



WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)



At a glance

1. **Neutral equities overall and underweight fixed income.**
2. **We are modestly overweight U.S. equities, however recent optimism has pushed valuations to the higher end of fair value. Longer term, we expect U.S. equities to outperform due to their relative quality advantage over global counterparts.**
3. **Interest rates and inflation to remain at low levels. Aggressive monetary and fiscal policy responses have prevented a 2008-type crisis but may become a long-term drag on economies.**
3. **We remain selective with a focus on opportunities in corporate credit. Wide spreads have narrowed due to liquidity stabilization, but still represent attractive yields.**
4. **Amid the economic damage, earnings and employment data remain weak, but some encouraging data is emerging. A short and sharp recession is unfolding as forecast, but the speed of recovery will be dictated by treatment and vaccine progress.**
5. **Robust diversification across our real asset and private debt strategies has provided relatively stable income resiliency through the current crisis.**

Positioning Changes

No positioning changes for June 2020

The continuation of large fiscal stimulus, combined with the U.S. Fed's dovish pledge to keep rates low has helped maintain market functionality and should support a fairly robust recovery from recession.

		WAAC is Monitoring	Potential Implications
Equities	Neutral	Equity market volatility may persist as economies emerge from lockdown	<p>Recent positive jobs data may suggest the worst of the contraction is in the rear view. The U.S. Fed is committed to low rates into 2022 and positive signs of fiscal coordination by the European Union is also adding to optimistic views. However, an uneven economic restart from lockdowns, combined with the risk of a second wave of infections may lead to higher equity volatility. We are also wary of the mounting trade hostilities between the U.S. and China which could weigh on confidence and impede the progress of the recovery.</p> <p>We are modestly overweight U.S. equities for their relative quality advantage versus global counterparts, but recent optimism has pushed valuations to the higher end of fair value. The continuation of large fiscal stimulus combined with the U.S. Fed's pledge to keep rates low, has helped maintain market functionality and should support a fairly robust economic recovery from recession.</p> <p>We are modestly underweight Canadian equities. Despite a moderate recovery in oil prices, global oil markets are grappling with the potentially lengthy process of rebalancing. This and high household indebtedness may continue to overhang the Canadian economy and hinder the pace of recovery.</p>
		Fixed Income	Modest Underweight
Alternatives/ Real Assets	Modest Overweight	Commercial mortgage origination picking up across Canada	<p>As the economic consequences of the pandemic unfold, there is an expectation of income disruption for private real asset owners and lenders depending on the asset, location, or sector. This disruption is taking form through rent relief, payment suspension or debt servicing modification requests coming from certain tenants, asset operators, or borrowers.</p> <p>Commercial mortgage origination has started to pick up across Canada, as spreads stabilized in April and tightened in May between 5-45 basis points depending on the quality of mortgages. Lenders have a strong bias towards quality, while underwriting standards have tightened.</p>
		Sub-Classes	Modest Underweight

Strategic Positioning

At a Glance

Asset Class		Underweight	Neutral	Overweight
Fixed Income Underweight	Domestic Government Bonds	-	▲	+
	Investment Grade Corp. Bonds	-		▲
	Inflation-Linked Bonds	-		▲
	High Yield Bonds	-	▲	
	Global Bonds — Developed Markets	▲		
	Global Bonds — Emerging Markets	-	▲	
Equities Neutral	Canadian Equities	-	▲	
	U.S. Equities	-		▲
	International Equities	-	▲	
	Emerging Markets Equities	-	▲	
Alternatives/Real Assets Overweight	Commercial Mortgages	-		▲
	Commercial Real Estate	-	▲	
	Infrastructure	-		▲
Sub Classes 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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