



# WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)



## At a glance

- We are bullish on equities over a 12-18 month horizon. The improving fundamental outlook and low rate environment are providing a supportive backdrop for a broad appreciation in equity valuations.**
- Our expectation is for protracted low interest rates and inflation to remain at historically low levels. Aggressive monetary and fiscal policy measures continue to underpin economic stabilization, but may become a long-term drag on economies. We maintain a modest fixed income underweight due to the continuation of low expected returns.**
- We remain modestly overweight investment grade corporate credit. Wide spreads have narrowed significantly, but still represent a yield advantage over government bonds.**
- Corporate earnings, employment, and economic activity are improving globally; however, COVID-19 treatment progress and the effectiveness of policy response will largely dictate the speed of progress toward full recovery.**
- We view alternatives assets favourably within the strategic asset mix of portfolios due to their relatively stable income resiliency.**

## Positioning Changes

Asset Class	From	To	Rationale
Equities (overall)	Neutral	Modest Overweight	We are bullish longer-term on equities. While we acknowledge the potential for near-term macroeconomic, geopolitical and pandemic driven disruptions, the protracted low rate return environment, combined with an improving fundamental backdrop for many global economies, reinforces our optimistic outlook.
Canadian Equities	Modest Underweight	Neutral	We are seeing some encouraging signs in the Canadian economy with an uptick in overall business activity following widespread shutdowns. A robust residential real estate market, a modestly improving employment picture, and stabilizing Financials sector, should drive positive equity returns over the next 12-18 months.
International Equities	Neutral	Modest Overweight	The eurozone's bounce back in manufacturing and services activity, as well as strength in the euro, is providing evidence that international markets are healing from the deep contraction caused by the pandemic. International stocks may offer a period of outperformance under these improving conditions; however, prevailing structural challenges remain a potential headwind.
U.S. Dollar	Neutral	Modest Underweight	The U.S. Federal Reserve's (the Fed) commitment to remain highly accommodative under a new inflation-targeting strategy, combined with a potentially tumultuous U.S. election cycle, may continue to put pressure on the currency.
Canadian Dollar (CAD)	Modest Underweight	Neutral	Our expectations for a weakening U.S. currency, and the overall firming of Canadian economic conditions, underpin our view that the CAD may outperform its U.S. counterpart over the next 12 months.
Cash	Neutral	Modest Underweight	We are gradually reducing cash levels and deploying this capital to better represent our views in other asset classes where we can achieve higher potential returns for investors.

		WAAC is Monitoring	Potential Implications
Equities	Modest Overweight	<p><b>U.S. and Chinese equities continue to offer compelling longer-term relative value</b></p>	<p>Economic indicators including expansionary trends in global manufacturing PMI data, and policy coordination between central banks and governments, have been key drivers in the recovery from recession. These factors should also help drive longer-term equity outperformance over fixed income. Near-term volatility could be triggered by a tumultuous U.S. election cycle, pandemic related uncertainties, and failed stimulus measures. During significant drawdown periods, we will seek to increase exposures to well capitalized businesses, sectors and geographies that represent attractive long-term growth potential.</p> <p>U.S. equities continue to offer compelling longer-term opportunity. Persistent low interest rates, a resilient consumer, expanding business productivity, and the rapid rate of growth of U.S. technological innovation has provided a supportive backdrop for U.S. stocks.</p> <p>We continue to see attractive opportunity in Chinese equities given favorable relative valuations and an accelerating rebound in external consumption demand. China's business activity may see expansion ahead of other nations still grappling with the pandemic; however, simmering U.S./China tensions could weigh on the outlook.</p>
		<p><b>We remain modestly overweight on corporate credit due to their relative yield advantage over government debt</b></p>	<p>Despite significant tightening since the March market collapse, and with investment grade corporate bond spreads reverting near their longer-term averages, we retain a modest overweight view on corporate credit due to their relative yield advantage over government debt. We remain disciplined in our selection process.</p> <p>The U.S. Fed's new inflation-targeting strategy, where it will focus on average inflation rather than a specific target over a period of time, suggests that rates may be kept low indefinitely. With the expectation that other central banks may adopt a similar approach to policy, we remain modestly underweight government bonds due to expectations for yields to remain range bound near record low levels.</p> <p>High yield spreads have narrowed considerably from late March, but there may be room for further tightening, particularly if the economic rebound gains momentum. We remain highly selective with a neutral position in high yield bonds as economic headwinds continue to cloud the outlook for many sectors of the economy.</p>
Fixed Income	Modest Underweight	<p><b>Mortgage spreads have stabilized considerably. High quality commercial mortgages see biggest retracement</b></p>	<p>Transaction activity within the Canadian real estate market is gradually returning in the second half the year, as real estate investors are adapting to the new normal and finding new ways to complete due diligence.</p> <p>After mortgage spreads rose approximately 150 bps in March due to uncertainty around the impacts of COVID-19, spreads stabilized in April and have been gradually tightening since. High quality commercial mortgage spreads have witnessed the greatest retracement, as pent up demand for top-tier mortgage investments pushed spreads lower. Lower quality mortgages have lagged, but have seen material tightening as well due to substantial liquidity from all types of lenders with ample capital to be employed.</p> <p>Infrastructure transaction activity is expected to be busier in the third and fourth quarter as several processes slated for earlier in the year have been halted in the market.</p>
		<p><b>Gold may continue to outperform in an environment of low real yields, uncertainty, and weaker U.S. dollar</b></p>	<p>We believe that gold will continue to outperform in an environment of economic uncertainty, low real yields, and a weaker U.S. dollar. The combination of unprecedented monetary policy (keeping rates low) and concern around the strength of the global recovery may continue to drive the outperformance of gold over a 12-month horizon.</p> <p>We are modestly underweight the U.S. dollar. The Fed's commitment to remaining accommodative for the extended term, continued pandemic risks, and the potential for a turbulent U.S. election period, have put pressure on the currency. An environment of improving economic conditions and a clearer domestic political climate could aid in the stabilization of the currency; however, we expect current trends to persist.</p>
Alternatives/ Real Assets	Modest Overweight		
Sub-Classes	Modest Underweight		



## Strategic Positioning

At a Glance

	Asset Class	Underweight	Neutral	Overweight
<b>Fixed Income</b> Underweight	Domestic Government Bonds	-	▲	+
	Investment Grade Corp. Bonds	-		▲
	Inflation-Linked Bonds	-		▲
	High Yield Bonds	-	▲	+
	Global Bonds — Developed Markets	▲		+
	Global Bonds — Emerging Markets	-	▲	+
<b>Equities</b> Overweight	Canadian Equities	-	▲	+
	U.S. Equities	-		▲
	International Equities	-		▲
	Chinese Equities	-		▲
	Emerging Markets Equities – excl. China	-	▲	+
<b>Alternatives/Real Assets</b> Overweight	Commercial Mortgages	-		▲
	Commercial Real Estate	-	▲	+
	Infrastructure	-		▲
<b>Sub Classes</b> Underweight	Gold	-		▲
	Canadian Dollar vs U.S. Dollar	-	▲	+
	U.S. Dollar vs basket of currencies	-	▲	+
	Cash	-	▲	+

**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.

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