TD Wealth

Perspectives 10 Minutes

WAAC Perspectives

TD Wealth Asset Allocation Committee (WAAC)

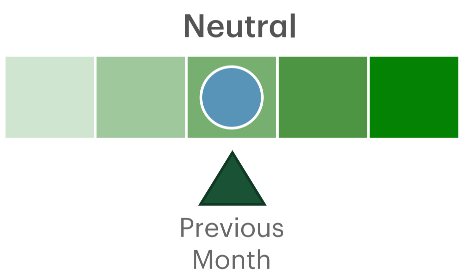
Views as of May 16, 2024

2024 JUN

Core Asset Class Allocations

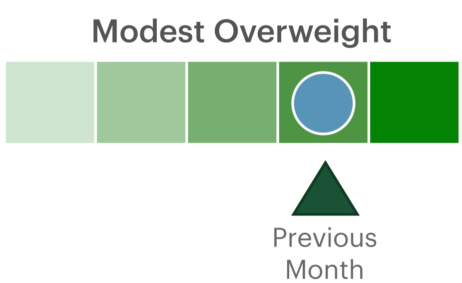
Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Equity



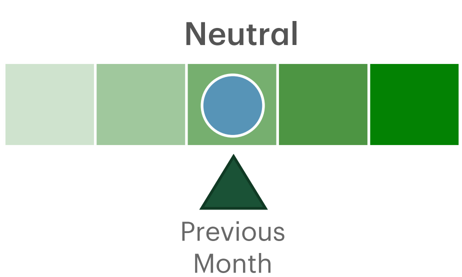
Equity market returns remain positive year-to-date. Performance has broadened across more sectors and geographies in the past few months. We believe that the equity market has a balanced return outlook. While earnings growth is in positive territory globally (as represented by the MSCI All Country World Index), this has been partially captured by the market in valuations.

Fixed Income



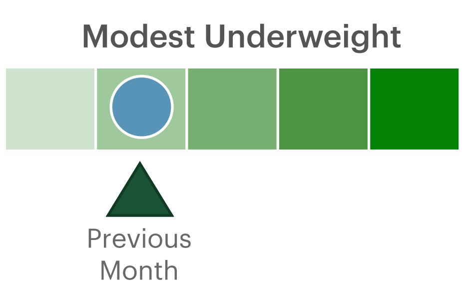
The Bank of Canada ("BoC") has seen better-than-expected inflation prints in recent months, increasing the likelihood that it may begin to reduce its policy rate as early as June. In previous easing cycles, bonds have generated positive returns as interest rates have fallen in the months leading up to the first rate cut. Given the modest rise in interest rates year-to-date, we anticipate that the lead-up to the BoC's first policy rate cut later this year will exhibit similar patterns to historical easing cycles. Although uncertainty remains elevated around the future evolution of domestic and global macroeconomic data, we would still expect that fixed income will generate positive returns over the next 12 months and that bonds may still provide diversification benefits, reduce overall portfolio volatility and preserve capital.

Alternatives



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.

Cash & Equivalents



We anticipate that the high yield we are currently seeing in cash may be temporary and we would expect a reduction in yields as the BoC and the U.S. Federal Reserve move towards easing measures. Overall, cash may not be as attractive as other asset classes in the medium term.

Equities – Neutral Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Canadian Equities	Neutral	Canadian gross domestic product growth has slowed, but with the full effect of higher rates on the consumer and real estate market yet to be seen, the Canadian economy could remain weak. That said, strong free cash flows within the Energy sector, and relatively inexpensive Financials stocks, may present attractive opportunities.
U.S. Equities	Modest Overweight	The U.S. labour market and gross domestic product growth have remained robust. The S&P 500 Index has resumed year-over-year earnings growth, which has supported valuations and positive investor sentiment. The S&P 500 Index commands a premium valuation due to its higher technology exposure.
International Equities	Neutral (From Modest Underweight)	While macroeconomic conditions are sluggish, particularly in Europe, we feel that international equity valuations are overly discounted and that future returns will be more inline with global markets. Japanese equities look attractive on a relative basis, with momentum building behind a corporate reform agenda aimed at boosting profitability and valuation multiples.
Chinese Equities	Modest Underweight (From Neutral)	The Chinese equity market has rebounded recently. We believe that further upside might be more limited as the country continues to work through the challenges in its property sector.
Emerging Markets ex. China	Neutral	Some emerging market central banks appear to have paused their rate hiking cycle, with Brazil and Chile 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.

Equity

Fixed Income – Modest Overweight Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Domestic Government Bonds	Modest Overweight	As the Canadian economy has evolved weaker than expected by the BoC in recent months, we anticipate that the first policy rate cut may emerge at the BoC's June meeting. Based on yield patterns observed in historical easing cycles, we anticipate bond yields to decline ahead for the first rate cut. Over the longer term, we believe government bonds continue to remain appealing due to their potential to generate positive nominal returns.
Investment Grade Corporate Credit	Modest Overweight	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.
Global Bonds-Developed Markets	Neutral	While the Bank of Japan has finally ended yield curve control and negative policy rates, it has not dropped its accommodative monetary policy stance. Other central banks have decisively shifted to policy easing, with the Swiss National Bank being the first among developed markets to lower its policy rate. Leading central banks, including the U.S. Federal Reserve, are expected to follow suit in the summer. However, each market faces large idiosyncratic risk factors, so the future evolution of each central bank's easing cycle is not a foregone conclusion. Therefore, we expect opportunities across developed market bonds to vary over the next 12 to 18 months.
Global Bonds-Emerging Markets	Modest Underweight	The dispersion of returns within emerging markets continues to present opportunities on a tactical basis. While yields remain attractive in some regions, local-currency government bonds in many emerging market countries have already priced-in significant rate cutting cycles and therefore there is reduced potential for emerging market bonds to outperform developed market bonds. A strengthening U.S. dollar and persistent volatility in U.S. government bond yields may also be a headwind for emerging market countries with high levels of U.S. dollar liabilities.
High Yield Credit	Modest Underweight	All-in yields remain elevated, but have declined in recent months, indicating strong potential returns. However, we continue to expect financial conditions to tighten and drive a deterioration of corporate credit fundamentals. This may create a particularly challenging backdrop for corporations with elevated debt loads, increasing overall volatility and downside risk.

Alternatives – Neutral Overall Outlook

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Commercial Mortgages	Modest Overweight	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Private Debt (Universe)	Neutral	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.
Domestic Real Estate	Modest Underweight	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.
Global Real Estate	Modest Underweight	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.
Infrastructure	Modest Overweight	Increases in cash flow from higher-than-expected inflation is buffering rising interest rates. Investor appetite remains strong, particularly for energy transition investments and critical infrastructure sectors that generate stable, growing cash flows.

Sub-Asset Class

U.S. Dollar	Neutral	Relative growth differentials favor the U.S. economy and by extension the U.S. dollar. While U.S. growth may also decelerate, it is expected to remain stronger than in Canada or parts of Europe. This leaves room for relative strength in the U.S. Dollar.
Commodities (Gold, Energy, metals, agriculture, carbon)	Modest Overweight	Commodities can help to diversify portfolios as their returns have a low correlation to both stocks and bonds. Underlying fundamentals remain supportive for key commodities (e.g. oil or copper), as supply remains either disciplined or restricted. Gold has been supported by central bank buying as well as demand from China. These factors have more than offset the headwinds from the year-to-date rise in real yields and the U.S. dollar.

Current WAAC Members

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For more information
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