WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)

Views as of June 20, 2024

2024 JUL

Core Asset Class Allocations

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Equity

Neutral

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.

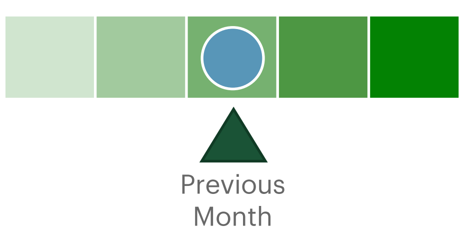
Fixed Income

Modest Overweight

Given the evolution of domestic inflation, the Bank of Canada ("BoC") may no longer need to maintain monetary policy at very restrictive levels and we expect more policy rate cuts 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 to generate positive returns over the next 12 months. Furthermore, with the turn in monetary policy cycle, we expect that bonds will provide diversification benefits, reduce overall portfolio volatility and preserve capital.

Alternatives

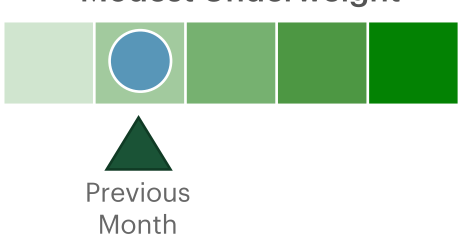
Neutral



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

Cash & Equivalents

Modest Underweight



We anticipate that the high yield we are currently seeing in cash may be temporary and expect a reduction in yields as the BoC has begun cutting rates and the U.S. Federal Reserve ("the Fed") may be moving towards easing measures. Overall, cash may not be as attractive as other asset classes in the medium term.

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 recently announced a 25 basis points reduction of 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 stocks, and reasonable overall valuation.
U.S. Equities	Modest Overweight	The U.S. labour market and GDP growth have remained robust. 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 S&P 500 Index sectors are in positive territory and the index may command a premium valuation due to its higher technology exposure.
International Equities	Neutral	While macroeconomic conditions are sluggish, particularly in Europe, we feel that international equity valuations are overly discounted and that future returns will 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.
Chinese Equities	Modest Underweight	The Chinese equity market has rebounded recently. We believe that further upside might be more limited 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 and Chile 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 – Modest Overweight 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 into the end of the year. Although bond yields have fallen as expected ahead of the turn in the monetary policy cycle, there is room for them to fall further if the BoC can continue to predictably reduce its restrictive monetary policy stance. Over the longer term, we believe government bonds 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 begin cutting rates to ease the restrictiveness of monetary policy, investor attention is turning to the uncertainty emanating from global elections. As election-induced, idiosyncratic policy risks weigh on markets, the evolution of each central bank's easing cycle and bond returns are not foregone conclusions. For example, we anticipate the U.S. 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. However, the upcoming U.S. election may impact investors' economic forecasts for 2025 and beyond, and in turn, capital market valuations across all asset classes. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18 months.
Global Bonds-Emerging Markets	Modest Underweight	The dispersion of returns within emerging markets continues to present opportunities on a tactical basis. While yields remain attractive in some regions, local-currency government bonds in many emerging market countries have already priced-in significant rate cutting cycles and therefore there is reduced potential for emerging market bonds to outperform developed market bonds. A strengthening U.S. dollar and persistent volatility in U.S. government bond yields may also be a headwind for emerging market countries with high levels of U.S. dollar liabilities.
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 is buffering rising interest rates. Investor appetite is particularly focused on energy transition investments and critical infrastructure sectors that generate stable, growing cash flows.

Sub-Asset Class

U.S. Dollar	Neutral	Relative growth differentials favour the U.S. economy and by extension the U.S. dollar. While U.S. growth may also decelerate, it is expected to remain stronger than in Canada or parts of Europe. This leaves room for relative strength in the U.S. Dollar.
Commodities (Gold, Energy, metals, agriculture, carbon)	Modest Overweight	Commodities can help to diversify portfolios as their returns have a low correlation to both stocks and bonds. Underlying fundamentals remain supportive for key commodities (e.g. oil or copper), as supply remains either disciplined or restricted. Gold has been supported by central bank buying as well as demand from China. These factors have more than offset the headwinds from the year-to-date rise in real yields and the U.S. dollar.

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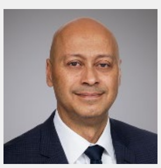

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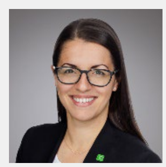

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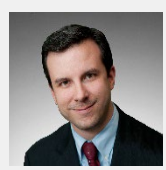

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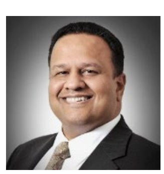

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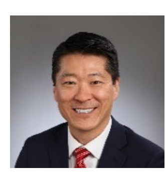

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For more information
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