TD Asset Management

Market Perspectives 10 Minutes

China: Diversification, Innovation, and Long-Term Opportunity

From the Desk of the Public Equities Team

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Global markets are navigating a period of heightened uncertainty shaped by geopolitical developments, evolving policy priorities, and uneven economic momentum across regions. As correlations across developed equity markets remain elevated, investors are increasingly reassessing how international equities fit within diversified portfolios. In this environment, China continues to stand out as a differentiated opportunity set, defined by structural economic change, improving transparency, and expanding integration into global supply chains.

Why Consider China as an Investor

While China represents approximately 17% of the global economy, it contributes roughly 30% of global economic growth. Its development model has evolved from being primarily labour and capital-driven, to having its economic momentum increasingly supported by innovation, technology adoption, and productivity focused investment.

A defining characteristic of China's equity market is its historically low correlation with many other markets (**Figure 1),** including Canada and the U.S. From a portfolio construction perspective, this feature is particularly valuable at a time when diversification across regions has become harder to achieve. Exposure to China can enhance geographic diversification and potentially moderate overall portfolio volatility.

Figure 1: Global Equity Market Correlations

	China[1]	Canada[2]	USA[3]	World[4]	EAFE[5]	Emerging Markets[6]	Hong Kong[7]
China[1]	1	0.04	0.06	0.17	0.22	0.55	0.70
Canada[2]		1	0.66	0.73	0.64	0.39	0.17
USA[3]			1	0.96	0.61	0.35	0.12
World[4]				1	0.80	0.56	0.30
EAFE[5]					1	0.65	0.43
Emerging Markets[6]						1	0.81
Hong Kong[7]							1

[1] Shanghai Shenzhen 300 Index, [2] S&P/TSX Composite Index, [3] S&P 500 Index, [4] MSCI AC World Index, [5] MSCI EAFE Index, [6] MSCI Emerging Markets Index, [7] Hang Seng Index, all in C$. Source: TD Asset Management, Bloomberg Finance LP. Note: Correlations are calculated based on monthly returns from Feb 28, 2021 to Feb 28, 2026.

China A-share equities have historically exhibited lower correlation with developed market equities, supporting diversification within global portfolios.

China's longer-term policy framework also provides a degree of continuity and visibility. Economic development is guided by multi-year planning cycles prioritizing strategic industries, infrastructure investment, and technological advancement—helping shape a clearer long-term runway for corporate growth.

Diversification Beyond a Single Market

Geographic diversification remains a cornerstone of resilient portfolio construction. While U.S. equities continue to dominate global benchmarks, increased concentration at both the regional and sector level has heightened portfolio sensitivity to macroeconomic and policy-driven outcomes.

China offers exposure to economic drivers that differ meaningfully from those of North America and Europe, making it a complementary allocation within global and international equity portfolios. This diversification is particularly relevant in sectors that overlap with other markets, such as Materials, resources, and Industrials, where China plays a central role in global production and supply chains.

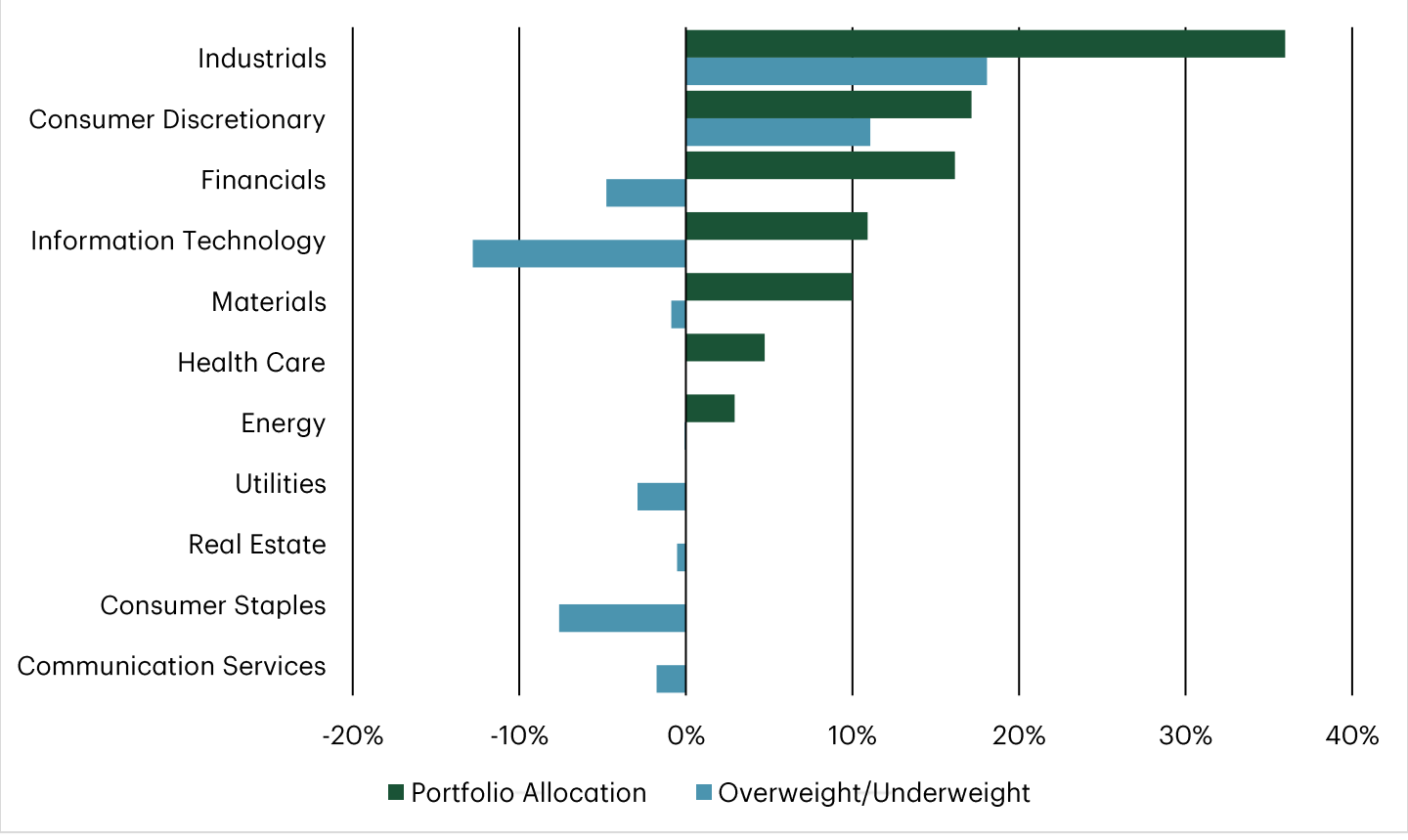
In addition, China has emerged as a global leader across several future-oriented industries, including electric vehicle manufacturing, battery technology, power infrastructure, and advanced industrial production. These industries are increasingly driven by global demand rather than purely domestic consumption, reinforcing China's relevance within a diversified global equity framework. From a portfolio construction perspective, China can serve as a complimentary allocation within international equities.

TD China Income & Growth Fund - Positioning and Structural Growth Themes

The Public Equities Team (the Team, we, our) at TD Asset Management Inc. (TDAM) believes that China's evolving growth model continues to present differentiated opportunities for long-term investors when approached with discipline and selectivity. In our view, the opportunity set is increasingly defined by innovation-led growth, global supply-chain integration, and structural themes that extend beyond near-term economic cycles.

TD China Income & Growth Fund (the Fund) positioning reflects this perspective. Sector exposure emphasizes areas where China's competitive advantages are most pronounced, including Industrials and Consumer Discretionary **(Figure 2),** while maintaining a disciplined approach to valuation across technology-related segments. As technological adoption accelerates, the distinction between traditional industrial companies and technology firms has continued to narrow, particularly as manufacturers integrate automation, data analytics, and advanced power solutions into their operations.

Figure 2: Fund Positioning by Sector



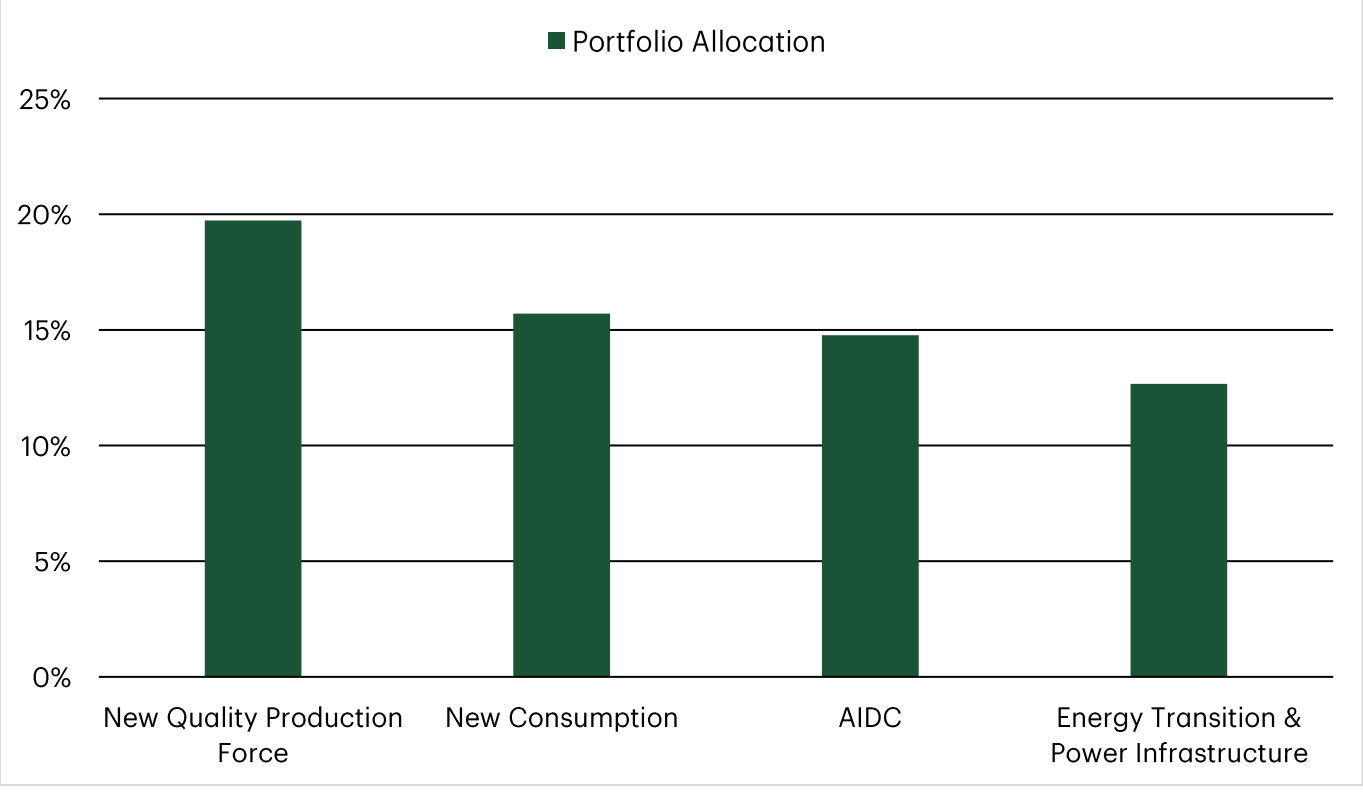
Source: TD Asset Management, FactSet Research Systems as of March 10, 2026

Current positioning reflects an emphasis on industrial and consumer-oriented sectors, supported by structural growth themes and valuation discipline.

At a thematic level, portfolio exposure is aligned with several long-term drivers of growth **(Figure 3):**

- **New Quality Productive Forces:** supported by innovation, research and development, and advanced supply chains
- **Evolving Consumption Patterns:** reflecting rising demand for higher-value goods and services
- **Global semiconductor supply chain and advanced manufacturing infrastructure:** supporting Artificial Intelligence (A.I.) Data Centres and Infrastructure (AIDC), enabling the expansion of global computing capacity
- **Energy Transition and Power Infrastructure**: underpinning electrification and renewable energy adoption

Figure 3: Structural Growth Themes in China



Source: TD Asset Management, Factset as of March 10, 2026

Fund exposure is aligned with long-term growth themes that span domestic innovation and global demand.

Together, these themes capture both domestic and global growth opportunities while maintaining diversification across sectors and industries.

Improving Transparency and Data Availability

Some investors have historically expressed concerns about data transparency and corporate reporting standards in China. However, market transparency and data availability have improved meaningfully over time. As China's capital markets have matured, corporate disclosure standards, reporting practices, and third-party data coverage have continued to evolve.

For active managers, these improvements enhance the ability to assess company fundamentals, identify risks, and allocate capital with greater confidence. Importantly, economic growth trends and equity market opportunity are not always perfectly aligned. While certain segments of the domestic economy may experience cyclical pressures, many innovation-driven industries continue to demonstrate resilience and global competitiveness. This reinforces the importance of selectivity and fundamental analysis when navigating China's equity market.

Staying Focused When the Noise Gets Louder

While global markets continue to experience periods of uncertainty, long-term investment outcomes are often driven more by structural economic trends than short-term market developments and markets have historically rewarded investors who distinguish between short-term volatility and long-term fundamentals.

China's scale, diversification benefits, and leadership in key global industries all continue to support its relevance within international equity portfolios. When approached through a disciplined, selective, and long-term lens, China can play a meaningful role in enhancing portfolio resilience and expanding opportunity beyond developed markets.

For further information, please contact your TDAM Representative.

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