

Attention Business Editors:

Projected interest rate cuts to benefit dividend-rich financial and telecom stocks, according to CIBC World Markets report

TORONTO, Oct. 3 /CNW/ - CIBC (CM: TSX; NYSE) - With significant interest rate cuts expected from both the Bank of Canada and the U.S. Fed over the next year to try to limit damage to the North American economy, CIBC World Markets is shifting the asset mix in its Canadian Portfolio Strategy to put more weight on financials, telecoms and bonds.

Lower natural gas prices and the forecast for another warm winter has also led it to significantly reduce its exposure to natural gas stocks by scaling back its overweight position in energy by nearly a half.

"We are moving our weighting from energy stocks to yield-sensitive securities in expectation of 100 bps of easing from the Bank of Canada and a roughly 50-bp decline in long Canada yields over the next 12 months," notes Jeff Rubin, CIBC World Markets' Chief Strategist, in his October Canadian Portfolio Strategy Outlook Report.

"Banks and other financial institutions are most likely beneficiaries from those rate adjustments. Adding on to the slight overweight we put on last month, we are now four percentage points overweight in the financial services sector, rivaling our overweight position in energy stocks."

CIBC World Markets also added one-and-a-half percentage points to telecoms, bringing its weighting in the sector back to a neutral stance. It also added a half percentage point of weighting to the dividend-rich utilities sector. In response, it scaled back its overweight in income trusts by two percentage points. Within trusts, it moved assets from oil and gas trusts to the more rate-sensitive REITs and power and pipe trusts.

While CIBC World Markets significantly reduced its overweight in energy stocks due to natural gas price risks, it still remains overweight by 4.5 per cent. This is driven by a continued positive outlook for oil and upward pressures on uranium prices.

"Consumption in China is again showing double-digit year-on-year growth and demand there is much more growth than price-levered," adds Mr. Rubin. "While U.S. crude inventories remain high, the OECD demand cover - which is a broader gauge of global conditions - is down from the level twelve months ago. Moreover, private investment in new crude capacity around the world is being increasingly challenged by state intrusions."

Mr. Rubin also notes that a new wave of nuclear reactors in Asia should drive uranium prices up to US\$70 per pound by the end of next year.

While the report calls for short-term risks for the TSX due to weakness in the U.S. economy, it projects a positive longer-term outlook given the weight that interest-sensitive stocks and resources have on the index. The report notes that, despite a US slowdown, the world economy will still grow by 4.5 per cent next year.

CIBC World Markets projects a 2007 year-end target for the TSX of 13,500. The CIBC World Markets Canadian Portfolio Strategy Outlook report is

available at http://research.cibcwm.com/economic_public/download/psoct06.pdf.

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