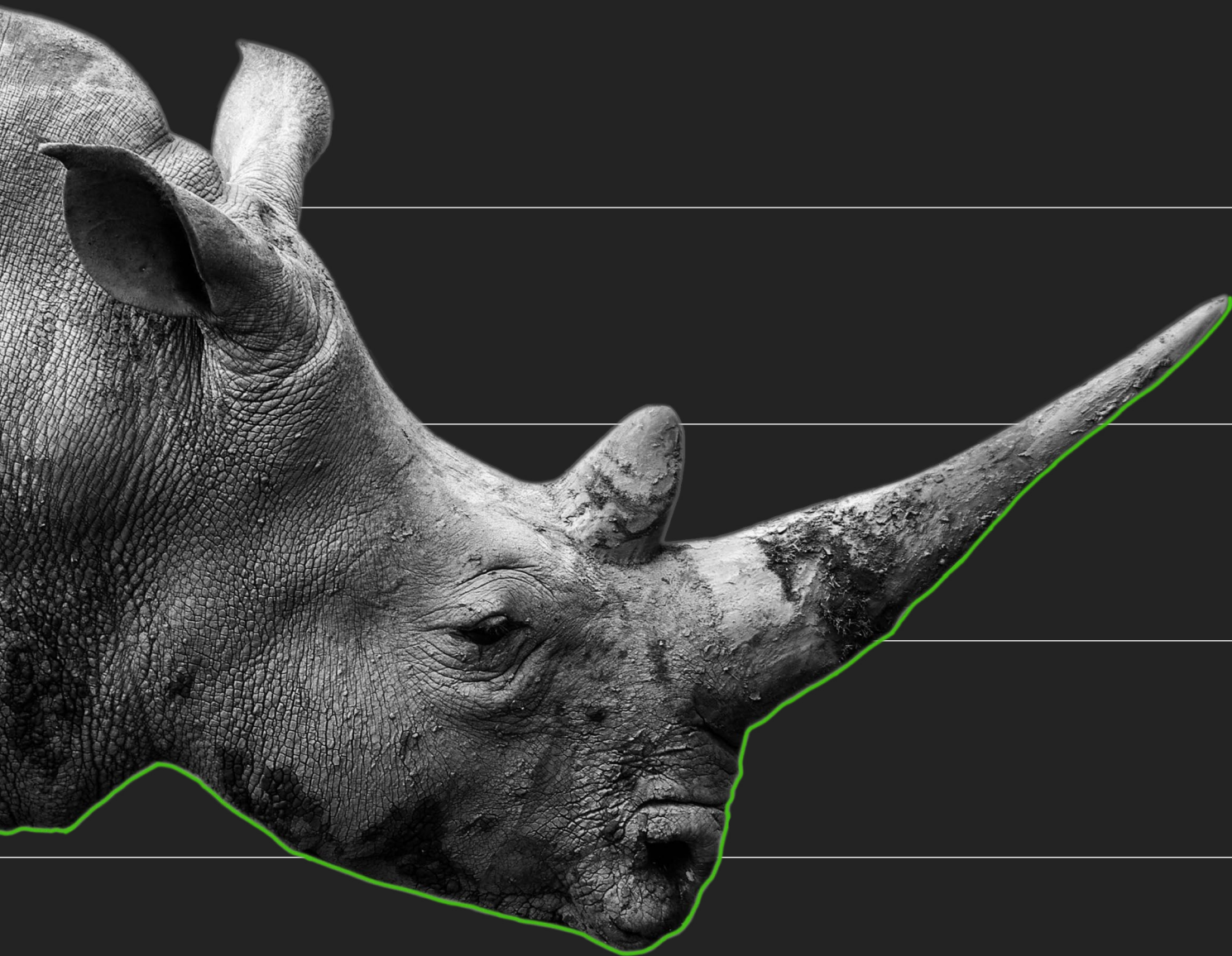




Still Here

Portfolio Strategy Quarterly | Q3 2025

July 2025



February 2025

March 2025

April 2025

May 2025

June 2025

July 2025

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Still here.

Many of the risks that were top-of-mind at the start of 2024 are still here. Worries about deglobalization have turned into worries about global trade conflict. U.S. trade negotiations are ongoing, the Mag-7 stocks have, following the sharp sell-off in April, led a V-shaped rally in U.S. equities. And the risk of regional conflict today is higher than it's been in the past four decades, as regional players try to fill the void created by increased U.S. isolationism, and tilt the geopolitical environment in their favour.

Flip-flopping U.S. trade and fiscal policies, the threat and promise of AI and the unpredictable outcome of the wars in the Middle East and Ukraine — all of these make the job of folks like us much more difficult. Worse, we are navigating this in the middle of a headline-driven market, amplified by social-media algorithms, which are incredibly important because this is increasingly where everyone gets their information. In an era of short attention spans, browsing the headlines one click at a time, it is almost impossible to really understand where to invest.

The risks we see coming yet do nothing to avoid (the so-called “Grey Rhinos”) and this headline-driven market often mask the truth about economic conditions, which over the long term underpins financial markets. There's no doubt we live in turbulent times, but we refuse to be complacent about the risks ahead. Nor are we going to be so caught up in fear that we miss the considerable opportunities that are below the surface. As John Maynard Keynes famously said, “It is astonishing what foolish things one can temporarily believe if one thinks too long alone, particularly in economics.”

Together we will dig deep with the best of our thinking to take advantage of opportunities and manage risks with a well-diversified, contemporary investment portfolio built and managed around a thoughtful wealth plan.

Be well,

A handwritten signature in black ink, appearing to read 'Brad Simpson'.

Brad Simpson
Chief Wealth Strategist, TD Wealth

Complexity

Melt-up = 30%

The historic volatility we saw in Q2 can't be overstated. When reciprocal tariffs were announced, the S&P fell 20% and the VIX rose to over 60. Then when those tariffs were paused, markets leapt 30% over a span of two months — the fastest bear-market recovery ever.

10 = 36%

With tech mega-caps leading the V-shaped rally, the largest 10 companies on the S&P now comprise 36% of its value, greater even than at the peak of the dot-com bubble. What's more, household exposure to the S&P has never been as high.

Fully Valued

At a price-earnings multiple of 22.3x the next 12 months' earnings, the S&P 500 index looks near full value — trading at the upper end of its post-pandemic range. Investors are watching Q2 earnings and management guidance closely.

Diversify, diversify, diversify

For diversified investors, the uncertainty swirling around the U.S. equity market is less of a problem. We like stocks in medical technology, large retailers, Canadian banks, utilities and industrial metals.

Supercycle?

Commodities analysts have been calling the start of a decades-long "supercycle" for years. But copper and gold are up over 40% and 30% respectively this year. Some exposure may be warranted.

Brace for impact, eh

Tariff uncertainty has weighed on the Canadian economy. Manufacturing shrunk 1.9% m/m in April, while consumers have cut spending. Growth in credit card spending fell from 5.4% in Q1 to 1.5% in Q2.

Not in the Cards

Heated American trade rhetoric belies a weakened position. Companies on the S&P now derive 41% of revenues from outside the U.S., while China has reduced its reliance on the U.S. export market by one-quarter over 25 years. Will pragmatism win out in the end?

15% > 3%

Despite reciprocal tariffs that could see duties rise much more for certain countries, early negotiations suggest that U.S. trading partners can expect tariffs of 10% to 15% applied to their exports, compared to 3% in recent history.

Adaptation

Reason over Intuition

Propagandists have long used headlines to influence the populace. Now social media is reinforcing that influence a hundred-fold, and it's interfering with investment decisions. Trust the numbers, not the headlines.

Calm Before the Storm

Extended periods of market calm can breed complacency. Remember, peace time doesn't last forever. Being mindful of that, sticking to your process, staying diversified and adapting to the environment around you is always the best course of action.

High-odds Proposition

Over the long term, it's been almost impossible to lose money on the broad market. The probability of making at least some money on the S&P 500 over a five-year period is 85%; over a 20-year period it's 100%.

Be Compensated

The goal of factor diversification is to reduce unintended risk exposures and target exposure to compensated factors while minimizing exposure to uncompensated factors.

Tactics on the Margins

Tactical or dynamic shifts should only be made at the margin, in an intentional and risk-controlled manner. Strategic asset allocation remains the principal driver of portfolio performance and is paramount in helping investors achieve their objectives.

Remember the 10/10/10

Rule How are you likely to feel about this in 10 minutes vs. 10 months vs. 10 years? Be patient. There's a reason it's considered a virtue.

Process Over Prediction

We manage investments based on a guiding set of principles designed to work in a world that's constantly changing. We focus on investor's goals and true diversification. We build resilient portfolios that aim to perform regardless of the environment.

Adaptive Approach

The large majority of assets in any good investment portfolio should be allocated strategically, not tactically. That means adapting to challenges as they emerge, not positioning for challenges before they emerge.



PSQ3.2025 | Executive Summary

■ House Views

Fixed Income, modest underweight: The Bank of Canada has flexibility to respond to a wide array of outcomes, including further easing policy if necessary. The Canadian economic outlook remains uncertain as U.S. policy uncertainty continues to weigh on growth and inflation expectations. Credit spreads remain very tight, we continue to favour short to mid-term IG corporate bonds. **Equities, modest overweight:** We continue to remain overweight Equities as some progress has been made on tariff negotiations and we expect positive earnings growth to continue to drive attractive relative returns over the medium term. Given the strong returns YTD, there could be bouts of volatility in the near term. However, government policy is increasingly pro-business, central banks are accommodative, and earnings growth is positive, all of which are supportive for equity markets. **Alternatives, modest overweight:** We believe that an allocation to alternative assets can benefit diversified portfolios especially when implemented over the long-term. Alternative assets such as Infrastructure can provide stable returns and lower volatility due to its essential long-term nature. The persistent global infrastructure spending gap remains a key investment driver, reinforcing the need for increased investment.

■ Quarter in Review

In Q2, markets were dominated by unpredictable tariff shifts, geopolitical tensions and major fiscal changes. Despite early turmoil, investor sentiment improved with pro-growth policies like the U.S. tax bill and global spending boosts. Staying nimble and tactically positioning for short-term dislocations while focusing on long-term structural changes has become increasingly important in this volatile, policy-driven environment. **U.S. markets face cross-current.** In Q2, tariffs impacted global markets, weighing on U.S. equities and raising costs for manufacturers. Tariff mentions surged in U.S. earnings calls, especially in consumer and industrial sectors. Large-cap tech outperformed. Risk appetite returned, boosting IPOs, SPACs, and crypto assets. However, concerns over U.S. debt and inflation rose. Uncertainty remains high as trade, fiscal and inflation risks persist. **Change is coming to Canada.** Canada's economy shrank slightly in April, hurt by manufacturing declines tied to weak exports. While services grew modestly, it wasn't enough. Inflation remains sticky at around 2.9%, complicating rate decisions. Population growth, once a key economic driver, has slowed. This exposes weak productivity and negative per capita GDP growth. The new government aims to shift focus towards innovation and long-term productivity to support more sustainable economic growth. **Capital markets in China reignite.** Despite economic struggles and tariff risks, China presents new investment opportunities through tech innovation. Domestic firms are shifting from e-commerce to AI, aligning with government goals. China's IPO market rebounded in Q2, offering attractive opportunities for both public and private investors.

■ Economics

Canadian consumer spending slowed sharply in Q2 2025 due to rising trade tensions and a weakening job market. TD card data shows growth dropped to 1.5% from 5.4% in Q1, with broad declines across goods and services, including travel and home-related purchases. Real spending is expected to be flat, and the full-year outlook has been downgraded. Provinces tied closely to trade, like Ontario and B.C., face more pressure, while Saskatchewan remains a bright spot.

■ Fixed Income

As 2025 progresses, markets face ongoing uncertainty from unresolved U.S. tariffs, tax-law impacts and global tensions. Despite this, fixed income has performed well. Short-term government and corporate bonds offer attractive income and portfolio stability, even amid expected near-term volatility. Central banks are cautious but may ease rates if needed, creating opportunities for active bond management. Overall, fixed income remains a valuable part of diversified portfolios, offering income and downside protection in a turbulent environment.

Government bonds. Government bonds have been volatile, U.S. yields, especially the 10-year, swung sharply in Q2, driven by inflation data, tariffs and the new tax law. Canadian bond yields, while more stable, remain tied to U.S. moves. With risks of slowdown and policy uncertainty, active management and a long-term view are key. Investors should expect continued volatility and stay flexible given that rate forecasts and economic data remain unpredictable. **Credit: Investment-grade and high-yield.** Credit spreads tightened in Q2 as tariffs eased and economic data improved. U.S. investment-grade (IG) credit now offers limited upside, but still holds value in uncertain markets. We prefer short-dated Canadian IG bonds for their yield and lower risk. High-yield (HY) credit remains vulnerable to downturns, active management is essential to navigate today's tight valuations across both IG and HY markets. **Higher yields and diversification.** Diversified portfolios remain key. Despite short-term volatility, high-quality bonds offer attractive yields, income and long-term diversification benefits — especially with active, tactical management.

■ Equities

U.S. stocks have swung wildly on headlines this year. Two sharp sell-offs spiked the VIX above 60, echoing 2020 levels. **V is for Diversification?** With markets facing volatility, tariffs and mixed fundamentals, active, diversified investing is key. Equity valuations look full, and with uncertain growth ahead, long-term success depends more on staying invested than trying to time the market. **Measured exposure to high-beta growth.** Tech stocks drive long-term growth but remain volatile; current conditions favour moderate, not heavy, exposure to high-growth names. **Allocation to lower-volatility defensive growth.** In a slowdown, consumers favour discount retailers, large grocers and dollar stores. These retailers also benefit from retail media. In health care, medtech offers stable growth, while pharma faces patent-related challenges. **Consistent dividend growers.** Canadian banks and utility firms offer stable dividends. Strong capital, steady cash flow and resilient demand help them weather slowdowns and support long-term income-focused investing. **Canadian equities: Ready for what comes.** Despite tariff uncertainty, Canadian equities offer solid dividend growth, stable earnings and fair valuations, making diversification and income-focused investing important in today's environment. **International equities: Growth vs. Tariffs.** International equities lagged in Q2 due to rising U.S. tariffs on Japan and Europe, which hurt earnings outlooks. While Europe is showing early signs of economic recovery, continued trade tensions and high debt levels limit fiscal flexibility. Japan's economy faces inflation and currency pressures, though long-term prospects are strong due to industrial automation and reforms. China underperformed in Q2 amid aggressive U.S. tariffs, but signs of recovery in manufacturing and growth in AI innovation offer hope. However, deflation risks and a weak real estate sector persist. Overall, global trade tensions continue to cloud equity outlooks, and even U.S. companies may be affected due to their reliance on international revenues.

■ Private Markets

Liquidity in private equity remains limited, favouring secondaries, GP stakes and preferred equity. Private credit markets show some signs of stress. **Private equity.** Private equity firms now hold \$1 trillion in unsold companies held for over five years, due to weak M&A and IPO activity caused by high interest rates, geopolitical risks and policy uncertainty. With capital tied up, GPs are turning to creative strategies like spin-offs and secondaries to create value. GPs must now drive operational growth to meet return targets, requiring more active management. **NAV loans.** With deal activity frozen, institutional investors like pensions are using NAV loans — borrowing against private equity stakes — to access cash without selling at a discount. This avoids losses but adds leverage risk. While NAV loans offer liquidity, they raise concerns about inflated performance metrics and potential systemic risk if underlying assets underperform. LPs must weigh immediate cash needs against long-term fund value and rising debt burdens in a more complex, leveraged investment environment. **GP stakes.** Smaller private equity firms are selling minority stakes to raise capital, while investors seek stable, long-term income from these deals. **Private credit.** Private credit investing today demands strong manager selection due to rising risks and limited liquidity. With most returns driven by income, skilled underwriting and lender protections are essential. Although public credit spreads appear tight, they may reflect strong performance in better-quality borrowers, while distressed companies are increasingly using liability management exercises (LMEs) to avoid default. Defaults remain low,

but LMEs — like "uptiers" and "dropdowns" — are growing, especially as higher rates and weak documentation stress borrowers. Direct lending remains attractive, particularly in asset-light sectors like software, where growth is slowing but recurring revenue models support defensiveness. **Real assets.** We remain confident in investing in data centres and power generation — especially solar — as key parts of the AI and cloud boom. New U.S. legislation limits solar tax credits after 2027, raising risks for uncontracted projects. While projects already operating or under construction are safe, those without signed deals face uncertainty. Still, solar remains competitive in some markets. Valuations must be conservative, but strong developers with contracted assets are well-positioned despite the policy shift.

■ Currencies

The U.S. dollar is expected to weaken further as deglobalization, rising deficits and inflation reshape currency markets and investment flows. **USD.** The U.S. dollar is weakening due to political and fiscal uncertainty, low savings and policy unpredictability, with a further 3% decline expected by year-end. **CAD.** A weaker U.S. dollar may lead global investors, including Canadians, to reduce U.S. asset exposure, boosting currencies like the Canadian dollar.

■ Commodities

Market volatility in Q2 reached decade highs due to U.S. tariff threats and geopolitical tensions with Iran. Commodities, despite energy underperformance, remained strong year-to-date, offering diversification and inflation protection. Oil prices were supported by tight inventories, while agriculture was hit by tariff battles and strong crop yields. Industrial metals outperformed, boosted by EV and infrastructure demand, though tariffs pose risks. Gold remains attractive amid global uncertainty and central bank buying. Overall, tight supply and solid demand support a positive long-term commodity outlook.


Still Here

The concerns that rose to prominence in 2024 are still with us, but sentiment driven by faulty news sources have left more investors than ever in the dark. In uncertain times, follow the data.

By Brad Simpson, Chief Wealth Strategist; Kevin Yulianto, Portfolio Manager | TD Wealth


Every January the Wealth Investment Office hosts a conference to consider market risks and opportunities, with the goal of improving our clients' investment outcomes. Prior to the conference, for the second year in a row, we surveyed our advisors and portfolio managers, asking them about their clients' greatest investment concerns. Given that we've now passed the first half of the year, we thought it was worth revisiting how these concerns have evolved so far.

In our first survey in 2024, four topics emerged as top concerns: deglobalization, artificial intelligence and (tied for the third spot) world war and climate change. This year, the greatest worries were the global trade war, lofty valuation levels of tech stocks and global geopolitical conflicts. Although the wording differs, these concerns essentially have the same three root causes:




Deglobalization

Worries about deglobalization have turned into worries about global trade conflict, which indeed escalated between February and April as the U.S. announced reciprocal tariffs on its trade partners. (For a deeper dive on the U.S. trade battles and potential impact on the markets, [click here](#) to read senior equity analyst Mansi Desai's latest Market Insights, entitled "Made in the USA.")



Artificial intelligence

Rapid developments in artificial intelligence have led to a sharp increase in the valuation of many semiconductor and software companies, which increasingly dominate the weighting of the U.S. equity benchmark and thus investors' portfolios. (For a deeper dive on AI opportunities and risks, [click here](#) to read Kevin Hebner, Managing Director, Global Investment Strategist, TD Epoch, excellent White Paper, entitled "AI Eats the World: Five Themes for 2025.")

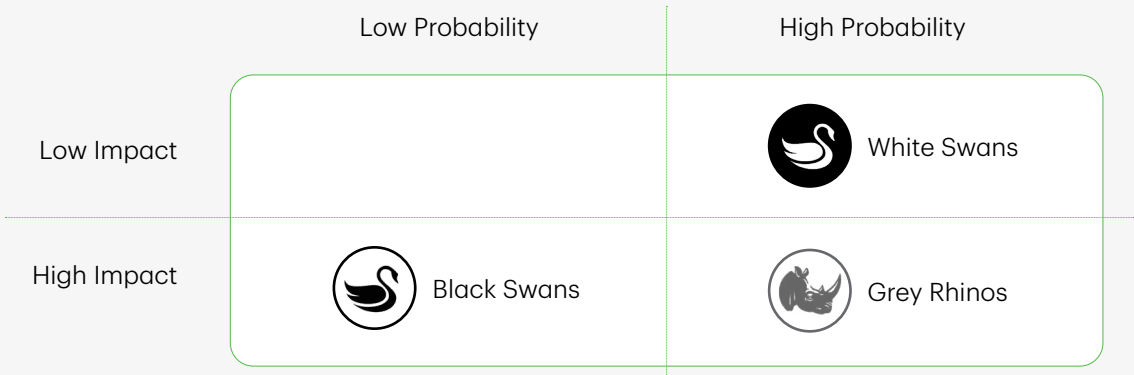


War

Revival and nostalgia for 19th-century diplomacy, jingoism, zero-sum logic and a Great Power mindset have collided with the interconnected world of the 21st century. For instance, the conflict between Israel and Hamas that started two years ago has become a broader regional war. The risk is that the same could occur in Eastern Europe, the South China Sea and in the Arctic.

We classify these risks as "Grey Rhinos" — a metaphor for the threats we can see coming from a distance and yet do nothing about. Unlike so-called "Black Swan" events, which have low probability and high impact, Grey Rhino events are highly probable and impactful (Figure 1).

Figure 1: 'Grey Rhinos' are risks we can and should prepare for



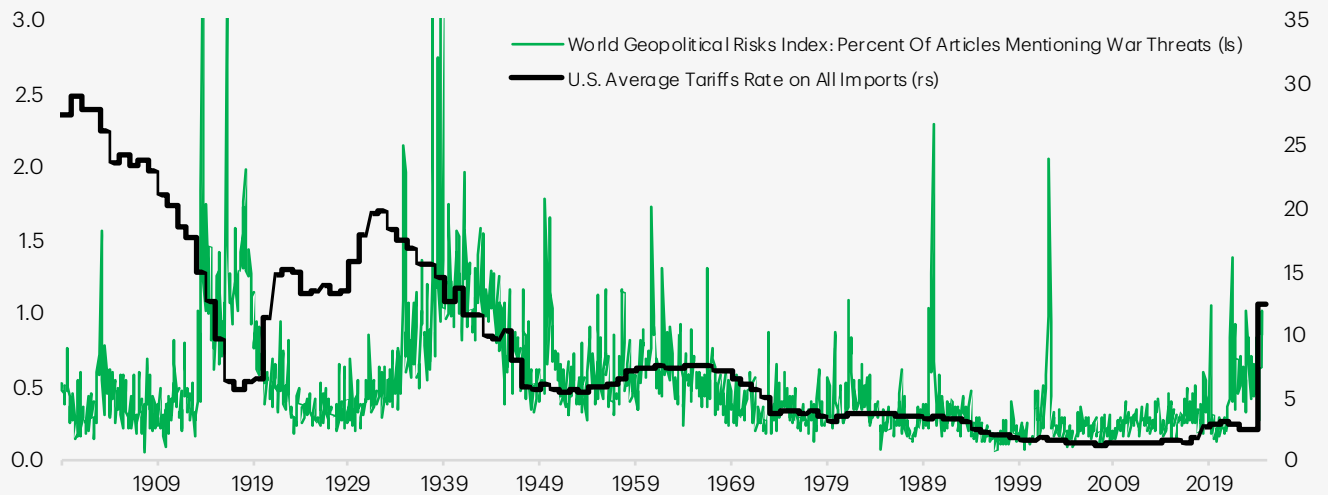
All three risks that were top-of-mind at the start of 2024 are still here. U.S. trade negotiations are still ongoing, and it looks like tariffs are here to stay, at least for the remaining of President Trump's second term. Based on the outcome of the most recent negotiations, the U.S. tariff rate is set to increase from around 3% at the beginning of this year to somewhere between 14% and 17% (Figure 2), in line with the base-case scenario outlined in our last edition of PSQ.

Meanwhile, following the sharp selloff in April, the Magnificent Seven (Mag-7) stocks have led a V-shaped rally in U.S. equities — lifting equity valuations back to the high end of their recent range. Finally, the risk of regional conflict today is higher than it's been in the past four decades, as regional players try to fill the void created by increased U.S. isolationism, and tilt the geopolitical environment in their favour.

Flip-flopping U.S. trade and fiscal policies, the threat and promise of AI and the unpredictable outcome of the wars in the Middle East and Ukraine (not to mention the unpredictability of tensions in the South China Sea) — all of these make the job of folks like us much more difficult. Worse, we are navigating this in the middle of a headline-driven market, and one that is driven to extremes.

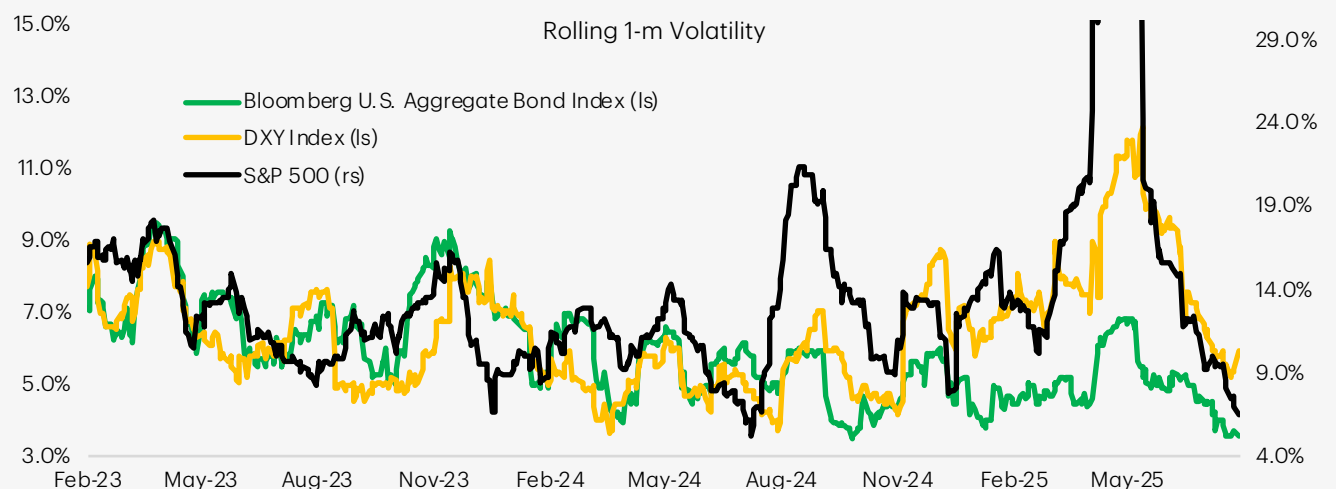
Consider that, in just the past three months, we've seen a Liberation Day boomerang market correction of 20%, a U.S. Treasury and U.S. dollar selloff and a capital flight to perceived safety — all punctuated with alternating periods of incredible calm. It's been a bit like doing investment strategy in the Twilight Zone.

Figure 2: Trade wars coinciding with real wars



Source: Macrobond and Wealth Investment Office, as of July 10, 2025

Figure 3: Volatility has been muted following April's turmoil



Source: FactSet, Wealth Investment Office, as of July 28, 2025

Amplifying the headlines are social-media algorithms, which are incredibly important because this is increasingly where everyone gets their information. (Figure 4). The rise of social media as a news source certainly doesn't help matters, given that the platform is often short on facts and almost always caters to those on the extremes.

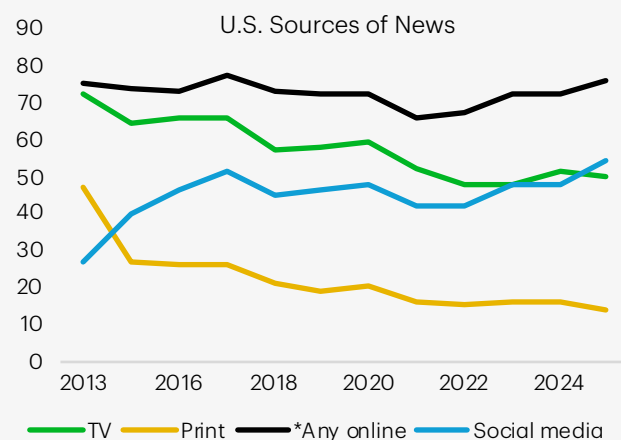
Our point: This headline-driven market often masks the truth about economic conditions, which underpins financial markets. What we know is that the U.S., Canada and the euro area have all seen a decline in the pace of job gains and core inflation compared to a year ago (Figure 5).

Although these three economies experienced inflation above their respective central-bank targets, the pace of job gains in the euro area has fallen below its historical average, whereas in Canada it is back to trend and in the U.S. it's still slightly above. Japan is a special case

where both inflation and the pace of job gains have accelerated due to very loose monetary policy and strong domestic growth. Meanwhile, China's economy remains stuck in a deflationary quagmire despite the recent pick-up in industrial production and retail sales (thanks to a government trade-in subsidy).

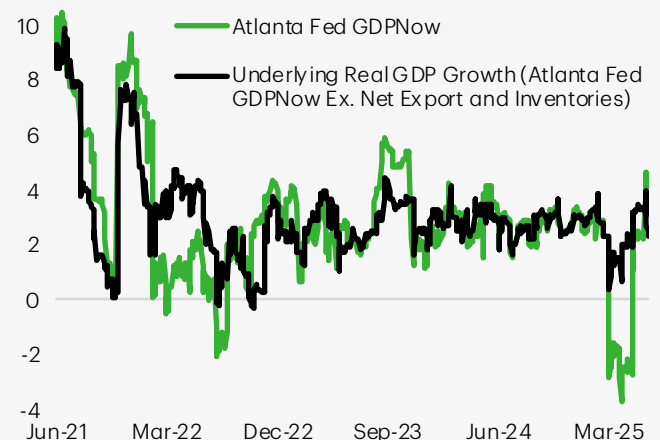
Zooming further into the U.S. economy, Figure 6 shows the Atlanta Fed's headline and "core" GDP estimates. By stripping out volatile categories, such as trade balance and inventory build, we can derive a more stable estimate of U.S. domestic demand growth. Currently it's estimated to be around 2.3% (q/q annualized), which is roughly in line with the historical trend. This should give comfort to investors following the 0.5% contraction in U.S. GDP in Q1. The number for Q2 will likely be much stronger as net exports flip from headwind to tailwind.

Figure 4: Social media now a dominant news source in the U.S.



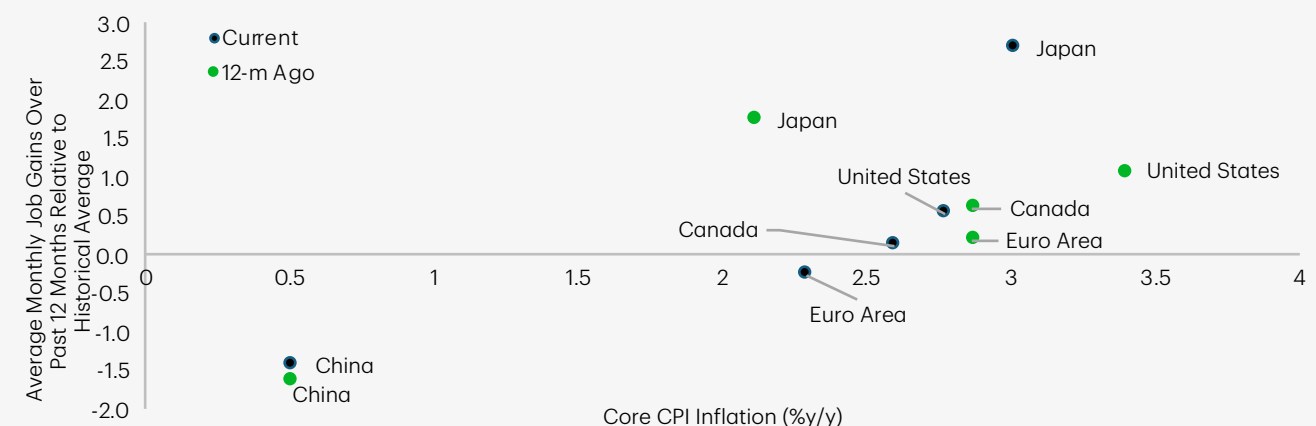
Source: Reuters Institute as of December 31, 2024. *Note: Includes news websites/apps, social/video networks, news podcasts (15%) and AI chatbots (7%).

Figure 6: 'Core' U.S. GDP growth still decent



Source: Macrobond and Wealth Investment Office, as of July 10, 2025

Figure 5: Inflation, job gains trend lower in the U.S., Canada and euro area



Source: Macrobond and Wealth Investment Office as of July 10, 2025

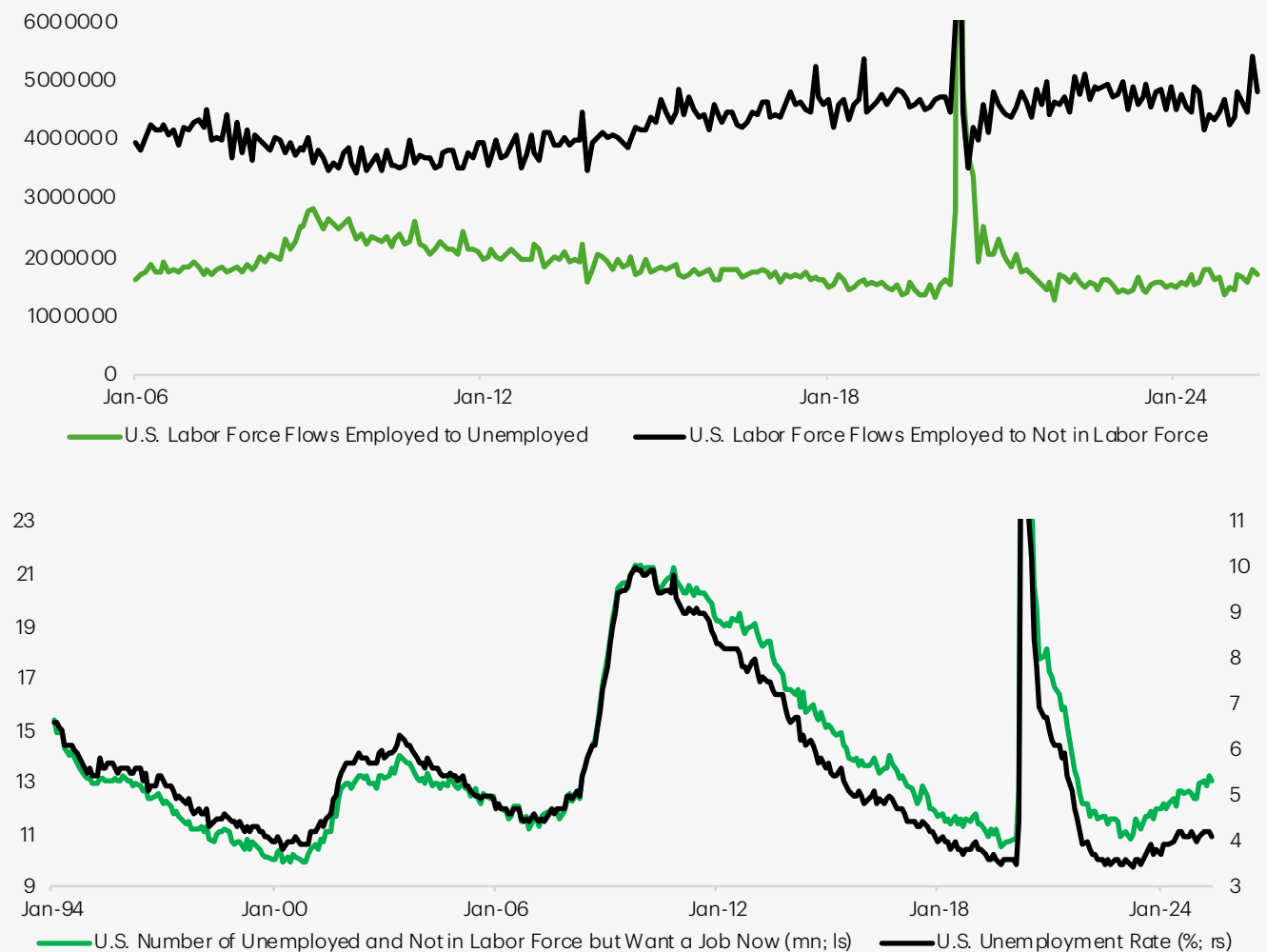
Below the surface, however, we're watching for the crosscurrent in the U.S. labour-market data, the potential Achilles Heel of America's consumer-driven economy. The three-month moving average of non-farm payroll gains has been dropping steadily — from 274,000 at the end of 2022, to 199,000 in 2023, to 182,000 in 2024 and 150,000 currently. Between 2010 and 2019, the U.S. economy added on average 180,000 jobs every month.

The point is that the pace of job creation in the U.S. has likely dropped below trend. Moreover, the majority of the revisions for non-farm payrolls have been to the downside since 2022, an observation that historically coincides with periods of below-trend GDP growth. The question then is, if the labour market is indeed weaker, why does the U.S. unemployment rate still hover around the historically low 4.1%?

Two possible reasons: (1) the decline in the labour-force participation rate; and (2) the rise in the number of people transitioning directly from employed to outside the labour force (rather than unemployed within the labour force). This may indicate that the top-line figures are understating the number of people who don't have a job but may actually want one.

There are a few reasons that people might transition from being employed to being outside the labour force entirely, including retirement, going back to school, taking care of family, disability and the sad reality of just giving up. Although we don't have precise statistics, these folks likely make up an outsized contribution to the final number. Figure 7 shows the divergence between the official unemployment rate, which has been stable at around 4%, and the number of people categorized as unemployed (6.03 million) plus those not in the labour force but who may want a job now (7.02 million). The latter has been rising and is perhaps more representative of the slack in the U.S. labour market.

Figure 7: Unemployment rate may understate impact of discouraged workers

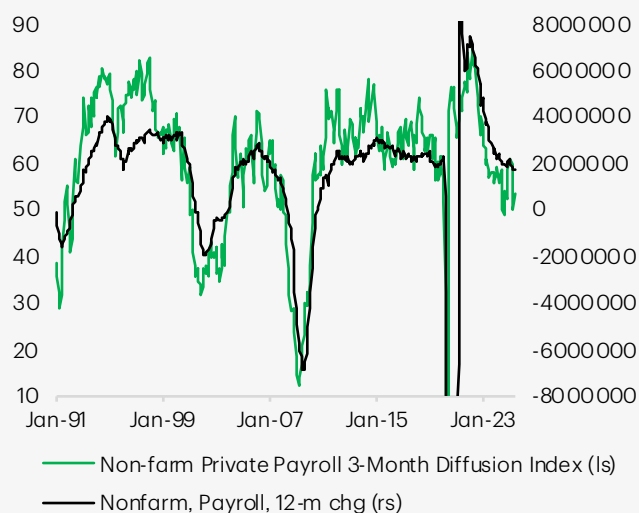


Source: Macrobond and Wealth Investment Office, as of July 10, 2025

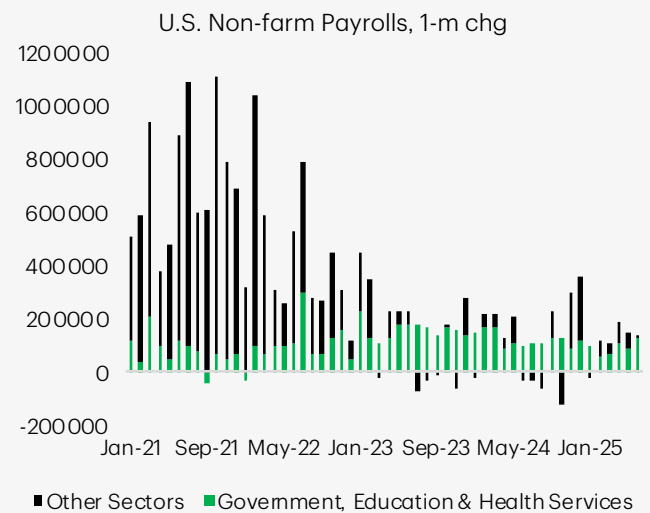
We can also see some weakening in the breadth of job gains, with only 55% of industries reporting net job gains of late, far below the normal range of 60% to 80%. Government, education and health services — sectors that are less sensitive to the business cycle — have contributed 70% of the job gains in the past year (Figure 8). To be clear, we're not saying this is a "canary in the coal mine" situation, but it does reinforce our view that the U.S. labour market has indeed normalized and is probably operating below trend today.

The Trump administration's crackdown on illegal immigration may be another factor in the falling participation rate. In 2022, around 11 million people were classified as illegal immigrants in the U.S., which at the time represented 3.3% of the U.S. population and 23% of the foreign-born population. An estimated 8.3 million of them are either working or looking for work, making up 4.8% of the labour force, according to the Bureau of Labor Statistics. States with the largest illegal immigration population include California, Texas, Florida, New York and New Jersey.

Figure 8: Breadth of job gains deteriorating

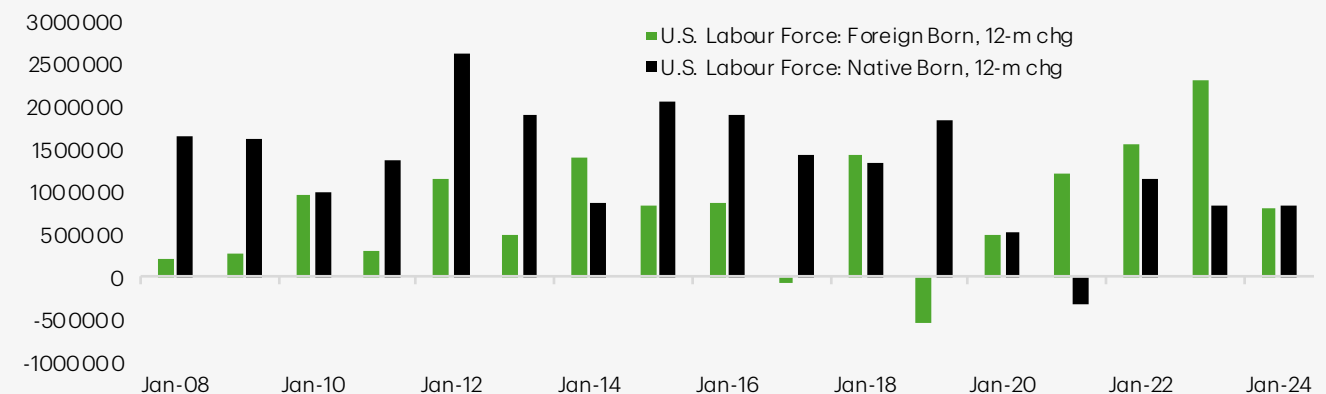


Tighter immigration policy could be disincentivizing illegal immigration — precisely one of the goals of the current administration — thereby constraining the supply of labour, as illegal immigrants shy away from work amid fear of being apprehended. Construction and agriculture will be impacted more than other industries, given that an estimated 14% of the labour force for these industries comes from illegal immigrants, while hospitality (7%) and wholesale trade (6%) will also likely see sizeable impacts. In an extreme case, illegal immigrants account for half of all hired field and crop workers, making U.S. farming — a politically sensitive sector for Republicans — highly dependent on the flow of these immigrants. The bottom line is that U.S. labour-force growth will likely be much lower in the coming years, potentially leading to a tighter labour market and higher wage growth than otherwise would be the case (Figure 9).



Source: Macrobond and Wealth Investment Office, as of July 10, 2025

Figure 9: Tighter immigration policy could slow growth in the labour force



Source: Macrobond and Wealth Investment Office, as of July 10, 2025

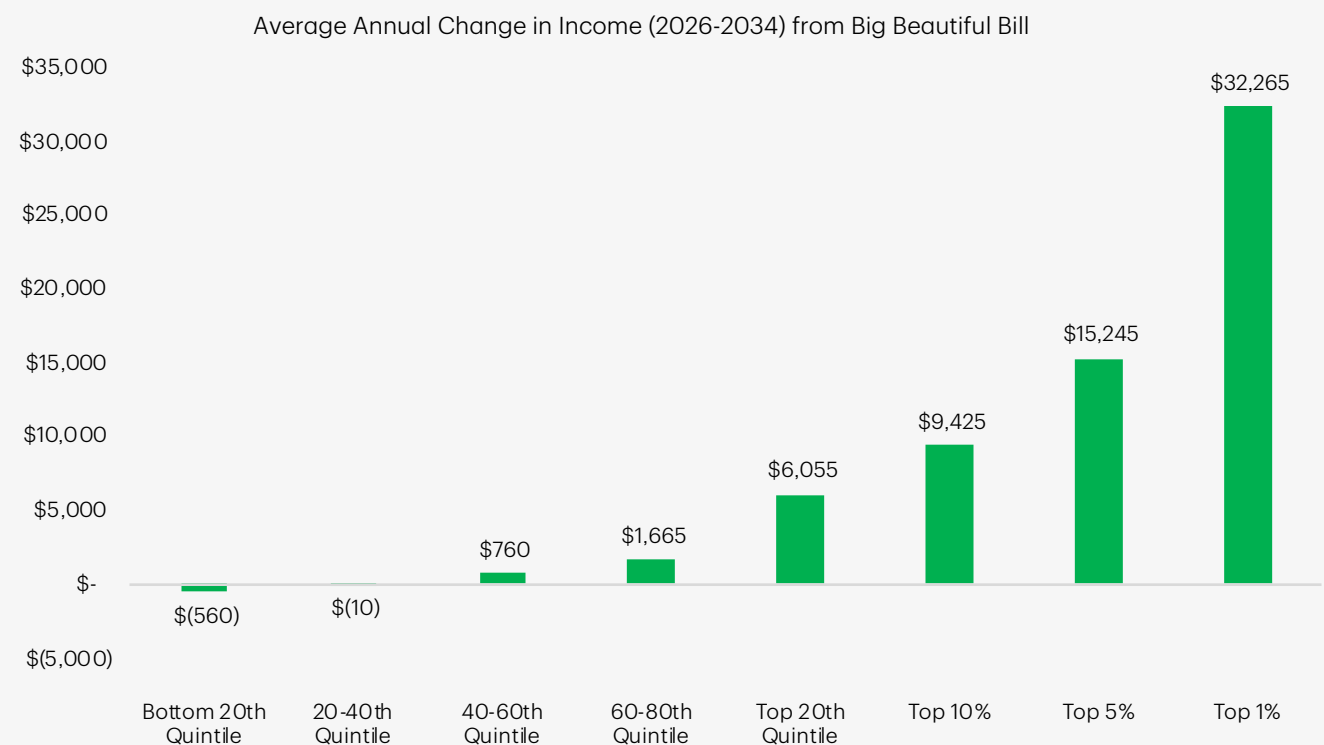
Of course, the reason we're so fixated on the labour data is its impact on consumers and their spending. This is interesting as well. We've seen a deterioration in both the "soft" services data (survey-based) along with the hard consumer spending data. Lower-income households, which have suffered disproportionately from higher inflation and borrowing costs, have curtailed their spending since last year. Worryingly, however, there are also signs that higher-income households are beginning to curb their spending too. According to high-frequency data based on card transactions, spending on restaurants have slowed to around 2.6% y/y in nominal terms — implying flat growth after adjusting for inflation — while spending on accommodation and air transportation have contracted since early this year.

The silver lining is that the average American household balance sheet today is in much better shape than it was 15 years ago. Middle- and high-income consumers are not concerned about paying their bills and still feel confident that they will hold on to their jobs. The bad news is that those hard-working folks earning less than \$50,000 a year are increasingly worried about meeting their debt obligations, and we are seeing an increase in auto and credit-card delinquencies — indeed, to their highest levels since the global financial crisis.

The passing of the One Big Beautiful Bill Act (OBBBA) will likely further widen the divergence between high- and low-income households. The Yale Budget Lab estimates that the bill's impact on household incomes will be regressive, given that the proposed \$4.5 trillion in tax cuts is partly funded by cuts to health-care spending and food assistance programs. Health-care spending is set to be reduced by more than \$1.1 trillion over the next decade, potentially increasing the number of Americans without health insurance by 11.8 million. In addition, the cuts to the food assistance program (SNAP), estimated to be approximately 20%, is expected to translate to \$186 billion in savings through 2034. For the lowest-income households, the combination of tax changes and welfare cuts is expected to reduce after-tax income by 2.3% (\$560). In contrast, the top 1% of households by income are forecast to see a net increase of 2.1% (\$32,265).

On the other hand, the OBBBA will likely help offset the drag in economic activity from trade war uncertainty and has the potential to skew growth higher into the end of 2026. A more stable tax and regulatory backdrop could support business confidence, and accelerated depreciation on capital expenditures will likely spur another capex cycle for U.S. businesses.

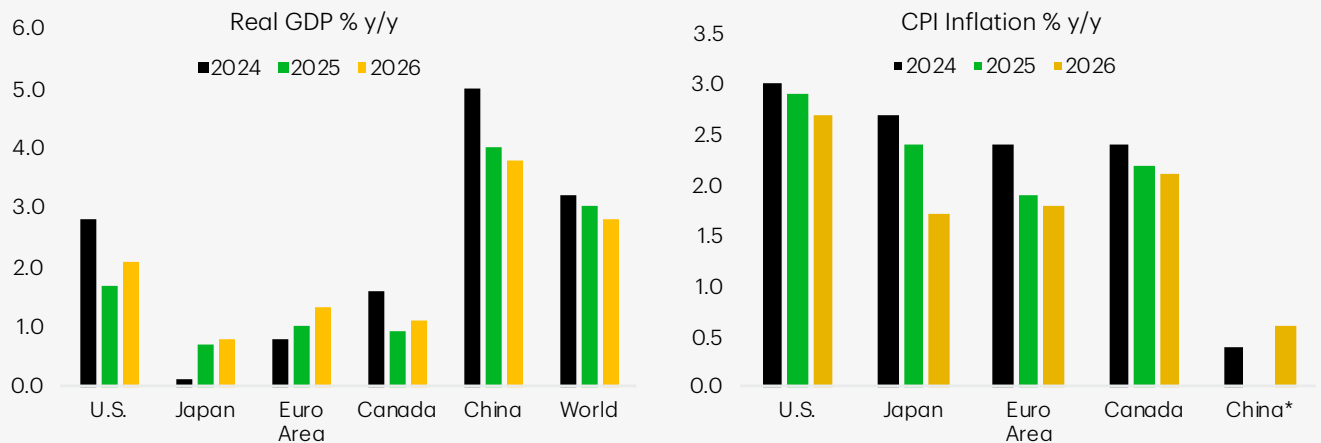
Figure 10: The income impact of OBBBA will be regressive



Adding all this up, the U.S. growth outlook from TD Economics amounts to 1.7% this year, before improving to a 2.1% pace next year. As for Canada, TD Economics recently downgraded its forecast for Canadian growth to 0.9% in 2025, but it believes momentum will return next year, boosted by a trade truce, lower interest rates and a ramp-up in government spending (Figure 11).

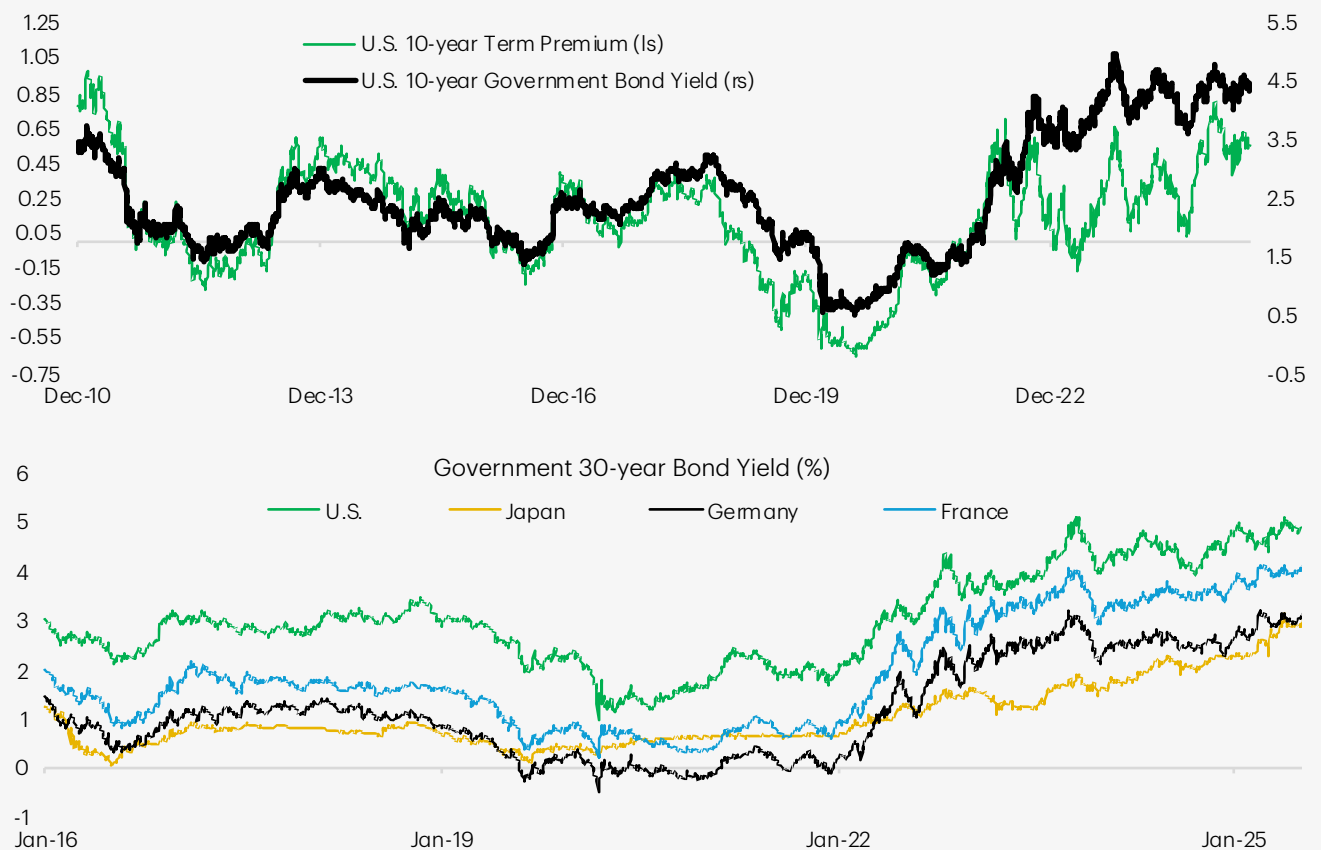
The world economy continues to soften, downshifting from 3.2% in 2024 to 3% this year and 2.8% in 2026, while China's economy is set to cool from 5% last year to 4.6% this year. Part of the problem seems to be government debt. Borrowing has become excessive, and bond-market investors are consequently demanding a higher premium for holding long-term bonds (Figure 12). The issue is not isolated to the U.S., but the size of U.S. economy and government debt market makes it more relevant for global investors.

Figure 11: Fiscal economic bump expected in 2026



TD Economics, IMF and Wealth Investment Office as of June 2025. * China CPI data is the IMF forecast

Figure 12: Long-term government bond yields have moved higher amid rising term premiums



Source: FactSet and Wealth Investment Office as of July 10, 2025

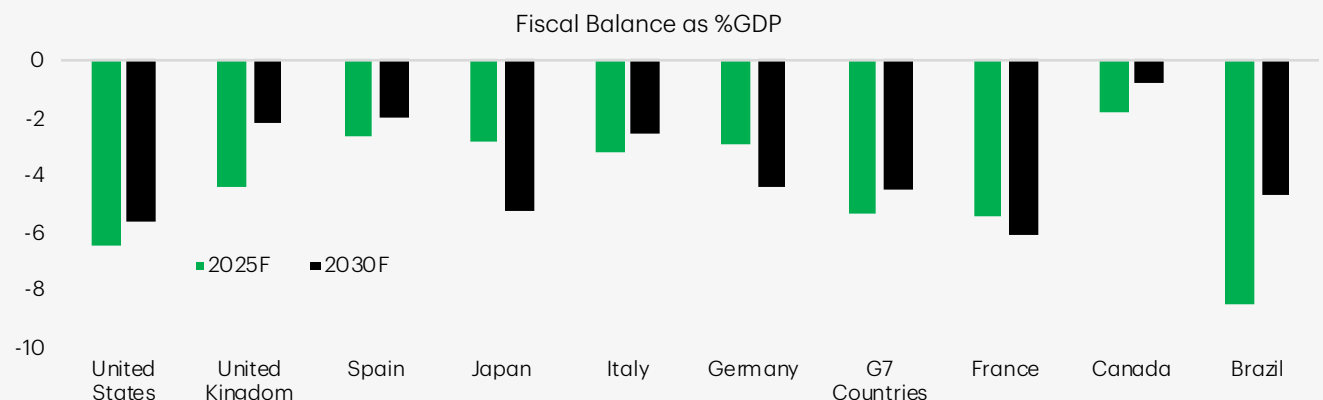
Moreover, there's little political will across the developed world to take the hard route to restrain government spending and put their country's fiscal health back into shape. This could lead to a harder problem down the road. Figure 13 lays out the IMF's fiscal forecasts for the U.S., Canada and the average of G7 countries this year and in 2030. The U.S. is expected to see its overall fiscal deficit stay near the current elevated rate of around 6% of GDP, while France and Japan's deficit is set to worsen further. The bottom line is that we've likely entered a new market regime where investors are reassessing what they consider to be safe-haven assets and demanding higher premiums to lend.

To summarize, our Grey Rhinos are alive and well, and if anything, they have gotten bigger and stronger. As a result, uncertainty will likely remain high in the medium term. Major world economies will likely head higher next year, but the cost of doing so — ever accumulating debt — will likely see the bond market continue to lift longer-term bond yields higher (and thus drag bond indices lower).

Persistently high long-term rates can act as a tap that tightens the capital flowing through the financial-market faucet. This in turn can weigh on growth, investment spending and fiscal stimulus. The effects are more pronounced when an economy is already vulnerable or highly leveraged — like today. Having consumers that are confident in their employment status and feeling prosperous and willing to spend is the best way to keep the tap open, and so we will continue to monitor this relationship closely.

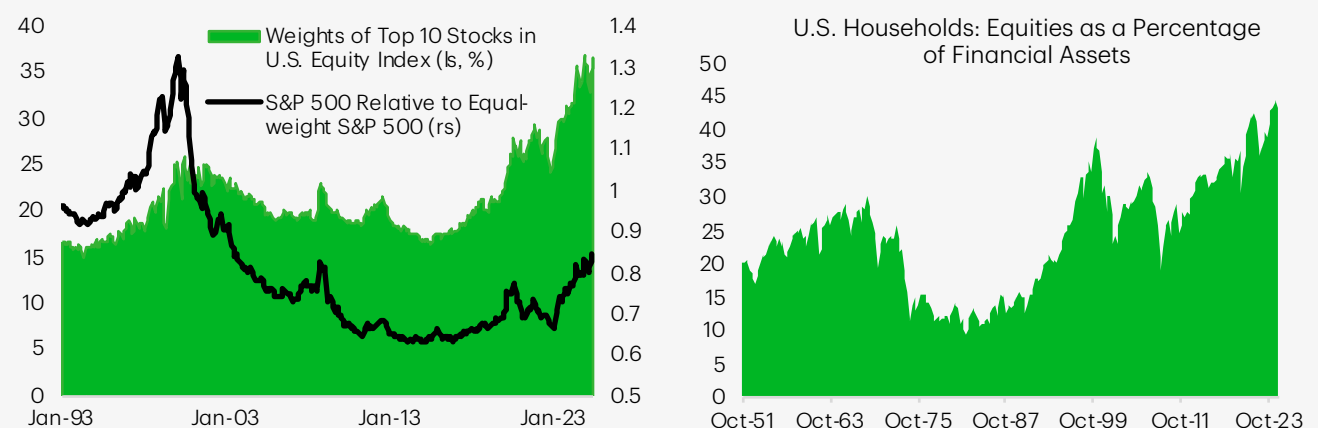
As for U.S. equity markets, the past two and a half years, despite some considerable volatility, have been a dream, although the devil, as always, is in the details. It's been well documented that only several mega-cap names have driven the bulk of S&P 500 returns in recent years. This has led to a sharp jump in U.S. equity index concentration. Today, the top 10 stocks in the S&P 500 account for around 36% of the index weight — higher than the record of 25% seen during the peak of the tech bubble in late 1990s (Figure 14).

Figure 13: Little appetite for fiscal discipline, especially in the U.S. and France



Source: Macrobond, IMF and Wealth Investment Office as of July 10, 2025

Figure 14: Heavily allocated to highly concentrated assets



Source: FactSet, Macrobond and Wealth Investment Office, as of July 10, 2025

This comes at a time when U.S. household allocation to stocks is at an all-time high, and active equity managers who have underperformed the past couple of years are adding mega-cap names out of fear of materially underperforming the benchmark again this year. Our back-of-the-napkin calculation shows that a \$10-trillion loss reversed into an \$11-trillion gain, thanks in no small part to a \$5-trillion rally in the Mag-7.

When the Joes and the Pros herd together due to FOMO, it seems like an opportune time to revisit our portfolio allocation and ask ourselves whether we are truly diversified in this increasingly uncertain environment.

What do you do?

The good news is that there are several actions that can be taken. First, for fixed income, when expectations are for rising long-term interest rates, rate volatility and uncertainty around the path for central-bank policy, keeping one's powder dry is prudent. Further, being allocated in short-term maturities (one to two

years out) and being paid a healthy yield with little risk seems like a good idea. This well encapsulates why we are modestly underweight fixed income.

Second, for equity markets, revenue and earnings growth will ultimately determine the direction the markets will take; we will let the herd do what they are going to do and remain mindful of valuation, allocating broadly to companies where we see strong underlying businesses and higher future earnings.

Unlike in 2023 and 2024, diversification outside of U.S. equity and mega-cap tech stocks have also paid off so far this year (Figure 15). The consensus for 2025 earnings growth for international stocks has been upwardly revised, even as analysts mark down their U.S. earnings estimate. Although international and emerging-market stocks started from much lower valuations at the beginning of the year, today's valuations are still far from expensive when compared to the S&P 500 — both in terms of the overall index and sector-by-sector comparisons.

Figure 15: Returns across asset classes and sectors in H1

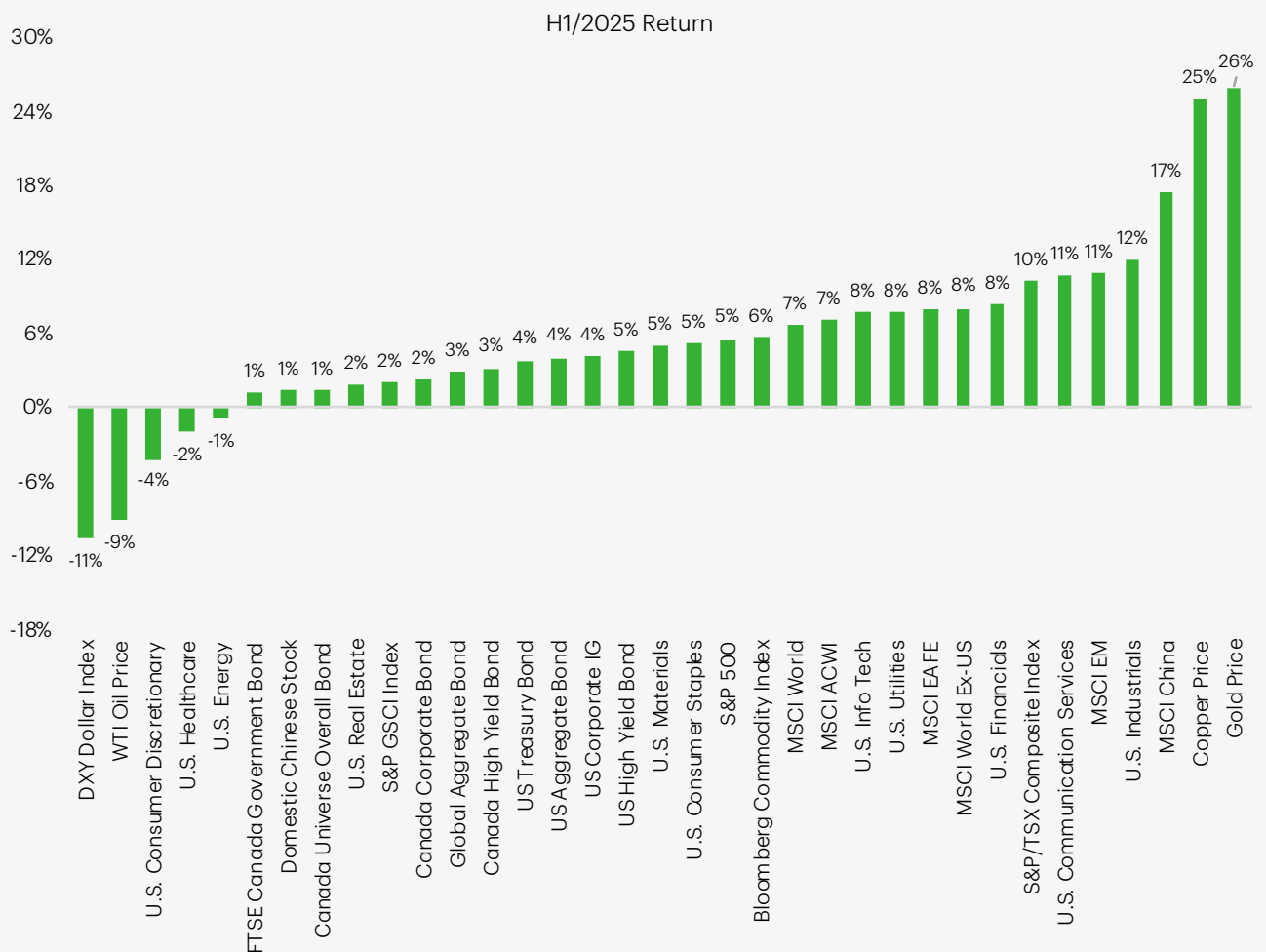
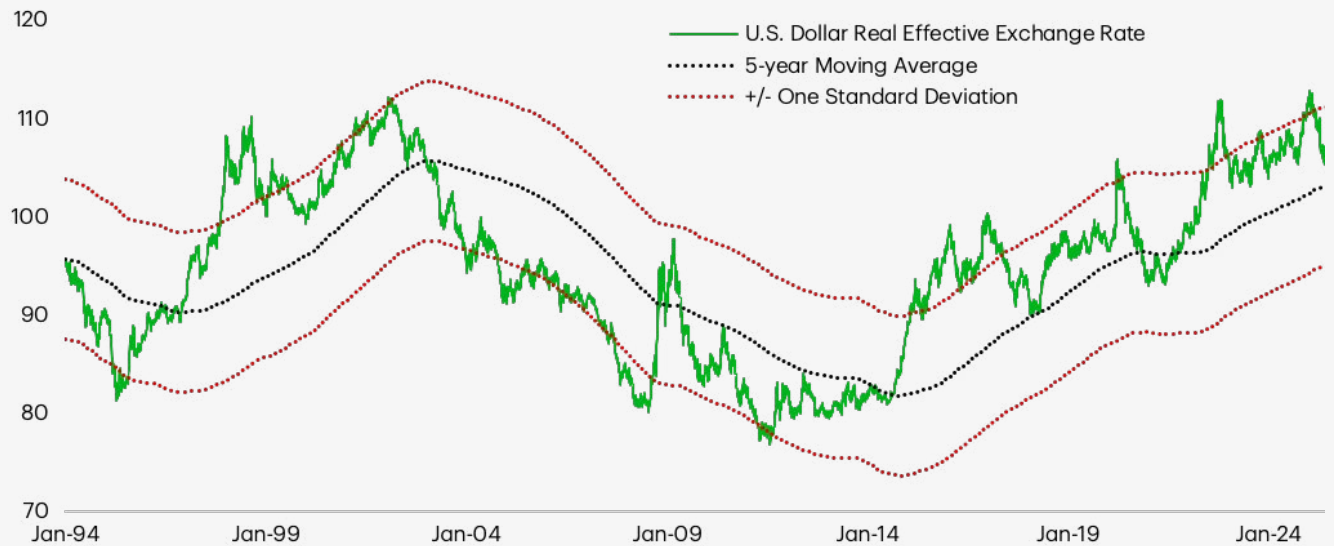


Figure 16: U.S. currency is still expensive relative to trading partners



Source: FactSet and Wealth Investment Office as of July 10, 2025

The recent decline in the U.S. dollar presents yet another reason for diversification into Canada and abroad. We have likely entered a multi-year bear cycle for the greenback, which would make investing in U.S. assets less attractive on the margin for overseas investors (Figure 16). After accounting for the decline in the U.S. dollar against the Canadian dollar this year, U.S. stocks have underperformed even more relative to their international and emerging-market counterparts. We are also going to continue to look beyond long-only bonds and equities in our allocations.

At the beginning of 2024, TD's Wealth Asset Allocation Committee added commodity exposure to the strategic asset mix to enhance the diversification properties of our portfolios. Following the pandemic, the effectiveness of equity/bond diversification has not been as reliable as it was in the prior decade, and allocation to commodities could improve risk-adjusted returns due to their lower correlation to equity and fixed income markets.

In a world that is less predictable, it's also worth noting that the value of real assets is rising faster than securities — bolstering the case for investing in commodities. Gold, for example, has outperformed long-term bonds and bitcoin as a hedge asset in the current environment of higher geopolitical risk. Note that gold is now the second-largest reserve asset for major central banks, next to U.S. dollar assets. This year, the broader commodity basket has also outpaced the rally in many equity markets. While we downgraded commodities to neutral from modest overweight, this just reflects our desire to take some profit.

Hedge-fund mandates with low correlation to equities and bonds could also limit portfolio drawdown during periods when traditional fixed income investments fail to offset declines in stock prices, which have happened numerous times in recent years.

Private asset investments also help dampen portfolio volatility, alongside the benefit of exposure to manager alpha. In more recent years, exposure to global infrastructure and real estate have become a real alternative to publicly traded bonds for investors seeking income. The long-lived nature of these two asset classes makes them ideal for investors who need to match liabilities or those requiring income stability.

One final thought ...

We live in turbulent times, but we refuse to ignore the Grey Rhinos and get caught flat-footed. Nor are we going to get off track due to headline risks. Knowing is half the battle. The other half is having a well-diversified, contemporary investment portfolio built and managed around a thoughtful wealth plan.

Leading Macro Indicators

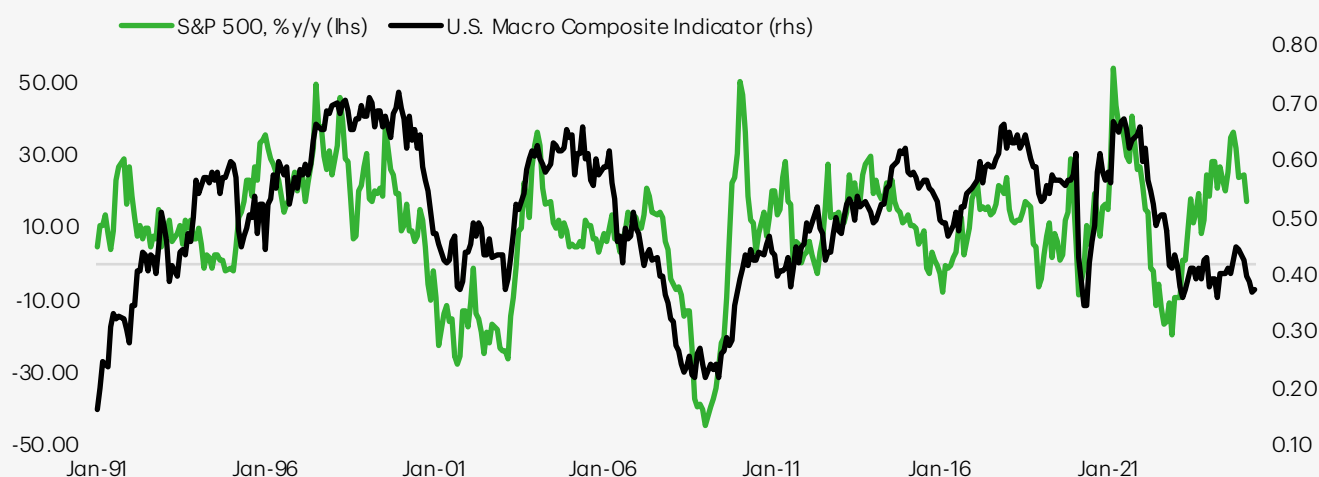
Overall U.S. Macro Condition Remained Muted in Q2

Kevin Yulianto, Portfolio Manager, TD Wealth

As part of our process-driven approach to investment management, we monitor key U.S. variables that inform our understanding of the risk and macroeconomic environment. This quarter we introduced an enhanced U.S. macro composite indicator based on 120 U.S. economic data released on either monthly or quarterly frequency—an upgrade from only dozens of indicators used previously.

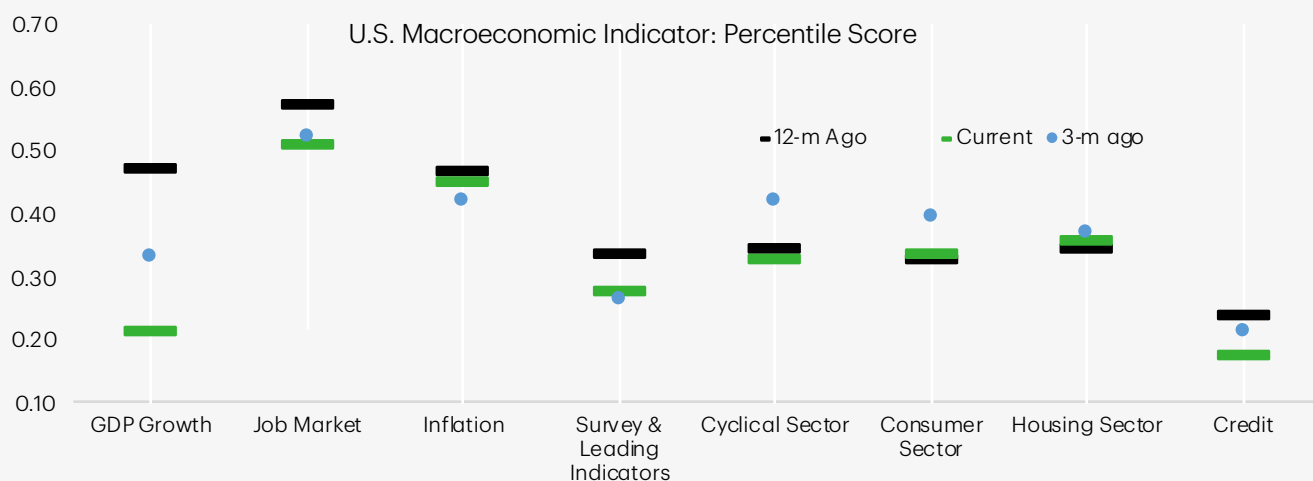
For each indicator we calculate current values and compare them to historical data, standardizing each datapoint into a percentile score that makes it easier to read. These data are classified into eight main categories: GDP Growth, Job Market, Inflation, Survey & Leading Indicators, Cyclical Sector, Consumer Sector, Housing Sector, and Credit. For relevant categories, we divide it further into hard and soft data. Figures 1 and 2 summarize the overall condition and aggregate score of the indicators.

Figure 1: U.S. Macro Composite Indicator



Source: Macrobond, Wealth Investment Office as of June 30, 2025.

Figure 2: Change in Market Risk Regime Scores



Source: Macrobond, Wealth Investment Office as of June 30, 2025. Percentile score is based on data since January 1990 or earliest available.

To track risk sentiment, we also built a Greed/Fear index using 37 market-based, daily indicators that span from traditional metrics, such as equity and bond indices, to equity market breadth and momentum, retail sentiment, and speculative positioning. Figure 3 plots the Greed/Fear indicator alongside the S&P 500 index.

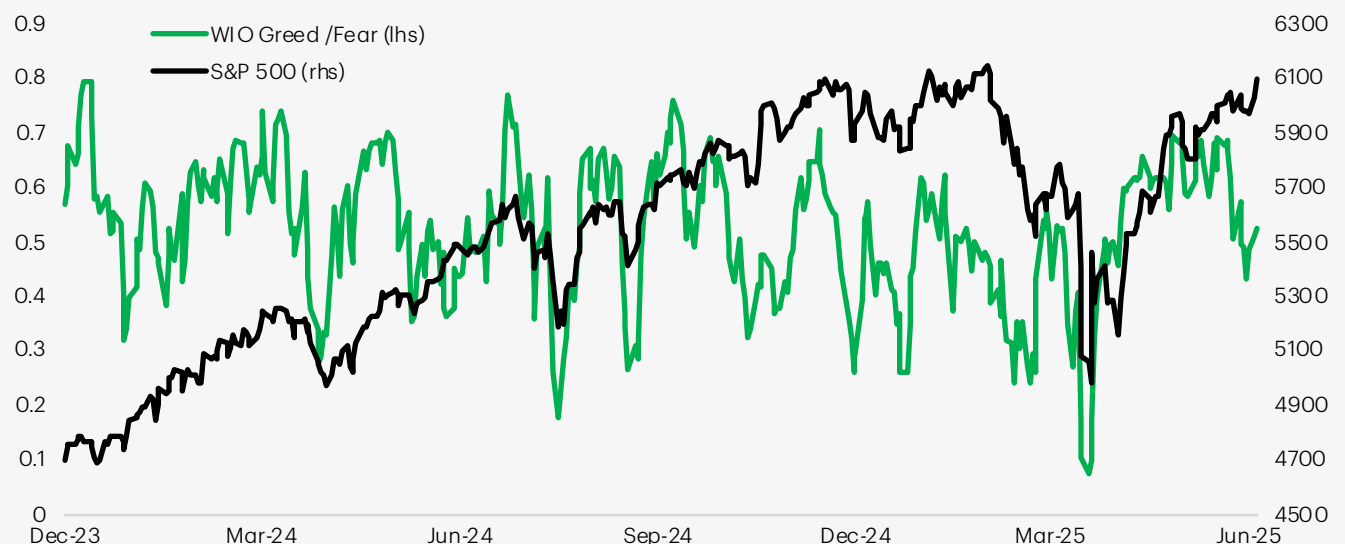
The aggregate score for the U.S. economy (37th percentile) stayed below the normal level of between the 40th and 60th percentile, and slightly below the value at the end of the first quarter (39th percentile) and at beginning of the year (44th percentile). In the second quarter, U.S. and global equity markets sold off and rebounded sharply amid U.S. trade policy uncertainty. Bond yields are relatively unchanged. The slowdown in GDP Growth exerted the biggest drag on the aggregate number; the score for GDP Growth tumbled after the poor reading and subsequent downward revision of Q1/25 GDP data and the lower Q2 growth estimate. Job Market remained healthy, but the pace of job gains continued to slow. The outlook for monetary policy is unchanged during the quarter given the combination of economic slowdown and the threat of rising inflation. The following are notable developments in Q2:

1. The score for GDP Growth tumbled from the 33rd percentile at the end of Q1 to the 21st percentile after the GDP growth estimate for Q1/25 was lowered to -0.5% q/q annualized from an earlier reading of -0.2%. Stripping out volatile items such as trade and inventory-build shows that growth in underlying domestic demand has downshifted,

with the consumer spending component growing only 0.5%. The Q2 GDP estimate has also declined to around 1.8%, which is lower than the historical average of 2.0% to 2.5%.

2. Data for Job Market remained strong with the aggregate score for the category at the 51st percentile. Hard data (measurable metrics like unemployment numbers) on the labour market fell to 48th percentile at the end of Q2 from 56th percentile in Q1 as the pace of job gains slowed and jobless claims ticked higher. The score for the soft data (like surveys and confidence in labour market outlook) improved to the 34th percentile from the 23rd at the end of Q1. Strong wage growth (61st percentile) pulled the score for Job Market higher.
3. The aggregate score for Inflation was relatively unchanged during the quarter at the 45th percentile. Actual price inflation data indicated that inflation pressure has declined further—boosting the score—but this has been offset by the deteriorating outlook on future inflation as measured by various purchasing manager and consumer surveys.
4. The Survey & Leading Indicators score was downbeat in Q2, moving to the 27th percentile at the end of Q2 from 26th percentile previously, and continuing the trend seen since 2022. High-frequency indicators tracking activity in the manufacturing and service sector shows that the manufacturing sector has stabilized while the service sector slowed further. Regional Fed surveys remained weak.

Figure 3: Change in Market Sentiment



5. Uncertainty related to the U.S. trade policy disrupted the Cyclical Sector recovery in Q2. The score for this category fell to 33rd percentile at the end of Q2 from 42nd percentile in Q1. It was above the 30th percentile at the end of 2024. Durable goods orders jumped sharply at the end of Q1 as businesses and consumers tried to front run the implementation of U.S. tariffs. This normalized during Q2 and weighed on the Cyclical Sector score.
6. The story in Consumer Sector shows the convergence of downbeat consumer sentiment and actual consumer spending. Consumer sentiment was unchanged at the 20th percentile throughout Q2. However, the score for actual spending and inventory fell to the 40th percentile from 49th percentile at the end of Q1, which corroborated the weaker consumer spending backdrop seen in recent U.S. GDP readings.
7. The Housing Sector indicator, which stands at the 36th percentile at the end of Q2, is likely close to the cyclical bottom given the extended period of depressed scores for this category. Elevated mortgage rates weighed on housing sales, starts, and prices. Affordability remained poor and housing sentiment was downbeat, which translated into the continued underperformance of homebuilders' stock prices relative to the broader U.S. equity benchmark.

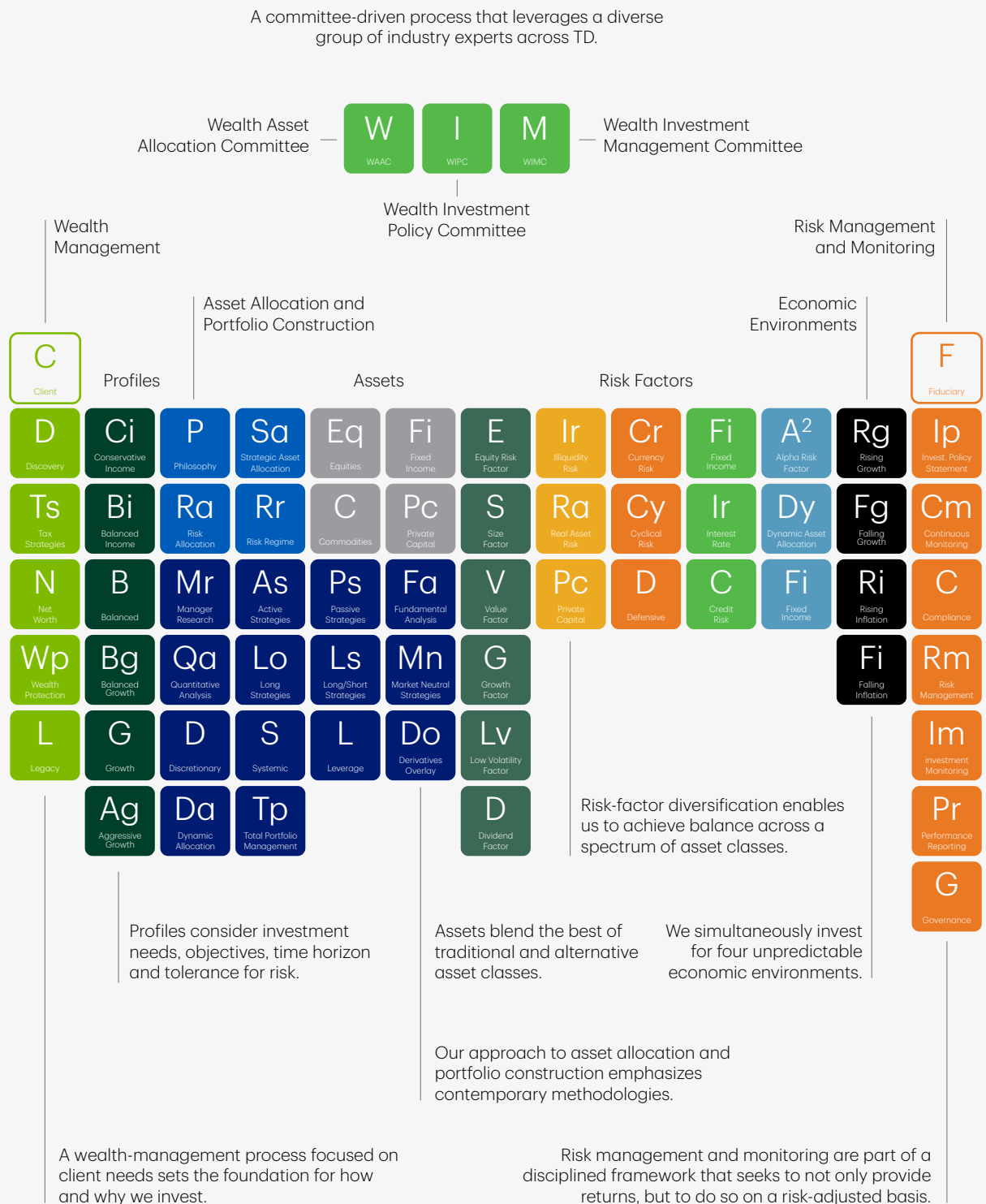
8. Lastly, the score for Credit declined to the 18th percentile at the end of Q2 from the 21st percentile in Q1. Consumer credit contracted on an annual basis for the first time in the past 15 years amid the relatively tight lending standards and the pullback in spending, while commercial and industrial loans also fell back into contraction territory.

The bottom line is that we are still at the late stage of the U.S. business cycle where growth will likely decelerate further and incentivize the Federal Reserve to continue lowering the policy rate. This relatively downbeat macro outlook, however, is overshadowed by the One Big Beautiful Bill Act (OBBA) which was passed in the U.S. Senate on July 2. If it's approved by the House of Representatives and becomes law, it would boost economic growth in the medium term and further extend the business cycle. Cyclical Sector and Housing Sector activity have likely bottomed and would benefit most from monetary policy easing. Given the softness in the housing market and the decline in rental prices, the outlook for service inflation should be tilted to the downside, but uncertainty related to U.S. tariffs could reverse the recent deflationary trend in goods prices. Financial market sentiment is currently around neutral, and we expect labour market and consumer spending data to become increasingly important as investors look for signs of a sharper pullback in hiring and household spending.

Elements of Wealth Management

Investors are often left to make decisions without any formal process. Our solution? Follow an investment philosophy — a guiding set of principles designed to work in a world that's constantly changing, often with dramatic impact on financial markets. At TD Wealth, we call that philosophy “Risk Priority Management,” and it provides the foundation for our decision-making process. That process is then broken down into its most basic components, similar to a periodic table of elements, as illustrated below, with groupings and weights. These components comprise our entire process, from wealth management to risk management to monitoring. All in all, there are 72 “elements” that fall into eight categories.

Figure 1: Elements

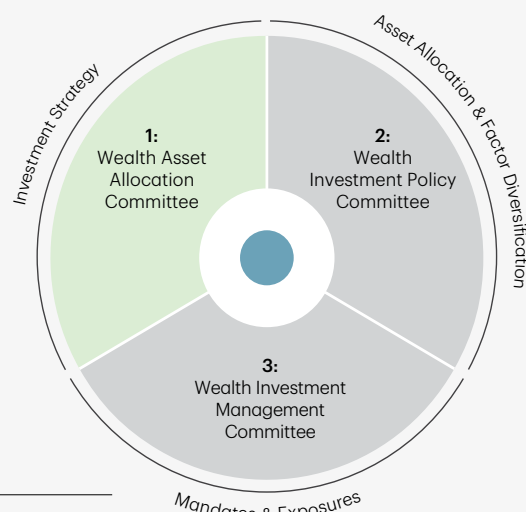


Wealth Asset Allocation Committee

The TD Wealth Asset Allocation Committee (WAAC) is composed of a diverse group of TD investment professionals. WAAC's mandate is to consider the financial-market environment and provide direction and themes for equities, fixed income, real assets and sub-classes for the next six to 18 months.

Considers the financial-market environment and provides direction and themes

Utilizing risk factors to manage exposures, we build and manage portfolios that blend the best of traditional and alternative asset classes.



Committee members:

David Sykes, CFA **Chief Investment Officer, TD Asset Management Inc (Chair)**

Michael Craig, CFA Managing Director & Head of Asset Allocation & Derivatives, TD Asset Management Inc.

Anna Castro Managing Director, TD Asset Management Inc.

Justin Flowerday, CFA Head of Public Equities, TD Asset Management Inc.

Jennifer Nowski, CFA Vice President & Director, TD Asset Management Inc.

Michael Augustine CFA Managing Director & Head of Fixed Income, TD Asset Management Inc.

Alex Gorewicz Vice President and Director, TD Asset Management Inc.

Colin Lynch Managing Director and Head of Global Real Estate, TD Asset Management Inc.

Bruce MacKinnon .. Managing Director, Head of Private Debt Research & Origination, TD Asset Management Inc.

Kevin Hebner, Ph.D. Managing Director, Epoch Investment Partners, Inc.

William Booth, CFA. Managing Director, Epoch Investment Partners, Inc.

Brad Simpson, CIM, FCSI Chief Wealth Strategist, Wealth Investment Office, TDW





Sid Vaidya, CFA, CAIA U.S. Wealth Investment Strategist, TD Wealth USA

Bryan Lee, CFA Vice President & Director, TD Asset Management Inc.

Jafer Naqvi, CFA Managing Director, Head of Client Portfolio Management, TD Asset Management Inc..

Direction from WAAC

Core Asset Class Allocations

	Positioning	Rationale
Cash & Equivalents	<p>Modest Underweight</p>  <p>▲ Previous Month</p>	We are underweight cash as in a declining rate environment other asset classes should provide more attractive returns.
Fixed Income	<p>Modest Underweight</p>  <p>▲ Previous Month</p>	The Canadian economic outlook remains uncertain as U.S. policy uncertainty continues to weigh on growth and inflation expectations. The Bank of Canada (BoC) has flexibility to respond to a wide array of outcomes, including further easing policy. We continue to expect bonds to provide diversification benefits, reduce overall portfolio volatility and preserve capital.
Equity	<p>Modest Overweight</p>  <p>▲ Previous Month</p>	Global equity markets are up year-to-date (YTD) as some progress was made on tariff negotiations and key earnings trends remain intact. We remain overweight equities; while there could be bouts of volatility, government policy is increasingly pro-business, central banks are accommodative, and earnings growth remains positive.
Alternatives	<p>Modest Overweight</p>  <p>▲ Previous Month</p>	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.



Fixed Income - Modest Underweight

	Positioning	Rationale
Domestic Government Bonds	Neutral	The BoC can continue to remain on pause, but has the flexibility to quickly lower its policy rate to provide support to the economy. This would result in a steepening of the yield curve as shorter rates would likely fall faster than longer rates.
Investment Grade Corporate Credit	Modest Overweight	Credit spreads remain tight as all-in yields drive strong investor demand. Corporate credit fundamentals should be resilient to any near-term economic volatility. With risk premiums fairly flat across the yield curve, we continue to favour short to mid-term corporate bonds over longer term bonds.
High Yield Credit	Neutral	High yield bonds have fully recovered from trade-policy related volatility and spreads are now close to the tightest levels of the last five years. Nonetheless, credit quality remains robust and should combine with a benign lending backdrop to keep corporate defaults low. Uncertainty around trade policy and economic growth could cause spreads to widen, but we expect this to be offset by attractive all-in yields.
Global Bonds Developed Markets	Neutral	We believe that U.S. policy uncertainty will manifest differently across countries with respect to growth and inflation expectations. Therefore, opportunities across developed market bonds will likely vary substantially.
Global Bonds Emerging Markets	Modest Underweight	While emerging markets (EM) are benefiting from a broad-based decline in the U.S. dollar (USD), valuations of USD-denominated EM bonds are screening rich compared to developed market corporate bonds. However, there continue to be opportunities to earn high levels of income in select local currency EM markets.

Equities - Modest Overweight

	Positioning	Rationale
Canadian Equities	Modest Overweight	The positive impact of BoC rate cuts and potential shift in fiscal and business policy following the Canadian federal election, could provide some economic offset to the uncertainty of trade negotiations with the U.S. The S&P TSX Composite Index (TSX) potential returns are supported by the strong financial position of the Financials and Resource sectors, reasonable valuations, and expected 2025 earnings growth.
U.S. Equities	Modest Overweight	U.S. equity markets are up YTD, driven by progress on tariff negotiations and affirmation of AI spending plans. U.S. equities could further be supported by the recent extension of tax cuts, and potential for further deregulation. While valuations have increased, equities continue to be supported by earnings growth.
International Equities	Modest Underweight	International equities have rallied YTD as multiples rebounded from low levels and Germany announced a major fiscal stimulus plan. However, this will take time to implement, and tariff risks remain. Japanese equities look attractive on a relative basis with momentum building behind corporate reform but there may be volatility as the Bank of Japan may look to continue raising rates.
Emerging Market Equities	Modest Underweight	Emerging Markets (EM) central banks, such as Mexico, South Korea, and China, have been cutting rates. EM might face challenges from potential changes to U.S. trade and tariff policies. China continues to struggle with challenges in its property sector but has announced stimulus measures that could provide some stabilization for its economy.

Private Markets - Modest Overweight

	Positioning	Rationale
Commercial Mortgages	Neutral	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Private Debt (Universe)	Modest Underweight	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	We believe a significant portion of the value adjustments in the Canadian commercial real estate space have been taken. Occupancy levels continue to improve, absent Class B & C office, due to stable demand and limited new supply. The implications of volatile tariff policy will likely be cleared in the second half of 2025 but will impact industrial assets more than other property types.
Global Real Estate	Neutral	Returns are starting to improve globally. U.S. and Asian Pacific markets have seen the capitalization rate stabilizing while Europe continues to outperform. New capital raising and significant redemption recissions are also early indicators of the improved sentiment for continued recovery.
Infrastructure	Modest Overweight	Infrastructure continues to offer stable returns and lower volatility due to its essential long-term nature. The persistent global infrastructure spending gap remains a key investment driver, reinforcing the need for increased investment. Additionally, accelerating trends such as the electrification of industry and the expansion of digital infrastructure are significantly increasing demand for power generation assets, creating compelling investment opportunities.
Commodities (Gold, Energy, Metals, Agriculture, Carbon)	Neutral	Gold continues to benefit from demand from central banks and investors as they seek a safe-haven in uncertain times. Despite the economic uncertainty, metals prices have held-in YTD as markets are currently balanced. Oil has weakened as OPEC+ looks to slowly return supply, but also to manage member commitments and might adjust as market conditions warrant.

Asset Sub-Classes

	Positioning	Rationale
U.S. Dollar vs. Canadian Dollar	Modest Underweight	The USD has declined YTD, and based on our long-term valuation metrics, remains overvalued. Current U.S. policy has led to uncertainty in trade and fiscal deficits. While this has increased the attractiveness of other developed market currencies for diversification, the momentum of USD weakness versus the CAD may moderate near term due to Canada's weaker growth fundamentals.

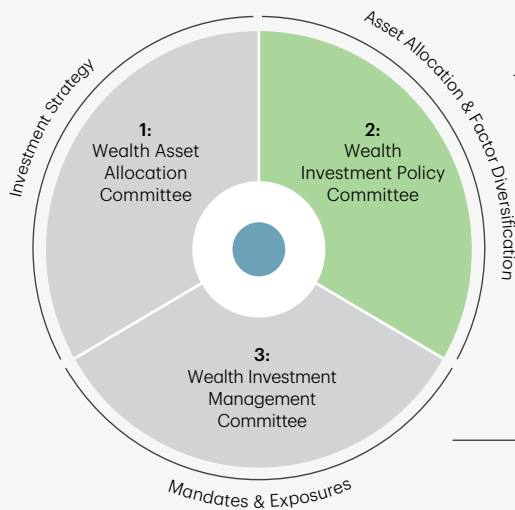
Figure 1: Direction from WAAC: strategic positioning

	Asset Class	Underweight		Neutral		Overweight
Cash & Equivalents Modest Underweight			●			
Fixed Income Modest Underweight	Domestic Government Bonds			●		
	Investment Grade Corp. Credit				●	
	High Yield Credit			●		
	Global Bonds - Developed			●		
	Global Bonds - Emerging		●			
Equities Modest Overweight	Canadian				●	
	U.S.				●	
	International		●			
	Emerging Markets		●			
Alternative /Real Assets Modest Overweight	Commercial Mortgages			●		
	Private Debt		●			
	Domestic Real Estate			●		
	Global Real Estate			●		
	Infrastructure				●	
	Commodities			●		
Sub-Classes	U.S. Dollar vs Basket of Currencies		●			

Source: Wealth Asset Allocation Committee, as of July 24, 2025.

Wealth Investment Policy Committee

The Wealth Investment Policy Committee is composed of a diverse group of TD investment professionals. WIPC's mandate is to interpret WAAC views and set general asset-class weights for each investor profile.



Interprets WAAC views and sets general investor profile asset-class weights

Utilizing risk factors to manage exposures, we build and manage portfolios that blend the best of traditional and alternative asset classes.

Committee members:

Brad Simpson, CIM, FCSI **Chief Wealth Strategist, Wealth Investment Office (WIO), TD Wealth (Chair)**

Michael Craig, CFA Managing Director, Head of the Asset Allocation & Derivatives, TDAM

Anna Castro, CFA Managing Director, TDAM

Jafer Naqvi VP & Director, TDAM

Christopher Lo, CFA Senior Portfolio Manager, Head of Managed Investments, WIO, TD Wealth

Fred Wang, CFA Senior Portfolio Manager, WIO, TD Wealth

Aurav Ghai, CFA Senior Fixed Income Analyst & Portfolio Manager, WIO, TD Wealth

Mansi Desai, CFA Senior Equity Analyst & Portfolio Manager, WIO, TD Wealth

The asset allocation weights from the Wealth Investment Policy Committee are unchanged this month and remain aligned with the Wealth Asset Allocation Committee's (WAAC). The committee continues to have a modest overweight allocation to Equities and Alternatives, a neutral exposure to Commodities, and a modest underweight allocation to Cash and Fixed Income.

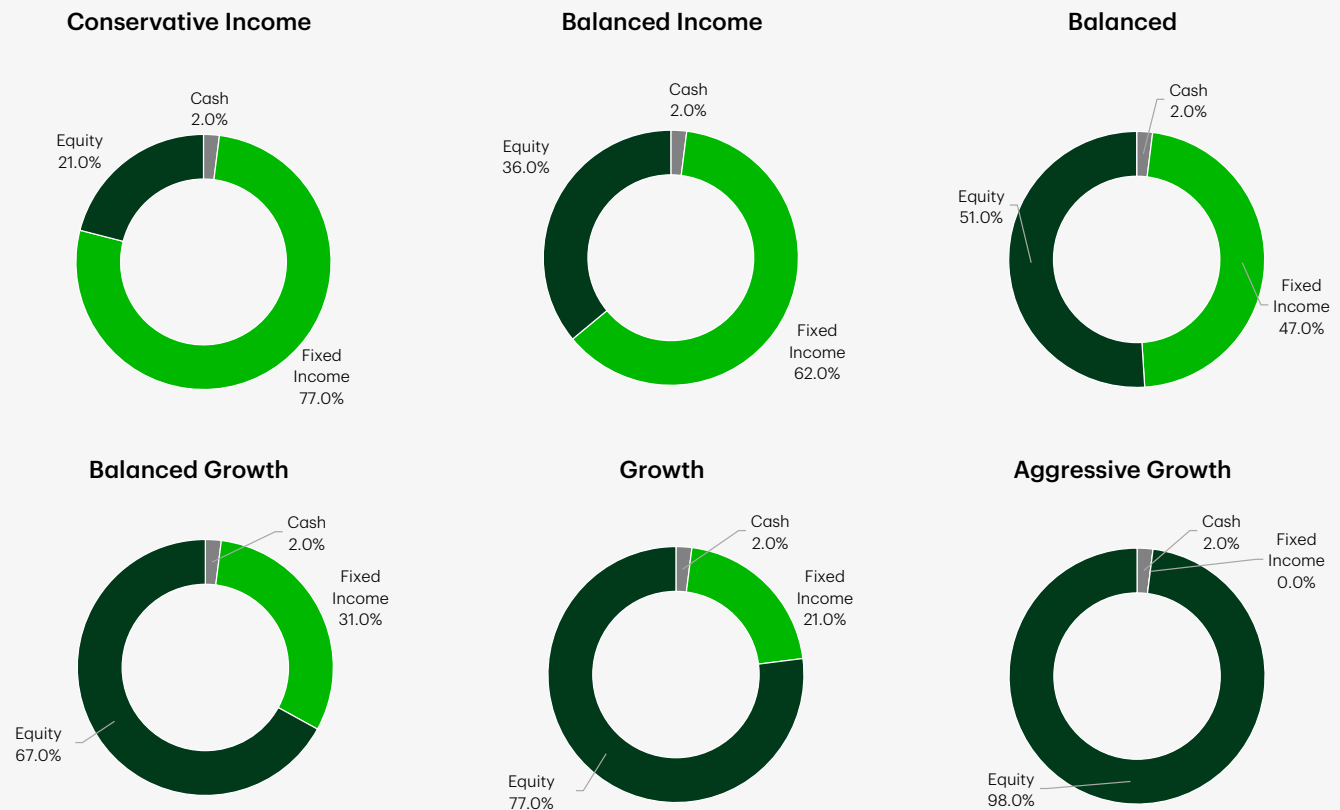
Within Fixed Income, the allocation to Domestic Government bonds remains unchanged at a modest underweight position across all the profiles. The allocation to Investment Grade Corporate Bonds is unchanged at a neutral to modest overweight position, and High Yield remains at a neutral weight across all profiles. Global Bonds -Developing Countries remains neutral in all profiles and Global Bonds – Emerging Markets remains underweight in all profiles.

Within Equities, the allocations are unchanged and remain modest overweight Canadian and U.S. equities and modest underweight International and Emerging Markets, in all profiles.

Within the Alternatives asset class, the committee maintains a neutral position in Real Estate and Private Credit, and a modest overweight to Mortgages and Infrastructure across all the investor profiles.

The allocation to Commodities remains at a Neutral position across the profiles.

Dynamic asset-class weights by investor profile (Condensed)

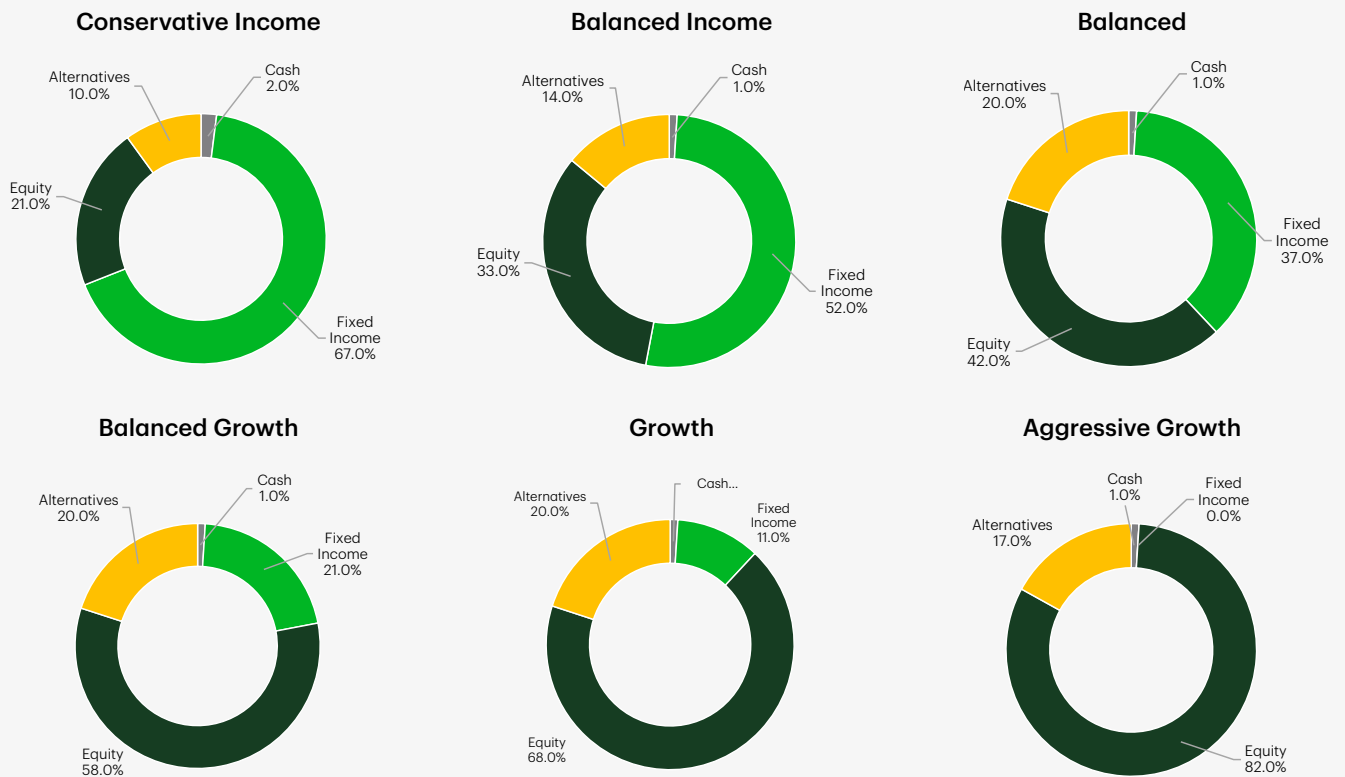


Strategic and dynamic asset-class weights by investor profile (Condensed)

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.
Cash	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Public Fixed Income	78.0%	77.0%	63.0%	62.0%	48.0%	47.0%	33.0%	31.0%	23.0%	21.0%	0.0%	0.0%
Government	39.0%	37.0%	32.0%	30.0%	24.0%	22.0%	17.0%	15.0%	11.0%	10.0%	0.0%	0.0%
Corporate	39.0%	40.0%	31.0%	32.0%	24.0%	25.0%	16.0%	16.0%	12.0%	11.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	35.0%	36.0%	50.0%	51.0%	65.0%	67.0%	75.0%	77.0%	98.0%	98.0%
Canadian	6.0%	7.0%	11.0%	12.0%	15.0%	16.0%	20.0%	22.0%	23.0%	25.0%	29.0%	31.0%
U.S.	8.0%	10.0%	14.0%	16.0%	20.0%	22.0%	26.0%	29.0%	30.0%	33.0%	40.0%	42.0%
International	4.0%	3.0%	7.0%	6.0%	10.0%	9.0%	13.0%	11.0%	15.0%	13.0%	19.0%	17.0%
China/ Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of July 24, 2025.

Dynamic asset-class weights by investor profile (Expanded)



Strategic and dynamic asset-class weights by investor profile (Expanded)

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.
Cash	2.0%	2.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%
Public Fixed Income	69.0%	67.0%	54.0%	52.0%	39.0%	37.0%	24.0%	21.0%	14.0%	11.0%	0.0%	0.0%
Domestic Government Bonds	28.0%	28.0%	22.0%	22.0%	15.0%	15.0%	9.0%	8.0%	5.0%	4.0%	0.0%	0.0%
Invest. Grade Corp Bonds	24.0%	25.0%	19.0%	20.0%	14.0%	15.0%	9.0%	9.0%	5.0%	5.0%	0.0%	0.0%
High Yield Bonds	5.0%	3.0%	4.0%	2.0%	3.0%	1.0%	2.0%	1.0%	1.0%	0.0%	0.0%	0.0%
Global Bonds - Developed	8.0%	8.0%	6.0%	6.0%	5.0%	5.0%	3.0%	3.0%	2.0%	2.0%	0.0%	0.0%
Global Bonds - Emerging	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Canadian	6.0%	7.0%	10.0%	11.0%	11.0%	12.0%	16.0%	18.0%	19.0%	21.0%	22.0%	24.0%
U.S.	8.0%	10.0%	13.0%	15.0%	17.0%	19.0%	23.0%	26.0%	27.0%	30.0%	35.0%	37.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	9.0%	13.0%	11.0%	15.0%	13.0%
China/Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%
Commercial Mortgages	4.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	0.0%	0.0%
Private Debt	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	1.0%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	0.0%	2.0%	4.0%	5.0%	7.0%	5.0%	7.0%	5.0%	7.0%	9.0%	10.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%
Fixed Income	71.0%	69.0%	56.0%	53.0%	41.0%	38.0%	26.0%	22.0%	16.0%	12.0%	2.0%	1.0%
Equity	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of July 24, 2025.

TD Spend: The Damage Is Done

Tariff uncertainty has weighed on Canadian consumers, with most indicators pointing to an economic slowdown in the quarters ahead.

By Maria Solovieva, CFA, Economist | TD Economics

Highlights

- The latest TD Spend data suggest that Canadian consumers tightened their purse strings in the second quarter of 2025. We expect real consumer spending to be essentially flat for the quarter, with weaker momentum likely building into Q3.
- The quarterly spending series is tracking a significant contraction, led by goods. Services spending also lost steam in Q2 and is now tracking a marginal decline.
- At the provincial level, year-over-year growth was strongest in Saskatchewan, the North Region and Quebec. All other provinces are tracking below the national average.

The latest TD debit and credit card spending data suggest that Canadian consumers hit pause in the second quarter of 2025, reacting to escalating trade tensions. On a year-over-year (non-seasonally adjusted) basis, card spending growth slowed sharply to 1.5% in Q2 from 5.4% in Q1 (Chart 1). This marks a clear break from the early signs of momentum seen in late Q4 and reflects growing softness in underlying economic conditions—especially the weakening labour market.

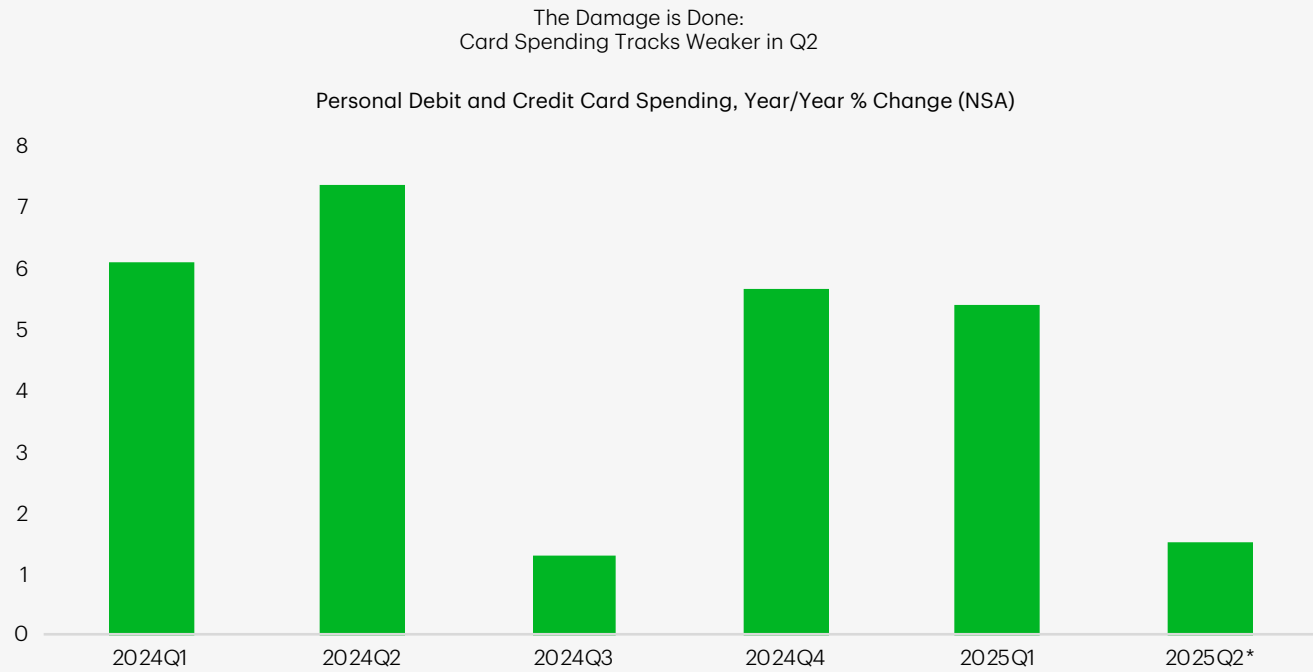
Consistent with this notable deceleration in TD Spend data and what appears to be a sizeable contraction in Statistics Canada's flash estimate of [retail trade](#), we expect [real consumer spending to come in essentially flat](#) for the quarter, with weaker momentum likely building into Q3. While we still expect some recovery toward the end of the year, real personal consumption expenditure (PCE) is now projected to finish 2025 0.4 percentage points lower than anticipated in our March forecast. Consumers unlikely to splurge on large purchases when they're worried about losing their jobs. Said plainly: the damage is done.

Looking more closely at the breakdown, on a seasonally adjusted basis, TD's quarterly spending series is tracking a significant contraction, led by goods spending, which is set to decline by 4.4%. Part of this is due to lower outlays at gas stations, reflecting a sharp drop in pump prices. Gas prices collapsed by 18.1% in April compared to a year ago as carbon tax ceased to exist. Still, the pullback was broader. The first two months of Q2 saw declines in spending at supermarkets, liquor stores, clothing retailers, and general merchandise outlets. Home-related purchases are also tracking a sizable decline after a tepid Q1.

In addition, spending on services lost steam in Q2 and is now tracking a marginal contraction. Travel spending is on track for a second consecutive quarterly decline, aligning with official statistics: according to Statistics Canada, the number of returning Canadian air travellers fell 3.7% year-over-year in May. TD card spending on travel declined 4.4% over the same period. This likely reflects a shift towards away from U.S. trips – which account for a sizeable share of total trips – towards lower-cost domestic destinations. Meanwhile, entertainment and recreation spending accelerated only slightly in Q2 – not enough to offset weakness elsewhere – while other components of services made no meaningful contribution, leaving overall services spending unlikely to provide much support this time.

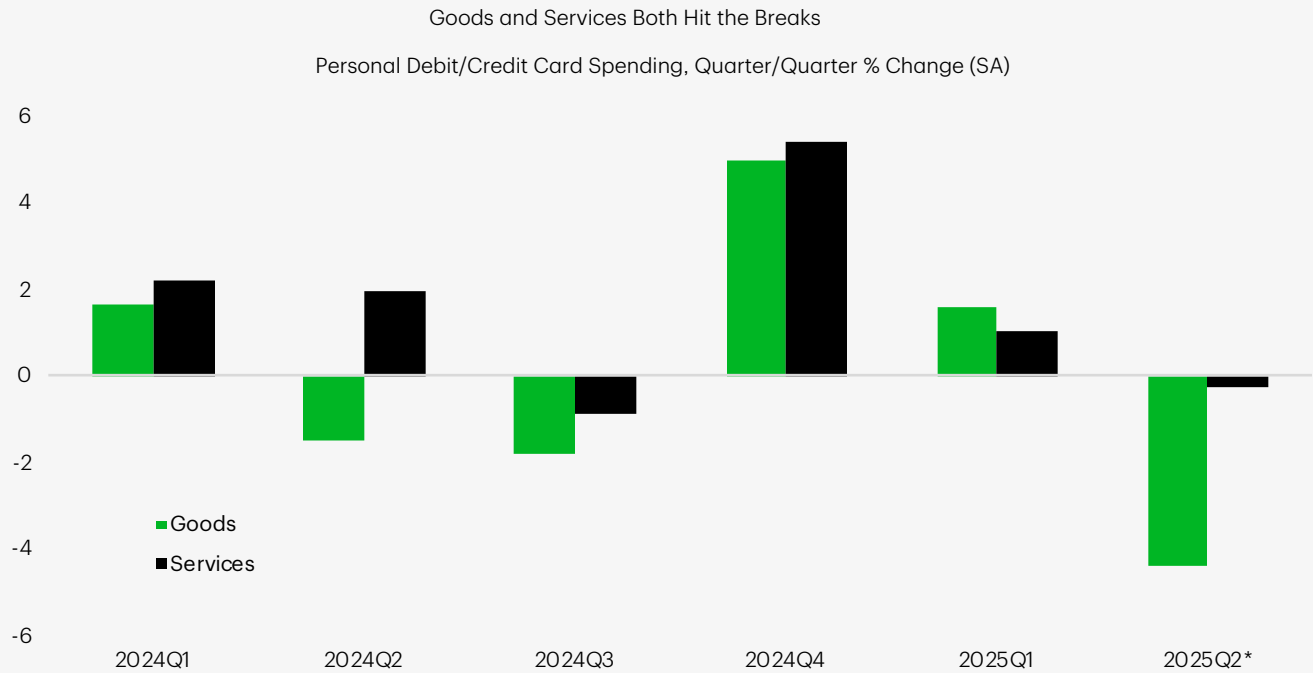
At the [provincial level](#), year-over-year growth was strongest in Saskatchewan, the North Region (including the Northwest Territories, Nunavut, and Yukon), and to a lesser extent Quebec—all of which are currently outperforming the national average. All other provinces are tracking below the national 1.5% growth rate, with British Columbia the only region currently showing a contraction in Q2. Still, even among outperformers, there's a clear downshift from the previous quarter. Looking ahead, provinces most exposed to international trade – such as Ontario, Quebec, B.C., and Manitoba – will continue to absorb much of the shock this year. In contrast, Atlantic Canada is likely to remain more stable and Saskatchewan will stand out as a relative beacon of strength amid mounting national headwinds.

Figure 1: Effective Tariff Rate Rises to Highest Level In Over a Century



*Preliminary Q2 estimate based on April-May average. Source: TD Economics.

Figure 2: Tariff Assumptions Have Been Revised Higher



*Preliminary Q2 estimate based on April-May average. Source: TD Economics.

Asset Class Analysis

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Elevator Up, Elevator Down

April got off to a rough start, with tremendous volatility on flip-flopping tariff announcements, but things started to improve as a few pro-business developments emerged.

By Fred Wang, Senior Portfolio Manager, Asset Allocation | TD Wealth

As I reflect on the evolution of the markets over the second quarter, the focus day-to-day was no doubt a cascade of headlines laden with tariffs, fiscal policy reform, election, and war. From the initial “Liberation Day” tariff announcement on April 2, to the short-lived implementation from April 5, to the 90-day tariff delay announced on April 9, the tariff policy in the U.S. took a U-turn in a week—only to find itself in a seemingly never-ending whirl of adjustments, additions, exemptions, and extended delays over the next three months. The ever-changing tariff policy created not only a huge amount of policy uncertainty but also an environment where it is almost impossible to manage businesses involving any flow of goods. On the bright side, fiscal policy started to turn pro-cyclical globally, which, in many cases, is an adaptation to an increasingly de-globalized world. In the U.S. the One Big Beautiful Bill, which provides tax relief for corporations and individuals, was signed into law by President Trump on July 4. Also in Q2, Mark Carney was elected as prime minister for Canada with an agenda to broaden Canada’s trading ties, boost productivity, and address the housing crisis, through more spending. This followed Germany’s monumental shift in fiscal reform back in March, when we saw it increasing its deficit to fund defense and infrastructure spending. It is

hard to tame any government deficit while navigating the shifting economic and geopolitical landscape. Although the implication for growth is mostly positive, these higher deficits increased global concerns about debt sustainability.

Global equity markets reacted to these changes positively over the quarter. Although the initial tariff announcement caught everyone by surprise, subsequent developments encouraged investors to discount the negative outcome significantly and price in all the positive news on the fiscal and deregulation front. Figure 1 shows that the almost 19% drawdown, which started in mid-February and lasted through to early April, was one of the shortest in terms of duration. The recovery was also the fastest on record—the S&P 500 took only 80 days to recoup all the losses. In today’s market, slow moving economic risk has significantly receded and been replaced by fast-moving policy and geopolitical risk as the main driver of market volatility today. Geopolitical risk is far more difficult to predict and could reverse quickly. This is why we hear market participants talking about staying abreast of developments and allocating to strategies that could take advantage of dislocation tactically while focusing on structural changes to identify long-term opportunities.

Figure 1: Largest Drawdowns for S&P 500 Since 1982

	Date			Drawdown		Recovery	
	Peak	Trough	Recovery	Peak-to-Trough %	# of Days	Trough-to-Recovery %	# of Days
1	1987-08-25	1987-12-04	1989-07-26	-33.5%	101	51.0%	600
2	1990-07-16	1990-10-11	1991-02-13	-19.9%	87	24.9%	125
3	1998-07-17	1998-08-31	1998-11-23	-19.3%	45	24.1%	84
4	2000-03-24	2002-10-09	2007-05-30	-49.1%	929	97.0%	1694
5	2007-10-09	2009-03-09	2013-03-28	-56.8%	517	131.9%	1480
6	2018-09-20	2018-12-24	2019-04-23	-19.8%	95	24.8%	120
7	2020-02-19	2020-03-23	2020-08-18	-33.9%	33	51.5%	148
8	2022-01-03	2022-10-12	2024-01-19	-25.4%	282	35.3%	464
9	2025-02-19	2025-04-08	2025-06-27	-18.9%	48	23.9%	80

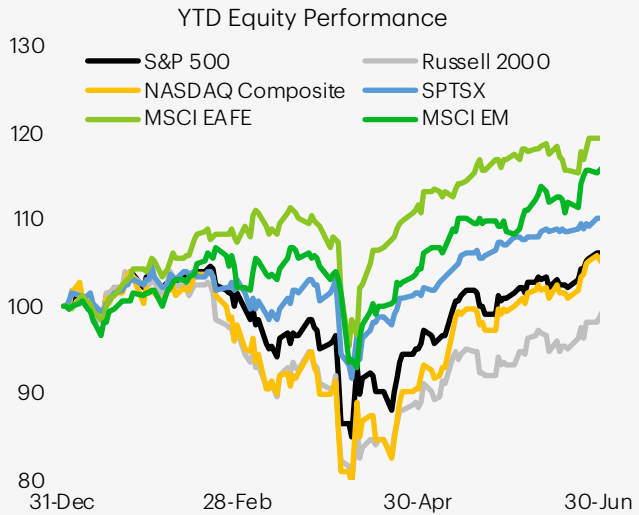
Source: Macrobond, Wealth Investment Office (WIO) as of June 30, 2025

U.S. Market Navigates Cross-Currents

Although broader global equity markets bounced in the second quarter, the spectre of rising tariffs and ensuing negotiations did leave its mark and had a profound impact on the global economy and markets. First, the U.S. equity market, based on the S&P 500 index, lagged other regions on a total return basis (Figure 2), especially when measured in U.S. dollars. A sudden spike in tariffs would result in higher input costs for many U.S. manufacturing and consumer businesses. This is supported by examining the number of times "tariff" was mentioned during the earnings season for U.S. companies. Figure 3 compares mentions of "tariff" during earnings calls in November 2024 with those in May 2025, when the bulk of U.S. public companies reported. Consumer and industrial sector executives brought up tariffs much more

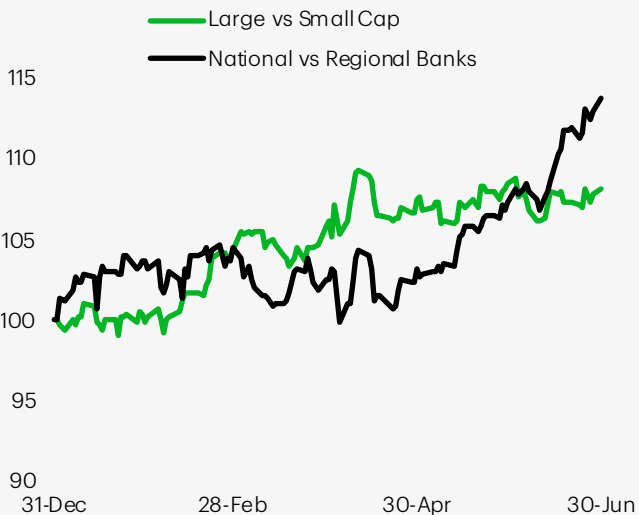
frequently than their counterparts in utilities, energy, and communication services sectors. Secondly, faced with this unprecedented trade policy shift, companies with more financial resources will tend to fare better. Therefore, large cap companies outperformed smaller firms. Moreover, many service-oriented technology companies should benefit from Trump's tariff policy because Trump claimed countries would face even higher tariffs if they impose digital taxes on U.S. technology companies. This makes the mega cap U.S. technology firms more resilient to tariffs and translates into continued outperformance for these names compared with the index. Thirdly, smaller private companies tend to operate regionally and therefore usually bank with regional banks which means larger money center and regional banks outperforming smaller regional players (Figure 4).

Figure 2: Global Equity Rebound Over Q2



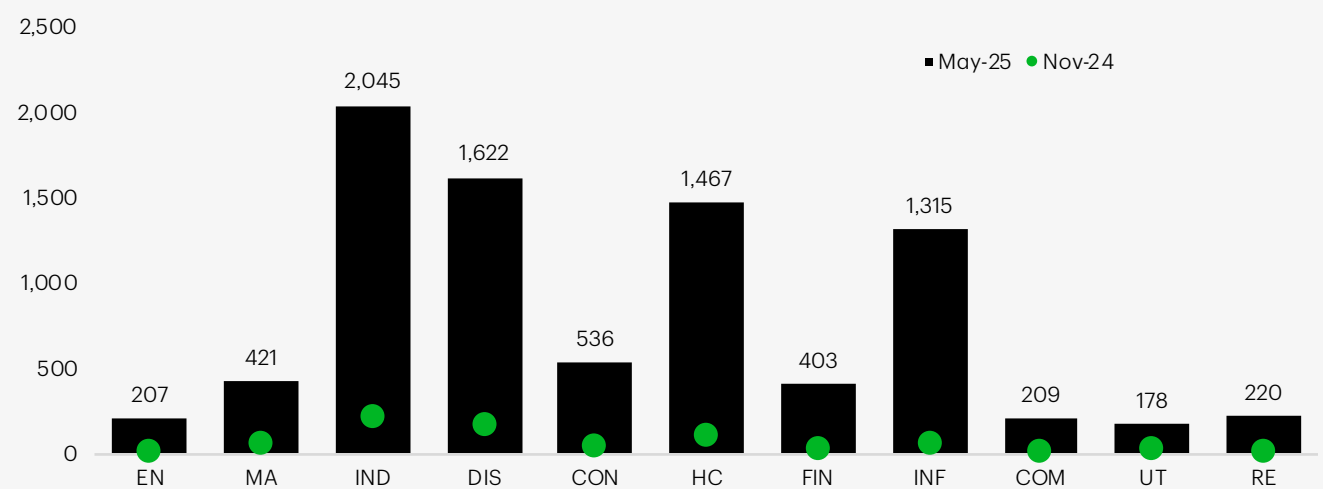
Source: Macrobond, WIO as of June 30, 2025

Figure 4: Relative Performance of Equity Indices



Source: Macrobond, WIO as of June 30, 2025

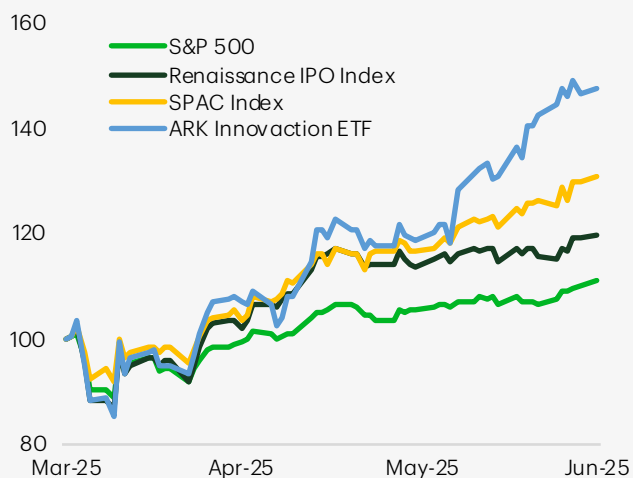
Figure 3: Russell 3000 Earnings Call "Tariff" Mentions



Source: Macrobond, WIO as of June 30, 2025

As equity markets recovered in the second quarter, risk sentiment and appetite improved. For example, Circle Internet Group, which runs a blockchain-based payment system and manages the stablecoin USD Coin (USDC), went public in June. Investors piled into the stock and pushed it almost 700% higher in a couple weeks. Meanwhile, Bitcoin hit a new high in May. The very speculative and once frozen SPAC (Special Purpose Acquisition Company) market raised over US\$8 bln in the quarter. Figure 5 shows that although the S&P 500 recorded a new high on June 27, it still underperformed the Renaissance IPO index (which tracks newly issued stocks), the IPOX SPAC index (which tracks the after-market performance of SPACs), as well as the ARK Innovation Exchange Traded Fund (ETF), an actively managed ETF known for investing in high-growth companies. All three are considered risky and speculative investments by many market participants. Investors' increased appetite for risk should bring a

Figure 5: S&P 500 vs. Renaissance IPO, SPACs & ARK



Source: Macrobond, WIO as of June 30, 2025

Figure 6: 30-Year U.S. Treasury Yield

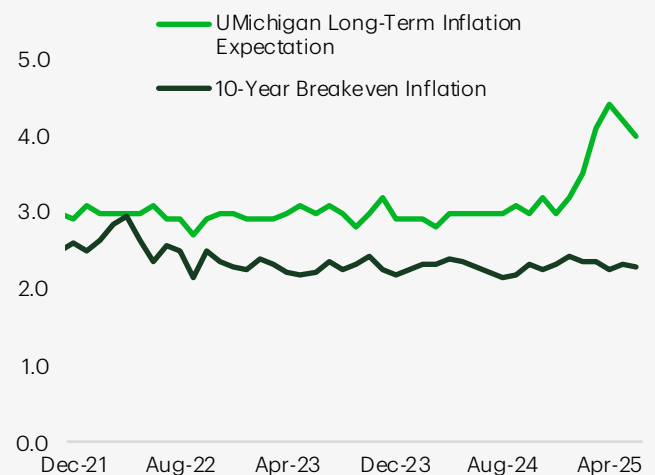


Source: Macrobond, WIO as of June 30, 2025

dose of opportunism back to the market, especially for emerging technologies. This could prop up corporate M&A activities and revive the IPO market. The caveat here is that given the uncertainty around tariffs and their economic impact, the market could be ahead of itself.

Tariffs, deficits, and even immigration policy also affect fixed income markets. On May 16, Moody's downgraded the U.S. government's long-term issuer rating from Aaa, the highest rating, to Aa1. Although this move came years after the other two major rating agencies downgraded the U.S. government in 2011 and 2023, it highlights the long standing and growing concern about the sustainability of U.S. government debt—and there is still no plan for the U.S. government to reduce its debt load. On top of this, the largest U.S. treasury investors are also the largest trading partners with the U.S. and they are now in the middle of difficult trade negotiations. If these trading relations shift, there is a risk that these countries will decide to divest of U.S. Treasuries. Moreover, higher tariffs as well as pro-growth fiscal policy from the One Big Beautiful Bill Act could reignite inflation. All these dynamics created upward pressure on the long-term Treasury yield as well as inflation expectations. Figure 6 shows the 30-year U.S. Treasury yield topped 5% in May and has since declined slightly—partly because the simmering debt sustainability issue is only relevant to ultralong-term paper. Figure 7 shows that the market implied 10-year breakeven inflation (informed by the Treasury market) is still well anchored around 2%, but the median long-term inflation expectation is at 4% for June, according to the University of Michigan consumer sentiment survey. The breakdown by income shows that lower income Americans are disproportionately affected by higher inflation.

Figure 7: Inflation Expectations – Market Implied vs. Survey



Source: Macrobond, WIO as of June 30, 2025.

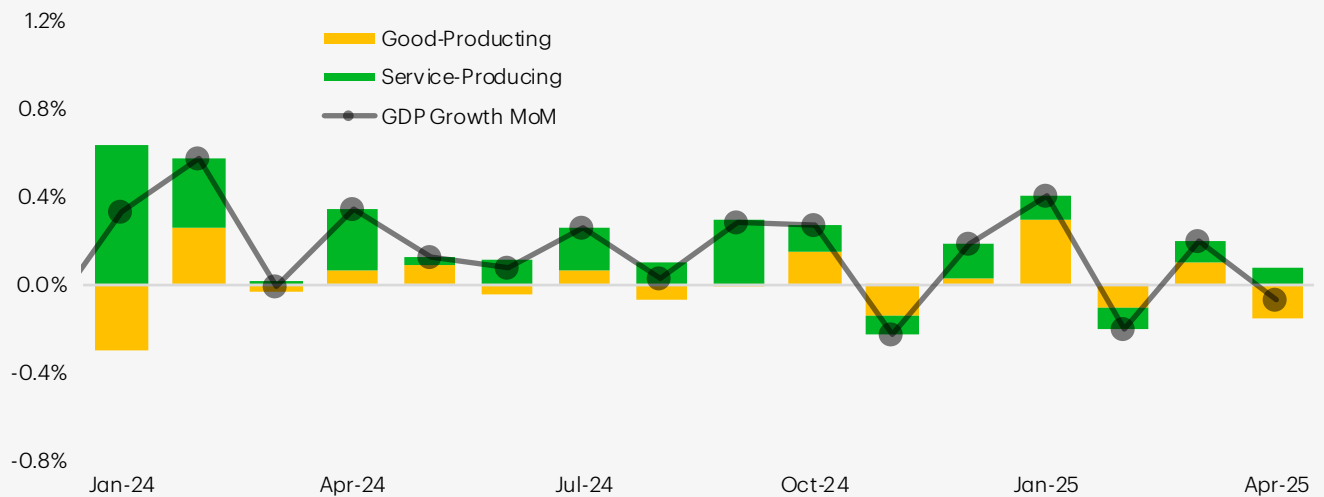
Change Is Coming in Canada

Even though the election of Mark Carney gave the Canadian economy a hopeful boost, the external environment is not favourable. Ongoing tariff negotiations weighed on growth. Based on the monthly GDP estimate, the Canadian economy shrank about 0.1% April, driven by the 0.6% decline in goods-producing industries (Figure 8). Manufacturing, the most severely impacted sector, shrank by 1.9% from March; automobile exports were down and this hurt manufacturing activities in related subsectors. Outside of durable goods, food and energy related subsectors also declined. Although the service sector grew modestly at 0.1%, it was not enough to offset the larger decline in goods-producing industries.

On the inflation front, there are a number of things to consider. First, headline CPI (Consumer Price Index) inflation is tame, currently trading below the central bank target of 2%. However, the Bank of Canada (BoC) looks at three preferred inflation measures to minimize biases. Figure 9 shows that the average of the three core inflation gauges, holding in at 2.9% in June, is travelling in the wrong direction year-to-date. This complicates the policy rate trajectory as the risk of stagflation ticks up.

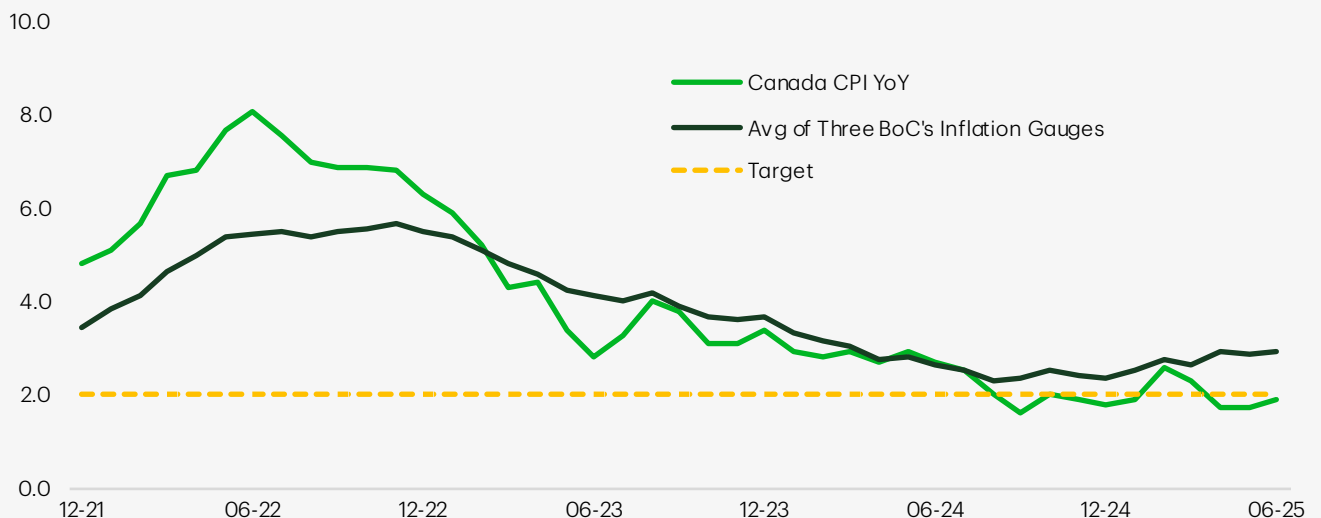
Another complexity clouding Canada's prospects for economic growth is its high-flying population growth, which is causing a few problems. As the population grew north of 3% at the peak, driven by both permanent and temporary immigration, the economy benefited

Figure 8: Canada's GDP Growth Month-over-Month



Source: Macrobond, WIO as of June 30, 2025

Figure 9: YoY Inflation Measure in Canada vs BoC Target



Source: Macrobond, WIO as of June 30, 2025

from the influx of consumers and labour supply. This was a positive for GDP growth and kept labour costs competitive, especially in low skill industries. However, it posed a problem for productivity as measured per unit of labour. High immigration can also mask slow growth. Even when per capita GDP growth is negative, high population growth can offset it and still show positive aggregate GDP growth. Lastly, population growth often led to a rapid increase in property prices.

Figure 10 shows that, Canada's population growth rate has been through a few cycles. Pre-Covid (2010-2019), it fluctuated within a relatively narrow range, with an average of 1.1% over the period. During and post-Covid, the Canadian immigration policy experienced a more volatile cycle. As a result, population growth topped G7 economies at 3.2% in Q2 2024, almost three times the historical average. The Liberal government, realizing the implication on youth unemployment and property prices, tightened the immigration quota going into the election cycle. Fast forward a year and population growth now stands at 1.2%, close to the historical average. Going forward and without such high population growth, Canada's economic growth in aggregate will be more aligned with the underlying growth of GDP per capita. This is why the new government has multiple initiatives focused on promoting research and innovation, which it hopes will boost productivity growth in the long run.

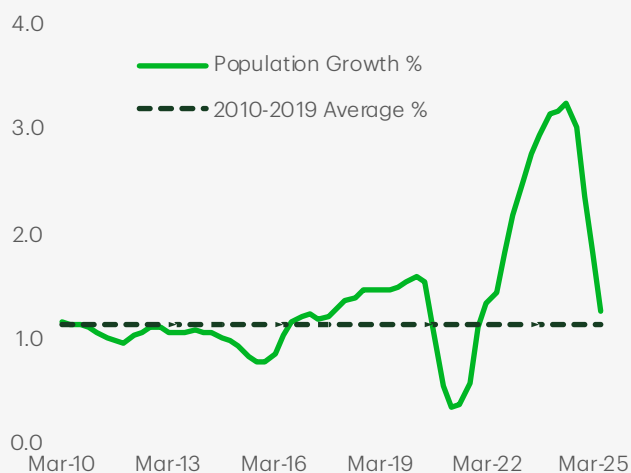
Reinvigorated Capital Markets in China

Many investors are concerned about China—with its still-struggling economy and the threat of much higher tariffs from the U.S. However, geopolitical uncertainty, deglobalization and technological innovation could offer new investment opportunities. Investors in both public and private markets were astounded when

they learned about the latest AI innovation from China's DeepSeek. This lightweight large language model provides a viable option for China to continue to compete in the generative AI space—even with the export restriction on cutting edge semiconductors. Domestically, technology companies once focused on e-commerce and social media, started to shift their focus to AI to seek out not only better growth but also ways to better monetize the massive data and user base. This is also more aligned with one of China's strategic goals, which is to reduce the regulatory risk associated with large businesses.

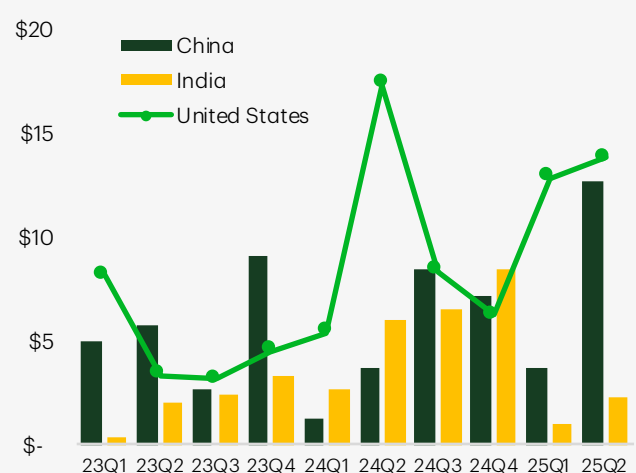
In the second quarter, the U.S. IPO market picked up, and China's IPO market recorded the highest IPO volume since 2023, marking a revival. On July 9, five companies debuted in Hong Kong, recording the busiest day for the exchange. After years of lack of IPO activity amid a slowing economy and deteriorating investor interest, private equity and venture funds in the region have been stuck with a glut of companies in their portfolio at attractive valuations. One of the largest investors in the private secondaries market (which buys and sells existing private equity investments) that we met with during the quarter confirmed that they see attractive opportunities from the private secondaries market caused by completely idiosyncratic drivers compared to the U.S. On the public market side, foreign investor allocation has been low because of geopolitical risk and the struggling performance of Chinese equities. This reopening of the IPO market provides an opportunity for both private and public market participants. Figure 11 shows China's IPO volume in the second quarter hit US\$12.7 bln, just US\$1 bln shy of IPO volume in the U.S. In sharp contrast, India, which boasted the most active IPO market in 2024, has seen muted volume so far this year.

Figure 10: Quarterly Population Growth (YoY %)



Source: Macrobond, WIO as of June 30, 2025

Figure 11: Quarterly IPO Volume of U.S., China, and India



Source: Macrobond, WIO as of June 30, 2025

Diversification Plus Stable, Attractive Income

Erratic U.S. tariff policy has generated some interest rate volatility. To avoid risks and reap the rewards, bond allocations should be managed actively.

Daniel Carabajal, Senior Fixed Income Analyst | TD Wealth

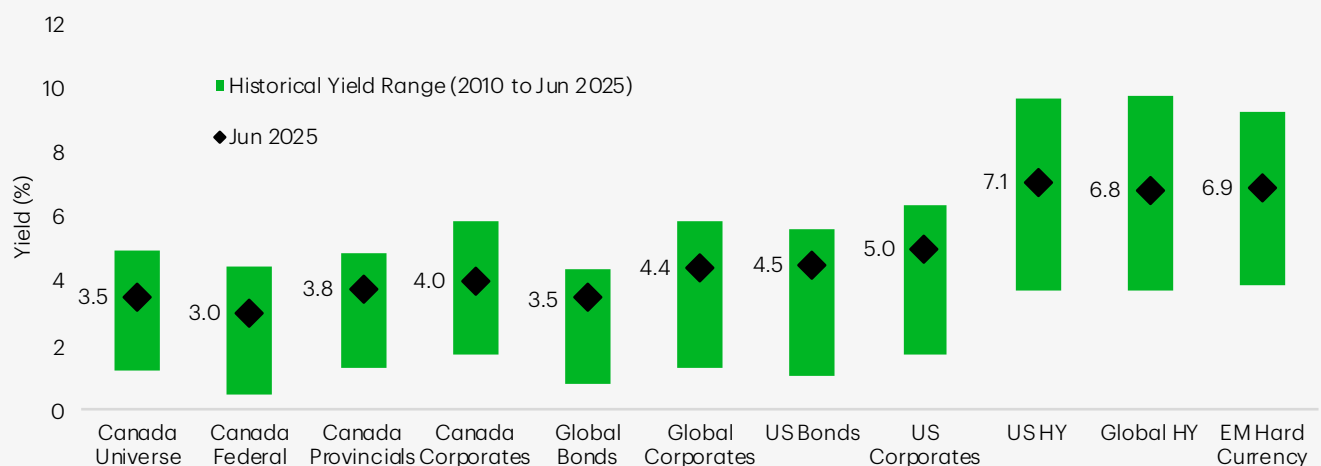
As we move into the second half of 2025, we find ourselves grappling with more questions than answers. The recent ceasefire in the Israel-Iran conflict has brought some relief to geopolitical tensions, yet the global outlook remains fraught with uncertainty. In the U.S., tariff negotiations are still underway as President Trump pushes his trade agenda, but key details remain unresolved. In addition, the ramifications of the new tax law (the One Big Beautiful Bill Act) on U.S. debt are still unclear, complicating the economic landscape. Amid this backdrop, fixed income instruments have performed as expected during turbulent times, with most segments of the fixed income market showing positive returns in the second quarter.

Short-term government bonds, with less exposure to interest rate movements, have benefited the most from the recent steepening of the yield curve. On the corporate bond side, credit spreads have tightened since the selloff in early April, driven by resilient economic data and fading recession concerns. The current high yield environment still offers compelling interest income for bond investors. Higher yields historically translate into higher returns, making the long-term outlook for bonds attractive. In fact, in our view, current yields present an attractive opportunity to construct a well-diversified portfolio, albeit with higher volatility expected in the near term.

Most central banks, including the Federal Reserve and the Bank of Canada, are taking a cautious approach by holding interest rates unchanged as they assess the impact of U.S. tariffs on inflation. If necessary, we believe central banks have room to lower policy rates, reducing short-term government yields, as they move towards a modest accommodative stance, but the path could be bumpy. Monetary policy paths will also be different for every region as central bankers evaluate their unique circumstances. We may still be in a rate-cutting cycle but recent sharp moves in government bond yields reminds us that we need to be prepared for anything. Given the host of uncertainties faced by central banks, policy rate forecasts are ephemeral at best. The good news is that there will be opportunities for fixed income portfolios to benefit from active management.

Government yields will likely remain higher than pre-COVID levels for longer than expected, even taking into consideration the global move towards modest easing. Given the macroeconomic uncertainty, bonds continue to offer yields on the higher side of the historic range (Figure 1). We believe that higher yields reinforce the positive role of fixed income in a broadly diversified portfolio, delivering income as well as downside protection.

Figure 1: Yields Still Attractive



Source: FactSet, Wealth Investment Office, as of June 30, 2025. Global HY: Bloomberg Global High Yield Hedged to CAD. EM Hard Currency: JP Morgan EMBI Global Core Hedged to CAD.

- We maintain our modest underweight view on fixed income overall. We believe returns going forward will largely be in line with average historical levels and mainly composed of the coupon.
- We hold a neutral view on domestic government bonds. Canadian government bonds are attractive at current yields and offer opportunities for income generation and downside protection, but we expect yields to be volatile given the uncertain outlook. Importantly, Canadian government bond yields remain highly correlated to the more volatile U.S. government and global bond yields.
- We remain modest overweight on investment grade (IG) credit. IG spreads are historically tight, and we favour Canadian IG corporate bonds, with their slightly wider spreads, over U.S. IG. Given the high level of uncertainty around the global economic backdrop, there is potential for spreads to widen further (indicating the market is pricing in more risk) and as such we prefer short-term corporate bonds over longer maturities. We remain focused on high quality credit—companies with robust balance sheets—and we expect technicals to remain supportive and healthy yields to mitigate losses from price volatility.
- We hold a neutral view on high yield (HY) credit. HY bonds have been volatile due to the substantial uncertainties around U.S. trade policies and their impact on the global economy. HY spreads are tight, reflecting their rich corporate valuations and little premium for increased economic uncertainty. We expect spreads to widen if the growth outlook softens, although the

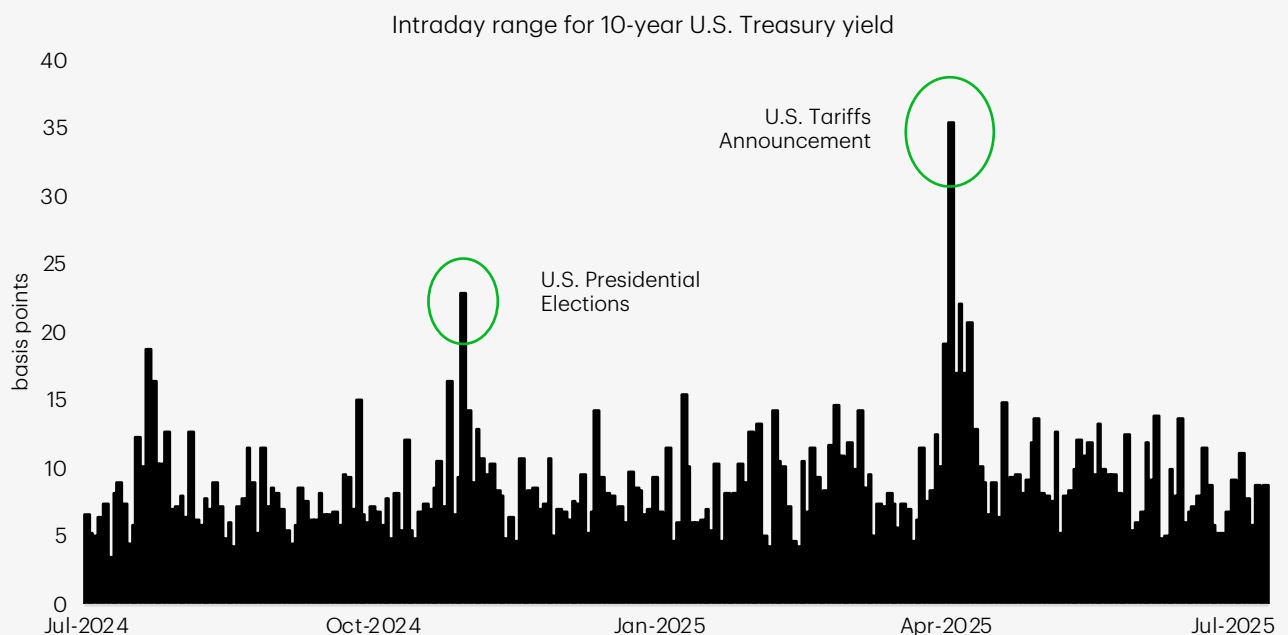
risk of further widening is mitigated by attractive all-in income. We continue to favour the higher quality cohort of the HY credit market and floating rate loans (also known as bank loans or leveraged loans) offer better relative value than traditional fixed coupon HY bonds.

Government bonds

Government bonds have experienced bouts of volatility due to trade tensions, geopolitical issues, and worries about the U.S. fiscal outlook. For instance, the yield on U.S. Government 10-year bonds fluctuated within a 60 basis point range in the second quarter, with daily swings peaking at 35 basis points (Figure 2). This environment makes it challenging to have strong convictions about the direction of government bonds. Investors should be prepared for continued volatility, particularly as new economic data on inflation and employment may provide insights into the impact of recent U.S. policy changes, like the One Big Beautiful Bill Act.

We remain neutral on Canadian government bonds. Canadian yields and U.S. equivalent yields have diverged since 2022 reflecting the country's different economic recoveries and the pace of central bank policy rate adjustments. We doubt this divergence can extend further and expect it to remain range bound, implying that Canadian yields will be at the mercy of their more volatile U.S. counterparts. We believe it's still best to take a longer-term view on government yields given the growing risk of an economic slowdown here in Canada as well as in other developed economies.

Figure 2: Government yields have experienced bouts of volatility



If this occurs, we believe investors will move back into the safe haven of government bonds. On the other hand, a new fiscal package—and the accompanying higher deficit and higher bond issuance—might boost the term premium in government bonds. After the strong performance of past quarters and minus a severe recession, the outlook for Canadian government bonds is now more balanced over the medium to long term. Given the continued volatility, we still encourage investors to take a risk-managed approach to government bonds and rely on active management. Since 2021, only actively managed interest rate duration that has tapped into tactical opportunities has performed well.

Key Themes for Government Bonds:

- **U.S. Government Policies.** Overall, U.S. government policies and President Trump's trade talks are still a big driver behind increased volatility in government bond yields. Though some governments are still negotiating, the broader 10% tariff seems to be the new base level for many U.S. trading partners. While negotiations could be underway for some time, the scale and scope of these new tariffs have uncertain long-term implications for the global economy. Trump has said the tariffs provide revenue that will reduce

the overall fiscal deficit, but the bond market voiced its reservations during the week of April 7. Sustained higher treasury issuance will weigh on prices and justify higher term premiums and higher government bond yields. Tariffs may also heighten consumer concerns about inflationary pressures. We expect this volatility to continue until we get a clearer picture of how recent U.S. policies will affect the world economy.

- **Forecasts and Market Expectations.** The policy shift under President Trump's administration continues to generate uncertainty around U.S. monetary policy. Expectations for rising inflation could reduce rate cuts this year, and intense trade conflicts are poised to hurt U.S. and global economic growth. As such, the Fed's policy rate path has become more uncertain, and the risk of stagflation is increasing, which means we may see a wider margin of errors for policy rate forecasts. As a result, it's crucial to adopt a tactical approach when investing in government bonds.

- **U.S. and Canadian Bond Yields.** The spread between Canadian long-term government bond yields and their U.S. counterparts remains wide. From the late 1990s until about mid-2022, spreads (Canadian yields minus U.S. yields) toggled around the zero line or were slightly positive (Figure 3). At the start of 2025, those spreads

Figure 3: Performance, Sensitivity of Canadian Government Yields vs. U.S. Yields



experienced an extreme turnaround, dropping to roughly -150 bps for 10-year bonds before returning to -98 bps on July 7, 2025. These wider spreads and the higher U.S. yields reflect factors in both economies. 1) U.S. yields have been pushed higher by renewed inflation concerns, nagging fiscal worries, uncertainty around tariffs and ambitious tax cuts. 2) The main economic factors in Canada are sticky inflation and concerns about the fiscal outlook. We believe Canadian yields will remain sensitive to U.S. yields and will likely move in tandem with them. If U.S. yields are pushed higher for domestic reasons, we expect Canadian yields will also rise, but less so. If U.S. yields are driven lower by recessionary fears, Canadian yields will most likely fall as well, but less so. The BoC's easier monetary stance and lower terminal rate will limit but not prevent Canadian yields from rising. It also means the BoC might have less room than the Fed to move aggressively if outsized cuts are required.

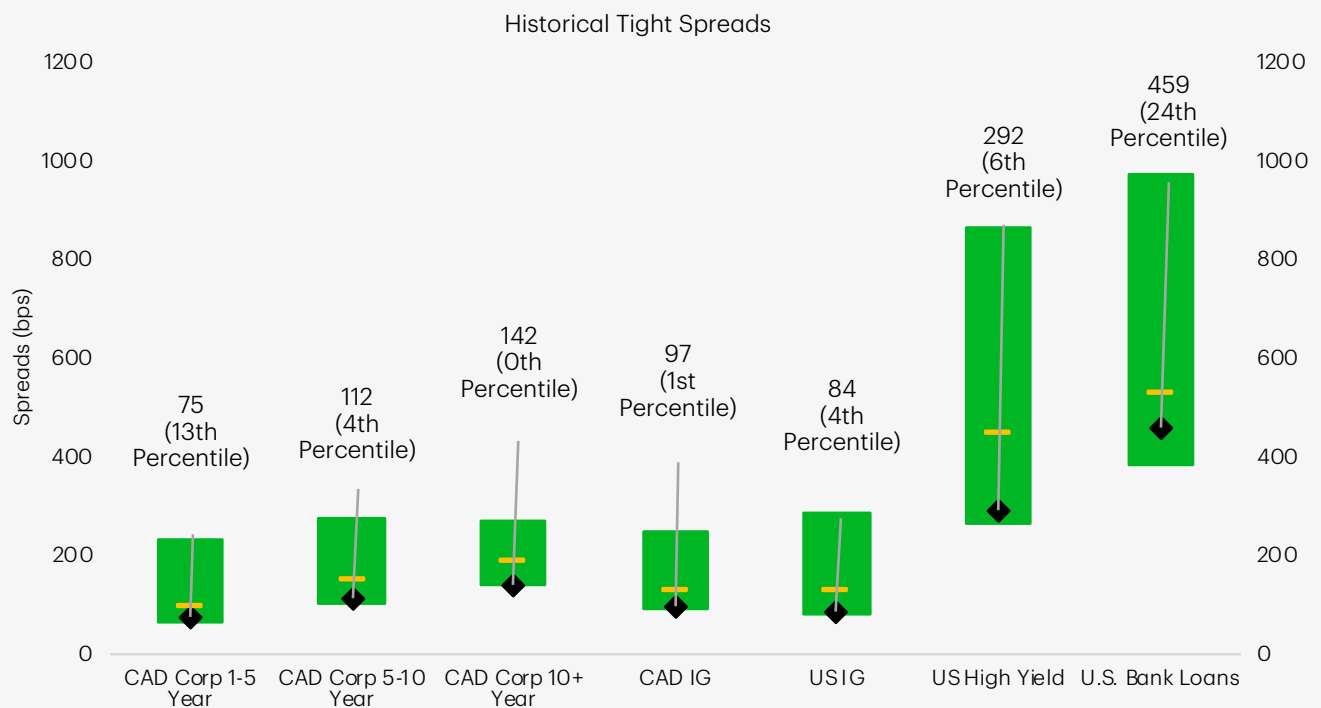
Credit: investment grade and sub-investment grade

After the market turbulence in early April, credit spreads rallied throughout the quarter, thanks to tariff de-escalations and solid economic data that eased recession fears. With U.S. IG credit spreads now near the 4th percentile, there is limited potential for further compression (Figure 4). However, corporate bonds continue to offer attractive value amid today's heightened uncertainty.

We maintain our modest overweight view on IG credit and our neutral stance on High Yield (HY) credit. Within the broader IG complex, we prefer short-dated Canadian IG bonds as a total return investment because they still offer attractive all-in yields with lower interest rate sensitivity and are expected to keep offering better forward excess returns than longer maturity corporates. As of the end of June, spreads for the shortest Canadian IG credit with 1-5 year maturity are trading at the 13th percentile whereas spreads for long maturities are trading at tighter levels with 5-10 year maturities at the 4th percentile and +10 year maturities at the 0 percentile. Higher yields provide more protection if spreads widen (risk premium increases) and, importantly, higher quality shorter maturity credit will widen less than the broad IG index.

We expect U.S. HY spreads to widen more relative to IG if fundamentals deteriorate and the probability of defaults increases. Within HY credit we prefer U.S. bank loans over the traditional fixed coupon HY credit bonds; based on current historically tight valuations, and within the broad HY universe, U.S. bank loans, with floating coupons based on the short-term rate, are trading with a higher spread cushion, or premium, at the 24th percentile. Broadly we're more comfortable owning IG, with its better outlook and balance sheet strength, over HY. Given the wide range of views on the economic outlook, we believe credit investors should rely on professional active management and sectoral trends.

Figure 4: Current spreads are near historical lows



Source: FactSet, Wealth Investment Office, as of June 30, 2025. Using historical month-end spreads since January 2010.

Key Themes for Credit or Corporate Bonds:

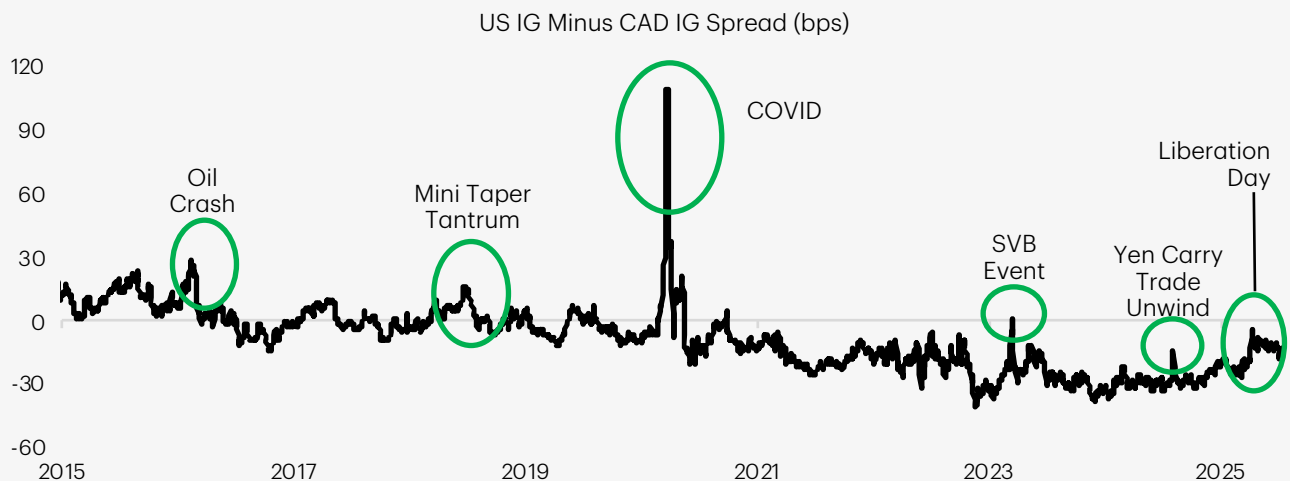
- **Prefer Canadian IG to U.S. IG.** We still expect Canadian IG to fare better than U.S. IG on a relative basis. Even if tariffs cause an uptick in the sensitivity of Canadian IG spreads to their U.S. counterparts, Canadian IG remains a lower beta alternative. As of mid-July, the issuers most at risk are concentrated in the automotive sector (offshore issuers/guarantors), or in HY. Therefore, the Canadian IG space should prove a relative safe haven and should perform reasonably well through this turbulent period (Figure 5).

- **New Bond Issuance Should Support U.S. Credit Spreads.** Despite the recent market volatility, IG corporate bond issuers have successfully tapped debt markets this year. They've preferred issuing short-term bonds, reflecting a strategic anticipation of lower yields in the future. However, refinancing needs are expected to drop in the coming months. Net bond supply, which excludes coupons and principal that is refinanced, is likely to be lower in the second half of

the year. In addition, initial hopes for increased M&A related bond issuance have not materialized due to the fragile market environment. While a reduction in net bond supply does not guarantee tighter spreads, this factor, along with solid inflows reported into the asset class, should support credit spreads in the near term.

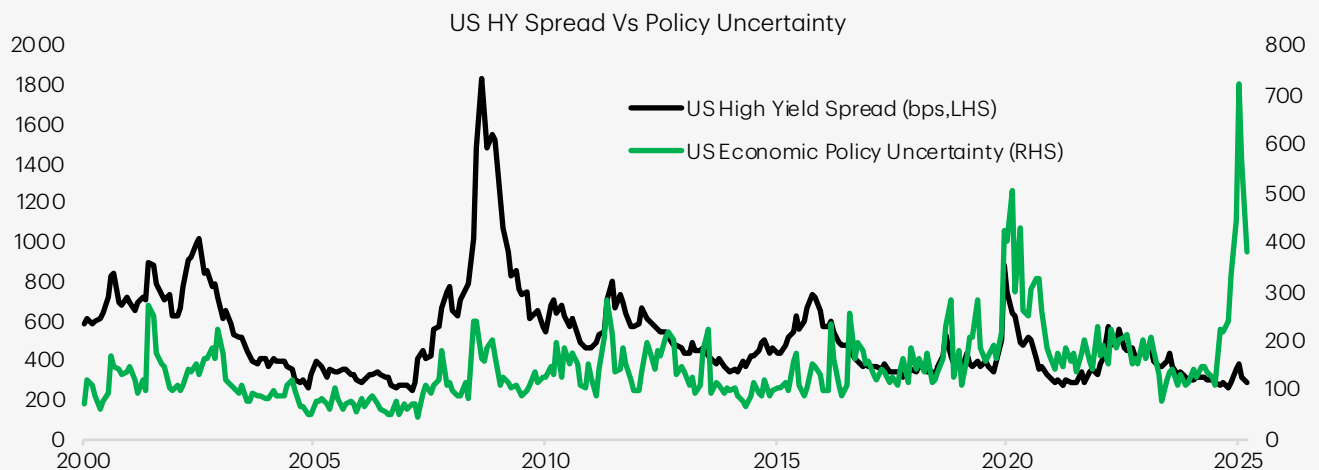
- **HY Market Remains Susceptible.** Historically, periods of tight credit spreads have often been followed by a sharp widening, and selloffs tend to align with recessions, like the 2007-08 Global Financial Crisis. No one can predict these movements but understanding the underlying factors shows us how credit spreads could change. Uncertainty about future fiscal policies, stubborn inflation, sluggish economic growth, or broader concerns like the 'liberation day' tariff announcements, can all influence credit spreads (Figure 6). With credit spreads nearing historically tight levels, the risk premium looks relatively low given the surrounding economic uncertainties.

Figure 5: Historically, Canadian IG spreads widen less than U.S. IG spreads in times of stress



Source: FactSet, Wealth Investment Office, as of July 7, 2025.

Figure 6: Historically, spreads widen in the 12 months after tight levels



Source: FactSet, Economic Policy Uncertainty Index, Wealth Investment Office, as of June 30, 2025.

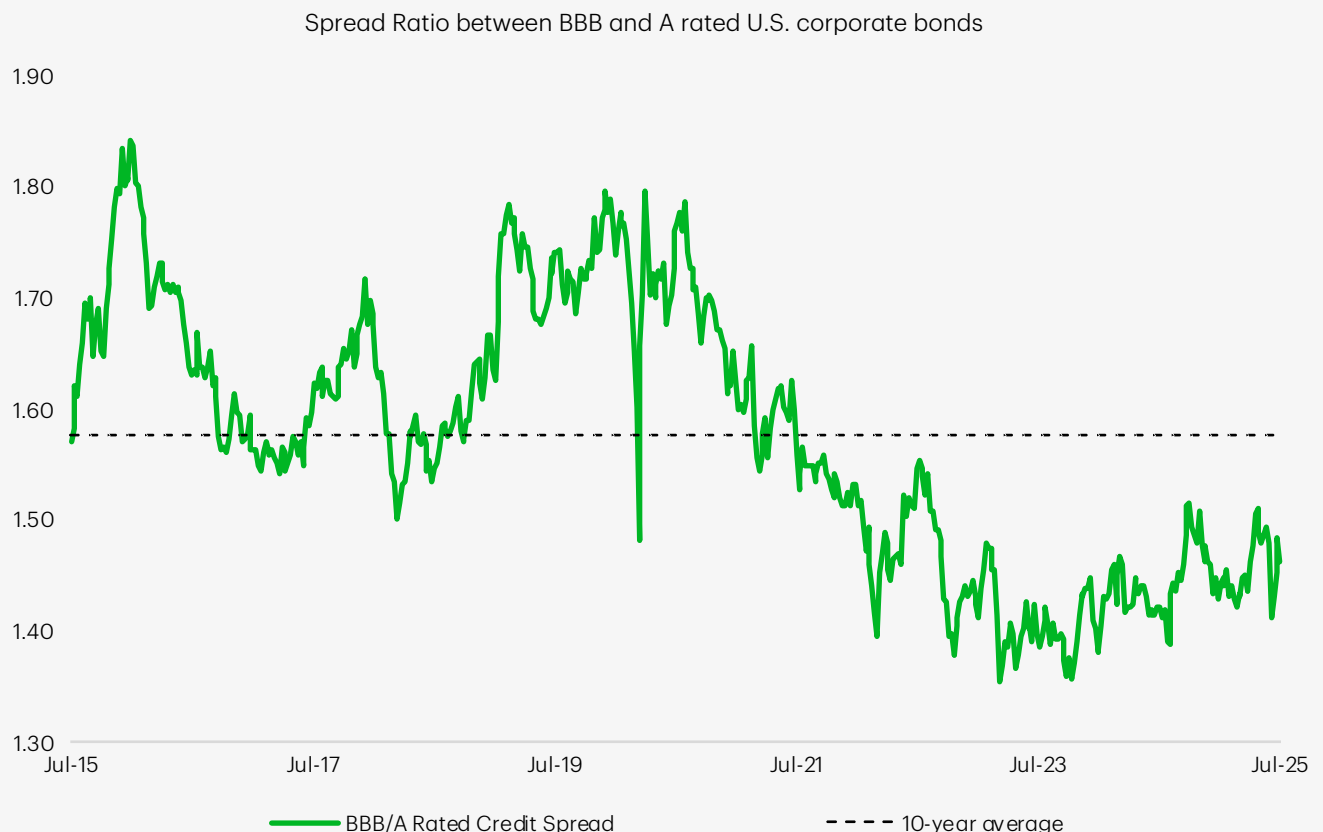
• **Active Management Offers More When Markets Offer Less.** Even though credit entered 2025 underpinned by fundamental and technical support, the heightened volatility and wider spreads experienced in the first week or so of April showed us that we cannot take anything for granted. In the IG credit space valuations are still a challenge, and HY credit remains susceptible to economic cycles (Figure 7). During this turbulent time, prudence is best and professional active managers will be well positioned to correctly evaluate credit, curve positions, and sectors, and to initiate or trim credit risk hedges, when it matters most.

Higher yields and diversification

Investors should hold a balanced and diversified portfolio in any given environment, but this is even more crucial now. We maintain a modest underweight view on fixed income overall and expect returns for Canadian fixed income over the next 12 months will be

closer to the current yield. We expect the bond market will likely return to more conventional behaviour after trade conflicts settle down and, if the economic slowdown is more pronounced than currently expected, bonds could offer returns better than our base case. The diversification benefits of bonds might be confusing on certain days, as seen during the start of April, but over longer intervals bonds retain their risk diversification capabilities. Current yields remain attractive, provide a buffer against volatility, offer diversification, and add the income back into the fixed income mix. Starting yields have been a strong indicator of long-term fixed income performance and based on current high yields and market conditions, we believe there is compelling value in high quality, liquid public fixed income. Active management that balances duration and credit exposure and makes tactical adjustments will help investors sort through the wide range of yields and capture strong returns.

Figure 7: BBB credit spreads appear historically costly vs. higher rated U.S. corporate bonds



Source: FactSet, Wealth Investment Office, as of July 11, 2025. Using historical end of week spreads since July 2015.

V is for V-shaped, Volatility and diVersification

U.S. exceptionalism has led to complacency in recent years, with passive investors riding the tech-dominated benchmark index. But in this new volatile market, an active and diversified approach works best.

By Christopher Blake, Senior Portfolio Manager; David Beasley, Senior Portfolio Manager; Mansi Desai, Senior Equity Analyst; Chadi Richa, Senior Equity Analyst; Neelarjo Rakshit, Senior Equity Analyst; Nana Yang, Senior Equity Analyst | TD Wealth

From the “Liberation Day” equity-market sell-off in April, which took the S&P 500 down 20% from peak to trough, to the near 30% melt-up into new all-time highs accompanying the passage of the previously named “One Big Beautiful Bill Act” (OBBA) in July, U.S. equity markets under Trump 2.0 have continued to trade with headline-driven, two-way volatility in 2025 (Figures 1 and 2).

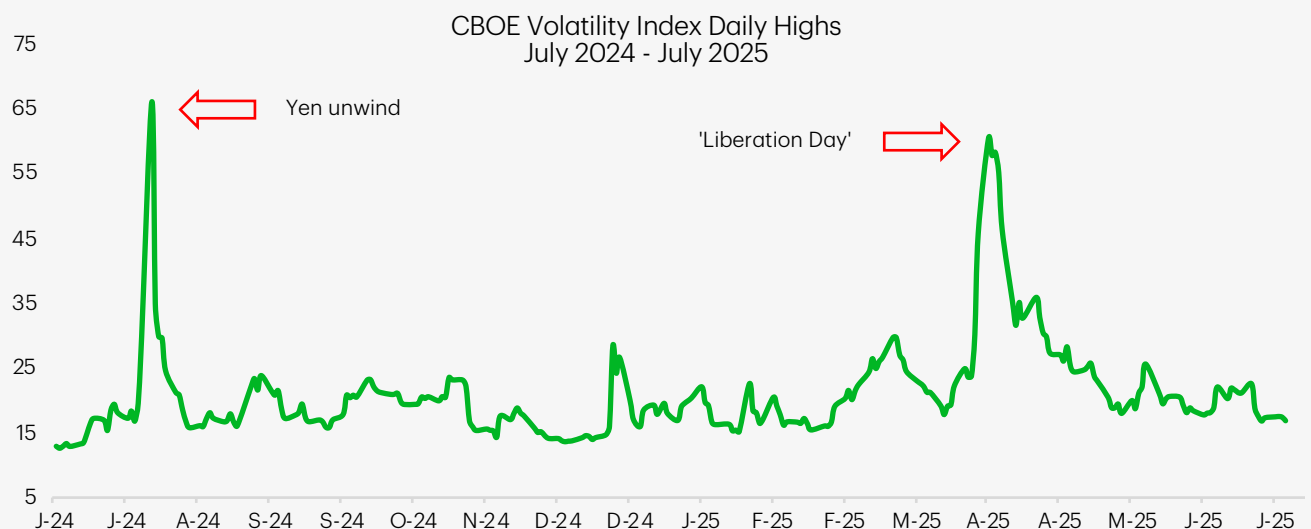
Contrast this with the equity market during 2024, which seemed to be, in retrospect, a trend-following, growth-focused investors’ dream, in which the S&P 500 returned 25% with only one ~10% drawdown. However, that 10% drawdown, albeit relatively shallow and short in duration, was a rather violent one. During the period in late July and early August 2024, when the Japanese yen carry trade (traders borrowing yen at low interest

Figure 1: ‘V’ is for V-shaped equity-market recovery



Source: FactSet, Wealth Investment Office as of July 4, 2025

Figure 2: ‘V’ is for Volatility



Source: FactSet, Wealth Investment Office as of July 4, 2025

rates to leverage exposure to U.S. technology growth stocks) was being unwound due to a spike in the yen, we saw similar market action as in April 2025, with sequentially lower openings in a selling panic.

In both of these 2024 and 2025 “mini-crashes,” volatility in the equity markets was reflected in extreme readings in the CBOE Volatility Index (VIX), also known as the “fear index.” The VIX spiked above 60 on both occurrences, which has only happened one other time over the past 15 years — the early days of the pandemic in 2020.

V is for Diversification?

This seemingly new normal of heightened volatility risk highlights the importance of tactical, active portfolio management and maintaining a diversified allocation, which guards against risks while exploiting opportunities in mispricing from short term market inefficiencies.

A look at the equity fundamentals still appear mixed, with leading factors, tariffs and fiscal spending (i.e., OBBA) playing tug-of-war on the outlook for equity valuations. As of writing (on July 16), the U.S. government is expected to put tariffs into effect on trading partners broadly starting August 1, notwithstanding any trade deals reached by then. That would presumably increase costs for exporters and prices for consumers. Although we don't yet know where the burden on the transaction chain may fall heaviest, we do expect it to have a negative impact on operating margins and earnings on the cost side, and to reduce top-line revenue due to a fall in demand on the price side.

However, the passage of the OBBBA means that the 2017 corporate tax cuts are now permanent, so that potential risk to earnings has been removed. The bill also includes several tax breaks for middle-class consumers, including a meaningful increase in the state and local tax deduction (SALT) for the next four years as well as lower taxes on tips and overtime work. These elements are stimulative for consumption, the country's largest component of GDP, so that should provide some form of economic tailwind.

We also have a slightly mixed/uncertain picture on the macro side. Strong employment numbers and a slight uptick in inflation should compel the Federal Reserve to refrain from rate cuts over the short term, keeping monetary policy neutral to tight at current levels. Meanwhile, fiscal stimulus can be a boon for some industries, favouring spending on defence, energy and border security, although it reduces spending on programs for low-income individuals, including Medicaid.

How these forces manifest in corporate earnings over the coming quarters will impact where stock prices go from here. Perhaps primarily driven by tariff uncertainty, analysts have been downgrading estimates over the past year, with consensus forecasts now at around 10% earnings growth for 2025, rising to low- to mid-teens over the following two years. At a price-earnings multiple of 22.3x the next 12 months' earnings, the S&P 500 looks near full value — trading at the upper end of its post-pandemic valuation range.

Whether we continue to see heightened two-way volatility or a sustained V-shaped recovery is less important than maximizing the benefits of compounding from “time in the market,” rather than “timing the market.” To that end, we continue to favour a diversified equity-allocation strategy, with a balance of exposure to high-beta growth, lower-volatility defensive growth, consistent dividend growers as well as diversified geographical allocation from American, Canadian and international equities.

Measured exposure to high-beta growth

An allocation to technology equities is an important source of equity growth, but it comes with above-average portfolio volatility. After two years of bull-market leadership, including a near doubling of the Nasdaq Composite from the late-2022 lows to the end of 2024, U.S. tech stocks (and specifically the AI leaders) contributed to the turbulent trading conditions of 2025. The data-centre build-out thesis, which took related stocks to massive gains, faced concerns that the countercyclical capital-spending wave was drying up. AI semiconductor stalwarts like Nvidia and Broadcom lost almost half their value at the April lows before reaching new all-time highs in July. This extreme volatility exacerbated the tariff-driven market weakness.

There are many high-quality technology growth names such as these that can be considered core long-term holdings, but with valuations now back to cycle highs, and a mixed picture for continued capital spending (given cuts at Microsoft versus the new AI Superintelligence Labs at Meta), we think the current environment calls for a measured exposure, rather than an overweight allocation, to high-beta technology growth.

Allocation to lower volatility defensive growth

During an economic slowdown, or even a recession, we expect to see consumers trade down to more price-competitive retailers. Historically, large retailers, grocers and dollar stores that benefit from scale compete on price. These kinds of retailers tend to see an

increase in market share during recessionary quarters, supported by meaningfully above-peer comparable sales growth. This should allow the strongest players in this defensive sector to continue expanding their store footprint, which will further cement their leading position.

Furthermore, such large retailers will be beneficiaries of the highly profitable advertising data business (known as retail media), primarily because they have a large customer base, a growing e-commerce business and tremendous amounts of valuable data, which places them in a unique position to leverage this data and target customers with advertising. Retail media is expected to improve e-commerce profitability for those companies and structurally improve earnings quality in the coming years.

Within health care, we continue to like the medical technology (medtech) sub-sector for defensive growth. At first glance, health care has been one of the worst performing sectors year-to-date, with the S&P 500 health-care sector down 0.6%, underperforming the S&P 500 broadly at +6.9%. However, this performance is in aggregate, and given the wide range of returns within health care, individual companies will warrant a closer look. On a sub-sector basis, our preferred space in lower-volatility defensive medtech returned 9.7% year-to-date on average.

We believe that areas of medtech can deliver growth in a variety of economic environments. An economic slowdown, after all, will not alter the reality of when a patient needs to have a hip or knee replacement, or cardiac surgery. We have a more cautious view of the pharmaceuticals sector, given that many of the large pharma companies are facing loss of exclusivity for major drugs near the end of their patent life. The pharma sub-sector returned 3% YTD, underperforming the broader market return of 6.9%.

Consistent dividend growers

When it comes to dividend-growing stocks, large Canadian banks take the lead. The Big-6 are prepared to weather the anticipated slowdown with strong allowances for credit losses, and capital and liquidity levels well above regulatory requirements. Although this is weighing on profitability (ROE), this conservative approach should allow the banks to continue to return capital to shareholders while comfortably growing loans. Furthermore, while 60% of all outstanding mortgages are expected to renew in 2025 or 2026, we don't expect this to lead to a severe deterioration of financial health for the affected borrowers, assuming the labour market doesn't worsen significantly. According to an assessment by the Bank of Canada,

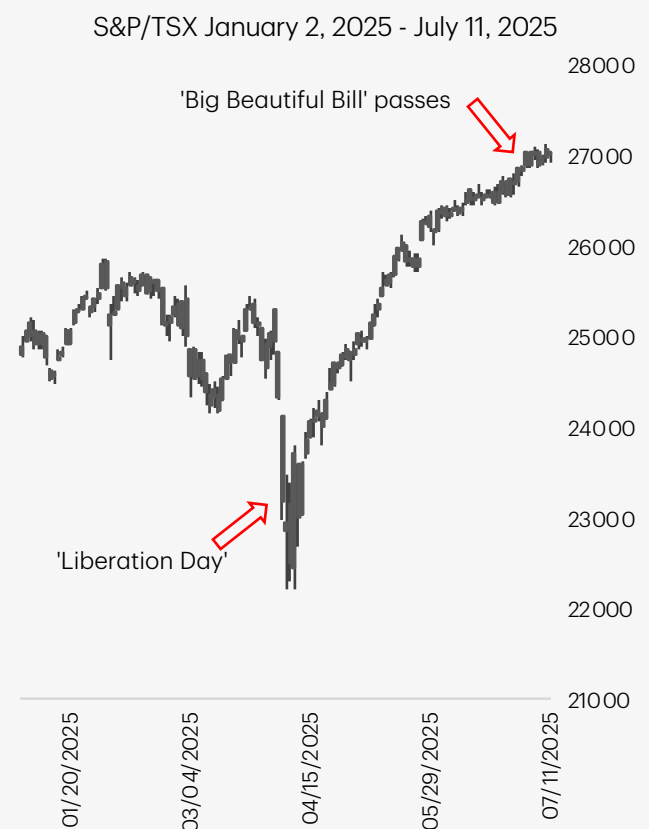
most borrowers will likely have higher incomes at renewal and should face interest rates below what they were stress-tested for.

Utilities and pipeline infrastructure companies, meanwhile, benefit from asset portfolios with high fixed costs. They enjoy high barriers to entry, and lower operating and maintenance costs, resulting in healthy margins. Given the necessity-oriented nature of utilities and pipeline assets, demand typically does not fluctuate with price changes, making these companies fundamentally hardened to business cycles. Additionally, the long-term contracts of utility and pipeline assets promote a steady margin and a highly visible cash flow profile. This, coupled with stable and growing dividend yields, suggests that utilities and pipelines may provide a stable investment option in times of market uncertainty.

Canadian equities: Ready for what comes

The benchmark Canadian index, the S&P/TSX Composite, traces a highly correlated path with the S&P 500 in the United States (Figure 3). That is not a surprise. The trading relationship with the United States matters greatly to the Canadian economy, and economic news south of the border is very influential to the Canadian market.

Figure 3: Tracing a familiar figure



Source: FactSet, Wealth Investment Office as of July 11, 2025

Canada remains a sweet spot for income-producing equities. Overall, the TSX is trading at almost 16.1x the next 12 months' earnings estimates, slightly higher than its five- and 10-year averages of 14.5x and 15.0x, respectively. So, the market is not cheap, but given a range of 10.8x to 21.6x over the past 10 years, the valuation is closer to average than excessive (Figure 4). We are watching several sectors that have reasonable to fair valuations and produce dividends above the Canadian 10-year bond yield (in early July, 3.38%). Dividend growth for the S&P/TSX Composite Index has averaged 7.6% in the past decade, with share repurchases helping that growth.

To be sure, the imposition of U.S. tariffs raises the level of uncertainty for an economy that sends as much as 75% of its exports to that market. It's estimated by the Congressional Research Service in the United States that, in 2024, 38% of Canadian goods exported to the United States were designated under CUSMA (the Canada United States Mexico Agreement) although substantially more than this percentage of Canadian exports would qualify under the rules of origin for the CUSMA according to the Trade Commissioner Service of the Government of Canada.

Many exporters have not relied on CUSMA for regulatory recourse; rather than go through the process of certifying origin, they've tended instead to lean on Canada's status as a "most favoured nation" under the World Trade Organization. However, over the past several months, there's been a scramble to register compliance with the CUSMA rules of origin, and in April it was estimated that 57% of goods exported to the United States were shipped under CUSMA.

While the full effect of the new tariff regime in the United States remains unknown, many industries in Canada have already been degraded by the impact or threatened impact. Perhaps ironically, this offers some comfort to investors, given that the news is already in the market and that valuations reflect much of the impact. Staying diversified within the Canadian equity market and keeping a focus on some of the stable, domestic businesses that have a track record of dividend growth supported by strong financial performance will be key to navigating the choppy waters.

International equities: Growth vs. Tariffs

After outperforming U.S. equities by 6.8% in Q1 (all local-currency performance), international equities took a backseat in Q2, underperforming by 6.1%. This underperformance was primarily driven by potential risks for earnings growth against the backdrop of U.S. tariff threats. On July 8, the U.S. administration imposed 25% tariffs on all imports from Japan. The EU, meanwhile, faces 10% tariffs on all exports to the U.S. on top of 25% tariffs on steel and cars.

Although there's some speculation that the U.S. could soon reach agreements with the EU and Japan, so far (as of July 10) trade negotiations with these countries have taken longer than the markets had anticipated. Given that around 23% and 17% of revenues for the MSCI Europe and MSCI Japan indices are sourced from the United States, higher tariffs or a prolonged period of trade negotiations puts international equities in a vulnerable position.

Figure 4: Selected Stats for the S&P/TSX

	Second Quarter		Year-to-Date			P/E - NTM
	Price Return	Total Return	Price Return	Total Return	Yield	
Canada S&P/TSX Composite	7.78%	8.53%	8.61%	10.17%	2.85%	16.08
S&P TSX Capped / Consumer Staples	6.59%	6.94%	9.29%	10.07%	1.24%	18.40
S&P TSX Capped / Energy	-3.62%	-2.57%	-0.88%	1.30%	2.12%	13.01
S&P TSX Capped / Financial	11.14%	12.14%	8.73%	10.75%	3.80%	12.36
S&P TSX Capped / Health Care	-4.24%	-3.68%	-18.42%	-17.43%	1.88%	4.24
S&P TSX Capped / Industrials	7.83%	8.14%	5.40%	6.01%	1.63%	23.15
S&P TSX Capped / Information Technology	14.94%	15.04%	5.62%	5.80%	0.88%	32.18
S&P TSX Capped / Materials	7.74%	8.12%	29.21%	30.10%	1.24%	16.43
S&P TSX Capped / Real Estate	3.90%	4.95%	1.22%	3.24%	5.06%	14.32
S&P TSX Capped / Communication Services	3.49%	4.97%	4.50%	7.86%	3.84%	11.87
S&P TSX Capped / Utilities	3.75%	4.85%	7.63%	9.96%	4.17%	20.16
S&P TSX Capped / Consumer Discretionary	12.92%	13.65%	9.56%	10.98%	2.23%	15.32

Source: FactSet, Wealth Investment Office as of July 11, 2025

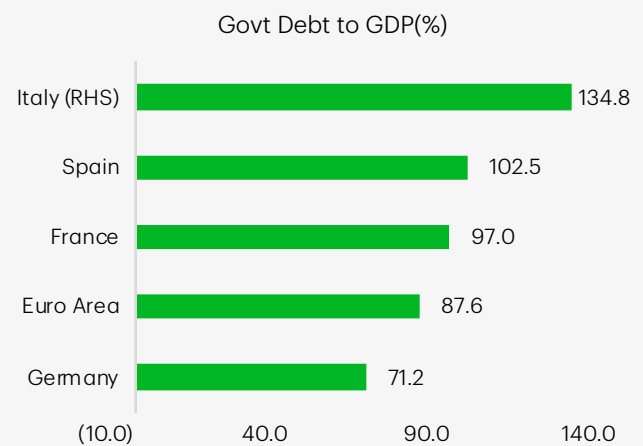
As of late the European economy, after recording sluggish growth since 2023, is showing signs of recovery, with the manufacturing PMI rising consistently from December 2024 to June 2025 (to 49.5). Industrial production, meanwhile, has entered into positive territory after 21 months of contraction. We are seeing similar green shoots in Germany as well where the manufacturing PMI has been rising consistently from January 2025 to June 2025 (to 49.0). Industrial production there recorded positive growth of 1.0% after 23 months in decline (Figure 5).

Consumer spending has also improved meaningfully in Europe. Retail sales have been growing at an average of 2.1% after recording negative growth for 20 months. One key impetus to the economic recovery in Europe has been loose policy from the European Central Bank (ECB), which has reduced interest rates from 4.5% in May 2024 to 2.15% in June 2025. However, the burgeoning recovery could come to a screeching halt if the U.S. administration takes an aggressive stance on import tariffs.

One of the ways in which Europe is placating its American NATO ally is by increasing defence spending. In June, NATO countries agreed to increase their defence spending to 5% of GDP by 2035. Such a serious commitment towards defence could provide structural tailwinds for equities in the space. However, this is easier said than done. Although Europe is now willing to commit to much higher defence spending than the past two decades, the key question is whether Europe has the ability to do so.

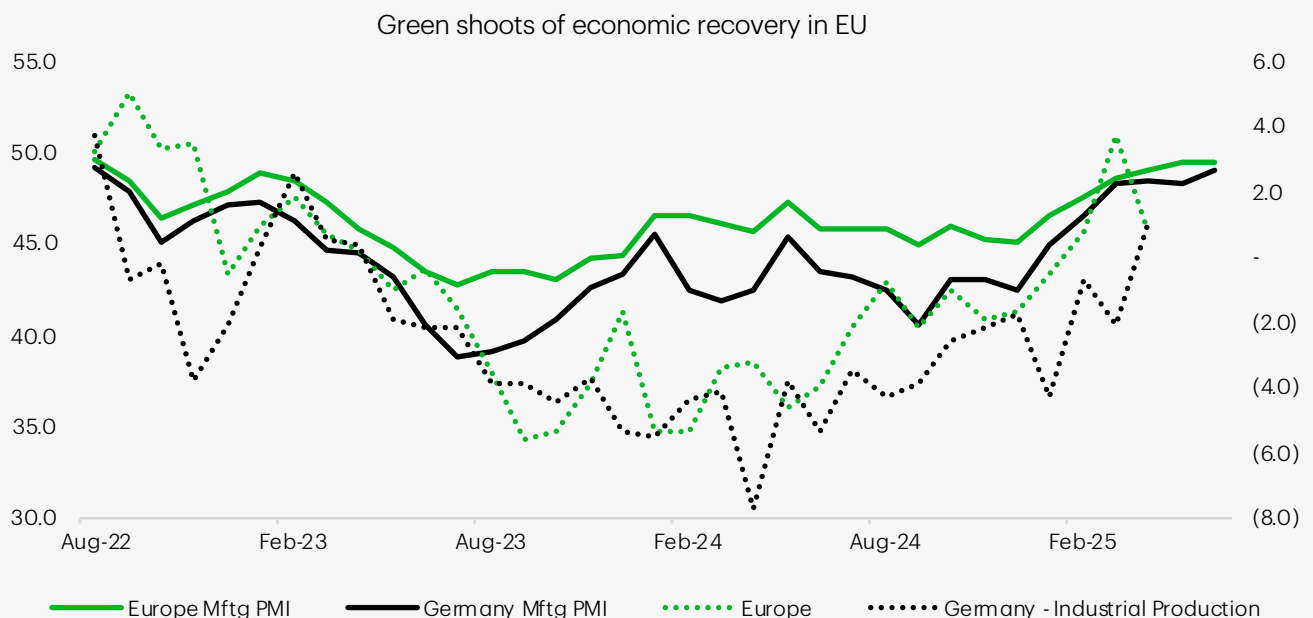
Government debt-to-GDP ratios for key EU countries like France, Spain and Italy stand at 113.1%, 101.8% and 135.3% (Figure 6). After the daunting European sovereign crisis that lasted for almost a decade, some countries will be hesitant to further increase their debt to fund such high fiscal commitment (although Germany's fiscal prudence puts it in a much better position to invest). In addition, the defence industry in Europe is balkanized, with every country buying largely from its domestic defence players, which has led to multiplicity of defence products — unlike the U.S., which has standardized defence products. Europe has over 170 different weapon systems and 12 types of tanks, compared to 30 weapon systems and 1 tank in the U.S.

Figure 6: Can Europe spend 5% of GDP on defence?



Source: World Bank; Wealth Investment Office as of June 30, 2025

Figure 5: Green shoots of recovery in the EU



Source: FactSet; Wealth Investment Office as of June 30, 2025

These hurdles, however, offer the union a rare opportunity to further unite. In recent months, several proposals have been made — such as European Rearmament Bank and the European Defence Mechanism — with the singular aim of funding defence spending without increasing leverage on government balance sheets and setting up a centralized defence purchase program that enables economies of scale and helps integrate the currently fragmented industry.

It will take time to reach a proposal. Given that approximately 64% of Europe's defence imports are sourced from the U.S. — with heavy reliance on critical systems like missile defence, aircraft engines and drones — it will take a few years before defence players in Europe can fully benefit from the EU's defence spending commitment. Over the long term, we expect proceeds from defence spending to benefit aerospace and other players in the industry, advanced technology and software solution providers, as well as infrastructure companies.

Japanese equities outperformed the MSCI EAFE Index by over two percentage points in Q2. The economic impact of import tariffs is lower for Japan than for Europe, given that Japan's exports to the U.S. account for 4.4% of GDP, while for Europe it accounts for 10.4%. Nonetheless, on July 8 the U.S. administration imposed 25% tariffs on Japan, effective August 1, which could be detrimental for export-driven companies if a trade deal is not finalized soon.

In addition, the Bank of Japan (BoJ) is now in a precarious position, wherein a consistent rise in inflation is now hurting consumption growth. The BoJ must be cautious in raising rates further, however, since a depreciating U.S. dollar is already leading to a stronger yen. Historically, a weaker yen has boosted

revenue growth for many export-driven companies in Japan; hence, significant appreciation in the yen would hinder growth prospects for Japanese equities and make interest payments costlier on its government debt which stands at 215.9% of GDP in 2022.

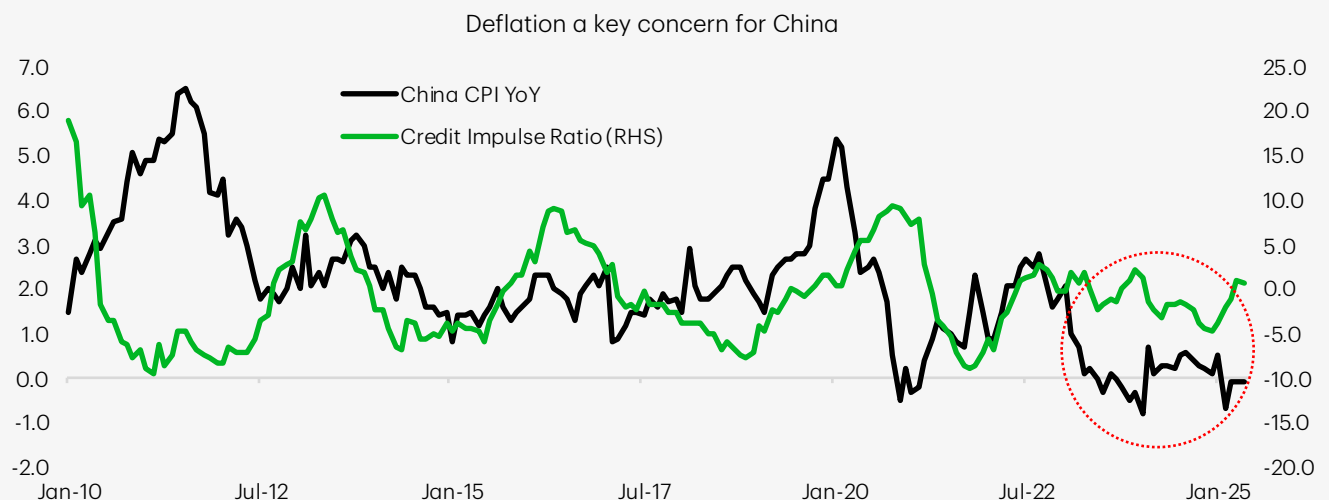
Over the long term, though, we continue to be positive on Japanese equities, given the corporate reforms, rising participation of households in equities, reflation and the country's dominant position in industrial automation, producing 45% of industrial robots globally.

Chinese equities, after outperforming the MSCI EM Index by 12 percentage points in Q1, underperformed in Q2 by 9.4 points. This underperformance was primarily driven by the aggressive trade war with the U.S. and its potential impact on trade between the world's two largest economies. At the height of the trade skirmish in April, a rate of 145% was applied on China, which could have halted trade altogether between the two countries.

After "Liberation Day," although manufacturing PMIs and new export orders dropped to 49.0 and 44.7 in April from 50.0 and 49.0 in March, they recovered to 49.7 and 47.7, respectively, in June, after the two countries reached a détente in May, and the U.S. reduced the tariff rate from 145% to 30%.

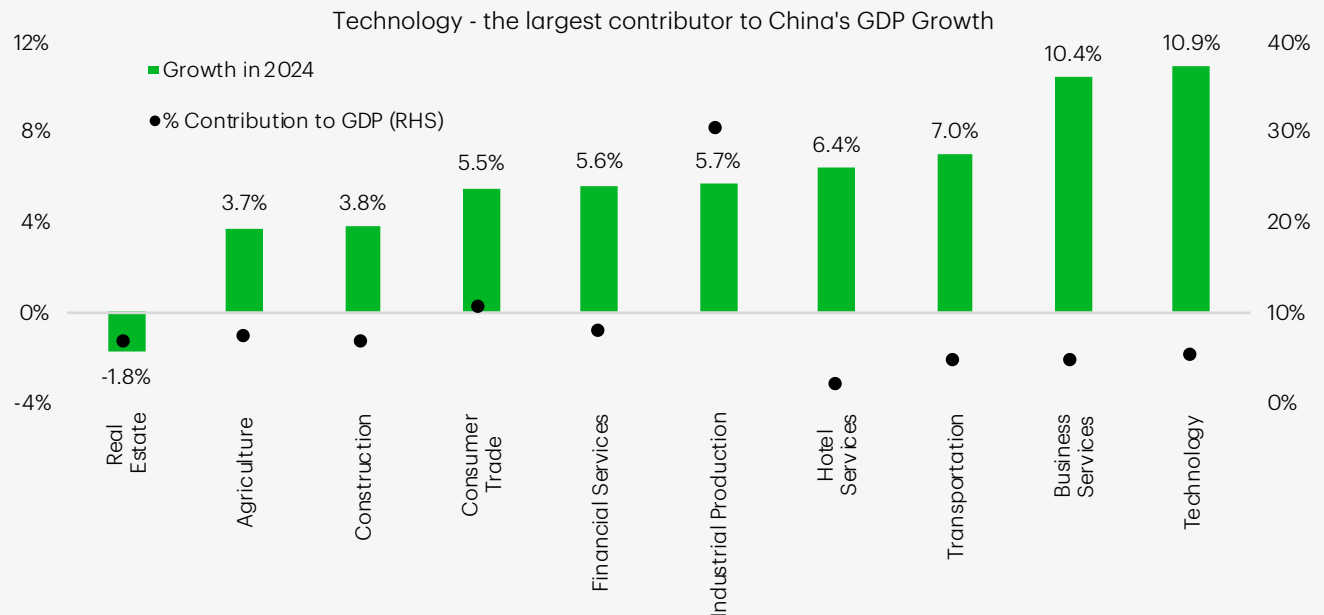
Although the ongoing trade uncertainty will cloud growth prospects for China, the economy has over the years reduced its proportion of U.S. exports from 20% in the early 2000s to 15% currently, thereby also reducing its vulnerability to a trade war with the U.S. A more serious concern for China remains the sluggish recovery in its real estate sector, which has curbed consumer spending, resulting in a deflationary risk for the economy, with inflation close to 0.1% since April 2023 (Figure 7.1).

Figure 7.1: Deflation discourages consumption in China



Source: FactSet; Wealth Investment Office as of June 30, 2025

Figure 7.2: Deflation discourages consumption in China



Source: FactSet; Wealth Investment Office as of June 30, 2025

After the efficiency breakthrough of Chinese AI pioneer DeepSeek, China has showcased its ability to launch cost-efficient AI models. Moreover, the performance gap with the U.S. is now rapidly shrinking, wherein performance differences on major benchmarks is now closer to parity. Although tech accounted for a mere 5% of China's GDP, it is the fastest-growing industry, recording growth of 10% in 2024 (Figure 7.2). Hence, while China is battling a structural slowdown, it is also gearing up with alternative sources of economic growth.

In coming months, trade uncertainty will cloud growth prospects for equities around the world. It's important to note that the impact on economic growth could vary significantly from the impact on equities. For many EM nations, the impact of the ongoing tariff war could be relatively small on their equities given the lower contribution to revenues from the US, although the impact on the economy could be larger, like for Mexico (Figure 8). Neither will the U.S. be spared from the impact of export restrictions. Over the years, S&P 500 companies have emerged into global organizations, with 41% of revenues sourced from outside the U.S. This means that underlying earnings growth could be vulnerable for U.S. equities as well.

Figure 8: U.S. equities are equally vulnerable, if not more so

Countries	% of Exports to GDP	% of Exports to US	US exports % of GDP	% of Revenues sourced from the US
Mexico	36.0%	83.0%	29.9%	10.0%
Canada	33.4%	76.4%	25.5%	33.0%
Taiwan	70.0%	23.5%	16.4%	43.0%
Europe	50.5%	20.6%	10.4%	23.0%
South Korea	44.0%	18.6%	8.2%	14.0%
United Kingdom	31.7%	15.5%	4.9%	27.0%
Japan	21.8%	20.0%	4.4%	17.0%
India	21.8%	17.4%	3.8%	8.0%
China	19.7%	15.0%	3.0%	3.0%
United States*	10.9%		10.9%	41.4%

Source: FactSet; World Bank, Wealth Investment Office as of June 30, 2025. For the U.S. % of revenues sourced outside of the U.S. is reflected

Where to Find Those Silver Linings

Opportunities still abound in secondaries, GP stakes, liability management and in-place solar power.

By Shezhan Shariff, P.Eng., CFA, Manager – Private Markets | TD Wealth

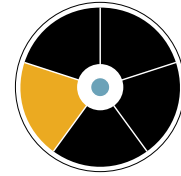
Private equity transactions remain challenged, with \$1 trillion (all USD) of underlying portfolio companies unsold and held for more than five years. Despite green shoots in the IPO market, including a return of special purpose acquisition companies (SPACs), distributions remain muted. This bolsters the case for operational excellence to drive company fundamentals, but general partners (GPs) now require close to three times as much earnings growth to generate base-case internal rates of return (IRRs) due to tighter monetary conditions and longer holding periods. We are cautious on the uptick in the use of net asset value (NAV) loans but continue to favour secondaries led by limited partners (LPs), continuation vehicles, preferred equity structures and GP stakes as pathways to generating much needed liquidity.

With credit spreads for B-rated high-yield companies retracing the widening seen due to the Liberation Day tariffs, to back under 300 basis points (bps) today, market pricing of default risk may fail to capture proactive restructuring. When tacking on the spike in liability-management exercises (LMEs) to the volume of traditional defaults, the broadly syndicated loan (BSL) market is experiencing a default rate above its historical average. A result of elevated base rates and weak credit documentation, this may portend pockets of distress in private credit. Expect defensive and opportunistic creditors to shine.

The One Big Beautiful Bill Act, which was recently passed by the U.S. Congress, takes away solar investment tax credits for projects that are yet to begin construction or secure long-term contracts. The narrative of excess demand in multiple regional power pools remains — exacerbated by cloud computing and artificial intelligence — and bodes well for developers with demonstrated expertise operating and scaling commercial solar farms, as well as infrastructure funds with NAV composed of established assets.

Private Equity

Private equity (PE) GPs have close to \$3 trillion invested in approximately 30,000 companies, whereby 30% (or close to \$1 trillion) sit unsold and have been held for more than five years. This is beyond the traditional



Why consider adding alternatives to your portfolio?

Investors with a long-term horizon could benefit from exposure to alternative investments in their portfolios, namely private equity, private credit, unlisted real assets — such as real estate and infrastructure — and hedge funds. Alternative investments can enhance risk-adjusted portfolio returns through cash flows and valuation drivers that are different in nature to those found in companies that issue publicly traded equity and fixed income securities. Additionally, unlisted real assets in particular provide investors with income streams that rise with inflation, unlike the nominal dividends and interest payments that are typically received from stocks and bonds.

Privately held assets in general help to reduce portfolio volatility due to relatively muted drawdowns across market cycles because they're less influenced by the noise that sometimes causes dislocations in public markets. Beyond exposure to a wider cross-section of systematic risk factors, private markets provide opportunities to capture additional skill-based risk premiums and generate attractive absolute returns. This is by virtue of lower information efficiency, which rewards specialized origination capabilities; active ownership that enables operational intervention and capital-structure optimization; and trading illiquidity that provides for disciplined compounding of capital over the long term.

TD Wealth maintains a modest overweight on alternatives.

timeline for financial sponsors to deploy capital, generate profits and harvest their investments, and is the result of diminished M&A and IPO transaction volumes — due to a relatively high cost of capital, geopolitical risks, and tariff and tax policy uncertainty. What this means ultimately is that capital that would normally have been returned to clients, or LPs, is stuck and can't be recycled toward productive uses.

M&A deal volume through May 2025 remained flat year-over-year at 4,535 deals worth \$567 billion. As a result, fund managers are turning to creative value-enhancement strategies. These include spinning off business divisions (to capture break-up premiums where carved-out segments command higher standalone valuation multiples) and exploring opportunistic secondary sales to strategic or financial buyers. The latter are effectively sponsor-to-sponsor transactions and may include transfers across different funds offered under the umbrella of a single GP platform. In such cases, it's prudent to ensure that objective third-party fairness opinions underpin confidence in valuations and deal terms that in aggregate comprise fund net asset value (NAV).

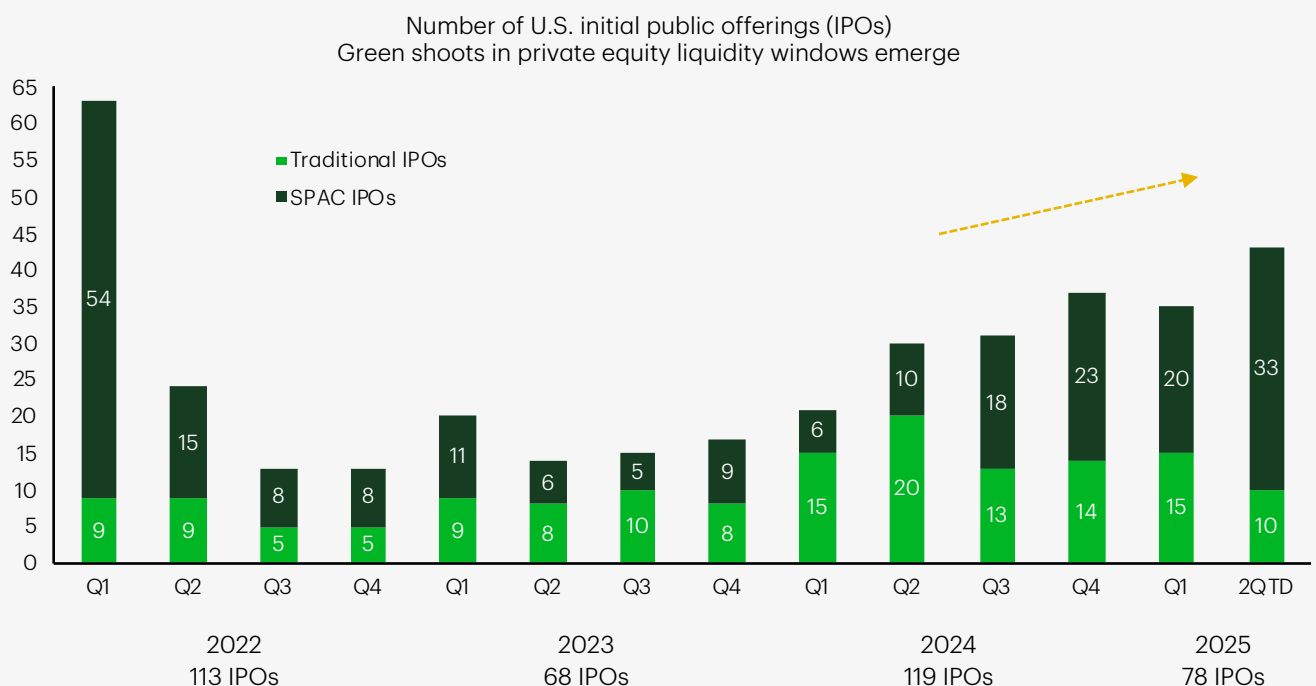
Figure 1 shows how the IPO market has continued to recover, creating liquidity opportunities for PE. Twenty-five traditional listings have raised \$11 billion year-to-date through May, compared to \$12.7 billion raised over the same period in 2024. As expected, April saw a pause due to the Liberation Day tariffs, but activity has resumed since.

Consumer fintech Chime offers a case study in the IPO environment today. The company raised \$864 million in mid-June, of which \$165 million was sold by existing stockholders including employees, at an \$11.6-billion valuation. Chime's primary issuance of stock in the public markets represented a steep cut, or "down round," from its last private market valuation of \$25 billion in 2021, which included household venture capital and growth equity investors, such as General Atlantic, SoftBank, Tiger Global, Sequoia Capital and ICONIQ Capital.

One takeaway is that companies are now being valued more conservatively based on sustainable long-term growth rates and profitability as opposed to aggressive revenue growth potential, as was the case during the most recent period of ultra-low interest rates and quantitative easing. Bid-ask spreads may also be narrowing as company insiders come to terms with pricing in line with current monetary conditions.

Additionally, SPACs have returned to the fold, with over 50 of these publicly traded shell, or "blank cheque," companies created to raise over \$9.5 billion year-to-date through May. This compares to merely nine SPACs raising \$1.2 billion at this point last year. Recall that a "de-SPAC" — the step after the initial listing — is when a private company merges with a SPAC to become publicly listed, thereby bypassing the traditional IPO process. Notable examples of SPAC transactions in the past include DraftKings, Virgin Galactic, Lucid Motors, 23andMe and SoFi.

Figure 1: Green shoots emerge in PE liquidity opportunities



Source: Wealth Investment Office, FactSet, Preqin as of May 31, 2025 SPAC = special purpose acquisition company

Given what has now been three years and counting of challenging exit conditions for private equity portfolio companies, it's helpful to re-emphasize the importance of being able to leverage a GP's abilities — specifically, operational intervention to grow revenue, drive higher profit margins and generate operating cash flows — as opposed to relying on valuation multiple expansion alone. The latter occurs when interest rates across the maturity spectrum meaningfully decline and stay low, as was the case effectively for over a decade after the global financial crisis through to 2022.

Despite strong investor appetite and a desire to put capital to work, many financial sponsors are grappling with how to unlock value. Figure 2 shows the effect of increased holding periods and higher interest rates on the earnings growth required to achieve a 20% internal rate of return (IRR), a typical target gross of fees for any private equity fund worth its salt. We can see that borrowing in an environment where the all-in cost of debt is 4% higher, coupled with holding a company for two additional years before exit, requires GPs to grow profits 4.2% annually. This is almost three times higher than what operators would otherwise be accustomed to.

For a steward of private wealth capital, there are two key takeaways from an asset-allocation perspective. First, we can overweight GPs that take a thematic, concentrated approach by identifying sectors that align with long-term growth trends and offer asset-light business models that generate resilient cash flows. Such financial sponsors typically have significant capital and geographic scale that provide access to proprietary datasets and the privilege of patience.

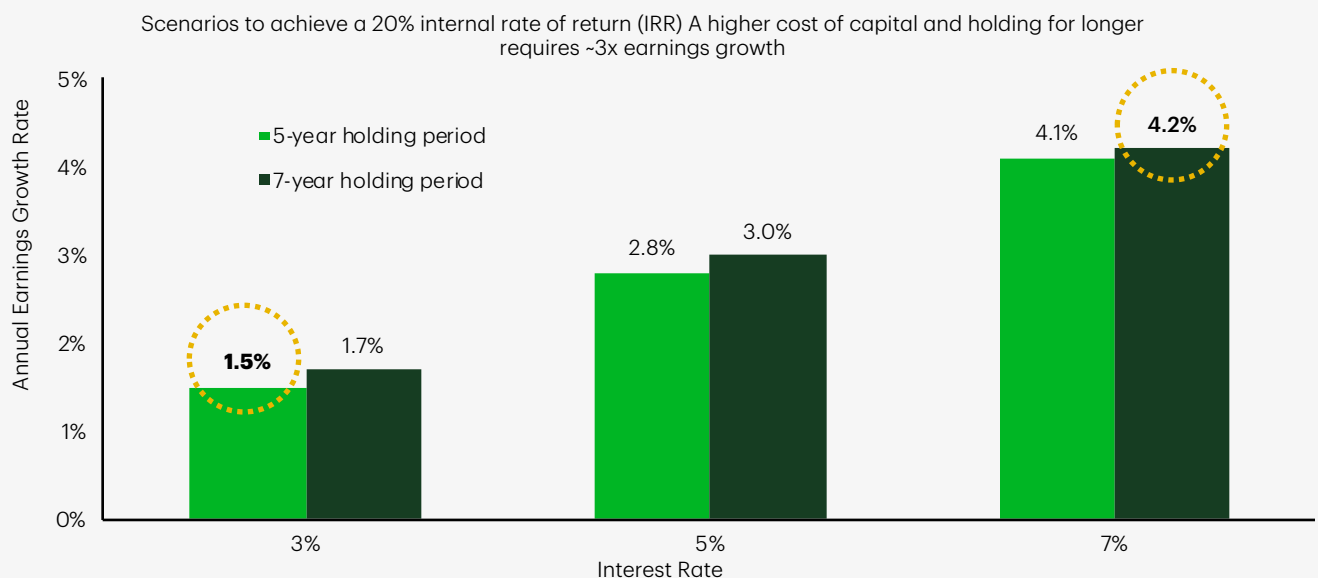
Second, we can recognize the increased pressure on GPs to actively manage aging portfolios where traditional exit pathways remain challenged, as well as on LPs where distributions have dried up. Both instances provide compelling opportunities for savvy capital allocators to source high-quality underlying assets on favourable terms through portfolio-finance solutions, such as LP-led secondaries, continuation vehicles and preferred equity structures.

NAV Loans

Another effect of the freeze in deal markets is that pensions, endowments and other big institutional investors have turned to NAV loans. These LPs are borrowing against their private equity portfolios — by pledging their fund stakes as collateral for loans — to raise cash due to a dearth of distributions. This practice is typically used by GPs to generate liquidity used to fund acquisitions or dividend payouts. LPs have caught on to this approach as a way to avoid selling their units in the secondary market at a discount to NAV.

Discounts for LP-led secondaries that are buyout-oriented have averaged 9% over the past three years and in 2024 averaged 4% for funds between four and six years old, to more than 20% for those over 10 years old. NAV loans typically have terms close to five years and loan-to-value ratios of 20%, and depending on the underlying collateral, may appeal to regulated institutional investors, such as insurance companies, from a risk-weighted and capital-charge perspective. This means that there is funding available regardless of how constricted bank balance sheets become due to macroprudential oversight aimed at ensuring stability of the financial system.

Figure 2: Scenarios to achieve a 20% internal rate of return



The investment decision for an LP considering a NAV loan is two-fold. On one hand, the LP can take a one-time discount by offloading an entire fund stake in the secondary market, thereby gaining immediate liquidity for a few cents on the dollar but giving up future cash flows as underlying portfolio companies are sold and the proceeds returned to investors. On the other hand, the LP can receive a distribution today at the cost of paying interest on a NAV loan over the medium term, although it will maintain and eventually realize the upside of the fund once throughput recovers in transaction markets. This assumes no issues with the underlying portfolio companies that have been pledged as collateral.

Such financing is controversial on Wall Street because it amplifies leverage by adding a third layer of borrowing beyond the prevailing fund level and the balance sheets of the underlying assets. We are accustomed to being disappointed when GPs employ NAV loans to preserve payout rates, thereby artificially inflating the distributions to paid-in capital (DPI) metric as well as return measures, such as IRR and multiple-on-money. The concern when LPs use NAV loans is that such financial engineering may be a stopgap measure for shoring up underlying performance that may never materialize, in which case systemic risk may be amplified by the additional gearing.

GP Stakes

Amid a continued slowdown in private equity dealmaking and fundraising, smaller and emerging GPs are selling minority, passive equity stakes as a way to unlock capital, in order to scale operations and diversify revenues without relinquishing control. GP stake sales offer founders and partners liquidity whereby buyers gain a recurring income stream from management fees and carried interest. Blackstone is seeking to raise over \$5 billion for its latest GP stakes fund, expected to match the size of its 2021 predecessor fund, where the investment team targets GPs with minimum AUM of \$5 billion. Other notable players include Petershill Partners (operated by Goldman Sachs Asset Management) and Blue Owl Capital. A recent McKinsey & Company survey found that 43% of LPs now allocate to GP stakes strategies, attracted by the potential for resilient, income-oriented returns through the economic cycle. Of those, 56% are considering buying direct GP stakes, primarily sovereign wealth funds with ultra-long time horizons.

Private Credit

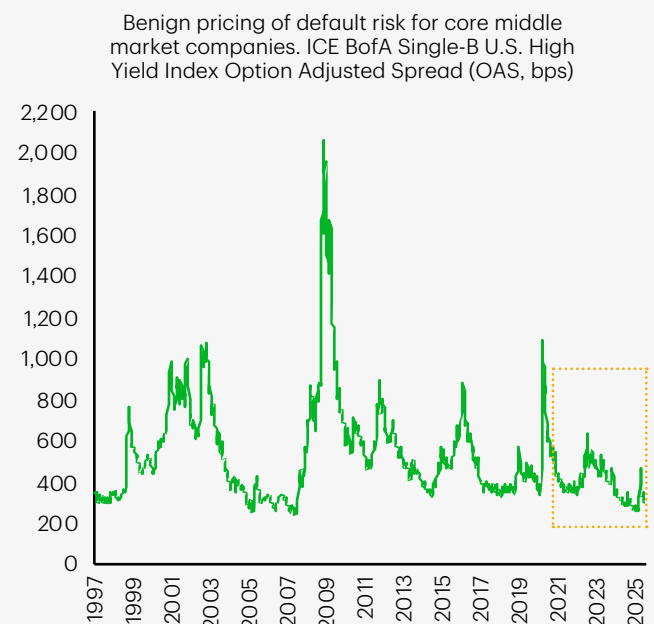
We continue to advocate in favour of manager selection, a crucial decision when allocating to private credit. This is because total return is dominated by

coupon income — more than in information-rich liquid markets, such as those where high-yield bonds and broadly syndicated loans (BSLs) trade. Such securities can change hands at discounts to par when base rates rise or credit spreads widen — due to higher perceived default risk — relative to original issue pricing.

In simple terms, this means that the GPs who we entrust with our clients' capital have to be right when it comes to conservative underwriting, asset stability and robust lender protections in their pursuit of generating compelling and consistent cash distributions. Once an issuer has been put on non-accrual, has exhausted payment-in-kind (PIK) or amend-and-extend flexibility, and is stressed and thus marked-to-market accordingly, it's only a matter of time until liability management exercises (LMEs), defined as coercive distressed exchanges on non-market terms, are pursued to stave off bankruptcy.

As a proxy or early warning indicator for private credit, we can look at BSLs that are also floating-rate and benchmarked to the secured overnight financing rate (SOFR). Public market pricing of default risk, as measured by credit spreads, may be complacent by virtue of survivorship bias and a failure to capture proactive capital restructuring. Figure 3 charts the option-adjusted spread (OAS) of USD-denominated sub-investment-grade corporate debt publicly issued in the U.S. high-yield bond market: specifically, all securities with a credit rating of single-B by the agencies S&P, Moody's and Fitch.

Figure 3: Benign pricing of default risk for core middle-market companies



Source: Wealth Investment Office, Federal Reserve Bank of St. Louis as of July 12, 2025

We can see that spreads are close to generational highs and have retraced the shock from the Liberation Day tariffs to trade below 300 bps yet again. While S&P 500 constituents tend to be very large companies with a median market capitalization of over \$30 billion and pristine balance sheets, companies in the pool of single-B borrowers are about one-tenth the size, on average, and consist of leveraged public corporations and private companies that have recently been acquired in a buyout by a financial sponsor.

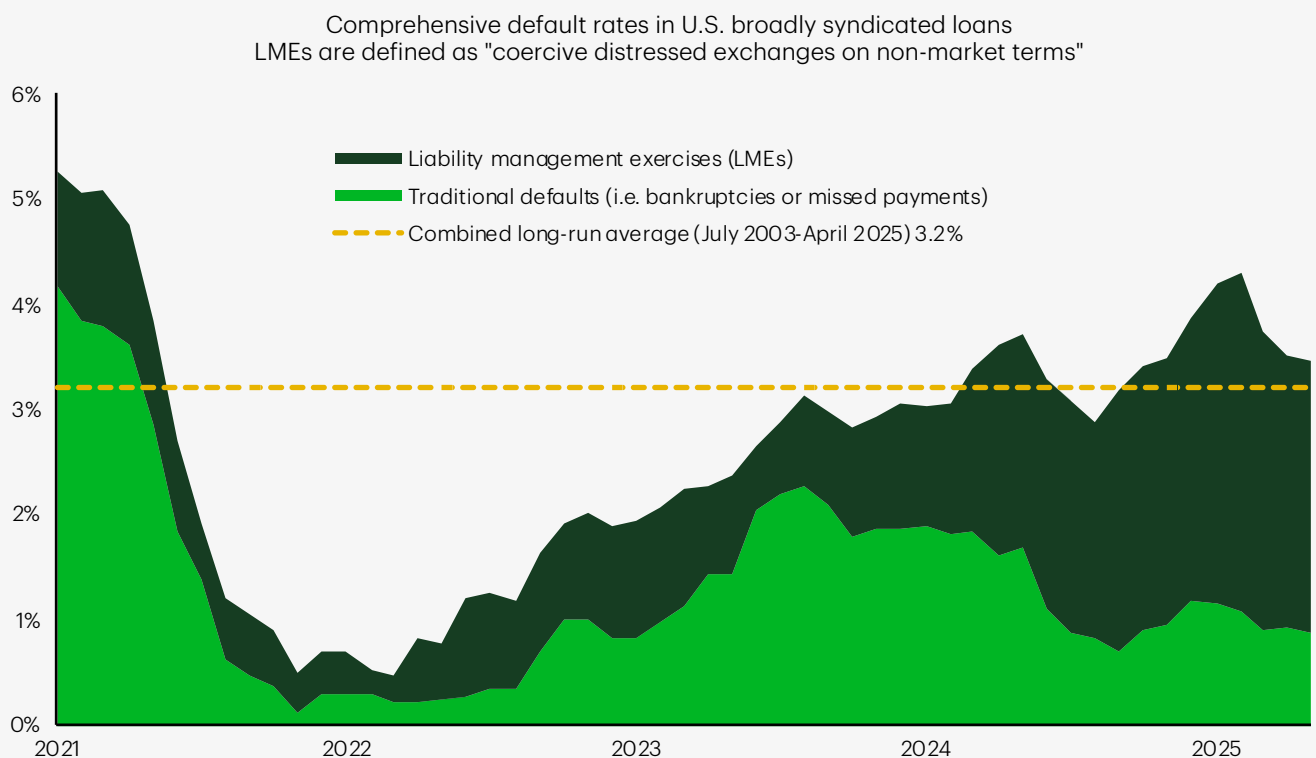
What may appear to be credit market complacency may instead reflect bifurcation. Tight spreads for single-B borrowers generally reflect solid performance. Businesses with strong earnings growth and relatively low leverage continue to access the market at favourable terms. While dividend payouts have accounted for 12% of the leveraged finance issuance this year, a record high, only 7% of such deals have involved borrowers with debt-to-EBITDA ratios above 6x. This is down from 46% in 2021 when issuance to cover dividends was often a sign of aggressive lending. Borrowers struggling with higher interest rates have had a different experience. Loans downgraded to CCC or D (default) — and hence no longer in the single-B pool and thus not captured in Figure 3 — typically trade below 80 cents per dollar of par.

Though traditional defaults, defined as bankruptcies or missed payments, remain low as shown in Figure 4, there has been a noticeable uptick in LMEs or opportunistic debt restructurings. When accounting for LMEs, the BSL default rate has already risen above its long-run average of 3.2% going back to the summer of 2003, typically a sign of a turn in the credit cycle.

Similar dynamics are evident in the direct lending asset sub-class of private credit, where default rates remain low, in part, because creditors have converted struggling borrowers' cash-pay coupons into PIK, where forgone interest accrues to the principal balance. A recent survey found that loan-to-value ratios (LTVs) for these conversions have risen from 49% at the time of closing to 86% at the end of March.

The surge in LMEs in Figure 4 has emerged due to elevated base rates, weak credit documentation, a maturity wall, and financial sponsors aggressively seeking equity value in a stymied liquidity environment. While most of the sub-investment-grade credit universe remains healthy (across high-yield bonds, BSLs and private credit), the large quantity of outstanding debt means that even a relatively low distress rate can inspire significant LME volume.

Figure 4: Comprehensive default rates in U.S. broadly syndicated loans



LMEs remain ill-defined but generally encompass actions taken by a troubled borrower to either: restructure its debt outside of court rather than through a formal bankruptcy process; or raise capital through unconventional means in order to address a liquidity need. Executing an LME can generate the runway required to avoid or postpone default, but it can also lead to divergent outcomes for investors that hold the same instrument. This is where manager selection is crucial, yet again, not only for prudent underwriting but also for the sophistication to emerge successful through a debt workout when things go awry.

LMEs primarily take two forms. There are “uptiers” where new debt is issued that is senior to the existing stack. The new “super senior tranche” is provided by existing lenders that get to elevate the priority of all of their claims on existing collateral. Those not participating in the new issue are subordinated, and this is where dry powder and fundraising capability becomes important.

Additionally, there are “dropdowns,” also known as asset-stripping, where the borrower moves collateral into an unrestricted subsidiary against which prevailing lenders have no claim. This different entity can then raise new debt that is structurally senior and secured against the transferred collateral. Such creditor-on-creditor violence is rare in private credit, particularly in instances where club deals have a small syndicate, and are completely non-existent if a given GP acts as lead bookrunner and takes down the entire issue itself. This is where platform loss rates and lead lender metrics become important.

Real Assets

In the last edition of PSQ, we noted the performance of various asset sub-classes within private real estate and highlighted pockets that we find compelling. We continue to emphasize our conviction on the “picks and shovels” approach to play the cloud computing and artificial intelligence theme, namely through data centres and related power generation. One source for the latter is solar power and is topical this quarter given the recently passed One Big Beautiful Bill Act (OBBBA) by the U.S. Congress.

The new legislation stipulates that solar projects will lose their investment tax credits (ITCs) unless they are placed in service by the end of 2027 or begin construction within the next year. An ITC is essentially an upfront mechanism for recouping taxes, which brings down the cost to build a solar plant, allowing a developer to price power competitively. ITCs are typically capitalized on a company’s balance sheet

as tax equity. This augments conventional debt and equity sources of capital that are used to build long-lived assets.

When evaluating a fund with concentrated exposure to the solar-electricity-generation theme, it may be helpful to dig into the valuation process and pipeline of projects that underpin NAV. There are three cash flow verticals — namely, existing projects that are contracted over the long-term, projects under construction with signed power purchase agreements (PPAs), and projects that have yet to sign a PPA.

Existing projects are not impacted at all by OBBBA, given that they are up and running, the ITCs have been recouped, and power is being sold under contracts to creditworthy off-takers. Projects with signed PPAs, meanwhile, are expected to make the deadline to be grandfathered by the legislation because of the concept of “safe harbour” when projects meet minimum under-construction requirements.

Unsigned PPAs are where most of the risk lies, given that late-stage negotiations may be ongoing and shovels may not be in the ground within the next 12 months. Without ITCs, power prices have to increase to support the same economics, or levelized cost of energy (LCOE). That being said, in certain markets, solar may remain the cheapest form of power even when factoring out ITCs, especially considering that natural gas plants take longer to build than solar farms, and that there’s still a multi-year wait for wind-power turbines. One approach to OBBBA would be for third-party valuers to assume a conservative share of development realizations — for example, 40% to 60% as opposed to 100% of a given project backlog — or increase discount rates to ensure realistic valuations when discounting long-term cash flows.

There will be winners and losers in the U.S. renewable energy sector with these recent changes. Despite near-term uncertainty, the fundamental supply-demand imbalance in the broader electricity market continues to favour solar — with or without ITC support — in certain markets with strong developers that have a significant base of operating and contracted assets.

Notable Events in Q2 2025

Yale University is undertaking an LP-led secondary sale of private equity interests estimated to be worth \$2.5 billion. The Ivy League endowment is in advanced negotiations with buyers, with pricing expected at a discount of less than 10% of NAV. Yale has a private markets allocation of roughly 40% and is well known for its early commitments in size to private market funds over the past several decades. The institutional

investor is seeking to rebalance its portfolio amid shifting liquidity needs. The transaction is structured as a mosaic deal, allowing buyers to selectively acquire fund interests rather than purchase the entire portfolio. This approach is increasingly popular in large-scale secondary transactions because it enables buyers to target strategies or managers aligned with their mandates. Secondaries giants Lexington Partners and HarbourVest Partners are among the firms that have evaluated the portfolio. Similarly, Harvard University is looking to offload \$1 billion worth of private equity fund stakes. The endowment's private equity allocation was 39% in 2024, up from 34% in 2021 — the same year it completed a similar deal.

Meta is in advanced talks with leading private credit firms, including Apollo, KKR, Brookfield, Carlyle and PIMCO, to raise up to \$29 billion to finance its aggressive build-out of AI-focused U.S.-based data centres. The social media giant aims to secure approximately \$3 billion in equity alongside \$26 billion in debt. The company is actively debating how best to structure the landmark debt raise, which would rank among the largest private fundraisings of its kind. Meta recently provided guidance for full-year 2025 capital expenditures of \$64 to \$72 billion — an increase from its prior range of \$60 to \$65 billion — reflecting additional data-centre investments to support its AI efforts and higher costs for infrastructure hardware.

The Los Angeles Lakers have agreed to sell a controlling stake to diversified holding company TWG Global at a \$10-billion valuation — the latest high-profile move by private equity to reshape ownership in top-tier professional sports. The deal positions the Lakers as the most valuable sports franchise globally, surpassing the recent record-breaking \$6.1-billion deal struck by an STG Partners-led consortium to acquire the Boston Celtics. The new majority ownership is expected to inject fresh capital into the Lakers as they adapt to a new collective bargaining agreement designed to favour younger, cost-efficient rosters. The shift from family to institutional ownership marks a generational transition. The Buss family, which purchased the Lakers for \$67.5 million in 1979, has owned the team for 46 years, the longest of any current NBA franchise.

Virgin Australia soared 11% on its market debut in late June, boosting its market capitalization to A\$2.6 billion (A\$3.6-billion enterprise value) at the time. The IPO marked the airline's return to the Australian Securities Exchange, after a four-year absence, under Bain Capital ownership. The success of the listing may renew momentum in Australia's currently subdued IPO market. Bain Capital, which acquired Virgin Australia

for A\$3.5 billion including liabilities during its 2020 restructuring, has reduced its holding from nearly 70% to 39.4% through the IPO. Qatar Airways, which recently invested in Virgin, maintains a 23% stake. The company's strong domestic focus, accounting for 90% of operations, has helped insulate it from broader geopolitical volatility. With a 34.4% share of the domestic market compared to Qantas's 37.5%, Virgin is positioning itself to become a stronger competitor in its post-listing phase, while Bain Capital retains significant upside exposure.

BlackRock is set to launch a new target-date fund in early 2026 that will include allocations to private equity and private credit utilizing its proprietary glidepath. In partnership with Great Gray Trust, a retirement-plan provider managing over \$210 billion, BlackRock's new offering represents a major step in reshaping retirement portfolios, traditionally dominated by public stocks and bonds. The new target-date strategy will feature a 5% to 20% allocation to private markets, depending on the age of the investor. BlackRock estimates that this could boost annual returns by up to 50 bps, while aligning with its long-term portfolio model of 50% public equities, 30% fixed income and 20% private markets.

Vista Equity Partners closed a \$5.6-billion, GP-led continuation vehicle to extend its ownership of Cloud Software Group, the parent of Citrix and TIBCO. The deal marks one of the largest single-asset continuation transactions to date. The transaction attracted \$2.7 billion in fresh capital from secondary investors, alongside \$2.2 billion in commitments from Vista's existing Fund VII and Fund VIII. The remaining interest was rolled over from Fund V, which previously held the asset. Investors in Fund V who opted for liquidity received a 4.1x return. Cloud Software Group was formed in 2022 through Vista's \$16.5-billion buyout of Citrix and TIBCO. The asset will now move into the continuation fund at a 5% discount to its Q1/24 valuation. Collier Capital is among the new LPs. The deal underscores the growing use of continuation vehicles as an alternative to traditional exits amid a muted M&A and IPO environment.

Apollo Global Management and Blackstone are leading a \$4-billion private credit facility to support Thoma Bravo's \$10.6-billion acquisition of Boeing's digital aviation unit, in one of the largest direct lending deals of the year. The seven-year unitranche loan, which consolidates first- and second-lien debt into a single structure, is expected to price at 475 bps over the benchmark SOFR (currently within the 4.25% to 4.5% federal funds target range). Additional participants

in the lender syndicate include Ares Management, Blue Owl Capital, KKR and the private credit arm of J.P. Morgan. The deal sees Thoma Bravo acquiring Boeing's Jeppesen flight-navigation business, along with additional digital assets including ForeFlight, AerData and OzRunways.

3G Capital has agreed to acquire Skechers in a take-private deal valued at \$9.4 billion — the largest buyout in footwear industry history. The agreement was underpinned by 3G Capital's longstanding relationship with the Greenberg family, which founded the brand and remains actively involved in day-to-day operations. Robert Greenberg, Skechers' 85-year-old founder and CEO, will continue to lead the company, alongside President Michael Greenberg and COO David Weinberg. Founded in 1992, Skechers has evolved from a streetwear-focused brand into a global comfort-first sneaker powerhouse, competing with giants like Nike and Adidas. Its pricing strategy and international retail footprint — nearly 5,000 stores across over 120 countries — have helped it maintain relevance despite stiff competition.

Chicago-based GTCR is poised to return more than \$5 billion to its LPs in 2025, defying broader market headwinds and liquidity pressures. The wave of distributions is driven by a series of successful exits. GTCR has generated a 2x return from the \$24-billion sale of Worldpay to Global Payments, after acquiring a 55% stake in 2023. GTCR has also exited several marquee investments, namely ITEL Laboratories — a data and analytics provider to the P&C insurance industry — for over \$1.3 billion including debt; and independent insurance broker AssuredPartners to Arthur J. Gallagher & Co. for \$13.45 billion in an all-cash transaction. The timing of these deals places GTCR among a small group of GPs generating meaningful liquidity for LPs — demonstrating a contrarian ability to execute timely monetizations.

The United Kingdom's Financial Conduct Authority (FCA) is rolling out the Private Intermittent Securities and Capital Exchange System, or PISCES for short, a new type of private stock market that will connect buyers and sellers of shares in private companies during intermittent trading events. Companies using the PISCES platform will be able to control when their shares may be traded, who can buy their shares, the floor or ceiling price for their shares, and who gets information about the company or transactions in its shares. PISCES can be used by investors, private companies located in the UK or overseas, financial intermediaries, employees and trustees. The FCA published its final rules in June and is currently

accepting applications from firms interested in operating a PISCES platform. The UK's treasury must report back to its parliament on whether PISCES is working as expected by June 2030. Until then, the FCA will test the regulatory framework for PISCES using a sandbox.

Google has reached a \$3-billion deal to access hydroelectric power from Brookfield's renewables arm to meet demand from cloud computing and AI. The two 20-year power-purchase agreements comprise the largest clean energy agreement of its kind and will first deliver 670 megawatts from Brookfield's Holtwood and Safe Harbor facilities in Pennsylvania, acquired in the mid-2010s. Google will have the option to procure a total of three gigawatts through future projects and upgrades. The focus on this mode of generation reflects a political and regulatory shift towards "firm" sources of renewable energy, which provide a consistent power supply regardless of the weather or time of day. Similarly, Meta recently agreed to buy the 1,121-megawatt output of a nuclear power plant in Illinois from Constellation Energy over a 20-year period starting in 2027. OBBBA has retained production and investment tax credits for hydropower until 2036, whereas wind and solar projects will lose these credits unless they are placed in service by the end of 2027 or begin construction within the next year. By 2030, the U.S. is expected to consume more energy from processing data than for manufacturing aluminum, steel, cement and chemicals combined.

Coller Capital has raised a record \$6.8 billion for its private credit secondaries platform that now manages \$10.1 billion. Coller Capital Opportunities II (CCO II) will target senior direct lending and high-quality performing credit investments, across both LP-led and GP-led secondary transactions. The successful capital raise follows the firm's pioneering \$1.4-billion first credit fund, CCO I, which previously set the benchmark as the largest private credit secondaries fund at the time. The private credit secondaries market has grown substantially, driven by investor demand for liquidity solutions and diversified exposure to premium credit assets, as well as the maturity and establishment of the private credit asset class.

Volatility Has Not Dampened Long-term Outlook

Commodities have done well this year as investors seek the diversification benefits in a volatile environment.

Hussein Allidina, Managing Director and Head of Commodities | TD Asset Management
Humza Hussain, VP and Director, Commodities | TD Asset Management

The volatility we experienced across markets in the second quarter has been the highest in the last 10 years, outside of Covid. President Trump's "Liberation Day" announcements on April 2 revealed that the U.S. administration was serious about an elevated level of tariffs which resulted in chaos across markets. At the same time as growth fears—stemming from tariff policy uncertainty—peaked, geopolitical uncertainty also spiked with first Israel and later the U.S. carrying out attacks on Iran.

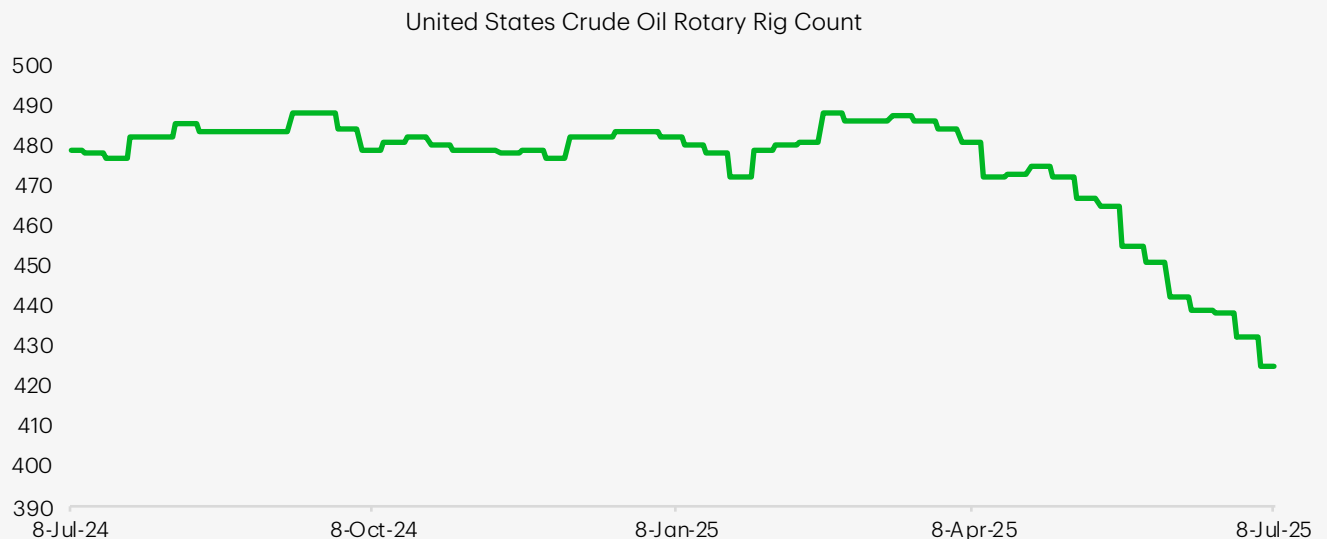
However, this quarter was just a natural extension of the direction that the world has been heading towards over the last few years: that of more volatility across markets and increased geopolitical risk. Year-to-date (YTD), the Bloomberg Commodities Index is up more than 5% and the asset class has continued to serve its role in a well-diversified portfolio by providing diversification and inflation protection.

The focus of markets over the last few months has been very much on tariffs, briefly interrupted by the breakout of tensions between Israel, the U.S. and Iran, which has since subsided. We have always been of the view that it was in nobody's interest to disrupt the flow of crude, evidenced by the fact that oil infrastructure was left largely unscathed.

With the conflict behind us (for now), the markets' attention returns to fundamental balances. Consensus expectations have been bearish on oil for the better part of the last 16 months—a view that we have not subscribed to. While inventories are seen building later this year, owing to expectations of increased OPEC production and softening demand, inventories remain constrained and fundamentals healthy as evidenced by the still robust backwardation (future oil prices are below current prices) exhibited in crude and product markets. Importantly, while WTI and Brent prices are down nearly 2% and 4%, respectively, YTD, total returns for both are positive because of the positive carry associated with tight markets (returns from carry are realized when markets are tight and are in backwardation and prices do not decline as much as the futures curve predicts). Still, the anticipation of surpluses is serving to keep prices contained, a headwind for needed capex.

Perhaps the most impressive aspect of all of this is the fact that commodities are positive on the year despite lackluster performance in the energy basket.

Figure 1: Falling U.S Oil Rigs suggests supply will fall



Source: TD Asset Management as of 8 July 2025.

During the second quarter the agricultural sector was heavily influenced not only by tariffs but by retaliatory tariffs. With the U.S. the largest (or second largest depending on the year) agricultural exporter, it makes sense for other countries to target one of America's largest exports. Prices for corn, soybeans, and wheat have whipsawed over the last few months on tariffs, counter tariffs, deals, and no-deal headlines. Soybeans were targeted by China, even before any tariff negotiations started, with China importing the fewest beans from the U.S. in a decade. Most recently Trump's 50% tariffs on everything from the European Union, which has since been delayed, saw corn prices drop on the idea that if implemented the EU would target corn imports from the U.S. Outside of the tariff noise, crops in the U.S., Brazil and Argentina—responsible for the majority of the world's production—continue to exceed expectations, which should lead to further weakness as the U.S. harvest approaches.

Our early-year outlook was cautiously constructive on metals, recognizing supportive fundamentals, tempered by demand concerns stemming from tariff uncertainty. YTD, performance has exceeded expectations, with strong demand from infrastructure, exports, electric vehicles (EVs), and appliances. Looking ahead, fundamentals remain solid, but macro uncertainty—especially around tariffs—could dampen economic activity and demand for industrial metals. Supply will be a key performance driver going forward, with zinc supply expected to return and broader supply dynamics becoming a major differentiator across metals in the more near-term. Our overall view remains

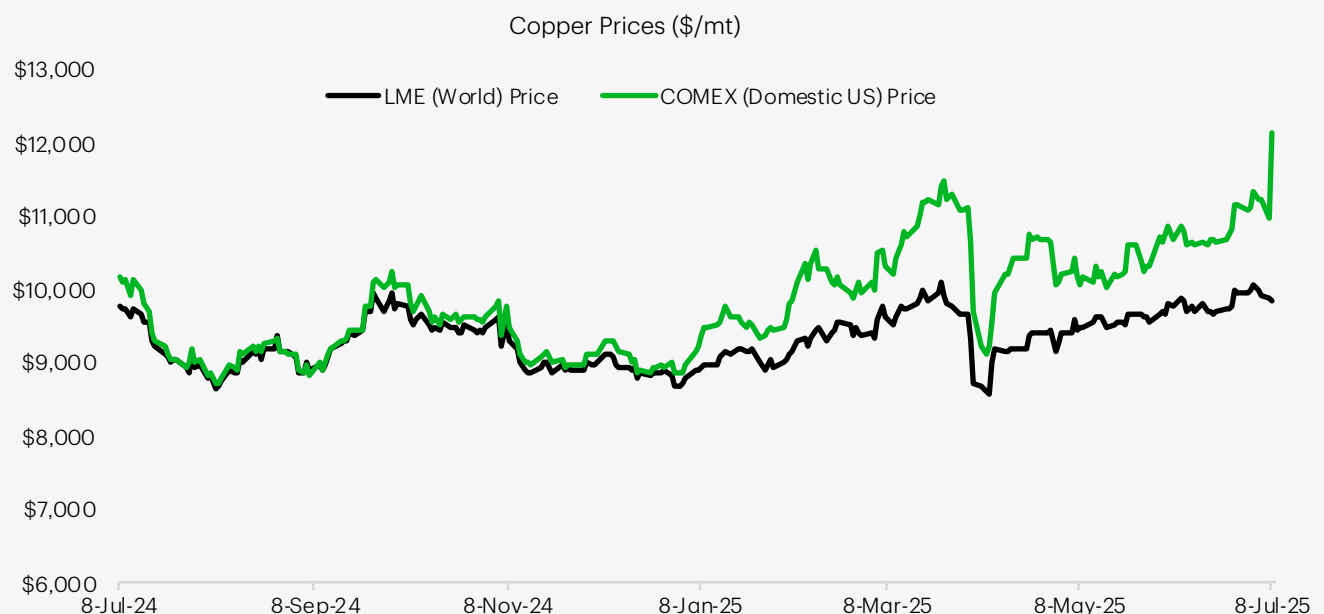
constructive from a structural perspective, supported by a neglected supply side, particularly for copper, and a positive demand outlook (on electrification and the growth in power demand). Outside of precious metals, industrial metals have been the best performing subsector and still positive on the year.

We remain constructive on precious metals broadly and gold in particular, despite very robust YTD performance. Recent weakness in gold is very much a reflection of the recent strength in equities. Structurally, supply is constrained and central banks, particularly in the Global South, are expected to remain avid buyers. Platinum and palladium balances are seen tightening on firm demand and challenged supply.

Despite all the noise and repricing of growth expectations, commodity fundamentals have remained positive; inventories, broadly, are tight, and real-time data is not yet pointing to any signs of capitulation in economic activity. Concerns around equity and fixed income valuations, coupled with heightened inflation and debt/deficits globally are keeping investors interested and allocating to commodities.

While some commodities may experience near-term headwinds due to the likelihood of front loading of activity ahead of tariffs, overall, we continue to have a positive outlook for commodities on a multi-year view. We believe the positive global macro backdrop combined with attractive underlying supply/demand fundamentals for commodities will be constructive for prices over the long term.

Figure 2: Tariffs Push U.S. Copper Prices Higher vs. World Copper Prices



Source: TD Asset Management as of 8 July 2025.

Outlook on Currencies

Fiscal and Political Uncertainty Chip Away at U.S. Dollar

The U.S. administration is intent on shaking up the global economic order. That, however, comes with consequences for the U.S. dollar's role as reserve currency.

TD Securities, Global Rates, FX & Commodities Strategy

Highlights

- The breakup theme has been the storyline around the U.S. dollar recently, underscored by President Trump's aim to disrupt what is left of the past two decades of hyper-globalization. However, that first phase didn't actually feel like a phase since it was rooted in a positioning adjustment and a narrative correction.
 - It's clear we have passed phase one and are now looking at deeper questions about the medium-term outlook for the U.S. dollar. The second phase starts with hedging adjustments and will likely intensify with a reset of asset allocation flows.
 - We continue to forecast a more thorough structural adjustment in the U.S. dollar and a return to "value" across FX strategies, implying a further drop of approximately 3% through the second half of 2025. It won't be a straight line, but we think dips will be short and shallow.
 - The U.S. is on an unsustainable path with fiscal spending, rising budget deficits, and inflation that remains sticky with risks to the upside. Budget deficits across the G7 are rising—a reflection of the breakdown of existing geopolitical and foreign policy order that is seeing governments spend. What will give? Steeper curves and weaker FX seem to be the answer.
-

U.S. Dollar

The collapse of the U.S. dollar has progressed through different stages; the first stage in Q1 was fast and furious, as we saw a rapid adjustment in sentiment and positioning. The second and most recent decline has been slow-paced but consistent. Given the low domestic savings rate, the U.S. economy relies on the savings of foreigners which means the U.S. dollar's long-standing overvaluation dovetailed with the rise in foreign ownership of U.S. equities.

Bit by bit, we have seen local fiscal and political uncertainty chip away at the U.S. dollar's safe haven status. Political pressure on the Fed chair Jerome Powell and tariff negotiations continue to highlight the unpredictability of the current administration's policies and tactics. The USD's correlation to most other asset classes has been broken for the past few months. The longer this uncertainty persists around trade, the future of the Fed chair, and geopolitics, the more likely this will usher in the next decline for the U.S. dollar.

In the near-term, we expect to see some rangebound trading as the U.S. dollar tussles between structural downward pressure and oversold conditions—amid stretched technicals - suggesting a pop higher. Nevertheless, we continue to forecast a more thorough structural adjustment in the USD and a return to "value" across the FX landscape, implying a 3% drop through the second half of this year. It won't be a straight line, and we expect dips will be short and shallow.

Canadian Dollar

Canada is the largest holder of U.S. equities, and based on our informal research, it appears that hedging ratios remain low. After the strong U.S. dollar added to the gains recorded by foreign investors in U.S. assets, we have seen a reversal year-to-date where the weak U.S. dollar has hurt returns on U.S. assets. We believe the third stage of this structurally lower U.S. dollar will consist of a repatriation of, and a divestment away from U.S. assets, which will add further pressure to the U.S. dollar. We see nascent signs of that and are watching these developments closely.

U.S. markets have punched above their economic weight over the past few years. The U.S. economy accounts for around 28% of global GDP but U.S. equity markets make up about two-thirds of global equity market capitalization. The average global investor is also overweight U.S. assets, particularly equities, and especially in the wake of Covid.

We expect the U.S. dollar will be brought to a more level playing field with its peers, reflecting a divergence with the rest of the world. We believe the Canadian dollar will benefit from this shift.

Figure 1: Foreign Exchange Forecasts

	2025			
	July 21, 2025	Q2	Q3 F	Q4 F
USD/JPY	148	145	140	137
EUR/USD	1.17	1.15	1.17	1.20
GBP/USD	1.35	1.35	1.38	1.40
USD/CHF	0.80	0.81	0.81	0.80
USD/CAD	1.37	1.37	1.34	1.31
AUD/USD	0.65	0.65	0.67	0.68
NZD/USD	0.60	0.61	0.62	0.63
BBDXY	1202	1210	1183	1157

Source: TD Securities as of July 21, 2024

Market Performance

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Canadian Indices (\$CA) Return		Index	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P/TSX Composite (TR)		112,624	2.91	8.53	10.17	26.37	16.09	15.02	9.61	8.22
S&P/TSX Composite (PR)		26,857	2.61	7.78	8.61	22.77	12.50	11.60	6.32	5.12
S&P/TSX 60 (TR)		5,483	2.24	7.59	9.46	26.31	15.48	14.95	9.98	8.53
S&P/TSX SmallCap (TR)		1,697	6.18	11.75	12.74	23.10	14.06	15.06	7.18	4.86
S&P/TSX Preferred Share(TR)		2,262	2.77	4.59	7.30	17.17	8.80	10.62	4.71	3.29
U.S. Indices (\$US) Return										
S&P 500 (TR)		13713	5.09	10.94	6.20	15.16	19.71	16.64	13.65	10.73
S&P 500 (PR)		6205	4.96	10.57	5.50	13.63	17.91	14.89	11.64	8.60
Dow Jones Industrial (PR)		44095	4.32	4.98	3.64	12.72	12.74	11.30	9.61	7.55
NASDAQ Composite (PR)		20370	6.57	17.75	5.48	14.87	22.69	15.16	15.11	12.15
Russell 2000 (TR)		11845	5.44	8.50	-1.78	7.68	10.00	10.04	7.12	7.76
U.S. Indices (\$CA) Return										
S&P 500 (TR)		18685	4.08	5.15	0.56	14.75	22.00	16.66	14.65	11.31
S&P 500 (PR)		8455	3.96	4.80	-0.10	13.23	20.17	14.90	12.62	9.17
Dow Jones Industrial (PR)		60084	3.32	-0.49	-1.86	12.32	14.90	11.32	10.57	8.12
NASDAQ Composite (PR)		27756	5.56	11.61	-0.12	14.46	25.04	15.17	16.12	12.74
Russell 2000 (TR)		16140	4.43	2.84	-7.00	7.30	12.11	10.05	8.07	8.33
MSCI Indices (\$US) Total Return										
World		19044	4.35	11.63	9.75	16.76	18.87	15.09	11.23	9.08
EAFE (Europe, Australasia, Far East)		13380	2.22	12.07	19.92	18.33	16.57	11.72	7.03	6.31
EM (Emerging Markets)		3298	6.14	12.20	15.57	15.97	10.23	7.26	5.23	6.83
MSCI Indices (\$CA) Total Return										
World		25949	3.36	5.81	3.92	16.35	21.15	15.10	12.21	9.65
EAFE (Europe, Australasia, Far East)		18232	1.25	6.22	13.56	17.91	18.80	11.74	7.97	6.87
EM (Emerging Markets)		4493	5.13	6.34	9.43	15.55	12.34	7.28	6.16	7.39
Currency										
Canadian Dollar (\$US/\$CA)		1.36	-0.95	-5.41	-5.39	-0.52	1.87	0.05	0.86	0.53
Regional Indices (Native Currency, PR)										
London FTSE 100 (UK)		8761	-0.13	2.08	7.19	7.31	6.91	7.26	3.00	2.73
Hang Seng (Hong Kong)		24072	3.36	4.12	20.00	35.86	3.27	-0.29	-0.86	2.67
Nikkei 225 (Japan)		40487	6.64	13.67	1.49	2.28	15.33	12.68	7.18	6.46
Benchmark Bond Yields										
		3 Months			5 Yrs		10 Yrs		30 Yrs	
Government of Canada Yields		2.67			2.83		3.27		3.56	
U.S. Treasury Yields		4.30			3.80		4.23		4.78	
Bond Indices (\$CA Hedged) Total Return										
		Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	
FTSE TMX Canada 91-day Treasury Bill Index		479	0.22	0.64	1.48	3.82	4.22	2.62	1.82	
FTSE TMX Canada Universe Bond Index		1186	0.06	-0.57	1.44	6.13	4.31	-0.38	1.88	
FTSE TMX Canada All Government Bond Index		1107	-0.01	-0.90	1.17	5.47	3.65	-1.10	1.48	
FTSE TMX Canada All Corporate Bond Index		1472	0.29	0.45	2.28	8.15	6.27	1.69	3.04	
U.S. Corporate High Yield Bond Index		314	1.68	3.07	3.74	8.75	8.85	5.21	4.57	
Global Aggregate Bond Index		264	0.80	1.13	1.94	4.61	2.61	-0.34	1.81	
JPM EMBI Global Core Bond Index		554	2.32	3.00	4.75	8.19	7.40	0.70	2.57	
S&P/TSX Preferred Total Return Index		2262	2.77	4.59	7.30	17.17	8.80	10.62	4.71	

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of June 30, 2025

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