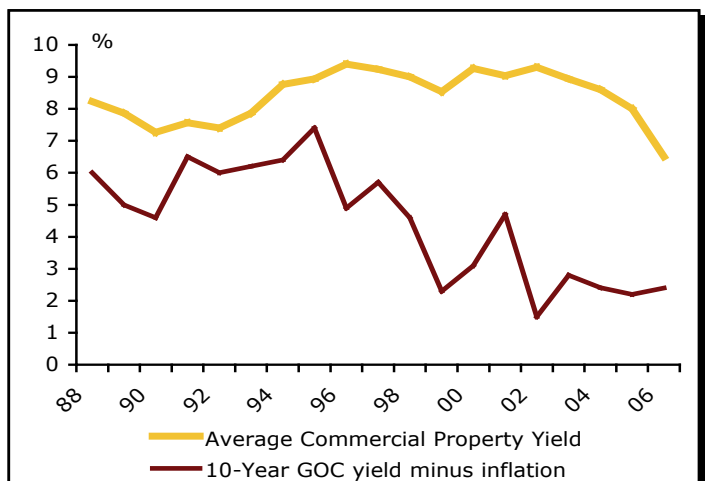


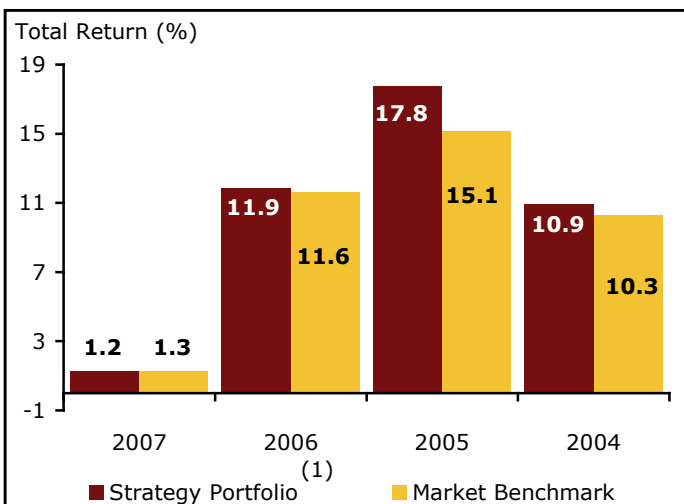
Table 5 - Fixed Income & Exchange Rate Projections

	Feb 28/07	Jun 30/07	Sep 30/07	Year-End 2005	Year-End 2006	Year-End 2007
B of C Overnight Target (%)	4.25	4.25	3.75	3.25	4.25	3.50
2-Year GOC	3.98	3.80	3.50	3.86	3.98	3.30
10 Year GOC	4.03	3.95	3.65	3.98	4.03	3.45
30-Year GOC	4.09	4.05	3.75	4.05	4.09	3.50
S&P TSX Cdn Bond Index (% YTD total return)	1.5	2.6	5.7	6.5	4.0	8.4
<i>Fed Funds</i>	5.25	5.25	4.75	4.25	5.25	4.50
<i>10-Year US Note</i>	4.57	4.60	4.50	4.39	4.57	4.25
<i>US\$/C\$</i>	85.4	85.8	86.2	86.1	85.4	87.0
<i>US\$/EUR</i>	1.32	1.34	1.36	1.18	1.32	1.33
<i>Yen/US\$</i>	118	118	112	118	118	110

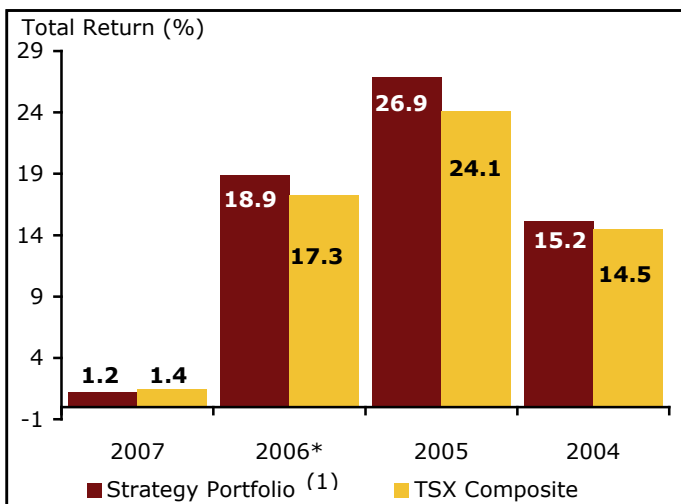
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PERFORMANCE OF STRATEGY PORTFOLIO VS BENCHMARK

All Asset Classes



TSX Only



*2006 equity only return for strategy portfolio excludes income trusts

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

HISTORICAL PERFORMANCE: CIBC WM BENCHMARK AND ASSET CLASSES

	Level		Total Return as of Feb 28/07 (%)	
	2006 Index Close	Feb 28th Index Level	2007	2006
Asset Classes				
Stocks (TSX Composite Total Return Index)	31,213	31,654	1.41	17.26
Bonds (S&P TSX Cdn Bond Index)	1,186	1,199	1.15	4.00
Cash (1-Month Bills)	4.1	4.2	0.67	3.88
Market Benchmark⁽²⁾	-	-	1.27	11.64
--Strategy Portfolio	-	-	1.23	11.86
TSX Stocks by Sector (Total Return)⁽³⁾			2007	2006
Consumer Discretionary	1,387	1,430	3.10	15.67
Consumer Staples	1,818	1,830	0.64	5.53
Energy	3,432	3,340	-2.66	6.06
Financials	2,292	2,336	1.95	19.21
-Banks	2,440	2,438	-0.07	19.84
Health Care	542	533	-1.65	0.69
Industrials	1,241	1,315	5.98	14.66
Info Tech	268	289	7.94	27.33
Materials	2,598	2,711	4.35	39.81
-Gold	2,581	2,575	-0.23	28.03
-Other Metals	5,940	6,174	3.93	49.80
Telecom	1,052	1,092	3.77	20.12
Utilities	2,384	2,200	-7.73	7.01

(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.

TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR MARCH 2007

Consumer Discretionary - B. Bek, A. Glading

Our thesis for Canadian Media for the past four years has focused on the eventuality of M&A and consolidation, especially among the broadcast players. Looking past the M&A thesis and focusing on fundamentals, our advertising growth estimate for 2007 sits at a solid 4.2%, on track with our 2006 estimate of 4.3%. Market Weight stance maintained given our views on valuation. M&A will likely drive valuations higher, but our view on fundamental valuation gains remains more modest (**Bek: Communications & Media - Market Weight**). Canadian telecom companies have the benefit of providing strong yields, but growth will likely be hindered by the significant exposure to wireline losses in the face of wireless substitution and competing cable telephony rollouts. However, the prospects for regulatory easing, wireless and/or DTH exposure for some, and new technology investments should help longer term. We believe the Canadian cable companies have benefited from infrastructure investments and/or acquisitions, with strong growth forecasted over the next few years (**Glading: Telecommunications & Cable Services - Market Weight**).

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

Wal-Mart Supercenters continue to hit the market, adding to the initial roster of stores that opened in November 2006. The rollout of this unique discount grocery and general merchandise format had been looming for months, and Canadian grocery retailers' stocks remain pressured. Though the Canadian market is much better developed in the discount space than its counterparts that were hit so hard by the Supercenter format in the US, prices have been under pressure across all formats and we expect this trend to gain momentum as more stores are opened or converted. (**Caicco: Merchandising & Consumer Products - Market Weight**).

Energy - R. Plexman

While falling commodity prices (from highs of US\$77.00/Bbl in July) led to energy underperformance in H2/2006, the correction has tempered expectations and set the stage for fundamentals to dominate over 2007. We see increased M&A activity as a real possibility in 2007, which could catalyze further valuation expansion. Our focus is on oil producers, which have superior production growth prospects. Natural gas producers could lag until the high storage, which has weakened North American markets, is worked through (**Plexman: Oil & Gas - Overweight**).

Financials - D. Mihelic, R. O'Reilly

Fundamentals have remained strong, with ROEs expected to continue in the high teens. Loan growth continues to be robust in Canadian retail banking, while the credit quality is still benign. We expect stabilization to modest improvement in net interest margins in Canada based on an expected steepening of the yield curve. Relatively rich dividend yields and solid earnings growth should support valuations in 2007 and 2008 (**Mihelic: Banks - Market Weight**). We believe that shopping centre and diversified commercial property REITs offer the best combination of attractive current yield and moderate risk for the next 12 months. Those REITs that invest in shopping centre, industrial and office properties provide attractive sustainable distribution yields averaging 5.8% and prospects for distributable income growth averaging 6.0% in 2007. REITs should benefit from generally firm occupancies, continuing contractual rent step-ups, lease renewals or rollovers at market rental rates that exceed in-place rents, and accretive property acquisitions (**O'Reilly: Real Estate - Market Weight**).

Health Care - J. Walewicz

As over 60% of the S&P/TSX Health Care Index is driven by just three stocks, company-specific news will drive sector performance more so than broader macro trends. We maintain our Market Weight stance, as we view the risk/reward profile for the dominant Canadian health care stocks as balanced. For the remainder of the year, the major Canadian health care companies face key business milestones that will drive sector performance. In our view, 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

Most forecasting services predict flat-to-declining North American light vehicle sales in 2007. Wardsauto.com is forecasting Q1/2007 North American production volumes of 3.980 million units, a 7.2% decline versus Q1/2006 but a 6.3% increase versus Q4/2006. This includes Big Three production of 2.409 million units, a 9.4% decline versus Q1/2006 but an 8.0% increase versus Q4/2006. Longer term, we expect continued market share erosion for GM and Ford, bringing renewed urgency for the parts suppliers to increase their content per vehicle and/or diversify their customer base. (**Willemse: Automotive - Market Weight**). The fundamentals in the steel sheet market have been of concern but will likely continue to improve in H1/2007 as high inventories are worked down. Most steel sectors continue to experience strong demand. However, soft demand in

TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR MARCH 2007

automotive and housing markets, and still too many small steel players pose a risk. We believe scrap prices will be essentially stable year over year as new supply enters the market in mid-2007. However, rising scrap costs present a risk to our 2007 outlooks for the mini-mills if the market does not accept offsetting increases in scrap surcharges (**Willemse: Steel – Market Weight**). Our Market Weight rating on the capital equipment sector reflects the complexity of the underlying drivers of this group. While we believe there is likely to be a slowing in US commercial and residential construction, robust economic growth in Asia should continue to drive demand for commodities. A moderating global economy should help ease the current frantic demand for new heavy equipment, providing more manageable growth and improved margins. (**Bout: Capital Equipment – Market Weight**)

Information Technology - P. Lechem, T. Coupland

Canadian software stocks have enjoyed a strong end to 2006, driven by: 1) the typical seasonal year-end rally; 2) generally improving fundamentals; and 3) a heightened level of takeover speculation. We see 2007 as benefiting from more of the same, with rising cash balances being used for acquisitions and share repurchases, and ongoing restructuring/cost containment helping deliver bottom-line improvements. However, while we see room for the sector to move higher through the course of the year, there has been a prolonged rally since mid-2006, which has pushed valuations to the top of the trading range, and which might limit further increases through the first half of 2007 (**Lechem: Technology-Software – 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

Gold has rebounded from the mid-US\$500 per ounce range in early Q4/06 and is well poised to continue its upward movements through 2007. We believe the high for gold in 2006 of US\$740 per ounce will be breached in 2007. Longer-term fundamentals remain in place for gold to move upward driven by a scarcity of deposits and strong physical and investment demand. We continue to recommend an Overweight stance on the sector with an expectation that smaller-cap stocks will offer the best returns (**Cooper, Humphrey: Mining, Precious Metals – Overweight**). While we remain positive on the sector in general, near-term commodity and equity performance is expected to be volatile given the robust recovery in February following the traditional seasonal correction in January. Uncertainty related to the health of the Chinese market and overall risk levels have put downward pressure on shares. Despite the volatility, fundamentals remain firm with low inventories and limited new supply expected in the near term that should support higher prices. Would look to selectively build positions on pullbacks, then re-enter the sector through more selective stock exposure (**Hale-Sanders: Mining, Metals and Minerals – Market Weight**). Our Market Weight rating on the chemicals and fertilizers sector reflects the diversity of commodities in it. We believe a slowing US economy will negatively impact the olefin/polyolefin and styrenics industry. We expect agricultural demand to be stronger in 2007, especially for corn. Methanol spot prices are declining due to ample supply and moderating demand. (**Bout: Chemicals & Fertilizers – Market Weight**). Although most pulp and paper prices are approaching peaks, the profitability of most paper & forest products companies remains weak, largely due to the strong Canadian dollar and generally high prices for fibre, chemicals, and energy. The cyclical correction in the building materials sector is in place, with prices hovering at or below the variable cost of the marginal producer. Given that the global economy is well into the current cycle and cost pressures persist, a catalyst for upward revision in share prices is not obvious. While the sector as a whole appears historically cheap on a range of valuation metrics, we think it may remain cheap for some time. (**Carreau, Roberts: Paper & Forest Products – Underweight**)

Utilities – M. Akman, A. Pavao

The sector has corrected by more than 10% since January 8 and we believe the stocks are back to fair value. Yet bond yields have stabilized at low levels and private equity transactions in the sector could accelerate. We maintain that high oil prices will continue to drive expansion opportunities for oil pipelines from Alberta to the US and the West Coast. The growing electricity supply shortage offers investment opportunities in Ontario and Alberta. This activity should create solid, albeit not accelerating, growth opportunities for major oil pipeline and power companies. (**Akman, Pavao: Pipeline & Utilities – Market Weight**)

QUANTITATIVE STRATEGY

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

The equity market was up significantly in early to mid-February, until the collapse of China's stock market triggered panics in global equity markets on the second last day of the month. Canadian bonds outperformed both cash and equity. The information technology was the best performing sector, up more than 7%, while the utilities and consumer discretionary sectors were both down more than 2%. Energy and commodity prices were up slightly. Short-term interest rates rose slightly, while long-term interest rates fell. The yield curve is inverted.

Our QTAA strategy uses a statistical technique called logit model to make asset allocation decisions. Our QTAA model (see Exhibit 1) is currently suggesting stocks outperform bonds (probability = 81%), which in turn outperforms cash (probability = 51%).

We recommend overweighting stocks and underweighting bonds and cash. The severe market sell-off on February 27 also drove up the volatility significantly (see Exhibit 2).

Note: From a modeling perspective, we use the S&P/TSX Equity Index as our main benchmark and treat income trusts as a separate component in our TAA and sector rotation strategy.

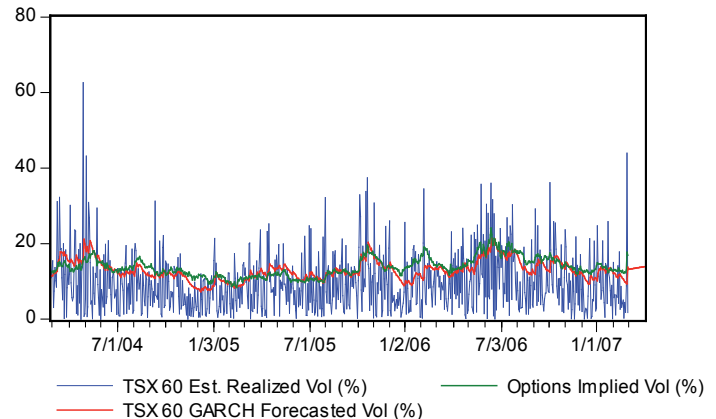
Exhibit 1. Macro Factor Contribution — QTAA

Factor	Stocks/ Cash*	Stocks/ Bonds*	Bonds/ Cash*
Yield spread	2	NA	2
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	3	NA
TSX GARCH Volatility	3	3	NA
Change in TSX GARCH Volatility	3	NA	NA
Oil Price	2	2	2
CRB Commodity Index	NA	5	NA
Canadian Dollar	3	NA	3
Put-Call Ratio	3	3	3
Leading Economic Indicator	NA	3	NA
M3 Money Supply	NA	4	2
ISM Index	1	NA	NA
Probability of Outperformance	73%	81%	51%

* 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 value and momentum factors, and reduces weight on quality and revision factors for March 2007.

Our QED model suggests overweighting the telecom services, information technology, and financials sectors. We also recommend underweighting the health care, consumer discretionary, and energy sectors. For stock-specific analysis, please refer to our *QED Model Monthly Forecast*, March 1, 2007 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 quant signals are quite balanced for the telecom services sector. The sector is likely to benefit from strong stock/sector momentum, growth, and reasonable valuation. The information technology sector is still driven by stock momentum, but valuation also seems to be attractive. The financials sector is a good defensive play.

The underweight stance on the health care sector is caused by negative stock/sector momentum, poor quality and growth profile. For similar reasons, we also recommend underweighting the consumer discretionary sector. The downside risk for the energy sector is still high. Momentum, growth, and revision trends are also negative for the sector.

Within the income trust universe, we still prefer REITs and suggest underweighting oil & gas trusts. Quality and momentum are the driving forces behind our trust recommendation (see Exhibit 5).

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. QED Common Equity Sector Ranking

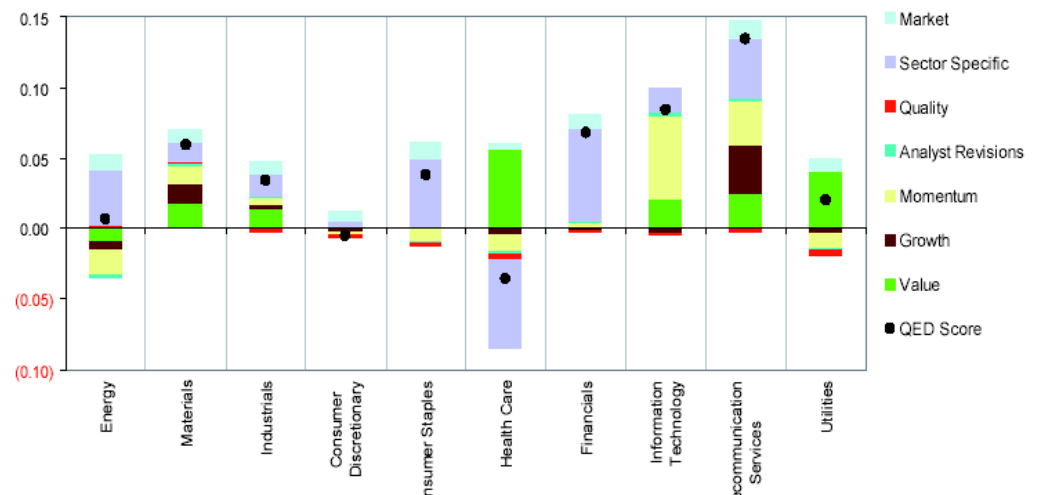
Sector/Size QED Ranking	# of Stocks	Market Cap (\$Mins)	Wgt in TSX Comp (%)*	QED Rating (10=Best)	Relative Rating**
Energy	40	283,265.40	22.7	5.6	0.79
Materials	55	221,864.10	17.6	7.4	1.04
Industrials	15	70,417.80	5.6	6.7	0.94
Consumer Discretionary	20	57,876.50	4.6	4.7	0.66
Consumer Staples	13	36,275.70	2.9	6.9	0.97
Health Care	8	10,162.40	0.8	3.7	0.52
Financials	26	425,417.30	33.7	8.4	1.17
Information Technology	9	52,857.00	4.2	7.7	1.08
Telecommunication Services	4	67,213.30	5.4	9.3	1.30
Utilities	5	14,265.80	1.1	5.6	0.79
Total TSX Composite	195	1,239,615.20	98.6	7.1	1.00
TSX 60	55	974,241.70	77.5	7.1	1.00
TSX MidCap	49	144,272.50	11.4	6.5	0.91
TSX SmallCap	91	121,101.00	9.6	6.0	0.84
Non-TSX Composite	231	68,459.30	NA	5.6	0.79
Total Universe	426	1,308,074.50	NA	7.1	1.00

* 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 Sector Ranking

Income Trust Sector/Industry Group QED Ranking	# of Trusts	Market Cap (\$Mins)	Wgt in Trust Universe (%)*	QED Rating (10=Best)	Relative Rating**
Energy	49	85,386.70	54.7	1.7	0.65
Materials	9	8,227.40	5.3	1.9	0.72
Industrials	16	7,392.40	4.7	2.9	1.10
Consumer Discretionary	15	14,188.10	9.1	3.2	1.20
Consumer Staples	7	2,200.00	1.4	3.1	1.18
Health Care	2	1,365.30	0.9	3.0	1.14
Financials	23	27,514.60	17.6	4.9	1.85
Information Technology	0	0.00	0.0	0.0	0.00
Telecommunication Services	1	4,022.80	2.6	4.0	1.52
Utilities	9	5,920.80	3.8	4.0	1.51
Business	54	39,386.70	25.2	2.9	1.11
Oil & Gas	40	76,043.70	48.7	1.4	0.52
Power & Pipeline	18	15,263.80	9.8	4.3	1.62
REIT	19	25,523.80	16.3	5.0	1.89
Total Trust Universe	131	156,218.00	0.0	2.6	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

Source: CIBC World Markets Quantitative Analysis

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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 "Monthly 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."