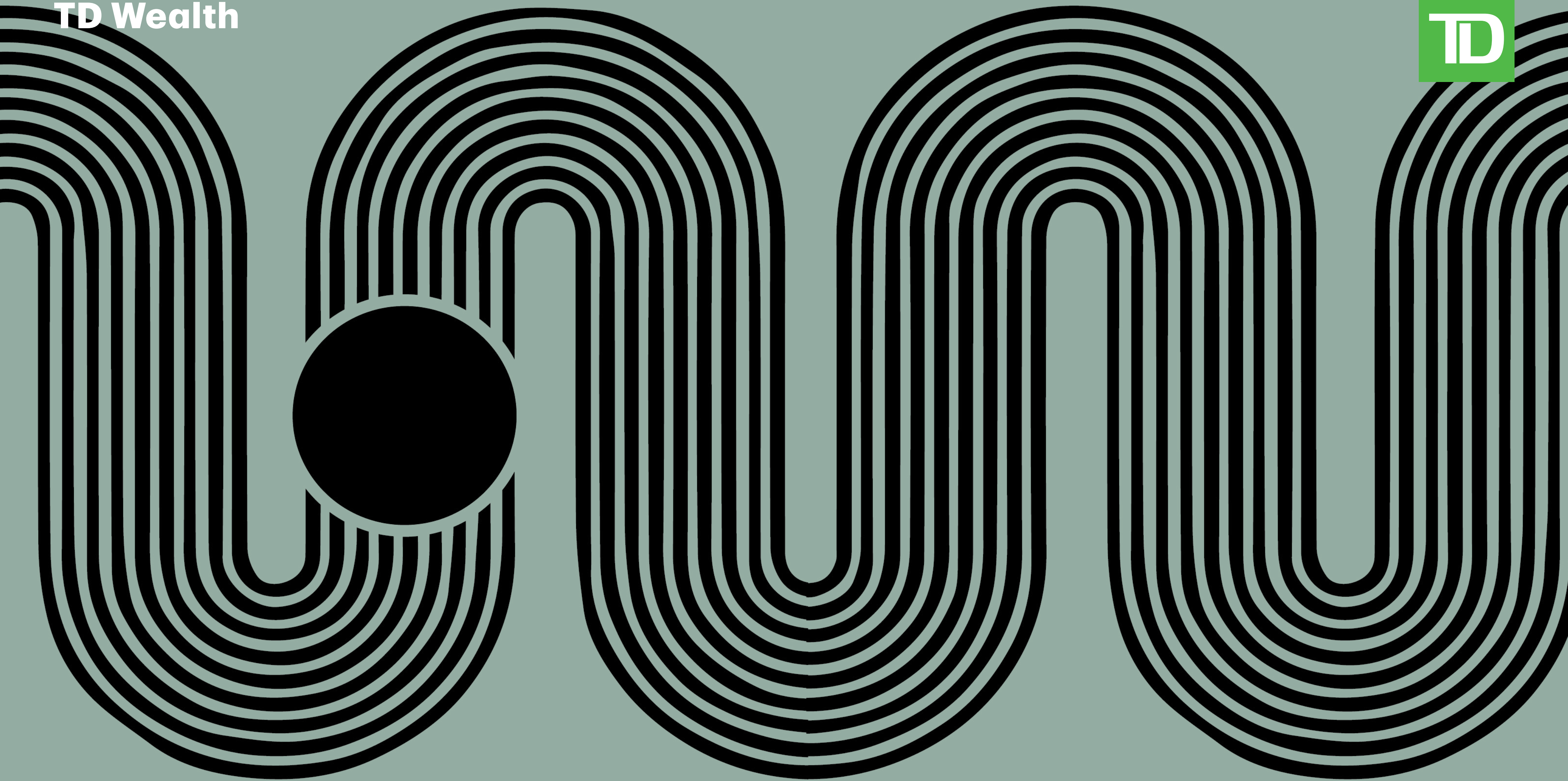
TD Wealth



Q1 | Quarterly Market Review

Everything you need to know about the quarter that was

April 4, 2024

Wealth Investment Office

QMR - Q1 24 | Highlights

David Dias • Aurav Ghai, CFA • Chadi Richa, MBA, CFA • Christopher Blake, MBA, CFA | TD Wealth

Unless otherwise indicated, performance figures are stated on a total-return basis. This document is for distribution to Canadian clients only. Please refer to Appendix A of this report for important disclosure information.

U.S. Equities

- Stocks continued to rise on tech euphoria and the promise of eventual, albeit delayed, rate cuts later this year.
- The S&P 500 rose by 10.6%, the Dow Jones Industrial Average rose by 6.1% and the Nasdaq Composite Index rose by 9.3%.
- Ten of the 11 sectors in the S&P 500 performed positively. Communication services and energy outperformed, with returns of 15.8% and 13.7%, respectively. The real estate sector was the worst performer, falling 0.5%.
- Large-cap stocks outperformed small-caps; growth stocks outperformed value.

Canadian Equities

- The S&P/TSX Composite Index once again lagged its American counterpart, due in large part to a lack of tech exposure.
- The index ended Q1 up 6.6%, with nine of 11 sub-indices posting positive returns.
- West Texas Intermediate finished the quarter at US$83.17, up 16.1% from the year-end close of US$71.65. Financials were up 5.6%. Insurance (+10.8%) was the top performer, followed by financial services (+7.9%) and banks (+3.3%).
- Small-cap stocks outperformed large-caps; growth stocks outperformed value.

Canadian & U.S. Fixed Income

- Global fixed income markets struggled in Q1, held back by a sharp uptick in developed-market government yields.
- The FTSE Canada Universe Bond Index posted a return of -1.2%, while the Bloomberg U.S. Aggregate Bond Index posted -0.9%.
- Canadian and U.S. investment-grade corporate bond indices registered returns of 0.1% and -0.6%, respectively.
- The Canadian government bond index rose -1.7% in Q1; the U.S. government bond index fell -1.1%.

International Equities

- International developed markets underperformed their American peers, but only slightly thanks to skyrocketing Japanese equities.
- Emerging markets underperformed in the first quarter, despite a slight rebound from China, with the MSCI Emerging Markets Index rising 4.6%.
- In Brazil, the Bovespa Index fell on concerns that the government was pressuring Petrobras to prioritize reinvestment over dividend payouts.
- In China, stocks rebounded on bargain-hunting, as well as some underwhelming attempts by Beijing to stimulate the economy.

Market Movers

Equities in Review

Early January

The quarter begins with high hopes for a Fed rate cut in March, despite warnings from economists and policymakers that investors may have gotten ahead of themselves.

January 11

Inflation comes in hot, rising 30 bps to 3.4% in December. Doubt is raised, but for the most part U.S. investors are cheerful about the prospects of a soft landing.

Late January

Beijing announces measures to support its ailing stock market, including a reduction in the cash banks must hold in reserve. President Xi meets with Chinese financial regulators, leading to a brief rebound in Chinese markets.

January 29

Three U.S. soldiers stationed in Jordan are killed in a drone attack by Syrian militants. By now, most commodities are depressed by the higher rate forecast, but oil prices rise on the attack as well as continued conflict in Ukraine and the Red Sea.

January 31

In a news conference, the Fed chair confirms market fears, taking a rate cut off the table for March. Two days later, the U.S. posts blowout employment numbers. But by now investors are focused squarely on tech earnings.

February 1

Amazon beats estimates.

February 2

Meta announces its first-ever dividend. Tech cheer drowns out the Fed hawkishness.

February 13

Inflation data again comes in hot, with prices growing 3.1% y/y in January.

February 22

Nvidia announces blowout earnings. In a single day, its market cap rises a record $250 billion. Nvidia cheer propels markets around the world on the promise of AI. In Japan, the news leads the Nikkei to break an all-time high set in 1989.

Early March

With earnings season done, the rate trade comes back into view. Investors now expect a Fed cut in June. Meanwhile, funds begin to flow back into international markets as heightened tech exposure leads some investors to diversify.

The rally in Chinese equities peters out as reforms, outlined during the week-long session of the National People's Congress, prove disappointing.

March 8

U.S. job numbers come in hot, but moderation in wage growth, a higher unemployment rate and downward revisions keep hope alive for a June rate cut.

March 12

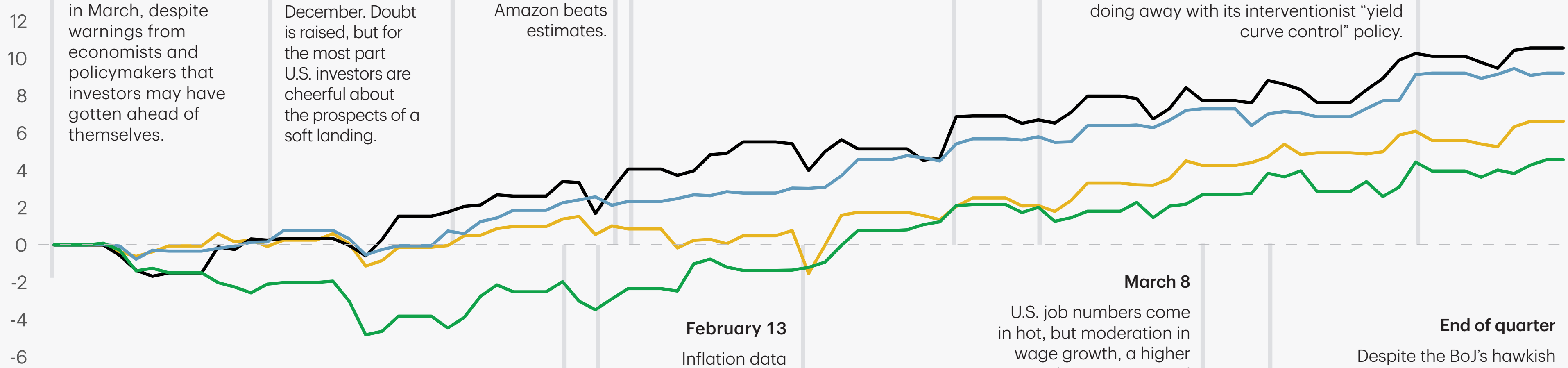
Inflation comes in on forecast but remains stubbornly above the target range, rising to 3.2%.

March 19

The Bank of Japan announces a sea change in global monetary policy, hiking rates for the first time in 17 years; ending the world's last remaining negative-rate policy; and doing away with its interventionist "yield curve control" policy.

End of quarter

Despite the BoJ's hawkish tilt, major central banks around the world are turning into doves. On March 21, the Bank of England signalled increased stimulus after the UK went into recession in Q4. On the same day, the Swiss National Bank became the first to cut rates. The Fed so far has seemed undeterred by stubborn inflation. TD Economics, however, expects a cut in July.



- S&P 500
- S&P/TSX Composite
- MSCI Emerging Markets
- MSCI EAFE

Source: TD Wealth, Reuters, Bloomberg Finance L.P. as of March 31, 2024. Note: Indices are tracked in U.S. dollars.

U.S. Equities

Indices	Q1 Return (%)	Q1 Return (%, C$)
Dow Jones Industrial Average	6.14	8.79
S&P 500	10.56	13.32
S&P 400	9.95	12.70
Nasdaq Composite	9.31	12.04
Russell 2000	5.18	7.81

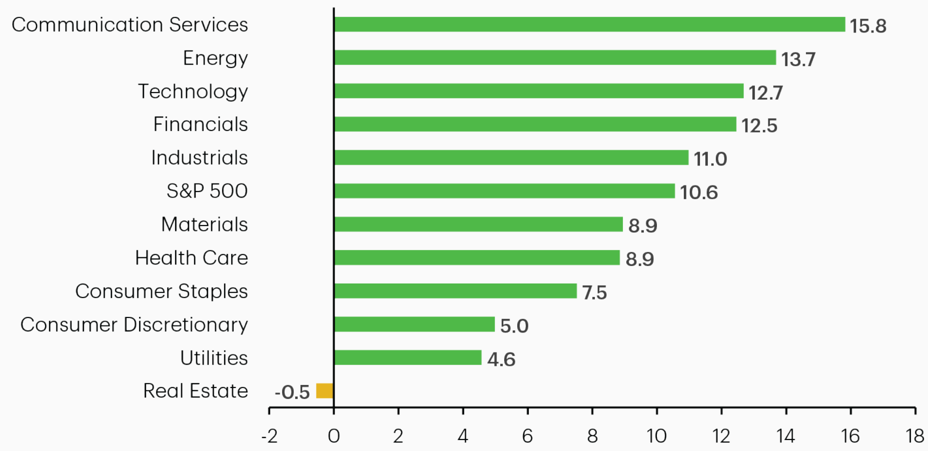
Source: FactSet as of March 31, 2024. Total index values and returns. Index returns calculated in local currency and C$.

Stocks continued to rise on tech euphoria and the promise of eventual, albeit delayed, rate cuts this year. While hopes for a cut in March were dashed in January, and economic data continued to come in hotter than expected, nothing seemed to dampen the mood on Wall Street, as markets stutter-stepped their way — two forward, one back — to fresh all-time highs. It was a quarter in which any discouraging news about backward-looking economic data seemed to be quickly dismissed in favour of forward-looking prospects for lower rates and higher earnings.

By the end of January, for instance, labour and inflation data had both come in hotter than expected, and the Federal Reserve confirmed investor fears that there would be no rate cut in March. But by then the market had already turned its attention to the promise of a soft landing and highly anticipated earnings from the tech giants. These did not disappoint, with Nvidia growing its market cap a record $250 billion in a single day on blowout earnings in late February. Amazon and Meta also outperformed, with the latter announcing its first ever dividend. This earnings afterglow carried investors well into March, at which point the rate trade came back into view, with a cut now expected for June.

For the three months ended March 31, 2024, the S&P 500 rose by 10.6%, the Dow Jones Industrial Average rose by 6.1% and the Nasdaq Composite Index rose by 9.3%. Ten of the 11 sectors in the S&P 500 performed positively. Communication services and energy outperformed, with returns of 15.8% and 13.7%, respectively. The real estate sector was the worst performer, falling 0.5%. Large-cap growth stocks outperformed in Q1. Large-cap stocks (S&P 500) returned 10.6%, outperforming small-cap stocks (Russell 2000), which returned 5.2% in the first quarter. Growth stocks (S&P 500 Growth Index) registered a total return of 12.8%, outperforming value stocks (S&P 500 Value Index), which returned 8.1%.

Q1/24 S&P 500 Sector Returns



Source: FactSet as of March 31, 2024

In late March, the Bureau of Economic Analysis released its third estimate for the fourth quarter. The U.S. economy ended 2023 on a solid note, reporting inflation-adjusted GDP growth of 3.4% (q/q annualized, 4.9% in Q3) — much better than the 1.1% forecast by TD Economics (TDE) last quarter. Economic resilience remained on full display, with consumer spending, private investment and government spending accounting for the lion's share of the growth. The consumer, however, was the biggest factor underpinning strength in the fourth quarter, with spending accelerating sharply through the holiday shopping season, despite higher interest rates and dwindling excess savings from the pandemic.

Moving into the first quarter, the economy seemed to be coming into better balance, with manufacturers recovering and the overheated services sector beginning to cool. The Institute of Supply Management's purchasing managers index (PMI) for manufacturers fell in January but rose slightly over a three-month period to 47.8 (46.7 in November). The larger services side of the economy, meanwhile, has remained expansionary, although it ticked down to 52.6 in February (52.7 in November). Overall, economic growth in 2023 settled in at 2.5%, defying expectations in early 2023 of 1.3% growth. TD Economics is now forecasting a moderate deceleration in the first quarter, with real GDP expected to rise 2.1%. Economic growth for the year is also expected to be moderate, with a forecast of 2.3%.

Q1/24 Vitals

Policy Rate ↔
0 bps to 5.5%

Core Inflation ↓
November 4.1% | February 3.8%

Economic Growth ↓
Q3 4.9% | Q4 3.4%

Unemployment rate ↑
November 3.7% | February 3.9%

Business Confidence (PMI) ↑
November 50.7 | February 52.5

The labour market, meanwhile, has remained stubbornly tight, with job growth actually accelerating in the first quarter. The economy generated 290,000 jobs in December, 229,000 jobs in January and 275,000 jobs in February. That represents a three-month average of 265,000 jobs — significantly more than the 204,000 recorded for the previous three months. The unemployment rate, however, did manage to rise, from 3.7% in November to 3.9% in February, due to growth in the participation rate.

Surprisingly, however, these figures still represent a *loosening* from early last year, when unemployment stood at 3.4% and the economy was pumping out around 300,000 jobs a month. With the labour market still near its historic low, policymakers at the central bank can afford to be patient. While the Fed chair has said that rate cuts are highly likely to begin this year, policymakers will want to see at least a bit more easing in the labour market before pulling the trigger on rate cuts. TD Economics doesn't expect this to happen until the third quarter.

The market, for its part, is still expecting a cut in June, but they're unlikely to be too disappointed if rate cuts are pushed to July. Investors have remained remarkably patient as the Fed attempts to execute the exceptionally rare soft landing. In January, while Chairman Powell disappointed the markets by holding rates, he made up for it in early March when he signalled that cuts were likely to happen "at some point" in 2024. The central bank made no changes to its policy rate in the first quarter, and the median expectation of committee members has held steady — with nine of 19 members expecting the upper bound of the federal funds target range rate to come down to 4.75% by the end of the year, implying three rate cuts. TDE concurs with the Fed's projection.

There will be some pressure on the Fed to cut in June, particularly if Q1 earnings come in soft, but by all accounts, inflation is still too high. The headline CPI number has hovered just over 3% for a few months, with inflation ticking up from 3.1% in November to 3.2% in February. Excluding food and energy, core inflation fell only slightly during that period, from 4% in November to 3.8% in February — hence, the lack of certainty around a June rate cut. A lot, ultimately, will be riding on the state of the jobs market, and whether current conditions are restrictive enough to bring down wage growth, which remains high at 4.3%.

Canadian Equities

Indices	Q1 Return (%)
S&P/TSX Composite	6.62
S&P/TSX 60	6.33
S&P/TSX Completion	7.88
S&P/TSX Small Cap	7.92
S&P/TSX Preferred Share	9.62

Source: FactSet as of March 31, 2024 Index total returns.

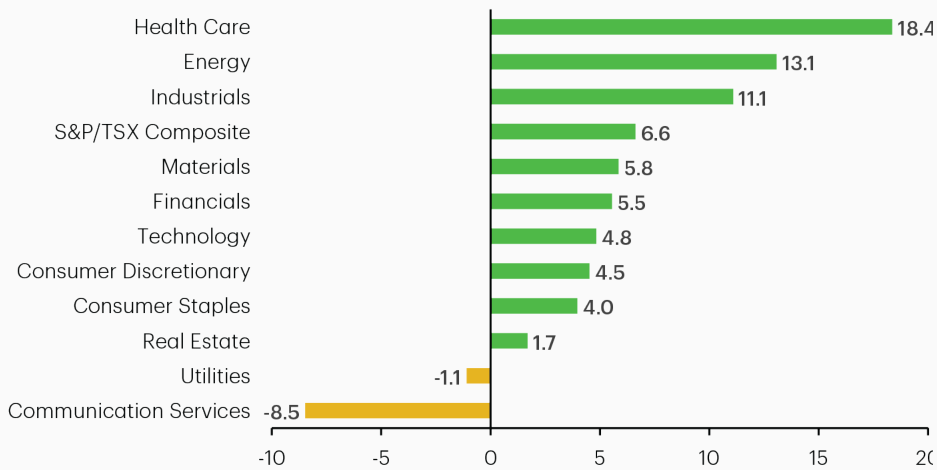
The S&P/TSX Composite Index once again lagged its American counterpart, due in large part to a lack of tech exposure, which continues to drive returns on the S&P 500. The difference was particularly striking in January, as hopes of a March rate cut were gradually extinguished. Whereas sentiment in the U.S. remained buoyant in anticipation of strong tech earnings, the higher U.S. rate forecast dampened commodity prices early on as well as the Canadian dollar, which fell 2.4% against the greenback in Q1.

Midway through the quarter, stocks in Canada finally began to participate in the rally — but only after an attack by militants in Syria killed three U.S. troops stationed in Jordan. Increased tensions in the Middle East and in the Red Sea shipping corridor lifted oil prices, as did the targeting of Russian refineries by Ukraine. Later in February, investors on both sides of the border again began to buy into hopes of a forthcoming rate cut, allowing gold, metals and other commodities to rise again.

The index ended Q1 up 6.6%, with nine of 11 sub-indices posting positive returns. Small-cap growth stocks outperformed in the first quarter. Large-cap stocks (S&P/TSX 60 Index) rose by 6.3%, underperforming small-caps (S&P/TSX Canadian Small Cap Index), which rose by 7.9%. Growth stocks (MSCI Canada Growth Index) rose by 8.8%, outperforming value stocks (MSCI Canada Value Index), which ended the quarter up 5.1%.

West Texas Intermediate finished the quarter at US$83.17, up 16.1% from the year-end close of US$71.65. Prices hit an intraday low of US$69.28 on January 3 and the intraday high of US$83.21 on the last trading day, March 28. Oil was boosted by the actions of militant groups in Jordan and the Red Sea, as well as continued economic growth in North America, an improved outlook for China, and limited investment in new supply. Gold closed at US$2238.40 on March 28, up 8.0% for the quarter, driven by a confluence of factors, including expectations for interest-rate cuts, global uncertainty and

Q1/24 S&P/TSX Sector Returns



Source: FactSet as of March 31, 2024. Index total returns.

stimulus measures in many economies. As with WTI, gold's intraday peak for the quarter, US$2,256.90, came on the last trading day. Gold's intraday low of US$1,996.40 was set in the middle of the quarter, on February 14. Financials were up 5.6%. Insurance (+10.8%) was the top performer in the sector, followed by financial services (+7.9%) and banks (+3.3%). EPS for fiscal Q1 for the six largest Canadian banks declined 8.5% y/y on average.

The Canadian economy — for the fourth time in a row — posted weak quarterly growth, with an expansion of just 1.0% in Q4 (q/q annualized, -1.1% in Q3), but it was still a bit higher than the 0.6% forecast by TD Economics

(TDE) last quarter. Consumer spending was tepid (+1.0%), with GDP per capita contracting for the fifth time over the past six quarters. In fact, the only thing keeping Canada out of recession at this point is trade with the U.S., which grew three times faster than Canada last year.

A return to growth in the fourth quarter was widely expected, following two quarters of effectively zero growth in the country. Nevertheless, the narrative on the Canadian economy remains the same: high interest rates are weighing heavily on growth. The Bank of Canada has recognized this weakness in recent commentaries, but it is patiently waiting for inflation to follow suit. TD Economics (TDE) believes this will happen soon and has pencilled in the first interest-rate cut in Canada for July.

Q1/24 Vitals

Policy Rate ↔
0 bps to 5.0%

CAD/USD ↓
-2.4% to 73.8 cents

WTI Oil ↑
+16.1% to US$83.17

Spot Gold ↑
+8% to US$2,238.40

Big Six Bank Earnings ↓
-8.5% (y/y) to $13.50

Economic weakness is also starting to be reflected in the jobs market, which had seemed impervious until now. In December, the economy generated just 100 jobs, with growth in part-time positions offsetting a contraction in full-time jobs. Then 37,300 jobs were created in January. Then, 40,700 in February, for a total three-month gain of 78,100 — 26% fewer than the previous three-month period.

Canada's open immigration policy has helped to cool the labour market, with population growth massively outstripping gains in employment. However, a retiring generation of baby boomers has provided a counterweight, keeping the unemployment rate flat at 5.8% from November to February. Wage growth, while still high, is also beginning to move in the right direction. In February, it fell to 5.0% — no change from November, but a significant decline from the 5.7% posted in December.

As the labour market loosens, spending has cooled and consumers have begun to tighten their belts. The good news for beleaguered households is that wealth has managed to hold up, at least in absolute terms, thanks to a rising stock market and stabilizing home prices. In Q4, household net worth rose 1.8% (mirroring a 1.8% decline the previous quarter) on the back of strong financial markets. Still, disparities among households remain, evidenced by January's uptick in consumer insolvencies. Adjusted for inflation and population growth, real wealth per capita was 0.1% lower for the quarter and down 1.8% relative to 2022.

With economic growth and household finances treading water, the Bank of Canada's attention now turns to inflation, which in recent months has made big strides toward normalization — in both January and February, inflation has come in under expectations. As measured by the consumer price index (CPI), inflation now stands at 2.8%, from 3.1% in November. Reassuringly, core inflation (CPI-Median), which excludes energy and food prices, has also come down, from 3.4% in November to 3.1% in February.

A June rate cut has become a definite possibility, although TD Economics believes the Bank will likely wait until July. The problem, from TDE's perspective, is the cost of shelter. CPI inflation excluding shelter was only 1.6% in January, but the BoC's preferred core measures are still running in the range of 3% to 3.5%. If housing prices begin to rise again due to the recent immigration influx, core inflation is likely to stay uncomfortably high. That being said, recent moves by Ottawa to cap the number of temporary immigrants may give the Bank the confidence it needs to move sooner rather than later.

Preferred Shares

Canadian preferred shares delivered another solid quarter, increasing 9.6% in Q1 on a total-return basis. Thus far, the S&P/TSX Preferred Share Index has erased approximately half the losses it incurred since interest rates started to rise. There was an overall improvement in investor sentiment during the quarter as reflected by the contraction in Canadian corporate bond spreads, but there were also three other factors that drove the recovery in preferred shares: (1) the proposed exception to a measure introduced in the 2023 federal budget that would deny financial institutions a deduction on dividends received; (2) the announcement of $2.2 billion in redemptions so far this year, with banks being the most notable and accounting for 62% of this amount; and most importantly, (3) yields becoming too attractive to ignore, especially given that the narrative has now shifted to "when" rather than "if" central banks will cut interest rates. It seems that investors have taken some profits of late, given that the five largest preferred share exchange-traded funds had outflows of $141 million during the quarter.

Canadian & U.S. Fixed Income

Government Bond Yield	Canada		United States	
	Current (%)	Q/Q Change (pp)	Current (%)	Q/Q Change (pp)
91-Day Treasury Bill	4.99	-0.04	5.36	0.03
2-Year Government	4.18	0.29	4.62	0.37
5-Year Government	3.53	0.35	4.21	0.37
10-Year Government	3.47	0.36	4.20	0.32
30-Year Government	3.35	0.32	4.34	0.31

Source: FactSet as of March 31, 2024. Index returns are reported on a total-return basis; pp (percentage point).

Global fixed income markets struggled in Q1, held back by a sharp uptick in developed-market government yields. Mixed signals by major central banks, a stickier path to inflation normalization and a resilient labour market combined to persuade the market to price in fewer rate cuts and thus higher government yields. As a result, both Canadian and U.S. bond markets underperformed over the first quarter. The Canadian fixed income universe, with higher rate sensitivity, underperformed the U.S. universe. The FTSE Canada Universe Bond Index posted a return of -1.2%, while the Bloomberg U.S. Aggregate Bond Index (CAD-hedged) posted -0.9%.

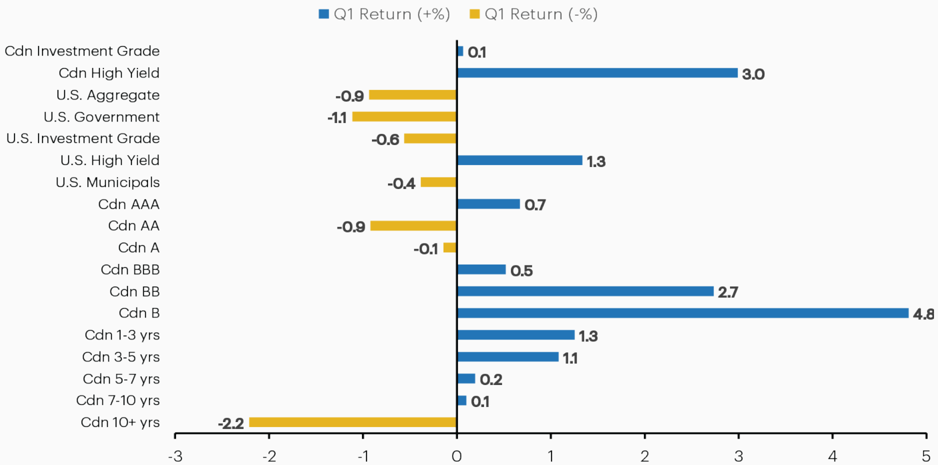
In the U.S., the Fed decided to keep the policy rate unchanged in Q1. The committee opted for patience as it continues to look for evidence that provides “greater confidence” that inflation is moving down sustainably toward the 2% target. The “dot plot” survey of committee members stuck with their median projection of three rate cuts for this year, but reduced the number of cuts for 2025 to three from 4 before. Chairman Powell emphasized in the last Fed meeting that “at this point we want to see strong growth and a strong labour market. We are not looking for a weaker labour market but for inflation to continue to come down as it has been the last six months.”

The Bank of Canada left the policy rate unchanged at 5.0% at its March meeting. The tone of the policy statement was mostly hawkish. The Bank downplayed recent inflation progress after headline CPI fell back inside the target range in January, while the opening comments to Governor Macklem’s press conference were more explicit, stating that it’s “still too early to consider lowering the policy interest rate.” While the Bank acknowledged stronger Q4 growth, it also made note that growth was well below potential, and domestic demand has continued to contract.

Fixed Income Indices	Q1 Return (%)
FTSE Canada Universe	-1.2
FTSE Canada Universe All Government	-1.7
FTSE Canada All Corporate	0.1
FTSE Canada Real Return	-1.8
FTSE Canada Provincial	-2.2

Source: FactSet as of March 31, 2024. Total index returns.

Canadian & U.S. Fixed Income



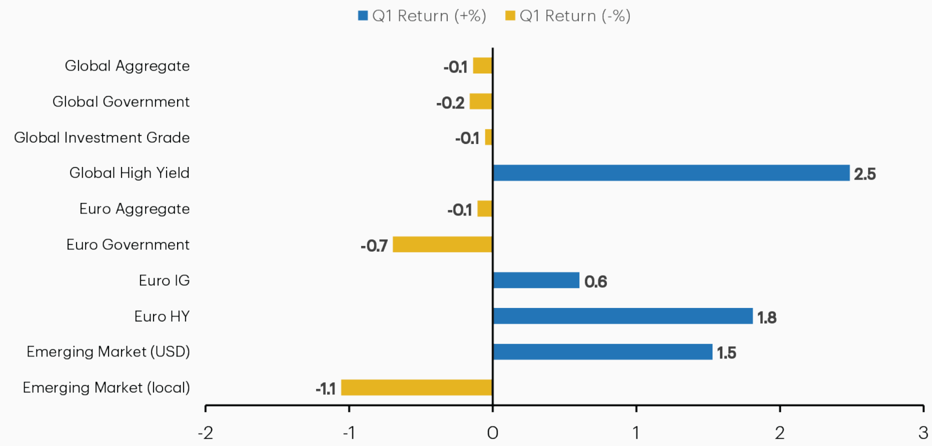
Source: FactSet as of March 31, 2024

The broad global fixed income universe, represented by the Bloomberg Global Aggregate Index (CAD-hedged), posted a -0.1% return over the first quarter. Canadian government bonds underperformed both U.S. Treasuries and the global universe, with the Canadian government bond index returning -1.7%, while the U.S. Treasury index (CAD-hedged) returned -1.1% and the global government bond index returned -0.2%. The U.S. 10-year Treasury yield started the quarter at 3.88% and ended at 4.20% (a 32-bp increase), while the equivalent Canadian government bond yield started at 3.10% and ended at 3.47% (a 37-bp increase).

Surprisingly resilient economic data, along with the expectation of loosening monetary policy in both the U.S. and Canada, was supportive of spreads. On the Canadian side, the investment-grade (IG) spread performed positively, tightening by 12 bps and ending at an option-adjusted spread of 120 bps, while U.S. IG spreads tightened by 9 bps to end at 90 bps. Strong positive performance from credit and tighter spreads helped offset the underperformance from Canadian government bonds. The corporate sector posted a return of 0.1%, outperforming the aggregate Canadian fixed income index return of -1.2%. Diving deeper, lower-quality credit outperformed the other cohorts, with BBB-rated credit posting a return of 0.5%, with A-rated credit posting -0.1% and with AA-rated credit at -0.9%.

Understandably, short-maturity corporate bonds with less rate sensitivity outperformed both medium- and long-maturity bonds. Over Q1, the shortest-maturity cohort of one- to three-year bonds posted a return of 1.3% and three- to five-year returned 1.1%. The medium-maturity cohorts of five- to seven-year and seven- to 10-year returned 0.2% and 0.1%. The longest-maturity 10-year and above cohort returned -2.2%. Higher real yields and much higher interest-rate sensitivity led to negative performance for Canadian real-return bonds, which posted -1.8% over the quarter. They modestly underperformed the government bond universe, at -1.7%. Canadian provincial bonds, with longer maturity profiles, also detracted and underperformed corporate bonds over the first quarter, posting a return of -2.2%.

Global Fixed Income



Source: FactSet as of March 31, 2024

For global corporate bonds, tighter spreads across geographies helped offset most of the underperformance from higher government yields and led to flat to modestly negative performance. U.S. IG corporate spreads tightened by 9 bps over the quarter, while U.S. high-yield (HY) corporate spreads tightened by 24 bps. The U.S. IG corporate bond universe (CAD hedged) returned -0.6%, underperforming the global IG corporate universe (CAD-hedged), which returned -0.1%. U.S. HY corporate bonds (CAD-hedged) performed positively, posting a 1.3% return, marginally underperforming the global HY corporate universe (CAD-hedged) at 2.5%. USD-denominated emerging-market debt performed well, posting a return of 1.5% over the quarter, while local-currency debt returned -1.1%.

International Equities

Indices	Q1 Return (%)	Q1 Return (%, C$)
FTSE 100	3.99	5.43
DAX	10.39	10.41
CAC 40	9.04	9.06
MSCI European Monetary Union (local currency)	9.94	10.63
Nikkei 225 Stock Average	21.54	15.99
MSCI Emerging Markets (local currency)	4.57	5.04

Source: FactSet as of March 31, 2024. Total index values and returns. Index returns calculated in local currency and C$.

International developed markets underperformed their American peers in Q1, but only slightly thanks to skyrocketing Japanese equities. The UK's blue-chip FTSE 100 was again the faraway straggler, ending the quarter up a relatively meagre 4.0%. The index suffered from many of the disadvantages afflicting the Canadian index, with outsized exposure to rate-sensitive financial and mining stocks, and little exposure to tech. As a result, the effect of delayed Fed rate cuts led to a delayed rally. Risk sentiment in the UK was also dampened by a shallow recession that began in Q4. However, the quarter ended on high hopes for rate cuts, both from the Federal Reserve as well as the Bank of England, after BoE Governor Andrew Bailey signalled a dovish tilt in late March, after months of steadfast hawkishness.

The BoE's signal came on the heels of a reassuring report from the country's CFOs, which forecast wage growth of 4.9% over the next 12 months — the first time since May 2022 that the figure had dropped below 5%. Another glimmer of hope could be found in the January GDP figure, which shows a tenuous return to economic growth. In Q4, GDP fell 1.2% (q/q/ annualized), marking the weakest performance in nearly three years. The economy recorded just 0.1% growth for the year, the second weakest among G7 peers. The UK consumer confidence index, at -21 in February, has begun to rise (-24 in November), although it remains weak. Business confidence, as measured by the composite PMI, has continued to rise, from 50.1 in November to 53.0 in February. Inflation, meanwhile, has fallen from 3.9% in November to 3.4% in February. Against this backdrop, the BoE opted to hold the policy rate at 5.25%, although as discussed, the Bank offered the markets some hope with a dovish tilt in March.

Markets in the euro zone once again outperformed those in the UK, with the MSCI European Monetary Union rising 9.9% (in euro terms), but otherwise the story in Europe was similar to that of many developed markets, with interest-rate jitters dampening sentiment in the first half of the quarter. Pledges by the Chinese central bank to boost stimulus gave luxury brands an early lift, but this proved short-lived. There was some good news, however, around mid-February. Telecom stocks rose on the possibility of M&A deregulation across the union. In addition, American dollars began to flow in from investors looking to diversify away from Big Tech. And the Bank of England signalled rate cuts in the near term.

The European Central Bank (ECB) has remained steadfast in its hawkishness, but investors are hoping it will fall in line with the Fed and BoE, as well as the Swiss National Bank, which became the first major central bank to issue a rate cut, on March 21. The euro zone economy, after shrinking 0.4% in the third quarter (q/q annualized), came to a virtual standstill in Q4. The economic sentiment index remained in negative territory but managed to rise to 95.5 in February from 93.8 in November. Business confidence, as measured by the euro zone composite PMI, has been rising steadily and is nearly out of contraction. It rose to 49.2 in February from 47.6 in November. Progress on inflation, meanwhile, has seemingly stalled, with price growth actually rising to 2.6% in February from 2.4% in November. Against this backdrop, the ECB made no changes in Q1, keeping the main refinancing rate at 4.5%. Investors, however, are betting on cuts this summer.

In Japan, meanwhile, markets witnessed two historic events. First, the Nikkei 225 Stock Average rose above its all-time high set 34 years ago, propelled by an astonishing 21.5% return over the quarter. The Nikkei's performance can be attributed to heavy exposure to the semiconductor industry, which is riding high on the promise of artificial intelligence. And while other developed markets suffered from the delayed Fed rate cut, the exportdependent Japanese market actually rose on the yen's depreciation. The Japanese currency finished the quarter down 7% vis-à-vis the U.S. dollar. The second historic event of the quarter occurred on March 19, when the Bank of Japan hiked rates for the first time in 14 years, doing away with the world's last remaining negative-rate policy as well as its policy of intervening in government bond markets to control yields (aka "yield curve control").

This exuberance stands in contrast to weak economic data. Japan narrowly avoided a recession in the fourth quarter, growing 0.4% (q/q annualized, -3.2% in Q3) on the back of stronger consumption, fixed investment and exports. The Bank of Japan's decision to raise its policy rate (from -0.1% to zero) may have been a sea change in global monetary policy, but if the weak yen offers any indication, investors aren't yet convinced. While the currency rose briefly on the hawkish tilt, BoJ Governor Kazuo Ueda reiterated that policy would remain broadly accommodative for the time being, driving the yen back down to 34-year lows by the end of Q1. In a little over three years, the currency has lost one-third of its value against the U.S. dollar. But with inflation relatively low, at 2.8%, and equities riding high, consumer sentiment has climbed steadily. In February it stood at 39.1 — its fifth consecutive monthly rise. Business confidence is also rising, with the composite PMI up to 52.3 in February from 49.6 in November.

Emerging markets underperformed in the first quarter, despite a slight rebound from Chinese equities. Among the four largest emerging-market economies, stocks in China and India posted low single-digit gains, while Mexican shares were flat and Brazilian shares fell. The MSCI Emerging Markets Index rose 4.6% in local-currency terms. In Brazil, the Bovespa Index fell 5.0% after a plunge in Petrobras, the partially state-owned energy producer. Concerns had arisen that the left-leaning government was pressuring the board to prioritize reinvestment over dividend payouts. In India, the Nifty 50 rose 3.3% on increased commodity prices as well as a strong performance from the Adani conglomerate, which has recovered strongly after shares were sent plummeting early last year by a short-seller's allegations of fraud.

In China, meanwhile, stocks rebounded on bargain-hunting amid the prolonged property-sector downturn, as well as some underwhelming attempts by Beijing to stimulate the economy. In February, for instance, President Xi is reported to have met with financial regulators, although the reforms announced at the National People's Congress in March proved unimpressive. The Shanghai Composite rose 2.2% in the first quarter. The economies of Brazil, Mexico, India and China grew 2.9%, 3.2%, 8.0% (fiscal year) and 5.2%, respectively, in 2023. TD Economics forecasts 2024 growth of 1.6%, 2.6%, 6.2% and 4.6% for these nations.

Wealth Investment Office, TD Wealth

Head of Wealth Investment Office
Brad Simpson | Chief Wealth Strategist

North American Equities:
Chris Blake | Senior Portfolio Manager
Chadi Richa | Manager, North American Equities
David Beasley | Senior Portfolio Manager, Global Equities
Andrej Krneta | Manager, Global Equities
Neelarjo Rakshit | Senior Equity Analyst

Managed Investments:
Christopher Lo | Head of Managed Investments
Fred Wang I Senior Portfolio Manager
Aurav Ghai | Senior Fixed Income Analyst
Mansi Desai | Senior Equity Analyst
Kevin Yulianto | Quant Equity Portfolio Manager, Global Equities
Shezhan Shariff | Senior Alternative Investments Analyst
Wendy Hu | Senior Fixed Income Analyst

Investment Consulting:
Brian Galley | Head of Investment Consulting
Shanu Kapoor| Senior Portfolio Consultant
Richard Nguyen | Senior Portfolio Consultant
Shaun Arnold | Senior Portfolio Consultant
Greg McQueen | Senior Portfolio Consultant
Duncan Morton | Senior Portfolio Consultant
Remek Debski | Senior Portfolio Consultant
Jesse Kaufman | Senior Portfolio Consultant
Ivy Leung | Senior Portfolio Consultant
Anita Linyu Li | Senior Portfolio Consultant
Shaiara Hossain | Senior Portfolio Consultant
Joseph Abinaked | Senior Portfolio Consultant
Dan Iosipchuk | Portfolio Consultant
Kerron Blandin | Senior Portfolio Consultant
Jack Zhang | Investment Management Analyst
Leroy Li | Investment Management Analyst
Daria Yip | Investment Management Analyst