WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)

Views as of August 15, 2024

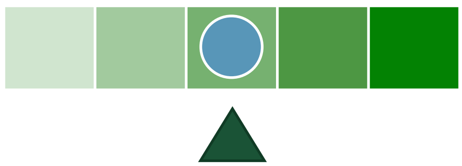
2024 SEPT

Core Asset Class Allocations

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Equity

Neutral

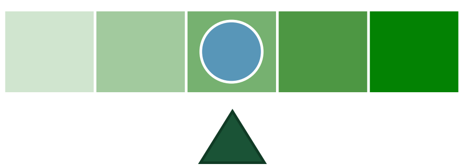


Previous Month

Equity market returns remain positive year-to-date. While the U.S. market, and in particular technology-related names, are among the leaders, all S&P 500 Index sectors and many major equity markets are up this year. We believe that the equity market has a balanced return outlook. While earnings are growing (as represented by the MSCI All Country World Index), this has been partially captured by the market in valuations. There could be additional market volatility near-term as the market debates the impact of a slowing economy versus the stimulative effect of potential U.S. Federal Reserve ("the Fed") rate cuts.

Fixed Income

Neutral

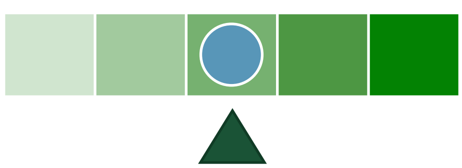


Previous Month

Given the evolution of domestic inflation, we expect the Bank of Canada ("BoC") to continue cutting its policy rate this year. However, barring a swift weakening of the economy, the BoC has stressed that rate cuts will materialize at a slower pace than the hikes they delivered in 2022 and 2023. This means that bond yields should not fall quickly, but this bodes well for the income component of bond returns and, therefore, we continue to expect fixed income will generate positive returns over the next 12 months. Furthermore, with the turn in the monetary policy cycle, we expect that bonds will provide diversification benefits, reduce overall portfolio volatility and preserve capital.

Alternatives

Neutral

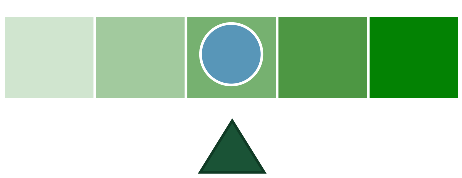


Previous Month

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

Cash & Equivalents

Neutral



Previous Month

U.S. pre-election and policy uncertainty may cause episodic spikes in volatility as we approach the fall. Additionally, recent economic trends suggest an increasing chance of transitory below trend growth. Considering this, we are raising cash to enhance liquidity and provide optionality to capitalize on better valuation opportunities that may emerge. Cash rates are expected to ease as short term rates fall, but declines should be gradual.

Equities – Neutral Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Canadian Equities	Neutral	Canadian gross domestic product ("GDP") growth has slowed and inflation has subsided. As a result, the BoC has announced two rate cuts since June amounting to a 50 bps reduction to its policy rate. The indication that rates have peaked and potential for further reductions is supportive for the economy. The TSX Composite Index offers some attractive opportunities with strong free cash flows within the Energy sector, relatively inexpensive Financials sector stocks, and reasonable overall valuation.
U.S. Equities	Modest Overweight	S&P 500 Index returns this year have been driven by both multiple expansion and earnings growth. While mega cap technology firms are a significant contributor to returns, partly driven by AI opportunities, all sectors are in positive territory. While a lower rate environment combined with earnings growth is supportive of equities, investors will be weighing this against signs of a slowing economy. The S&P 500 index commands a premium valuation due to its higher technology exposure.
International Equities	Neutral	While macroeconomic conditions are sluggish, particularly in Europe, international equity valuations may be overly discounted and that future returns may be more inline with global markets. Japanese equities look attractive on a relative basis, with momentum building behind a corporate reform agenda aimed at boosting profitability and valuation multiples. The Japanese stock market and yen might experience additional volatility depending on how the Bank of Japan continues with its process of raising rates versus the Fed potentially cutting rates.
Chinese Equities	Modest Underweight	We believe the Chinese equity market may lag its global peers as the country continues to work through the challenges in its property sector.
Emerging Markets ex. China	Neutral	Some emerging market central banks appear to have paused their rate hiking cycle, with Brazil, Chile and Mexico cutting rates. While this is supportive of better domestic growth in these countries, it might be partially offset by the impact weaker global growth could have on exports.

Fixed Income – Neutral Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Domestic Government Bonds	Modest Overweight	If the Canadian economy continues to evolve as it has in the first half of 2024, we anticipate that the BoC will deliver more rate cuts this year. Bond yields have continued to trend lower after the BoC delivered the first cut, and there is room for them to fall further if the BoC can continue to reduce its restrictive monetary policy stance. As the easing cycle progresses, we expect yields on shorter government bonds, which are more sensitive to the monetary policy cycle, to fall faster than that of longer government bonds. Over the long term, we believe government bonds will remain appealing due to their potential to generate positive nominal returns.
Investment Grade Corporate Credit	Modest Overweight	Investment grade spreads remain tight overall and reflect a modest softening of the global economic backdrop. We see Canadian investment grade corporate bonds as more attractive than U.S. investment grade corporates as spreads in Canada continue to be meaningfully wider.
Global Bonds-Developed Markets	Neutral	As more leading central banks are beginning to cut policy rates, investor attention is turning to the uncertainty emanating from global elections. As election-induced, idiosyncratic policy risks weigh on markets, we believe the evolution of each central bank's easing cycle and bond returns are not foregone conclusions. For example, we anticipate the Fed will be in a position to cut its policy rate as early as September, which should have positive implications for U.S. bond market returns. On the other hand, sustained momentum in underlying inflation trends is giving more confidence to the Bank of Japan ("BoJ") to consider raising interest rates further and reduce the degree of policy accommodation over the coming months. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18-months.
Global Bonds-Emerging Markets	Modest Underweight	While yields remain attractive in some regions, many emerging market countries have either cut policy rates meaningfully this year, or have significant rate cut expectations already priced in bond yields. As a result, there is now a lower potential for emerging market bonds to outperform developed market bonds from capital appreciation alone. However, there are tactical opportunities in some emerging market countries where fiscal policy and growth fundamentals remain stable.
High Yield Credit	Modest Underweight	All in yields remain attractive, but high yield spreads continue to be expensive and not reflective of potential challenges within the sector. While the majority of high yield companies are performing well, many of the riskier high yield issuers are struggling with heavy debt loads and slowing growth. As a result, we remain cautious at current valuations and favour the higher quality cohort of the market.

Alternatives – Neutral Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

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

Sub-Asset Class

U.S. Dollar (USD)	Neutral	The USD has remained strong against global currencies as relative growth differentials still favour the U.S. economy, and by extension the USD. Some USD weakness may be expected in the near term, however, currency risk is not expected to be a major factor affecting returns as any USD softness is expected to be modest. The USD provides diversification in portfolios considering the range of risks in the near term.
Commodities (Gold, Energy, metals, agriculture, carbon)	Modest Overweight	Economic data has started to underwhelm, and this is showing up with recent softness in industrial production and ISM manufacturing. However, long term underlying fundamentals remain supportive for key commodities such as oil and copper as supply remains disciplined or restricted. Commodities remain a source of diversification in this environment. Additionally, the gold price rally accelerated this past month as US 10-year real yields moved lower in anticipation of potential Fed cuts and physical gold ETFs attracted inflows

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