



## Why a Correction Could Be in the Cards for Canadian Imperial Bank of Commerce

### Description

**Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) has enjoyed a sharp rally this year as the stock soared over 21%. The company reported very strong numbers in its most recent quarter, but I believe that the rally is way overdone and a correction could be in the cards in 2017 as the stock falls back to reality.

While the stock seems cheap based on traditional valuation metrics, it may actually be a risky buy at current levels. The **PrivateBancorp** deal may not go through, and this will put Canadian Imperial Bank of Commerce miles behind its peers in the Big Five, which already have a more internationally diversified revenue stream.

It's no mystery that Canadian Imperial Bank of Commerce is overexposed domestically; it is strongly correlated with the Canadian economy and the price of commodities like oil and gas. The Canadian economy isn't the most stable since it's highly sensitive to the fluctuating price of commodities like crude oil and potash. The PrivateBancorp deal successfully going through is already priced into the stock, so if no deal occurs, then the stock will start pulling back.

The company's lack of exposure outside Canada is a major concern. The U.S. economy is much less sensitive to commodity prices and is expected to be a lot stronger in the long term, as President-elect Donald Trump puts new measures in place to give the U.S. economy a boost.

The U.S. Federal Reserve is also expected to raise interest rates multiple times next year, and this will be a huge tailwind for financial stocks with business in the U.S. The loonie is expected to fall as a result of this, and Canadian stocks with very little exposure to the U.S. will face a major headwind compared to its properly diversified peers.

Canadian Imperial Bank of Commerce will definitely miss out on the opportunity of a high-flying U.S. economy next year and will underperform its peers in the Big Five thanks to its lack of U.S. exposure. While investors are optimistic about the stock right now, as it's soaring, the tides will change very soon. Things will get very ugly for the stock, and it could fall to the \$90 level.

In addition to having very little international exposure, the company is also overexposed to the Canadian housing market, which many pundits believe is currently in a bubble. The company has the most uninsured mortgages of the Big Five Canadian banks, and if a housing crash happens, we could see the stock of Canadian Imperial Bank of Commerce fall even further.

### **There are a lot of risks, but the stock seems cheap**

There are just way too many risks involved with an investment in Canadian Imperial Bank of Commerce right now. The stock may seem cheap at a 10.4 price-to-earnings multiple, but this is in line with historical averages. The only difference is that right now the stakes are higher and the risks are larger than ever. For this reason, the stock is not cheap; to the contrary, the stock is actually very expensive right now.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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### **Date**

2025/09/13

### **Date Created**

2016/12/14

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