TD Wealth

Perspectives 10 Minutes

WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)

Views as of October 17, 2024

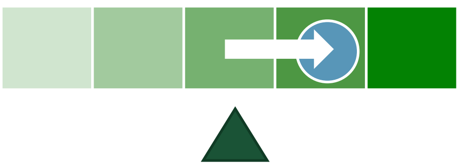
2024 NOV

Core Asset Class Allocations

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Equity

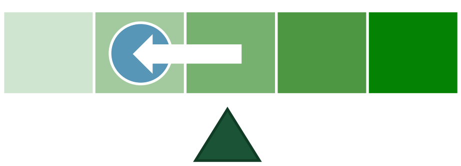
Modest Overweight



We are upgrading Equities to overweight as we expect positive earnings growth to continue to drive attractive relative returns over the medium term. While the U.S. market, and in particular technology-related names, are among the leaders year-to-date ("YTD"), equity returns have been broadly positive across many geographies and sectors. Earnings growth (as represented by the MSCI All Country World Index) has been partially captured by the market in valuations, we believe the current valuations are justified given the backdrop of modest economic growth and declining rates. The U.S. election and fiscal policy implications, or uncertainty on the magnitude and pace of rate cuts, may cause episodic spikes in equity volatility, but we believe the fundamental drivers of the market will remain supportive.

Fixed Income

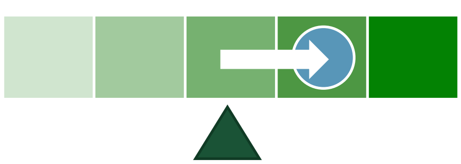
Modest Underweight



As the Bank of Canada ("BoC") considers the speed with which to remove its restrictive policy stance, the bond market has already pre-empted a change of pace by pricing an aggressive easing cycle over the coming year. As a result, the Canadian bond market has outperformed other bond markets over the past 12 months with a total return of almost 13% due to a combination of capital gains as well as income. As we agree with the bond market and believe that the forward path for the BoC is fairly reflected in Canadian interest rates, we expect modest low-to-mid single digit total returns for the bond market over the next 12 to 18 months. Nevertheless, against a backdrop of continued monetary policy easing, we expect that bonds will continue to provide diversification benefits, reduce overall portfolio volatility and preserve capital.

Alternatives

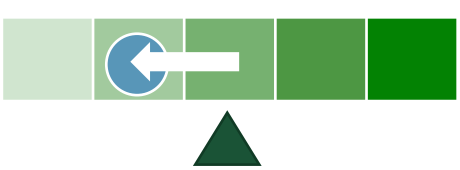
Modest Overweight



We believe that an allocation to alternative assets can benefit diversified portfolios especially when implemented over the long-term. Alternative assets can provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams. Given the nature of private asset classes as well as the present phase of value adjustment in several markets and asset classes, we believe that this may be an attractive time to increase or consider an allocation to alternative assets.

Cash & Equivalents

Modest Underweight



We are downgrading Cash to increase our allocation to Equities and Alternatives as in a declining rate environment these asset classes should provide more attractive returns relative to Cash.

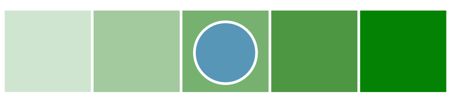
Equities – Modest Overweight Overall

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Canadian Equities	 Modest Overweight	The Bank of Canada ("BoC") has cut rates significantly since the spring as inflation has subsided and the economy is showing signs of slowing. We believe that these cuts are supportive of the consumer and businesses, which should allow for credit to stabilize at Canadian Banks. The Energy sector has strong balance sheets and is returning its significant free cash flow to shareholders. Additionally, the high dividend yielding stocks can benefit from the declining interest rate environment.
U.S. Equities	 Modest Overweight	S&P 500 Index returns this year have been driven by both multiple expansion and earnings growth. While mega cap technology firms are a significant contributor to returns, partly driven by AI opportunities, all sectors are in positive territory YTD. We remain constructive on the earnings outlook for the U.S. as lower rates could support more broad-based growth. The S&P 500 index commands a premium valuation due to its higher technology exposure.
International Equities	 Modest Underweight	International Equities returns might lag due to weakening industrial activity and slower earnings per share growth in Europe. Japanese equities look attractive on a relative basis, with momentum building behind a corporate reform agenda aimed at boosting profitability and valuation multiples. The Japanese stock market and yen might experience additional volatility depending on how the Bank of Japan continues with its process of raising rates versus the Fed potentially cutting rates further.
Emerging Markets	 Modest Underweight	Emerging Markets central banks, including China, Brazil, Chile and Mexico, have been cutting rates. China continues to struggle with challenges in its property sector but has recently announced monetary stimulus that could provide some stabilization for its economy.

Fixed Income – Modest Underweight Overall

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Domestic Government Bonds	 Modest Overweight	We anticipate that the BoC will ramp up its rate cuts before the end of 2024 and agree with the bond market's assessment that the BoC policy rate will reach a neutral level before the end of 2025. That said, in our view, it remains prudent to continue to overweight Canadian bonds versus other markets as Canadian inflation has normalized much faster. Therefore, we remain patient and await a clear catalyst that could reverse the outperformance of the Canadian bond market. As the easing cycle progresses, we expect yields on shorter government bonds, which are more sensitive to the monetary policy cycle, to fall faster than that of longer government bonds.
Investment Grade Corporate Credit	 Modest Overweight	Investment grade spreads remain tight overall and reflect a modest softening of the global economic backdrop. We see Canadian investment grade corporate bonds as more attractive than U.S. investment grade corporates as spreads in Canada continue to be meaningfully wider.
Global Bonds-Developed Markets	 Neutral	As new economic data in the U.S. calls into question the U.S. Federal Reserve's (the "Fed") aggressive start to the policy rate cutting cycle, investors continue to expect the Fed to lower the policy rate in the coming months. However, uncertainties emanating from the upcoming U.S. federal election are beginning to weigh on global bond markets as concerns rise around fiscal and global trade policy implications. The outcome of the election is expected to have different consequences for different countries and regions. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18 months.
Global Bonds-Emerging Markets		While yields remain attractive in some regions, many emerging market countries have either cut policy rates meaningfully this year, or have significant rate cut expectations already priced in bond yields. As a result, there is now a lower potential for emerging market bonds to outperform developed market bonds from capital appreciation alone. However, there are tactical opportunities in some emerging market countries where fiscal policy and growth fundamentals remain stable.
High Yield Credit		All in yields remain attractive, but high yield spreads continue to be expensive and not reflective of potential challenges within the sector. While the majority of high yield companies are performing well, many of the riskier high yield issuers are struggling with heavy debt loads and slowing growth. As a result, we remain cautious at current valuations and favour the higher quality cohort of the market.

Alternatives – Modest Overweight Overall

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Commercial Mortgages	Modest Overweight	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Private Debt **(Universe)**	Modest Underweight (From Neutral)	High credit quality and global diversification provides an income ballast in an uncertain economic environment. Incremental income and potential capital appreciation from interest rate moderation provide upside.
Domestic Real Estate	Neutral (From Modest Underweight)	We believe a significant portion of the value adjustments in the Canadian commercial real estate space have been taken. Moving forward we see more reason for confidence in the multi-unit residential, retail and industrial spaces.
Global Real Estate	Modest Underweight	We believe the majority of the value adjustments have occurred in the U.S., UK and Nordic countries, while other regions, such as Australia, are in the midst of value adjustments.
Infrastructure	Modest Overweight	Increases in cash flow from higher-than-expected inflation are buffering valuations against rising interest rates. Investor appetite is particularly focused on essential infrastructure that can generate stable, growing cash flows including energy generation/transition investments and seaport enhancement projects.

Sub-Asset Class

U.S. Dollar (USD)	Neutral	The USD has remained strong against global currencies as relative growth differentials still favour the U.S. economy, and by extension the USD. Some USD weakness may be expected in the near-term, however, currency risk is not expected to be a major factor affecting returns as any USD softness is expected to be modest. The USD provides diversification in portfolios considering the range of risks in the near term.
Commodities **(Gold, Energy, metals, agriculture, carbon)**	Modest Overweight	Metals prices rallied recently in response to the Chinese monetary stimulus announcements, but further gains could be limited as this initial stimulus has a less direct impact on commodity demand. Long term underlying fundamentals remain supportive for key commodities such as oil and copper as supply remains disciplined or restricted. Gold continues to rally in anticipation lower interest rates, as well as heightened instability in the Middle East.

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