TD Wealth
Perspectives 10 Minutes

WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)

Views as of March 21, 2024

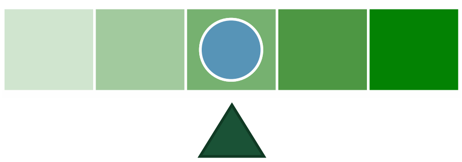
2024 APR

Core Asset Class Allocations

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Equity

Neutral



Previous Month

We believe that the equity market has a balanced return outlook. While earnings growth is in positive territory globally (as represented by the MSCI All Country World Index), this has been partially captured by the market in expanding valuations and elevated investor sentiment.

Fixed Income

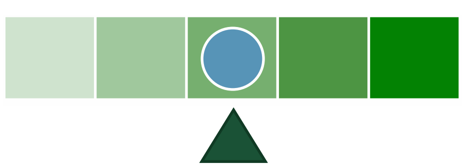
Modest Overweight

Previous Month

The Bank of Canada ("the BoC") has seen better-than-expected inflation prints over the past two months, increasing the likelihood that it will begin to reduce its policy rate in the summer. In previous easing cycles, bonds have generated positive returns as interest rates have fallen in the months leading up to the first rate cut. Given the modest rise in interest rates year-to-date, we anticipate that the lead-up to the BoC's first policy rate cut later this year will exhibit similar patterns to historical easing cycles. Although uncertainty around the future evolution of domestic and global macroeconomic data remains elevated, we continue to expect that fixed income will generate positive returns over the next 12 months and that bonds can still 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.

Cash & Equivalents

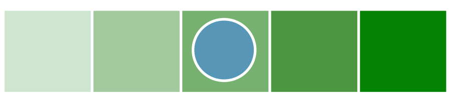
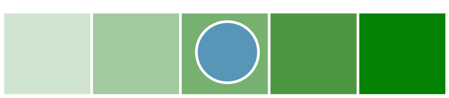
Modest Underweight

Previous Month

We anticipate that the high yield we are currently seeing in cash may be temporary and we would expect a reduction in yields as the BoC and the U.S. Federal Reserve move towards easing measures. Overall, cash may not be as attractive as other asset classes in the medium term.

Equities – Neutral Overall Outlook

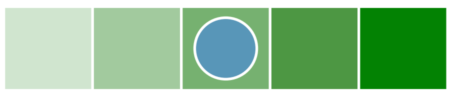
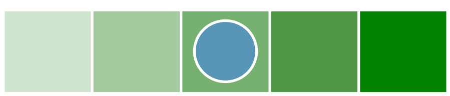
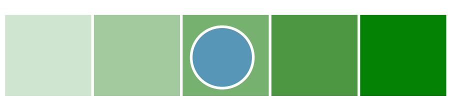
Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Canadian Equities	 Neutral	Canadian gross domestic product growth has slowed, but with the full effect of higher rates on the consumer and real estate market yet to be seen, the Canadian economy could remain weak. That said, strong free cash flows within the Energy sector, and relatively inexpensive Financials stocks, may present attractive opportunities.
U.S. Equities	 Modest Overweight	The U.S. labour market and gross domestic product growth have remained robust. The S&P 500 Index has resumed year-over-year earnings growth, which has contributed to rising valuations and positive investor sentiment. The S&P 500 Index commands a premium valuation due to its higher technology exposure.
International Equities	 Modest Underweight	International stocks remain challenged by weaker corporate returns and slowing macroeconomic conditions, particularly in Europe. Overall we feel that this may limit further gains, however 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	 Neutral	The Chinese economy is showing signs of stabilization and the government remains focused on supporting growth, but challenges remain in the 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.

Equity

Fixed Income – Modest Overweight Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Domestic Government Bonds	 Modest Overweight	The BoC remains patient in its monetary policy stance, waiting on continued evidence of decelerating inflation. Similar to the bond market, we expect the first rate cut to emerge at the BoC's June meeting. Based on yield patterns observed in historical easing cycles, we anticipate bond yields to decline over the next three months, or sooner if weakness in the labour market emerges. Over the longer term, we believe government bonds continue to remain appealing due to their potential to generate positive nominal returns.
Investment Grade Corporate Credit	 Neutral	Investment grade spreads have tightened in recent months and continue to reflect a very modest softening of the global economic backdrop. We continue to see the best opportunities in lower duration corporate bonds given their appealing all-in yields and are more cautious on longer duration corporate bonds due to the uncertain global economic outlook.
Global Bonds-Developed Markets	 Neutral	While the Bank of Japan has finally ended yield curve control and negative policy rates, it has not dropped its accommodative monetary policy stance. Other central banks have decisively shifted to policy easing, with the Swiss National Bank being the first among developed markets to lower its policy rate. Leading central banks, including the U.S. Federal Reserve, are expected to follow suit in the summer. However, each market faces large idiosyncratic risk factors, so the future evolution of each central bank's easing cycle is not a foregone conclusion. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18 months.
Global Bonds-Emerging Markets	 Neutral	The dispersion of returns within emerging markets continues to present some opportunities. We continue to maintain a neutral outlook as yields are attractive in some regions where central banks had proactively hiked interest rates before the U.S. Federal Reserve. Bond returns will likely underperform in other regions where central banks are still early in normalizing monetary policy.
High Yield Credit	 Modest Underweight	All-in yields remain elevated, but have declined in recent months, indicating strong potential returns. However, we continue to expect financial conditions to tighten and drive a deterioration of corporate credit fundamentals. This may create a particularly challenging backdrop for corporations with elevated debt loads, increasing overall volatility and downside risk.

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)	Modest Overweight	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	Maximum Underweight	Canadian real estate transaction activity remains selective. Industrial, retail and multi-unit residential fundamentals remain sound, while office continues to experience leasing headwinds and a flight to quality.
Global Real Estate	Modest Underweight	Certain regions across the globe have seen quicker downward adjustments to valuations but we are now seeing early signs that these adjustments may be slowing down. Multi-unit residential and a tilt to the Asia Pacific region may be able to provide global real estate portfolios with enhanced risk-adjusted returns.
Infrastructure	Modest Overweight	Increases in cash flow from higher-than-expected inflation is buffering rising interest rates. Investor appetite remains strong, particularly for energy transition investments and critical infrastructure sectors that generate stable, growing cash flows.

Sub-Asset Class

U.S. Dollar	Neutral	Relative growth differentials favor 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. Oil prices have become firm as producers remain disciplined. The copper price has rallied due to recent disruptions and downgrades to existing supply. A U.S. Federal Reserve shift to rate cuts would be supportive of gold.

Current WAAC Members

Chair

David Sykes, CFA
Senior Vice President
& Chief Investment Officer, TDAM

TDAM Asset Allocation

Michael Craig, CFA
Managing Director, Head of
Asset Allocation and Derivatives,
TDAM

Anna Castro
Managing Director, Asset
Allocation,
TDAM

TDAM Equities

Justin Flowerday, CFA
Managing Director, Head of
Public Equities,
TDAM

Jennifer Nowski, CFA
Vice President & Director,
Portfolio Manager,
TDAM

TDAM Fixed Income

Michael Augustine, CFA
Managing Director, Head of
Fixed Income and Asset Liability
Management (ALM),
TDAM

Alex Gorewicz
Vice President & Director, Active
Fixed Income Portfolio
Management,
TDAM

TDAM Alternatives

Jeff Tripp, CFA
Managing Director, Head of
Alternative Investments,
TDAM

Colin Lynch
Managing Director, Head of
Global Real Estate Investments,
TDAM

Epoch

Kevin Hebner, PhD
Managing Director, Epoch
Investment Partners, Inc.

William Booth, CFA
Managing Director, Epoch
Investment Partners, Inc.

Non-Voting Members

Brad Simpson
Chief Wealth
Strategist, TD Wealth

Sid Vaidya
U.S. Wealth Chief
Investment
Strategist, TD Wealth

Bryan Lee
Vice President & Director,
Lead of the Retail Client
Portfolio Management Team,
TDAM

For more information
please contact your investment professional.