



# Market Perspectives Q4 2024



## TD Wealth Asset Allocation Committee (WAAC) Positioning Overview

<p><b>Equity</b></p>	<p>Equity market returns remain positive year-to-date ("YTD"). While the U.S. market, and in particular technology-related names, are among the leaders YTD, the prospect of lower interest rates has contributed to the recent rally among high dividend yielding stocks. We believe that the equity market has a balanced return outlook. While earnings are growing (as represented by the MSCI All Country World Index), this has been partially captured by the market in valuations. There could be additional market volatility near-term as the market debates the impact of a slowing economy versus the stimulative effect of U.S. Federal Reserve ("the Fed") rate cuts.</p>
<p><b>Fixed Income</b></p>	<p>Given the evolution of domestic inflation, we expect the Bank of Canada ("BoC") to continue cutting its policy rate this year. While the bond market has priced in a policy rate path that would see the BoC return to a neutral level over the next two years, a swift weakening of the economy will result in investors pricing in greater rate cuts. Therefore, we continue to expect fixed income will generate positive income returns over the next 12 months that may also be bolstered by capital returns in a scenario where the economy deteriorates, forcing the BoC to ease policy more than currently expected. Furthermore, with the turn in the monetary policy cycle, we expect that bonds will provide diversification benefits, reduce overall portfolio volatility, and preserve capital.</p>
<p><b>Alternatives</b></p>	<p>We believe that an allocation to alternative assets can benefit diversified portfolios especially when implemented over the long-term. Alternative assets can provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams. Given the nature of private asset classes as well as the present phase of value adjustment in several markets and asset classes, we believe that this may be an attractive time to increase or consider an allocation to alternative assets.</p>
<p><b>Cash &amp; Cash Equivalents</b></p>	<p>U.S. pre-election and policy uncertainty may cause episodic spikes in volatility. Additionally, recent economic trends suggest an increasing chance of transitory below trend growth. Cash can help to enhance liquidity and provide optionality to capitalize on better valuation opportunities that may emerge. Cash rates are expected to ease as short-term rates fall, but declines should be gradual.</p>

## Quarter In Review

Despite the eventful times in geopolitics, the global economic outlook has held steady, but current forecasts are showing divergent paths between countries.

Over the past quarter, the U.S. economy cooled, but did not topple. Economic growth remains just above 2%, otherwise described as the 'trend pace'. The labour market has also moved back into balance, and inflation has commenced a descent towards the 2% target. The U.S. Federal Reserve ("the Fed") finally has the confidence that it can lower interest rates without stoking too much heat into the economy. Now that the Fed has shown a willingness to act decisively to bring the fed funds rate to a less restrictive level, we expect they will follow through with another rate cut in November and continue with a gradual cadence of reductions thereafter. However, as Chair Powell emphasized, the Fed's pace is not on a pre-set course and would be decided on a meeting-by-meeting basis based on the incoming data.

U.S. economic growth has been revised marginally higher for 2024 to 2.6%, although the pace may slow towards the end of the year. Consumer spending has been resilient thus far, but the Fed must be mindful of the headwinds coming from the erosion of the COVID-19 pandemic era excess savings and rising delinquency rates across products and credit quality. Consumers are feeling the weight of high interest rates and need relief, particularly now that labour demand has returned to its cooler pre-pandemic temperature. Likewise, housing demand should improve next year, coming off of tough affordability conditions.

On this side of the border, the Bank of Canada ("BoC") was at the vanguard of global central banks to start cutting interest rates back in June, and the argument for further cuts remains strong. Inflation is on track to reach 2% by the end of this year. Economic growth

is tracking slightly better than forecast a quarter ago but remains subdued. Real Gross Domestic Product ("GDP") growth is expected to be 1.1% this year, below the trend pace of 1.8%. It is not a pretty picture for the Canadian consumer, where spending is forecast to remain tepid. Real consumer spending advanced at only 0.6% annualized in real terms in the second quarter.

Unfortunately for Canada's lagging productivity performance, business investment is looking slightly weaker than previously forecast for this year. However, lower borrowing costs and stronger growth should drive better performance next year. Solid investment intentions in renewable energy and other infrastructure projects will likely be at the heart of that outcome. Residential investment is also forecast to see a boost starting in the third quarter, after being in the doldrums for more than two years.

In China, the strong start to the year toppled under the weight of a shrinking Real Estate sector and depressed consumer demand. The result is an economy flirting with deflation. There is a real risk that China will miss the growth target set by authorities, with government stimulus measures, so far, proving insufficient in reviving consumer and business confidence. Commodity prices have responded to concerns of weak Chinese demand, with the outlook for crude oil prices dropping USD \$10 per barrel in just over a two-week span despite the Organization of Petroleum Exporting Countries ("OPEC+") deferral of production increases. For central bankers undertaking a rate-cut cycle, this isn't a bad thing since it helps in tapping down headline inflation. But, it may reflect only short-term relief. Oil prices next year are forecast to average USD \$77 per barrel as falling interest rates support demand and OPEC+ maintains its attempt to carefully manage global oil supply.

Source: TD Economics

## Chart 1: Global Equity Index Returns in C\$

Name	1M	3M	12M	3Y	5Y	10Y
S&P 500 Index (Large Cap)	2.38%	4.54%	36.25%	14.34%	16.45%	15.55%
S&P/TSX Composite Index	3.15%	10.54%	26.74%	9.52%	10.95%	8.09%
MSCI EAFE Index (Europe, Australasia, Far East)	1.16%	5.90%	24.67%	7.77%	8.64%	7.73%
MSCI Emerging Markets Index (Emerging Markets)	6.97%	7.49%	26.44%	3.00%	6.58%	6.41%

Source: TD Asset Management Inc. ("TDAM"). As of September 30, 2024.

## The Year of the U.S. Election 2024 Implications for Investors to Consider

### At a glance:

- Economic conditions may play a role in predicting the outcome of U.S. presidential elections, but they do not generally have a meaningful impact for long-term market performance
- Key policy areas that will most significantly have a pronounced economic impact will be taxes and trade
- A divided government or a sweep in Congress will likely determine the extent of policy change in the coming years

In the final weeks leading up to the 2024 U.S. Presidential Election in November, there is heightened anticipation (and slight anxiety) around the outcome of this important leadership challenge. It should be noted at the outset that while elections may provoke short-term volatility and uncertainty, they historically do not have a long-term impact on market performance. However, awareness of the potential implications of proposed policies that may affect the U.S. economic outlook, may be insightful for this year's contentious political race. This outlook will define the country's near-term prospects and its global impact as the largest economy in the world.

## Economics and the Odds

The decision by President Biden to leave the race reinvigorated not just the Democratic party but the overall presidential race across the nation. The latest polls (at the time of writing) have shown that Harris has made substantial gains against Donald Trump's lead across key battleground states on the wave of electoral enthusiasm, particularly among young, Black and Hispanic voters. In a statistical dead heat, the odds of victory for either candidate are still very much at a coin toss, but it may be useful to look at past experience.

Analysis of data from the last 100 years, in which there have been 25 presidential elections (since 1924) and 17 of those included a sitting president, economic conditions have played a major role in determining the outcome. History has shown us that the probability of an incumbent winning has been greater in the absence of a recession, and where economic conditions were favourable, as perceived by the

general electorate. Given the current growth data in the U.S. and performance of the S&P 500 Index so far this year, odds may favour the continuation of a Democratic president. Furthermore, the average annual return of the S&P 500 Index was 12.1% in the one-year period prior to election day when the incumbent won, compared to 1.1% when the incumbent was defeated.<sup>1</sup> Based solely on this hypothesis and on market performance this year, the odds may lean in favour of a continuation of a Democratic president.

It is important to note that even as volatility increases amid policy announcements and poll results, the economic reality that drives markets is based on data. The unexpected result of the 2016 election led to widespread volatility and temporary losses, however these declines were short-lived, and investors who stayed the course were rewarded.

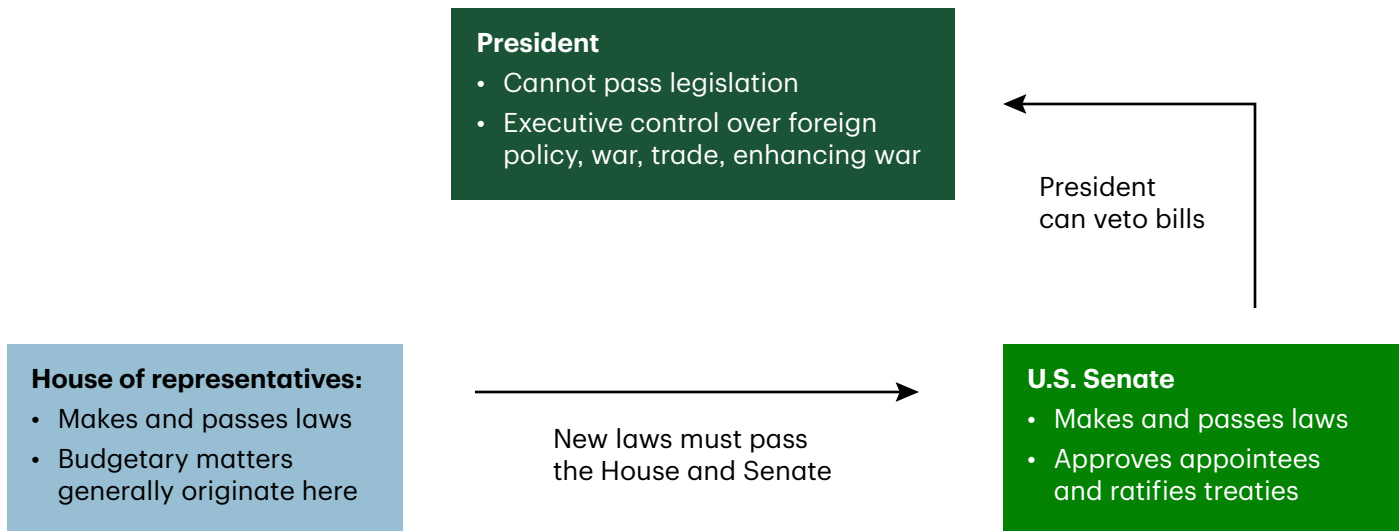
<sup>1</sup>T. Rowe Price, analysis of data provided by Bloomberg Finance L.P, "How do U.S. Elections affect Stock Market Performance?", April 30, 2024.



# Divided for Better

Policy drives legislation, and legislation ultimately impacts the economy. There are a range of potential policy outcomes that depend not just on the leadership ticket, but also on the structure of congress. A majority vote in both chambers of Congress (the House of Representatives and Senate) for the elected presidential party, would enable the advance of an agenda, and determine the likelihood of implementation and timing.

## Balance of Power



**Advancing the President’s agenda is higher with control over Congress (House and Senate)**

A Harris victory would likely result in a continuation of the status-quo, with perhaps more moderate adjustments on stance compared to the Biden administration. A Trump presidency would likely result in an isolationist America, a first stance that could be more extreme than his first term as president, without the previous cohort of controlled advisors.

The difference between a clean-sweep election and divided government could also be stark. More stimulative fiscal policies produced by a one-party rule could produce faster near-term growth but with higher inflation, bloated deficits and fewer U.S.

Federal Reserve (“the Fed”) rate cuts than under a divided government. This could have a material impact on longer-term growth.

Regardless of who the victor may be, a clean-sweep in the 2024 election still looks unlikely, and Wall Street has real concerns about what one-party rule by either the Democrats or Republicans might mean for the U.S. economy and stock market. History shows us that a divided government tends to produce stronger stock market returns than one-party control, perhaps due to the lower possibility of major changes in regulation and a more moderate stance in government.

# What's at Stake

## Domestic Policy

Energy

Healthcare

Financial  
Regulation

Tax Policy

Tech  
Regulation

## Foreign Policy

Trade

Geopolitical Relations

The following outlines some of the key areas of policy and their potential implications:

Policy	Donald Trump	Harris
Tax	<ul style="list-style-type: none"> <li>A Trump victory would likely lead to a push to extend all cuts</li> </ul>	<ul style="list-style-type: none"> <li>Democrats will likely extend some, but not all cuts</li> <li>Tax on share buybacks for corporations</li> </ul>
Trade	<ul style="list-style-type: none"> <li>Trump has proposed at least 10% universal tariffs</li> <li>60% tariffs on China &amp; de-coupling</li> </ul>	<ul style="list-style-type: none"> <li>Harris will likely continue an “America First” policy in domestic manufacturing and remain vigilant on anti-competitive practices from China</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>Trump has favoured de-regulation especially for financial services and energy</li> </ul>	<ul style="list-style-type: none"> <li>Democrats have generally favoured regulation across a range of sectors</li> </ul>
Misc.	<ul style="list-style-type: none"> <li>Trump wants to significantly reduce immigration and deport illegal immigrants</li> <li>Potentially repeal some green spending</li> </ul>	<ul style="list-style-type: none"> <li>Status quo; perhaps more CHIPS and Science Act of 2022 funding and infrastructure investment</li> <li>“Build back better” initiatives and the “Care” economy/social spending for the low and middle class</li> </ul>

The most obvious, and arguably most important difference between the presidential candidates, is tax policy. Trump plans to cut the corporate income tax rate to as low as 15%, while Harris wants to raise it much higher. That alone could mean a double-digit percentage-point swing in S&P 500 Index earnings. Additionally, there have been various capital markets tax proposals from the Harris camp, including a tax on stock buybacks. Whether or not these proposals come into reality is still remote at this stage.

Trump's first two years in office with a GOP Congress produced a strong 29% advance for the S&P 500 Index, fueled by passage of the Tax Cuts and Jobs Act, which cut the statutory corporate tax rate to 21% from 35% and reduced individual income tax rates. A second Trump term could follow a similar playbook. Trump has said he wants to repeal the Inflation Reduction Act and its \$400 billion in subsidies for battery manufacturing, electric vehicles, wind turbines and solar energy. Yet 18 House GOP lawmakers went on record in August opposing such a move. That means there's no obvious funding for Trump's new tax cuts, much less to renew his old ones. Beyond preserving existing tax policy, Trump

proposes to eliminate taxes on Social Security benefits at a cost of \$1.2 trillion. Lowering the corporate tax rate to 15% would cost approximately \$600 billion.

On the Democratic side, Harris has been attempting to appeal to moderates, with a partial break from Biden on taxing capital gains. Biden has backed an effective top rate of 44.6% versus the current 23.8%. Harris drew the line at 33%. That would include a 28% capital gains tax rate, up from the current 20%, and she proposes raising the top marginal income-tax rate to 39.6%. A key finding from a Penn Wharton budget analysis in September showed that a \$1.2 trillion in corporate tax hikes might hurt GDP by about 1.3% up to 2034 compared to current policies, amid less investment in productive capital. It also sees wider deficits due to \$2.3 trillion in tax benefits for moderate-income families.<sup>2</sup> Some estimates suggest that the effective corporate tax rate could jump from around 12% to above 19%. That would put the U.S. near the top among market-based Organization for Economic Co-operation and Development ("OECD") countries, with important implications on employment and growth.

<sup>2</sup> Penn Wharton University of Pennsylvania Budget Model Analysis, 2024.



From a general standpoint, it is clear that equity markets would be buoyed by lower taxes and lighter regulation, as prescribed by a second Trump administration. However, once Trump's more Wall Street-friendly policies are partially offset by concerns about the costs and inflation impacts of higher tariffs and trade wars, the net impact may only be slightly positive. Combined with possible trade tensions and deportations of unauthorized immigrants, Trump's policies may end up being an outright drag on GDP.

The coming fiscal cliff amplifies the high stakes of the 2024 election. History suggests that a divided government is more likely to exercise fiscal discipline. Further, even when Democrats presided over Congress, Biden was unable to raise the 21% corporate tax rate even to 22%, much less to 28%. Most of the 2017 Trump tax cuts are set to expire at the end of 2025. They would cost about \$4 trillion to extend over the next decade, according to the Committee for a Responsible Federal Budget. Unless revenue from new tariffs helps shrink the

fiscal gap, the tax cut extension could balloon the already lofty budget deficit beyond 7% of GDP. That could risk a bond-market backlash, pushing up the 10-year Treasury yield and hitting stock prices along with demand for new mortgages and car loans. A contractionary fiscal policy might give the Fed even more reason to bring down rates to secure an economic soft landing. An analysis by the University of Pennsylvania's Wharton School budget analysis center finds that Trump's plans would add \$4.1 trillion to the 10-year primary budget deficit.<sup>2</sup> That figure excludes both additional debt-service costs, which would widen deficits, and revenue from tariffs, which could stem the red ink.

On the trade front, Trump's plan to impose at least a 10% tariff on all imports and up to 60% on Chinese goods may raise additional revenue to the government, but at a cost of higher inflation and a continuation of major disruption to supply chains and business models for U.S. companies that began in Trump's first term.

# Election



## Don't Bet on the Outcome

Overall, there are plenty of wild cards and a host of other probabilities that could sway the outcome of this election. We've already witnessed a series of unanticipated events since the beginning of this year, leading up to the nomination of the two candidates, and the November election is still weeks away.

For investors, a prudent plan and a long-term balanced allocation across asset classes and geographies, with a focus on evolving economic data, and how this data could shape market performance, is more important than betting on political odds and campaign rhetoric. In addition, policy itself is only part of the overall investment mosaic. Company fundamentals, idiosyncratic

business models, and the growth/inflation trajectory are likely to matter much more in terms of long-term performance, than individual elections.

As investment managers making tactical and strategic allocations all the time, we continue to analyze real-time data and events as they unfold, and are always preparing for inevitable tail-risk events that could jeopardize the base case scenario. Political elections and other exogenous developments may be a source of distraction, but for long-term investors, such events may lead to important opportunities if considered from the right perspective.

<sup>2</sup> Penn Wharton University of Pennsylvania Budget Model Analysis, 2024.



# WAAC Positioning And Outlook

## Asset Class Assumptions

The following are the TD Wealth Asset Allocation Committee's (the "WAAC") current positioning views on key asset classes. The WAAC meets monthly and will make necessary strategic adjustments to asset class views as the environment unfolds.

## Equities – Neutral Overall Outlook



Asset Class	Positioning	Outlook
Canadian Equities	Modest Overweight	The Bank of Canada ("BoC") has cut rates three times (75 bps) since the spring as inflation has subsided and the economy is showing signs of slowing. We believe that these cuts are supportive of the consumer and businesses, which should allow for credit to stabilize at Canadian Banks. The Energy sector has strong balance sheets and is returning its significant free cash flow to shareholders. We are upgrading Canadian Equities to overweight as valuations are reasonable and earnings growth is positive.
U.S. Equities	Modest Overweight	The S&P 500 Index returns this year have been driven by both multiple expansion and earnings growth. While mega cap technology firms are a significant contributor to returns, partly driven by AI opportunities, all sectors are in positive territory YTD. We remain constructive on the earnings outlook for the U.S. as lower rates could support more broad-based growth. The S&P 500 Index commands a premium valuation due to its higher technology exposure.
International Equities	Modest Underweight	We are downgrading international equities as returns might lag due to weakening industrial activity in the EU. Japanese equities look attractive on a relative basis, with momentum building behind a corporate reform agenda aimed at boosting profitability and valuation multiples. The Japanese stock market and Yen might experience additional volatility depending on how the Bank of Japan ("BoJ") continues with its process of raising rates versus the Fed potentially cutting rates further.
Emerging Markets	Modest Underweight	Some emerging market central banks appear to have paused their rate hiking cycle, with Brazil, Chile and Mexico cutting rates. While this is supportive of better domestic growth in these countries, it might be partially offset by the impact weaker global growth could have on exports. China continues to struggle with the challenges in its property sector.

# Fixed Income – Modest Overweight Overall Outlook



<p><b>Domestic Government Bonds</b></p>	<p>Modest Overweight</p>	<p>If the Canadian economy continues to evolve as it has in the first half of 2024, we anticipate that the BoC will deliver more rate cuts this year. Bond yields have continued to trend lower after the BoC delivered the first cut, and there is room for them to fall further if the BoC can continue to reduce its restrictive monetary policy stance. As the easing cycle progresses, we expect yields on shorter government bonds, which are more sensitive to the monetary policy cycle, to fall faster than that of longer government bonds. Over the long-term, we believe government bonds will remain appealing due to their potential to generate positive nominal returns.</p>
<p><b>Investment Grade Corporate Credit</b></p>	<p>Modest Overweight</p>	<p>Investment grade spreads remain tight overall and reflect a modest softening of the global economic backdrop. We see Canadian investment grade corporate bonds as more attractive than U.S. investment grade corporates as spreads in Canada continue to be meaningfully wider.</p>
<p><b>Global Bonds-Developed Markets</b></p>	<p>Neutral</p>	<p>As the Fed has joined other developed market central banks in lowering its policy rate, investors are focusing on the uncertainty emanating from global elections. As election-induced, idiosyncratic policy risks weigh on markets, we believe the evolution of each central bank’s easing cycle and bond returns are not foregone conclusions. For example, we anticipate the Fed will be in a position to continue to lower its policy rate in the coming months, which should have positive implications for U.S. bond market returns. On the other hand, sustained momentum in underlying inflation trends is giving more confidence to the BoJ to consider raising interest rates further and reduce the degree of policy accommodation over the coming months. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18-months.</p>
<p><b>Global Bonds-Emerging Markets</b></p>	<p>Modest Underweight</p>	<p>While yields remain attractive in some regions, many emerging market countries have either cut policy rates meaningfully this year, or have significant rate cut expectations already priced in bond yields. As a result, there is now a lower potential for emerging market bonds to outperform developed market bonds from capital appreciation alone. However, there are tactical opportunities in some emerging market countries where fiscal policy and growth fundamentals remain stable.</p>
<p><b>High Yield Credit</b></p>	<p>Modest Underweight</p>	<p>All in yields remain attractive, but high yield spreads continue to be expensive and not reflective of potential challenges within the sector. While the majority of high yield companies are performing well, many of the riskier high yield issuers are struggling with heavy debt loads and slowing growth. As a result, we remain cautious at current valuations and favour the higher quality cohort of the market.</p>

## Alternatives – Neutral Overall Outlook



<b>Commercial Mortgages</b>	<p>Modest Overweight</p>	<p>Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.</p>
<b>Private Debt (Universe)</b>	<p>Neutral</p>	<p>High credit quality and global diversification provides an income ballast in an uncertain economic environment. Incremental income and potential capital appreciation from interest rate moderation provide upside.</p>
<b>Domestic Real Estate</b>	<p>Modest Underweight</p>	<p>We believe a significant portion of the value adjustments in the Canadian commercial real estate space have been taken. Moving forward we see more reason for confidence in the multi-unit residential, retail and industrial spaces.</p>
<b>Global Real Estate</b>	<p>Modest Underweight</p>	<p>We believe the majority of the value adjustments have occurred in the U.S., UK and Nordic countries, while other regions, such as Australia, are in the midst of value adjustments.</p>
<b>Infrastructure</b>	<p>Modest Overweight</p>	<p>Increases in cash flow from higher-than-expected inflation are buffering valuations against rising interest rates. Investor appetite is particularly focused on essential infrastructure that can generate stable, growing cash flows including energy generation/transition investments and seaport enhancement projects.</p>

# Alternatives

## Sub-Asset Class



<p><b>U.S. Dollar</b></p>	<p>Neutral</p>	<p>The USD has remained strong against global currencies as relative growth differentials still favour the U.S. economy, and by extension the USD. Some USD weakness may be expected in the near-term, however, currency risk is not expected to be a major factor affecting returns as any USD softness is expected to be modest. The USD provides diversification in portfolios considering the range of risks in the near-term.</p>
<p><b>Commodities</b> (Gold, Energy, metals, agriculture, carbon)</p>	<p>Modest Overweight</p>	<p>Slower activity in China has weighed broadly on commodity prices through the summer. However, long-term underlying fundamentals remain supportive for key commodities such as oil and copper as supply remains disciplined or restricted. Commodities remain a source of diversification in this environment. Additionally, the gold price rally accelerated this past month as U.S. 10-year real yields moved lower in anticipation of Fed cuts and physical gold ETFs attracted inflows.</p>



# Current WAAC Members

## Chair



**David Sykes, CFA**  
Senior Vice President  
& Chief Investment Officer,  
TDAM

## TDAM Asset Allocation



**Michael Craig, CFA**  
Managing Director, Head of Asset  
Allocation & Derivatives,  
TDAM



**Anna Castro**  
Managing Director,  
Asset Allocation,  
TDAM

## TDAM Equities



**Justin Flowerday, CFA**  
Managing Director,  
Head of Public Equities,  
TDAM



**Jennifer Nowski, CFA**  
Vice President & Director,  
Portfolio Manager,  
TDAM

## TDAM Fixed Income



**Michael Augustine, CFA**  
Managing Director, Head of  
Fixed Income and Asset Liability  
Management (ALM), TDAM



**Alex Gorewicz**  
Vice President & Director, Active Fixed  
Income Portfolio Management,  
TDAM

## TDAM Alternatives



**Colin Lynch**  
Managing Director, Head of  
Alternative Investments,  
TDAM



**Bruce MacKinnon**  
Managing Director, Head of Private  
Debt Research & Origination,  
TDAM

## Epoch



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Managing Director,  
Epoch Investment Partners, Inc.



**William Booth, CFA**  
Managing Director,  
Epoch Investment Partners, Inc.

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Chief Wealth  
Strategist,  
TD Wealth



**Sid Vaidya**  
U.S. Wealth Chief  
Investment Strategist,  
TD Wealth



**Bryan Lee**  
Vice President & Director,  
Lead of the Retail Client  
Portfolio Management  
Team, TDAM

# Market

## Connect with TD Asset Management



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