WAAC Perspectives

APR 2021

TD Wealth Asset Allocation Committee (WAAC)

At a glance

1. We remain optimistic about the longer-term prospects for robust global economic growth and expect corporate earnings expansion to be a dominant driver of equity returns. In our view, profit growth will exceed current estimates and justify higher relative equity market valuations over the next 12-18 months.

2. Interest rate volatility remains a key market concern but appears to have moderated recently. While higher inflation and rates are implied by the strong growth environment, we do not foresee a significant surge in rates that would adversely impact risk assets. We continue to monitor the situation closely.

3. The COVID-19 vaccine rollout has been uneven in certain regions of the world but remains a primary driver of improved risk sentiment in markets. We expect increased efficiency in vaccine distribution over the coming weeks; however, the implications of emerging variants continue to pose a near-term risk.

4. We maintain a fixed income underweight overall, but with an overweight to investment grade corporate bonds. Corporate credit provides positive real returns and a yield advantage over government bonds, which still offer negative real yields despite the recent rise in rates.

Positioning Changes

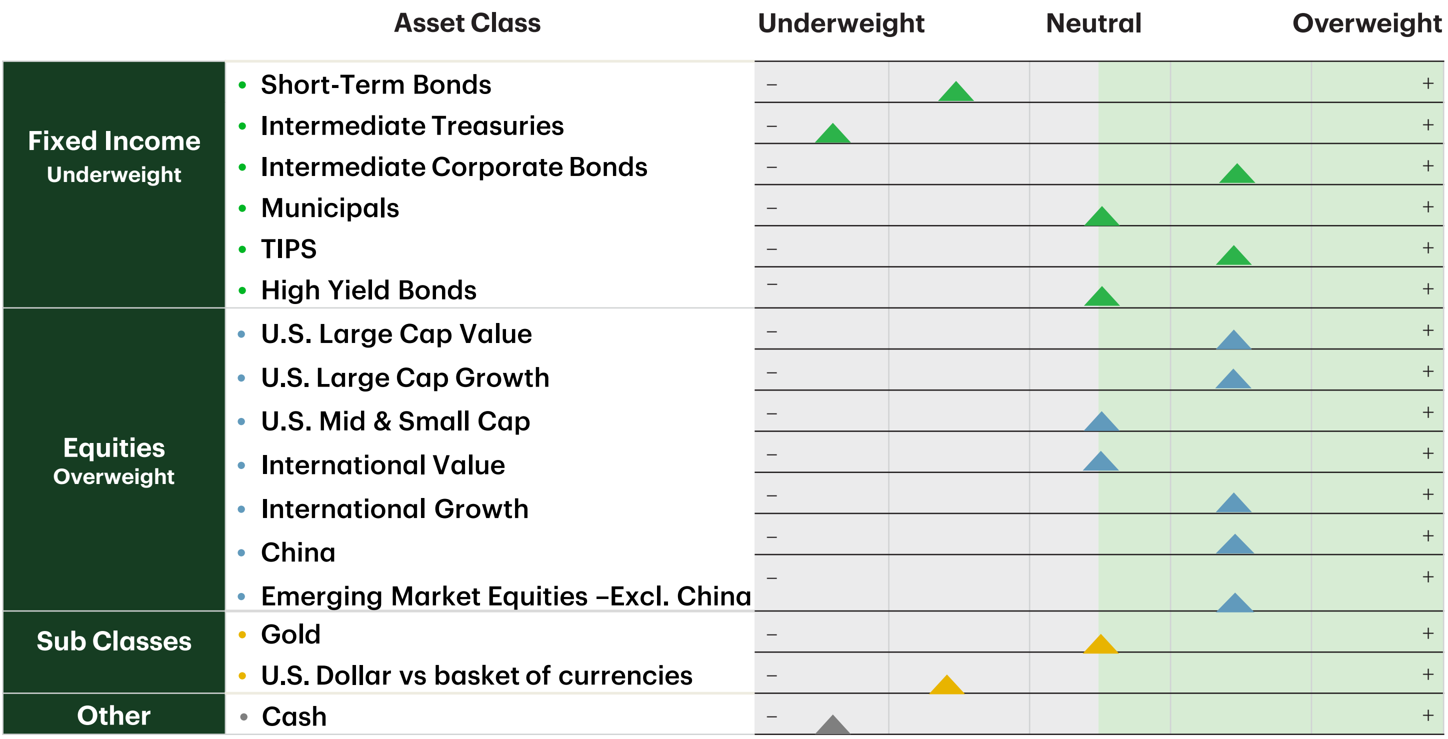
No positioning changes for April 2021

> As global economies gradually emerge from lockdowns, high consumer demand and savings rates, combined with continued fiscal stimulus and monetary support, should act as dominant drivers for earnings growth and equity returns.

	WAAC is Watching	Potential Implications
Equities Modest Overweight	**Strong earnings growth is expected to drive global equity performance over the next 12-18 months**	From a global perspective, the combination of encouraging economic data, re-openings and strengthening jobs markets, continue to point to a healing economy and improving corporate fundamentals. However, slow vaccine rollouts and renewed lockdowns in certain regions remain a near-term headwind and have contributed to a tempering of growth levels. As global economies gradually emerge from lockdowns, high consumer demand and savings rates, combined with continued fiscal stimulus and monetary support, should act as dominant drivers for earnings growth and equity returns. We do not believe that current equity valuations are as elevated as many fear. From a historical perspective, prices may be at the higher end of fair value ranges, but in our view, markets still have room to rise. This is particularly true as the rotation from high-flying technology stocks shift to more traditional sectors of the economy that stand to benefit most from the cyclical recovery (i.e., Financials, Industrials and Energy). This rotation into sectors that have lagged in performance should contribute to the broadening of returns for major global equity indices over the next 12-18 months.
Fixed Income Modest Underweight	**TIPS continue to act as a hedge against increasing inflation and offer portfolio diversification benefits**	We expect interest rate volatility to persist but at a narrower amplitude than witnessed in previous months. On an inflation-adjusted basis, we expect government bonds to continue to deliver very low or negative real returns and therefore maintain our maximum underweight outlook. Corporate bond spreads remain narrow as market liquidity provided by unprecedented monetary and fiscal measures continues to be supportive, and within our allocation preferences we maintain a modest overweight to investment grade corporate bonds. High yield spreads also remain narrow relative to the pandemic peak widening, however, further gains from spread compression may be limited as markets appear to have priced in a near-full recovery. We remain modestly overweight Treasury Inflation-Protected Securities (TIPS), as they continue to act as a hedge against increasing inflation and offer portfolio diversification benefits due to their low correlation to traditional fixed income and equities.
Sub-Classes	**Gold has lost some of its luster over a longer-term horizon**	While the U.S. dollar has shown strength this year on the back of aggressive vaccination rollouts and accelerating financial conditions, we maintain our strategic underweight view. As other countries close the gap on vaccinations and ignite their own domestic economies this may counterbalance the dollar's recent advantage and lead to some weakness. Our strategic outlook for gold remains neutral. The safe-haven characteristics of the asset are not as appealing in the current pro-growth environment, whereas during the peak of the pandemic, higher valuations were justified due to ongoing uncertainties. The subsequent stabilization of economies, combined with a steadily improving outlook, has diminished gold's attractiveness over the longer term. Additionally, our expectations for modest levels of inflation for the foreseeable future has minimized gold's appeal as an inflationary hedge in investment portfolios.

Strategic Positioning

At a Glance



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 behavior that can help clear excesses, and create investment opportunities.

TD Wealth

TD Wealth Asset Allocation Committee:
This information was prepared by the TD Wealth Asset Allocation Committee. The material has been reviewed and is now approved and presented for use in the United States by TD Private Client Wealth, LLC and TD Bank N.A.

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