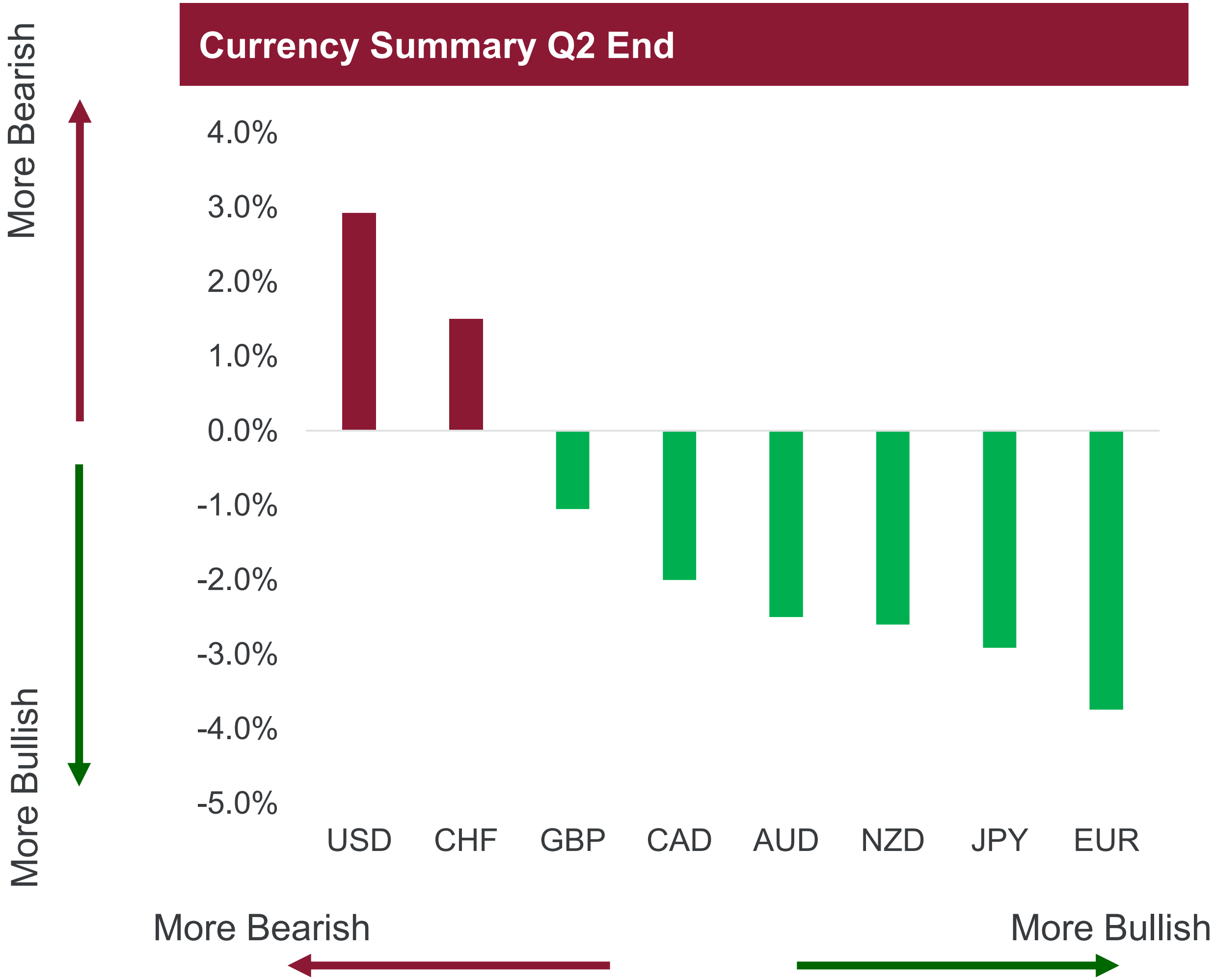
CIBC CAPITAL MARKETS

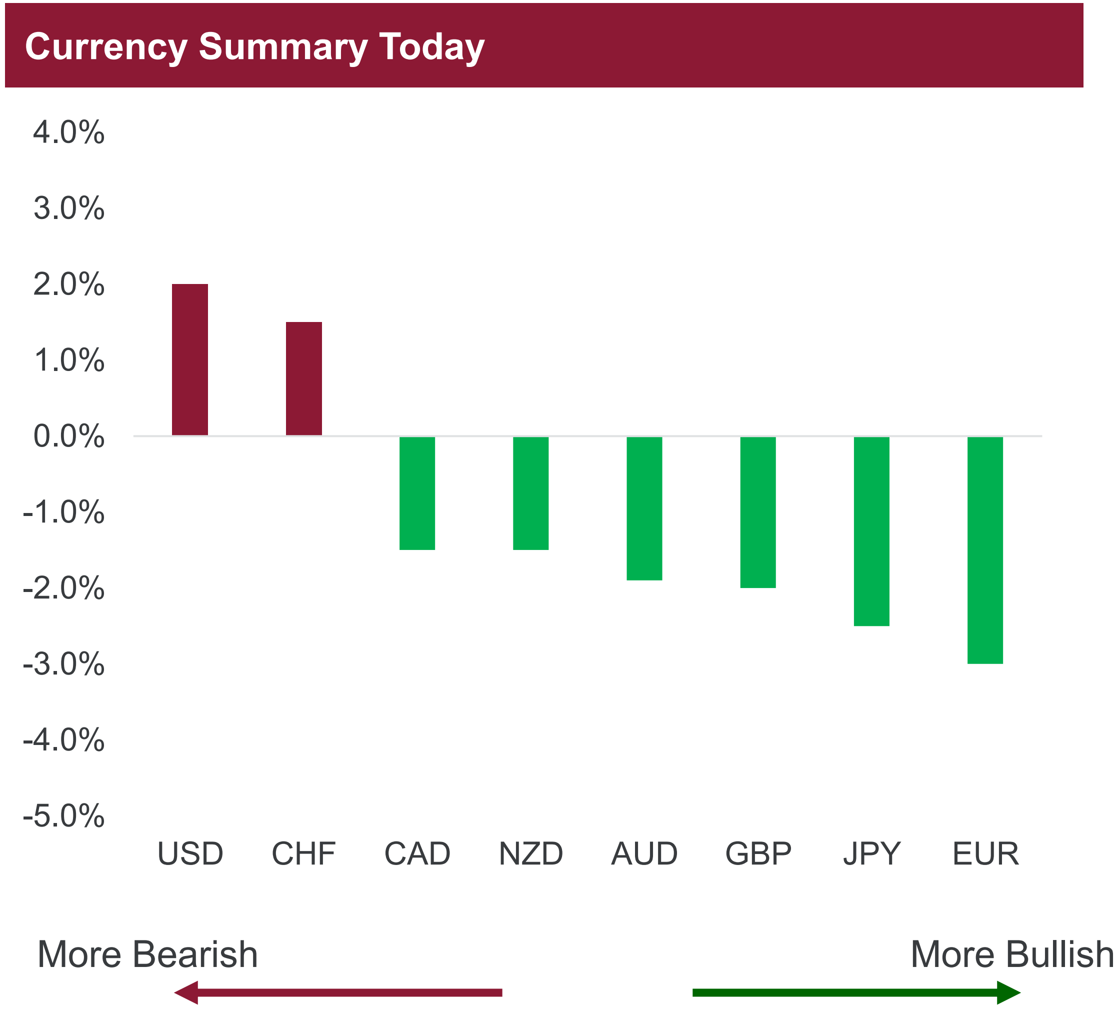
The Dollar Dilemma

Sarah Ying
Executive Director, Head of FX Strategy, Fixed Income, Currency & Commodities (FICC) Strategy

September 2025

Views – FX Majors


Currency Summary Q2 End


Currency Summary Today

FX Pairs Expressed as XXX/USD, USD = DXY, ranked from most overvalued to most undervalued

Source: CIBC FICC Strategy

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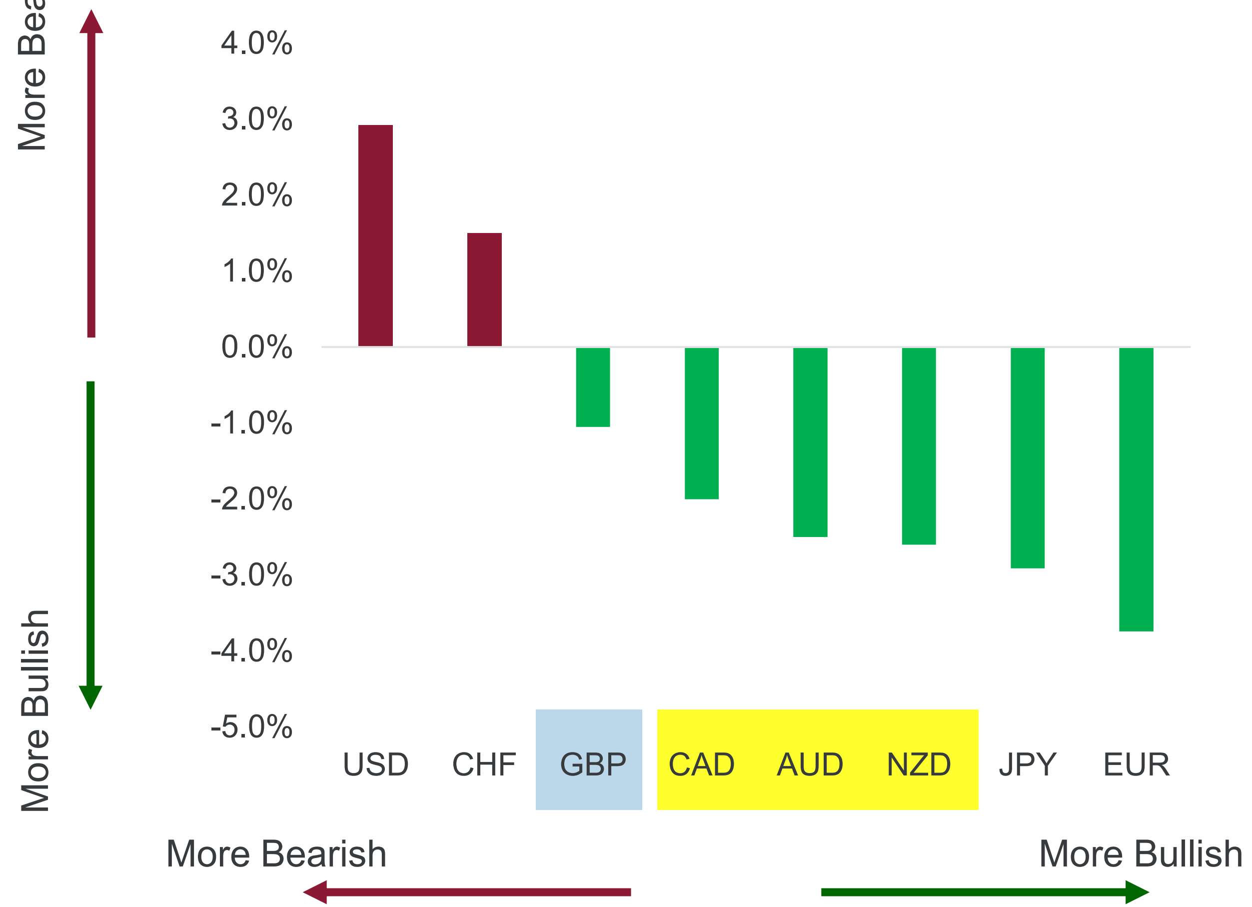

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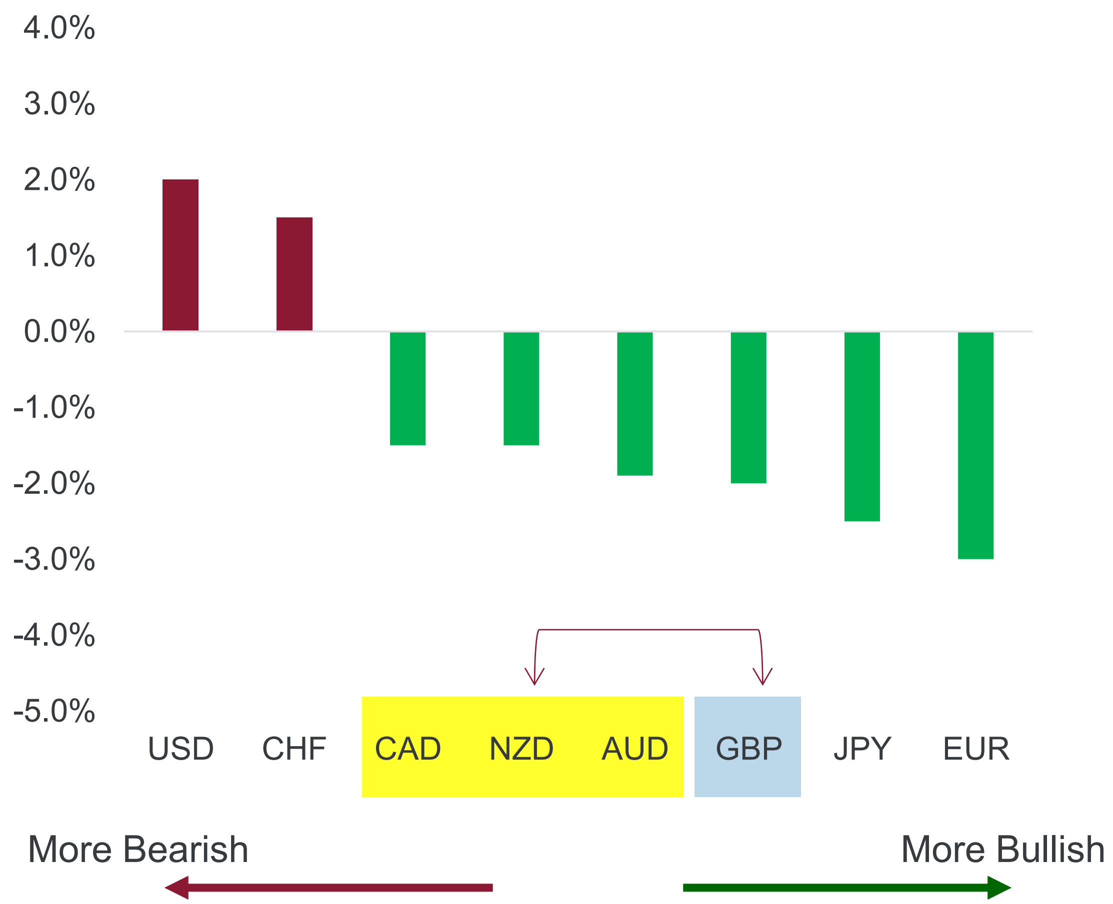

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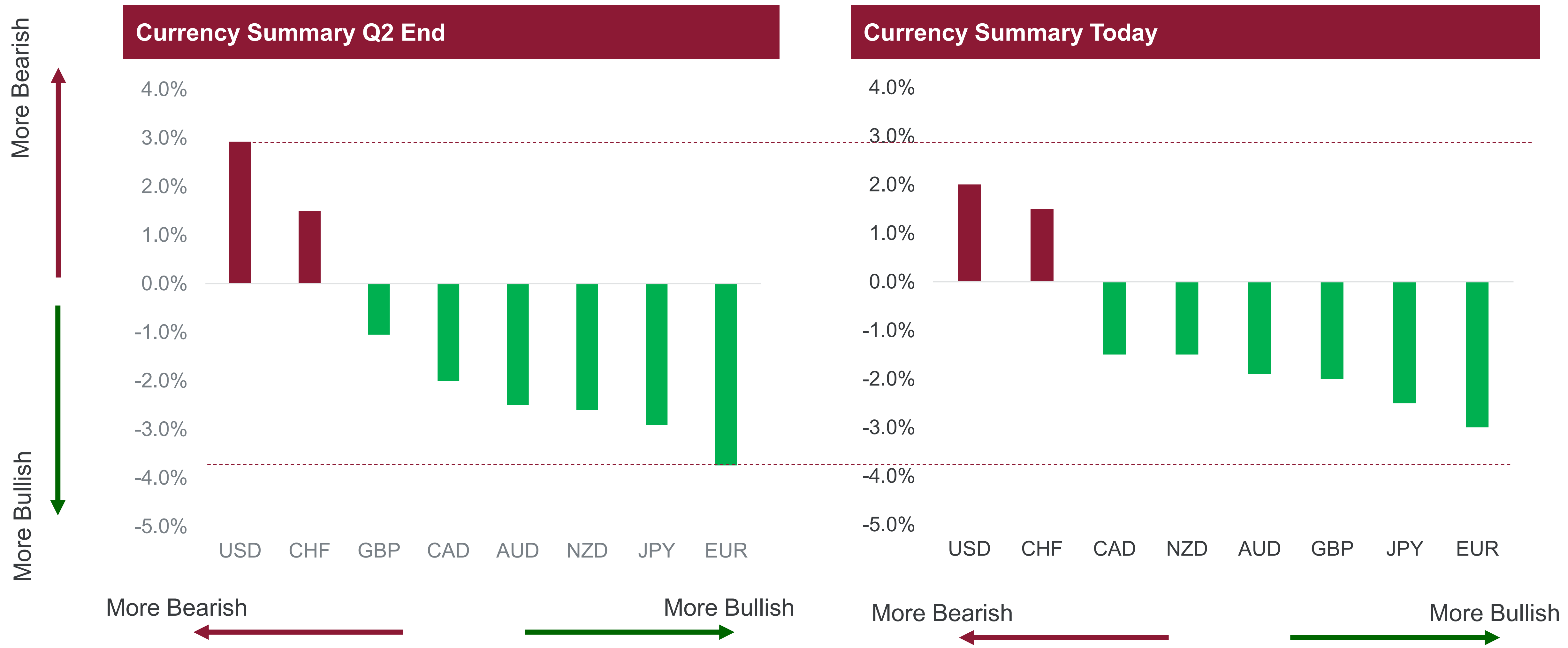

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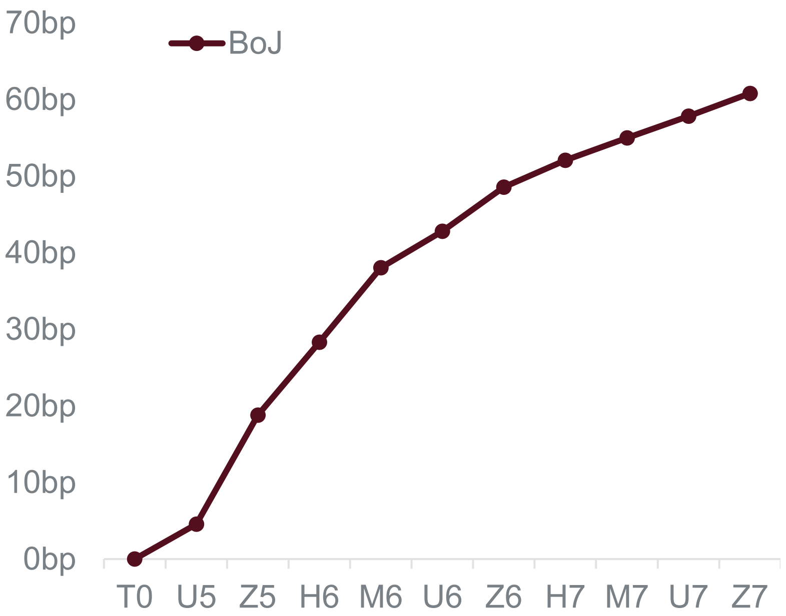
Divergence in CB Rate Paths Sees USD Underperformance into 2026

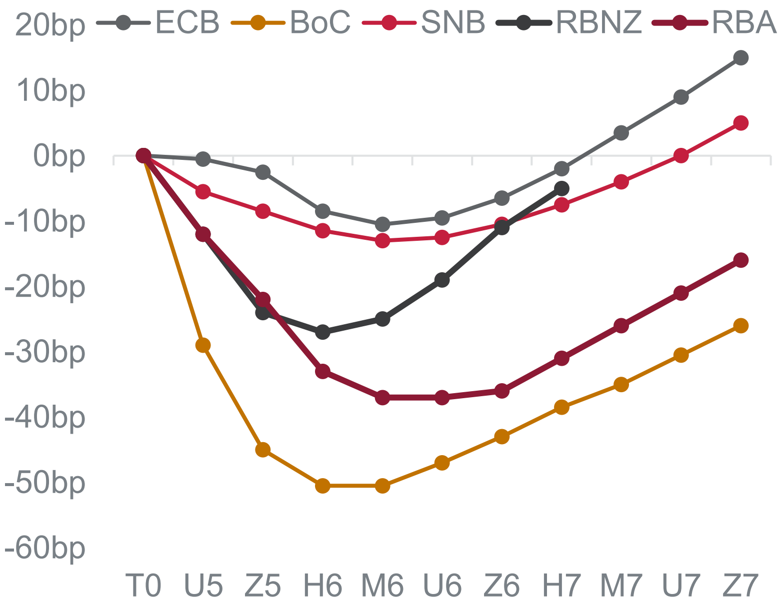
Central Banks in Hiking Cycle



T0 = Sep 9th, 2025

- **BoJ Continues Hiking Cycle**: Two more hikes are priced for the BoJ with the policy rate expected to move to 1.0% by late 2026/early 2027. JPY should continue to be an outperformer – but yen strength would limit how fast the BoJ could move. Market affinity for carry amid cooling volatility is also a risk to our bullish JPY call.

Central Banks in Late Easing Cycle



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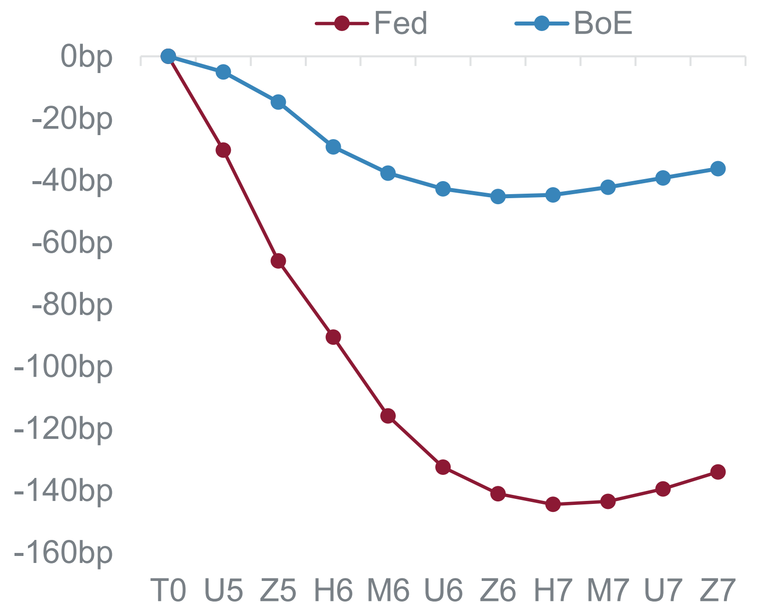
Central Banks in Mid Cycle Easing



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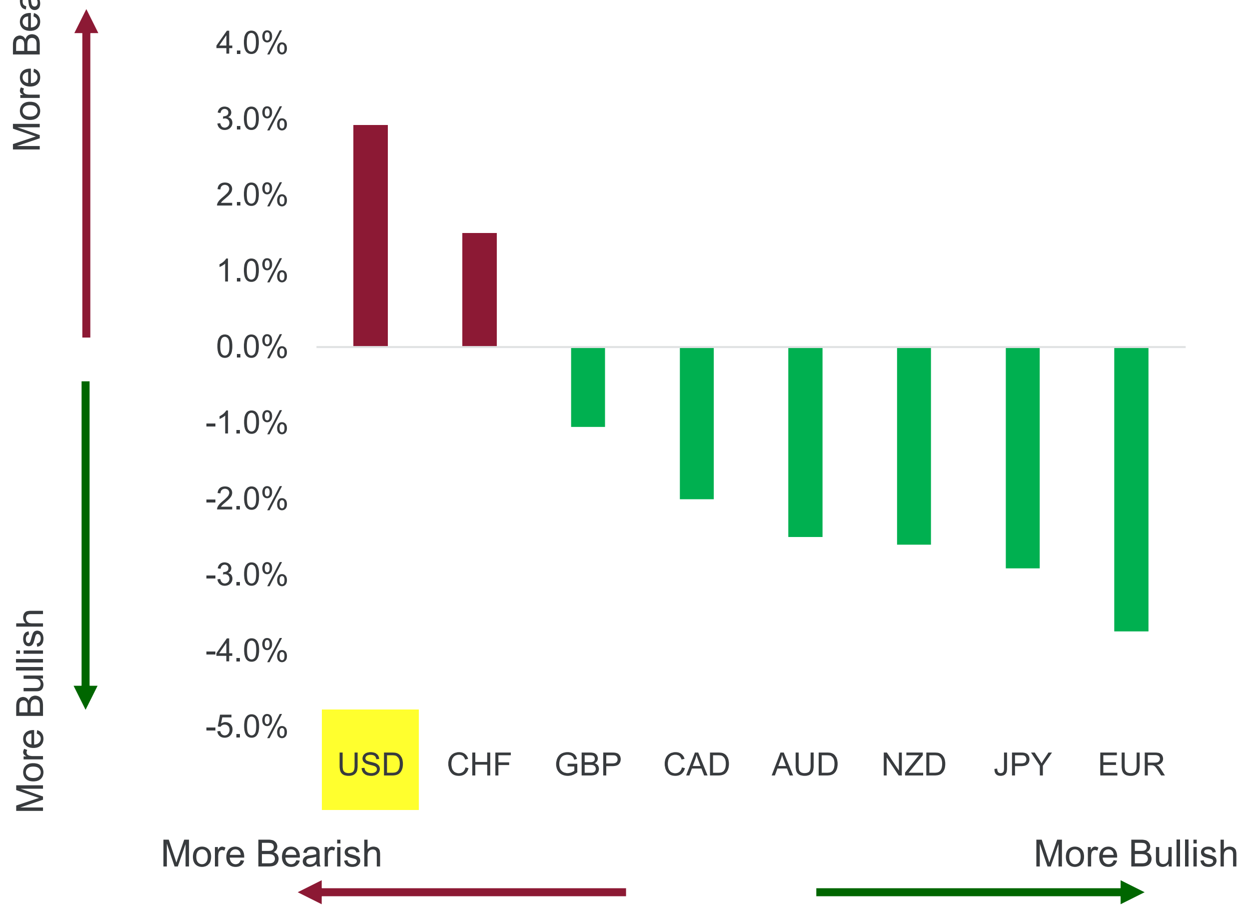

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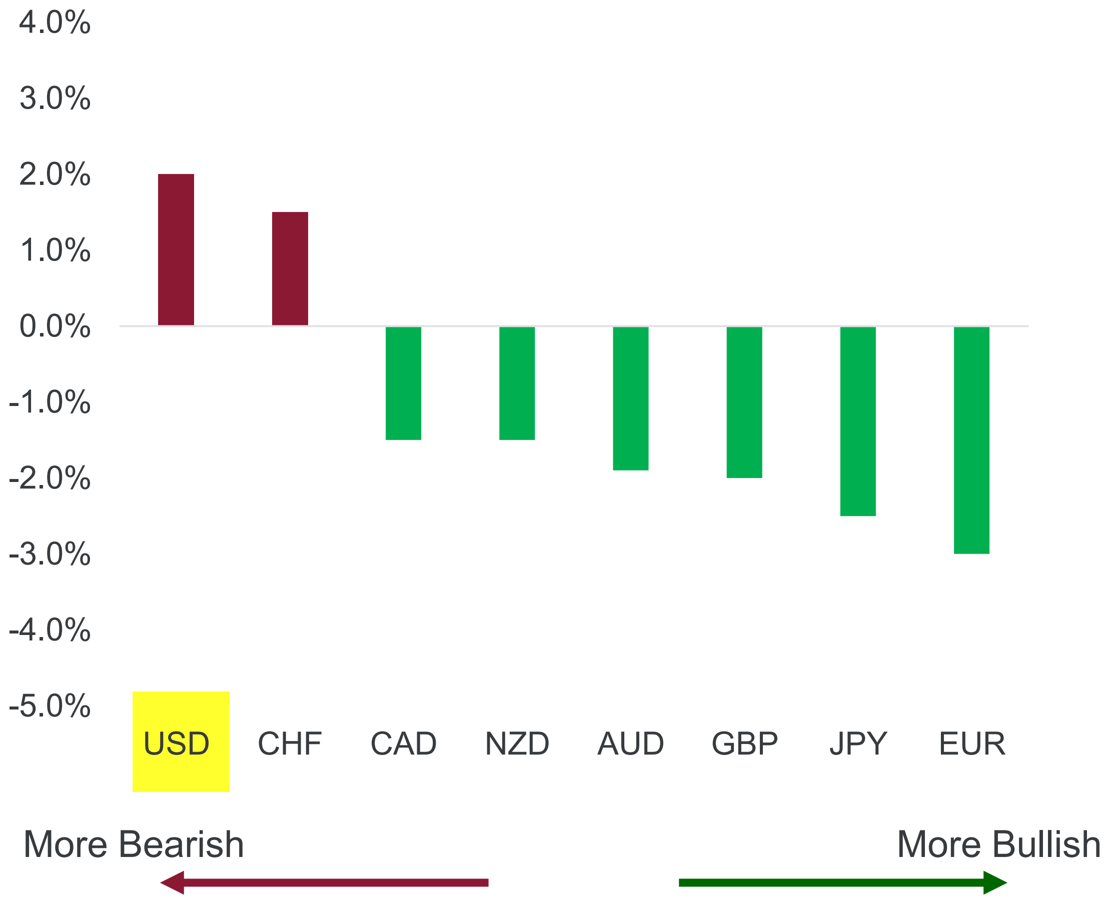

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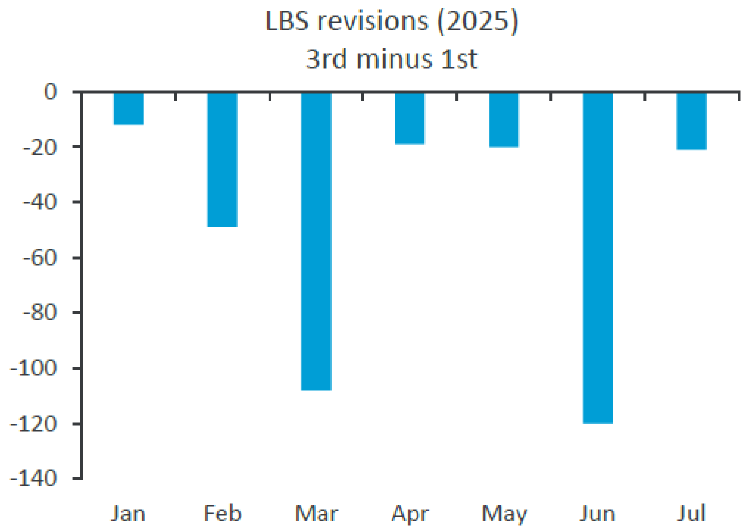
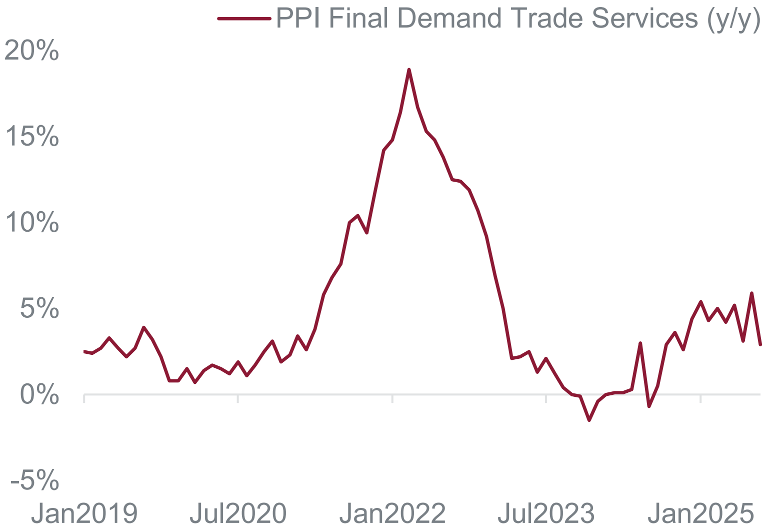
Q4/Q1 Big Test for US Consumer → ↑ Risks of Stagflationary Scenario

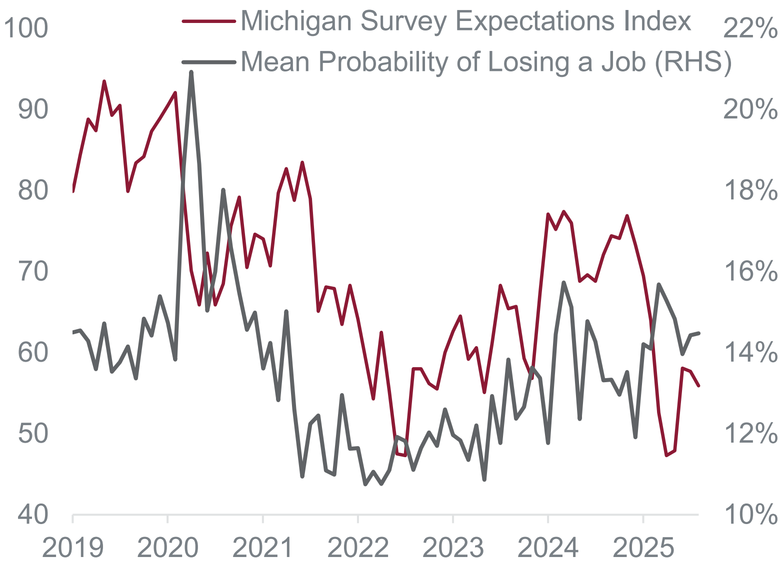
Labor Market Revisions ↓



Tariffs Are Compressing Retailer Margins



Consumer Confidence Still Depressed



We Still Expect Downside Skew to NFP Revisions:

- Payroll response rate down to 68% (>80% pre-Trump)
- Smaller companies are typically the laggards. These companies tend to be impacted more by tariffs.

Consumer Have Yet To Feel Full Brunt of Tariffs:

- Inventory stockpile have sheltered firms from margin compression in H1. This is no longer sustainable, and costs will need to be passed to the consumer into the coming quarters.

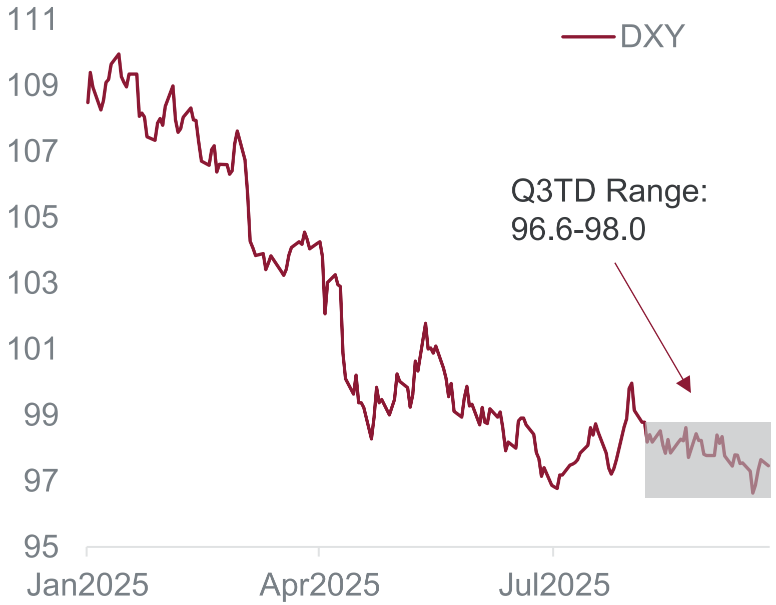
Consumer Confidence Remains Weak:

- Sluggish consumer confidence continues to point to sluggish growth into the end of the year
- Job losses expected to rise into the next 12 months
- Real wages expected to fall

Source: CIBC FICC Strategy

We Are Not As Bearish USD As Before

DXY Less Sensitive to Fed Expectations



Q3TD Range:
96.6-98.0

- **DXY Has Seen a Narrow Q3TD Range**: FX volatility has been limited in spite of a number of 'big' catalysts

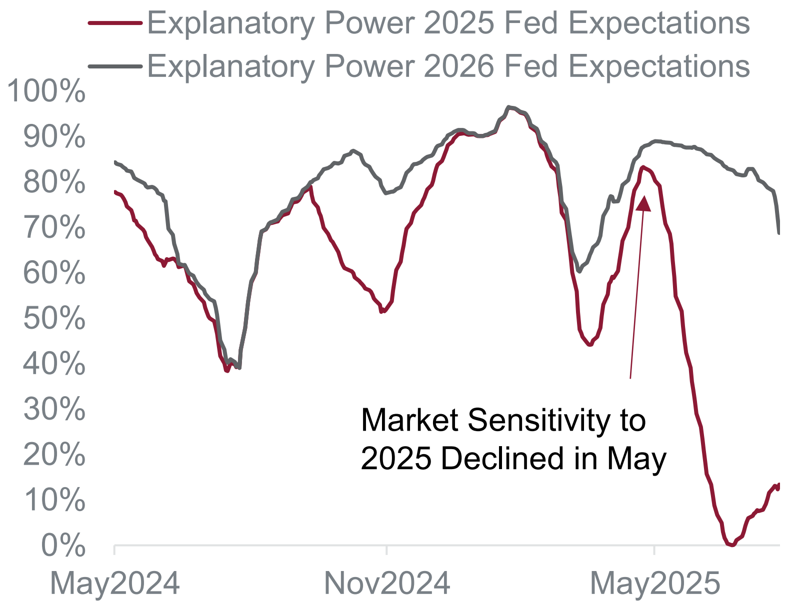
↓ Easing Expectations pulled forward due to two consecutive NFP misses

↓ Threat to Fed independence as Trump attempts to dismiss Lisa Cook

↓ Data outside the US has surprised to the upside (more currency alpha)

↑ The reversal of the de-dollarization trade as the SPX tests ATHs

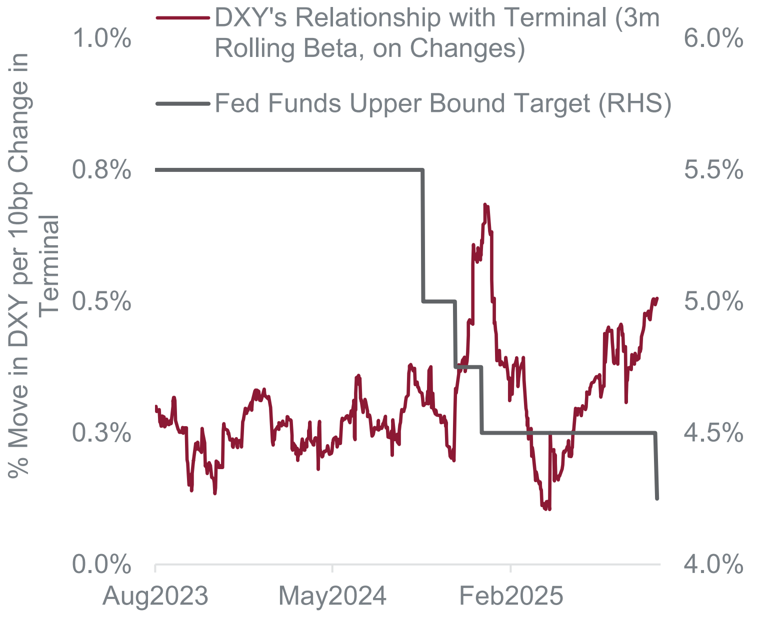
Why Markets Don't Recognize More Cuts



Market Sensitivity to
2025 Declined in May

- **DXY Does Not Care About a Redistribution of Fed Cuts**: Since early summer, DXY sensitivity to the 2025 rate path has diminished. 2025 interest rate expectations are constrained by i) a limited number of 2025 meetings left, and ii) a lack of consensus on whether tariff-induced inflation is persistent. 'Borrowing' cuts from 2026 is not interesting to the market.

Next BIG Catalyst: Terminal Expectations



- **Our Eyes on Fed's Terminal Rate:** As the Fed becomes more active again, USD sensitivity to the terminal rate has risen. We expect this to intensify over successive cuts. Market implied terminal around 3.0% has been very sticky. A material repricing of terminals will be responsible for the next big move in currency markets. This is not the base case in our view, but is a key risk.

Source: CIBC FICC Strategy

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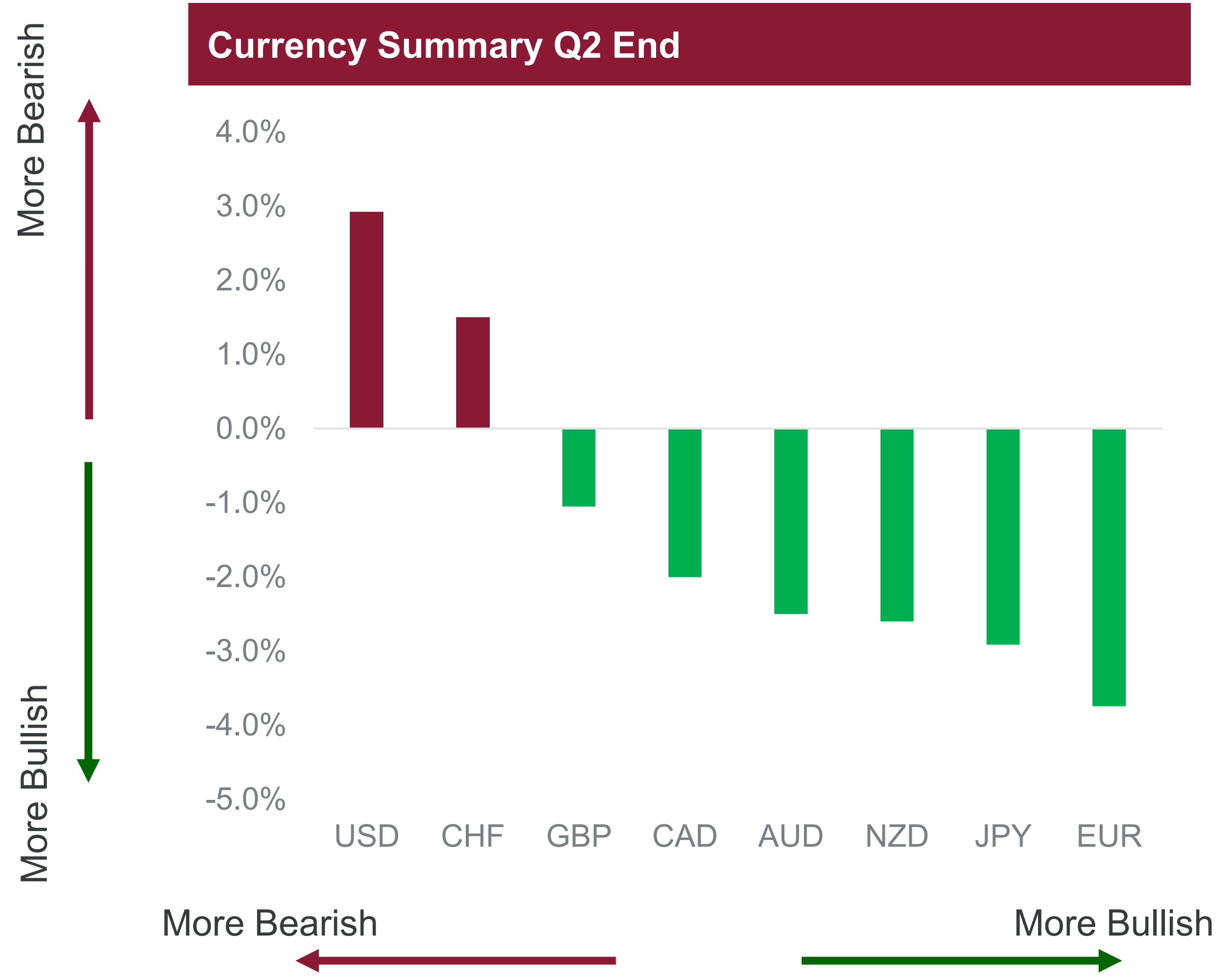

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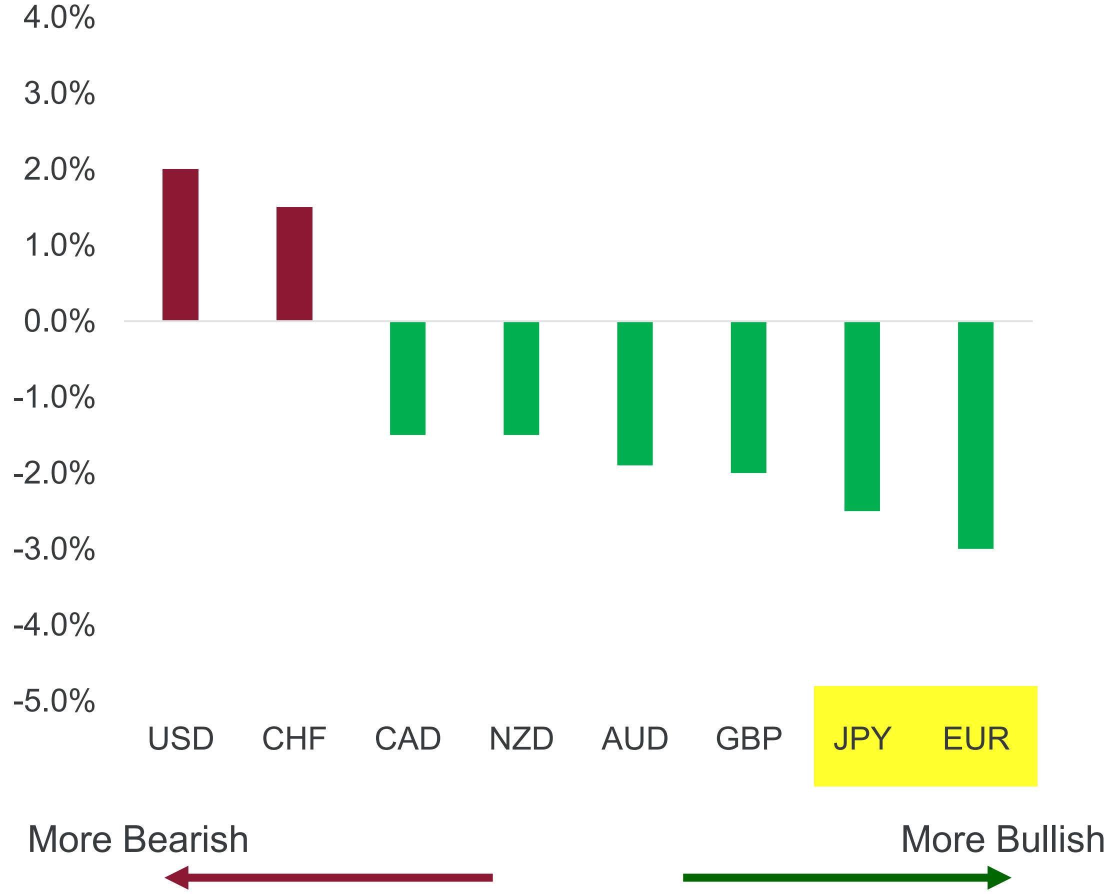

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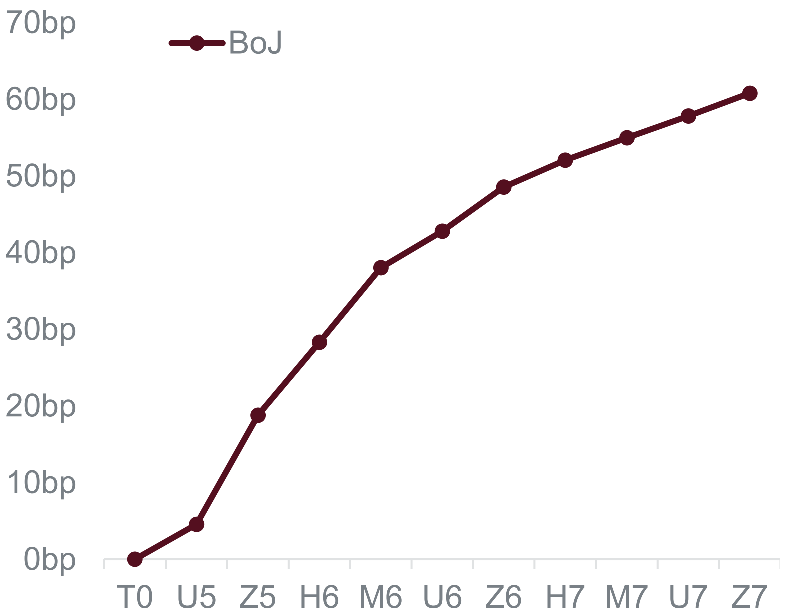

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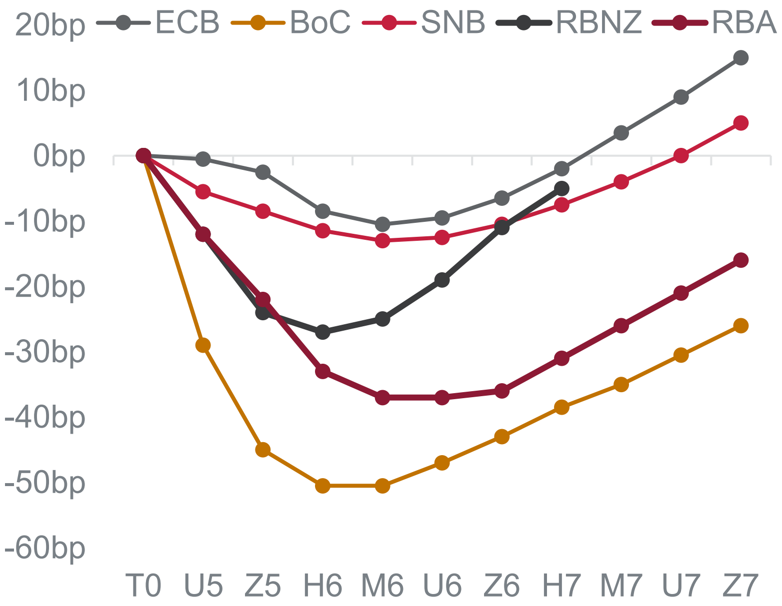

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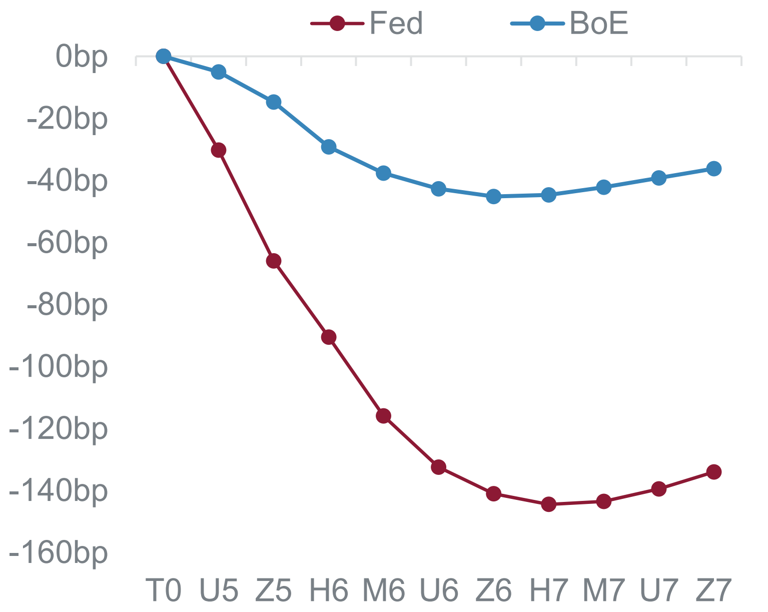

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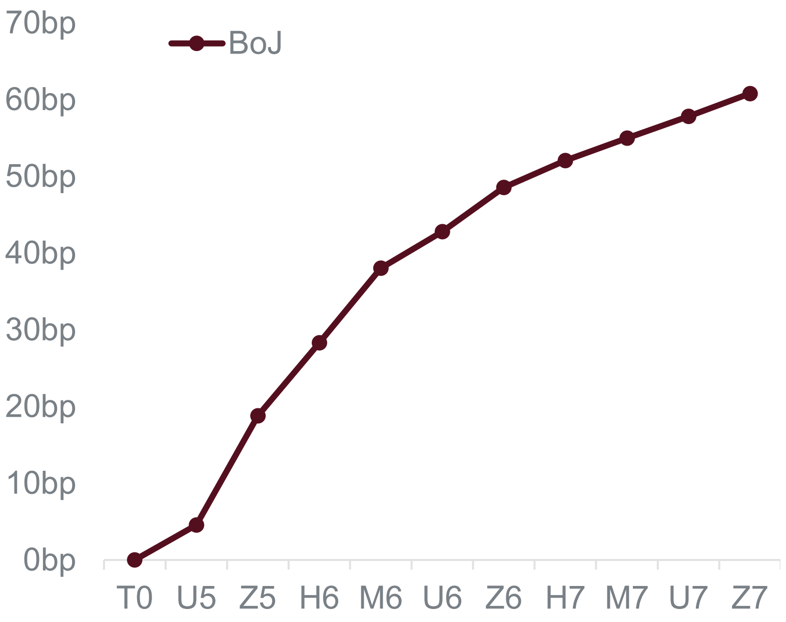

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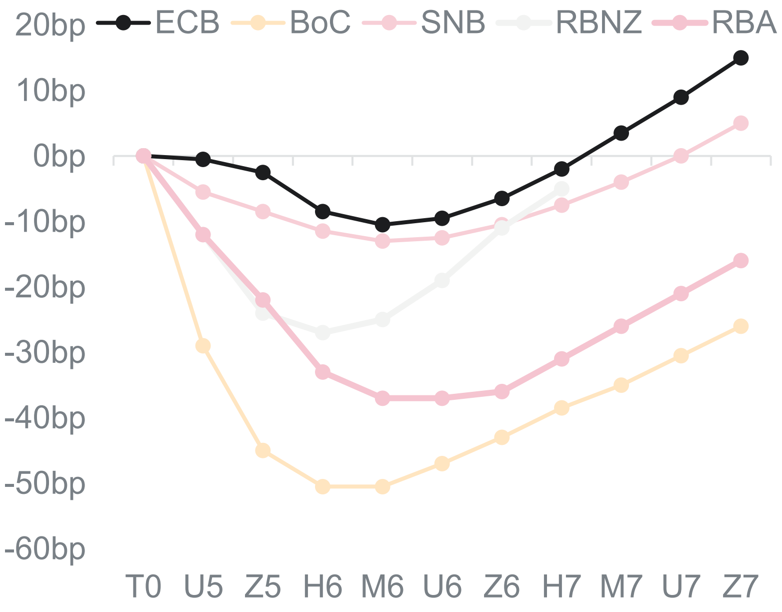

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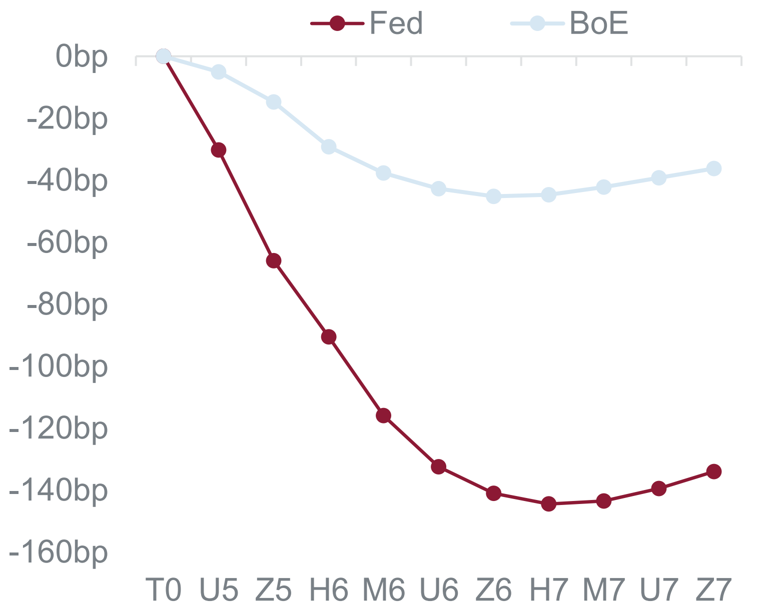

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Source: Bloomberg, CIBC FICC Strategy

EURUSD – ‘Big’ USD Moves Now Flow to EUR, Not JPY

Key Periods for the USD – Returns

	Key Periods		DXY	EUR	CAD	JPY	GBP
Pre US Election	1/3/2024	7/1/2024	3.3%	-1.7%	-2.8%	-11.3%	-0.1%
	7/1/2024	9/25/2024	-4.7%	3.7%	1.9%	11.5%	5.3%
Post US Election	9/25/2024	1/2/2025	8.4%	-7.8%	-6.4%	-8.1%	-7.1%
	1/2/2025	3/7/2025	-5.1%	5.5%	0.2%	6.4%	4.4%
	4/2/2025	4/21/2025	-5.3%	6.1%	2.9%	6.0%	2.9%
	5/12/2025	7/1/2025	-4.9%	6.5%	2.4%	3.5%	4.3%

Risk Adjusted Returns

	Key Periods		DXY	EUR	CAD	JPY	GBP
Pre US Election	1/3/2024	7/1/2024	1.02	(0.50)	(0.91)	(2.28)	0.09
	7/1/2024	9/25/2024	(1.79)	1.44	0.69	1.76	1.70
Post US Election	9/25/2024	1/2/2025	2.50	(2.20)	(2.70)	(1.54)	(2.04)
	1/2/2025	3/7/2025	(1.24)	1.20	0.06	1.62	0.89
	4/2/2025	4/21/2025	(1.97)	1.85	1.44	1.64	1.20
	5/12/2025	7/1/2025	(1.17)	1.61	1.04	0.36	1.21

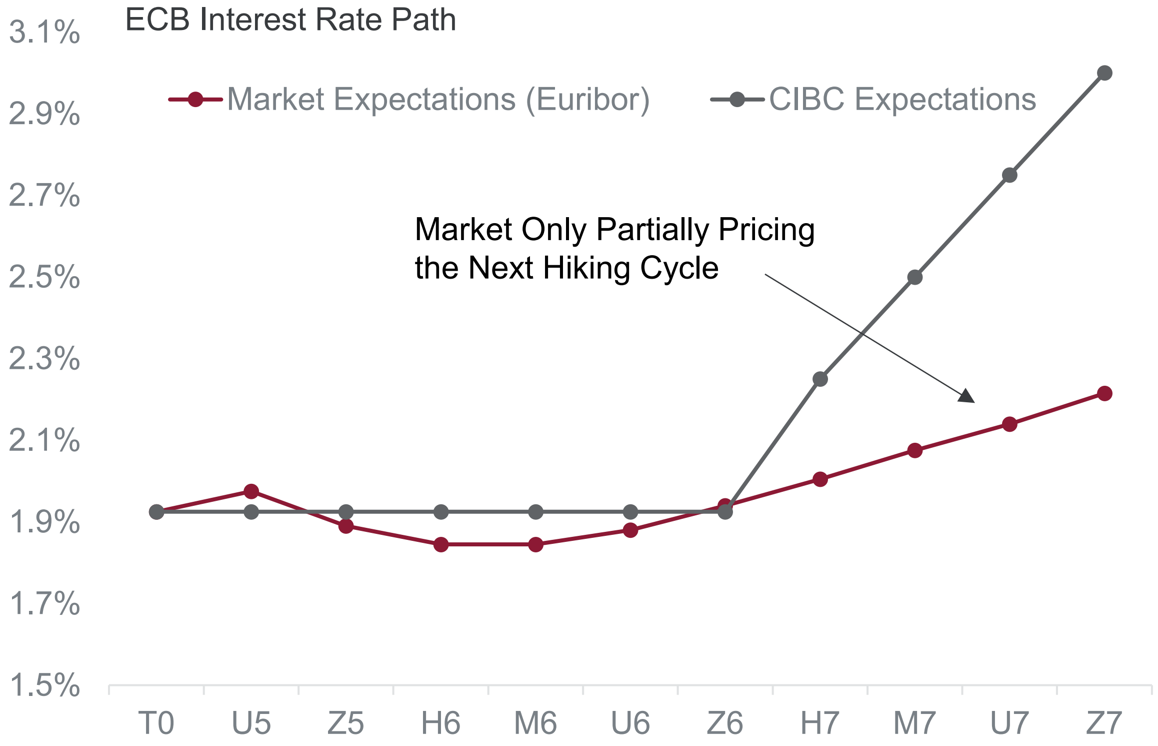
USD Downside = EUR Upside:

- Historically, ‘big’ USD swings usually manifest most in USDJPY.
  - USDJPY is a high-volatility pair (USDJPY 6m implied volatility @ 9.07 vs EURUSD at 6.80)
  - USDJPY is a risk-off pair (funds flow to JPY when SPX ↓)
- Today, negative USD Sentiment is now being reflected in EUR, not JPY. EUR appreciates by more than normal when the greenback weakens.

Source: CIBC FICC Strategy

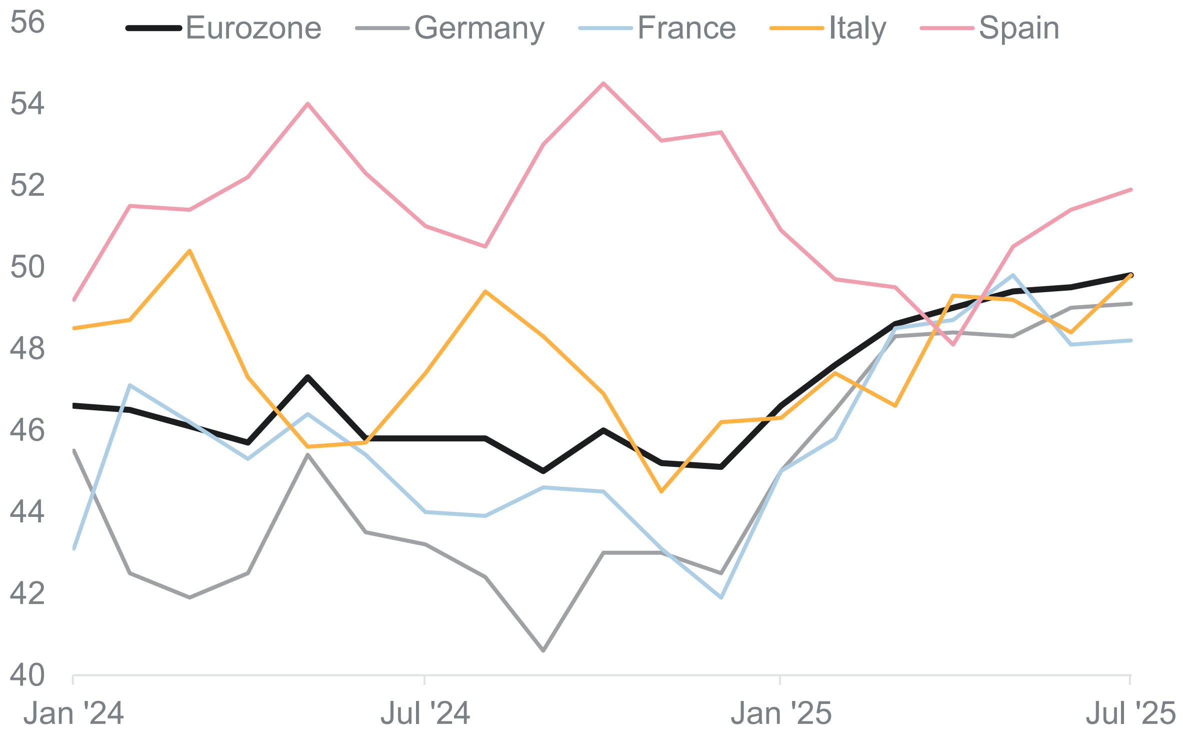
EURUSD – Eurozone Sentiment Improves as Manufacturing Rebounds

The Market Underprices the ECB's Next Move



- **ECB's Next Move Is a Hike:** We believe the ECB has finished its easing cycle with its depo rate at 2.0%, the midpoint of its neutral rate estimate of 1.75%-2.25%. At present the market is still pricing in around 17bps of further easing which we do not believe will be delivered. Hiking expectations into late 2026 should become more exaggerated over time.

Eurozone Manufacturing PMIs Are Rebounding



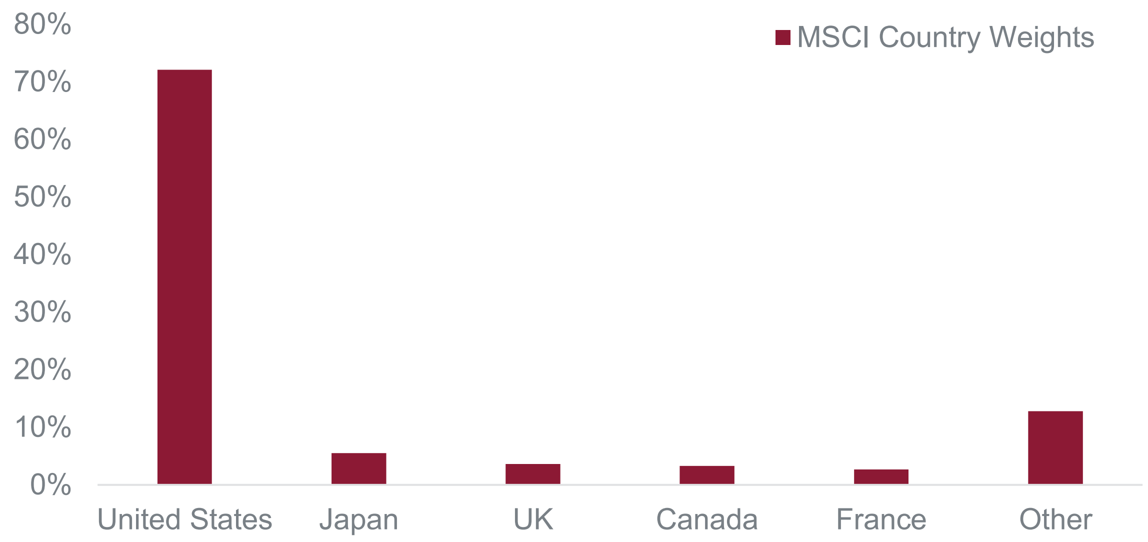
- **Cautious Optimism on EU Activity:** Manufacturing has stabilized, German IFO business expectations have rebounded, uncertainty around tariffs has diminished, and anticipated fiscal spending lifts growth expectations.

- Section 232 tariffs on pharmaceuticals remains a risk. Roughly 25% of EU exports to the US are pharmaceuticals.

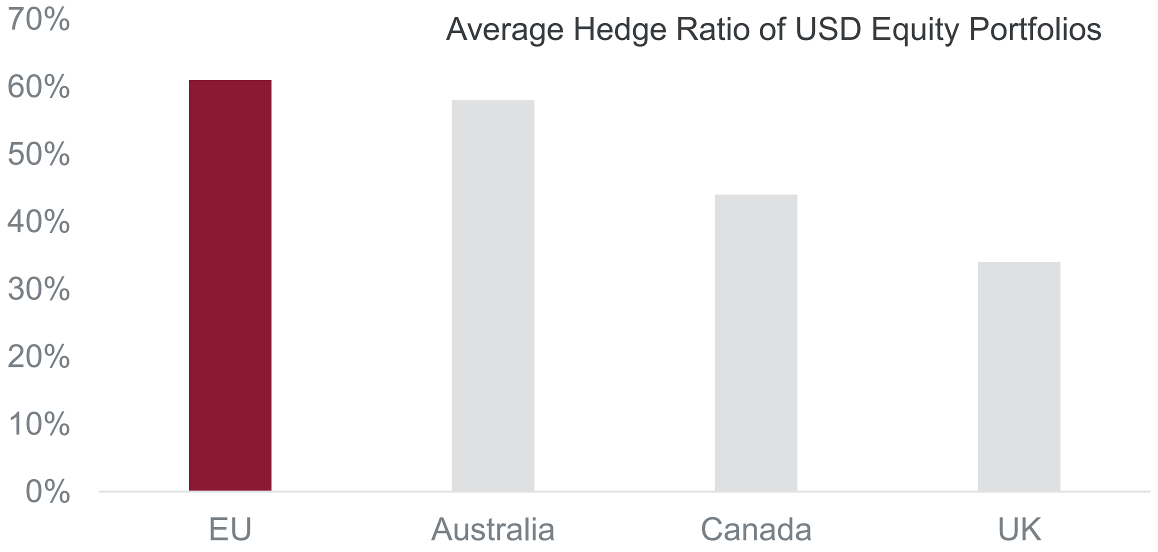
Source: Bloomberg, S&P Global, CIBC FICC Strategy

EURUSD – Pension Hedging Activity Can Come Back

Most EU Pensions Benchmark Equities to MSCI



EU Equity PM's More Likely to Hedge vs. DM Counterparts



MSCI Benchmark is USD Heavy:

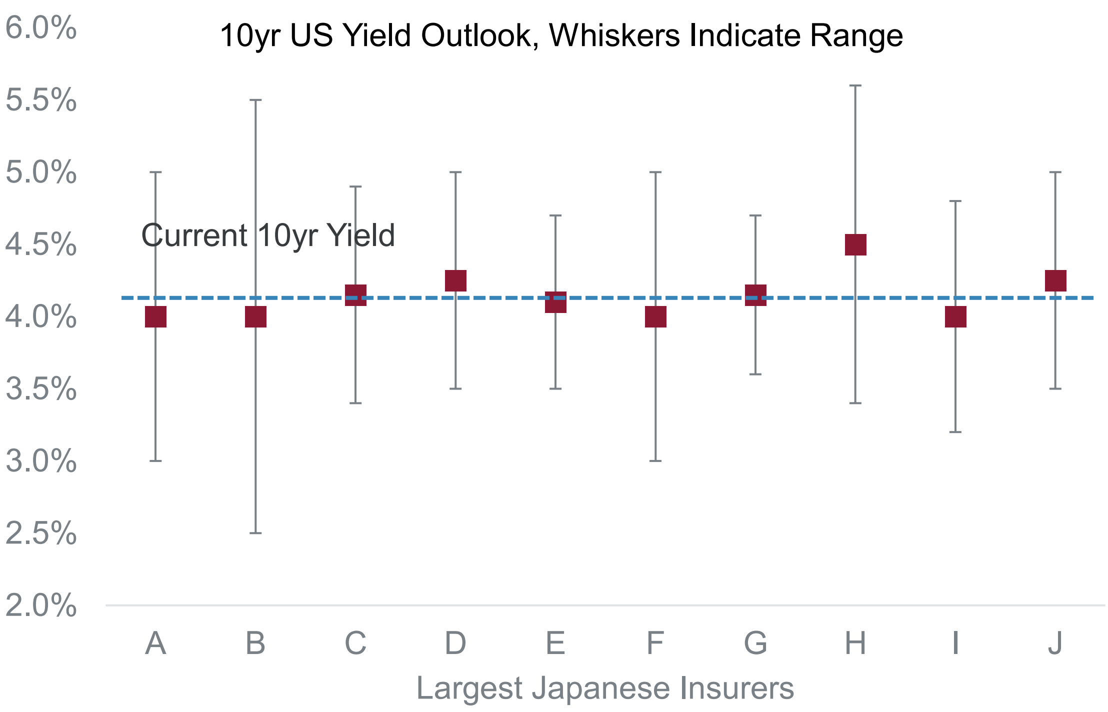
- The proportion of US denominated constituents in the MSCI Index has risen from 45% in 2010 to now over 70%. An EU pension benchmarked to the MSCI has historically underperformed with a US underweight.
- 'New' pension money to be deployed would therefore need to own USDs.
- According to a recent HBS paper using State Street Custodial data, EU equity funds have higher hedge ratios than other DM peers.

Next Catalyst: Material slowdown in US macro (i.e. increased need for Fed cuts)

Source: Datastream, MSCI, HBS Cheema-Fox & Greenwood (Oct 2024), CIBC FICC Strategy

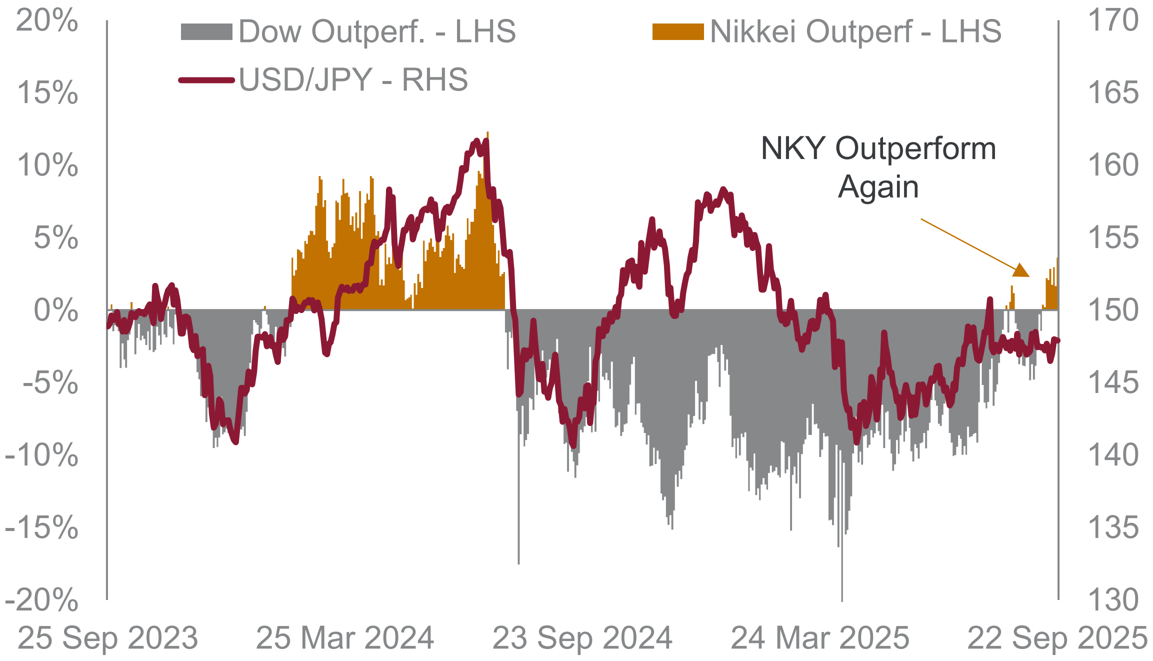
USDJPY – Fed/BoJ Story Is Compelling, but Flows Likely Stay Home

10yr Yields Around Levels Where Japanese Insurers Expect



- **No 'Juice' Left from US Treasuries:** Japanese insurers have seen Fiscal 2025 (April 1, 2025) yield outlooks materialize already. 10yr yields have moved from 4.6% in May to 4.15% today. Little reason for duration sensitive buyers to add more Treasuries at current levels. High cost of hedging, and compelling yield back home can also dissuade money from moving out.

Stronger USD/JPY Supportive of Local Equities



- **Sticker USD/JPY Boost for Japanese Exporters:** A sticker USD/JPY will be a tailwind for local markets. At the same time, AI valuations in the US are becoming stretched. US margin compression could also be a Q3/Q4 story as inventory cycles refresh. Overall there is more incentive for Japanese retail investors to stay home.

Source: BoJ Financial System Report, Japanese Insurer Annual reports and publicly available company materials, CIBC FICC Strategy

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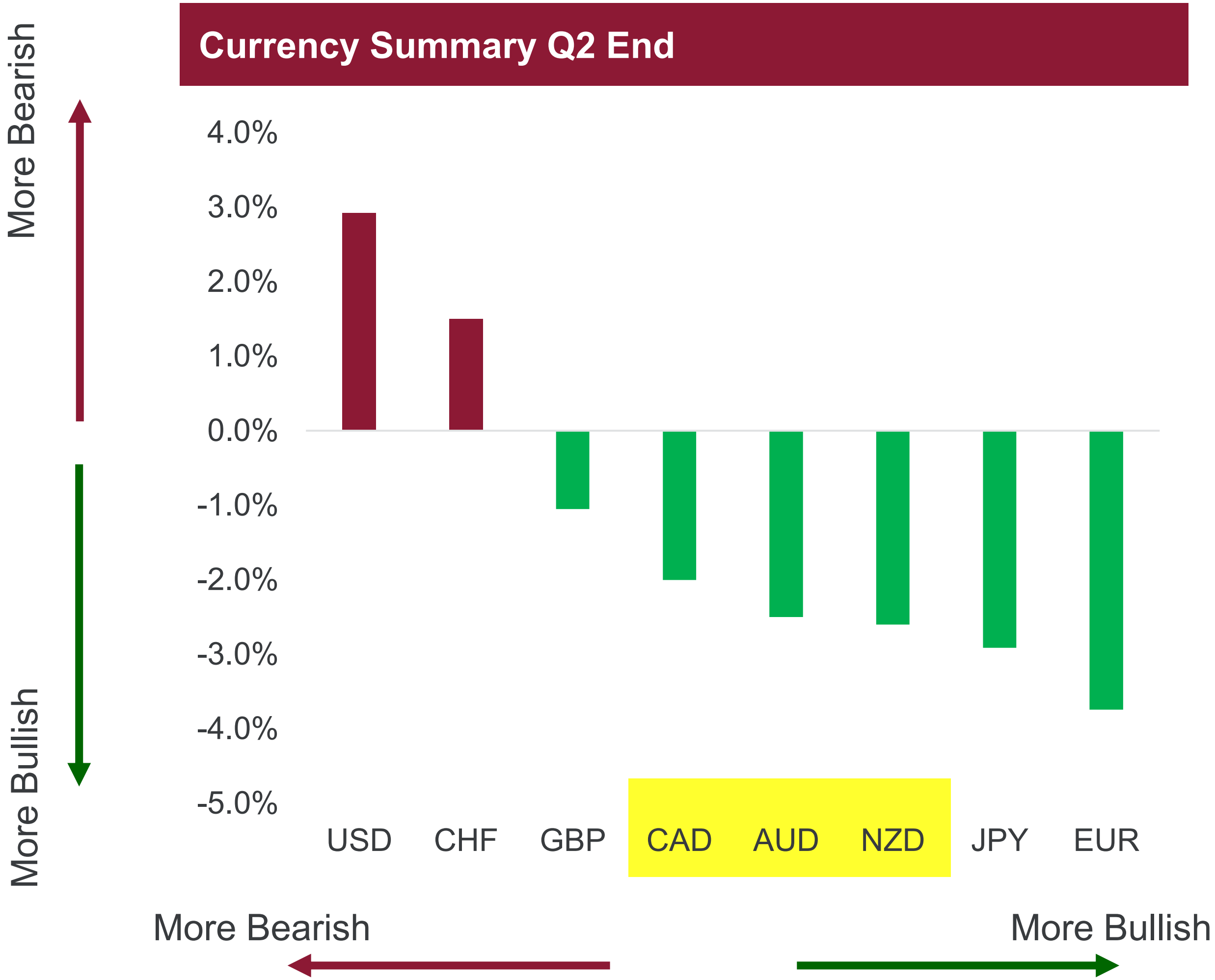

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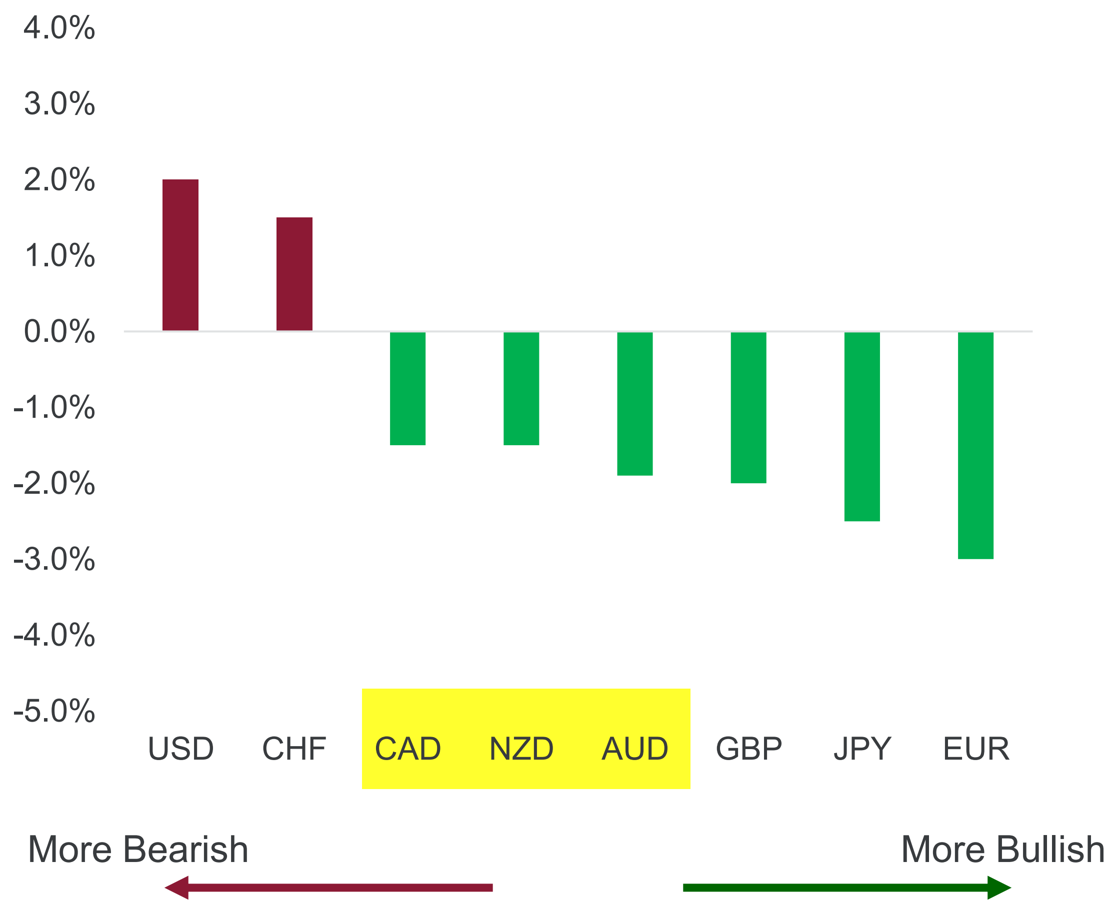

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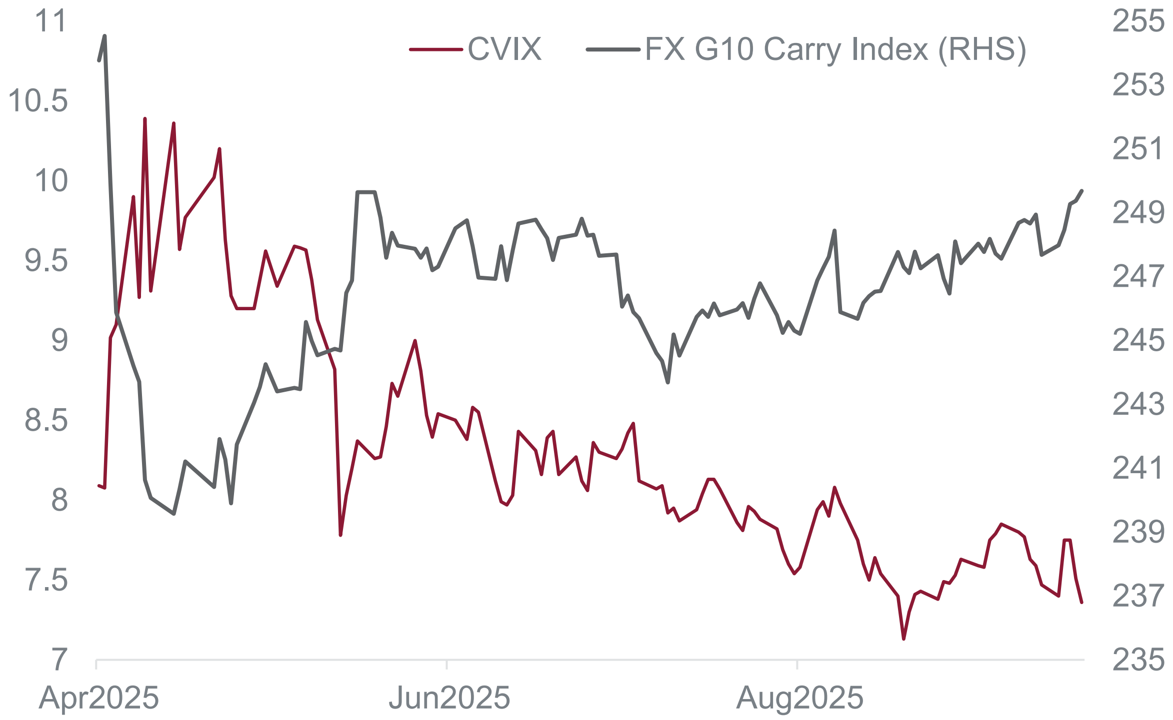
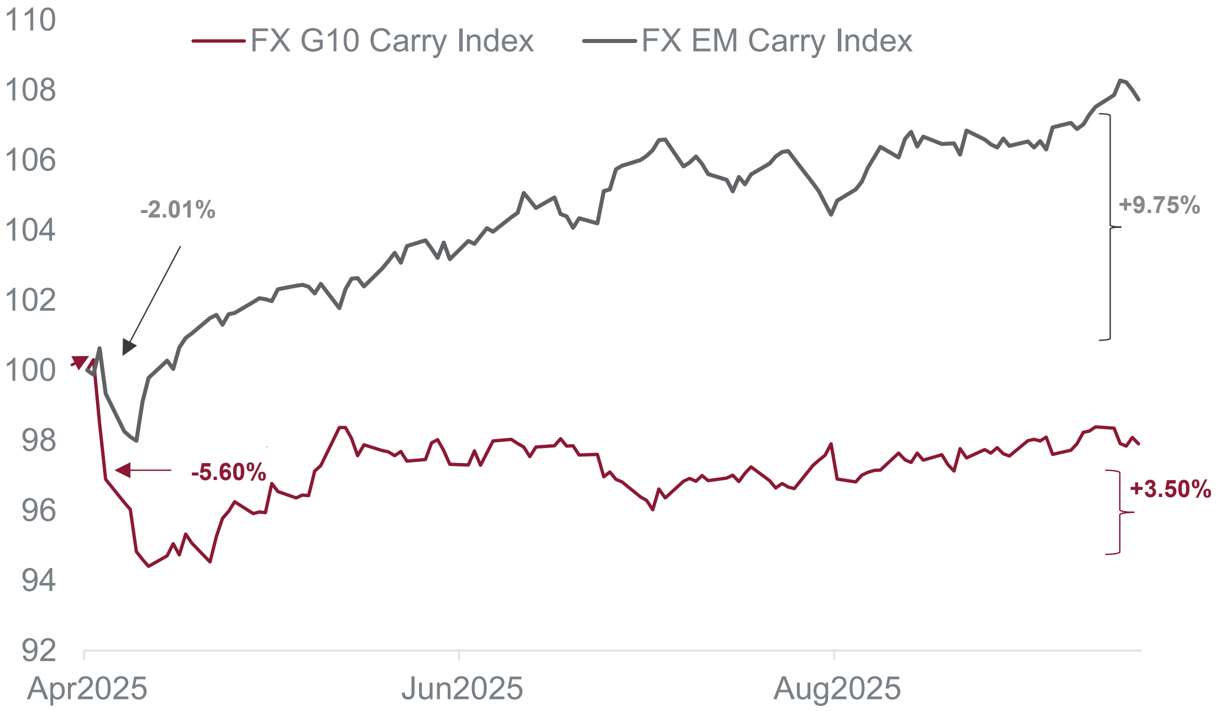
Since Liberation Day, Most Market Participants Are Long the Carry Basket

Volatility Decay Has Made Long FX Carry the Consensus Trade



- **Lack of Volatility Has Made Investors Go Long Carry:** With currencies trading in tight ranges, carry harvesting has come in vogue. This is a trade that started post Liberation Day, and has continued to build in the past months.

Frontier EM Carry > EM Carry > DM Carry

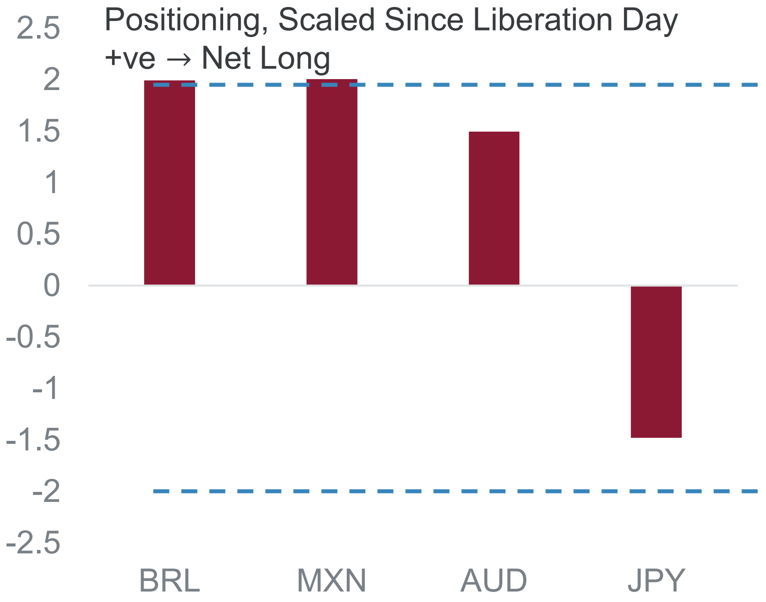


- **Investors Are Getting Bolder, Not Shyer:** EM Carry is returning better than DM Carry in a world of vol decay. Investors are moving to more frontier economies such as Egypt, Argentina, and South Africa. ‘Typical’ EM Carry favorites including BRL and MXN is still loved, but slowly falling out of favor due to idiosyncratic headwinds.

Source: BoJ Financial System Report, Japanese Insurer Annual reports and publicly available company materials, CIBC FICC Strategy

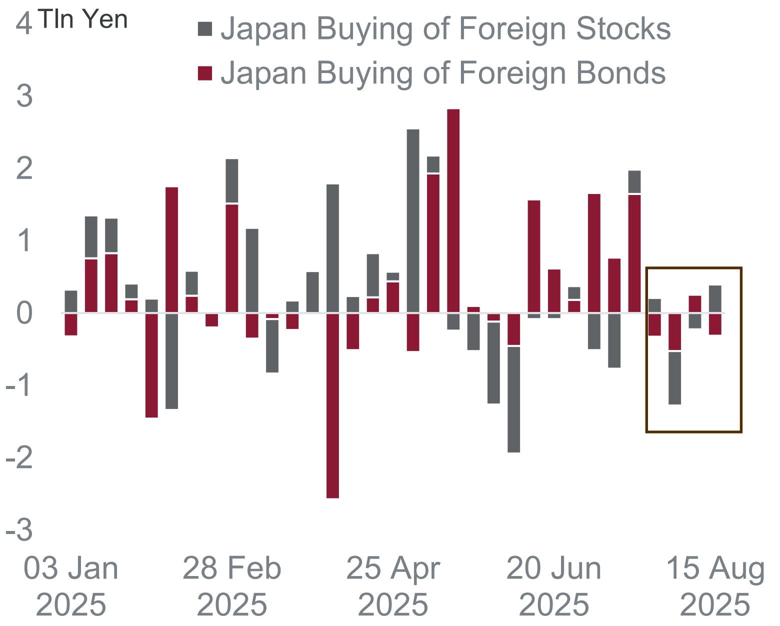
Risk Off: Sell High Beta Preferred to Buy Funders (Sell AUD, NZD > Long JPY)

Carry Positioning Is Biased Towards Risk



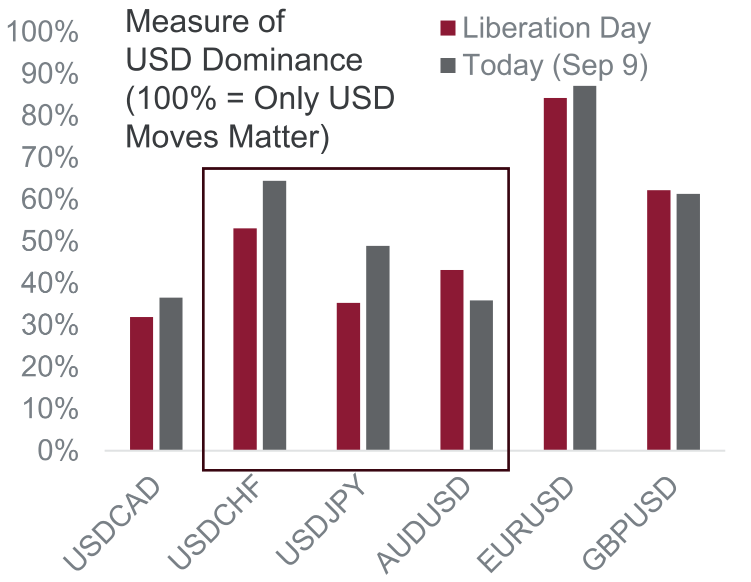
- **Carry Baskets Weighted Towards Risk**: This carry cycle is focused more on yield capture vs. funding. While positioning is short JPY, it is relatively more long a high-yielder basket. USD/JPY longs no longer the key carry trade. Instead, it is a basket of risky currencies. High-betas underperform.

Less Flows to 'Move Back' to Japan



- **Japanese Outflows Have Been Unremarkable in Recent Weeks**: Compelling reasons for Japanese investors to stay local suggest less repatriation risk during risk-off. USD/JPY doesn't sell off as much.

What % of Moves Driven by USD Leg?



- **SPX ↓ → USD ↑**: Contrary to expectations, USD dominance rose for traditional havens (JPY & CHF) and fell for high-betas (AUD). This means that in risk off, JPY and CHF see less of a haven bid vs. USD. AUD sells off by more. This is driven in part by overcrowding of the carry trade. Said differently, the role of USD as a haven currency has risen: USD rallies more in risk off than before.

Source: CIBC FICC Strategy

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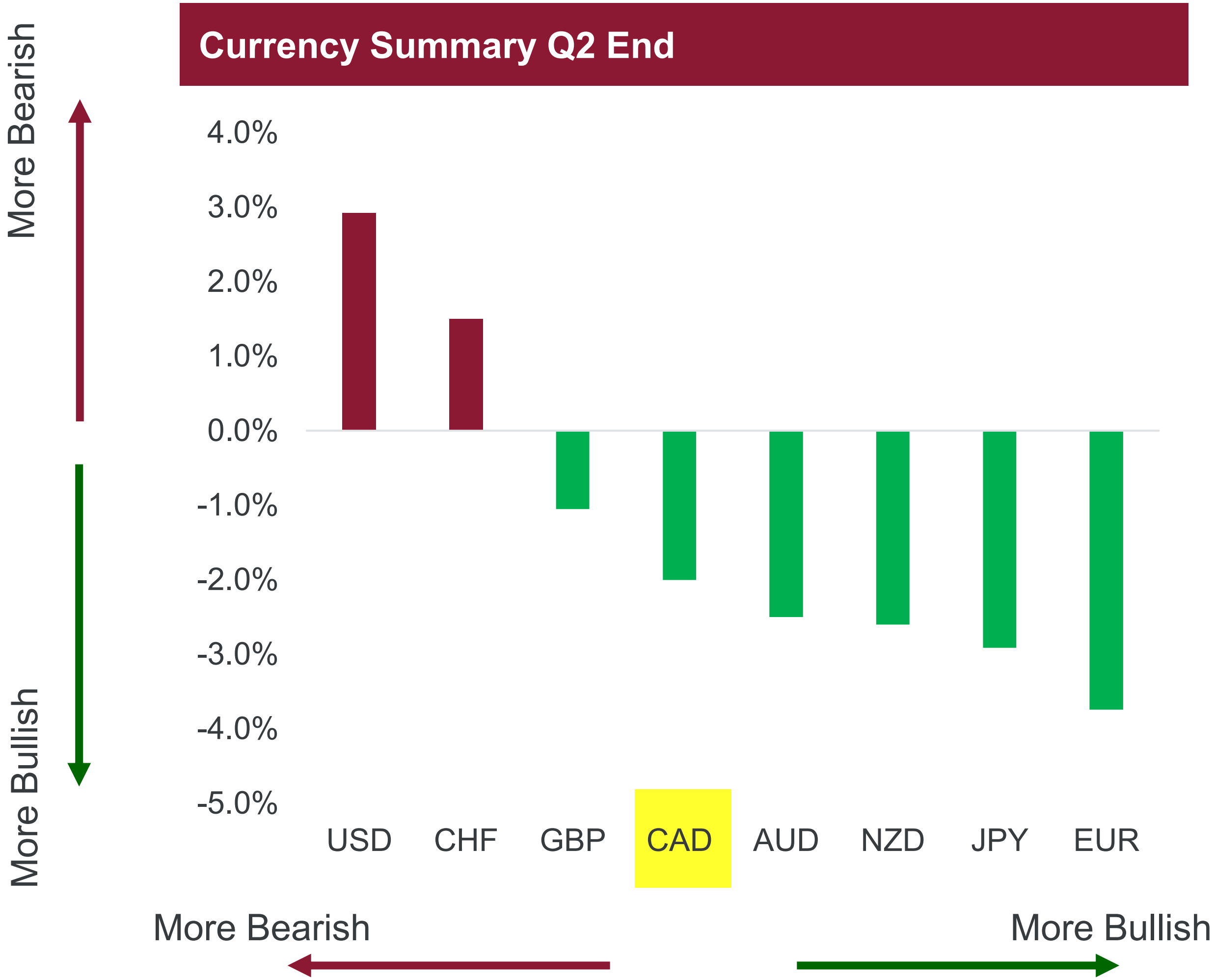

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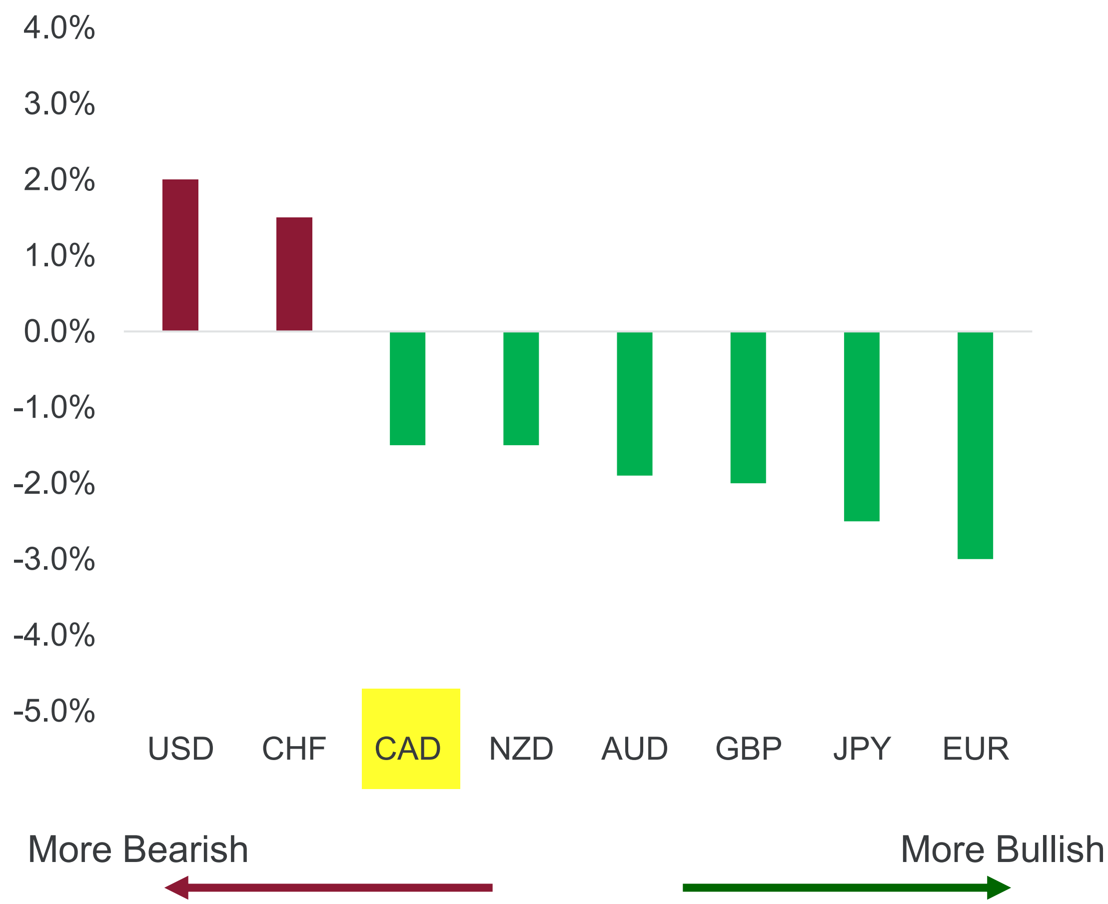

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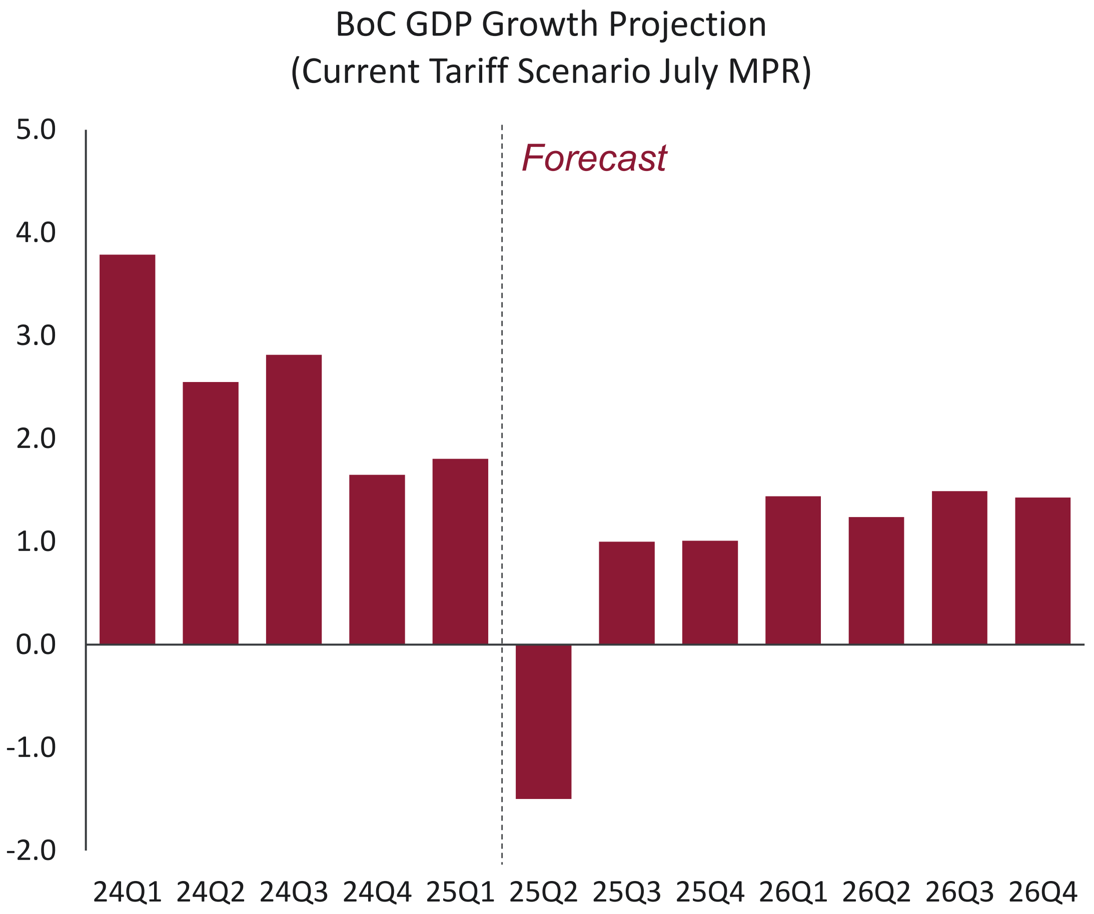
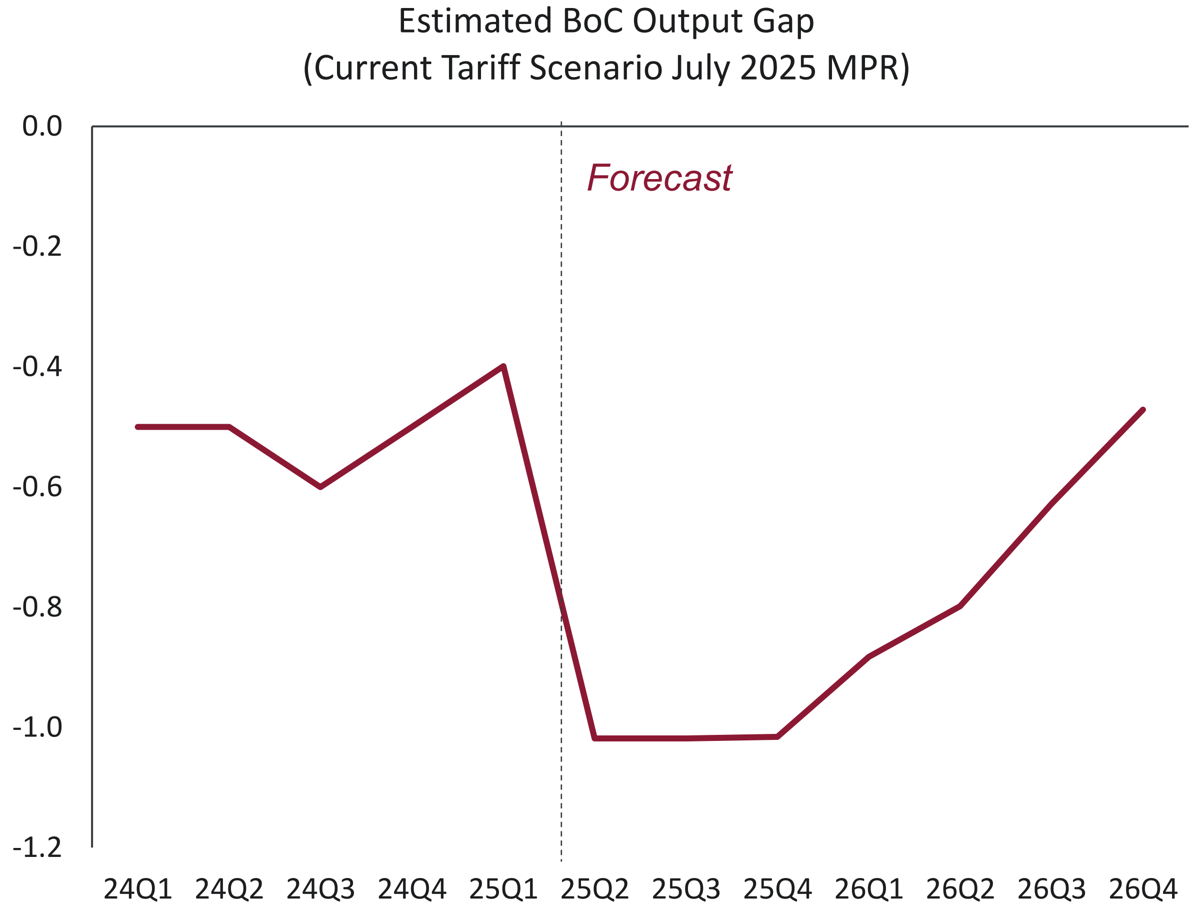
Weak Growth Expected Over Forecast Horizon, Output Gap Improving but Still Wide



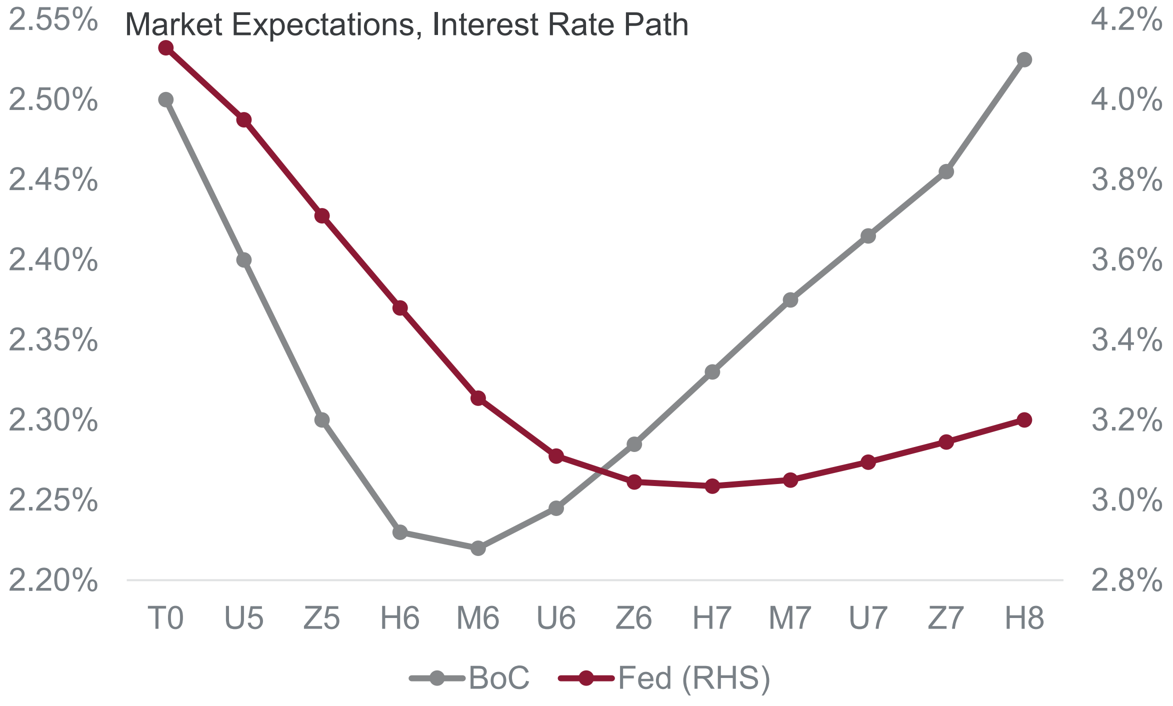


Source: Bank of Canada, CIBC calculations

Note: Output gap is based on a potential output estimate that is the average of the BoC's Scenario 1 and 2 in their 2025 potential output reassessment (Abraham et al, 2025)

USDCAD – Year End Target: 1.36; 2026 End Target: 1.34

Out-Year Bank/Fed Divergence Matters



2026 Pricing Could Limit USD/CAD Upside

Percent Change to USD/CAD on Different BoC Scenarios Only

Spot: **1.3809**

		2025 BoC Path				
		3 Cuts	2 Cuts	1 Cut	No Cuts	1 Hike
2026 BoC Path	2 Cuts	4.4%	3.1%	1.8%	0.5%	-0.8%
	1 Cut	3.2%	1.9%	0.6%	-0.8%	-2.1%
	No Cuts	1.9%	0.6%	-0.7%	-2.0%	-3.3%
	1 Hike	0.7%	-0.6%	-1.9%	-3.3%	-4.6%
	2 Hikes	-0.5%	-1.9%	-3.2%	-4.5%	-5.8%
	3 Hikes	-1.8%	-3.1%	-4.4%	-5.7%	-7.1%

USD/CAD Forecasts

	Spot (August 26)	Q3 2025	Q4 2025	H1 2026	H2 2026
	1.3850	1.37	1.36	1.35	1.34

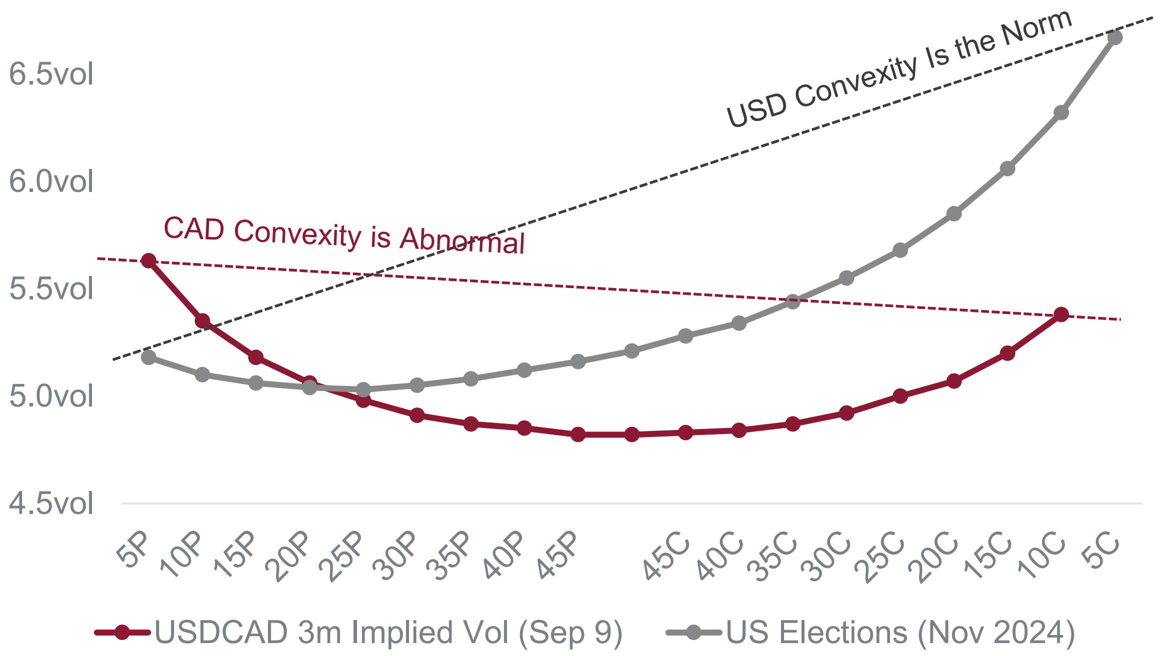
- **Next BoC Cycle Already Starting to Get Priced:** Market is pricing in hikes in 2026. Any rate cuts delivered this year is therefore expected to be temporary. The risk is that concerns over USMCA negotiations cause business investment to stall, causing the Bank to ramp up easing in first half of 2026.

- **2026 Matters to USD/CAD:** We can see that moves in 2026 are worth almost as much as 2025 (i.e. moves on the right diagonal ⋰ are close to identical). For example, a market looking for two cuts this year is worth about the same as a market looking for one cut this year and one next, with USD/CAD rising 0.6%.

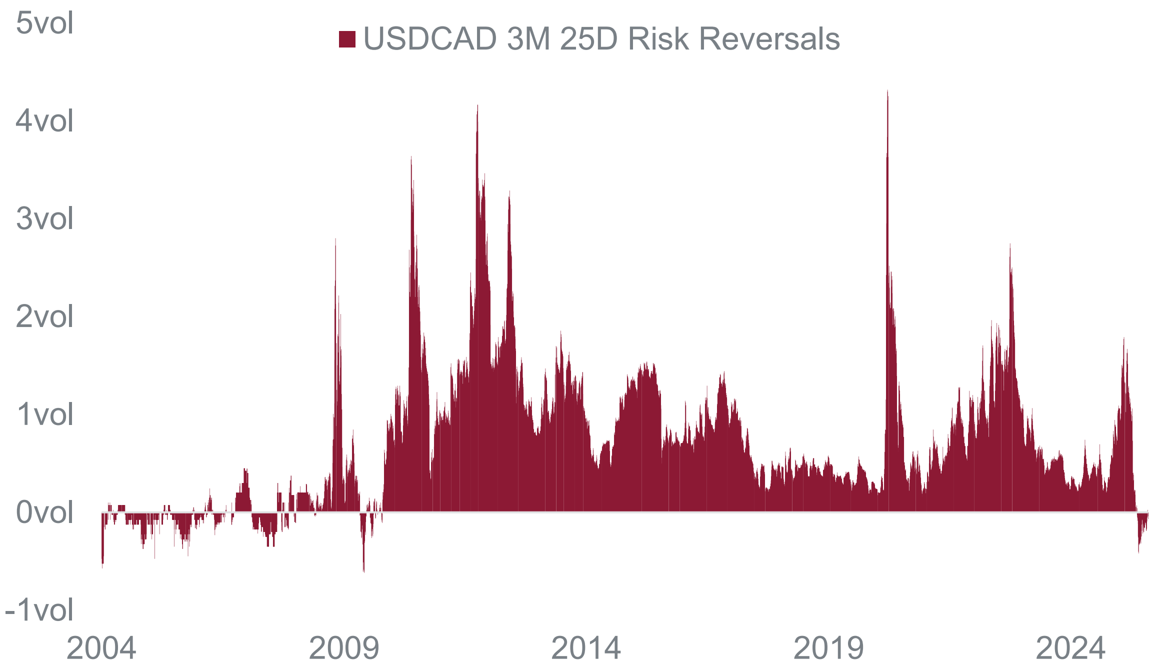
Source: CIBC FICC Strategy

Non-Linear Themes in USD/CAD

No USD Convexity



USD/CAD 3m 25D Risk Reversals Rarely Turn Negative



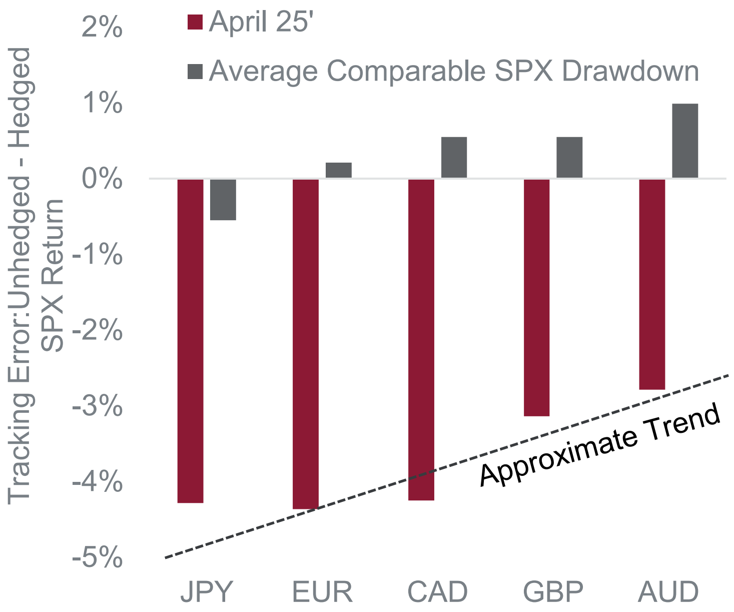
- **Potential for Hedging Flows See Convexity Shift:** Historically, the USD/CAD smile favors calls as USD/CAD typically rallies during risk off. We can see that USD/CAD risk reversals (right chart) seldom turn negative (in favor of puts).

- **Increased Presence of Opportunistic Hedgers:** The marginal hedger is an unhedged equity portfolio manager with US assets considering to increase hedges. The post Liberation Day selloff (SPX ↓ DXY ↓) has PMs questioning whether or not this relationship comes back. Corporate hedging activity (exporters with USD revenue) also tends to increase with USD/CAD above the 1.38 level.

Source: CIBC FICC Strategy

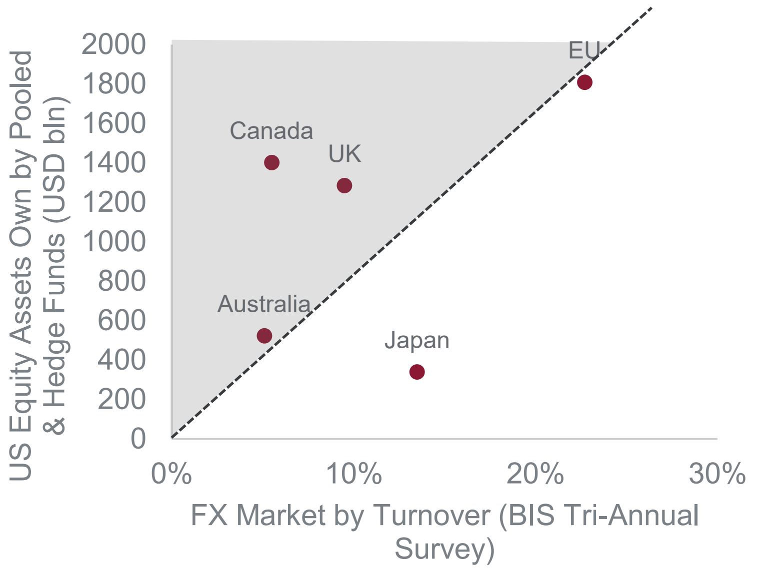
Hedging Flows – Three Things that Matter to the Marginal Hedger

How Painful Is It to Remain Unhedged



- **Pain Is Imbalanced Across Equity PMs**: When the S&P sells off, Japanese investors will feel the most pain leaving SPX exposure unhedged. European investors are also greatly exposed. Hedging activity should ramp up for these participants in the event of a sustained SPX selloff. EUR and JPY are prone to appreciate on this flow.

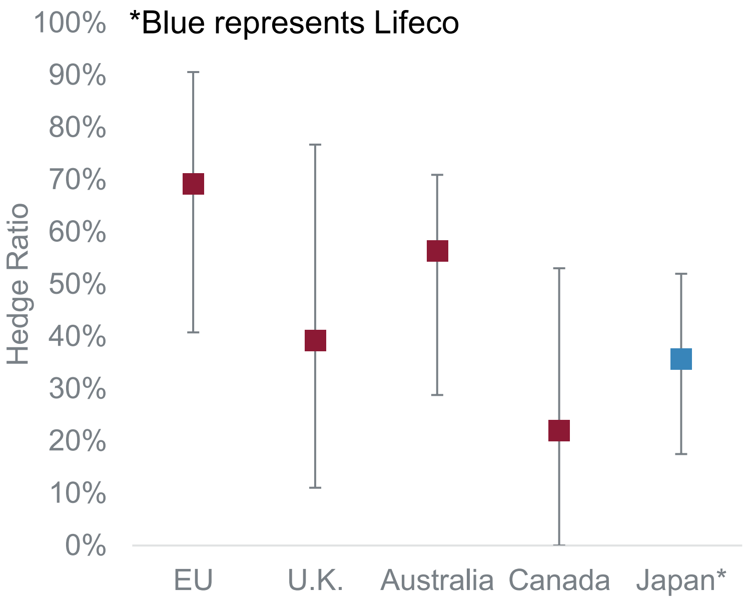
How Much Risk Is There vs FX Market?



*Shaded region show that the FX market turnover is low relative to the size of pooled fund/hedge fund ownership of US equities. This suggests that if they come in at the same time, price impact will be larger for CAD and GBP.

- **Price Impact Depends on FX Liquidity Relative to Size of Potential Flow**: Canada and the UK have outsized exposure to US equities relative to the size of FX market. Should there be a wave of hedging (i.e. SPX ↓ USD ↓) CAD and GBP will see the largest price impact.

How Dynamic Are Hedging Practices



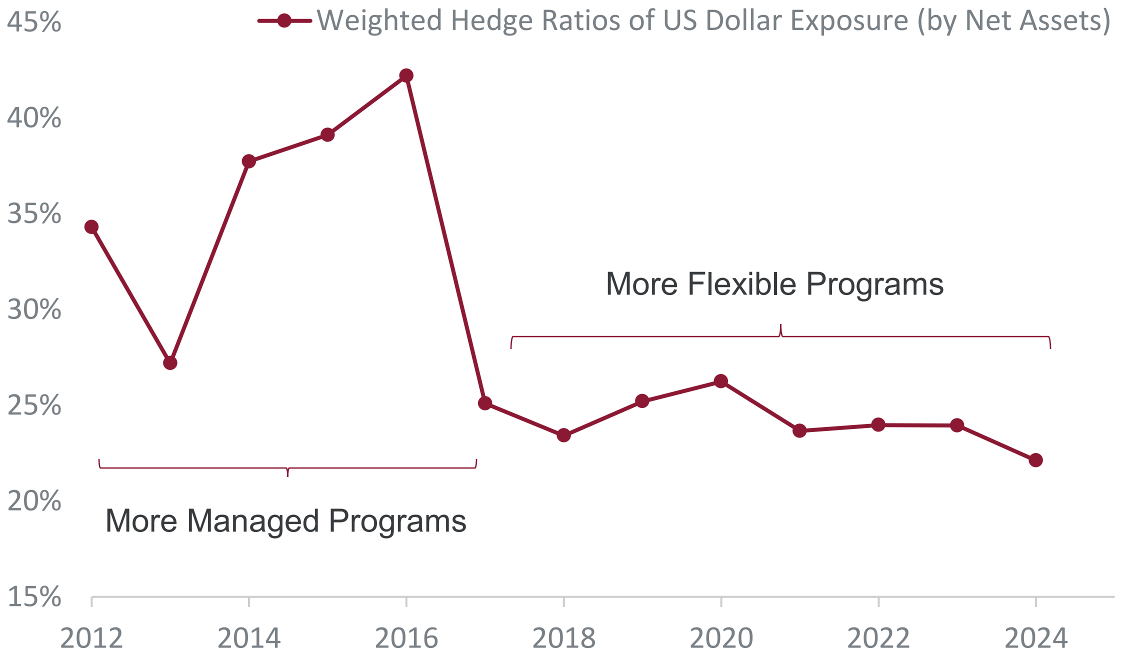
- **Hedging Activity Depends on Fund Behavior**: Some funds are more likely to hedge than others. Industry fragmentation will also play a role to some extent. Ultimately, whether FX risk will be hedged will depend on the individual funds, hedging costs, and the regulatory environment.

Source: Bloomberg, CIBC FICC Strategy

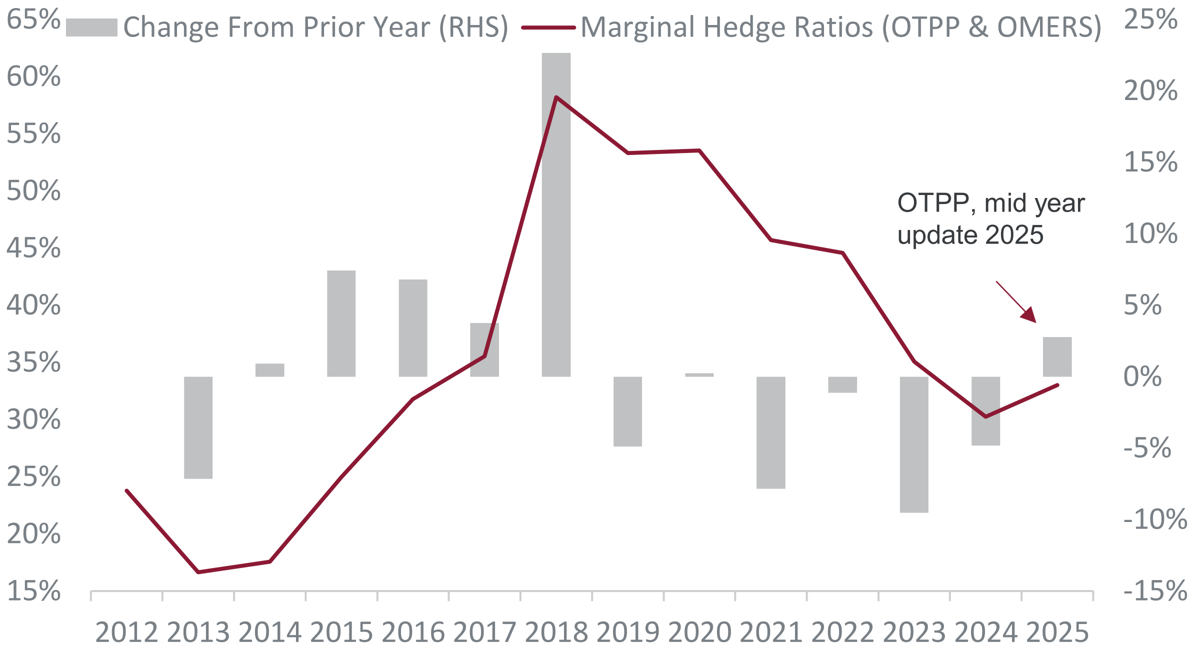
Canadian Pension Hedging

Be Careful Reading Aggregated Hedge Ratios. Hedging Programs Are Diverse

Aggregated Hedge Ratios, AUM Weighted, Largest Six Pensions



'Marginal' Hedge Ratios More Important for Price Impact



Aggregated Hedge Ratios Do Not Say Much:

- The largest three pensions in Canada (~70% Maple 8 AUM) have very sticky hedge ratios, with CPPIB and PSP not hedging at all. This stabilizes aggregated hedge ratios which have very little variance after including these players.
- Pension hedging practices are extremely diverse. It is more indicative to look at each fund separately as opposed to together.

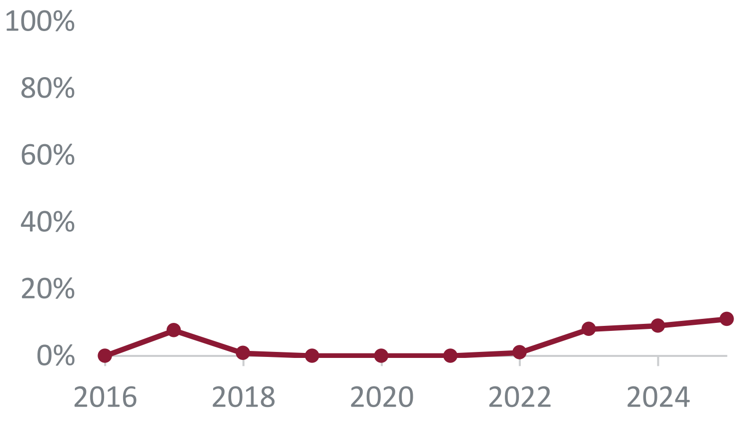
The Marginal Hedger Is More Important:

- Pensions with more discretionary hedging programs should be the focus (OTPP, OMERS, and to a lesser extent HOOP). These are the participants that can have an impact on the market.

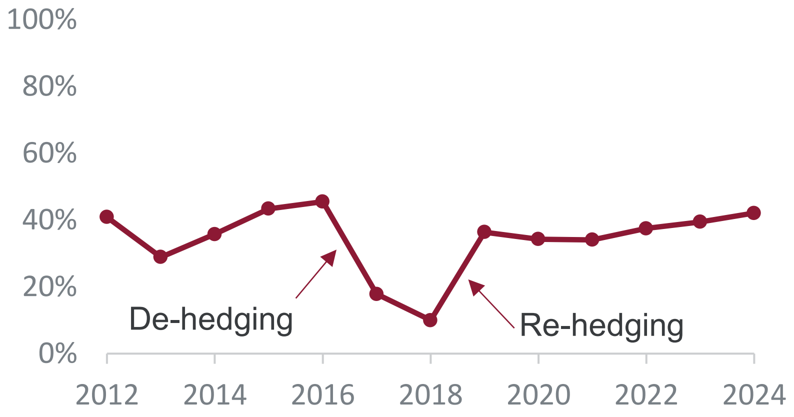
Source: CIBC FICC Strategy

Canadian Pension Hedging Must Be Considered as A Sum-of-Parts

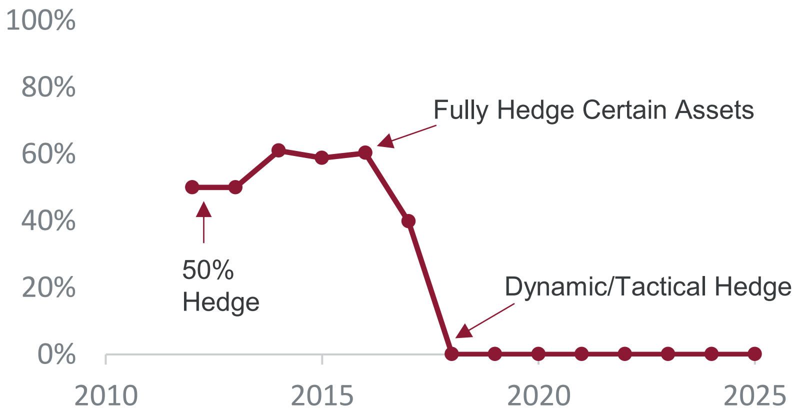
Estimated CPPIB Total Hedge Ratios



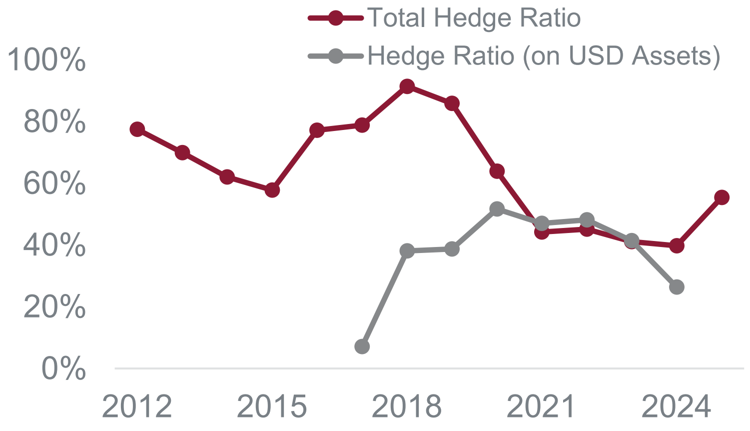
Estimated CDPQ USD/CAD Hedge Ratios



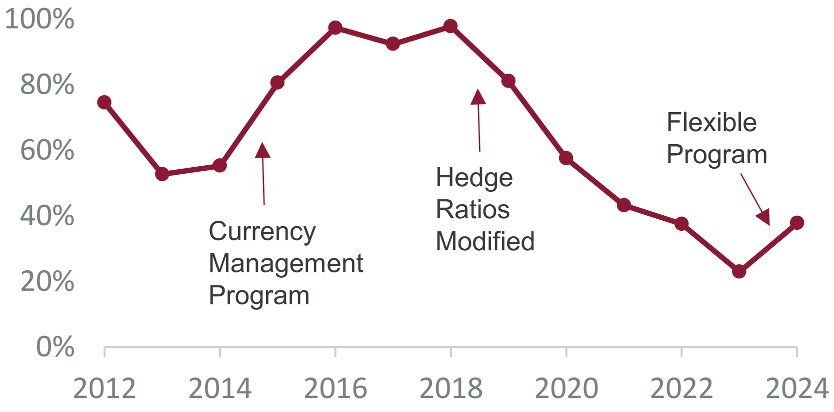
Estimated PSP USD/CAD Hedge Ratios



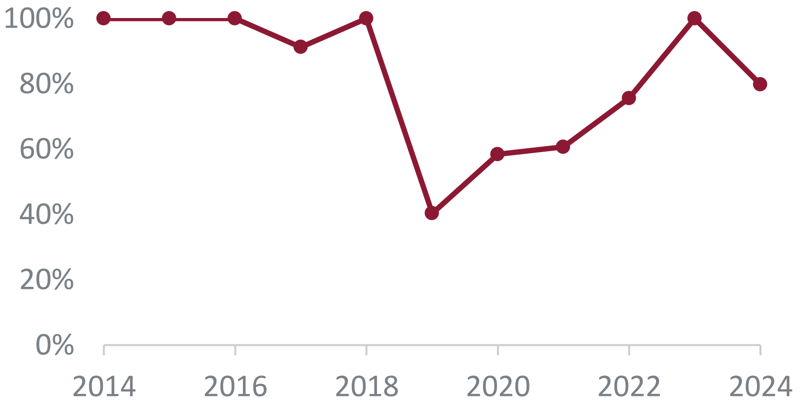
Estimated OTPP Hedge Ratios



Estimated OMERS USD/CAD Hedge Ratios



Estimated HOOP All-Currency Hedge Ratios



Source: Estimated from pension plan annual reports

Example of CPPIB FX Hedging Practices Over Time; 2025 AUM: CAD714.4bln

CPPIB Does Not, For the Most Part, Hedge FX Back to CAD

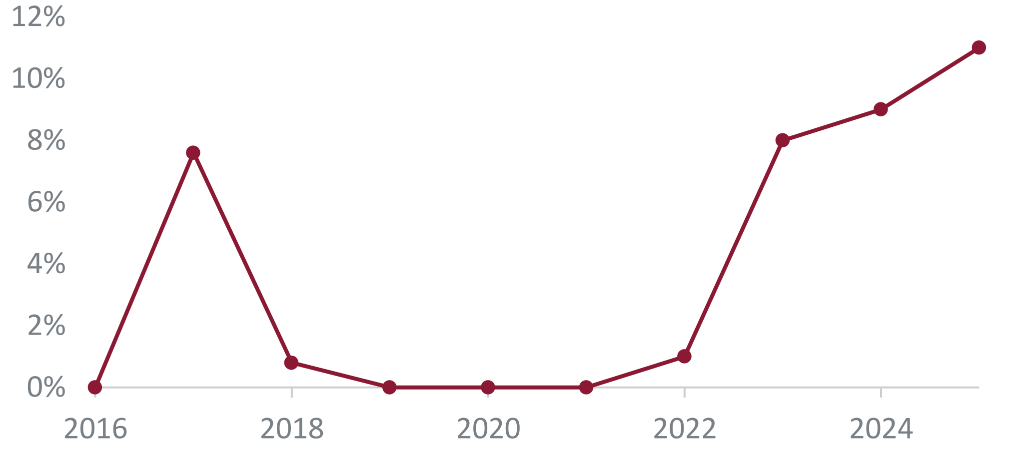
- *While we could choose to manage currency risk through hedging all foreign currency exposures back to the Canadian dollar, we do not believe that hedging the entirety of our foreign currency exposures in this manner will benefit the long-term risk-return profile of the Fund.*
- *For a Canadian global investor with an equity heavy portfolio, maintaining a well-diversified global currency composition helps to mitigate overall return volatility.*
- *Also, currency hedging carries execution costs and requires setting aside cash to meet collateral requirements under currency hedging contracts.*
- The exception is when foreign sovereign bonds are used as a liquid substitute for Canadian government nominal bonds.

CPPIB AR 2025 pg. 19

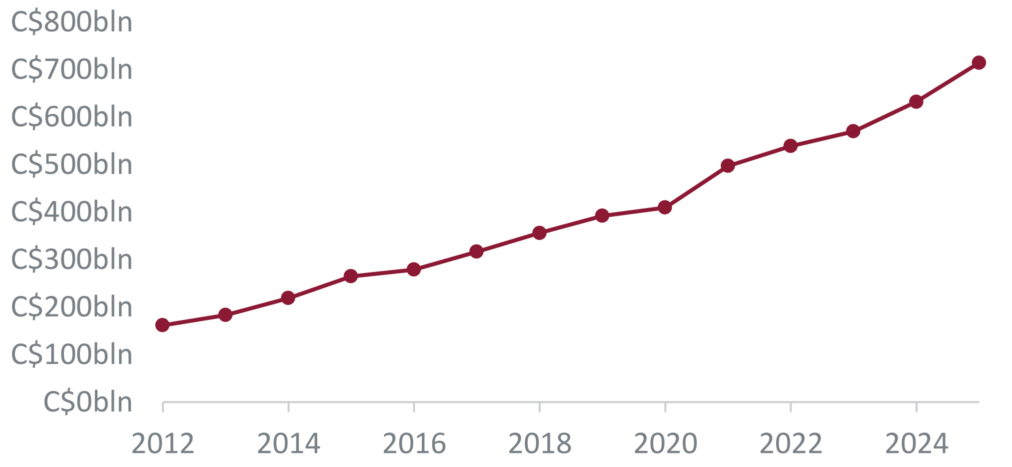
	Net Assets (C$bln)	Foreign Assets	Foreign Currency Exposure	Domestic Assets	CAD Exposure	Estimated Hedge Ratio (to CAD)
2016	278.9	81%	82%	19%	18%	0%
2017	316.7	84%	76%	17%	24%	8%
2018	356.1	85%	84%	15%	16%	1%
2019	392.0	84%	85%	16%	15%	0%
2020	409.6	84%	85%	16%	15%	0%
2021	497.2	84%	85%	16%	15%	0%
2022	539.0	84%	83%	16%	17%	1%
2023	570.0	86%	78%	14%	22%	8%
2024	632.3	88%	79%	12%	21%	9%
2025	714.4	88%	77%	12%	23%	11%

Data from this table was directly taken from published CPPIB Annual Reports

Estimated CPPIB Total Hedge Ratios



CPPIB Net Assets



Source: CPPIB Annual Reports, CIBC FICC Strategy

Example of CDPQ FX Hedging Practices Over Time; 2024 AUM: CAD473.3bln

Notable Changes in Currency Management over Time

F2010-F2015 →

- In 2010 Caisse increased foreign currency exposure by no longer hedging FX for liquid portfolios.
- Less liquid portfolios (infra, real estate, private equity) remain hedged (with limited exceptions).
- From 2013, the globalization of CDPQ's activities meant foreign currency exposure rose.

↓ *Hedging*

CDPQ AR 2015 pg. 37

F2016 – F2018 →

- A gradual de-hedging of less-liquid portfolios began in 2016.
- All liquid portfolios still have FX except certain FI securities.

CDPQ 2018 AR, pg. 37

↓ *Hedging*

F2019-F2020 →

- Foreign currency exposure fell due to the implementation of additional hedging in certain currencies.

↑ *Hedging*

CDPQ 2019 AR, pg. 37

F2021 →

- Internationalization of CDPQ's activities and a slight decrease in the hedging of certain currencies means foreign currency exposure increased.

↓ *Hedging*

CDPQ AR 2021, pg. 41

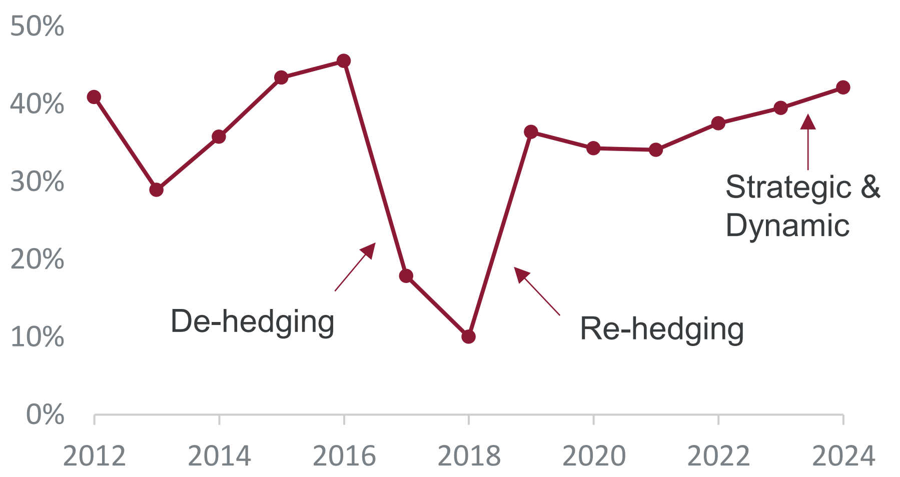
F2022 - Present →

- Exposure to multiple currencies lead to a diversification effect. DM currencies are subject to strategic and dynamic hedging. EM currencies are unhedged due to high hedging costs.

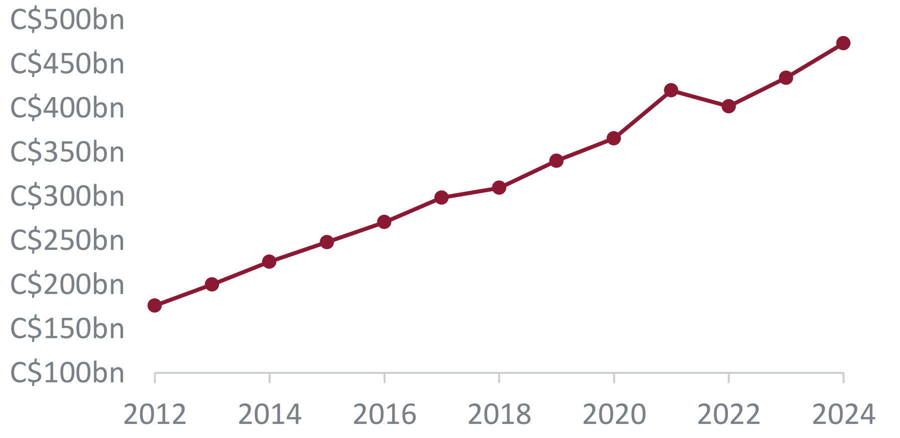
↓ *Hedging*

CDPQ AR 2024, pg. 21

Estimated CDPQ USD/CAD Hedge Ratios



CDPQ Net Assets



Source: CDPQ Annual Reports, CIBC FICC Strategy

Example of PSP FX Hedging Practices Over Time; 2025 AUM: CAD299.7bln

Notable Changes in Currency Management over Time

Pre Oct 2013 →

- Hedge 50% of foreign currency investments in non-emerging countries.

PSP AR 2013, pg. 90

Oct 2013 →

- Fully hedge FX risk in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources.

⬆ *Hedging*

PSP AR 2014, pg. 96

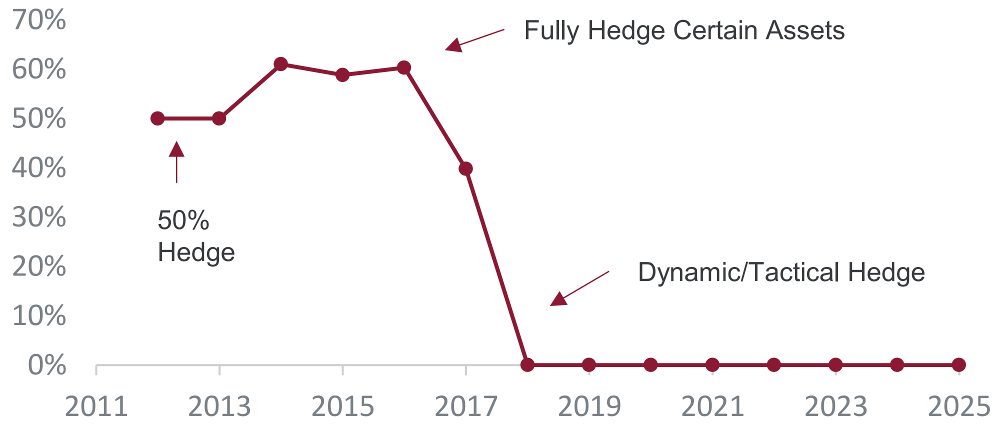
2018 - Present →

- Decision to maintain FX exposure unhedged, and use hedging strategies dynamically or on a tactical basis. No systematic hedging FX exposure.

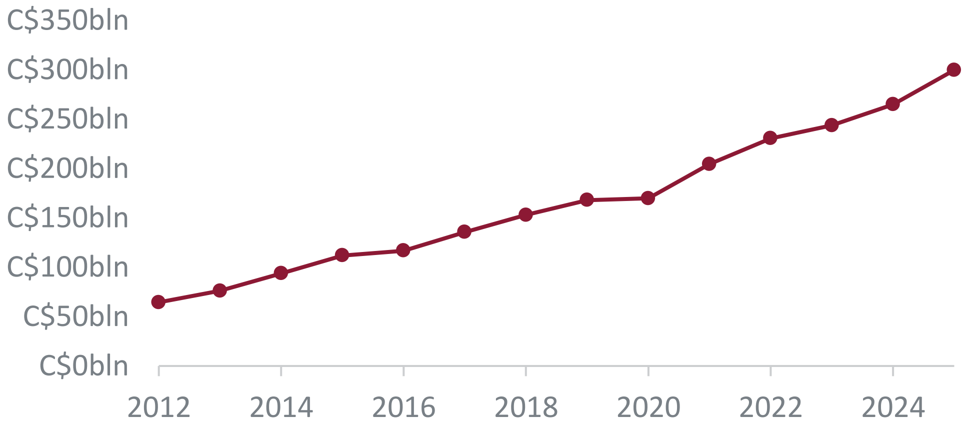
⬇ *Hedging*

PSP AR 2019, pg. 35

Estimated PSP USD/CAD Hedge Ratios



PSP Net Assets



Source: PSP Annual Reports, CIBC FICC Strategy

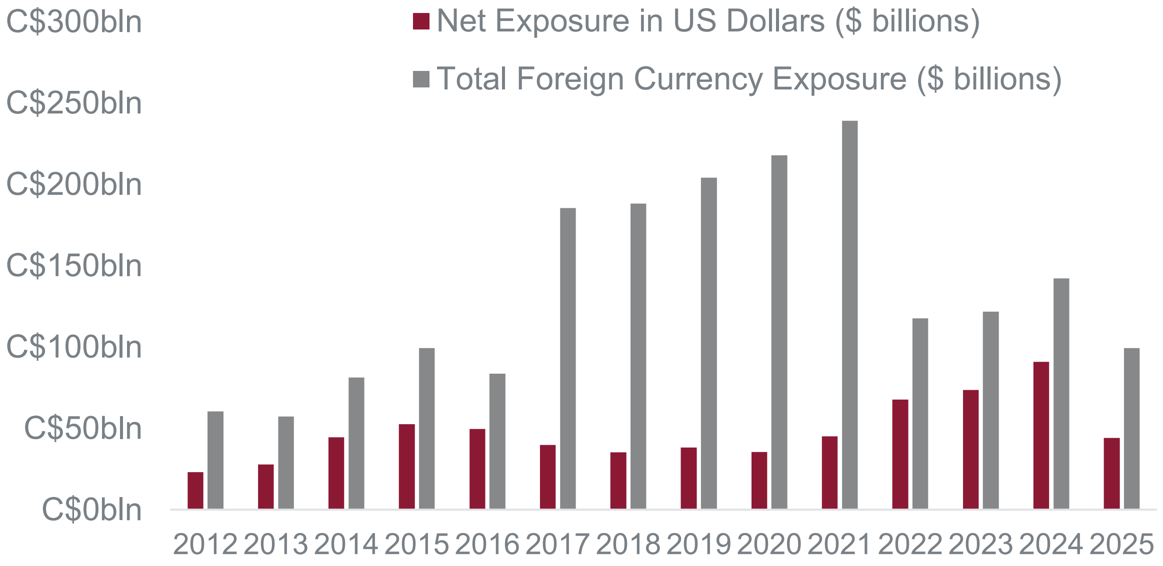
Example of OTPP FX Hedging Practices Over Time; Jun 2025 AUM: CAD269.6bln

OTPP Has a Very Flexible FX Hedging Program

- *In certain circumstances and when cost-effective to do so, we will hedge a portion of our currency exposure to reduce the foreign exchange risk that comes from investing globally.*
- *Currency hedging allows us to lessen the impact of major fluctuations in foreign exchange markets on our performance from year to year.*

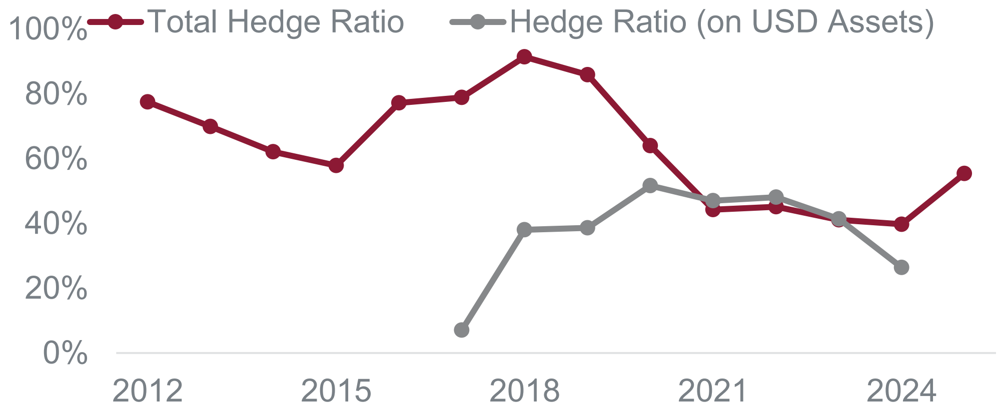
OTPP Statement of Investment Policies & Procedures 2025, OTPP AR 2024 pg. 47, OTPP

OTPP Foreign Currency Exposure



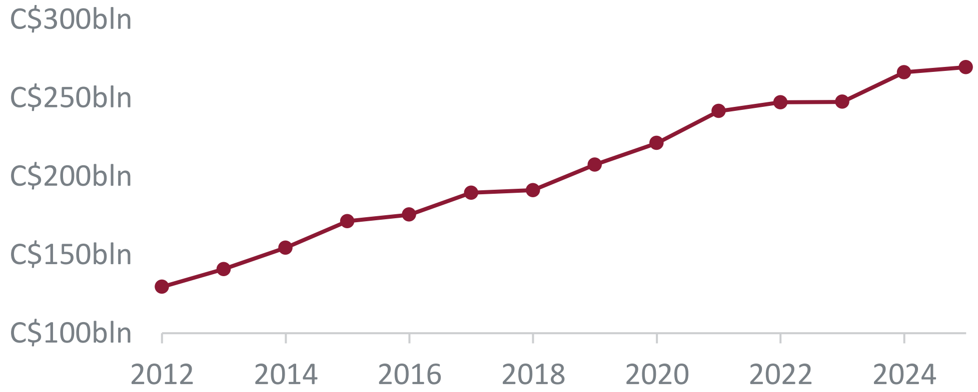
Taken from Foreign Currency Risk Table in OTPP Annual Reports

Estimated OTPP Hedge Ratios



Note – Total Hedge ratio is calculated as : $\frac{Notional\ FX\ Swaps+Forwards}{Net\ Foreign\ Assets}$; Hedges on USD Assets Estimated to be $1 - \frac{USD\ FX\ Risk}{Total\ USD\ Assets}$

OTPP Net Assets



Source: OTPP Annual Reports, Note 2025 is from the semi-annual update, CIBC FICC Strategy

Example of OMERS FX Hedging Practices Over Time; 2024 AUM: CAD138.2bln

Notable Changes in Currency Management over Time

F2012 →

- A portion of public market investments denominated in 12 major currencies are hedged. Hedge percentages can vary.
- Foreign private investments are hedged up to 100%.

OMERS AR 2012 pg. 47

F2013-F2016 →

- A currency management program is in place to hedge foreign investments back to CAD.
- Active positions are permitted.

↑ *Hedging*

OMERS AR 2016, pg. 35-36

F2017-F2019 →

- To protect investments from FX fluctuations, a large proportion of foreign currencies are hedged (90%+ in this period).

↑ *Hedging*

OMERS 2019 AR, pg. 45

F2020-F2023 →

- Adopted changes to long-term strategic hedge ratio ranges in February 2021. Hedge ratios for major currencies are expected to fall over time.

↓ *Hedging*

OMERS AR 2020, pg. 45

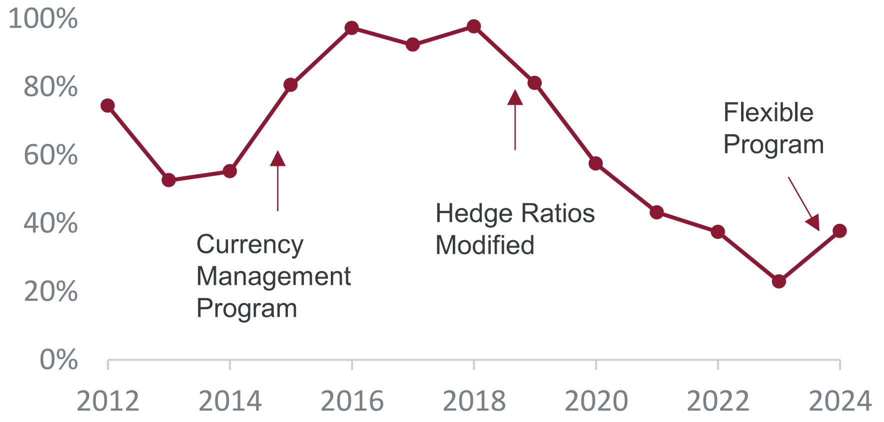
F2024 - Present →

- Foreign currency exposures are managed dynamically through a holistic currency framework.

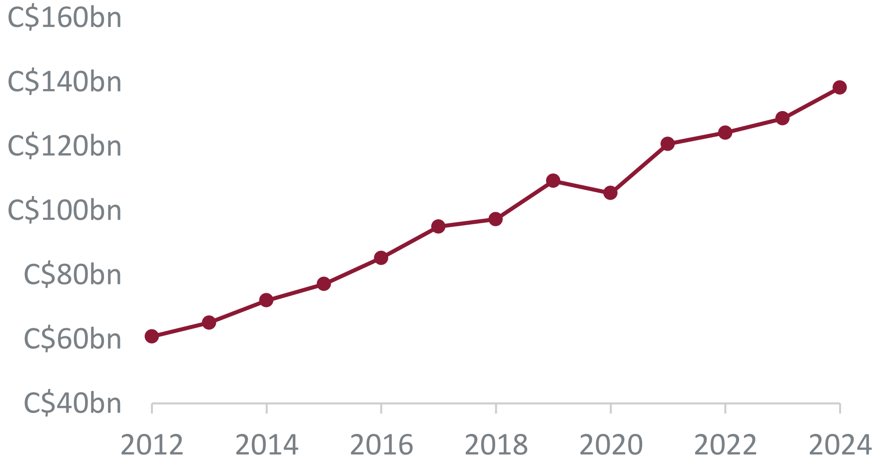
↓ *Hedging*

OMERS AR 2024, pg. 66

Estimated OMERS USD/CAD Hedge Ratios



OMERS Net Assets



Source: OMERS Annual Reports, CIBC FICC Strategy

Example of HOOP FX Hedging Practices Over Time; 2024 AUM: CAD123.0bln

Notable Changes in Currency Management over Time

F2014 →

- Investment Policies & Guidelines generally require FX exposure to be hedged with a **5**% tolerance of the Fund's NAV.

HOOP AR 2014 pg. 88

F2015 - F2021 →

- Investment Policies & Guidelines generally require FX exposure to be hedged with a **5**% tolerance of the Fund's NAV.
- Limited risk-taking activities are permitted.

Hedging *HOOP AR 2014 – 2021; 2021 AR pg. 75*

F2021 – F2022 →

- Investment Policies & Guidelines generally require FX exposure to be hedged with a **10**% tolerance of the Fund's NAV.
- Limited risk-taking activities are permitted.

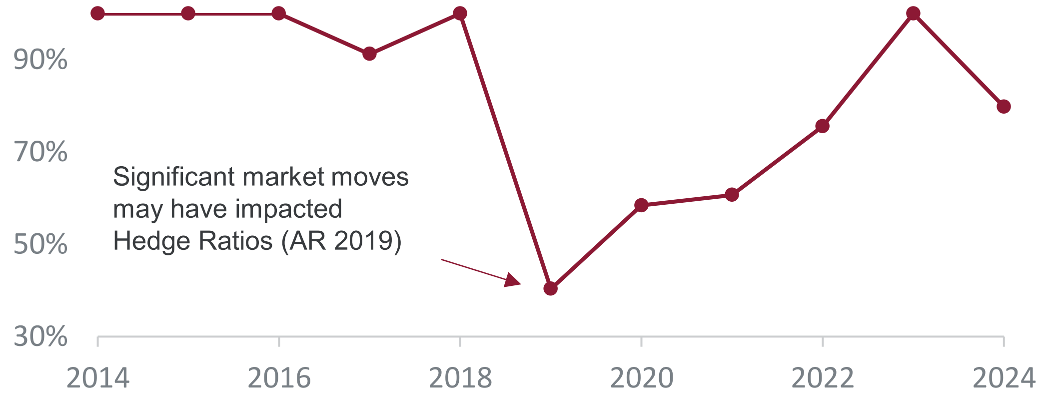
Hedging *HOPP 2022 AR, pg. 71*

F2022 - Present →

- Investment Policies & Guidelines generally require FX exposure to be hedged with a **15**% tolerance of the Fund's NAV.
- Limited risk-taking activities are permitted.

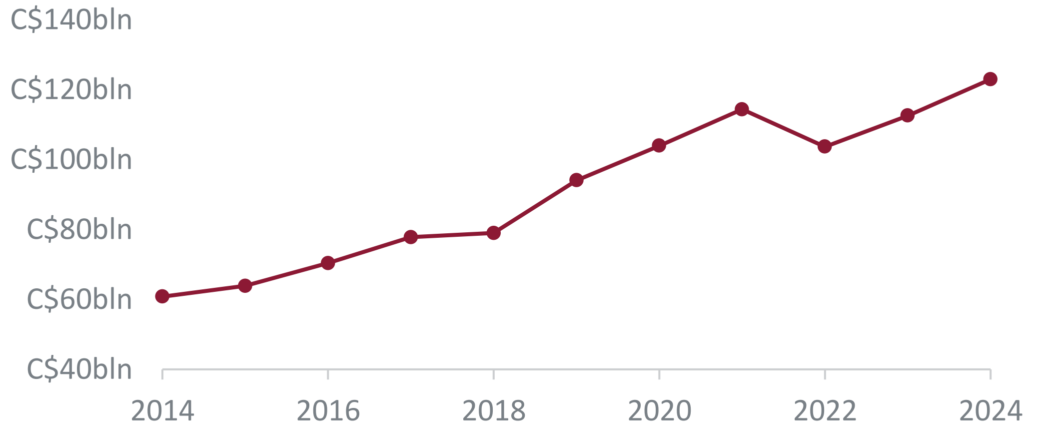
Hedging *HOOP AR 2023, pg. 99*

Estimated HOOP All-Currency Hedge Ratios



Significant market moves may have impacted Hedge Ratios (AR 2019)

HOOP Net Assets



Source: HOOP Annual Reports, CIBC FICC Strategy

BCIMC & AIMCO

BCIMC & AIMCO Manage Funds on Behalf of Clients

- FX Hedging parameters are determined by the client; neither BCIMC nor AIMCO have significant FX risk themselves
- Risk tolerance for FX exposure can vary amongst clients

- BCIMC AUM: C$251.6bln
- AIMCO AUM: C$179.6bln

BCIMC Clients

- 10 public sector pension plans make up 78.3% or C$197.1bln of net AUM
- 3 insurance funds make up 17.8% or C$44.8bln of net AUM
- 19 special purpose funds make up 3.9% or C$9.7bln of net AUM

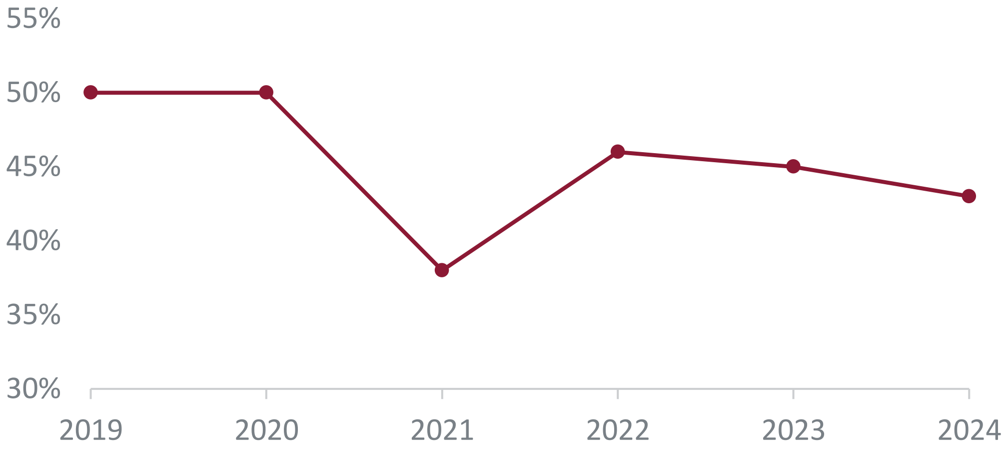
BCIMC Website, under *Clients*

AIMCO Clients

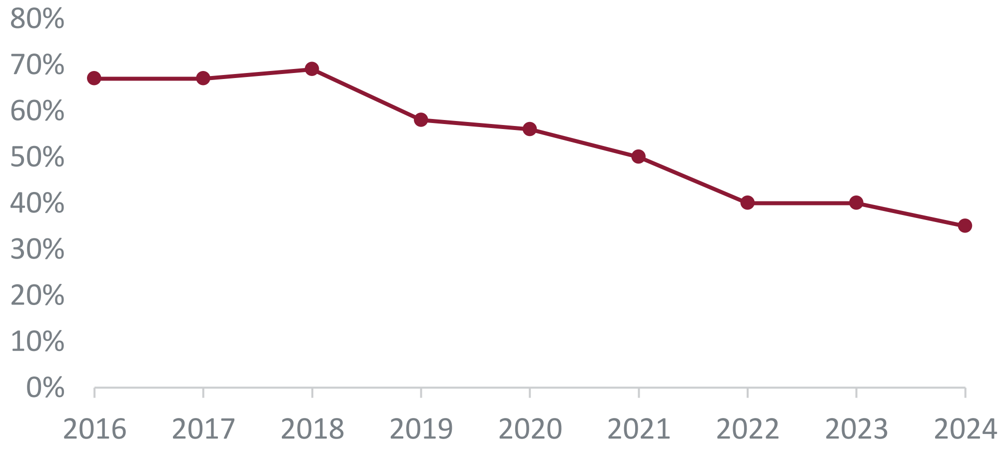
- 11 Pension plans including the Alberta Teacher’s Retirement Fund, the Local Authorities Pension Plan, and the Public Service Pension Plan
- 4 Endowment Funds
- 4 Government Funds
- 3 Insurance Funds
- 3 Specialty Funds

AIMCO Website, Under *Our Clients*

Example of Hedge Ratios from Public Service Pension Plan (BCIMC Client); Net Assets: C$44.9bln



Example of Hedge Ratios from Alberta Teachers Retirement Fund (AIMCO Client); Net Assets: C$24.4bln



Source: BCIMC, AIMCO, PSPP, and ATRF Annual Reports, CIBC FICC Strategy

CIBC Forecasts

Canada/ US Economic & Rates Forecasts

Economic Forecasts

Canada

	Q1 2025	Q2 2025	**F Q3 2025**	**F Q4 2025**
Real GDP (q/q% saar)	2.03	-1.58	0.69	1.28
Final Domestic Demand	-0.90	3.50	1.30	1.70
CPI	2.30	1.80	1.90	1.90
Unemployment Rate	6.60	6.90	7.06	6.99

United States

	Q1 2025	Q2 2025	**F Q3 2025**	**F Q4 2025**
Real GDP (AR)	-0.5	3	2.2	1.9
Real Final Sales (AR)	-3.1	6.3	3.3	2.4
CPI	3.1	2.8	3.1	3.2
Unemployment Rate	4.1	4.2	4.3	4.3

Source: CIBC Economics, CIBC FICC Strategy

Canada/ US Economic & Rates Forecasts

Rates Forecasts

Canada	**Today (Sep 10)**	**Q3**	**Q4**	**Q1 2026**	**Q2 2026**
BoC Overnight Rate	2.75	2.50	2.25	2.25	2.25
2s	2.50	2.60	2.40	2.50	2.65
5s	2.75	2.80	2.75	2.90	2.95
10s	3.20	3.35	3.20	3.25	3.35
30s	3.65	3.70	3.60	3.65	3.70
2s10s	70	75	80	75	70
10s30s	45	35	40	40	35
2s5s10s	-20	-35	-10	5	-10

United States	**Today (Sep 10)**	**Q3**	**Q4**	**Q1 2026**	**Q2 2026**
Fed Funds (Upper)	4.50	4.25	4.00	3.75	3.50
2s	3.50	3.60	3.45	3.40	3.40
5s	3.60	3.75	3.65	3.60	3.65
10s	4.05	4.30	4.15	4.20	4.30
30s	4.70	4.85	4.80	4.75	4.80
2s10s	55	70	70	80	90
10s30s	65	55	65	55	50
2s5s10s	-35	-40	-30	-40	-40
CA/US 2s	-100	-100	-105	-90	-75
CA/US 10s	-85	-95	-95	-95	-95

We see two key themes for duration over the second-half of 2025, including: i) increased sensitivity to fiscal dynamics, and; ii) a general cheapening of CAD duration vis-à-vis the United States

The CAD yield curve is expected to transition into a flattener quicker than the U.S., reflecting the fact the BoC was an ‘early easer’. Current pricing of the BoC leading the hiking cycle is a dynamic that is likely to persist

We see the trough in rates in Canada by the end of 2025, a full quarter ahead of where we see the trough in USD rates

In terms of central bank impact, aside from rate cuts, we expect the BoC to begin purchasing bills in Q4-25 and bonds in Q2-25. This is part of their plan to ensure reserves do not drop to too low levels

Source: CIBC Economics, CIBC FICC Strategy

Global Central Bank Forecasts

	Current	Q3 '25	Q4 ‘25	Q1 ‘26	Q2 ‘26	Q3 ‘26	Q4 ‘26
Fed	4.12	4.12	3.88	3.63	3.38	3.38	3.38
Mkt (Sep 22)		*4.12*	*3.70*	*3.47*	*3.25*	*3.16*	*3.0*
BoC	2.50	2.50	2.25	2.25	2.25	2.25	2.25
Mkt (Sep 22)		*2.50*	*2.27*	*2.29*	*2.26*	*2.27*	*2.26*
ECB	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Mkt (Sep 22)		*2.00*	*1.97*	*1.92*	*1.89*	*1.90*	*1.90*
BoE	4.00	4.00	3.75	3.50	3.50	3.50	3.50
Mkt (Sep 22)		*3.96*	*3.96*	*3.76*	*3.66*	*3.65*	*3.58*
SNB	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
BoJ	0.50	0.50	0.50	0.75	0.75	0.75	0.75
RBA	3.60	3.60	3.35	3.10	3.10	3.10	3.10
RBNZ	3.00	3.00	2.50	2.50	2.50	2.50	2.50
Banxico	7.75	7.50	7.00	6.75	6.50	6.50	6.50
BCB	15.00	15.00	15.00	14.50	14.00	13.50	13.00
BCCh	4.75	4.50	4.25	4.25	4.25	4.25	4.25
Banrep	9.25	9.25	8.75	8.25	8.00	7.75	7.50

Source: CIBC Economics, CIBC FICC Strategy

FX Forecasts

End of period:	Sep 22, 2025	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
USD / CAD	1.3820	1.37	1.36	1.36	1.35	1.34	1.33
EUR / USD	1.1795	1.18	1.20	1.21	1.22	1.23	1.24
USD / JPY	147.75	146	144	141	139	138	137
GBP / USD	1.3516	1.35	1.35	1.36	1.38	1.39	1.41
USD / CHF	0.80	0.80	0.80	0.80	0.79	0.80	0.80
USD / SEK	9.36	9.31	9.08	8.83	8.72	8.57	8.41
AUD / USD	0.66	0.66	0.67	0.67	0.67	0.67	0.67
NZD / USD	0.5870	0.59	0.60	0.61	0.61	0.61	0.61
USD / NOK	9.90	9.91	9.53	9.33	9.17	9.05	8.89
USD / ZAR	17.33	17.50	17.30	17.20	17.00	16.85	16.75
USD / BRL	5.33	5.50	5.75	5.90	6.10	6.10	5.80
USD / MXN	18.36	19.20	19.60	19.70	19.80	19.80	19.80
USD / COP	3846	4200	4300	4300	4350	4350	4315
USD / CLP	955	930	910	910	900	900	900
USD / CNH	7.11	7.09	7.15	7.13	7.12	7.11	7.10

Source: CIBC Economics, CIBC FICC Strategy

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