CIBC World Markets

Canadian Portfolio Strategy Outlook

May 5, 2008

Strategy

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"Unrelenting pressure on food and energy prices will see a material acceleration in inflation in Canada over the next 12 months that should reverse the current direction in Canadian interest rates."

Executive Summary

by Jeff Rubin

Unrelenting pressure on food and energy prices will see a material acceleration in inflation in Canada over the next 12 months that should reverse the current direction in Canadian interest rates.

With the CPI inflation rate to almost double next year we are taking off our overweight in bonds and shifting four percentage points of weighting out of the sector. While the Bank of Canada may still deliver another rate cut, reflation will compel it to raise interest rates by at least 100 bps next year prompting an over 60-bp backup in 10-year bond yields. Assets moved out of bonds are split equally between stocks and cash.

We have moved to a slight overweight in equities this month but remain wary of further near-term turbulence from the financial sector. Within our equity portfolio we have added a percentage point of weighting to our already substantially overweight holdings of energy stocks, as well as adding another half-point of weighting to our overweight position in material stocks.

Our prior overweights in these sectors are chiefly responsible for our 75-bp outperformance of the TSX Composite return over the first four months of the year. The increase in energy weighting follows on the heels of significant upward revisions to both our forecast for oil prices and natural gas prices next year.

Our addition to materials is focused on agricultural chemicals which, with a market cap now matching base metals, are broken out separately from the rest of material stocks in our portfolio.

To accommodate our greater weighting in energy and material stocks we are moving a percentage point of weighting out of utility stocks and a half percentage point of weighting out of consumer staples. Utility stocks' renowned dividends are going to become less attractive in an environment of rising bond yields than they have in the past environment of falling bond yields. We are also reducing our weighting in consumer staples, particularly in food retailers and processors whose margins are getting decimated by soaring food costs.

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	*53*	**55**	+2.0	+2.0
Bonds	*38*	**38**	0.0	-4.0
Cash	*9*	**7**	-2.0	+2.0
GICS SECTORS (%)**				
Cons. Discretionary	*4.2*	**1.7**	-2.5	0.0
Cons. Staples	*2.2*	**2.2**	0.0	-0.5
Energy	*30.1*	**37.1**	+7.0	+1.0
Financials	*28.2*	**25.7**	-2.5	0.0
-Banks	*15.7*	*13.7*	*-2.0*	*0.0*
-Insur., REITs, oth.	*12.5*	*12.0*	*-0.5*	*0.0*
Health Care	*0.4*	**0.4**	0.0	0.0
Industrials	*5.4*	**3.4**	-2.0	0.0
Info Tech	*4.9*	**3.9**	-1.0	0.0
Materials	*17.9*	**20.4**	+2.5	+0.5
-Gold	*6.9*	*7.9*	*+1.0*	*0.0*
-Other Metals	*5.3*	*6.3*	*+1.0*	*0.0*
-Chemicals	*5.2*	*5.7*	*+0.5*	*+0.5*
Telecom	*5.2*	**2.7**	-2.5	0.0
Utilities	*1.5*	**2.5**	+1.0	-1.0

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

Strategy

Preparing for Reflation—Jeff Rubin and Peter Buchanan

Unrelenting pressure on food and energy prices will see a material acceleration in inflation over the next 12 months, reversing the current direction of interest rates, and lifting energy and other selected resource stocks to new record highs. We are shifting 4%-pts of weighting from our previously overweight position in bonds and now carry a neutral weighting in fixed income. Assets have been allocated equally between cash and equities. Moreover, we anticipate that we will be moving further assets out of our fixed income portfolio as well as shortening duration in that portfolio as our forecast of rising inflation pans out. While the Bank of Canada may still have one more cut up its sleeve, markets will be surprised at how rapidly the Bank is compelled to take back those easings in 2009. We expect to see at least 100 basis points of tightening over that period, likely resulting in an over-60-bp backup in 10-year bond yields (Table 5).

Given past lead times for stock market recoveries which typically average 3-7 months ahead of GDP growth (Chart 1), our added 2%-pts weighting to equities is cautiously optimistic. With Canadian banks still to report this quarter, we remain wary of near-term market volatility. But the strength of the resource market, particularly energy, and a gradual recovery in the US economy should see the TSX justify our equity weighting with the Composite rising to 16,200 by the end of next year.

Within our equity portfolio we have added a further point of exposure to oil and gas stocks. Valuations there look reasonable

Chart 1 **- TSX Normally Leads US Recovery by 3-7 Months**

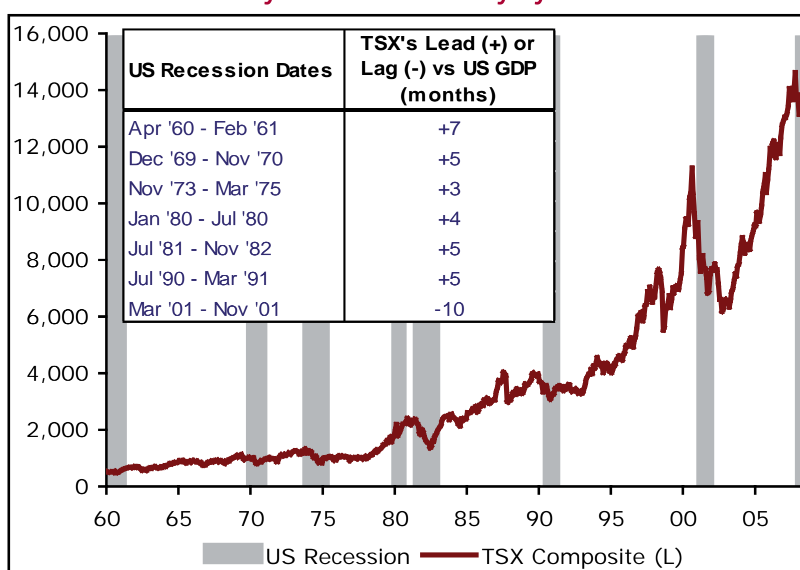


Table 1 **- Equity Projections**

	Latest	Year-end 2006	2007	2008	2009
TSX Composite	13,937 (4/30)	12,908	13,833	14,500	16,200
% total return, YTD	1.6	17.3	9.8	7.4	14.1
TSX Operating Earnings - index adj	—	728	817	948	1,062
- yr/yr % chg	17.0 (08:Q2)	*17.4*	*12.3*	*16.0*	*12.0*
S&P 500	1,386 (4/30)	1,418	1,468	1,385	1,475
-% total return, YTD	(5.0)	15.8	5.5	(3.7)	8.7

Table 2 **- Economic Forecast**

		07Q4	08Q1	08Q2	08Q3	2007	2008	2009
Canada	Real GDP Growth (AR)	0.8	0.4	0.7	1.2	2.7	1.3	2.7
	Real Consumption Growth (AR)	7.4	2.8	3.2	2.6	4.7	4.1	2.9
	CPI - Headline (y/y)	2.4	1.8	1.9	2.6	2.2	2.4	3.2
	- Core (y/y) ex taxes	1.6	1.4	1.2	1.4	2.1	1.5	2.3
	Unemployment Rate (%)	5.9	5.8	6.2	6.5	6.0	6.2	6.2
US	Real GDP Growth (AR)	0.6	0.6	-0.7	-0.5	2.2	0.9	2.1
	Real Consumption Growth (AR)	2.3	1.0	-1.4	0.3	2.7	1.0	2.4
	CPI - Headline (y/y)	4.0	4.1	3.9	4.3	4.2	4.1	3.8
	- Core (y/y)	2.3	2.4	2.3	2.4	2.3	2.4	2.8
	Unemployment Rate (%)	4.8	4.9	5.3	5.5	5.5	5.3	5.3
World	Real GDP Growth (% chg)	-	-	-	-	4.9	4.3	4.3

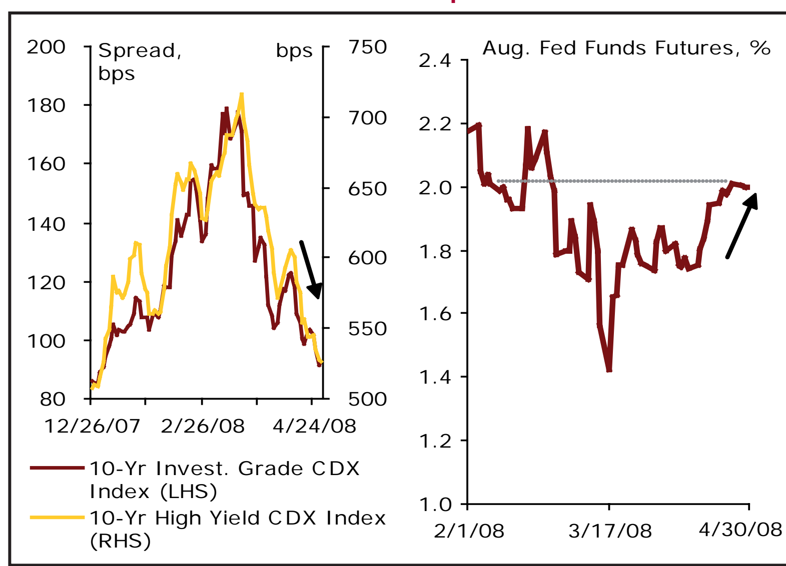
based on today's oil & gas prices, let alone the even higher ones we see in future, as supply struggles to match demand. In addition to raising our oil price forecast next year to an average of US$130/bbl we are raising our natural gas price outlook to US$13.00/mn Btu (Table 4).

Commodity rallies benefit producers, hurting users. We have cut a half-point from the consumer staples group, given the potential damage to food processors and retailer's profit margins from rising crop prices, which has already contributed to a loss of earnings momentum. We have also pared a point from the dividend-rich utilities group based on our new outlook for rising interest rates.

Cutting Bonds on Revised Rate Outlook, Inflation Risk

While the subprime crisis is by no means over, the Fed has succeeded in calming some of investors' deepest fears with its barrage of rate cuts and efforts to boost credit availability and liquidity. Metrics like the CDX and VIX indices also point to a reduction in risk aversion and volatility fears from the ultra-high levels seen during the crisis' earlier stages (Chart 2). It's becoming harder though, for the Fed to ignore the potential inflationary effects of the dollar's swoon. While there's still room for another cut or two, the danger of unwanted fuel for inflation from a deeper sell-off means Bernanke *et al* will likely halt their easing drive at 1.5%, rather than 1.25% as we had earlier expected.

Chart 2 - **Reduced Default Fears, More Cautious Fed Limits Upside for Bonds**



Since last month's strategy report, global financial institutions have reported a further US$100 billion of subprime writedowns, making it all the likelier that the crisis' final total will readily eclipse the US$300 billion, in line with our previous forecast. The wealth hit to a savings-strapped consumer from the housing market plunge continues to mount, with February's record 12.7% year-over-year drop in the Case-Shiller index, coming amidst slumping home sales and rising inventories. Falling non-defense capital goods orders, a key investment bellwether, suggest moreover that weakness in consumer spending is beginning to affect corporate outlays.

While the recent data reinforces our belief that the second-quarter US GDP growth will trail Q1's 0.6% pace, the TSX has traditionally bottomed about 3-7 months before the US economy in past recessions, meaning it's not too early given historical patterns for a modest weighting adjustment now. The longest lead time was in the early 1960s, after the US cut taxes, while the shortest was in 1970s, when commodity prices were also soaring.
In contrast to the tech collapse, the leadership of the energy and materials sectors this time around has enabled the TSX to avoid the full brunt of the market correction unleashed stateside by the housing derailment. The TSX modestly positive total return for the year, so far, contrasts with the S&P's negative 5% payback, including dividends. Our 2009 end-of-year forecast of 16,200 for the TSX, versus 1,475 for the S&P 500, points to the globally leveraged Canadian market continuing to outperform the S&P 500 for at least another year, aided by continuing strength in energy and materials stocks.

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Chart 3 - **Earnings Only Being Revised Up in Canada**

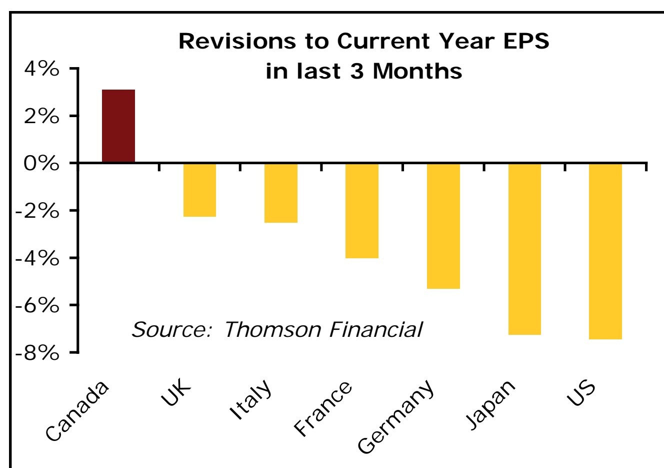
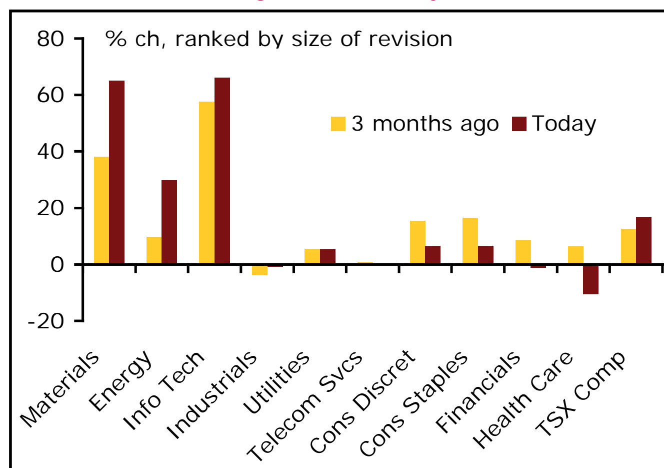


Chart 4 - **TSX Earnings Revisions by Sector**



Energy and Materials Earnings Revised Up, Financials Down

Significantly better earnings numbers underlie the superior performance of the TSX. 2008 earnings expectations for the TSX have been raised by nearly 4% in the last three months, even as analysts take the axe to their projections in the US and to a lesser degree other industrial countries (Chart 3). We now expect TSX earnings to rise by an above-trend 16% this year (Table 1). That should easily surpass the consensus estimate of a 10% rise in S&P 500 earnings, marking the fourth consecutive year of better earnings growth north of the border.

Beyond the positive effect of triple-digit crude, US$4/lb copper and US$1,000/tonne potash on the energy and materials groups (Chart 4), profit expectations have also been upgraded for info tech and more modestly for key industrial producers like the rails. Alternatively, financial sector earnings are expected to fall modestly for the first time since 2002. That compares with expectations just three months ago for a near-double-digit gain for the sector.

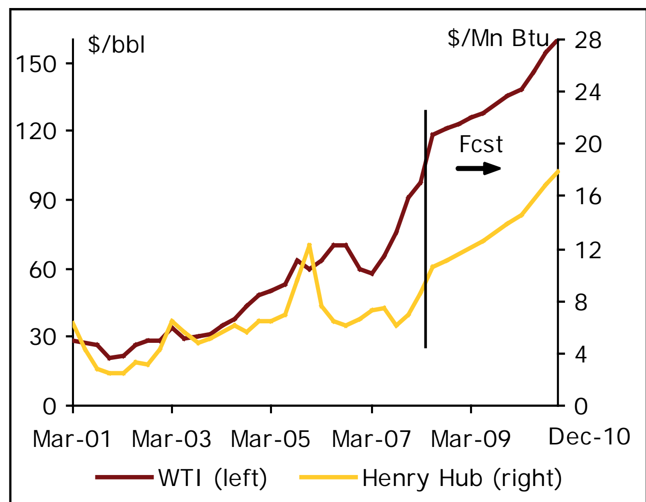
Table 3 — **Valuations & Earnings Growth by Sector**

	4-Qtr Fwd Earnings	Index Level	Forward PE Current	Forward PE Last Decade	TSX Op. Earnings (% ch) 2005	2006	2007	2008 (f)
Financials	137.5	1751	12.7	12.0	13.7	17.5	13.7	-5.1
Energy	251.8	3624	14.4	12.0	45.5	13.8	8.0	36.2
Industrials	90.6	1300	14.4	14.9	25.6	13.3	41.2	-4.7
Consumer Staples	97.4	1462	15.0	17.8	2.9	-1.0	-1.6	-0.7
Utilities	126.4	1898	15.0	17.4	17.9	-4.4	53.2	3.1
Telecommunications	62.8	946	15.1	29.8	6.0	32.5	28.9	-9.2
Consumer Discretionary	66.9	1087	16.3	15.7	-0.7	10.3	18.0	0.4
Materials	195.5	3270	16.7	28.9	40.7	79.7	-3.2	73.6
Health Care	21.8	369	16.9	22.0	5.3	27.1	-37.8	14.4
Info Tech	17.2	416	24.1	44.5	-40.1	50.7	150.2	69.2
TSX Composite	**952.5**	**13937**	**14.6**	**16.1**	31.2	17.4	12.3	16.0

Note: Indexes as of Apr 30th; 4-qtr fwd earnings are proj. 08:Q1 thru 08:Q4
**Forward cash flow* ***Price to Fwd Cash Flow*

Strategy

Chart 5 - **More Upside for Oil & Natural Gas Prices**



Raising Energy Weighting on Stronger Oil and Natural Gas Outlook

Rising oil prices in the past have spurred supply, limiting demand. There's been scant evidence of much impact on either side of the ledger recently, suggesting prices will rise even higher to balance markets. With limited supply continuing to struggle to match growing global needs, we expect WTI to average US$115 this year, rising to US$130/bbl in 2009 (Chart 5). The International Energy Agency is now forecasting a third straight yearly decline for OECD demand, but that's likely to once again be more than offset by hearty gains in the non-OECD countries, particularly the so-called BRIC economies. China's implied oil demand so far this year is up a healthy 6% and we expect recent coal shortages to lift demand further. China's auto sales surged by 22% in 2007, with sales in Brazil and Russia up an even more striking 30% and 60% on the year. The opening up of auto ownership to millions of third world families by affordable vehicles from the likes of Tata and Chery will allow emerging economies to account for roughly three-quarters of the growth in the world's motor vehicle fleet in coming years. That trend should lift non-OECD oil demand above the OECD countries within the next half-decade.

The major oil-exporting countries like Mexico, Russia and OPEC are unlikely to have much surplus capacity to meet added demand from the likes of China. With subsidized domestic prices of as little as 25 cents per gallon cannibalizing their own domestic output and the toll from depletion on once prolific producers like Mexico's Cantarell and Kuwait's Burgan fields, exports from those countries should fall by as much as 2.5 million bbls/day, or about 9% by 2012.

Other factors also lead us to believe that oil supply will be tighter, and prices higher than is widely recognized. One is the apparent peaking of production in Russia—the world's second largest producer, and a key driver of incremental global supply over the last decade. Natural gas liquids like propane, moreover, are conventionally included in global supply by agencies like the International Energy Agency. Stripping out these products, crude oil production itself has shown little, if any, growth since mid-2005. While natural gas liquids are useful in some applications, they cannot be easily used to make transport fuels like gasoline, diesel and jet fuel, which have accounted for 90% of the recent growth in global oil products demand.

Table 4 — **Commodity Price Forecast**

				Average			
		30-Apr	2005	2006	2007	2008 (f)	2009 (f)
Oil (WTI)	$/bbl	113	57	66	72	115	130
Natural Gas (Henry)	$/Mn Btu	10.83	8.89	6.73	6.97	11.00	13.00
Gold	$/troy oz.	871	444	604	695	1000*	1100*
Copper	$/lb	3.95	1.67	3.06	3.24	4.00	4.30
Aluminum	$/lb	1.30	1.23	1.17	1.20	1.30	1.10
Nickel	$/lb	12.91	6.71	10.98	16.86	12.75	12.00
Zinc	$/lb	1.04	0.63	1.48	1.48	1.10	1.20

**Year-end*

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Chart 6 **- LNG Costs Now Higher Than Domestic US Gas**

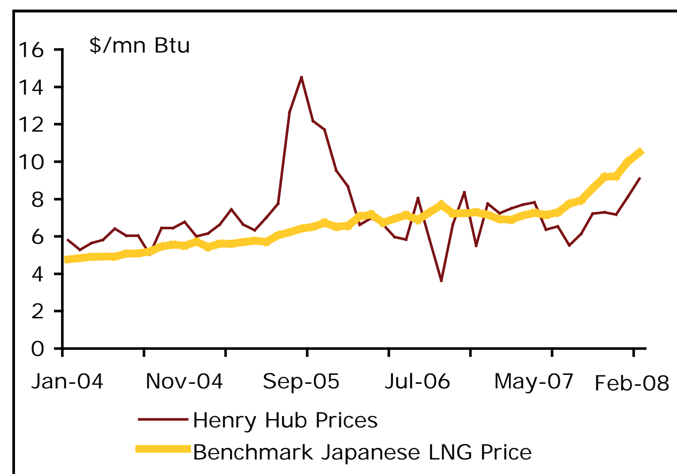
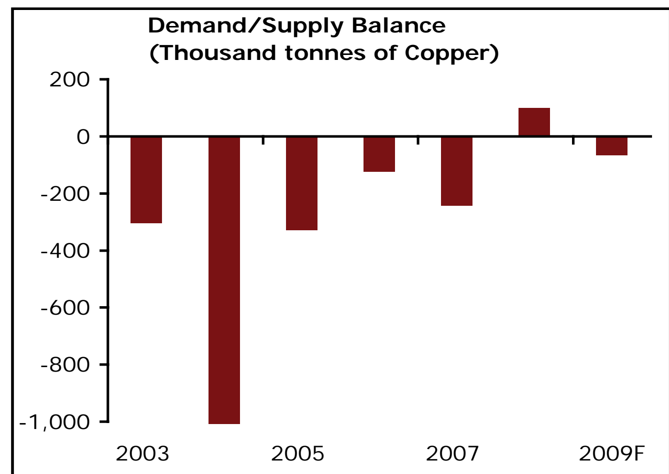


Chart 7 **- Copper Market Headed Back into Deficit**



Even with the recent rally, natural gas prices continue to trade at an unusually large 50% discount to oil in energy equivalent terms. Along with the incentive this creates for drillers to target oil rather than gas, we expect greater demand from the power sector seeking to offset coal plant cancellations to contribute to a narrowing in gas' relative discount in the next 18-24 months. With global LNG benchmark prices approaching US$11/mn Btu (Chart 6) and US LNG imports actually down in the latest reporting period, earlier hopes that cheap liquefied gas from abroad would cap US gas prices are fading. Our revised WTI forecast, together with surging utility demand sets the stage for a rise in Henry Hub prices from US$10.70/mn Btu presently to an average of US$13 next year and US$16 in 2010. This should benefit gas-laden junior producers, which have climbed 35% this year and we continue to favour that segment along with oil sands producers for exposure.

Winners & Losers From the Global Food Crisis

The materials group has also benefited from the strength of emerging market demand, reflected in both the need created by infrastructure developments for metals and other resources, and the effect of rising income levels and meat consumption on global agricultural prices. As with energy, we continue to recommend that sector as an overweight.

Base metals equities have recovered solidly from January's low. While fund buying and the lower dollar may have contributed to the recent strength of metals prices, positive fundamentals have also played a major role. An expected return to a global supply deficit in 2009 has led us to upgrade our forecast for copper prices (Chart 7). In comparison to the other metals, the golds haven't shone of late. But the pullback there should prove temporary, given the prospect for further dollar weakness and continuing inflation jitters, fuelled by rising oil and

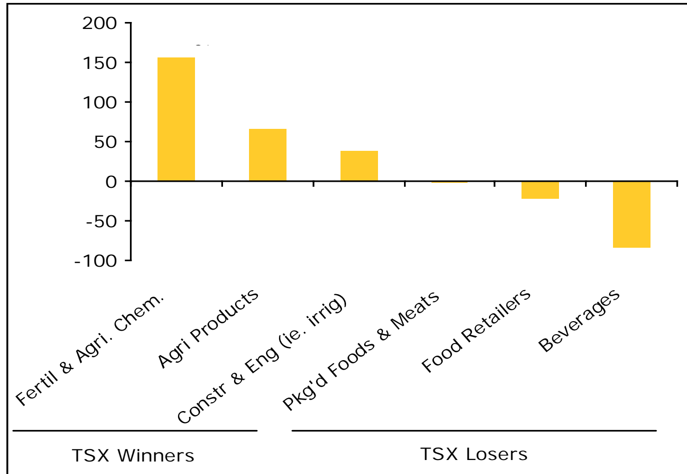
Table 5 **- Fixed Income & Exchange Rate Projections**

	Apr 30/08	Jun 30/08	Sep 30/08	Year-End 2007	Year-End 2008	Year-End 2009
B of C Overnight Target (%)	3.00	2.75	2.75	4.25	2.75	3.75
2-Year GOC	2.75	2.45	2.70	3.75	3.10	4.15
10 Year GOC	3.59	3.45	3.50	3.99	3.70	4.25
30-Year GOC	4.09	4.00	4.00	4.10	4.10	4.50
S&P TSX Cdn Bond Index (% YTD total return)	3.0	4.3	4.7	3.8	4.7	0.8
Fed Funds	*2.00*	*1.75*	*1.50*	*4.25*	*1.50*	*3.25*
10-Year US Note	*3.73*	*3.65*	*3.50*	*4.03*	*3.85*	*4.35*
C$ in US cents	*99.2*	*101.5*	*104.7*	*100.2*	105.0	101.5
US$/EUR	*1.56*	*1.62*	*1.62*	*1.46*	*1.56*	*1.50*
Yen/US$	*104*	*100*	*103*	*112*	*103*	*93*

Strategy

food prices. China is now the world's largest producer of gold and diversification out of US$ assets by the central bank of that country and other reserve-rich nations should also support bullion prices.

Chart 8 **- Winners & Losers From the Global Food Crisis**



Agricultural commodity and chemical producers, along with purveyors of needed infrastructure or crop improvements like irrigation and biotech firms offer the greatest potential positive leverage to global food supply troubles (Chart 8). Profits in the agricultural chemicals sector are expected to nearly triple this year. While the sector has already seen a strong run this year, global fertilizer supply should continue to lag demand over the next four years and could create additional upside. Moreover, Canadian fertilizer companies do not have the same exposure to troubled and increasingly controversial ethanol production as some of their competitors in the US.

While those sectors are winners, companies that rely heavily on grain, oil, or other commodities as inputs face increasing costs and thus weaker profits. Accordingly, we have reduced our weighting in the consumer staples groups, which includes both food retailers and processors by a full percentage point.

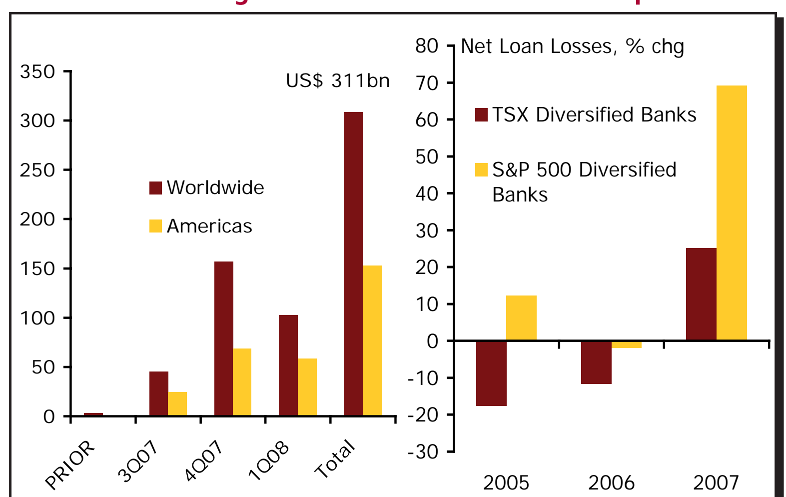
We are also reducing our weighting in the utilities sector where we previously had an overweight position. The sector's dividend yields are likely to prove less attractive in a rising interest rate environment than they have been in a falling rate environment. In addition, rising carbon abatement costs could also reduce future profit growth, especially for coal-dependent power generators.

Other Reasons Apart from Writedowns For Underweighting Financials

Compared to a few months back, markets appear to take subprime write-offs much more in stride these days. While there are signs that mortgage and allied troubles are now largely, if not fully, built into valuations (Chart 9), there are other compelling reasons for maintaining our underweight on the sector. High bank funding costs, softer M&A levels and deteriorating credit quality as growth weakens, contribute to a less favourable outlook for profitability. Hurt by weakness in banking and real estate, TSX financial sector earnings are likely to decline by 1-2% this year, according to the latest consensus estimates. That represents a notable deterioration from the near 9% increase expected just three months ago, and 2007's 14% gain.

Rising loan loss provisions are dampening earnings prospects on both sides of the border, with more increases in store. That's particularly true in the US where non-current loans on banks' books exceed provisions for the first time since the early 1990s. The growing US stakes of some key Canadian players implies a growing exposure to developments stateside.

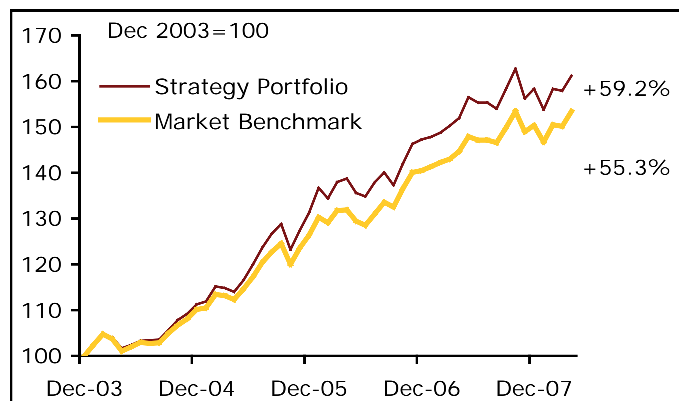
Chart 9 **- Writedowns Have Peaked But Rising Loan Loss Provisions Will Dampen Profits**



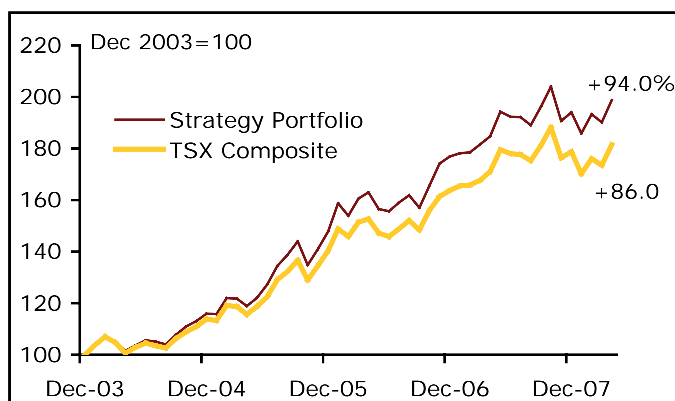
STRATEGY

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	1.62	6.65
-Strategy Equity Portfolio	**9.09**	**2.37**	**6.94**
Bonds (Bloomberg Cda Bond Index)	3.84	2.98	2.20
Cash (1-Month Bills)	4.07	0.95	0.64
Total Market Benchmark(2)	7.22	2.05	4.72
-Total Strategy Portfolio	**7.20**	**1.79**	**4.80**
TSX Stocks by Sector (Total Return) (3)	**2007**	**2008 YTD**	**Last 3 Mos.**
Consumer Discretionary	4.22	-15.17	-5.09
Consumer Staples	-5.34	-7.10	-0.40
Energy	8.23	10.09	18.16
Financials	-1.63	-4.44	-0.40
-Banks	-6.84	-2.77	-2.29
-Insurance, REITS, others	5.20	-6.38	0.94
Health Care	-24.25	-2.81	3.14
Industrials	10.51	4.34	8.53
Info Tech	48.22	5.40	22.21
Materials	30.26	5.42	0.92
-Gold	5.73	-1.61	-16.96
-Other Metals	16.51	4.15	5.58
-Chemicals	113.26	21.92	26.16
Telecom	19.87	-3.71	9.58
Utilities	11.89	-3.21	-3.21

**as of Apr 30/08*

(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 MAY 2008

Consumer Discretionary – B. Bek

The CRTC's recently released "diversity of voices" decision places a constraint on future M&A within the media space **(Bek: Communications & Media – Market Weight).**

Due to Industry Canada's recent clarification of its previously announced AWS rules, the wireless new entrant risk is right back to where most people had expected in November 2007. While the new entrant risk is real, we believe that growth remaining in the Canadian wireless industry is significant and should be enough to absorb the emergence of new competitors **(Bek: Telecommunication & Cable – Market Weight).**

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

So far, 2008 looks like it could be the worst year for the Canadian consumer in over a decade. Our major trading partner is entering the early throes of a recession and our ability to sell to the Americans has been hampered anyway by the strong Canadian dollar. On top of that, Canadian retailers are facing fierce new U.S. competitor-driven Supercenters, bringing a new level of price competitiveness to the market. Combine this with rising costs, and margins will be pressured **(Caicco: Merchandising & Consumer Products – Market Weight).**

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

Demand outside North America is growing, and oil has been a profitable financial instrument for investors seeking diversification. The WTI oil price was US$96.00 per barrel so far in 2008, and we think will average US$105.00 in '08 and '09. Our prior estimate for '08 and '09 was US$90.00. We are also raising our natural gas price forecast by US$1.00 per Mcf for 2008 and 2009. Our revised 2008 AECO outlook is US$9.00 per Mcf for each year. We are lifting our long-term oil price assumption, which is the basis for our NAV estimates from US$90.00 to US$95.00 after 2010 **(Plexman: Oil & Gas – Large Cap- Overweight).**

While the recovery in natural gas prices in recent months is a positive sign, we believe improved pricing will need to continue for several more months (likely through the spring) before translating into increased capital spending from producers and improved activity levels for oilfield services companies **(Fetterley: Energy Equipment Services – Market Weight).**

With the group trading at an average 2008E EV/DACF multiple of 5.3x and a P/NAV premium of 22%, we believe the sector is reasonably valued at current levels **(Bridges, Borggard and Lee: Oil & Gas Junior E&P – Market Weight).**

Financials – D. Mihelic, R. O'Reilly, A.Avery

Further weakening of credit conditions in Canada and the U.S. may lead to slower EPS growth in 2008 and 2009 for Canadian banks, stemming from higher loan loss provisions. We believe that lifecos are better positioned to absorb the impact of a weaker economy **(Mihelic: Banks & Lifecos – Market Weight).**

The weakness in Canadian REITs belies the healthy, strong fundamentals of the sector in Canada. Canadian economic growth is expected to remain positive in 2008. Vacancies are at record lows and new commercial space completions will be very low. Availability of debt financing, albeit reduced and confined to conventional mortgages, is still sufficient to provide for REITs' and other conservative investors' needs **(O'Reilly, Avery: Real Estate – Overweight).**

Equity Research

TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR MAY 2008

Health Care – M. Paris

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 **(Paris: Health Care – Market Weight).**

Industrials – M. Willemse, J. Bout

North American vehicle sales have begun to show softness due to a variety of economic headwinds. Until U.S. auto sales show signs that they have hit bottom, the U.S. economy shows signs of a rebound, and the Canadian auto suppliers report favourable results with the high Canadian dollar, we believe investors may hold a cautious view on Canadian auto-related equities. Valuation multiple contractions are likely to occur prior to a recovery in the sector **(Willemse: Automotive – Market Weight).**

Our Market Weight rating reflects the strong fundamentals in the steel sector (which have improved significantly over 2007) offset by the reasonable valuations in the sector and the potential for economic headwinds. Steel prices have increased significantly in 2008 due to raw material cost pressures, limited import activity, and service centre restocking **(Willemse: Steel – Market Weight).**

Even with a soft U.S. economy, robust growth in Asia should continue to drive demand for commodities. Barring a global recession, the outlook for the heavy equipment sector in 2008 is modestly robust **(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). Canadian rails are approaching the upper end of historical valuations. 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) **(Lechem: Technology-Software – Market Weight).**

While fundamentals appear relatively stable, we believe that a continued commodity price pullback and U.S. economic slowdown could serve to limit demand. To date, major engineering and construction firms have noted record backlogs and positive outlooks going into 2008. The one exception is a U.S. construction firm which stated that, "… we expect a near-term slowdown in public infrastructure spending as a result of the current economic downturn and the increasing budget challenges facing state and local governments… ." We expect that this type of outlook could become more common if the U.S. economy continues to deteriorate **(Lechem: Business and Professional Services – Market Weight).**

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TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR MAY 2008

Although the drivers are all in place for infrastructure upgrades around the world, the economic uncertainty in the U.S. and its potential impact on the rest of the global markets could delay some of these trends over the next six to 12 months. We have already begun to see the warning signs from some companies **(Coupland: Technology Hardware – Market Weight).**

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

Gold price continues to move upwards. Ongoing concerns from the fallout from the subprime mortgage fiasco in the U.S., strong investor demand and supply constraints (in the near term and long term) remain the key factors at play. We believe the recent momentum in the gold price should continue. We currently assume the gold price to average US$1,000/oz in 2008 and US$1,200 in 2009. We think there is a high probability of a price correction in the next few months, although this would only set the stage for a strong H2/2008. We would view any retreat as a buying opportunity **(Cooper: Mining, Precious Metals – Overweight).**

Longer-term metals market fundamentals remain sound, with tight metals markets, but near-term prices will be volatile. Based on our forecasts, we continue to view the zinc market as having the strongest fundamentals to support higher prices year over year **(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 ~US$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

We maintain a Market Weight stance on the Canadian pipelines & utilities sector. Historically high commodity prices and the need for new energy infrastructure are driving solid long-term organic growth. Commodity prices remain above historical levels, and continue to be a positive factor for the pipeline, utility and power stocks. A growing electricity supply shortage, especially in Alberta, should continue to support higher power prices and investment opportunities **(Pavao: Pipeline & Utilities – Market Weight).**

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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."