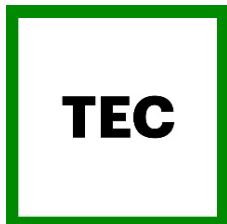




TD Global Technology Leaders Index ETF (TEC)



Analyst Commentary



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A Time of Technological and Political Change means Stock Market Volatility

The Technology sector has been going through increased levels of volatility this year. On January 27, 2025, Hangzhou DeepSeek Artificial Intelligence Basic Technology Research Co., Ltd. ("DeepSeek"), triggered a sell-off that caused blue-chip stocks such as Nvidia Corporation ("NVIDIA") to experience a significant decline. The Portfolio Advisor ("we", "our") believed this to be an overreaction and Technology stocks stabilized and recovered in the days after. However, many investors lost confidence in the market, causing the S&P 500 Index ("S&P 500") to enter correction territory as of the March 13 close, after peaking on February 19. Technology stocks were severely impacted with the TD Global Technology Leaders Index ETF experiencing a decline.

We are witnessing rapid and unpredictable changes to two out of the three pillars of society translating into an uncertain impact on the third.

The first pillar is Political Sector. Societies, including financial markets, depend on stable institutions and predictable policymaking for stability. President Donald Trump's administration represents a change in the status quo and an approach that is disruptive to societal actors and unfamiliar to investors. Risk assets have fallen as uncertainty has risen, even if there is a credible argument that the new regime will bring more sustainable long-term economic growth.

The second pillar is Technology Sector. Generative Artificial Intelligence ("AI") is a transformational technology that is rapidly evolving and being adopted faster than anything before it. Investors are rightly grappling with critical questions about the future of societal norms, economic and labor market structure, and who the winners and losers will be.

Economic Yellow Flags are Emerging; Sustaining Demand into Quarter-end will be Critical

The third pillar of securities pricing is the Economy. We should acknowledge that Economic actors, largely but not only consumers, take signals from a feedback loop closely integrated with the Political and Technological forces. Understandably, the uncertainty we observed is translating into a minor but notable economic disruption.

For example, Delta Air Lines, Inc. is just one of many companies that have reported declining demand in recent weeks. At this point we should note panic. Recall JP Morgan Chase & Co's CEO's dire warning in June of 2022, about serious economic clouds emerging "A Storm is Brewing" that coincided with an excellent time to buy stocks, no recession materialized. In the coming weeks, we will be watching economic data and company commentary very closely to gauge if the economic resilience of the U.S. is weakening.

Is the Bubble Bursting or Is Opportunity Arising?

Let's change gears back to Technology. It's convenient to revert to the internet as an analogy for our times. Substantial capital investment in Infrastructure, infectious euphoria around breakthrough technology, skyrocketing public market valuation, and an eventual bust that is not followed by true value creation, such as Big Tech, for another decade. We disagree with this categorization.

Let's examine the parallels:

1. Capital Investment Cycle: It takes 1-2 years to build a data center, fill it with computing power, and start working. By comparison, it took 7 years of fiber buildout from U.S. telecommunication companies before spending collapsed. We are 3 years into this cycle which we believe is still early.
2. Timeline to Returns and Revenue: We expect AI related spending to contribute to company revenues in 2025 which would be 3 years from the start of the cycle. On the other hand, it took more than a decade for new business models to build on the fiber infrastructure laid out in the mid-1990's. For example, Google LLC ("Google") first sold shares to the public in 2004 and similarly, Facebook, Inc., in 2012.
3. Valuations: The Nasdaq-100 Index ("Nasdaq-100") is currently trading at 28 times forward Price-to-Earnings ("P/E"), 20% above the 10-year average. However, if we investigate some of the enablers of AI such as Alphabet Inc., Microsoft Corporation, Inc., and Meta Platforms, Inc., they are trading at reasonable valuations, with an average P/E of 23 times. This compares to 75 times forward P/E of the Nasdaq-100 in the internet bubble in the year 2000.

We believe the roll-out will occur in stages; first in the consumer realm driving higher consumer engagement, then behavior prediction, and finally, better advertisement targeting and monetization. We already see this with companies like Meta Platforms, Inc. and Alphabet Inc.

In the business context, AI is often seen as a holy grail, but what will it actually mean for the corporate world? We believe there are 3 main outcomes from AI integration:

- Employees will become more productive, accomplishing more with the same time
- Some roles will change dramatically as AI can automate manual tasks
- Margins for the largest companies will expand as the workforce is more efficient.

Overall, we believe AI will be a boon for the economy and the stock market as it becomes more efficacious and cost-efficient.

Standard Performance – TD Global Technology Leaders Index ETF

Performance	1 Month	3 Months	6 Months	1 Year	3 Years	Since Inception	Inception Date
TD Global Technology Leaders Index ETF	-4.79%	2.24%	15.40%	27.23%	19.54%	21.07%	05/07/2019

Source: TD Asset Management Inc. ("TDAM"), as of February 28, 2025. Returns of periods greater than one year are annualized.

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