CIBC World Markets

Canadian Portfolio Strategy Outlook

October 4, 2007

Strategy

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" ...we are becoming more confident that the worst in credit markets may now be in the rearview mirror. "

Executive Summary

by Jeff Rubin, Chief Strategist

While some problems remain in the asset–backed commercial paper market, we are becoming more confident that the worst in credit markets may now be in the rearview mirror. With liquidity generally improving across most credit markets, we are moving two percentage points of weighting from cash, back to bonds. We remain heavily overweight equities (12 percentage points) as our TSX target of 16,200 for the end of 2008 implies another year of double-digit returns from the stock market.

Oil prices have pierced through $80 per barrel and seem well along the way to hitting our US$100 per barrel target by the end of next year. The strong likelihood of royalty hikes in Alberta does not alter the fact that the Canadian oil sands represents over 50% of the world oil reserves open to private investment.

While the expected royalty increases have already led to an almost immediate discount of Canadian oil stocks by domestic investors, royalty increases should have little impact on deterring large scale foreign acquisitions of Canadian oil sands properties over the next 12-24 months. We remain four percentage points overweight the energy sector not only on the expectation of rising oil and gas prices but also for the M&A premiums this is likely to bring.

Last month, we added weight to the heavily oversold base metal stocks—a move that so far has benefited from a 10% rally in these stocks during September. This month we are adding a half a point of weighting to the other large component of the materials sector—gold stocks. Good prospects for further Federal Reserve Board rate cuts by year-end, and the steady drag of a U.S. current account deficit that measures over 5% of GDP on the greenback, still leaves bullion prices a one-way bet.

We are raising our target for bullion to US$800 per ounce by the end of 2008. While valuations of gold stocks do not always keep pace with bullion price gains, potential consolidation in the industry should give gold stocks another lift.

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*	**68**	+12.0	0.0
Bonds	*38*	**29**	-9.0	+2.0
Cash	*6*	**3**	-3.0	-2.0
GICS SECTORS (%)**				
Cons. Discretionary	*5.0*	**3.5**	-1.5	0.0
Cons. Staples	*2.6*	**1.6**	-1.0	0.0
Energy	*27.1*	**31.1**	+4.0	0.0
Financials	*30.2*	**30.7**	+0.5	0.0
-Banks	*16.9*	*16.9*	*0.0*	*0.0*
-Insur., REITs, oth.	*13.3*	*13.8*	*+0.5*	*0.0*
Health Care	*0.6*	**0.6**	0.0	0.0
Industrials	*5.5*	**4.0**	-1.5	-0.5
Info Tech	*4.4*	**2.4**	-2.0	0.0
Materials	*17.6*	***20.1***	*+2.5*	*+0.5*
-Gold	*6.1*	*7.1*	*+1.0*	*+0.5*
-Other Metals	*7.8*	*9.3*	*+1.5*	*0.0*
Telecom	*5.5*	**4.5**	-1.0	0.0
Utilities	*1.5*	**1.5**	0.0	0.0

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

STRATEGY

Fed Easing, Resource Price Snapback Brightens Equity Outlook—Jeff Rubin and Peter Buchanan

Markets are showing signs of putting the worst of recent credit troubles in the rearview mirror, although the pace and degree of recovery varies. Troubles persist in Canada's asset-backed commercial paper market, but there is little evidence of contagion in other major asset markets. The TSX has now recouped nearly three quarters of the summer's slide, with the previously hard-hit materials group up 20% from August's lows. While the market is still 900 points below our year-end target, a late-season rally should push the TSX Composite to 15,000 by year-end. Further Fed rate cuts and a continued solid backdrop for resource prices, heralding another year of double-digit earnings growth, should see the Composite close 2008 at the 16,200 level. That implies an over-10% return from Canadian stocks next year, including the dividend (Table 1).

Despite an initial reluctance, the Fed signalled clearly with September's aggressive 50-bp cut that it now takes the threat of housing contagion seriously, and is ready to adjust policy accordingly. That move, by no means, closes the door on further accommodation. With Dodge's dovish comments signalling a holding pattern for the Bank and the Fed easing twice further, we've shifted two points from cash into our still-underweight bond position. Inflation fears have crept back into fixed income markets. Our expectation of continued sluggish U.S. growth in the coming year suggests those fears are overdone. Recognition of that fact and a re-tightening of corporate spreads, as some of the summer's credit anxieties subside, should ease pressure on bonds on both sides of the border.

As a non-interest bearing asset, gold has upside exposure both on further Fed rate cuts, and the induced decline in the U.S. dollar. To capitalize on anticipated support on both fronts we've moved a half-point of weight this month into the golds, from the industrial sector. That latter group is susceptible both to soft growth stateside and the blow to airline performance from rising fuel costs.

The C$ has now attained a premium against the greenback for the first time in 31 years and is likely to maintain an edge for the foreseeable future. While that will hamper earnings in some sectors, the currency's recent gains are themselves testament to rising prices and earnings from resource exports like oil. With just 7% of its cap in non-resource manufacturing, the TSX is also less vulnerable than the domestic economy to currency strength.

Table 1 - **Equity Projections**

			Year-end			
	Latest		2005	2006	2007	2008
TSX Composite	14,099	(9/28)	11,272	12,908	15,000	16,200
-% total return	11.2	*YTD*	24.1	17.3	18.2	10.4
TSX Operating Earnings - index adj			621	730	840	949
- yr/yr % chg	10.0	(07:Q3)	*31.2*	*17.6*	*15.0*	*13.0*
S&P 500	1,527	(9/28)	1,248	1,418	1,575	1,670
-% total return	9.1	*YTD*	4.9	15.8	12.9	8.2

Table 2 - **Economic Forecast**

		07Q2	07Q3	07Q4	08Q1	2007	2008
Canada	Real GDP Growth (AR)	3.4	2.3	2.0	2.5	2.5	2.5
	Real Consumption Growth (AR)	4.9	2.5	2.3	2.7	3.8	2.7
	CPI - Headline (y/y)	2.2	2.0	2.4	2.0	2.1	2.3
	- Core (y/y) ex taxes	2.4	2.2	2.1	2.1	2.3	2.1
	Unemployment Rate (%)	6.0	6.0	6.1	6.1	6.1	6.1
US	Real GDP Growth (AR)	3.8	2.6	0.9	1.9	1.9	2.3
	Real Consumption Growth (AR)	1.4	3.1	1.1	1.9	2.2	2.1
	CPI - Headline (y/y)	2.7	2.3	3.3	2.9	2.7	2.6
	- Core (y/y)	2.3	2.1	1.9	1.9	2.2	1.9
	Unemployment Rate (%)	4.5	4.6	4.7	4.7	4.6	4.8
World	Real GDP Growth (% chg)	-	-	-	-	5.2	5.0

Strategy

Chart 1 - **Mortgages Outstanding to be Reset**

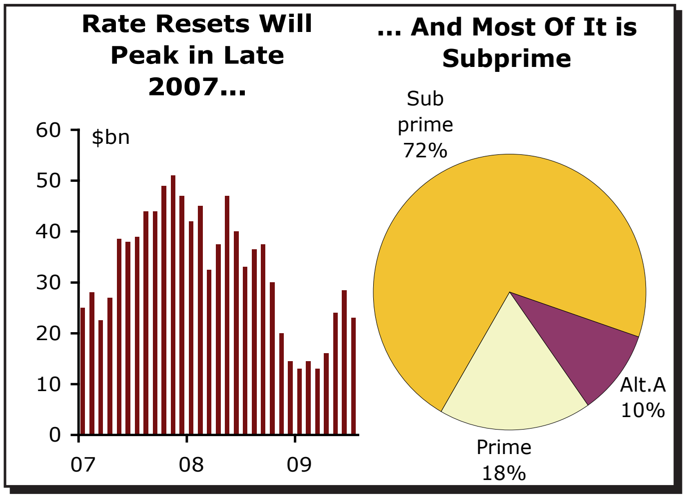
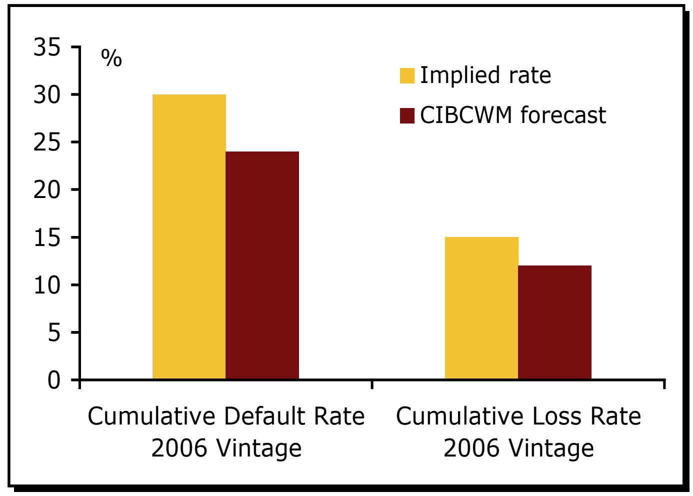


Chart 2 - **Markets Could be Pricing In Too Much Bad News**



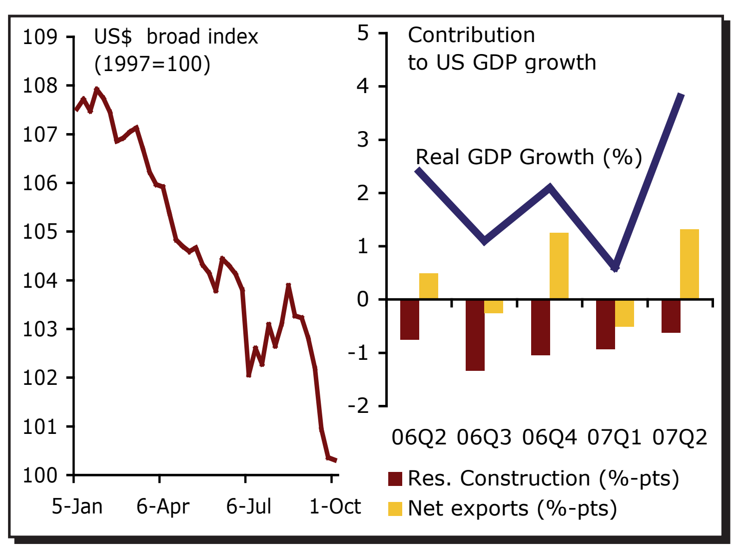
Source: Loan Performance, CIBCWM

Deep U.S. Housing Recession Already Fully Priced In

With interest rates on roughly US$700 billion worth of mortgages due to be adjusted upward by the end of 2008 (Chart 1), and default rates consequently likely to rise from already record levels, the bad news from troubled U.S. housing markets is far from over. The market's relatively muted response to the latest bleak batch of U.S. housing statistics, including an 8% drop in August new home sales, suggests that at this point a deep and protracted housing slump is already well priced into North American equity valuations. Some indicators suggest in fact a potential upside if things do not prove to be quite as dire as the prevailing view now holds. Our in-house research suggests that ABX prices are pricing in a cumulative average default rate of around 30% on the current outstanding stock of U.S. subprime mortgages (see September *StrategEcon, "US Subprime—Has the Correction Gone Too Far?"*). That implied default rate is roughly 20% higher than our projection (Chart 2).

Of no great surprise given its almost 50% resource capitalization, the TSX's fortunes are more intertwined with those of the global rather than the North American economy. Our research indicates a historical correlation of 0.6 with global GDP, versus 0.4 against Canadian growth and 0.5 against performance stateside. A full fledged U.S. recession would be sure to create downside risks for stocks on both sides of the border. Mortgage troubles will certainly dampen U.S. growth in the next year, but we don't think a full-blown recession is in the cards, for a couple of reasons. One is the prospect for further rate cuts. The greenback's 4% trade-weighted decline since June, moreover, points to further improvement in the real trade balance. That should also help mitigate the drag from housing (Chart 3).

Chart 3 - **Trade Offsets Some of the Housing Hit**



Resource Hungry Emerging Markets Weathering Credit Storm

Emerging stock markets generally set new records in September, and spreads on their bonds remain tight compared to previous shocks (Chart 4). Those economies, the key drivers of growth for Canada's oil and metals exports, were at the centre of the last bout of global contagion, surrounding Long

Term Capital Management's blowup a decade ago. So far they appear to have escaped serious damage this time however—boding well for resource demand and prices. The Asian Development Bank's September forecast suggests that even with recent market turmoil, emerging Asia's economic performance will exceed earlier expectations. Japan's economy is also showing signs of renewed momentum.

Contributing to benchmark-topping performance of both the materials and energy groups, commodity prices posted their largest monthly increase in 32 years in September, drawing support from improved growth expectations and investor confidence after the Fed's rate cut and US$ weakness.

West Texas Intermediate crude prices have already pierced the US$80/bbl mark, our forecast for the fourth quarter, even with a comparatively uneventful hurricane season so far. An expected average US$90 wellhead price in the coming year and a rebound in natural gas prices from recent weather-depressed levels warrants a continued overweight of the energy group. Global oil demand will rise by almost 2% in 2007, nearly double its long-term trend. That's testament not only to buoyant Chinese demand, but also rocketing consumption in oil exporters like Saudi Arabia, whose heavily subsidized motorists are using 10% more fuel than a year ago (Chart 5 – and *Occasional Report #62*, *"OPEC's Growing Call on Itself"*). Putting pressure on already taut capacity and prices, recent signs of strongly rising demand come alongside cost increases and delays for a number of projects, including Thunder Horse in the Gulf of Mexico and Central Asia's

Chart 4 - **Resource-Intensive Emerging Economies Not at Storm's Centre This Time**

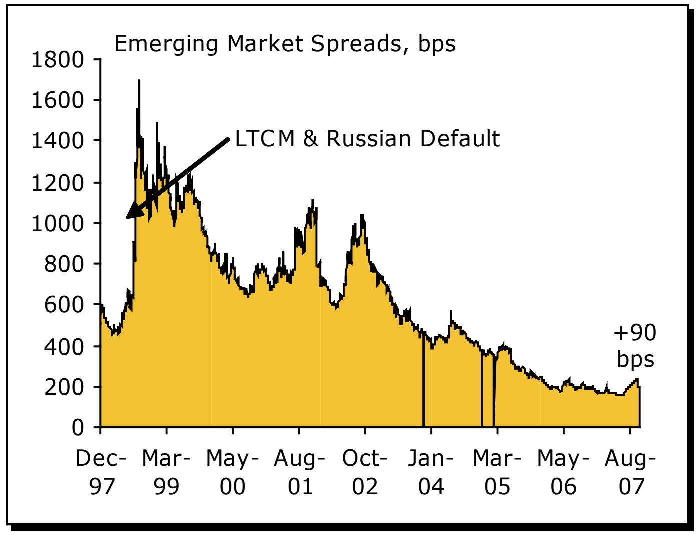
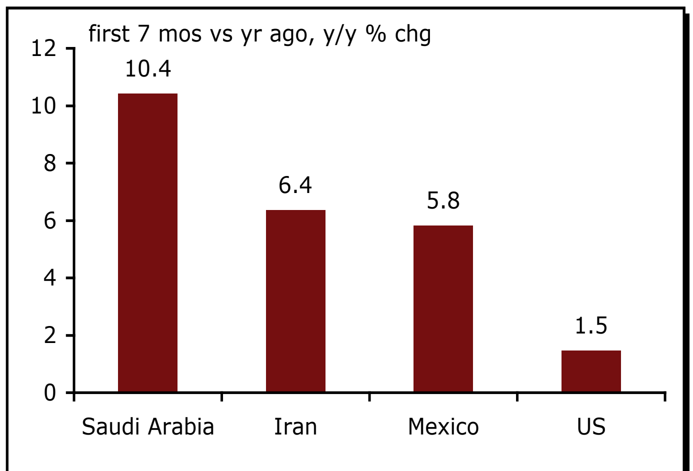


Chart 5 - **Oil Producers' Own Needs Bolstering Fuel Demand Growth**



Source: Joint Oil Data Initiative (JODI) Database

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(f)	2008 (f)
Financials	153.6	1988	12.9	10.9	12.8	18.3	13.4	9.4
Energy	226.2	3297	14.6	13.0	54.5	3.7	20.7	16.8
Industrials	86.3	1363	15.8	15.6	23.6	6.6	13.4	13.7
Telecommunications	66.6	1037	15.6	34.7	2.1	34.7	12.7	14.8
Utilities	113.2	1923	17.0	13.9	10.4	15.2	24.3	3.5
Consumer Staples	102.7	1712	16.7	17.0	1.3	-1.9	1.5	2.9
Materials	159.2	3012	18.9	27.5	21.3	93.3	19.4	9.4
Consumer Discretionary	70.4	1362	19.3	18.6	4.5	8.2	7.0	8.7
Health Care	22.3	430	19.3	49.7	-0.7	12.6	-31.3	-9.8
Info Tech	9.6	353	36.6	32.3	260.9	-52.1	25.2	26.2
TSX Composite	**910.0**	**14099**	**15.5**	**17.9**	31.2	17.6	15.0	13.0

Note: Indexes as of Sept 28th; 4-qtr fwd earnings are proj. 07:Q3 thru 08:Q2

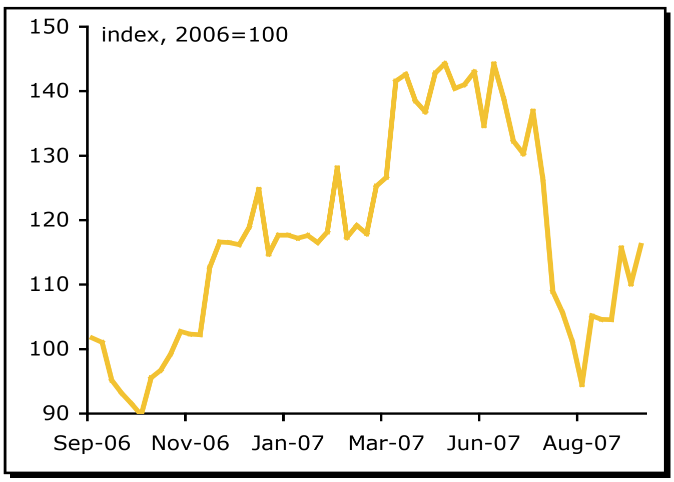
**Forward cash flow* ***Price to Fwd Cash Flow*

Kashagan development. That project, the largest in the region, is already five years behind schedule. Serious technical challenges could delay production there further, even if the problems between the operator and Kazakh government are eventually resolved.

Arguing that the province is missing out on significant revenues, the final report of Alberta's Royalty Review Panel, released on September 18th, recommended a variety of measures for increasing the province's take from oil and gas development in Alberta. This includes an increase in the present 25% post-payout royalty rate to 33% for oil sands producers. The existing 1% base rate would continue for project life, rather than being discontinued when a positive payout is achieved. A new staggered tax, called the Oil Sands Severance Tax (OSST), would also be introduced for non-conventional producers, rising in step with the cost of oil.

At this point, the report is not official policy and the government's response remains unclear. The report estimates that full implementation of its recommendations would result in a $1.9 billion transfer from the industry to the province, equal to just over 5% of the industry's projected 2008 earnings. Given the TSX oil groups' 4-5% decline right after the report's release, we believe that valuations factor in an adequate cushion for full implementation. That could imply potential upside in the more likely event the province opts to only partially institute the review panel's recommendations. Last month's bid by a Middle Eastern interest for a major energy producer suggests international investor interest in Canadian oil patch assets remains strong. Meanwhile, long-term uranium contract prices have held steady in recent months even with the spot markets recent giveback. Recent developments, including efforts by China to lock in supplies and the filing of the first U.S. nuclear power plant licensing application in 29 years, suggest uranium stocks will continue to rebound from the summer's lows (Chart 6).

Chart 6 - **TSX Uranium Group Stages Modest Rebound**



Will the Next Merger Wave Lift the Golds?

Strong gains by gold, base metals producers and fertilizer stocks contributed to the material groups 9% advance in September, the best performance of any market sector. The combination of a collapsing dollar, a British banking crisis, and Fed rate cuts helped lift gold to a 28-year high of nearly US$750/oz in September, taking out our previous target. In addition to further safe-haven flows

Table 4 — **Commodity Price Forecast**

		28-Sep	Average 2005	2006	2007 (f)	2008 (f)
Oil (WTI)	$/bbl	81.66	57	66	70	90
Natural Gas (Henry)	$/Mn Btu	6.15	8.89	6.73	6.80	8.50
Gold	$/troy oz.	743	444	604	765	800*
Copper	$/lb	3.68	1.67	3.06	3.35	3.75
Aluminum	$/lb	1.12	1.23	1.17	1.20	1.10
Nickel	$/lb	13.74	6.71	10.98	16.75	14.50
Zinc	$/lb	1.39	0.63	1.48	1.50	1.65
Uranium (contract price)	$/lb	95	31	50	100*	120*

**Year-end*

Strategy

linked to the U.S. currency's difficulties (Chart 7), and higher inflation levels in some emerging markets, further fed rate cuts are supportive for the metal. Consistent with our revised end-of-2008 target of US$800/oz, we are adding a half-percentage point of weight to the golds. Difficulties replacing gold reserves by some major mining companies also raises the spectre of a renewed round of takeovers in the sector, which could provide additional support to valuations. After lagging for a protracted period, gold mining stocks are again outperforming bullion, raising the prospect of "catch-up" .

The non-bank financial group appears to offer good value and last month we recommended adding weight to that segment. The REITs have reclaimed some of the ground ceded earlier in the year, and appear to be well positioned to benefit both from the stable interest rate environment and strength of Canadian commercial property markets. Canadian office vacancy levels remain at five-year lows. Although we remain neutral on the banks for the time being because of funding cost concerns, we also recommend the life insurance sector as an overweight. Canadian insurers now generate over half of their revenues abroad and are well-positioned to benefit from rapid growth in underserviced markets like India and China, which has slashed hurdles for foreign insurers in recent years. Per capita premiums in both countries are a thirtieth or less of North American levels (Chart 8).

Chart 7 - **Gold's Mirror Relationship with Greenback**

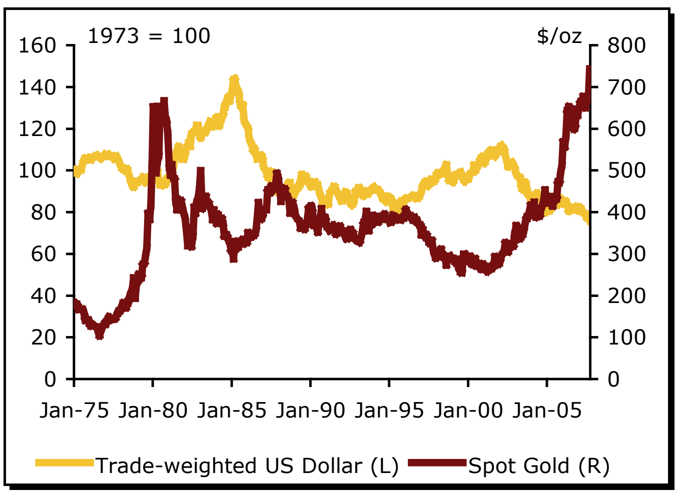


Chart 8 - **Annual Life Insurance Premiums per Capita**

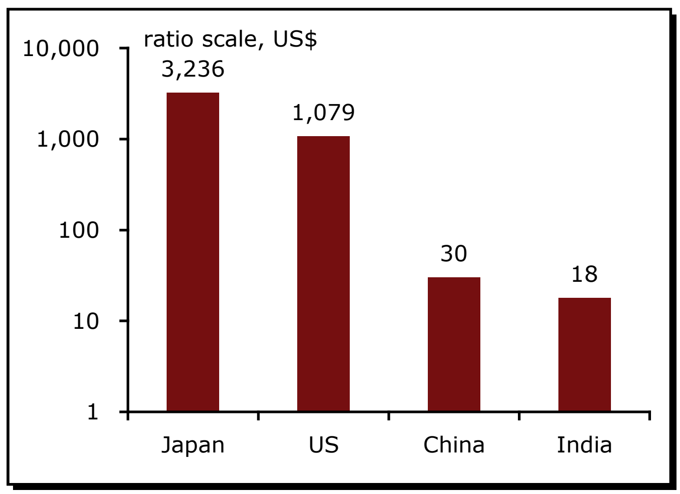


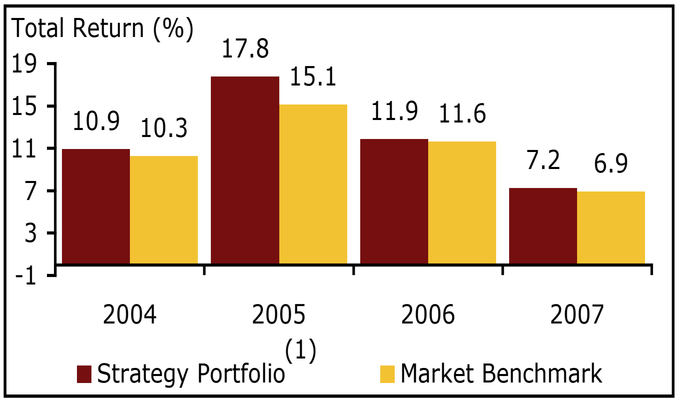
Table 5 - **Fixed Income & Exchange Rate Projections**

	Sep 28/07	Dec 31/07	Mar 31/08	Jun 30/08	Year-End 2006	Year-End 2007	Year-End 2008
B of C Overnight Target (%)	4.50	4.50	4.50	4.50	4.25	4.50	4.50
2-Year GOC	4.08	4.35	4.40	4.40	4.03	4.35	4.50
10 Year GOC	4.34	4.45	4.50	4.55	4.09	4.45	4.65
30-Year GOC	4.44	4.50	4.55	4.55	4.14	4.50	4.60
S&P TSX Cdn Bond Index (% YTD total return)	1.1	2.1	0.9	2.0	4.0	2.1	3.8
Fed Funds	*4.75*	*4.25*	*4.25*	*4.25*	*5.25*	*4.25*	*4.50*
10-Year US Note	*4.59*	*4.40*	*4.55*	*4.65*	*4.70*	*4.40*	*4.75*
US$ in Cdn cents	*100.8*	*100.7*	*100.6*	*100.1*	*85.8*	*100.7*	100.8
US$/EUR	*1.43*	*1.45*	*1.42*	*1.40*	*1.17*	*1.45*	*1.37*
Yen/US$	*115*	*115*	*114*	*115*	*119*	*115*	*113*

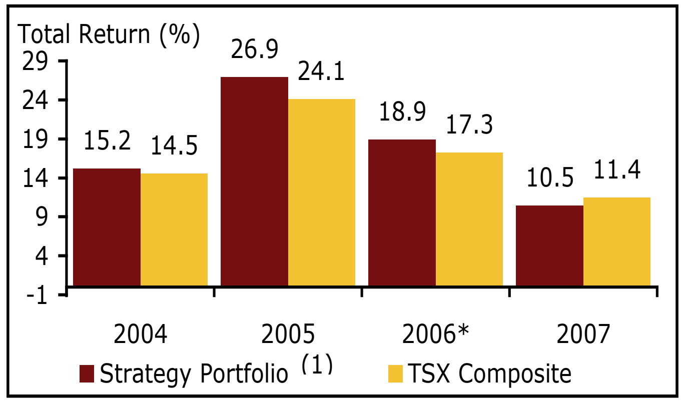
STRATEGY

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. 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	**2006**	**2007 YTD**	**Last 3 Mos.**
Stocks (TSX Composite Total Return Index)	17.26	11.43	2.18
Bonds (S&P TSX Cdn Bond Index)	4.00	1.06	1.82
Cash (1-Month Bills)	3.88	3.07	1.02
Market Benchmark(2)	**11.64**	**6.90**	**1.95**
-Strategy Portfolio	**11.86**	**7.24**	**1.83**
TSX Stocks by Sector (Total Return) (3)	**2006**	**2007 YTD**	**Last 3 Mos.**
Consumer Discretionary	15.67	8.90	-0.31
Consumer Staples	5.53	2.13	-1.87
Energy	6.06	6.56	-2.49
Financials	19.21	4.52	1.07
-Banks	19.84	3.00	0.58
-Insurance, REITS, others	17.50	6.12	0.66
Health Care	0.69	-16.10	-14.68
Industrials	14.66	19.61	0.20
Info Tech	27.33	32.64	14.39
Materials	39.81	25.95	12.53
-Gold	28.03	-1.00	18.31
-Other Metals	49.80	29.00	3.40
Telecom	20.12	24.17	-2.02
Utilities	7.01	7.02	6.86

**as of Sep 28/07*

(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 OCTOBER 2007

Consumer Discretionary – B. Bek

The Canadian media space continues to see good overall performance through the first half of 2007. As expected, specialty TV continues to be strong as advertising dollars and subscription increases continued on their fast pace. Newspapers will likely continue to struggle, especially in Metro markets. Internet advertising remains a small piece of the overall advertising pie in Canada, but it is growing materially **(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

While we have been expecting a commodity price rise in H2/07, markets are moving faster than anticipated. Crude oil prices have recovered from the January low of US$50.48 per barrel, and averaged about US$65.00 per barrel in Q2/07. Looking ahead, we believe that oil market fundamentals remain positive. We expect that global oil demand in 2007 will increase by 1.3 million Bbls/d–1.5 million Bbls/d, and handily outpace non-OPEC supply growth. Given the generally solid balance sheets and attractive valuations, M&A could be a further catalyst **(Plexman: Oil & Gas – Overweight).**

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

Fundamentals in the Canadian banking industry remain strong. The Big 6 produced an average EPS growth of 19% in H1/F07, supported by 11% revenue growth and 4% operating leverage. We expect EPS growth for the group to be 15% in 2007 and 8% in 2008, on average. However, the Big Six valuation multiples have recently been under pressure due primarily to a 50-basis-point increase in the 10-year Canada bond yield during the last three months. We believe the higher level of long-term interest rates has already been factored into bank stock prices. We view current valuations as fair, given solid bank earnings outlook and the increased attractiveness of dividend-rich stocks **(Mihelic: Banks – Market Weight)**. Net redemptions for the industry were reported for the first time in several years. We believe this trend will be short lived. Wrap products continue to dominate industry flows, with net sales of $0.8 billion during August. Market Weight recommended **(Boland: Asset Managers-Market Weight)**. Canadian firms reported stronger-than-expected operating earnings growth in Q2/07. Pricing remains soft, but underwriting profits were stable. Higher yields negatively impact book value growth; however, this should be somewhat offset by higher investment income. Market Weight is recommended **(Boland: P&C Insurers –Market Weight)**. In July and August MTD, REITs returned -3% on an unweighted basis, compared to a similar -3% total return for the S&P/TSX Composite Index. REITs' returns have reflected the effect of a decline in the 10-year Government of Canada (GoC) bonds yield of 15 basis points (bps) to 4.41%, which was more than offset by a 45-bp increase in the average REIT yield spread over the 10-year GoC bond. Takeover activity and fluctuating investor sentiment about further takeover bids have also been factors in REIT sector returns and prospects **(O'Reilly: Real Estate – Market Weight).**

Health Care – J. Walewicz

With close to 75% 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. 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

We are encouraged by strong production levels for Q3/2007, and do not anticipate any surprise production cuts. We believe investor sentiment has improved, as production levels appear to be favourable, inventory levels have declined, and GM seems to have made progress with their turnarounds **(Willemse: Automotive – Market Weight)**. Steel market fundamentals have improved significantly since the end of 2006. U.S. service centre inventories declined significantly in H1/2007 due to a seasonal increase in demand, reduced import activity and lower domestic production levels. Given current inventories and import trends, steel producers should continue to have significant pricing power throughout mid-2007 **(Willemse: Steel – Market Weight).** Market Weight rating on the capital equipment sector reflects the complexity of the group's underlying drivers. While we believe there is likely to be ongoing softness in US commercial/residential construction, robust economic growth in Asia should continue to drive demand for commodities. A moderating global economy should help

TSX SECTORAL VIEWS BY FUNDAMENTAL EQUITY RESEARCH ANALYSTS FOR OCTOBER 2007

ease the current frantic demand for new heavy equipment, providing more manageable growth and improved margins. The capital equipment sector is typically a late-cycle 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

Software spending has settled into a more predictable pattern, with market research expecting sector growth in the mid-to-high single digits. The sector has also settled into a relatively predictable seasonal pattern, with summer typically a slow period for software sales, but sales rallying in the fall, driven by budgetary considerations (ie. customers making purchases prior to year-end). Over the past decade, technology stock prices have tended to follow a similar pattern, selling off in the slow summer period before rallying to year-end strength. We believe the sector is currently attractively valued and we see technology stock valuations and timing as both offering an attractive entry point **(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

Gold prices year-to-date have averaged US$660/oz. We forecast gold prices to average $675/oz. in 2007 and $725/oz. in 2008. The factors that brought us from the sub-US$300/oz. level a few years ago have not abated and, arguably, are as strong today as they have been at any time. 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).** Over the past month, concerns of a slowing global economy in 2007 and 2008 caused by the perceived ongoing "credit crunch" in the capital markets resulted in a significant correction in base metals equity and commodity prices. While the demand outlook is somewhat cloudy given the ongoing capital market gyrations, unless physical demand actually comes under pressure we do not believe this capital markets turmoil marks the end of the secular bull market for base metals **(Hale-Sanders: Mining, Metals and Minerals – Market Weight).** 2007 has been a frantic year for the fertilizer industry with 92.9 million acres of corn having been planted. Black Sea urea prices have rebounded on expectations of Indian and Brazilian demand. Potash market remains tight **(Bout: Chemicals & Fertilizers – Market Weight)**. We think most pulp, paper and packaging prices are close to their cyclical peaks. To the extent that prices remain relatively high, it will be due more to "cost push" than "demand pull" forces – not a very exciting prospect. We also caution investors against searching for a "favourite" grade of paper. We think building materials prices will hover around cash costs through at least mid-2008 until excess inventories in the U.S. housing market are depleted. A recovery is expected sooner for lumber than panels due to the increasing supply of the latter **(Carreau, Roberts: Paper & Forest Products – Underweight).**

Utilities – M. Akman, A. Pavao

Pipeline and utility stocks have fallen since mid-July, in sympathy with the broader market sell-off. While market turbulence may continue in the near future and influence the movement of stocks in our universe, the fundamental growth drivers for Canadian pipelines & utilities remain strong. Commodity prices remain above historical levels, which continues to be a positive factor for the pipeline, utility and power stocks. A growing electricity supply shortage, especially in Alberta, should continue supporting higher power prices and investment opportunities **(Akman, Pavao: Pipeline & Utilities – Market Weight)**.

Quantitative Strategy

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

The equity market was up in September, outperforming both bonds and cash. The best performing sector, materials, was up more than 9%, while the health care sector was down 1.5% on the month. Crude oil and other commodities were up. The Canadian dollar was up substantially in September.

Our QTAA strategy uses a statistical technique called logit model to make asset allocation decisions. Our QTAA model (see Exhibit 1) is suggesting stocks as the best asset class for October, outperforming both bonds (probability = 51%) and cash (probability = 79%).

We recommend overweighting stocks and underweighting cash. After two turbulent months, the market volatility stabilized in late September (see Exhibit 2).

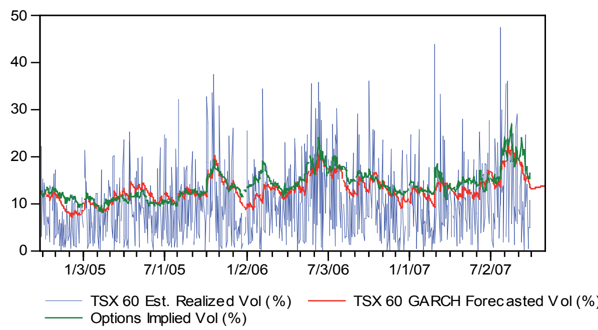
Note: From a modeling perspective, we use the S&P/TSX Equity Index as our main benchmark and treat income trusts as a separate component in our TAA and sector rotation strategy.

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	5	NA	NA
Oil Price	2	2	2
CRB Commodity Index	NA	5	NA
Canadian Dollar	5	NA	5
Put-Call Ratio	3	3	3
Leading Economic Indicator	NA	3	NA
M3 Money Supply	NA	1	1
ISM Index	3	NA	NA
Probability of Outperformance	**79%**	**51%**	**53%**

* 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 momentum factors and reduces weight on quality factors for October 2007.

Our QED model suggests overweighting the industrials, energy, and financials sectors. We also recommend underweighting the materials, telecom services, and health care sectors. For stock-specific analysis, please refer to our *QED Model Monthly Forecast*, October 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 suggested overweight on the industrials sector is driven mainly by valuation and sector momentum. We also recommend overweighting the energy sector, due to growth, quality, and sector alpha. The financials sector is also at overweight, because we believe the large-cap, high liquidity, and low-beta nature of the sector will be rewarded.

The underweight stance on the materials and health sectors is based mostly on the negative sector alpha. We also suggest underweighting the telecom services sector on valuation.

Within the income trust universe, we still prefer power & pipeline and business trusts, and suggest underweighting oil & gas trusts. Momentum and revision style factors are the driving forces behind our current 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.

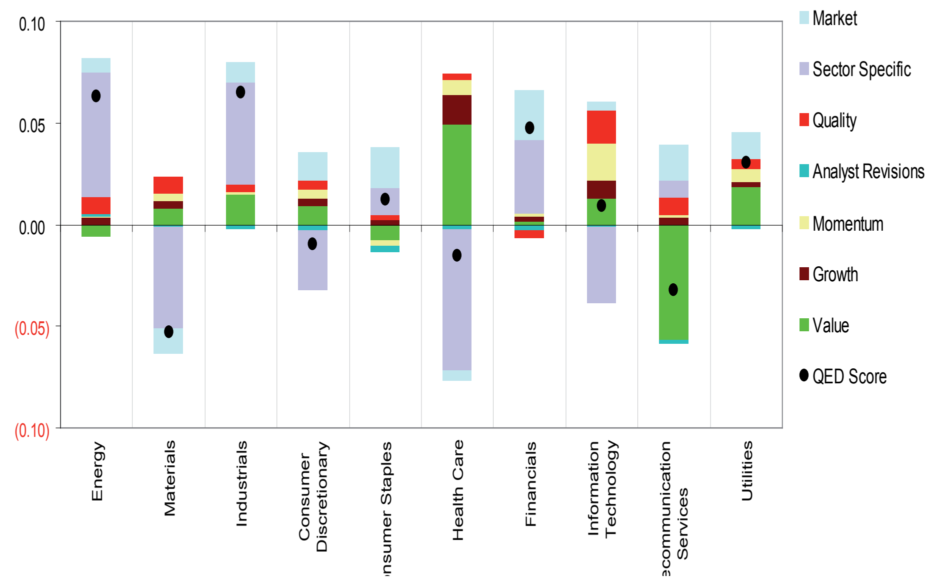
The real power of our QED model is, however, on stock selections. Please refer to our monthly *Quantitative Strategy Outlook* or weekly *QED Model Forecast* for details.

Exhibit 3. TSX 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	41	316,363.00	23.3	8.4	1.17
Materials	51	215,144.70	15.8	4.8	0.66
Industrials	16	78,326.10	5.8	8.7	1.21
Consumer Discretionary	22	61,643.20	4.5	5.2	0.73
Consumer Staples	12	38,482.00	2.8	6.2	0.86
Health Care	6	7,583.30	0.6	5.1	0.72
Financials	27	428,667.80	31.6	8.1	1.13
Information Technology	9	65,102.60	4.8	6.1	0.86
Telecommunication Services	3	46,460.10	3.4	4.4	0.61
Utilities	5	18,034.90	1.3	6.9	0.97
Total TSX Composite	*192*	*1,275,807.60*	*94.0*	*7.2*	*1.00*
TSX 60	53	1,001,116.30	73.8	7.3	1.02
TSX Completion	139	274,691.30	20.2	6.6	0.92
Non-TSX Composite	215	55,023.00	NA	5.1	0.71
TSX SmallCap	123	77,320.60	4.1	5.2	0.73
Total Universe	*407*	*1,330,830.60*	*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 (10=Best)	Relative Rating**
Energy	47	84,479.90	54.7	2.0	0.72
Materials	9	9,405.10	6.1	4.6	1.69
Industrials	13	6,956.40	4.5	3.6	1.32
Consumer Discretionary	13	14,664.90	9.5	4.0	1.48
Consumer Staples	5	1,604.40	1.0	3.2	1.19
Health Care	2	1,636.90	1.1	4.2	1.52
Financials	19	24,094.50	15.6	2.9	1.07
Information Technology	1	1,428.90	0.9	3.0	1.10
Telecommunication Services	1	4,104.60	2.7	4.0	1.46
Utilities	9	6,111.50	4.0	4.2	1.55
Business	47	41,746.00	27.0	4.0	1.48
Oil & Gas	38	74,500.50	48.2	1.6	0.59
Power & Pipeline	18	16,090.80	10.4	4.4	1.60
REIT	16	22,149.70	14.3	2.8	1.02
Total Trust Universe	*119*	*154,487.10*	*0.0*	*2.7*	*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 *"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."