

Rising energy and financial stocks will drive TSX composite to record-high of 14,000 by end of 2007, according to CIBC World Markets report

TORONTO, Dec. 1 /CNW/ - CIBC (CM: TSX; NYSE) - The S&P/TSX composite index is expected to reach a record-high of 14,000 by the end of 2007, on strong year-end momentum and a favourable outlook for both energy and financial stocks, CIBC World Markets predicted today.

"Energy stocks are likely to rise sharply next year on a rebound in crude prices, which after languishing near US\$60 per barrel in the fall shoulder season, should rally to new highs in 2007," says Jeff Rubin, Chief Strategist and Chief Economist at CIBC World Markets. "The expected 13 per cent return from Canadian equities next year, which is predicated on the back of a matching gain in index earnings, warrants an 8 per cent-point overweight in stocks. Overall, we remain 4.5 per cent-points overweight in both the energy and financial sectors, which together account for almost 60 per cent of total TSX market cap."

In its December Canadian Portfolio Outlook Report, CIBC World Markets notes that financial stocks, led by banks, are poised to benefit from as many as four interest rate cuts by the Bank of Canada over the next year as mounting job losses in the manufacturing sector and economic weakness in central Canada compels central bank easing.

After cutting exposure for the last two months, CIBC World Markets is adding weighting to the now discounted income trust market by moving to 2 per cent point overweight. A double-digit decline in valuations following Finance Minister Flaherty's announcement to tax most trusts, has seen average trust yields soar from 8.5 per cent to nearly 10 per cent.

"Given our forecast for a sub-4 per cent long Canada yield next year, most investors will find these yields extremely attractive," adds Mr. Rubin. "While trust valuations are likely to bounce back, trust market issuance will be restricted by the new regulations. Hence investors' search for yield is likely to lead them to new instruments in 2007. A resurgence in preferred share issuance may be one of the new vehicles to pick up the slack."

Mr. Rubin has cut his fixed income weighting but remains fundamentally positive on the outlook for bonds. "Four 25-basis point cuts to the Bank of Canada's overnight target rate should lop off 50-60 basis points from long bond yields. But right now we would have to bet that income trusts will provide better returns than bonds next year in response to those interest rate moves, given where yields are currently trading in the trust market."

The CIBC World Markets Canadian Portfolio Strategy Outlook report is available at http://research.cibcwm.com/economic_public/download/psdec06.pdf.

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