# WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)

DEC 2021

## At a glance

1. **We expect global equities to deliver positive performance in 2022; however, gains are likely to moderate from 2021 levels. Higher valuations should be driven by economic and earnings growth, strong corporate fundamentals, and reinforced by resilient consumer spending and demand.**

2. **We maintain our core strategic preference for equities relative to fixed income. The protracted low-rate environment is likely to persist even as central bank policies shift from accommodation to stabilization.**

3. **Primary risks to the outlook include elevated and more persistent inflation, tight labour markets/wage pressures, monetary policy missteps, and new virus variants, which could all lead to elevated market volatility and impact global growth.**

4. **While we maintain an overall modest underweight to fixed income, due to low real returns, we believe fixed income exposure within portfolios remains important. Bonds can provide investors with consistent income, diversification benefits and insulate portfolios during periods of elevated volatility.**

5. **With low fixed income yields and the potential moderation of equity returns, an allocation to alternative assets could be beneficial in managing portfolio volatility, providing some long-term inflation protection and attractive absolute returns. We believe alternative assets can help portfolios under either transitory or more structural inflation outcomes.**

## Positioning Changes

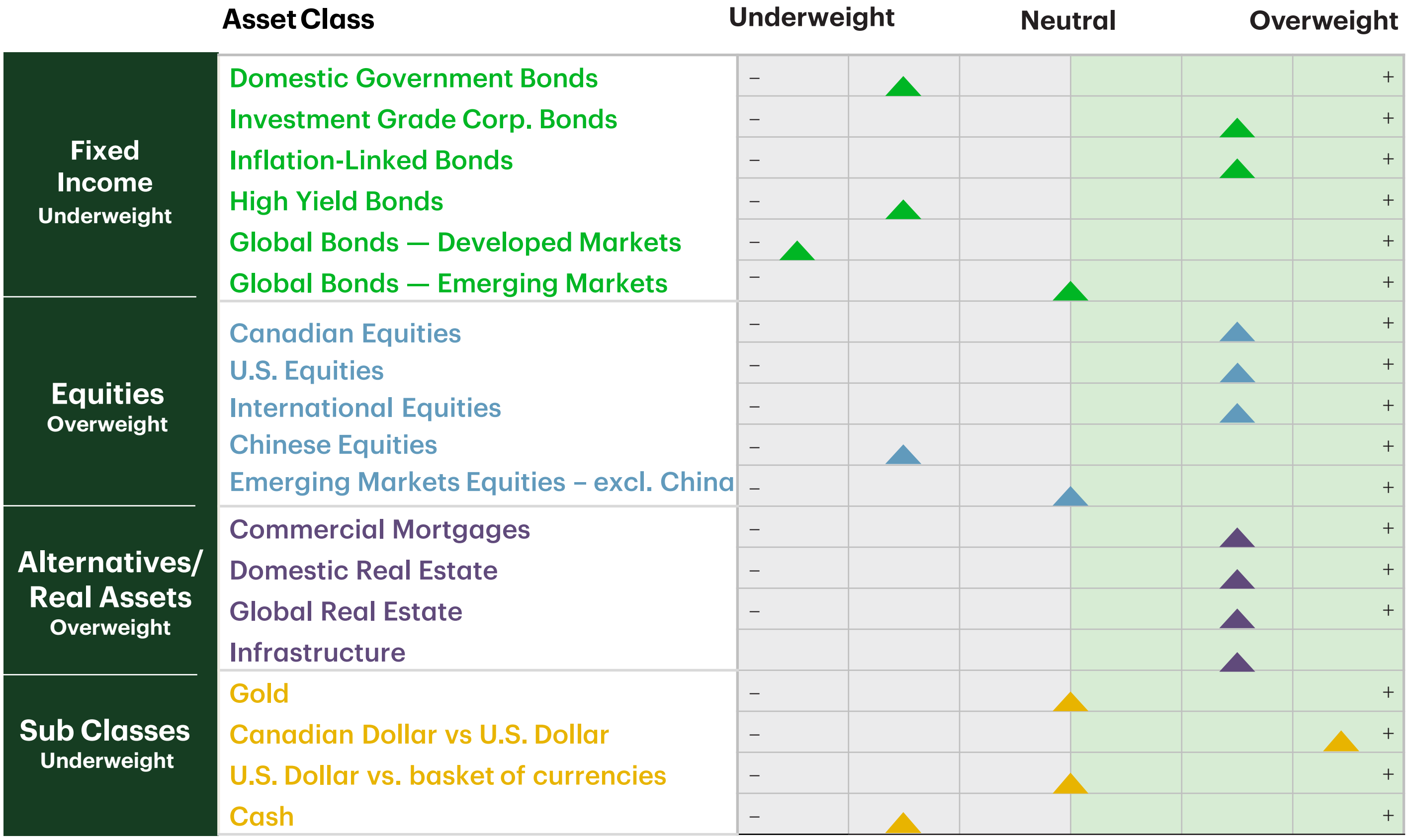
No positioning changes for December 2021

"Despite the many headwinds S&P 500 Index companies faced in 2021 (i.e., wage inflation, cost pressures), they have grown earnings at the fastest pace in decades, while generating significant free cash flows and strong margins. Our outlook for 2022 remains positive for U.S. stocks, although we anticipate more modest returns compared to 2021.

| | WAAC is Monitoring | Potential Implications |
|---|---|---|
| **Equities**<br>Modest Overweight | **Despite headwinds, U.S. companies have delivered record earnings growth** | Despite the many headwinds S&P 500 Index companies faced in 2021 (i.e., wage inflation, cost pressures), they have grown earnings at the fastest pace in decades, while generating significant free cash flows and strong margins. Our outlook for 2022 is bullish for U.S. stocks. While returns may moderate, we expect corporations to continue to grow revenues and earnings, which should drive positive returns over the next 12-18 months.<br><br>Following an extended period of relative underperformance for the S&P/TSX Composite Index, the outlook for the economy and corporations continues to improve. Expected dividend increases, share buy backs, a strong backdrop for commodities, and attractive relative valuations, all support our bullish thesis for Canadian stocks entering 2022.<br><br>International markets have performed well in 2021 but may be losing momentum due to surging natural gas prices and the recent uptick in COVID-19 cases in certain regions. We see relative opportunities however and are optimistic on European economic growth prospects as manufacturing PMI data across Europe has remained broadly expansionary.<br><br>We maintain a modest underweight outlook for Chinese equities, as the turmoil in China's property sector will likely continue to weigh on economic growth and investor sentiment. Policy intervention and improving external demand may provide some relief, but our outlook remains cautious. |
| **Fixed Income**<br>Modest Underweight | **We are neutral and selective in high yield following strong performance by the asset class over the year** | We continue to emphasize capital preservation in fixed income portfolios while seeking to maintain a yield advantage relative to benchmarks. The bond market may still be subject to volatility, particularly on the front end of the curve, as central banks adjust policy frameworks from accommodation to stabilization.<br><br>Interest rates should remain relatively low as the U.S. Federal Reserve (the Fed) and global central banks continue to incorporate an accommodative stance with respect to interest rates even as the Fed accelerates its tapering of asset purchases. We expect yields to move modestly higher from current levels in the next 12 months due to positive economic prospects. We remain constructive and comfortable with our strategic modest credit overweight as corporate bonds offer some value over government bonds which remain uncompelling.<br><br>We maintain a neutral outlook for high yield bonds following strong performance by the asset class over the year. Spreads remain at compressed levels, despite some modest recent widening, which has limited the attractiveness of relative opportunities. We remain selective in high yield. |
| **Alternatives/ Real Assets**<br>Modest Overweight | **Canadian real estate transaction activity rebounded significantly in 2021** | We maintain a positive outlook for Global Real Estate as returns saw a rebound in 2021, demonstrating the importance of portfolio construction through geographic and property type diversification.<br><br>The relative yield of commercial mortgages versus publicly traded bonds is near an all-time high. We continue to focus on assets with defensive income profiles while remaining structurally overweight the counter cyclical multi-unit residential sector and industrial assets with a logistical and distribution focus.<br><br>Infrastructure returns in 2021 were strong given rebounding economies amid loosening quarantine measures. We see significant opportunity looking forward as the need for new infrastructure intensifies. Government commitments to decarbonizing economies has highlighted the opportunity in renewable energy and power infrastructure to meet net zero targets globally.<br><br>Within Canadian real estate, transaction activity has rebounded significantly in 2021. Investor enthusiasm has been most pronounced for industrial and multi-family assets, where despite a prolonged pandemic, are exhibiting strong fundamentals, and a persistent supply/demand imbalance, leading to sustainable income growth and valuation support. |
| **Sub-Classes** | **USD could see weakness from potential interest rate differentials** | The combination of a hawkish Bank of Canada, robust economic performance, labour market strength, as well as increasing capital inflows and strong commodity prices, should all contribute to the longer-term outperformance of the Canadian dollar.<br><br>Despite the recent pullback, high inflation readings from around the globe have provided some support for gold over the year, due to the precious metal's hedging characteristics against rising prices. While gold may be supported by inflationary pressures, we do not anticipate a significant surge in demand for the metal from current levels and maintain a neutral outlook.<br><br>The Fed's more aggressive approach toward the tapering of bond purchases provided a recent lift to the currency. However, we continue to expect that the Fed will lag other central banks in its approach to interest rate policy normalization, resulting in potential interest rate differentials, and weigh on the U.S. dollar (USD) longer term. |

# Strategic Positioning

At a Glance




**We continue to monitor the above economic and market themes and believe that maintaining a portfolio of high-quality assets is critical to long-term investment success.** While there is always potential for market volatility, we encourage investors to remain focused on the long-term. We consider periods of higher volatility to be normal market behaviour that can help clear excesses and create investment opportunities.