TD Wealth

Pathfinders

Monthly Perspectives // June 2021

15 minutes

The Pathfinders

Beata Caranci, Chief Economist I TD Economics
Michael Craig, Head of Asset Allocation I TD Asset Management
Brad Simpson, Chief Wealth Strategist I TD Wealth

With vaccination rates rising and case counts falling, investors can finally see a clearing up ahead — the proverbial light at the end of the tunnel. That light, however, is beginning to reveal a world that looks very different from the one we've all been living in. On June 17, thought leaders from three of the bank's core institutional branches — TD Economics, TD Asset Management, TD Wealth — converged for an interview with MoneyTalk's Kim Parlee. The title for this rare occasion was "Global Economic Reopening: What you need to know."

Over the course of 50 minutes or so, Parlee peppered her guests with compelling and controversial questions, while scores of viewers mailed in their own head-scratchers. What follows is a lightly edited transcript of the discussion, along with fresh graphics to drive home the points that matter most. The pandemic, at least in Canada, may be close to an end, but we're only just beginning to feel the post-pandemic disorientation. If anyone can help us make sense of it, it's these three.

***

***Parlee**: Brad, if I could, I wanted to start by having you set the tone for this conversation. These kinds of discussions are always important, but why do you think they're especially important right now?*

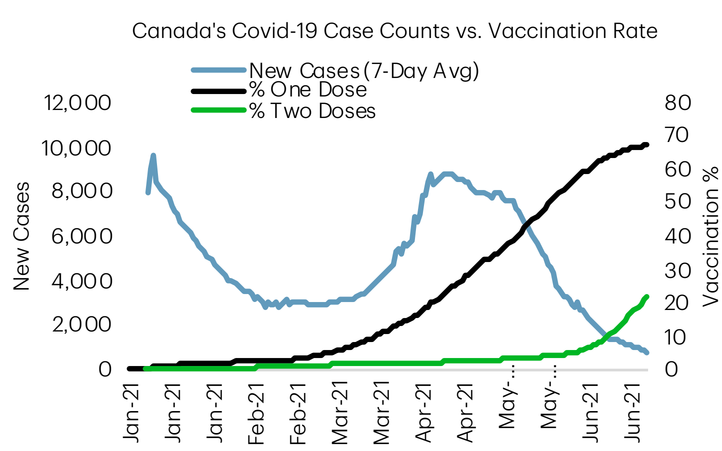
Simpson: Good afternoon, everybody. Well, I would say, there's a certain view in economics and the investment world that, somehow, these systems are mechanical. We at TD Wealth believe something very distinctly different. We believe that the markets are more biological in how they're constructed. They're always changing, always evolving, and so we've gone through these three incredible phases: phase one is the period going into Covid-19, where we were enjoying 130-some months of economic expansion and, all in all, things were going pretty well. And then we took a healthy economic body and we put it into a coma. We stopped everything, and we've never purposely done that before. Then we administered all this medicine to get it going, in terms of monetary policy and fiscal policy. And now what we're doing is, we're bringing this patient back to life again. We're bringing the economy back to life, and we're bringing markets back to life. And all this aggressive monetary policy and fiscal policy — and then you throw in the remarkable success we've had with vaccinations globally — it has led to one of the sharpest recoveries from any sort of downturn we've seen in modern history.

The reason why these conversations are so important today is that, while we are coming back to life, it's not a return to the life we had before Covid-19. So many portfolios were built for the world that looked like the 10 years going into Covid-19. We're of the view that we're moving into a different era where a lot of the things that worked in the decade going into the pandemic might not work as well going forward. So, as things come back to life, we have to start adjusting our view and our thinking and ultimately our activities around how we're allocating and what we do.

***Parlee**: Let's pull on that thread a little bit. Beata, I'd like to bring you in to talk a bit about what things look like right now from your perspective. I'll give you the impossible task of, just in a couple minutes, setting up the economic backdrop as you see it right now.*

Caranci: Well, we're feeling quite a bit of a tailwind right now, and that's just because we went from a stop to go situation and there's a lot of pent-up demand and the government has done a good job of ensuring incomes were supported. Brad was talking about evolution in the economy, and I always refer to it as this living organism, you know — the economy is constantly changing. We are very much in an experimental phase. We know that the income supports work; we also know that it's not sustainable. As a business, you can only go through so many stop-and-go cycles and the government can only support you for so long. The good news is, the guidance we're getting from the medical community seems very positive, so our forecasts no longer include these stop-and-go cycles. The vaccine is considered the end game (Figure 1).

Figure 1: End Game



Source: Our World in Data as of June 23, 2021

If shutdowns do happen, you might end up with mini-cycles of two to three weeks, but it won't be something that derails you for a longer period. Clearly, if we end up with a variant that is resistant to the vaccine, we'll be back to square one, but for now there are blue skies. We're still very cautious, however, and cognizant of the fact that this has been an experiment at every level.

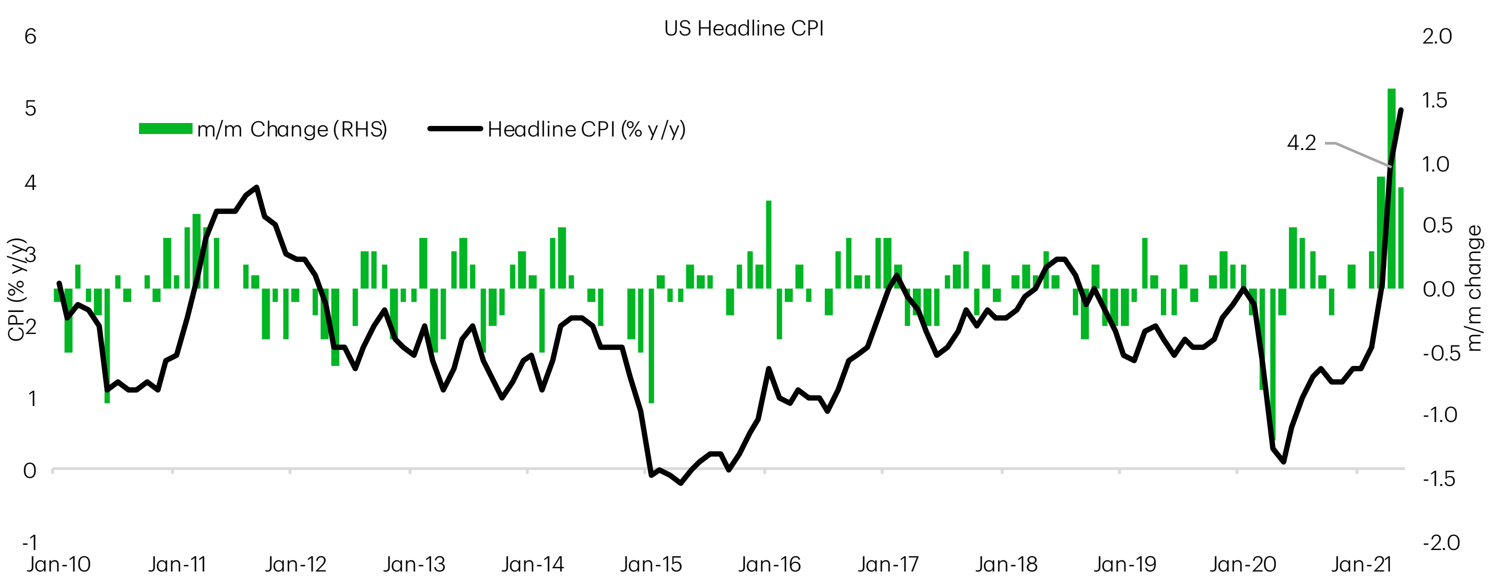
Parlee*: It really is. Mike, I want to bring you in now, because I mean, talk about blue skies, the markets have had an incredible move back up, given all the stimulus and very accommodative central banks. If you were to characterize the markets right now, what do you see?*

Craig: Well, if this were a Shakespearean play, act one would have been the hit of the pandemic and the recession. Act two would have been the recovery, and actually, I think that act two ended yesterday [on June 16]. The Fed started to show their hand and suggest they're looking to perhaps tighten a bit faster than the market had expected. The statement wasn't massively hawkish, but there was a fairly reasonable reaction in the marketplace, and so I think we're coming through a period of incredibly loose financial conditions. And now we need to see the economy take the baton from easy conditions and operate in a somewhat functional way. This is a trickier period now where stock selection becomes as important as asset allocation. This is where you want to see companies that can actually deliver. You know, when you have easy money, it rises all boats. Now we're going into a period where companies that can earn and grow are the ones that are going to succeed. And the ones that have been lifted by easy financial conditions are going to stumble a bit. We are still quite bullish on equities overall, but it's a different backdrop now than it was perhaps a month ago in terms of what we're focusing on.

Parlee*: Mike, I'm just going to stick with you for a second. Let's talk a bit about inflation. Commodity stocks took a bit of a hit yesterday with the Fed's move. What do you see from an inflationary standpoint?*

Craig: I think the things we're paying attention to aren't really that big of a deal, but the things we're not paying attention to could be an issue later this year. And what I mean by that is, much of the inflation we've seen is transitory. Used car prices have gone higher because of chip shortages. Lumber prices have gone up quite a bit higher because of renovations. I think that will pass. What I don't think has really been focused on as much going into the fall is, first of all, the pandemic rent controls that will soon be lifted, so I think you're going to start to see rents start going higher. Health care has been under sequestration, and that will also pass, so you're going to see health-care expenses move. And this pandemic has had a scrambling effect on the workforce, so now it's a question of labour mismatches. You might have had wait staff at a restaurant a year ago and now you can't find them as you try to reopen. As the service part of the economy really fires up again, finding people to fill those positions is going to be tricky. So that's our thought. It's really tricky to make a call right now, but what I would be much more comfortable saying is, we just finished a decade of incredibly low inflation volatility. Inflation has been quite dormant for 10 years (Figure 2). Our sense is that you're probably going to see a bit more inflation volatility. It may ebb and flow but it will be more volatile in the next market expansion versus the previous.

Figure 2: The sleeping giant awakens



Source: Bloomberg Finance L.P. as of June 22, 2021

***Parlee**: Beata, your thoughts on inflation?*

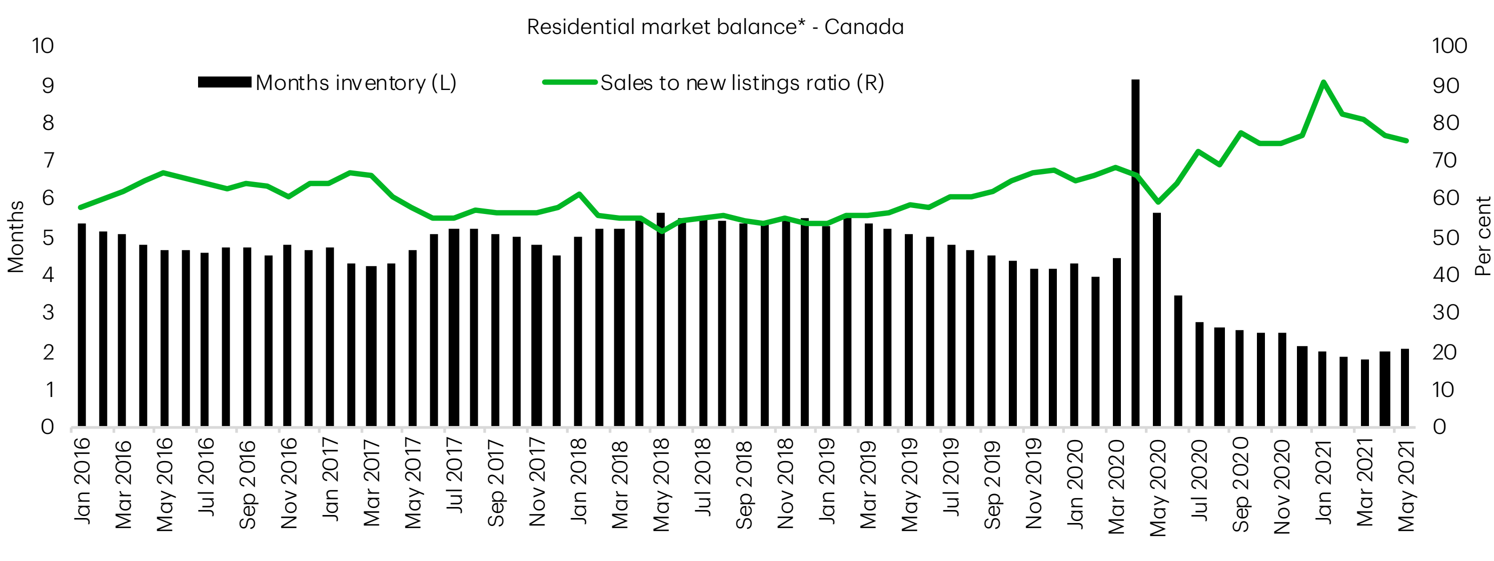
Caranci: To Michael's point on price volatility, it's happening everywhere but it's much more dramatic within these service segments of the economy in the U.S. I suspect that what we're seeing in the U.S. is the marker for Canada, but we're just now very gradually reopening. I would agree that there's a lot of transitory factors happening, and these things can take quite a while to work out — things like the shortages of chips — so there's a lot of pressures and unknowns still on that front. We know the central banks are going to try to wait this out to get a sense of true underlying factors, but our bigger concern is that this cycle has demonstrated attributes that we've never seen before. We've seen the consumer cycle and the business cycle rebound at a faster rate than we've ever seen coming out of a recession before, and so it's almost like we are starting the economy back up at 2019 levels — except the job market — but we have a zero policy rate, instead of one that's a couple points higher. The fact that we have central bankers who are communicating such a high degree of patience tells you that there's going to be this overshoot, even once you remove this transitory factor, that will likely lead to persistent inflation above 2%. At least, that's what's in our forecast through next year. You'll have an economy that should have reached pre-pandemic levels by the third quarter at the latest, and will be no longer in excess supply by next year. That's where your demand pressures start to push up inflation. The big spikes we're seeing now may be transitory, airfares and all of that, but ultimately there will be this undercurrent of price increases as we get into the following years.

***Parlee**: What about housing? We've certainly seen distributed inflation there. For the first time in a while, it's not just the big centres; everybody's getting a pop. What do you see for housing in the next little while?*

Caranci: We're already starting to get some clues that buyers are slowly shifting their preferences. We've seen slightly weaker home sales in the past couple of months. Part of it was because there was a change in the qualification rules, and so people probably front-loaded purchases in March/April versus May and June. The supply side is very tight, though, and so what does this mean? Even if demand continues to taper off because people are starting to think about travel plans as opposed to selling their homes, at the end of the day, we have a tight supply market, and that has not changed. We are seeing listings rise, but we have a sales-to-listing ratio at about 75 (Figure 3). In a market where you have downward pressure on home prices, that would be in the 40s, so we are well over that mark. We are still definitely in a seller's market and this is likely going to persist into next year.

That's the one major theme, and then the other major theme is that affordability has eroded to such a degree, we're seeing a preference shift towards the condo market, because the price ratio of detached homes to condos has become so extended. Detached homes are priced two and a quarter times that of a condo. That's where we are currently, which is a peak level, and normally you'd be sub-two. So what's happening is, people are saying, "Oh, I can't buy that house, but hey, maybe I'll get that larger condo," or those who were uncomfortable buying a condo during a pandemic are now looking at it, or immigration is picking back up, students are coming back, Airbnbs are going to be coming back. But even if you see that average prices are down, those prices reflect the composition of what's selling in that particular month. So, if more condos are selling relative to detached, it looks like the prices are down, but when you do a like-for-like comparison, they're still holding positive. Again, this goes back to the tightness of the market on the listings side.

Figure 3: Housing supply vs. demand



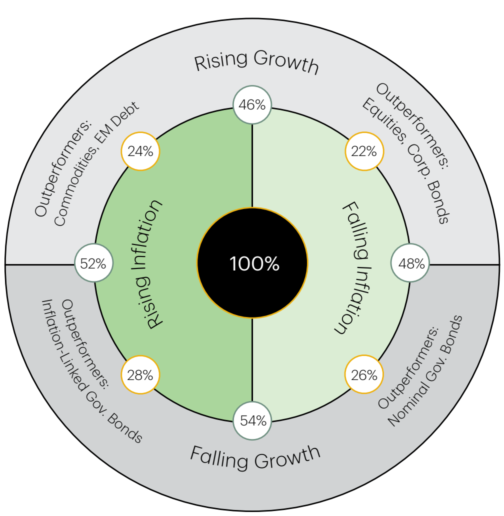
*Seasonally adjusted. Source: CREA as of May 31, 2021

So we think that there are two themes: prices are going to be very sticky, even though we have much less affordable markets in a rising-interest-rate environment; and then the composition shift, which hopefully will allow some of the heat to come off the detached market, but it's unlikely to push the prices down. If anything, that will hold your prices stable, so there's not really a great entry market for people who are trying to wait for that correction and jump in. It's hard to envision what creates that correction. Usually it's a job market that's very weak. That would be your first metric. If you don't see those jobs come back in August, September, October, then that might be the clue.

***Parlee**: Brad, on the theme of inflation, I know you do a lot of work with factors and the way they play into portfolio construction. Your quick thoughts on inflation and the portfolio. What needs to be thought about today?*

Simpson: We have the fortune of relying on Beata to make the really difficult decisions about what's going to happen with inflation, and then we hedge our bets a little bit. From a portfolio-construction perspective, we really look at the world in quartiles: about half the time you're living in an environment where inflation is rising, and the other half it's going the other way; and 50% of the time, things are growing, and 50% it goes the other way. We try to allocate portfolios in between those four areas (Figure 4), if you will, and then we're going to tilt towards a factor exposure like we are today, where we are in an environment where we're perceiving there's more inflation and there's more growth. So we're tilted more that way. If our expectations don't play out, and there isn't that much growth or as much inflation as we thought, we're kind of hedging ourselves. If you do that consistently over time — not try to be perfectly correct but just approximately so — that's usually going to be the best policy to both prosper and work through the risk-management component, particularly in this kind of transitionary phase.

Figure 4: Four Economic Seasons



Source: FactSet, Bloomberg Finance L.P., TD Wealth, as of March 31, 2020.

***Parlee**: Thanks, Brad. Michael, you talked about how, in the next little while, we're going to see which companies are going to do well and which ones aren't once things start to cool down. Where do you see opportunities in the market right now?*

Craig: I was listening to a podcast recently, and the presenter said something that has stuck with me. The presenter referred to two groups of stocks. First you have the secular growers, companies that are doing something interesting or different. They're changing the way we do something or consume, or they're more efficient at something. These tend to grow no matter what. And then you have your economically sensitive stocks that tend to be geared to where you are in the growth cycle. So, financials, materials, energy — these are companies that tend to do very well when growth is heating up. My sense is that this year you've seen the economically sensitive stocks do well, and now we're starting to see a bit of rotation back into that growth area. So, for me that's really interesting. The other area, if you're thinking about thematic trends, involves the environment. The E in ESG is absolutely here and is moving at a far faster pace than pre-Covid. The move to reduce the amount of carbon we emit per unit of growth is a widespread global phenomenon that is not going to slow down and that presents tremendous opportunities and risks for companies to manage. My sense is that I will be talking about that until the end of my career, and hopefully that is not anytime soon, so it's really important to think about that sector as a place for investment, and to see how we create the carbon-light or carbon-neutral economy that we'll see in the latter part of this century.

***Parlee**: Can we talk a bit about the retail investors that have entered the market recently. I would say that there's been a new dynamic. Will that be material going forward? Crypto has entered the market and people are allocating money in that direction — whether that's a prudent thing to do is a whole different story — but there's a lot of new things that have been injected into the market.*

Craig: On the rise of the retail investor — that kind of pack mentality, where you see a group of online investors attack or bid up a particular company — the way I look at it is, many of these investors don't have faith in actual investing. They're just looking to make as much money as possible at any cost, and they're really placing binary bets where it's kind of an all or nothing. In the short term, it's a bit of a lark, but I think longer term, I find it a bit troubling. You want to help these people. You want them to be able to retire one day or build their wealth, but essentially they're turning investing into a bit of a casino, and so I find that to be a bit distressing. From our perspective, it's almost like we're living in parallel worlds. We tend to not focus on these names. It's almost a bit of a sideshow, but it does distort the market on a short-term basis.

In terms of crypto and digital assets, Bitcoin and Ethereum will get a lot of the headlines, but we've got to dissect the coin from the technology. The coin is what's paid to miners to run those networks, but the technology is I think is one of the greatest inventions since the internet in terms of digital commerce. The ability to have a diversified network that processes transactions, rather than at a single point, means these networks cannot be controlled, which is very good in a world of continued cyber crime. My sense is that this is early days. There are about 90 million people in the world with digital wallets, with a global population of over nine billion. So it's not that prevalent. We look at these things, the madness of the price swings. That is typically the sign of just new technology. They always go through these boom and bust cycles — whether it be railroads, steamships, the original internet in the late '90s and today — but I think it's important to look at this as a new space, a new way of how commerce will be handled. There's really no rush because we're early days. Lots of things will fail along the way, but in that, the overall idea becomes stronger. I find it all fascinating, but as an asset, crypto is very, very volatile. It's just not something to be putting your nest egg in.

Parlee*: It'll be certainly interesting to watch. Beata, we have not yet talked about government spending and the political side of things. In Canada, we depend obviously on the United States and how they're doing, but when you look at the fiscal side of things, the debt side of things, what do you see in Canada and the U.S. that we should be paying attention to?*

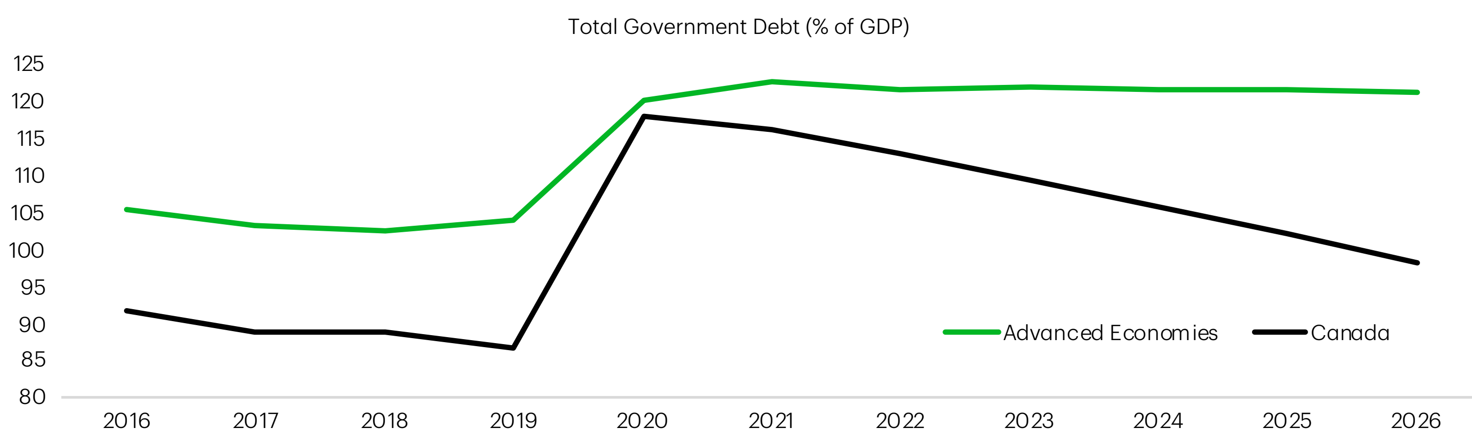
Caranci: In Canada, we've had a 20-percentage-point increase in the debt-to-GDP ratio. That's quite dramatic and likely to stay for a period of time. In a typical recession, for comparison's sake, you have about a 10-point increase. So we've seen two times the impact and no real plan to get it back to the pre-pandemic ratio, around 30%. So that might be disconcerting to Canadians. However, we should keep in mind that we have the lowest ratio of any major advanced economy (Figure 5).

So creditors should not be overly punitive of Canada, because when you look around, we're seeing very much higher levels of debt being executed elsewhere, and we at least have governments, both at the provincial and federal level, that are trying to stabilize it, if not bring it down. That's a positive.

As for where it's going, I guess it goes back to that ESG theme. We're seeing in the U.S. and in Canada and Europe big, big pivots in terms of budgetary expenditures towards climate-change initiatives. Future investment, both in the private and public sectors, is coming together through this channel. It's still very early days and we're trying to identify which are going to be the technologies that will succeed, because we have so many options right now, and so there will be missteps. There will be government funding of projects that will not be great expenditures, and then there will be some winners as well. We just have to be patient with the process.

I think what Canadian governments need to be paying attention to are the strategic sectors. The Americans are very organized around sectors that they are deliberately identifying as a security issue, where they are directing significant government dollars. So these would be battery technologies, EV, semiconductor — there's a whole list. And I think Canada needs to start developing its own list. What do we need for national security? What do we need for health and food security? Climate change is one of those initiatives, but it's not the only one. There's a lot of work still to be done by Canadian governments to hammer out those lists and where we should be putting some of these investment dollars. It's not all about just hitting these targets. It's about making sure we have a secure future. If we want to get 90% of our car fleet to EVs and we end up importing most of that, what we've effectively done is given our income over to another country in order to support that industry. That's not sustainable for Canada. You need to have these domestic industries at a critical scale if you're going to do the climate-change rotation without displacing your workplace.

Figure 5: Rising Government Debt



Source: IMF as of June 2021 Note: Includes provincial debt. Federal Canadian debt-to-GDP ratio is approximately 30% as of February 2019

***Parlee**: I need to ask you about the loonie, Beata, because we've had a nice surge in the past little while. What's your outlook for that?*

Caranci: We have it bouncing within an 81- to 83-cent range, and I think it might be at about 81 today because the U.S. dollar strengthened yesterday as the Fed indicated this earlier exit that's pulled some sentiment over towards the U.S. dollar. The Canadian dollar has done really well because the commodity cycle has worked in its favour (Figure 6). I think WTI oil was at US$70 when I last looked. None of us were forecasting that a year ago! We were like, try to get to US$40, so this is fantastic. But ultimately I think we're restrained by the fact that, if we get too high, we'll be uncompetitive on the export side, and that restrains your growth. So where we place fair value is somewhere in that 81 to 83 range. But currencies rarely just settle into a range. They overshoot on either side, so don't panic if you see it go in either direction because it has a natural equilibrium that pulls it back to the centre. It just sometimes takes time for it to move back.

***Parlee**: Okay, I'm going to throw out an open-ended question and I'll start with you, Brad. What do you think are the top two things people should be paying attention to?*

Simpson: I think the big thing that people should be paying attention to is what we alluded to at the front. We throw the word "change" around, and we use it quite casually, but the reality is that we're seeing some momentous change right now. We've used interest rates for the past couple of decades as an incredible driver of return for all assets. Now we need to try to step away and think about how to construct investment portfolios going forward, in an environment that's very different than the one we've spent the past few decades traversing. And that's easier said than done. Individuals tend to be reluctant to change, but here at TD Wealth we believe that you always need to be adapting. We've gone through this reset where we shut everything down and we're opening it back up again. Now we need to step back and think about whether the structure of our investment portfolios make sense in the environment we're in, and if it doesn't, to really start making some of those difficult decisions to alter some of the things that may have worked really well for us in the past but probably will be unlikely to work as well going forward.

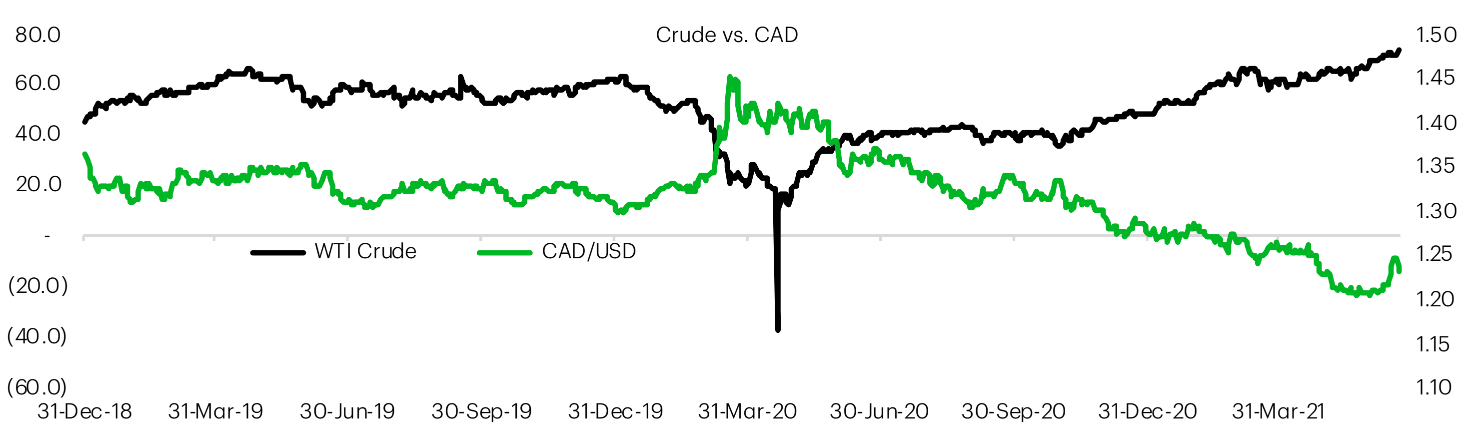
***Parlee**: Absolutely. Mike, how about you? Top two things you think people should be paying attention to but maybe they're not.*

Craig: I think that Beata and I both talked about ESG. As the world kind of moves in this direction, there's going to be mismatches. We don't get to go off oil overnight. And so the risk of an oil shock — the risk of seeing US$100 WTI in the next couple of years — is not immaterial. So that's one risk. The other thing, I would say, is that we continue to see tremendous wealth and income inequalities throughout society. The spread for average mortality, if you look across the U.S., is about eight or nine years based on the wealth in those regions. This is going to be very dominant in politics and policy, and I don't think this is going to be resolved before 2024 and the next U.S. election. I think we've had a bit of a breather as the politics cools down, but I don't think it's going away anytime soon. It'll be interesting to see what happens in 2024. For me, that's the bigger picture.

***Parlee**: Interesting. Beata?*

Caranci: I'm going to pull on both of the themes that Michael and Brad were just talking about, because I think that, when you look at it through the lens of an economist, what we're seeing is the deglobalization theme, and I think the pandemic really drove that home, with countries holding on to the vaccines, holding on to PPE. That was really an exaggeration of something that was already occurring, and it wasn't just under Trump. It was a sentiment that was gradually moving in that direction. Now, this doesn't mean we're moving towards a closed economy again. It just means that we had this period of time when globalization went full-throttle, and now the pendulum is just swinging back to some equilibrium level.

Figure 6: Petro Loonie Ascendant



Source: Bloomberg Finance L.P. as of June 22, 2021

The problem for Canada is, we've built an economy on trade, trade deals, openness. And so I think the biggest challenge for Canada is really how do we start to think through inward investment, and how do we start to think through not having so much reliance externally? That will require a big pivot in the psychology of businesses in Canada when it comes to investment. We have very low shares of research and development dollars that are put into this economy. In fact, when you look at the OECD, Canada is below average when it comes to R&D dollars as a share of GDP (Figure 7). We do things really well in AI and other areas, but we have a problem scaling up businesses. We have a problem with the notion of change. But if we're going to have change, we have to ask ourselves, are we going to be leading our own change or are we going to be dependent on other countries to bring in the technology? And so I think there's a maturation that's going to have to happen in Canada and it's going to be pulled along this investment thread and the degree to which companies get on board with digital adoption, R&D and scaling up.

That's a place where we haven't done well in the past, but we're about to enter a space where lagging is losing, so we've got to start moving a bit faster.

***Parlee**: Okay, I've got a ton of questions coming in. I'm going to limit you to 20 seconds, okay? Thank you everybody for sending in the awesome questions. Beata, why does the Bank of Canada think the rate of inflation will taper off by this fall?*

Caranci: Yeah, so this is the notion that they see a lot of the impact happening right now as transitory. Now, when they talk about inflation tapering off, it just means that we're not going to be at a 3% to 4% range and we're going to be moving back to around 2%. So if you're a business, you're still looking at a two-percent-plus environment and that doesn't include wages and whether you can pass on those higher costs or not. That'll be a 2022 phenomenon. So the simple answer is, the bank's in the camp of transitory prices — it's just a question of whether you're in the same camp.

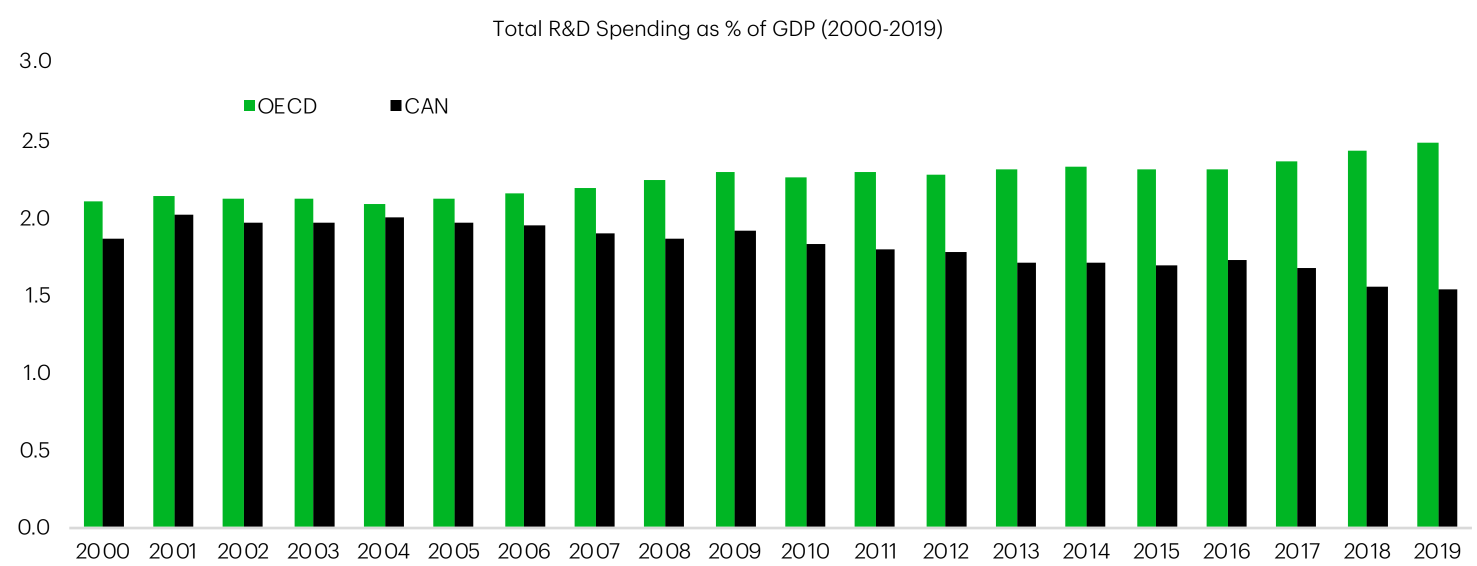
***Parlee**: Michael, this question's for you. Is there a danger of either hyper-inflation or deflation? And what are some of the signals to be aware of for either of these scenarios with banks?*

Craig: I think there's a zero chance of hyper-inflation. We've got fairly well-organized central banks and they would never allow that. On deflation, you know, I don't think — after the stimulus that has been put into the system — I don't think that's a risk anymore. It would absolutely have been a risk 13 months ago, but with the amount of money in the system right now, I don't see that in the near term. With demographics and technology, it's always something in the background, but it's not an issue to be concerned about over the next 12 to 18 months.

***Parlee**: Thank you. Brad, what's the most important thing to focus on to make sure you're staying on course for your investment goals?*

Simpson: I think the most important thing is to always remember that, even if you look at the issues we're talking about today, some of them will be here tomorrow and some of them are just going to disappear. That's what happens in a world that's adaptive because things occur and we take measures from a central-bank or a government-policy perspective. That's why we as an organization believe that it's not the decisions themselves that are important, it's why you make them and how you make them. So I think the critical component is to define your thinking on how you're going to make decisions. For us, it's our philosophy, which is called Risk Priority Management. Because of RPM, we know when things occur precisely how we're going to make those decisions.

Figure 7: Canada lags on innovation



Source: OECD as of June 2021

I mean, we've been talking about some pretty exciting stuff here on this call today, and some of it represents incredible opportunity and some of it could represent significant losses. And so I think what you want is, you want to know, when things are changing on the fly, how you're going to make those decisions and how you're going to consistently do that. If you can do that, then you as an investor are going to find yourself in a pretty good place.

Underlying Principles: Risk Priority Management

First Principle: Innovate and look forward

"**Innovate and look forward:** *A critical component to investment success is the relentless pursuit of being prepared for what comes next. Grand distortions caused by recent years of unorthodox monetary policy may mean that the era of simply gathering data and using it to calibrate future allocations is over. We believe investors are better served by directing their efforts to what they can control: building a robust portfolio that can weather the inevitable volatility and unknown elements of financial markets."*

Parlee*: Okay, we're going to go all the way from the high-level stuff right down to the tactical. Beata, how long do you expect government payments such as CERB to continue? Is there a target such as the employment rate or vaccine uptake that will trigger these programs to end?*

Caranci: Yeah, they're already scheduled to start winding down. That should happen naturally. I think the bigger question is not the CERB, which is that temporary measure; it's the areas that are more permanent. When the pandemic hit, the EI program missed a large portion of the population who were self-employed or didn't have sufficient hours. There was a lot of provincial variation. You could work 200 hours in Ontario and not qualify and 180 hours in another province and qualify. So I think what we'll likely see is this revamping of the EI program to be a bit more inclusive than what we've seen in the past. That's not necessarily a bad thing. In this great experiment, we've seen that, if you put in stronger income supports for people, you can slingshot out of recessions real fast, so hopefully it's a lesson learned that we can put in place, but in a sustainable way without running up the debt.

Parlee*: With elections coming, I'm sure something will be brewing. Here's another one for Beata. The deteriorating relationship between China and the West: What's your view to the impact on inflation and the overall economy?*

Caranci: That's a big question because there are so many channels to look at. The commodity channel is an obvious one, where China was really ramping up on building up stockpiles, and now they've gone in the other direction. China was also offering a lower cost of production, which had been part of that post-2000 globalization period where we had these sustainably lower inflation numbers. But that was the old China. China is actually no longer a cheap place of production — that has moved to other emerging markets — so we're already losing them as a disinflationary force on the global economy and really there's nothing to replace them. And then, of course, demand from China is rising and they're pushing more and more with every decade into middle income and generating pricing pressure on areas where advanced economies compete for products. So I don't think it's the political tension that's the issue or tariffs. It's more that their status as a really low cost of production — that is ceasing to be the case, and so we're going to lose that in the global economy. So the question is, can you compensate by being more efficient? Having more investment? It's the productivity side that will allow us to keep prices at bay, not the low labour costs.

Parlee*: Mike?*

Craig: Well, the surprise I think over the past eight months is that Biden has been far more hawkish towards China, and I think the temperature on the relationship with Russia has been down materially. I think they had a fairly successful meeting this week. This is a bit of "clash of civilizations" stuff. I do worry about Taiwan. We continue to see incursions there, and that could be a real flashpoint. My sense is that, at some point, cooler heads will prevail. No side has anything to gain from a war, but the reality is, we are moving towards an almost bipolar world where you'll have a Chinese sphere of influence and a U.S. sphere of influence and they will compete. It will be different than the Cold War with the Soviet Union but there will also be some similarities. From an investment point of view, you almost have two regions of the world to invest in. Ironically, though, you get quite a bit of diversification by adding equities from those two parts of the world because they are fairly independent of one another. For every Amazon in the U.S. you've got an Alibaba in China, and they are not going to compete with each other because of their relationships with their governments. It bears watching very carefully. I don't like the direction it's going in right now, and I think it will be very interesting to see what will happen after the G20 is wrapped up.

Parlee*: I wish I had more time. I've gotten through probably 20% of the questions that have come in. Thank you all so much for joining us today: Beata Caranci, of course, Chief Economist at TD Bank; Michael Craig, Head of Asset Allocation with TD Asset Management; and Brad Simpson, Chief Wealth Strategist at TD Wealth. Be well, take care, stay safe, and we hope to see you again soon.* □

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	73,068	3.44	10.01	16.42	33.83	10.51	10.30	6.81	7.34
S&P/TSX Composite (PR)	19,731	3.26	9.25	14.78	29.87	7.10	7.00	3.64	4.51
S&P/TSX 60 (TR)	3,551	3.82	10.77	17.05	32.85	11.07	10.97	7.37	7.51
S&P/TSX SmallCap (TR)	1,320	4.27	8.39	26.09	65.79	8.94	8.34	2.89	0.05
U.S. Indices ($US) Return									
S&P 500 (TR)	8,739	0.70	10.72	16.95	40.32	18.00	17.16	14.38	8.35
S&P 500 (PR)	4,204	0.55	10.31	16.08	38.10	15.83	14.93	12.07	6.23
Dow Jones Industrial (PR)	34,529	1.93	11.63	16.50	36.03	12.25	14.19	10.63	5.93
NASDAQ Composite (PR)	13,749	-1.53	4.22	12.71	44.88	22.70	22.68	17.10	9.82
Russell 2000 (TR)	11,671	0.21	3.34	25.28	64.56	13.06	16.01	11.86	9.37
U.S. Indices ($CA) Return									
S&P 500 (TR)	10,549	-1.05	5.36	8.89	22.85	15.28	15.27	16.93	7.02
S&P 500 (PR)	5,075	-1.20	4.97	8.08	20.91	13.15	13.06	14.56	4.92
Dow Jones Industrial (PR)	41,682	0.16	6.23	8.47	19.10	9.65	12.34	13.09	4.63
NASDAQ Composite (PR)	16,597	-3.24	-0.83	4.94	26.85	19.87	20.69	19.71	8.47
Russell 2000 (TR)	14,089	-1.54	-1.66	16.64	44.08	10.45	14.13	14.35	8.03
MSCI Indices ($US) Total Return									
World	12,977	1.50	9.87	16.40	41.28	15.00	14.85	10.92	7.59
EAFE (Europe, Australasia, Far East)	10,333	3.36	9.10	15.54	39.02	8.73	10.29	6.37	6.09
EM (Emerging Markets)	3,276	2.34	3.35	15.31	51.51	10.05	14.30	4.47	10.31
MSCI Indices ($CA) Total Return									
World	15,665	-0.27	4.55	8.37	23.69	12.35	12.98	13.39	6.26
EAFE (Europe, Australasia, Far East)	12,473	1.56	3.82	7.57	21.72	6.22	8.50	8.73	4.78
EM (Emerging Markets)	3,955	0.56	-1.66	7.36	32.65	7.51	12.44	6.80	8.96
Currency									
Canadian Dollar ($US/$CA)	82.84	1.77	5.09	7.40	14.21	2.36	1.65	1.24	1.24
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	7,023	0.76	8.32	12.07	15.57	-2.93	2.42	1.60	0.96
Hang Seng (Hong Kong)	29,152	1.49	0.59	10.67	26.96	-1.46	6.97	2.10	4.05
Nikkei 225 (Japan)	28,860	0.16	-0.37	9.18	31.91	9.14	10.86	11.53	3.96

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	0.11	0.91	1.49	2.03
U.S. Treasury Yields	0.02	0.80	1.60	2.28

Canadian Bond Indices ($CA) Total Return	Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
FTSE TMX Canada Universe Bond Index	1,168	0.63	-0.81	-4.38	-1.72	4.03	2.80	3.81
FTSE TMX Canadian Short Term Bond Index (1-5 Years)	769	0.09	0.37	-0.31	1.42	3.21	2.07	2.35
FTSE TMX Canadian Mid Term Bond Index (5-10)	1,282	0.54	0.09	-3.49	-0.86	4.75	2.80	4.21
FTSE TMX Long Term Bond Index (10+ Years)	1,942	1.39	-3.01	-9.90	-6.26	4.49	3.68	5.64
HFRI Indices ($US) Total Return								
HFRI Fund Weighted Composite Index	18,152	1.48	4.59	9.72	29.64	8.45	7.96	4.96
HFRI Fund of Funds Composite Index	7,391	0.22	2.26	4.45	20.05	5.99	5.93	3.67
HFRI Event-Driven (Total) Index	20,683	1.46	5.24	11.52	33.98	8.10	8.32	5.39
HFRI Equity Hedge Index	29,444	1.45	4.87	11.24	39.17	10.73	10.60	6.25
HFRI Equity Market Neutral Index	5,857	0.63	3.34	4.08	6.00	1.27	2.44	2.52
HFRI Macro (Total) Index	17,534	2.00	5.50	8.84	15.35	5.99	3.77	1.92
HFRI Relative Value (Total) Index	13,869	0.95	2.61	5.79	16.61	4.77	5.33	4.66
HFRI Indices ($CA) Total Return								
HFRI Fund Weighted Composite Index	21,906	-0.33	-0.71	3.71	13.31	5.91	6.20	7.30
HFRI Fund of Funds Composite Index	8,920	-1.57	-2.92	-1.27	4.93	3.51	4.20	5.97
HFRI Event-Driven (Total) Index	24,961	-0.35	-0.10	5.40	17.10	5.57	6.56	7.73
HFRI Equity Hedge Index	35,533	-0.36	-0.44	5.14	21.64	8.14	8.80	8.62
HFRI Equity Market Neutral Index	7,069	-1.16	-1.89	-1.63	-7.35	-1.09	0.78	4.80
HFRI Macro (Total) Index	21,160	0.18	0.15	2.88	0.82	3.51	2.09	4.18
HFRI Relative Value (Total) Index	16,738	-0.85	-2.59	-0.01	1.92	2.32	3.62	6.98

Sources: TD Securities Inc., Bloomberg Finance L.P. TR: total return, PR: price return., As of May 31, 2021.

Portfolio Advice & Investment Research

Brad Simpson | Chief Wealth Strategist

North American Equities:
Chris Blake | Senior Portfolio Manager
Maria Bogusz | Manager, North American Equities
Chadi Richa | Manager, North American Equities

Managed Investments:
Christopher Lo | Head of Managed Investments
Aurav Ghai | Senior Fixed Income Analyst
Kenneth Sue | Senior Alternative Investments Analyst
Mansi Desai | Senior Equity Analyst
Van Hoang | Global Macro Strategist