YOUR FINANCES AND THE OUTLOOK FOR INTEREST RATES

Are you prepared for when rates rise?

In an effort to combat the toll of job losses and reduced economic activity caused by the pandemic, in 2020 the Federal Reserve kept interest rates at some of the lowest levels we've ever seen. Yet, CIBC's view for 2021 is that while rates are going to stay low in the short term, the government stimulus and an eventual economic recovery may put upward pressure on rates later in the year.

Our team has holistic strategies in place across our areas of expertise to help our clients manage in a low-rate environment and get ahead of rising rates down the road.

- Commercial Banking
- Capital Markets
- Commercial Real Estate
- Private Wealth
- Private Banking

Ideas for Commercial Banking clients

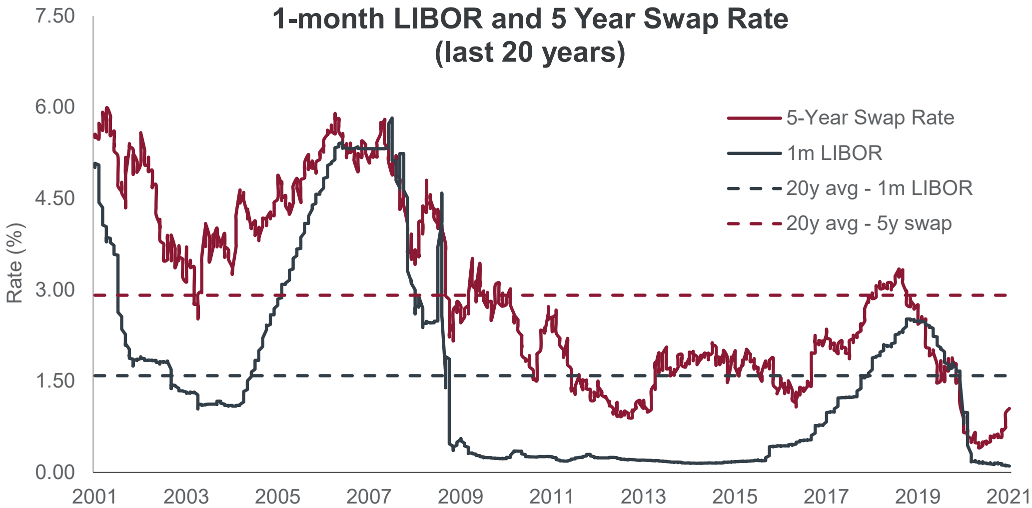
Many middle market commercial borrowers are well positioned to reduce costs and enhance flexibility in today's low interest-rate environment. With your CIBC relationship manager's help, you can take a look at your balance sheet and determine whether existing debt can be refinanced or extended, or whether new debt can help you realize your business ambitions.

Other questions to ask:

- Can we enhance our liquidity by moving revolver balances to term debt?
- Should we use excess collateral to explore asset-based lending structures, allowing us to margin existing assets at a low cost?
- Is it time to restructure existing interest rate hedges or to layer on additional notional or tenor at a low cost?

Ideas for Capital Markets clients

A key feature of the current environment is that long-term rates are still well below historical averages with the market anticipating short-term rate hikes as early as Q4 2022.



Source: Bloomberg, as of 03.11.2021

For many clients, hedging strategies are essential tools to protect against rising rates – especially since long-term rates are still so low. The following two hedging strategies work especially well in the current environment.

- **Vanilla Swap**: This common swap approach converts floating rate exposure to a fixed rate. Because fixed swap rates are near historically low levels, there is limited downside to replace floating rates with fixed rate protection. Also, longer-term, fixed rate swaps lock in low interest cost and will not be impacted by future rate increases, dramatically reducing risk and uncertainty.

- **Capped Floater Swap:** The capped floater strategy is more complex but is particularly well suited for the current rate environment. The structure allows you to float under a cap over a given period, which allows you to benefit from low floating rates and protect yourself against unexpected rate increases. Later, the swap converts to a basic vanilla swap at a fixed rate for the remainder of the contract.

Finally, for firms that are looking to access capital, the low cost of loan and debt issues are extremely attractive. Now may be a good time to access the capital markets for liquidity purposes, to refinance existing indebtedness, and to fund mergers, acquisitions, and even dividends. We generally recommend issuance in the bond market over the loan market, to lock in the attractive fixed rate pricing available today.

Ideas for Commercial Real Estate clients

Ultra-low rates are a boon to real estate clients of all kinds. Most real estate clients need flexibility to manage their costs and make their development deals work. That's where our customized commercial and institutional balance sheet financing across all asset types and geographies come into play:

- Structured financing products
- Creative hedging strategies
- Liquidity and treasury management capabilities
- Subscription lines of credit

The right strategies will vary from client to client. But we have consistently found that real estate debt offerings help maximize the cash flow from clients' properties and provide flexibility for future acquisitions and other capital needs.

Ideas for Private Wealth clients

While low interest rates are great for borrowers, they present a challenge to many private wealth clients. Their main concern – how to maintain a consistent flow of income when interest rates greatly limit payouts for lower-risk income instruments? There are several income-oriented options that may be a suitable alternative to traditional fixed income in this environment:

- **CIBC Equity Income Strategy and Equity Income (Non K-1) Strategy:** Equity dividends have remained fairly steady as rates have declined. While equities do have more risk than bonds in general, this strategy's focus on high-quality companies with a history of dividend growth is designed to mitigate risk. A version of this strategy is available that avoids K-1 generating securities, for clients who prefer that approach.

- **CIBC Income Opportunities Strategy:** This strategy has kept its yield by investing in a broad range of income producing securities. Bonds and dividend paying stocks are included, but so too are less common income-generating securities, such as convertibles and preferred stocks. It is expected to present more risk than a typical bond fund, but less than a standard equity-focused fund.

- **Third-Party Managed Strategies:** We often use specialty income strategies managed outside of CIBC to enhance income portfolios. These strategies might focus on master limited partnerships, new technologies, high-yield securities, or a number of other income-producing investments. Most of these approaches carry more risk, but with slightly higher yields, they may be an appropriate addition for some clients.

Low interest rates can also enhance estate planning, especially while the current estate tax exemption remains in effect. Intra-family loans, for example, can allow you to help a family member finance a major purchase or start a new business very inexpensively without triggering gift taxes if requirements for the loan are met.

Ideas for Private Banking clients

Low interest rates give private banking clients an important opportunity to make strategic changes in their borrowing. For most people, the first option to consider is refinancing a mortgage or other large loan. Clients with adjustable-rate mortgages may wish to lock in a low rate by refinancing to a fixed-rate mortgage. But those with a fixed-rate mortgage – even one with a relatively low rate – should also investigate whether today's rates could save them money. Your bank representative can help you crunch the numbers.

Because borrowing is so inexpensive, there's also value in talking with your banker about taking on new debt to pursue other wealth building strategies. Some options to consider:

- Take a cash-out refinance on unencumbered real estate holdings to use as capital for other estate planning techniques.
- Use an interest-rate swap on a portion of your variable rate line of credit balances to hedge against rates rising in the future.
- If you own investment real estate, use inexpensive loans to buy out co-investors or to make capital investments or improvements in the property to enhance its value.

Be prepared for when interest rates rise

While the Federal Reserve has pledged to keep rates low, actual numbers fluctuate with the market. It's important to be prepared. You can find out more about these and other strategies by speaking with your CIBC relationship manager to help keep your portfolio up to date not only now, but as rates change in the future.