



# Touchdown The Year Ahead: 2026

Market Insights | December 2025

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## Touchdown.

Financial markets, and particularly equity markets, are all about narratives — bulls and bears, so to speak. The pessimists insist that the party is over, while the optimists think it's just getting started. That's to be expected. But when massive technological disruption widens the band of uncertainty, those bull and bear narratives start to diverge significantly. That's what we'll all remember when we think back to 2025. This is a climate where Pollyannas casually suggest that AI-imbued robots are about to make all work optional, while doomsayers fret about the next market crash and consequent economic depression. Do we know how it will play out? Of course not, but one thing is clear: the year of narratives has ended, and a year of revelations has begun. If there is anything we can be certain about, it's that next year will likely be more certain.

That's because theory is now giving way to practice. The real cost of capital is once again shaping behaviour. Fiscal deficits are no longer abstract. Power grids, supply chains, labour markets, and political systems are being tested by the physical and financial limits of the world they must now support. Artificial intelligence cannot scale without electricity. Reshoring cannot occur without infrastructure and skilled labour. Affordability pressures cannot be resolved without fiscal trade-offs. In every direction, the investment landscape is being pulled out of the laboratory and into the real economy.

Either the economy proves to be resilient and earnings will benefit, or the economy will stagnate and investors will lose their patience with hyped-up promises. Either way, the coming year will tell the story. It's like we're all riding on a jet plane without a clear idea of where we're headed, but the aircraft has now begun its descent, and the proverbial rubber is about to hit the tarmac. *Touchdown.*

The opportunity set in 2026 is therefore not defined by the loudest narratives of the past, but by the quiet mechanics of execution: who can fund, who can build, who can scale, and who can pass on costs without losing demand. This year-ahead outlook is built around that central idea — that the next phase of the cycle will not be decided by what we can imagine, but by what we can actually deliver.

As always, the important thing is not to predict the correct outcome, but to hold a portfolio that can withstand any outcome — one diversified by risk factor and by traditional asset class, as well as incorporating a broad spectrum of alternatives. Take all of the forward-looking themes in this document with a big grain of salt. While we may be headed to a more certain time, a good place to start is with a healthy dose of humility and the acknowledgement that nobody can see the future.

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Be well,

A handwritten signature in black ink, appearing to read 'Brad Simpson', located below the 'Be well,' text.

Brad Simpson

Chief Wealth Strategist, TD Wealth



Where we were

Heading into 2025, few investors expected that the global economic order was about to be overturned, but that's precisely what happened.

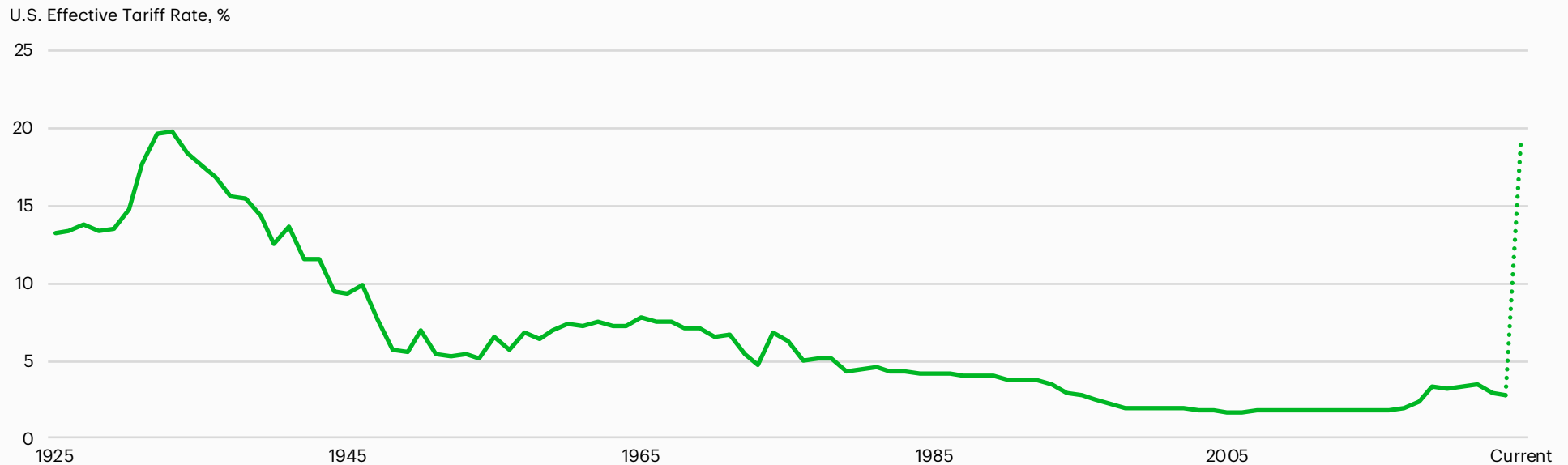
Think back to late last year. The S&P was on the verge of posting a breathtaking return of 26%, and equity investors were on top of the world. The market, moreover, was still processing what appeared to be a lucky break in the U.S. — with the pro-growth Trump administration returning to power. While investors were certainly nervous about the incoming president's threats around tariffs and trade wars, most were hopeful that Trump could lift markets the way he did in his first term, with fewer regulations and lower taxes keeping the rally alive.

And all that bluster around tariffs? The prevailing wisdom at the time suggested that these threats amounted to a negotiating posture. The U.S. president was merely trying to secure favourable terms with major trading partners. And it's true — President Trump's aggressive trade diplomacy has led to numerous concessions from the UK, the EU, Japan and South Korea, to name a few. But any doubts about his love affair with tariffs were erased on April 2, when the new president vowed — in what he dubbed "Liberation Day" — to impose reciprocal tariffs on almost every U.S. trading partner in the world.

The reckoning was swift. Within three days, the S&P 500 fell 12% — its biggest drop since the pandemic — and more than 20% from its peak in February. The market downturn was such that the U.S. president was forced to backpedal, providing a 90-day reprieve to allow for deal-making.

Since then, the new tariff regime has been applied inconsistently, with the U.S. president employing a carrot-and-stick approach — either dangling the prospect of lower tariffs, or wielding the threat of higher ones — to demand, and sometimes win, economic and political concessions. While there's still much negotiating to be done, there's no longer any question about the end game. By the end of 2025, the average effective tariff on imported goods into the U.S. was about 19%, compared to approximately 3% a year earlier (Figure 1). This represents the steepest imposition of trade barriers since before the Second World War.

**Figure 1: U.S. tariff rate the highest since 1933**



Source: U.S. Census Bureau, TD Economics

The good news, at least in the short term, is that the markets seem way too focused on everything AI to worry about the faraway implications of protectionism and deglobalization. There are doubters, of course. Even late last year, investors were starting to worry that the mega-cap tech names bankrolling the buildout of AI would eventually run out of steam, but those fears seem to have been misplaced. Capex on AI infrastructure continues to rise as the "hyper-scalers" race toward superintelligence.

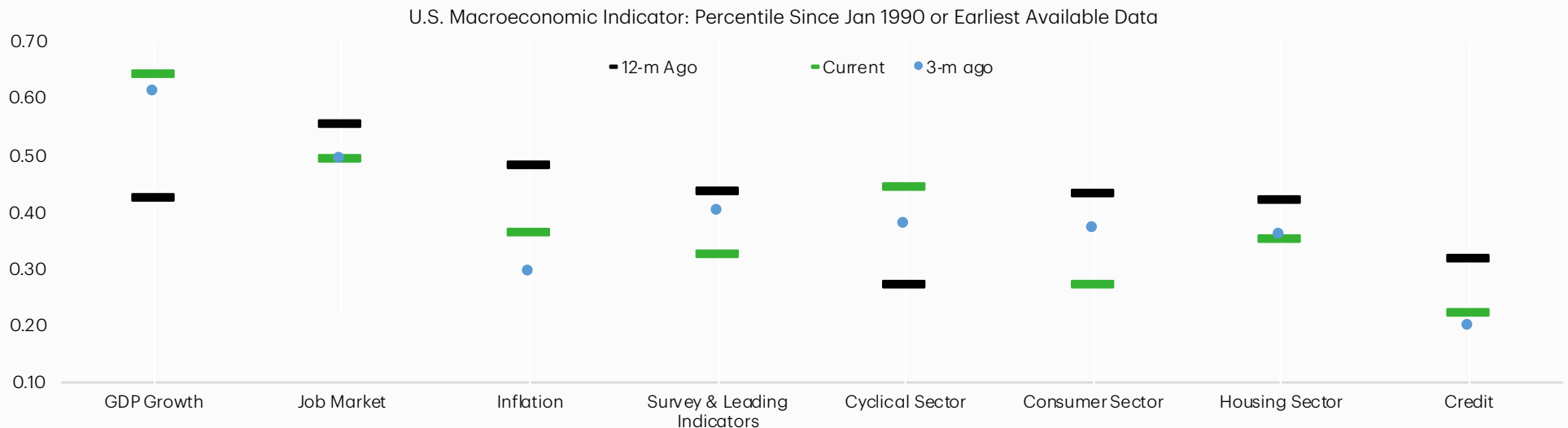
If anything, 2025 was the year in which the AI boom broadened beyond U.S.-based models and chip designers (OpenAI, Nvidia) and the big software names (Microsoft, Meta, Alphabet) to include new players, new industries and new economic regions. Over the course of the year, we've seen investment capital flow downstream to suppliers and other beneficiaries around the world. That means chip fabricators, hardware manufacturers, new AI platforms and niche software applications in health care and pharma — even industrial real estate and electrical utilities stand to benefit. In the new AI gold rush, picks and shovels are suddenly in vogue.

The big fear moving into 2026 is whether all this enthusiasm has gotten ahead of itself. The "AI Bubble" has become a bogeyman lurking in the shadows, with investors drawing parallels to the dotcom crash of 2000. There are reasonable arguments on both sides of the debate, with bears suggesting that adoption is much farther away than the optimists would have you believe. Bulls, meanwhile, point to the revolutionary nature of AI and a data-centre buildout that is being funded by a cash hoard held by stable corporations — unlike the kind of debt deals that were being issued by startups during the dotcom bubble.

Nobody knows how it's all going to play out, but one thing is for certain: The coming year is going to be when the rubber hits the road, so to the speak. The year of narratives is over and a new year of revelations is about to commence, wherein the patience of investors will be tested, and either rewarded or not.

As always, the key will be strong diversification, a touch humility, and the knowledge that not all our predictions will play out as expected. Some of the trends we highlighted last December, for instance, stayed in place throughout the year, while others were overtaken by events we had not, or could not, have anticipated.

## Figure 2: Change in Risk Regime Scores



Source: Macrobond, Wealth Investment Office as of September 30, 2025. Note: For each indicator we calculate current values and compare them to historical data, standardizing each datapoint into a percentile score that makes it easier to read. The percentile score is based on data since January 1990 or the earliest available.

Herewith, a breakdown:

## □ What we got right

### **U.S. inflationary pressures will resurface.**

We'll take part marks on this one. In December 2024, headline year-over-year inflation in the U.S. was 2.9%, and we felt that price growth could rear its ugly head again if tariffs started to bite later in the year. As it turned out, inflation fell rapidly in Q1, hitting a low of 2.3% in April, but then did indeed to creep back up to 2.7% in November. It's a troubling trend that has slowed the pace of rate-cutting by the Fed and has even led the White House to backtrack on tariffs for consumer staples, like Brazilian coffee and meat.

### **Conflict will give gold and other commodities a boost.**

We were unfortunately correct about this one. Wars continue to rage in Ukraine, Sudan and the Middle East (despite a tentative ceasefire between Israel and Hamas). This, coupled with fiscal imprudence and protectionism in the U.S., has raised the profile of gold as a safe-haven alternative to the U.S. dollar. The yellow metal rose 65% in the year through November. The Bloomberg Commodities Index, meanwhile, is up 14.5%, and we're sticking to our guns here. The investment cycle in commodities has just begun.

### **There may be opportunities in Chinese tech.**

"May be" may have been an understatement. Although we didn't anticipate the strong performance of Chinese equities overall in 2025, we did feel that, given some large pools of government-backed VC in China, tech stocks were well supported. While we felt there was some hope for Chinese tech, we didn't foresee the meteoric rise of the sector this year. The MSCI Chinese tech index as well as the Hang Seng tech index are all up between 25% and 35% for the year through November.

## □ What we got wrong

### **U.S. equities will outperform, particularly small- to mid-caps.**

I guess it depends on what you mean by "outperform." American equities have outperformed their historical averages this year, but they haven't done nearly as well as Canadian, international or emerging-market stocks. By the end of November, the S&P 500 was up 16% and the small-cap Russell 2000 was up 12%. Compare that to the S&P/TSX (up 27%), the MSCI EAFE (up 27%) and the MSCI EM index (up 30%), and I think it's fair to say we got this one wrong. The reasons are complex, but the unanticipated scope of U.S. protectionism may have led global investors to give deeply discounted international stocks a closer look.

### **Fiscal imprudence will dampen demand for sovereign debt, lift yields.**

We felt at the end of last year that a rising share of non-discretionary spending across the developed world would eventually force governments to enact greater discipline and lead to political turmoil, which would lift government yields. This simply was not the case. Despite rising inflation in the latter half of the year, U.S. 10-year Treasury yields are down significantly through November, from around 4.5% to 4.0%.

### **Credit spreads will widen as uncertainties arise.**

Same thing for credit spreads. We felt that uncertainty regarding future fiscal policies, the impact of tariffs and inflationary pressures could lead spreads to widen. Given the historically tight credit spreads at the time, we felt this was a pretty safe call, but as it happens spreads have gotten even tighter. The spread on investment-grade credit in the U.S. is now sitting at around 85 bps, a 25-year low. This serves to underscore the strength of IG balance sheets right now in the U.S.



**Where we're headed**

Is everyone ready for iron-clad, foolproof predictions? Well, get ready to be disappointed. Truth be told, we're always reluctant about publishing these sorts of forward-looking documents because we don't want to suggest we have enough conviction to heavily allocate towards any of these themes. We just can't stress it enough: take forecasts with a grain of salt, and if you're going to trade tactically, do it on the margins.

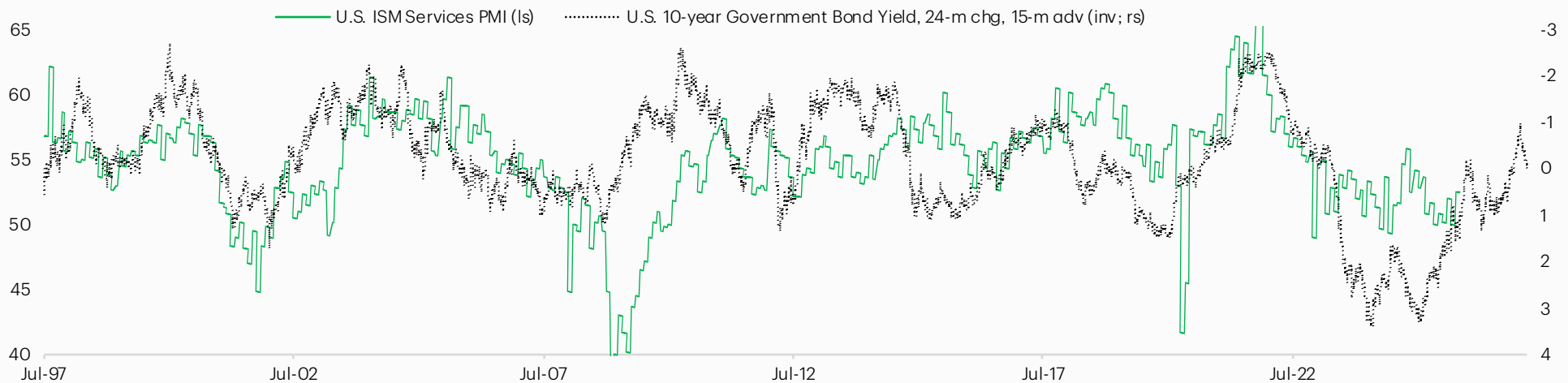
As we write this (in early December 2025), the TSX is on the verge of a great performance, with a return of around 27% so far. The S&P, meanwhile, has been pushing and pulling as the most speculative trades unwind. Perhaps the clearest indication of this can be seen in the dramatic fall of bitcoin late in the year. From a peak of around US\$125,000, the cryptocurrency has fallen nearly 30%, with a YTD decline of around 3%.

Given that the so-called "broad index" isn't as broad as it used to be — with 10 companies now comprising 40% of its market cap — it's perhaps no surprise that the S&P has been impacted by this speculative unwinding. But what we're seeing is not a correction in the traditional sense. This isn't the kind of correction that comes from tightening liquidity, a deterioration in corporate earnings or a breakdown in macro fundamentals. It's the slow deflation of the most crowded, most fragile retail trades built up over the past year — trades that relied on momentum, leverage and a belief that, in this new era, the returns on speculative assets could be the equivalent of a consistent paycheck. The unwind has been sharp, but it's happening in the same corners where the excess was concentrated.

There are broader concerns moving forward, of course. Investors are, for example, increasingly questioning whether the returns on AI investments will be justified, with a rising focus on the circularity of AI financing and the rising debt profile of select players. At the same time, the U.S. labour market is softening and the consumer spending is weakening, which has led to a divergence of views among regional Fed governors. While the rate-cutting program seemed to be in full effect in September, some policymakers now prefer a wait-and-see approach.

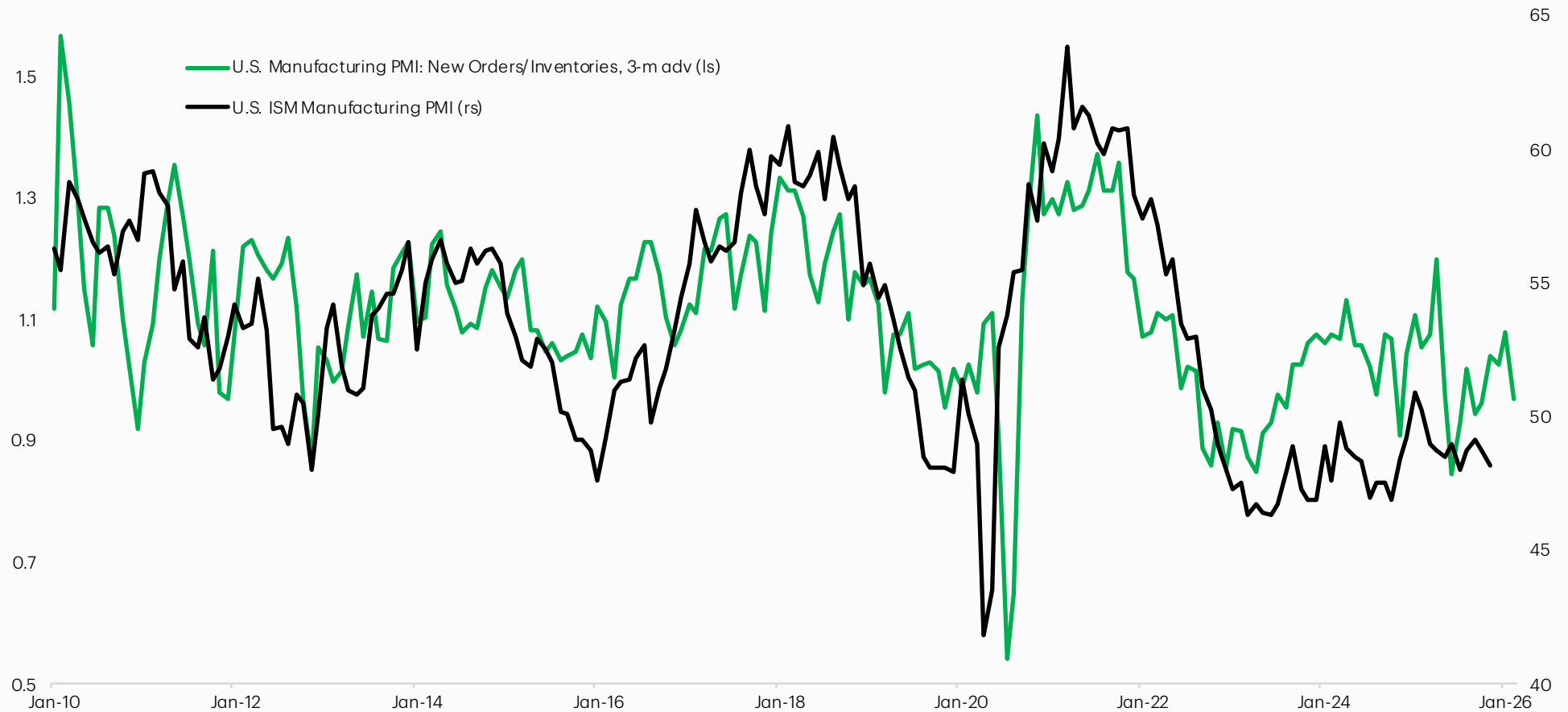
Amid the wall of worries, however, we also see tailwinds next year that support a potential upswing in the U.S. business cycle (Figure 1). Fiscal policy will shift to net easing amid corporate and income tax cuts from the OBBBA, and a decline in policy uncertainty should bolster foreign direct investment into the U.S. In addition, more companies are mentioning the potential use of AI to boost worker productivity, and we expect AI adoption across households, enterprises and government to enter the base of the J-curve in 2026.

Figure 1a: Indicators point to accelerated business activity



Source: Macrobond and Wealth Investment Office as of December 2, 2025

Figure 1b: Indicators point to accelerated business activity



Source: Macrobond and Wealth Investment Office as of December 2, 2025

So here we are. The current correction in high-risk assets is not an early recession signal, a break in market liquidity conditions, a credit crisis, a reversal in the AI capex cycle or a deterioration in corporate earnings. Instead, it is a behaviour-driven, positioning-heavy and options-amplified reset in the most crowded AI momentum and retail trades, with leverage.

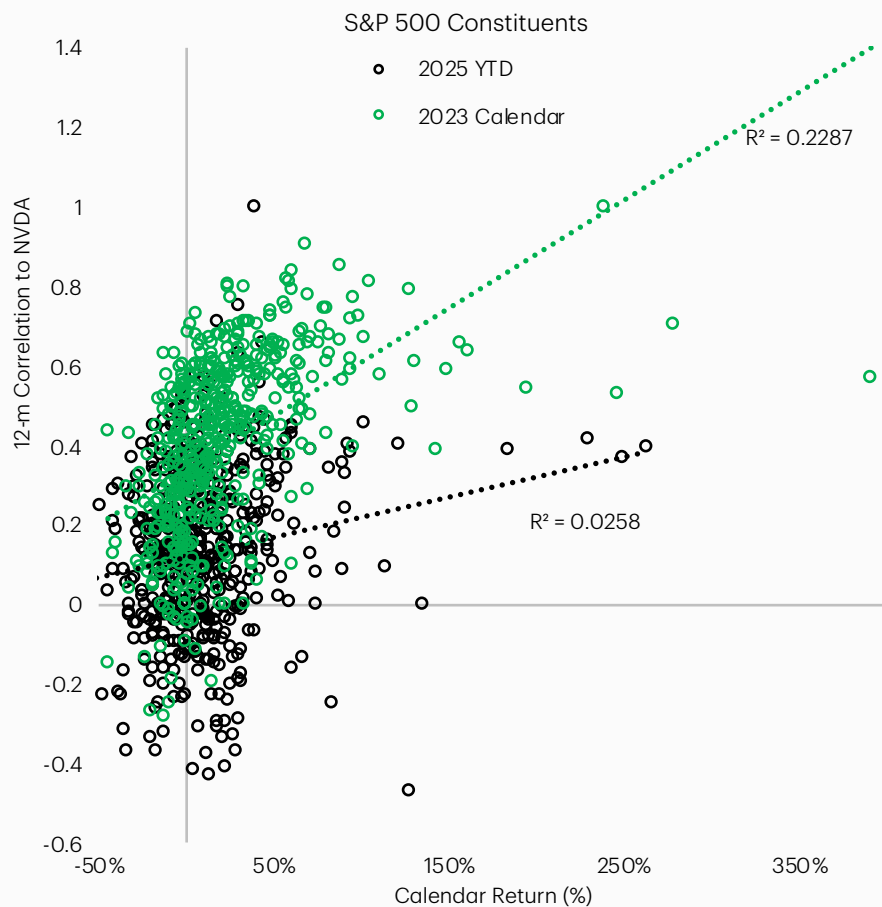
Given the uncharted territory ahead, investors should aim to increase the stability of their portfolios and reduce volatility through greater diversification into alternatives. Investing for the long term requires discipline. Rather than chasing the latest trends, we advocate for a diversified portfolio that can navigate cycles and is not reliant on timing the market. Risk management and portfolio construction are essential parts of investing that are often overlooked as fear of missing out (FOMO) and panic ebb and flow in the market.

Now, on to those iron-clad, foolproof, guaranteed prognostications:

## Theme 1: A more durable market, the bull continues

A bull market endures as long as valuations are reasonable, liquidity is ample and investor psychology is positive — and it ends when the opposite is true. As such, the bull market is unlikely to come to an end next year. Two years ago, in 2023, we saw a market that was narrative-driven and AI-concentrated, with narrow leadership. This year has been more fundamentally driven, with fewer stocks trading like AI proxies. This broadening is exactly what extends cycles and sets the stage for even more diversified leadership in 2026. As such, we continue to recommend a modestly overweight position in equities.

Correlation with Big Tech is weakening



Source: FactSet, Macrobond and Wealth Investment Office as of December 2, 2025

Three years into a five-year bull?



Source: FactSet and Wealth Investment Office, as of December 2025

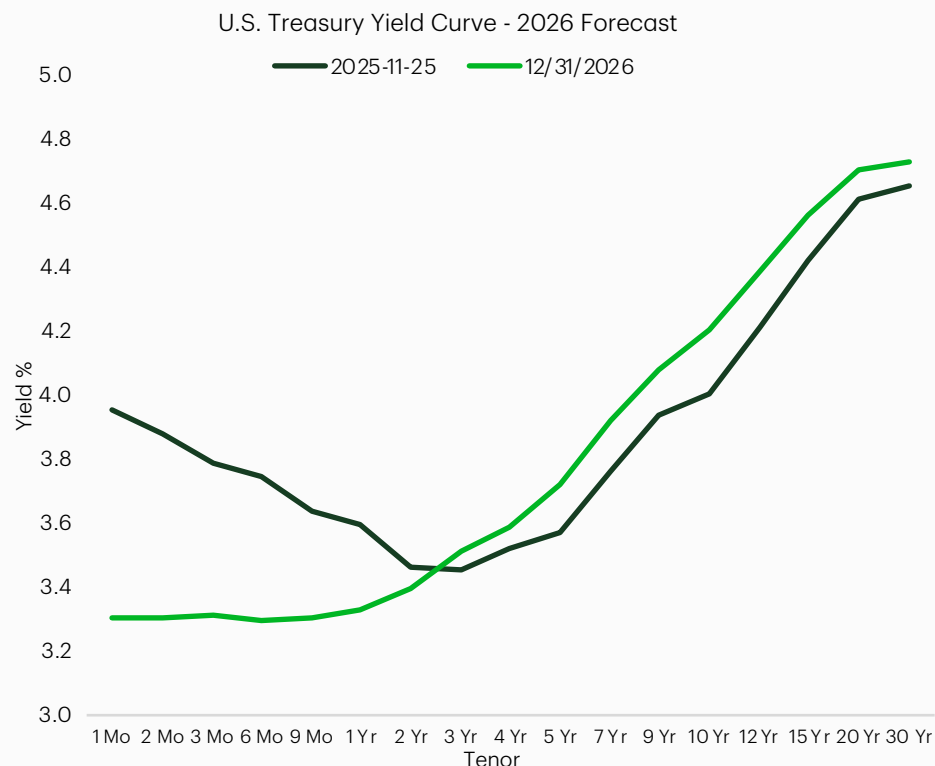
## Theme 2: Repricing time, risk and independence

For years, the cost of capital was kept artificially low and Fed independence was incredibly high. Now, markets are entering a multi-year phase where the cost of time, risk and Federal Reserve Board independence will likely be repriced. That being said, new appointments at the Fed may soften the blow. Next year, the central bank will need a new governor (after the resignation of Adriana Kugler), a new chair (when Jerome Powell's term ends in May) and a new vice-chair for supervision (vacant at the end of July). Likely replacements lean toward dovish, Trump-aligned candidates in Stephen Miran, Christopher Waller and Kevin Hasset. If the AI and technology advancements materialize, the labour market will continue to face headwinds, especially in areas where the skill set can easily be replaced by generative AI. This will reprice the downside risk to employment and economic growth, putting the new Federal Reserve's leadership to test. As rates begin their descent, duration, valuation discipline, and true capital allocation skill will quietly return to prominence.

### U.S. Federal Reserve – Key Turnover and Membership

Scenario	Implications
Stephen Miran re-ups as a Trump-aligned Governor	Highly Dovish
Christopher Waller becomes Chair	Moderately Dovish
Kevin Hasset becomes Chair	Dovish
Kevin Warsh becomes Chair	Hawkish
Scott Bessent becomes Chair (low likelihood)	Dovish
Jerome Powell stays on Board (post-Chair term)	Mixed to Moderately Hawkish
New Vice Chair for Supervision (post-Barr)	TBD but not highly impactful

### Treasury curve expected to steepen



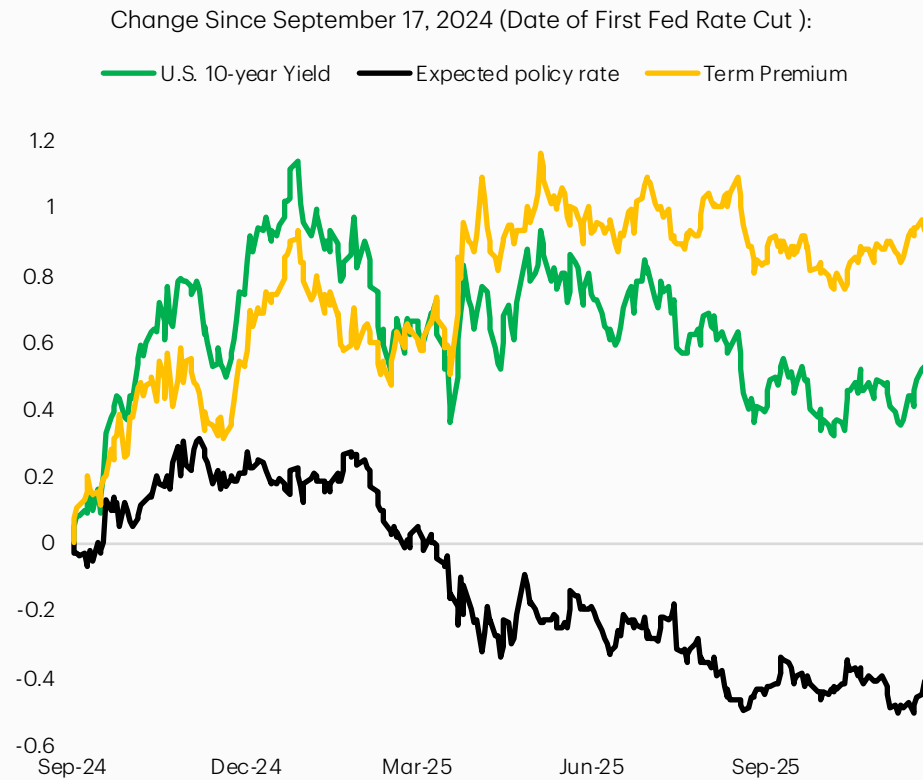
Source: Wealth Investment Office, as of December 2, 2025

Source: FactSet and Wealth Investment Office, as of December 2, 2025

### Theme 3: Deficits, defence and duration

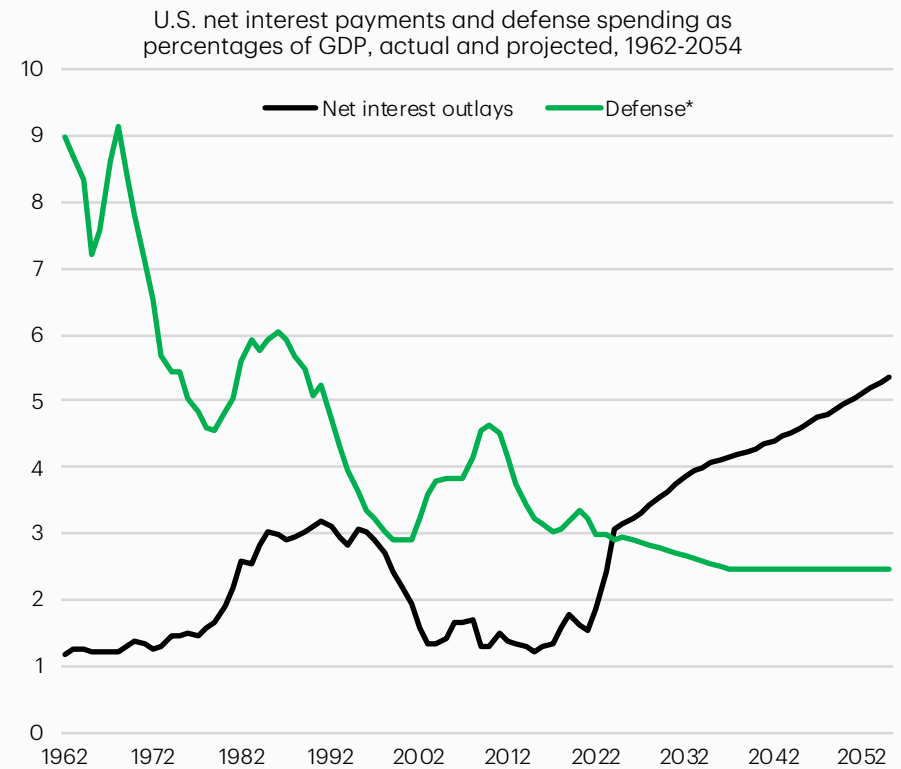
Rising defence spending and structurally larger fiscal deficits are colliding with higher interest costs, raising the spectre of something called “Ferguson’s Law,” which states that any Great Power that spends more on debt servicing than on defence risks losing that status. This scenario — set against a backdrop of solid economic growth, productivity gains and a softening labour market — is also likely to put downward pressure on front-end yields and upward pressure on long-dated Treasury yields. This is a world in which fiscal policy becomes the primary engine of growth. As such, investors would be well advised to overweight their positions in infrastructure, while remaining modestly underweight in fixed income, with underweight positions at the long end of the curve and a meaningful allocation to private credit and real assets, where higher fiscal spending, higher term premiums, and higher structural yields create long-lived return opportunities.

Fiscal concerns = higher term premium



Source: FactSet, Macrobond, and Wealth Investment Office as of December 11, 2025

Crossing the Ferguson Law

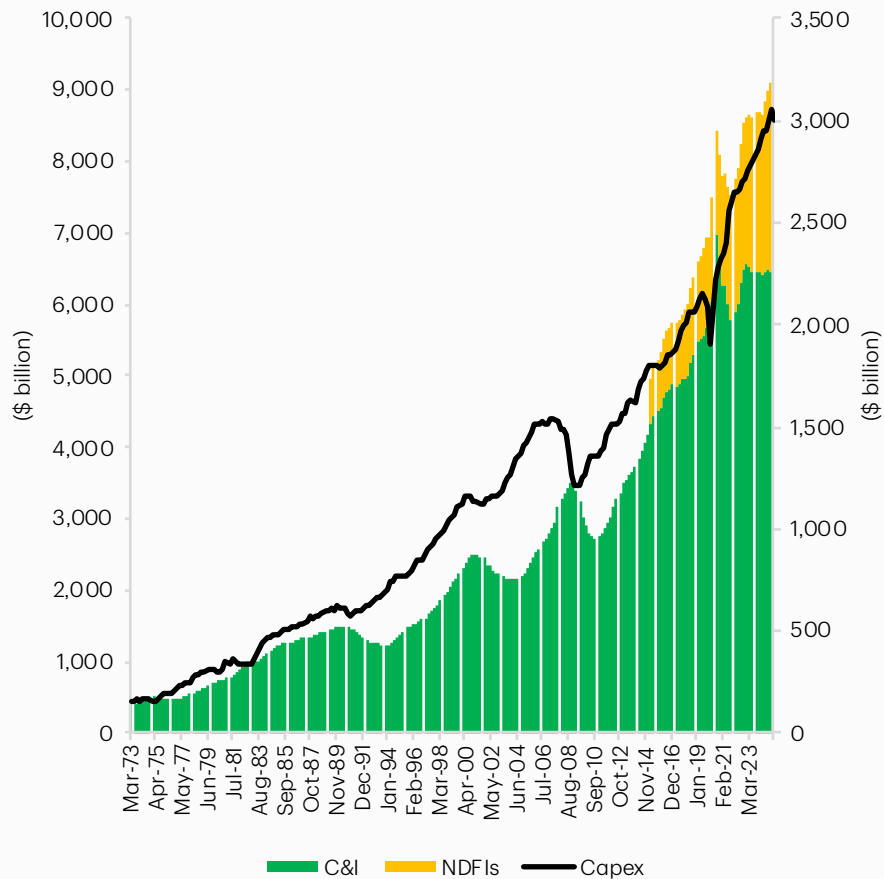


Source: Data Supplement, in Congressional Budget Office: The Budget and Economic Outlook: 2025 to 2035 (Washington, DC: Government Publishing Office, Jan. 2025).  
 \*Defense spending after 2023 extrapolated on the assumption that it remains consistently 48% of total discretionary (the average of 2014-23).

## Theme 4: The adrenaline trade

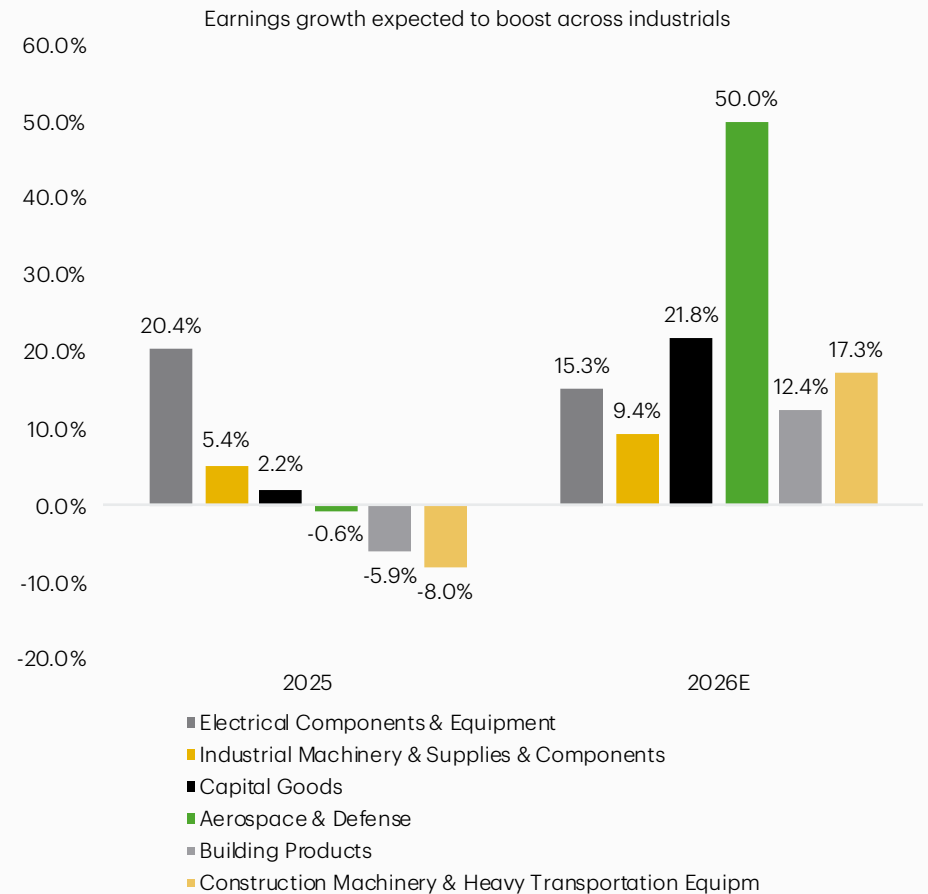
A renewed capex cycle, acceleration of commercial and industrial (C&I) lending and looser bank capital constraints — these amount to an economic adrenaline shot, with growth, credit creation and late-cycle momentum all picking up speed. This should boost profitability over the next two years by broadening growth and market returns beyond the Mag 7. Beneficiaries may include manufacturers of electrical equipment, aerospace and defence equipment, building products, construction machinery and heavy transportation, as well as companies engaged in energy infrastructure and materials linked to electrification (copper, nickel and lithium).

Capex Outlook = Corporate Loan Demand



Source: U.S. Federal Reserve and Wealth Investment Office as of December 2, 2025

Industrials to benefit from renewed capex cycle

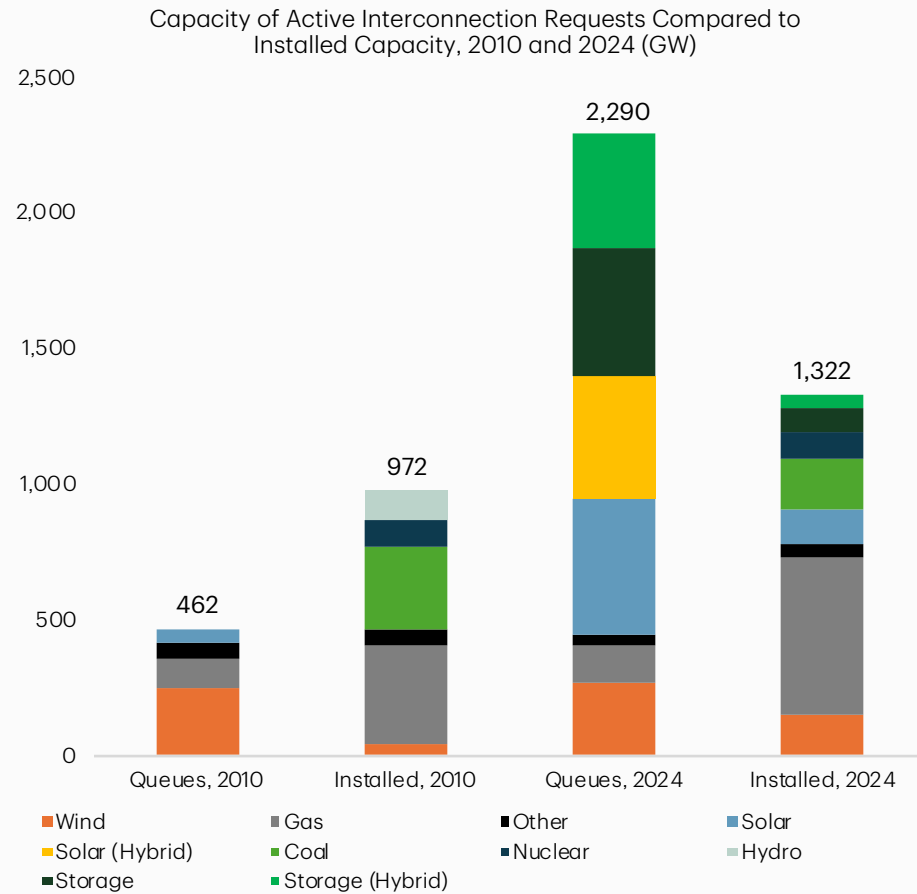


Source: FactSet, Company Reports and Wealth Investment Office, as of December 2025

## Theme 5: Electrons before algorithms

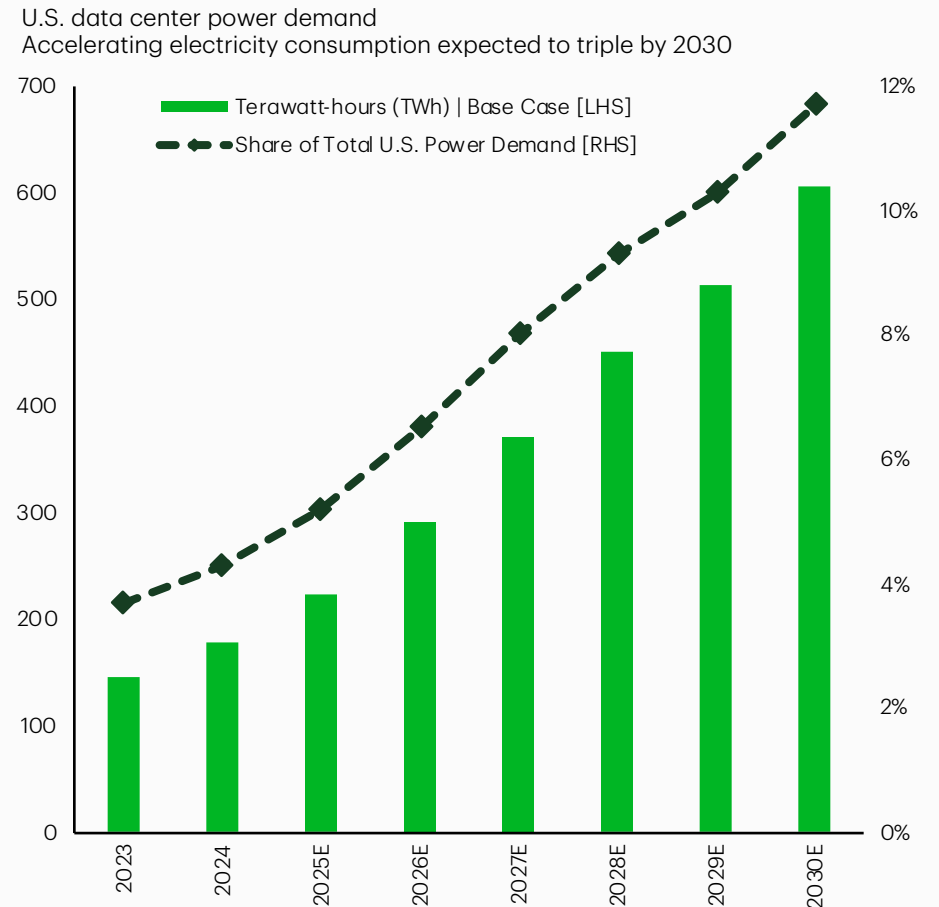
An AI platform requires more than just servers and models to run, it requires megawatts. Explosive data-center power demand is set to collide with a slow-moving, regulated buildout of power generation, making the need for energy and utility infrastructure a key bottleneck for the kind of AI expansion envisaged over the next three to seven years. When it comes to investing in cloud computing and AI, we continue to advocate the “picks and shovels” approach.

### Power availability remains an AI bottleneck



Source: Lawrence Berkeley National Laboratory, data as of November 30, 2025

### Private infrastructure may offer a solution

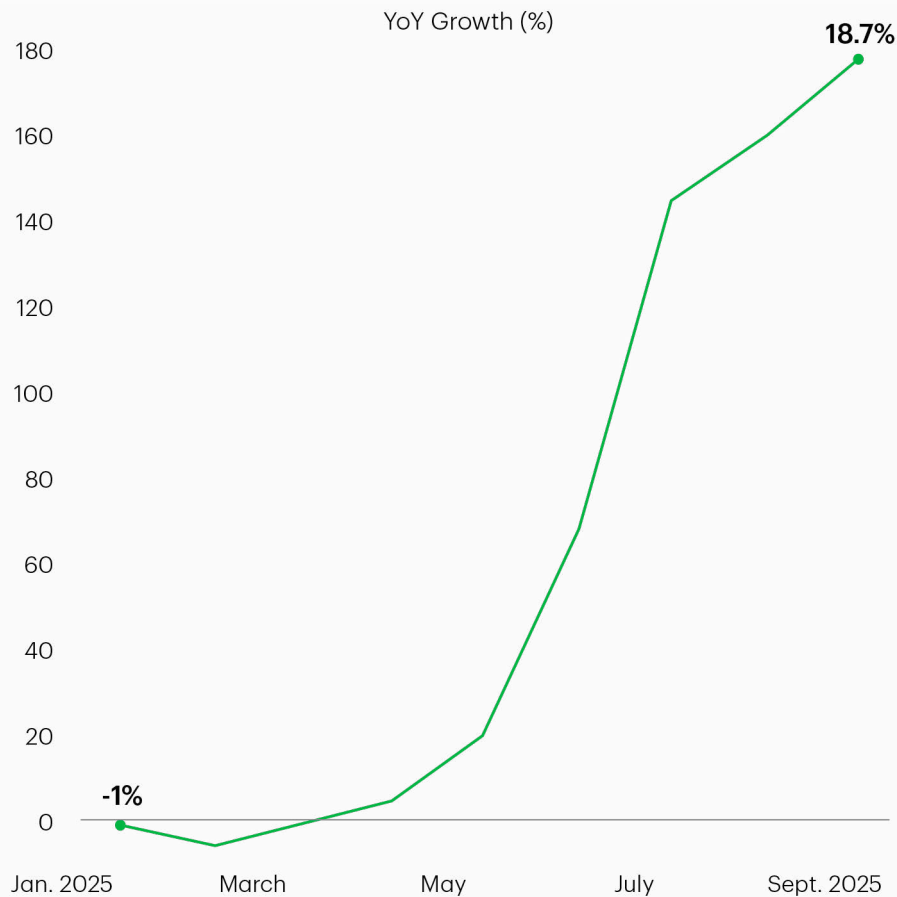


Source: Wealth Investment Office, McKinsey & Company as of December 31, 2024

## Theme 6: Old school DRAM meets new school AI

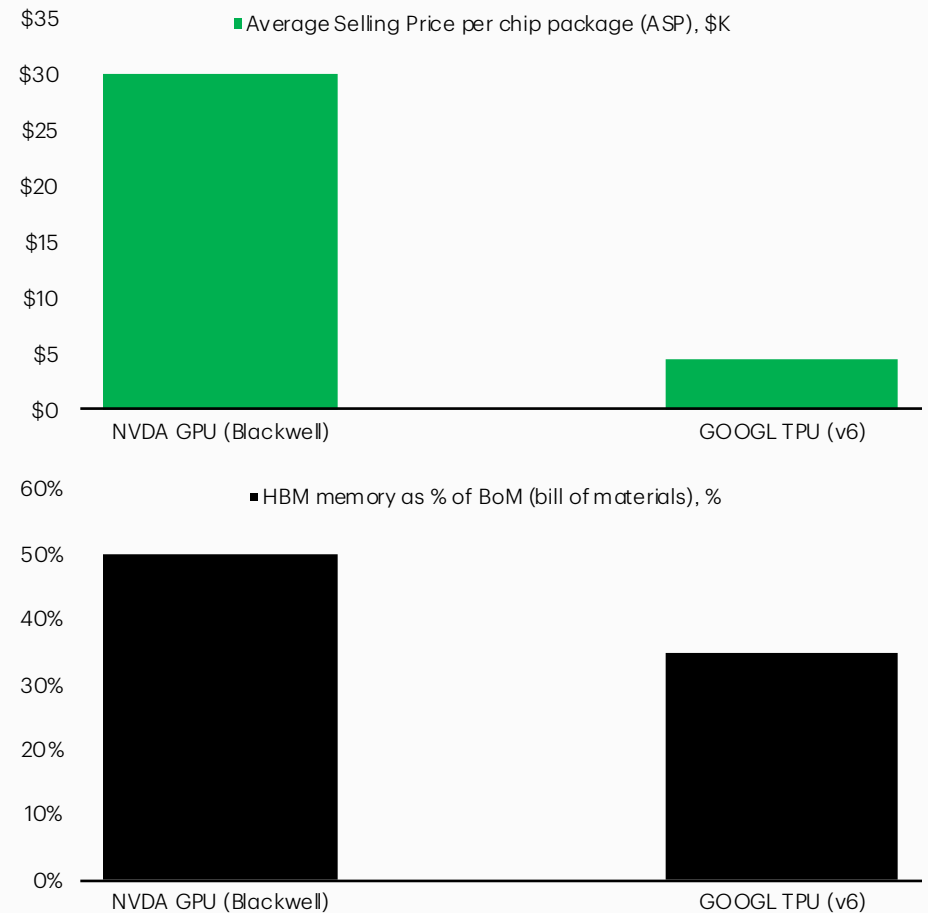
The tech sector in 2026 will likely face a cost-pressure cycle as surging prices for memory chips and critical components ripple across consumer devices, enterprise systems, cloud infrastructure and AI hardware. Returns will separate between companies with the pricing power to pass on these costs and those that are forced to absorb margin compression — investors must be in the former, not the latter.

Memory price spike threatens margins



Source: TechInsights, Wealth Investment Office as of November 28, 2025

Where do the (AI) chips fall?

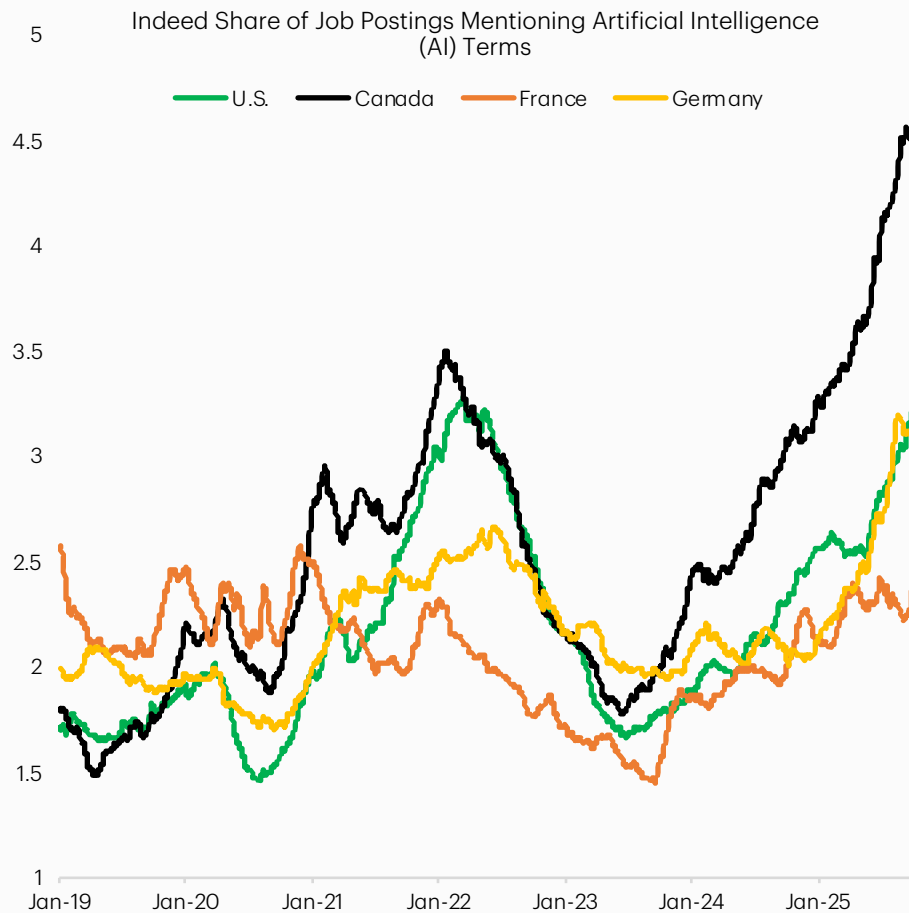


Source: Company data, Wealth Investment Office as of November 28, 2025

## Theme 7: AI – Waiting room of the J-curve

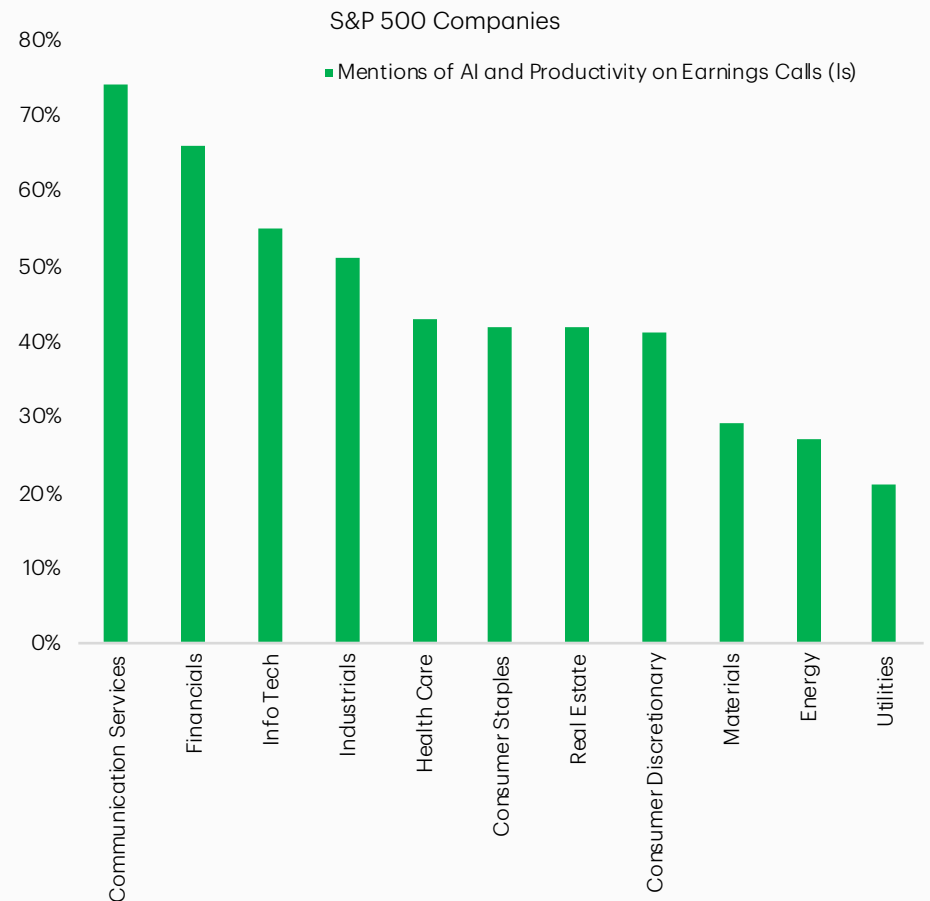
AI penetration is moving from experimentation to early adoption, placing many industries at the base of the so-called “J-curve,” where productivity gains precede visible earnings impact. While still early, technology, financial services, consumer services, advertising and healthcare/pharma should be the greatest beneficiaries — leading to increased productivity and higher profits. Equity positioning should reflect this potential outcome.

Labour market reflects AI adoption



Source: Macrobond and Wealth Investment Office, as of December 2025

Management chatter about AI increasing

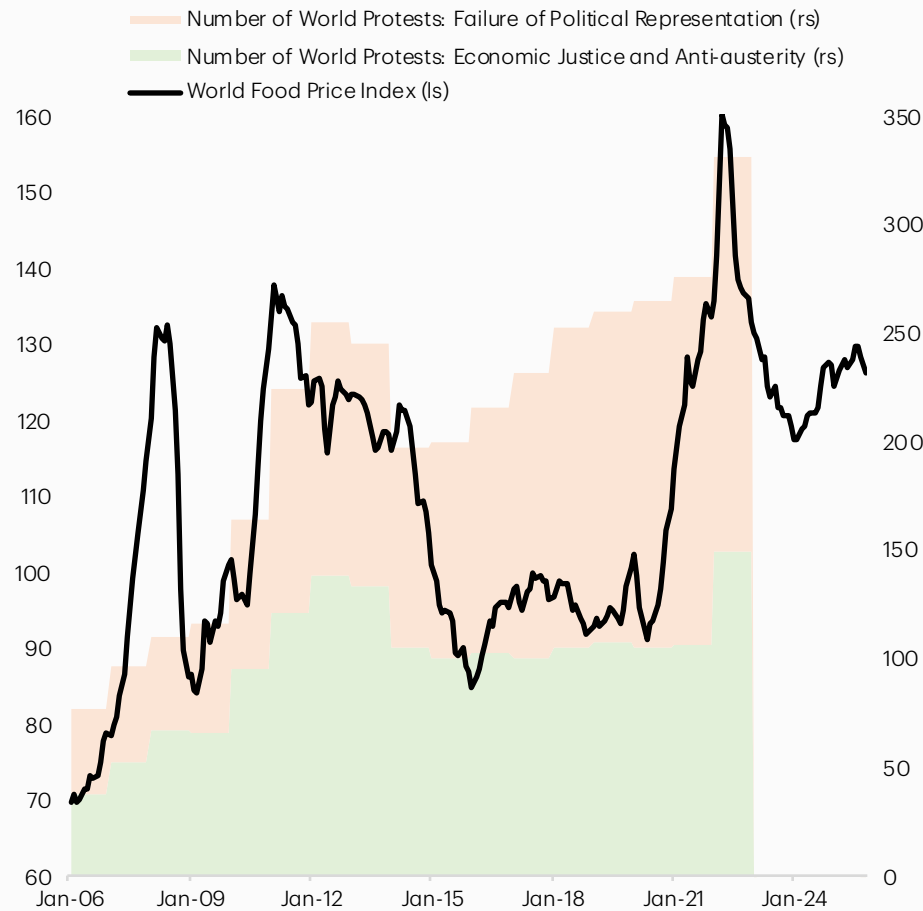


Source: FactSet, Macrobond and Wealth Investment Office as of December 2025

## Theme 8: Policy uncertainty trumps narrative noise – Geopolitical Risk Peaks

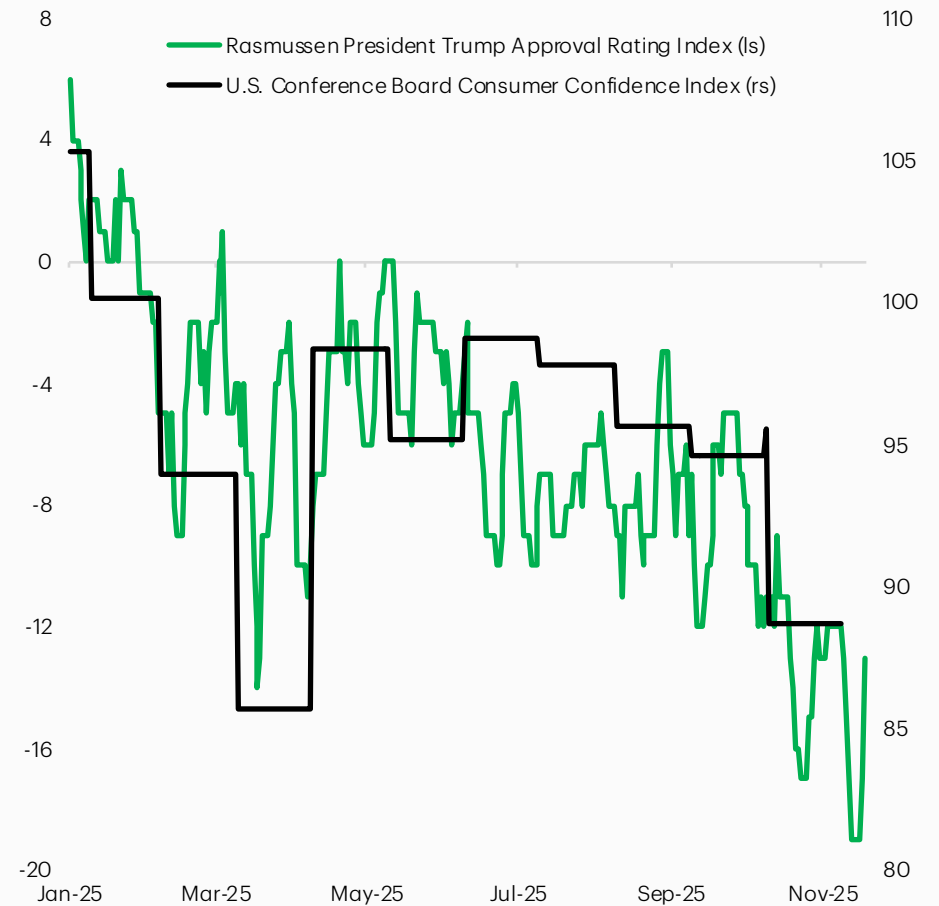
Geopolitical uncertainty appears to have peaked around April 2025. Next year, domestic policy is poised to dominate. Across the globe, governments are looking inward to growth, affordability, productivity, reindustrialization, social pressure and demographic challenges. Further, the U.S. administration's most disruptive trade, regulatory and geopolitical actions were largely front-loaded into the first half of 2025. It's not a peaceful world, but it's a more predictable one. Position for visibility: real-economy cyclicals, quality cash-flow compounders, AI infrastructure, selective international-market winners, and the income engines of private credit and real assets.

### Voters focusing on their own economy



Source: Macrond and Wealth Investment Office as of December 2025

### Appetite for disruption wanes

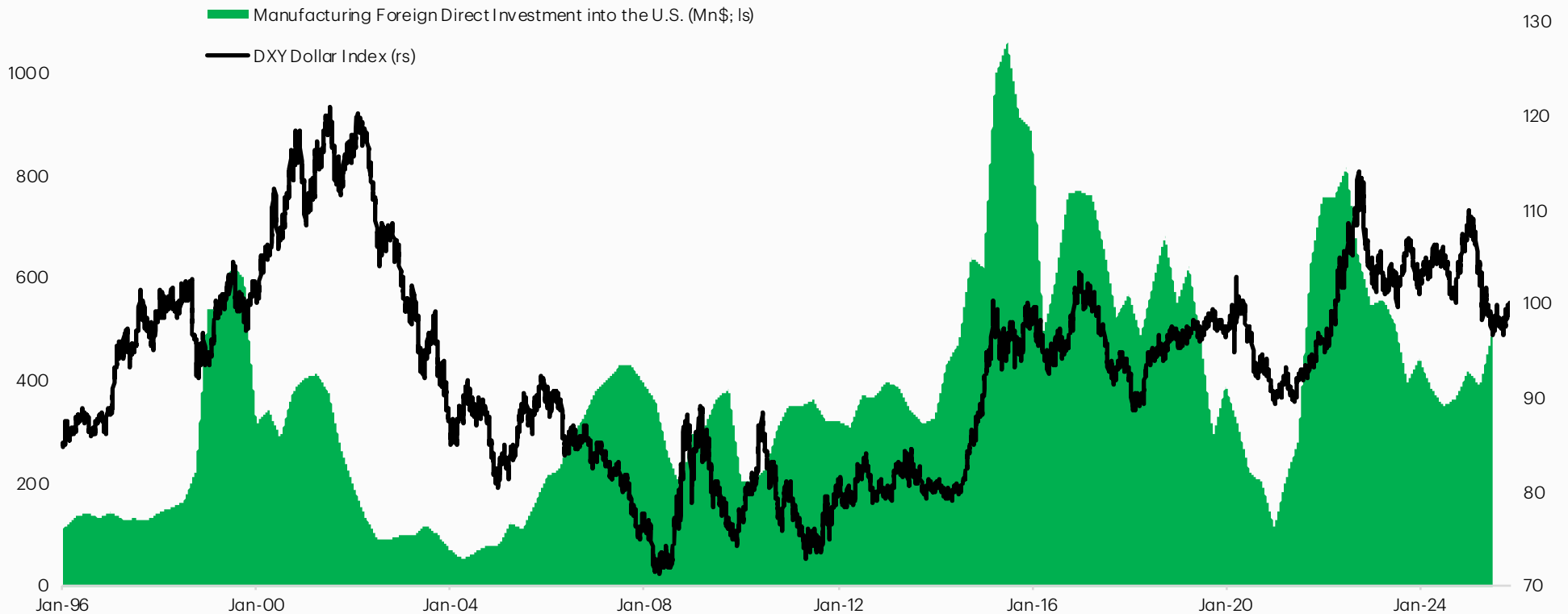


Source: Macrond and Wealth Investment Office as of December 2025

## Theme 9: Fortress North America – Trade, Tariffs & the U.S. Dollar

The forthcoming USMCA review has accelerated the onshoring of North American manufacturing, with businesses expecting the U.S. to increasingly leverage Mexico's labour and the resource base across North America. If announced investment commitments are executed, foreign direct investment should remain strong in 2026. In addition, as the pace of new tariff adjustments wanes, a more stable backdrop should benefit investors and improve visibility for long-term capital deployment, supporting increased foreign direct investment into the U.S., as global capital seeks durability over disruption. This should generate a tailwind for the USD. In Canada, however, disruptive tariffs may result in heightened volatility for equities, FX and rates through mid-2026. The nation, however, remains strategically critical to North American supply chains, thus still warranting an overweight.

Increased stability may give FDI a lift in 2026

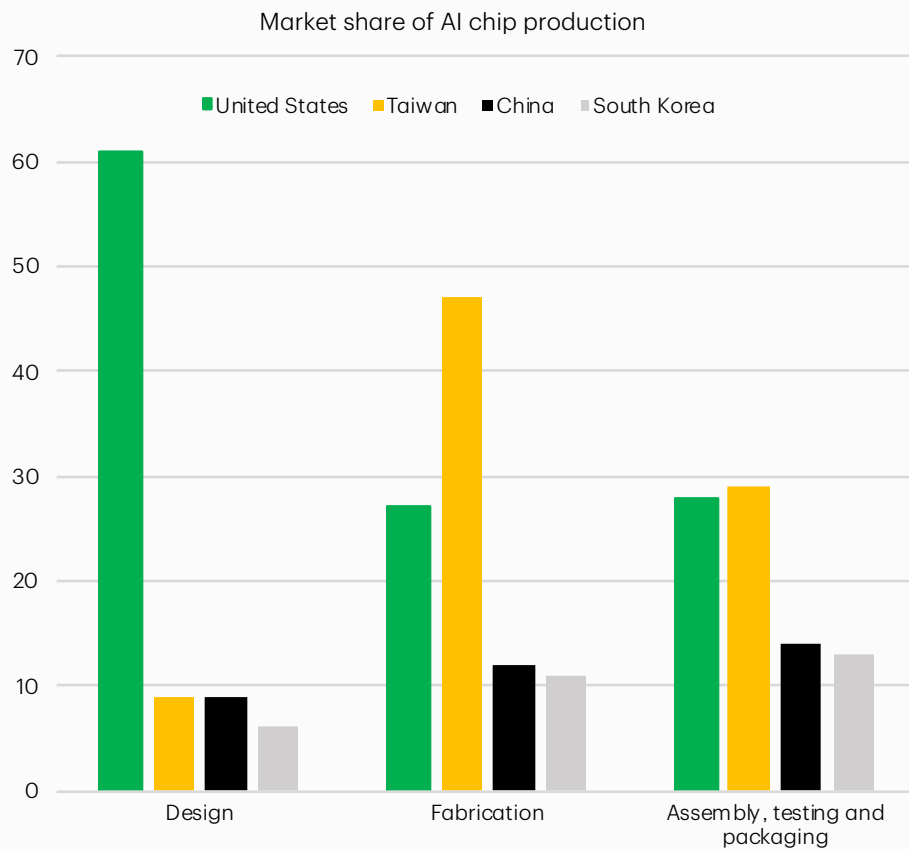


Source: FactSet, Macrond, and Wealth Investment Office, as of December 2025

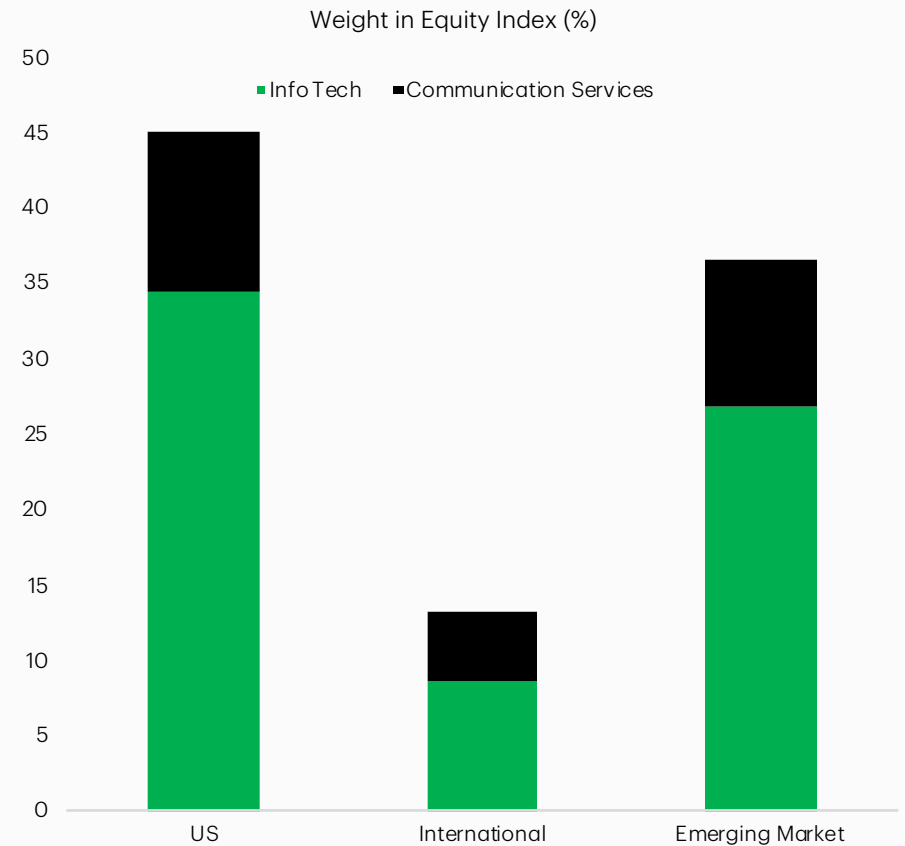
## Theme 10: AI moves from promise to practice in emerging markets

Emerging markets, such as Taiwan, South Korea, India and Latin American countries are becoming the quiet beneficiaries of the AI power-play between the U.S. and China. What distinguishes this cycle from past technology cycles is that many emerging economies sit upstream of AI's most constrained inputs: chip fabrication, high-bandwidth memory chips and critical commodities. Countries tied to global chip supply chains benefit from economies of scale that are difficult to replicate elsewhere — key inputs for chips, power grids and batteries, which support commodity producers across Chile, Peru, Bolivia and Argentina. We expect large-scale job creation and productivity gains across the region. While we are modestly underweight, we believe EM captures second-order spillover through commodities, infrastructure, wages and domestic demand, and positions the region as underappreciated winners in the next phase of the AI cycle, translating into positive 2026 market performance.

### AI Production is Global.



Source: ourworldindata, FactSet, and Wealth Investment Office, as of September 2025



Source: FactSet and Wealth Investment Office as of December 11 2025



**Where we stand**

## ■ Equities – Modest Overweight

Global equity markets are up year-to-date, as tariff risks appear manageable and earnings trends remain positive. We remain overweight equities; while there could be bouts of volatility as valuations have expanded, government policy is increasingly pro-business, central banks are accommodative, and earnings growth remains positive. We continue to recommend a modest overweight allocation to U.S. and Canada as the underlying fundamental outlook continues to support attractive earnings growth over the next year. While we maintain our modest underweight stance on international and emerging-market equities, we also recognize that there are many growth opportunities at favourable valuations today.

## ■ Fixed Income – Modest Underweight

With a federal budget focused on enhancing Canada's productivity and incentivizing domestic business investment, the Bank of Canada (BoC) has room to be patient in charting the future course for monetary policy. As such, we expect Canadian yields to remain steady and bonds to continue to provide diversification benefits, reduce overall portfolio volatility and preserve capital. We are modest-overweight investment-grade corporate credit, given that credit spreads remain tight, supported by strong fundamentals, but rising AI-related spending. With risk premiums fairly flat across the yield curve, we continue to favour short- to mid-term IG corporate bonds over longer-term and HY bonds over longer-term bonds.

## ■ Alternative Assets and Strategies – Modest Overweight

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. We are modest underweight private debt given an uncertain economic environment, although higher credit quality and global diversification can provide an income ballast.

## ■ Commodities – Neutral

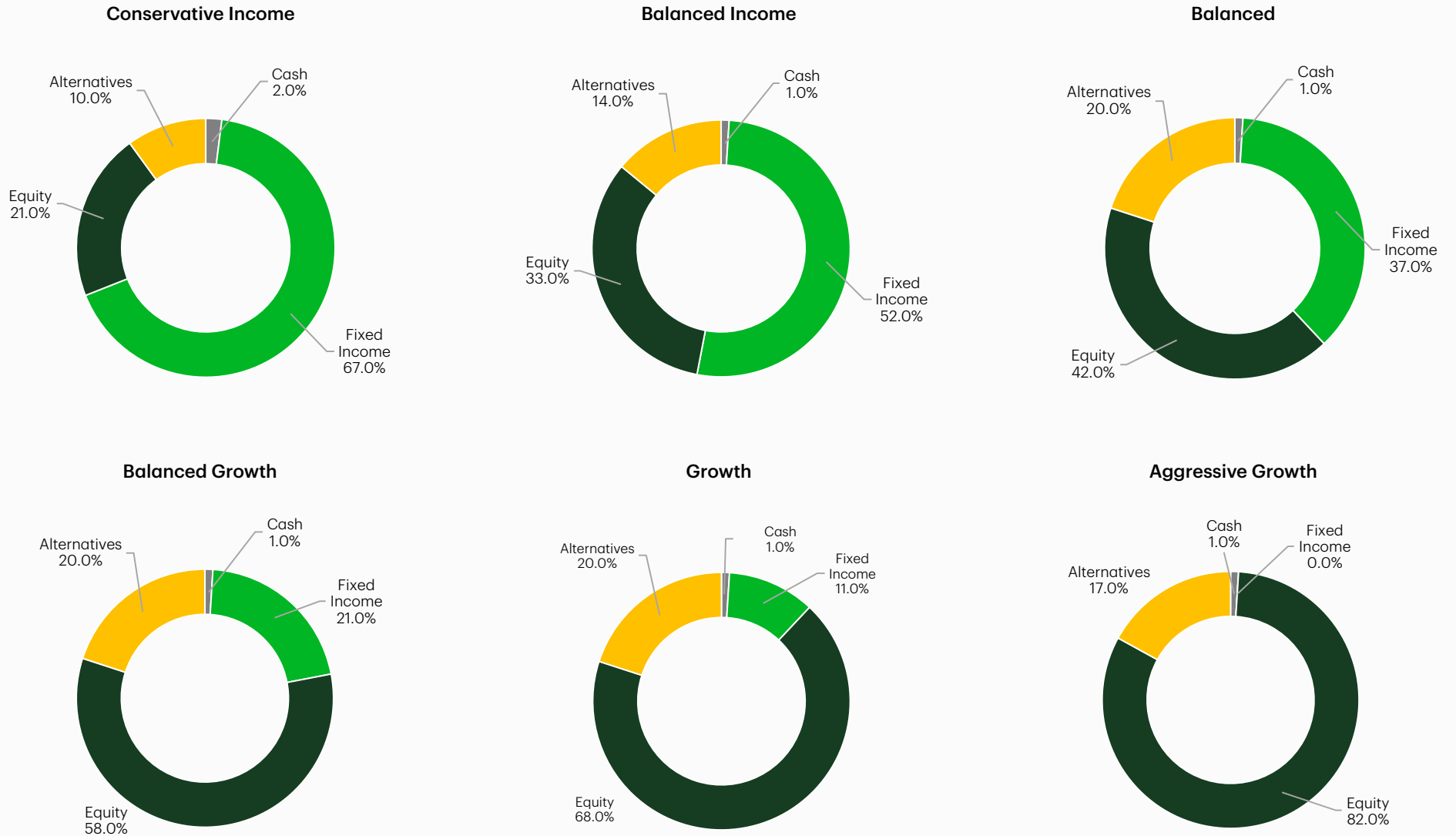
Gold continues to benefit from demand from central banks and investors as they seek a safe haven in uncertain times. Despite the economic uncertainty, metals prices have held-in YTD as markets are currently balanced. Oil has weakened as OPEC+ looks to slowly return supply, but also to manage member commitments and might adjust as market conditions warrant.

## Current Asset Class Positioning – Overview

	Asset Class	Underweight		Neutral		Overweight
<b>Cash &amp; Equivalents</b>   Modest Underweight	Cash		●			
<b>Fixed Income</b>   Modest Underweight	Domestic Government Bonds			●		
	Investment Grade Corp. Credit				●	
	High Yield Credit			●		
	Global Bonds - Developed			●		
	Global Bonds - Emerging		●			
<b>Equities</b>   Modest Overweight	Canadian				●	
	U.S.				●	
	International		●			
	Emerging Markets		●			
<b>Alternative /Real Assets</b>   Modest Overweight	Commercial Mortgages			●		
	Private Debt		●			
	Domestic Real Estate			●		
	Global Real Estate			●		
	Infrastructure					●
	Commodities			●		
<b>Sub-Classes</b>	U.S. Dollar vs. Basket of Currencies		●			

Source: Wealth Asset Allocation Committee, as of November 20 2025.

## Current Asset Class Positioning – By Risk Profile



Source: Wealth Investment Policy Committee, as of November 20, 2025.

## Current Asset Class Positioning – Strategic and Dynamic Weighting

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strategic	Dynamic	Strategic	Dynamic	Strategic	Dynamic	Strategic	Dynamic	Strategic	Dynamic	Strategic	Dynamic
Cash	2.0%	2.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%
Public Fixed Income	69.0%	67.0%	54.0%	52.0%	39.0%	37.0%	24.0%	21.0%	14.0%	11.0%	0.0%	0.0%
Domestic Government Bonds	28.0%	26.0%	22.0%	20.0%	15.0%	13.0%	9.0%	7.0%	5.0%	3.0%	0.0%	0.0%
Invest. Grade Corp Bonds	24.0%	25.0%	19.0%	20.0%	14.0%	15.0%	9.0%	9.0%	5.0%	5.0%	0.0%	0.0%
High Yield Bonds	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%	0.0%
Global Bonds - Developed	8.0%	8.0%	6.0%	6.0%	5.0%	5.0%	3.0%	3.0%	2.0%	2.0%	0.0%	0.0%
Global Bonds - Emerging	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Canadian	6.0%	7.0%	10.0%	11.0%	11.0%	12.0%	16.0%	18.0%	19.0%	21.0%	22.0%	24.0%
U.S.	8.0%	10.0%	13.0%	15.0%	17.0%	19.0%	23.0%	26.0%	27.0%	30.0%	35.0%	37.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	9.0%	13.0%	11.0%	15.0%	13.0%
China/Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%
Commercial Mortgages	4.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	0.0%	0.0%
Private Debt	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	1.0%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	0.0%	2.0%	4.0%	5.0%	7.0%	5.0%	7.0%	5.0%	7.0%	9.0%	10.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%
Fixed Income	71.0%	69.0%	56.0%	53.0%	41.0%	38.0%	26.0%	22.0%	16.0%	12.0%	2.0%	1.0%
Equity	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%

Source: Wealth Investment Policy Committee, as of November 20, 2025.



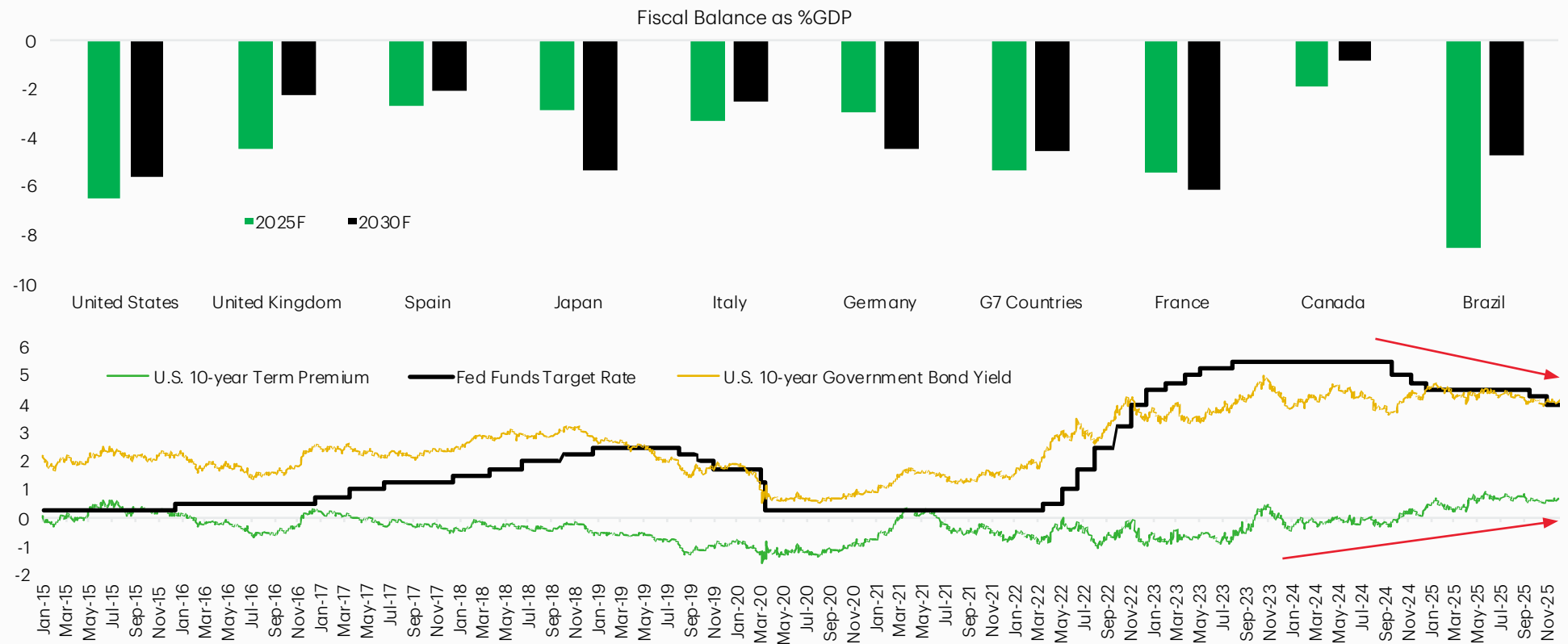
**Long-term outlook**

## Capital Market Assumptions (CMA) 2025 Update

Each year, TD Wealth collaborates with our partners at TD Asset Management to update our long-term capital market assumptions (CMA), outlining the outlook of various asset classes over the next seven to 10 years. These expected return and risk forecasts serve as the foundation of our strategic asset allocation and portfolio construction. They are integral to our process-driven approach to investment management because they ground our investment process around a shared market outlook and a common set of economic inputs. We use the CMAs as building blocks to construct forward-looking policy asset mixes and portfolios for clients that are based on their unique circumstances and goals.

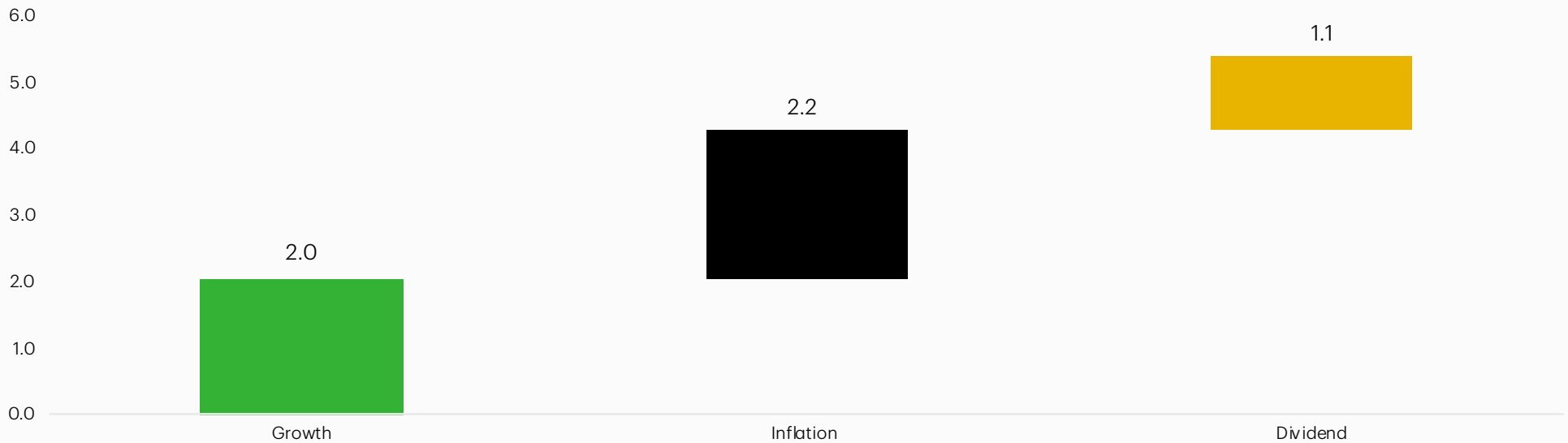
Since our latest CMA update, major global central banks (except Japan) have continued to cut policy rates. Long-term bond yields, however, have not fallen proportionately amid rising term premiums — the risk premium investors demand for holding longer-term-maturity bonds (Figure 1). The IMF forecasts that major developed economies will continue to run fiscal deficits greater than 3% of GDP by 2030, which is likely to lead to an increase in debt-to-GDP ratios for these countries. With governments across the world having little appetite or capability to increase their taxes or cut spending without risking social unrest, the trajectory of fiscal sustainability is indeed worrisome.

**Figure 1: Fiscal sustainability concerns lift term premiums**



Source: Macrobond, IMF, TD Wealth Investment Office as of December 2025

**Figure 2: Breakdown of U.S. Equity Expected Return**

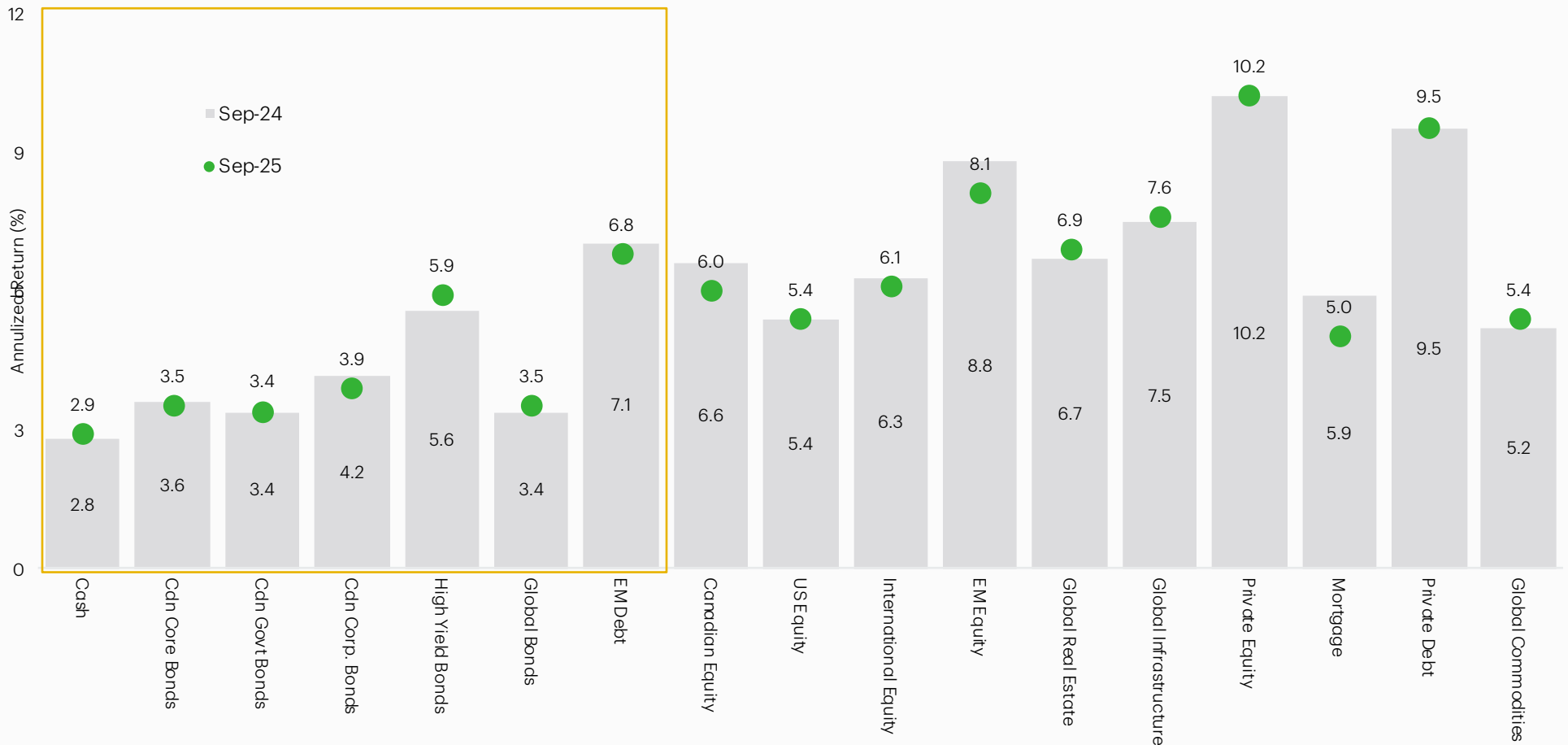


Source: TD Asset Management and Wealth Investment Office as of September 2025

This coincides with the backdrop of elevated uncertainty for global economic and trade policy as the U.S. imposes tariffs on its trade partners and gradually casts aside a multilateral approach in favour of bilateral deals, which further calls into question the reliability of the greenback as the global reserve currency and the role of U.S. treasuries as safe-haven assets. In addition, inflation continues to be a concern among policymakers and poses a downside risk to traditional asset classes, such as equities and bonds. Given the highly concentrated U.S. equity market currently — with the top 10 companies in the S&P 500 accounting for over 40% of the index weight — investors could maintain greater portfolio diversification through the addition of commodity exposure, real assets and other solutions that have low correlation to traditional asset classes.

We use a building-block framework to establish the long-term return and risk expectations for various asset classes. This framework combines consensus for real economic growth, inflation and income yield for applicable assets. The best asset class to explain these return drivers is equity, which captures all the upside from a higher economic growth rate, higher inflation and higher yields. For instance, our long-term expected return for U.S. equities stayed flat at 5.4% compared to last year, driven by slightly higher inflation and slightly lower dividend yield (Figure 2). Real growth is expected to trend around 2.0%, in line with historical averages and estimates of the U.S. potential growth rate, while our inflation forecast at 2.2% reflects the higher inflation outlook compared to the decade prior to the pandemic. Given that the valuation of U.S. equities is elevated, however, dividend yield (1.1%) is expected to be much lower compared to the previous decade (1.9%). For other asset classes, we also incorporate idiosyncratic factors into the framework to capture items that may not be reflected in those first three categories, such as the premium or discount in the market, the real asset capital expenditure experience of various companies and the supply and demand components of commodities.

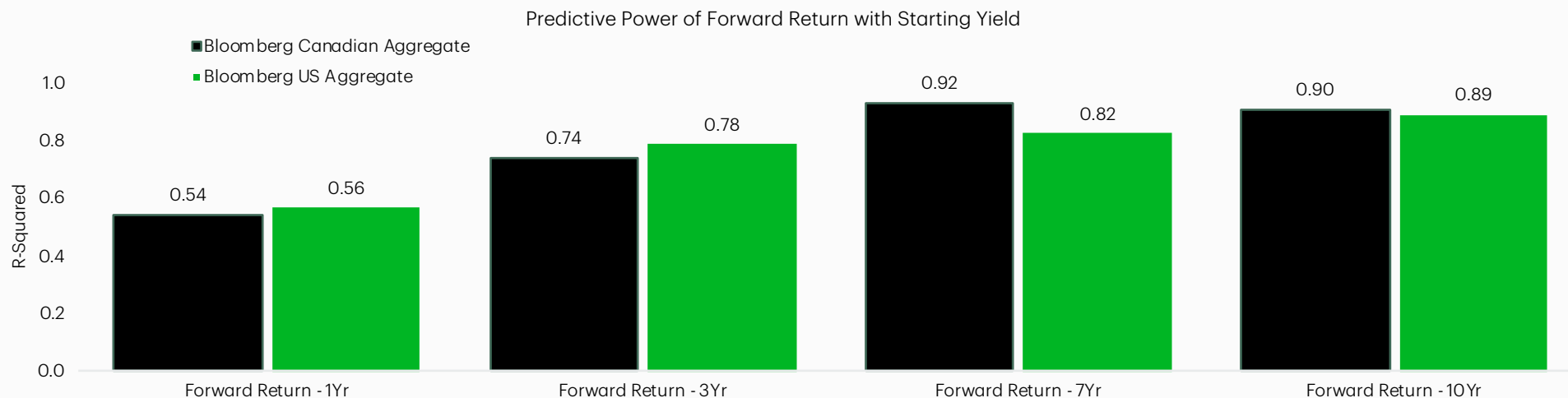
**Figure 3: CMA Expected Return Comparison 2024 vs 2025**



Source: Wealth Investment Office as of September 2025

Figure 3 compares the CMA's expected returns from 2024 and 2025. There are a couple of takeaways. Interest rates and long-term yields have fallen somewhat, especially in Canada, which translated to a decrease in the expectations for fixed income markets compared to last year. However, bonds continued to provide attractive income compared to the prior decade. With inflation expected to continue to trend lower, bond and equity correlation could turn negative again, enhancing the role of fixed income as a portfolio hedge. And given that growth outlook remains weak outside the U.S., we believe policymakers in the rest of the world will continue to maintain accommodative monetary policy, supporting the return for global fixed income. On the equity side, following a significant rally that brought valuations higher, the expected return for equities is lower. Overall, the forecast for Canadian equities fell from 6.6% to 6.0%, U.S. equities remain flat at 5.4%, international fell from 6.3% to 6.1% and emerging-market equities from 8.8% to 8.1%.

**Figure 4: Starting Yield a Good Indicator of Long-term Return**



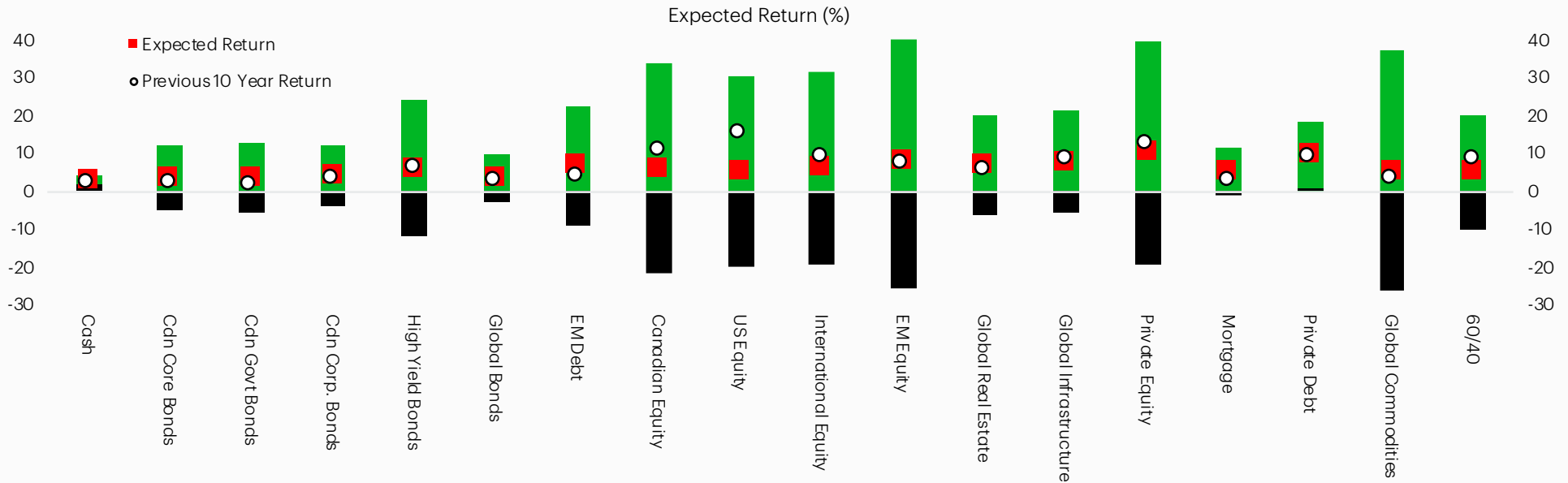
Source: Wealth Investment Office as of September 2025

Our forecasts for nominal fixed income are based purely on current bond yields, which have historically been a strong predictor of long-term forward returns. Figure 4 shows the predicting power of starting yield for forward returns of different horizons. For both Canadian and U.S. fixed income markets, this simple framework tends to have higher efficacy predicting longer-horizon returns and performs the best for the seven- to 10-year time horizon with a coefficient of determination (R-squared) close to 0.9, meaning starting yield explains approximately 90% of variability in realized returns.

We mainly use top-down methodology (using the macroeconomic outlook to arrive at the equity-market forecast) for valuing equities, which is broadly consistent with the approach taken for other asset classes. While there are some shortcomings to this approach — that it ignores, for instance, the impact of equity valuation and fails to address the composition of the market — we believe that over time, our seven- to 10-year horizon, these issues are resolved by a reversion to the mean. However, it's important to highlight the shortcomings, given that they can be more significant for short-term expectations. For example, the Magnificent 7 names in the U.S. contributed to slightly more than half of the return in 2024 and currently account for over 30% of the S&P 500 index, which can cause distortions to a top-down outlook in the near term. This is why we also utilize a bottom-up cross-check when arriving at our equity-market return forecasts. For reference, the bottom-up approach often leads to higher forecasts for equities, which is important to consider when reviewing expectations over a shorter time horizon. One thing that is clear, however, is that in the long run higher starting valuations suggests lower long-term real returns.

Figure 5 illustrates our long-term expected return for each asset class and dispersion of returns based on the risk profile of each asset. The return dispersion for each asset is important given our approach to forecasting, which eschews point estimates in favour of a range of outcomes around an average. The purpose of strategic asset allocation is to help clients construct asset mixes that maximize the likelihood of achieving their objectives, based on their unique profile. A representative 60% equity / 40% fixed income portfolio is expected to return 5.0%, much lower than the realized 8.0% return over the past decade. With an annual return over 15% over the past 10 years, U.S. equity tops all the asset classes, due to the exceptional performance in its mega-cap tech stocks. Given its extended valuation, investors should expect returns to normalize. Private assets, such as real estate, private equity and private debt, are expected to continue to play an important role in enhancing portfolio return.

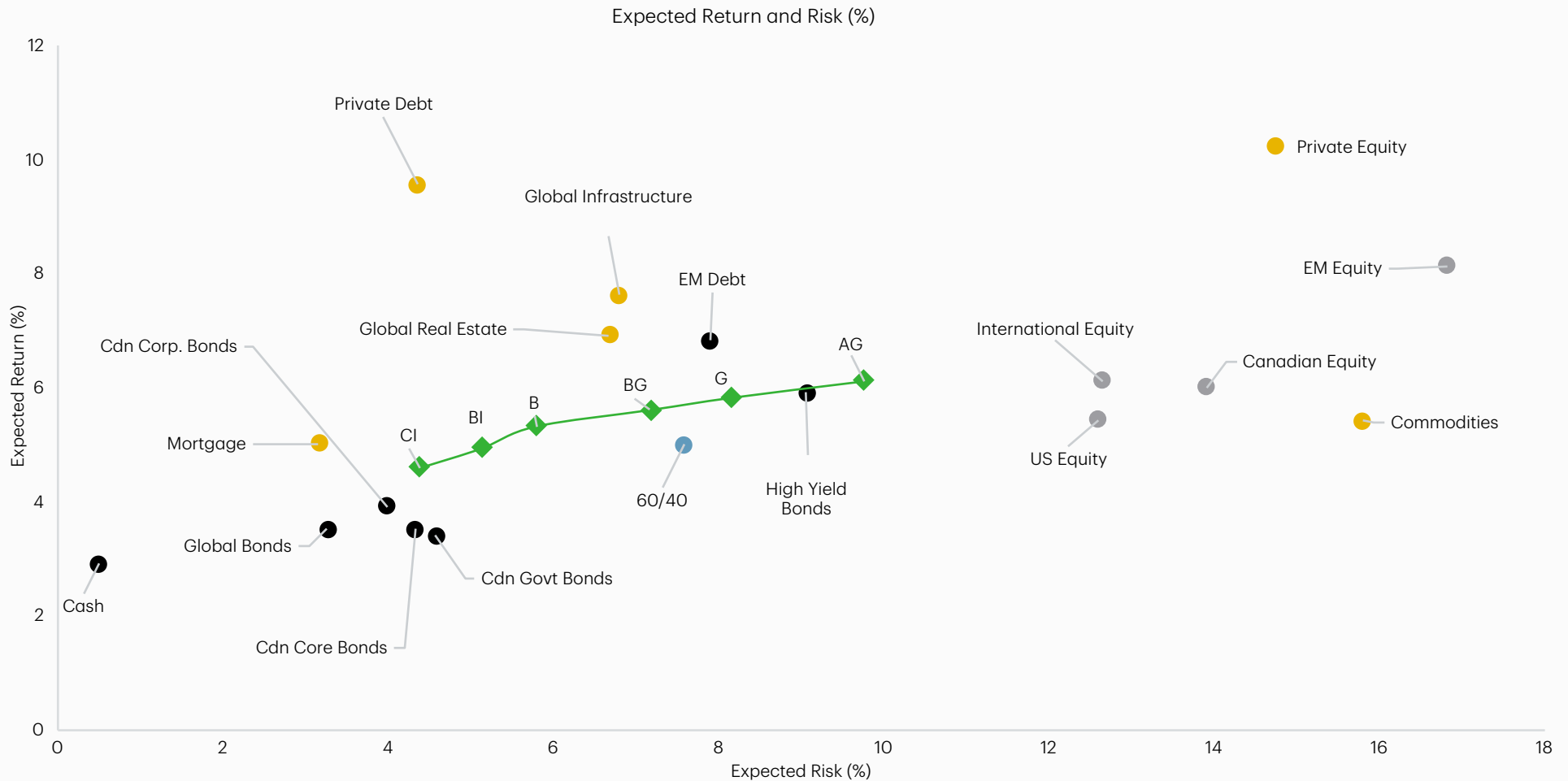
**Figure 5: Long-Term Expected Return Forecast**



Capital Market Assumptions (%)																		
	Cash	Cdn Core Bonds	Cdn Govt Bonds	Cdn Corp. Bonds	High Yield Bonds	Global Bonds	EM Debt	Canadian Equity	US Equity	International Equity	EM Equity	Global Real Estate	Global Infrastructure	Private Equity	Mortgage	Private Debt	Global Commodities	60/40
Expected 10-Yr Return (Sept 2025 CMA)	2.9	3.5	3.4	3.9	5.9	3.5	6.8	6.0	5.4	6.1	8.1	6.9	7.6	10.2	5.0	9.5	5.4	5.0
Expected 10-Yr Return (Sept 2024 CMA)	2.8	3.6	3.4	4.2	5.6	3.4	7.1	6.6	5.4	6.3	8.8	6.7	7.5	10.2	5.9	9.5	5.2	5.0
Actual Previous 10-Yr Return	1.8	2.0	1.6	3.1	5.8	2.4	3.6	10.7	15.4	8.7	7.3	5.3	8.5	12.3	2.6	8.7	3.4	8.0
Expected Risk (Volatility)	0.5	4.3	4.6	4.0	9.1	3.3	7.9	13.9	12.6	12.7	16.8	6.7	6.8	14.7	3.2	4.4	15.8	7.6
Previous 10 Year Risk	0.9	5.7	6.0	5.3	7.3	4.3	7.9	14.0	12.6	12.6	13.9	3.8	2.0	12.4	3.6	3.8	14.3	8.3
Sharpe Ratio (Expected)	0.0	0.1	0.1	0.3	0.3	0.2	0.5	0.2	0.2	0.3	0.3	0.6	0.7	0.5	0.7	1.5	0.2	0.3
Sharpe Ratio (Previous 10YR)	0.0	0.0	0.0	0.2	0.5	0.1	0.2	0.6	1.1	0.5	0.4	0.9	3.3	0.8	0.2	1.8	0.1	0.7

Source: TD Asset Management and Wealth as of September 2025. Private Equity return is as of June 2025

**Figure 6: Long-Term Expected Return Forecast**



Source: TD Asset Management and Wealth Investment Office as of September 2025

Figure 6 illustrates the trade-off between return and risk across key asset classes, from low-risk, low-return core bonds to higher-risk, higher-return credit and equities. Compared to the past decade, EM debt, EM equity and mortgages are expected to deliver improvement in risk-adjusted return, while U.S. equity is expected to see the sharpest drop in Sharpe ratio — driven primarily by normalization of return going forward. As a reference, we also show the expected return and risk for a generic 60/40 asset mix as well as the six diversified strategic asset mixes the WIPC recommends. These return and risk numbers are grounded in our long-term market outlook. The purpose is to help advisors communicate with clients and set performance expectations in accordance with their clients' risk profiles.

The highest expected Sharpe ratio could still be found in the alternative space, which ranges from private debt to global infrastructure. This is even after we de-smooth their returns to remove some of the impact of infrequent pricing. This is the reason we believe that private assets will play an increasingly important role in providing diversification to a traditional equity and bond portfolio. However, investors should note that risk, especially in private assets, is a multi-facet phenomenon — part of which may not be easily quantified using capital market assumptions with return and standard deviation. For example, the illiquidity risk embedded in private assets must be taken into consideration. Risk tolerance measured by standard deviation should not be the only guidance when constructing a portfolio with private assets.

When it comes to real assets, nuance is also very important. Following three difficult years for the real estate market, return expectation for the asset class increased to 6.9% from 6.7% last year — a reflection of higher prevailing cap rates. Global infrastructure also saw a slight uptick in return expectation amid strong demand for long-term assets with stable and inflation-linked contracted cash flow. The proliferation of AI usage is translating into a massive build-up in data centres and energy infrastructures, including nuclear.

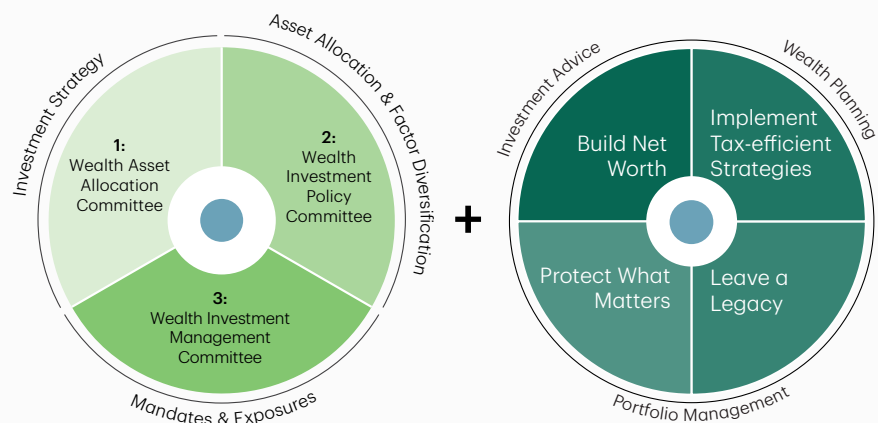
Two years ago, we added global commodities to the capital market assumptions for the first time. We remain constructive on commodities over the next seven-to-ten-year horizon, given that key markets such as copper and other select base metals remain finely balanced and are supported by limited inventories and producer discipline. In addition, structurally higher inflation as a result of supply-chain de-risking, years of underinvestment and greater demand from reshoring and AI infrastructure buildout are also expected to provide support to commodity prices. Our expected returns on commodities rose to 5.4% from 5.2% last year, higher than the realized returns in the previous decade.

On a foundational level, the CMAs are built on key themes that we think will drive financial markets over the next decade. What's important for us will be how these dynamics evolve year over year, how they shape portfolio strategy and strategic asset allocation going forward. These forecasts are inherent in every decision we make as investors and allocators of capital, whether they are conscious or subconscious. However, forecasts are as much of an art as a science and often fraught with estimation errors, which is why we believe it is important to provide a range of outcomes while identifying risks and considerations that are difficult to quantify. Moreover, with the CMA, we are not aiming to predict short-term events and cycles. Our focus is on identifying longer-term secular trends, which are more important for strategic asset allocation and portfolio construction.



**The four pillars of wealth management**

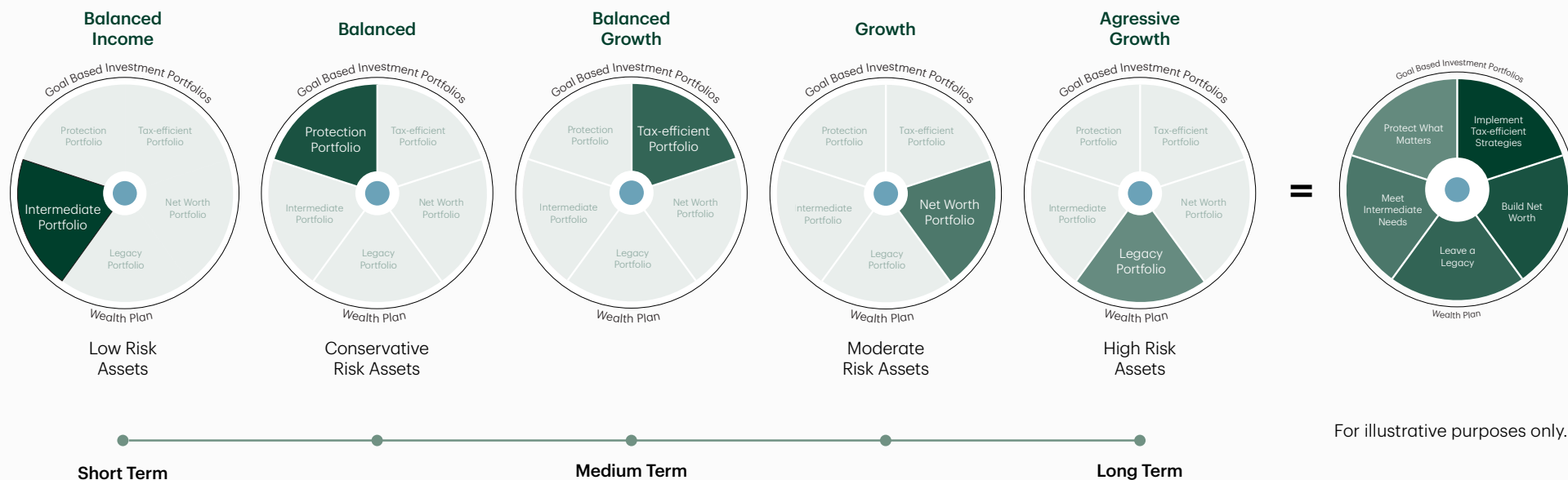
## The foundation of process driven investment management



You want to know you are on track to achieve your goals. A goals-based approach to investing aims to bridge the gap between your goals and your portfolio's outcome.

We think a good starting point for any financial goal is to lay the foundation of a plan. While it's hard to be definitive, most investors share four common objectives: **(1) grow net worth; (2) preserve what they've earned; (3) protect what matters; and (4) build a personal legacy.** Instead of a one-size-fits-all solution, investors need to consider their primary objectives and, where it makes sense, create a specific portfolio to match the needs for each objective. We believe it is possible to structure portfolios based on investment time horizons while mitigating volatility through risk-factor diversification. This approach will help investors take the appropriate amount of risk to meet their goals.

### Goal Based Portfolios





Looking ahead

In these pages, we have stepped back and framed the near-term and longer-term trends that will likely drive financial markets in the year to come. Remember, this is what might be. From our perspective, these are the trends that we are using to frame the challenges and opportunities we see as navigate the complexities of unprecedented technological advancement.

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## ■ Theme 1: A more durable market, the bull continues

The bull market can continue as leadership broadens beyond AI mega-caps. More sectors are contributing to returns, improving market resilience and supporting a continued, but measured, overweight position in equities.

## ■ Theme 2: Repricing time, risk and independence

While the era of cheap capital and Fed independence has ended, upcoming Federal Reserve leadership changes may bring a more accommodative tone. Even so, valuation discipline, duration management and quality remain essential.

## ■ Theme 3: Deficits, defence and duration

Higher deficits and defence spending are reshaping bond markets, lifting long-term yields. This environment favours infrastructure, private credit and real assets, while long-duration fixed income faces headwinds.

## ■ Theme 4: The adrenaline trade

A renewed capex cycle is boosting industrial activity. Infrastructure, electrification, defence and construction-related manufacturers should benefit, supporting broader economic growth beyond large technology companies.

## ■ Theme 5: Electrons before algorithms

AI platforms require more than just servers and models to run, they require megawatts. Investment opportunities are shifting toward utilities, energy and private infrastructure — the essential “picks and shovels” enabling long-term AI expansion.

## ■ Theme 6: Old school DRAM meets new school AI

Rising component and memory costs will pressure technology margins. Companies with strong pricing power should outperform, while weaker firms may struggle to absorb higher input costs.

## ■ Theme 7: AI – Waiting room of the J-curve

AI adoption is entering an early productivity phase. Technology, financials, health care and consumer services are positioned to see efficiency gains translate into earnings growth over time..

## ■ Theme 8: Policy uncertainty trumps narrative noise – Geopolitical Risk Peaks

It's not a peaceful world, but it's a more predictable one. With geopolitical shocks easing, domestic policy will drive markets. A more predictable backdrop favours real-economy cyclicals, AI infrastructure, quality businesses, selective international exposure and private-market income strategies.

## ■ Theme 9: Fortress North America – Trade, Tariffs & the U.S. Dollar

As tariff uncertainty fades, capital may flow back to the U.S., supporting the dollar and investment. Canada faces volatility but remains strategically vital to North American supply chains.

## ■ Theme 10: AI moves from promise to practice in emerging markets

Emerging markets complements our views on global markets broadening out in 2026. As the U.S. and China scale AI, emerging markets, such as Taiwan, South Korea, India and Latin American countries, will capture practical spillovers by supplying critical inputs and hosting AI-enabled growth. AI is translating into jobs, incomes, and real economic momentum which should translate into positive market performance in 2026.

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