



Market Perspectives

The Rise of Market Breadth:

How broader market participation is reshaping portfolio construction



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Key themes

- Earnings growth is broadening beyond mega-cap technology
- Higher bond yields are reinforcing the role of fixed income in portfolios
- Private markets and commodities are becoming increasingly important diversifiers

Earlier this year, after more than two eventful and rewarding decades with TD Asset Management Inc. (TDAM), I had the great honour of being appointed Chief Investment Officer of TDAM and Chair of the TD Wealth Asset Allocation Committee, more commonly known as the WAAC.

Each month, WAAC committee members and I gather to discuss all things global markets, geopolitics, and the outlook for key asset classes, among other topics. Our discussions are often thoughtful, engaging, and highly spirited, and we are united by a common objective: providing strategic portfolio construction insights that inform many of TDAM's managed solutions and help investors navigate an evolving investment landscape.

While the WAAC meets to discuss a broad range of topics, in recent meetings, several themes have emerged that warrant a closer look, and that I believe may help investors approach portfolio construction over the next 12 to 18 months.

1. Earnings Growth Beyond Mega-Cap Technology

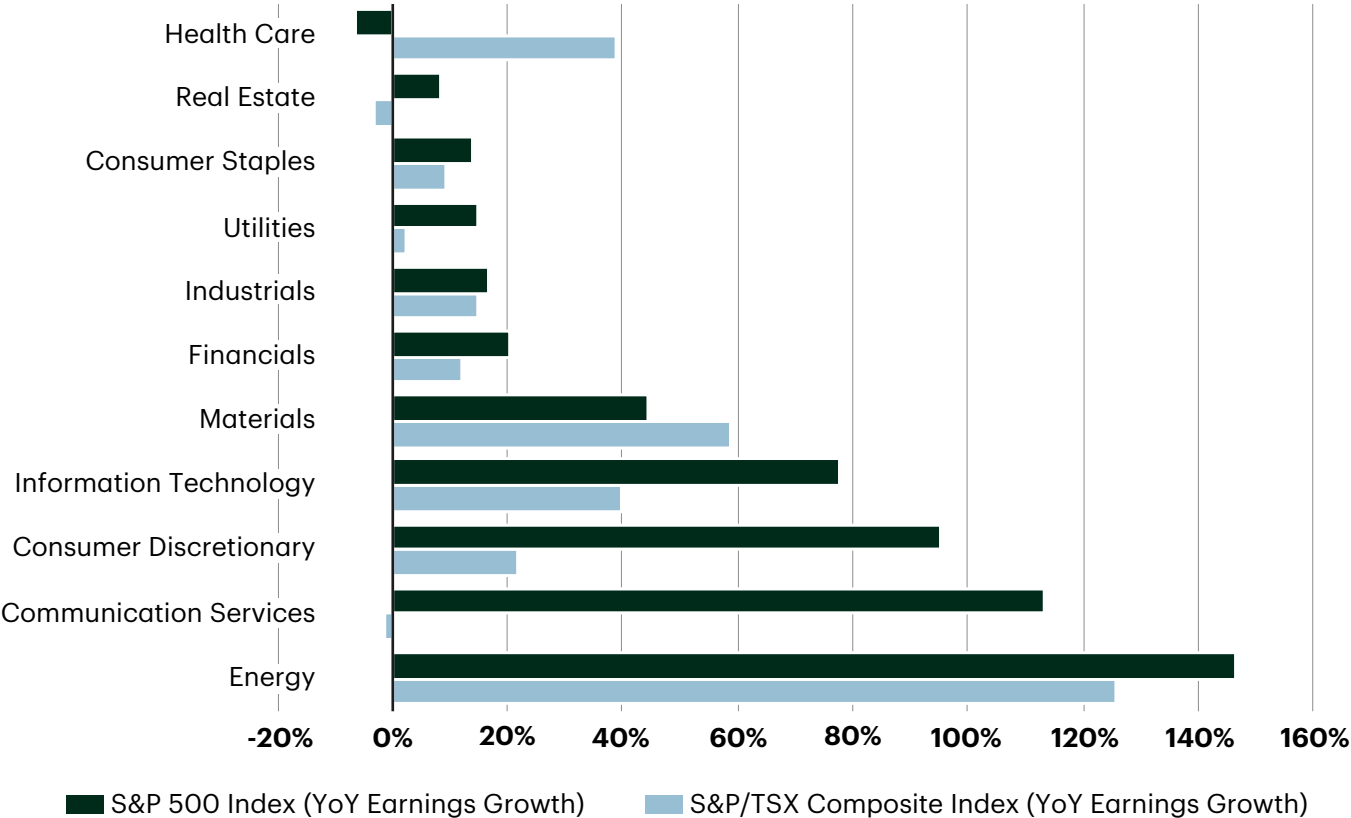
As many investors are aware, a relatively small group of companies have been significant drivers of market returns. The Magnificent 7 (Apple Inc., Microsoft Corporation, NVIDIA Corporation, Alphabet Inc., Amazon.com, Inc., Meta Platforms, Inc., and Tesla, Inc.), along with other technology companies in the semiconductor and artificial intelligence (AI) space, have fueled index performance, particularly in the U.S. This has resulted in elevated market concentration, with the Mag-7 alone accounting for more than 30% of the S&P 500 Index’s market capitalization.

While mega-cap technology stocks have been major contributors to equity market performance, we’ve been observing earnings growth broadening beyond these multi-trillion-dollar enterprises. At the same time, earnings revisions have been trending higher across sectors, signalling increasing confidence in corporate profit expectations and a wider base of companies contributing to growth.

Importantly, much of the market’s broadening performance has been driven by earnings growth rather than expanding valuations. This suggests that returns are supported more by underlying fundamentals and corporate profitability than by investor enthusiasm alone.

Within the S&P 500 Index, revenue and earnings growth have broadened across most sectors. Notably, year-over-year (YoY) earnings growth has expanded meaningfully in both U.S. and Canadian equity markets during the Q2 2026 reporting period. Across the S&P 500 Index, the Energy sector is leading YoY earnings growth, followed by the Communication Services and Consumer Discretionary sectors. In Canada, the S&P/TSX Composite Index is being led by Energy, with the Materials and Health Care sectors also showing strong earnings growth. While a few sectors continue to lag, the overall picture suggests that market leadership is expanding and creating a healthier, more diversified foundation for future returns (**Exhibit 1**).

Exhibit 1: YoY Earnings Growth – S&P 500 Index and S&P TSX Composite Index



Source: Bloomberg Finance, L.P. TD Asset Management Inc. As at June 30, 2026.

In recent months we have seen volatility increasing within semiconductor stocks, offering a useful illustration of this trend. Even as technology shares lagged in both the July and September sell-offs, we have witnessed diversified approaches holding up well, and in some cases continuing to provide positive returns. Expectations for the Energy, Materials and Financials sectors remained constructive alongside those for the Information Technology sector, underscoring a broader and more balanced market environment.

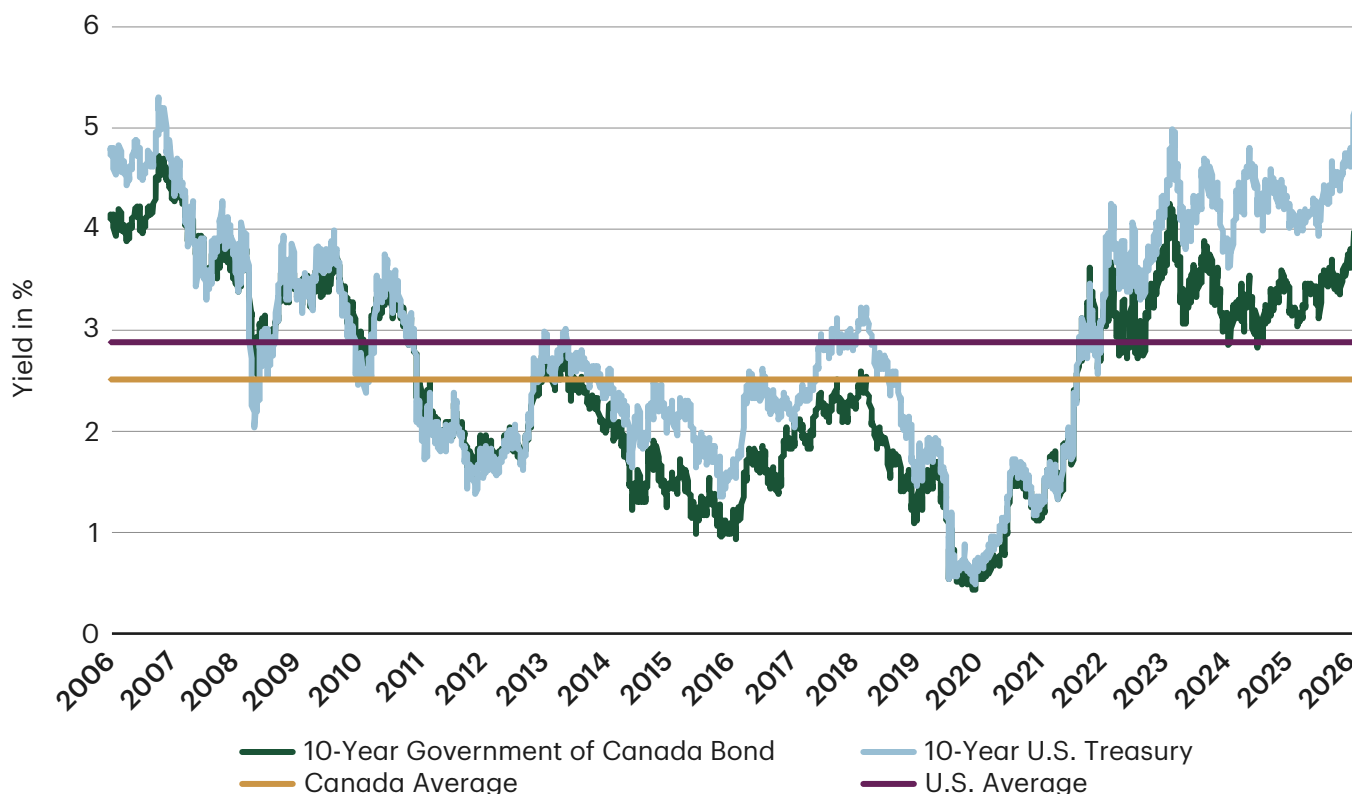
For investors, this evolution is encouraging. While AI and digital innovation remain powerful secular growth themes, we continue to see earnings expand across industries and regions, reinforcing the importance of maintaining a diversified investment approach while focusing on companies with strong fundamentals and sustainable earnings potential.

2. Higher Bond Yields Are Reinforcing the Role of Fixed Income

While broadening equity market leadership may be dominating the conversation around expanding investment opportunities, we believe fixed income remains an important portfolio diversifier. With yields having moved higher and likely to remain elevated, the WAAC believes fixed income continues to offer an attractive combination of income generation and portfolio stability.

From a valuation perspective, intermediate-term Canada and U.S. government bonds appear increasingly attractive and are yielding above their 20-year averages (**Exhibit 2**). Yields remain above the levels relative to our estimates of fair value, and this is particularly evident in the U.S., where elevated nominal and real yields have improved the potential return from adding duration.

Exhibit 2: Canadian and U.S. 10-Year Bond Yields



Source: Bloomberg Finance, L.P. As at September 30, 2026.

Although government deficits and geopolitics remain key considerations for bond yields, capital spending related to AI has also contributed to the recent rise in real yields in part by raising prospects for longer-term economic growth. More importantly, however, inflation expectations have remained stable as investors correctly anticipated that central banks would tighten monetary policy to keep inflation anchored close to their targets. This has helped stabilize yields at historically elevated levels.

On the corporate credit side, spreads remain tight, but sector dispersion has increased compared to last

year, creating more security selection opportunities. Overall, bond yields remain attractive, and investors can earn meaningful income from high-quality corporate securities while, in our view, taking on a reasonable level of risk.

After years of suppressed yields, fixed income is once again offering meaningful income and diversification potential. Higher yields and attractive real rates are helping create a more balanced risk-return profile for multi-asset portfolios.

3. Private Markets and Commodities Are Becoming Increasingly Important Diversifiers

In private markets, investor interest remains strong, even as parts of the private credit and private equity markets attract greater scrutiny amid concerns about valuations and leverage levels.

Private credit continues to benefit from structural changes in lending markets. Banks are increasingly providing financing to private credit funds rather than lending directly to companies, contributing to a larger and more diversified private lending ecosystem.

While concerns around leverage and valuation pressures in parts of the private equity landscape are understandable, private market opportunities remain distinct from public market exposures and continue to attract investor capital.

Canadian office and retail real estate are also showing signs of improving fundamentals,

particularly among high-quality properties where occupancy levels and rental growth have strengthened. These areas may provide access to opportunities that are not readily available in public markets.

Commodities have seen tailwinds from oil price increases but we have been witnessing a broader trend of commodity pick-up for a number of years. Commodities tend to move in super cycles of under investment followed by over investment. We believe investors can benefit from the early stages of a commodity super cycle while also building portfolio resilience and diversification through their inclusion.

More broadly, maintaining exposure to alternative assets can be especially valuable if traditional stock and bond diversification becomes less effective during periods of market stress.

Portfolio

Acknowledging the Risks to the Outlook

While the economic and market backdrop remains constructive, there are several risks we're watching closely. These include elevated equity valuations in certain sectors, higher long-term interest rates, which could weigh on equity valuations and increase borrowing costs, elevated energy prices, questions about the sustainability of the AI investment cycle, trade tensions and ongoing geopolitical hostilities. We're also mindful of the potential for volatility

as growth expectations are reassessed and the environment continues to evolve.

At TDAM, and within the WAAC, our focus remains on managing these risks while identifying opportunities that can emerge during periods of heightened volatility, particularly when market valuations become more attractive and diverge from underlying fundamentals.

In Closing

Improving market breadth and easing concentration have been an important topic in recent WAAC discussions. A broader range of factors are beginning to drive returns, and our internal measures point to more diverse participation in the U.S., Canada and emerging markets, as well as within asset classes.

AI, Information Technology and data centre investment may continue to shape the market narrative for some time. At the same time, the investment opportunity set is becoming broader. Earnings growth is expanding across sectors, higher bond yields are reinforcing the value of fixed income, and private markets and commodities continue to offer differentiated sources of return.

For investors, this growing breadth may represent an important shift. It creates opportunities to build more balanced portfolios that rely less on a concentrated group of companies and instead draw returns from a broader range of sectors, industries and asset classes. In many ways, market rotations can be a healthy part of the investment cycle. By tempering excess speculation and expanding market leadership, this may help extend the market cycle while supporting more stable returns and reducing portfolio volatility.

Explore the TD Wealth Asset Allocation Committee's latest views on individual asset classes through our [Monthly Portfolio Outlook webpage >](#) with timely market insights and portfolio positioning perspectives.

You can also speak with your investment professional to learn more about how TDAM's diverse investment solutions can help you work toward achieving your financial goals. ■

Markets

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