From the Desk of the **Fixed Income and Equities Teams**

NOV 2025

The Case for Canada's Investment Renaissance

By Michael O'Brien, CFA, Michael Formuziewich, CFA, Jafer Naqvi, CFA & Dave Tallman, CFA and edited by Lisa Bissnauth

Canada's 2025 Federal Budget positions the country as a strong investment destination by combining fiscal discipline with strategic growth initiatives. Key measures include stabilizing bond issuance, multi-billion-dollar investments in infrastructure, defense, and housing, and tax incentives to boost productivity. These policies support attractive fixed income opportunities, while also creating upside for equities in sectors like industrials, materials, and financials. Canada's stable debt profile, policy certainty, and trade advantages reinforce resilience amid global uncertainty.

Q. What makes Canada an attractive destination for investment right now?

Canada stands at the intersection of relative political stability, resource wealth, and policy-driven growth. The 2025 Federal Budget marks a deliberate shift toward economic self-reliance and long-term growth, with major investments in infrastructure, defense, and housing. These initiatives are designed to empower productivity and competitiveness, with $280 billion in capital spending through 2029-30, including $115 billion for infrastructure and $110 billion for productivity. Canada's fiscal discipline, declining deficit-to-gross domestic product (GDP) ratio, and stable debt levels among Group of Seven (G7) nations further reinforces its resilience.

Q. Why is Fixed Income particularly compelling in Canada right now?

Fixed income continues to be at the forefront of portfolio conversations. Yields on Canadian investment-grade bonds are at multi-decade highs, allowing investors to earn meaningful income without stretching for yield. Core Canadian bonds have historically provided strong portfolio insurance during equity selloffs (about a 90% hit rate over 50 years). The 2022 breakdown in this relationship was seen as an anomaly due to the pandemic-driven inflation spike. With long-term inflation expectations largely anchored, the traditional diversification benefits of fixed income are expected to return.

Q. How does the Canadian budget support Fixed Income and broader investment themes?

The budget provides policy certainty, especially compared to the U.S., which has experienced more policy uncertainty. This is expected to support the positive investment flows we've been seeing into Canada since April (Liberation Day) of this year. Capital spending and tax measures are designed to incentivize economic growth, including accelerated capital cost allowances and increased scientific research tax incentives. The budget's focus on infrastructure, defense, and housing is designed to enable productivity and competitiveness.

Q. How should investors position themselves in Canadian Fixed Income?

Federal Budgets can impact yields in the bond market, as it can weigh on investor sentiment and market dynamics. In the case of the 2025 Budget, the decision to not increase net bond issuance was received well by the market because:

- **Supply-side stability:** With no surge in new government bonds flooding the market, there's less upward pressure on yields, which can be the case when there is oversupply
- **Investor confidence:** Stability in issuance supports price levels and helps maintain favorable yield conditions for existing bonds

This helps keep yields elevated without triggering volatility, making Canadian bonds attractive for income-focused investors.

Q. Why might Canadian equities be attractive, and what factors are driving their potential upside?

Canadian equities offer a unique complement to U.S. holdings, with significant exposure to energy, materials, and financials. The S&P/TSX Composite Index continues to trade at a discount to the S&P 500 Index, despite record highs. Macro tailwinds—policy easing, infrastructure spending, and foreign investment—point to further upside for Canadian assets. Gold and other commodities have surged, benefiting from global trade uncertainty and central banks diversifying reserves.

Q. How might major projects impact Canadian equities across key sectors?

Investors are discovering that Canada's resource sectors are critical for global trends like Artificial Intelligence infrastructure and energy transition. For example, Canada is a major player in uranium, essential for nuclear energy, and Canadian banks have shown resilience with strong capital ratios and declining loan losses. As major projects are announced, we may look to make positioning adjustments within investment portfolios to capture sector-specific opportunities. Sector impacts could include:

- **Industrials & Defense/Aerospace:** Positive impact due to large capital investments and increased defense spending
- **Canadian Banks:** Mixed impact—scrutiny on fees should be more than offset by financing needs for major projects
- **Telecommunications & Residential REITs:** Lower population growth may be a negative, but other budget measures may provide indirect benefits
- **Energy:** Tax changes are positive, but uncertainty remains due to ongoing energy transition policies

Q. What sector opportunities are emerging from Canada's current environment?

Canada's industrial comeback may hinge on Infrastructure, Energy and Mining. Liquefied natural gas (LNG), nuclear, and critical mineral projects could result in greater exports and more jobs. The office market is stabilizing, and high-quality assets present compelling entry points for investors. Defense and aerospace are also set to benefit from increased spending. Canadian banks, materials, and energy sectors provide diversification and complement U.S. equity exposure.

Q. How does Canada's trade and policy environment affect investment risk and opportunity?

Canada has benefited from relatively low effective tariff rates, even amid global trade tensions. The country's position within North America's trade "fortress" is likely to be maintained, providing a privileged environment for Canadian businesses. The government's focus on diversifying trade away from the U.S. and lowering interprovincial trade barriers further strengthens the investment case.

Q. What are the risks to investing in Canada, and how are they mitigated?

Risks include slower growth, trade uncertainty, and tariff escalations. However, Canada's corporate balance sheets and policy support provide a strong buffer. The fiscal anchor is a declining deficit-to-GDP ratio, and debt levels remain stable. The Bank of Canada has adopted a dovish stance, supporting the economy with rate cuts, and the budget's focus on incentivizing private sector investment is a positive signal.

Q. What are the key takeaways for investors considering Canada?

Attractive Valuations: Canadian equities trade at a discount to U.S. peers, offering upside potential.
Strong Performance: Canadian fixed income funds are showing strong absolute and relative returns, with core bonds delivering mid to high single-digit annualized returns over the past three years. Independent credit analysis and issuer diversification have helped managers outperform peers, while disciplined risk management has preserved capital during volatile periods.
Policy Support: Infrastructure, defense, and housing investments are driving economic renewal. The government is looking to partner with Canadian companies to help build out infrastructure, defense and housing, which should benefit Canadian equities over the coming years. Fiscal measures and monetary policy adjustments also support stable interest rate environments, which benefit fixed income portfolios.
Resource Depth: Commodities and energy projects underpin Canada's industrial strength. Canadian energy and materials companies will benefit from increased commodity and energy projects. There will be add-on benefits to companies that support these industries.
Diversified Investment Options: Equities, fixed income, alternatives, and real assets provide robust vehicles for both growth and protection. Within fixed income, investors can access government bonds for stability, corporate credit for yield enhancement, and active strategies that exploit market inefficiencies.
Resilience: Strong fundamentals and policy buffers position Canada to weather global uncertainties. Fixed income allocations act as portfolio insurance during equity selloffs, historically delivering positive returns when risk assets decline.

For further information, please contact your Investment Professional.

The information contained herein has been provided by TD Asset Management Inc. and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

Commissions, trailing commissions, management fees, and expenses may be associated with mutual fund investments. Please read the fund facts and prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

TD Mutual Funds and the TD Managed Assets Program portfolios are managed by TD Asset Management Inc., a wholly-owned subsidiary of The Toronto-Dominion Bank and are available through authorized dealers.

TD Asset Management Inc. is a wholly-owned subsidiary of The Toronto-Dominion Bank.

®The TD logo and other TD trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.