TD Wealth

Never Mind the Nonsense

Portfolio Strategy Quarterly | Q3 2026

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NEVER MIND
THE NONSENSE
HERE'S THE
NEW REGIME

In this issue

Never mind the nonsense.

I was a preteen when the ’70s gave way to the ’80s, but I remember that mood vividly. Energy felt scarce. Politics felt consequential. At the same time, the economic regime was beginning to shift.

Today, the mood again feels heavy. Wars are growing larger and more systemically important. Governments are rearming. Energy security is back at the centre of policy. Deficits matter. Supply chains are fragmenting. Artificial intelligence is creating both excitement and anxiety. And, as such, central banks may have less freedom to rescue markets when inflation and fiscal pressures remain alive.

But dread is not destiny.

The old regime was built for efficiency: globalization, disinflation, monetary support and capital-light growth. The new one is being built for resilience: fragmentation, fiscal power, industrial capacity, energy security, defence and capital-intensive technology. That does not mean the future is bleak. It means how we manage portfolios must change.

Be well,

Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

$4 Trillion by 2030?

Hyperscalers are projected to invest a staggering $750 billion in AI this year. But Nvidia CEO Jensen Huang says that could be just the beginning. He speculates that annual spending could rise well over $3 trillion by 2030.

If you build it ...

Hyperscalers have boosted AI capex by more than 50% in each of the past two years. Skeptics argue that, similar to the fibre buildout of the late 1990s, hyperscalers are overestimating demand. Optimists, though, believe the AI arms race is just getting started.

14% of IG

AI zealots have pointed out that, unlike the Tech Wreck, this time around the market darlings are enormous corporations with virtually zero debt. Well, no more — the five hyperscalers plus Nvidia issued over $215 billion in debt through mid-July, nearly 14% of the U.S. IG corporate market.

And Yet Still Underleveraged

The hyperscalers are still among the least leveraged large-cap public issuers. With an average debt/EBITDA ratio of just over 0.8 times, their leverage is approximately one-quarter that of the consumer sectors.

EM Shovels

Thanks to the enormous semiconductor industries in in South Korea and Taiwan, emerging markets have benefited inordinately from a recent shift in market attention — from hyperscalers to the "picks and shovels" required to develop AI infrastructure (like memory chips). The MSCI Emerging Markets Index leapt 25.6% in Q2.

Definitely Some Froth

The broad South Korean index climbed 68% in Q2 on big memory chip names like SK Hynix, which has skyrocketed 300% in the past year. ETFs that use leverage to offer double or triple these returns have drawn billions from investors — a crash in the making, if hyperscalers were to suddenly turn off the taps.

... But Hardly Exuberance

As it stands, the U.S. economy is solid. But if the war continues well into Q3, TD Economics expects weakening across the board. WTI up to US$128, inflation over 3%, growth down to 1.9% next year, and the Fed on hold until mid-2027 — a tenuous economic environment.

Return of the Doves?

Assets that benefit from falling rates, such as gold, have suffered on recent Fed hawkishness, leading markets to price in rate hikes this year. But a couple of soft inflation prints, coupled with a swift resolution to the war, could change the expectations for monetary policy.

Adaptation

Adaptive Approach

The large majority of assets in any good investment portfolio should be allocated strategically, not tactically. That means adapting to challenges as they emerge, not positioning for challenges before they emerge.

Process Over Prediction

We manage investments based on a guiding set of principles designed to work in a world that's constantly changing. We focus on investor's goals and true diversification. We build resilient portfolios that aim to perform regardless of the environment.

Remember the 10/10/10 Rule

How are you likely to feel about this in 10 minutes vs. 10 months vs. 10 years? Be patient. There's a reason it's considered a virtue.

Tactics on the Margins

Tactical or dynamic shifts should only be made at the margin, in an intentional and risk-controlled manner. Strategic asset allocation remains the principal driver of portfolio performance and is paramount in helping investors achieve their objectives.

True Diversification

To prosper in this new world, investors need a contemporary portfolio approach with true diversification, balancing: (1) broad asset allocation and (2) risk-factor diversification with (3) a deep understanding of financial behaviour.

Calm Before the Storm

Extended periods of market calm can breed complacency. Remember, peace time doesn't last forever. Being mindful of that, sticking to your process, staying diversified and adapting to the environment around you is always the best course of action.

High-odds Proposition

Over the long term, it's been almost impossible to lose money on the broad market. The probability of making at least some money on the S&P 500 over a five-year period is 85%; over a 20-year period it's 100%.

7 Years Bad Luck

Markets are awful at predicting central bank decisions. In 2008, investors were bracing for hikes, which didn't actually occur until seven years later. Then, in 2015, they vastly underestimated the speed of those hikes. Bottom line: The Fed responds to data, not sentiment.

PSQ3.2026 I Executive Summary

House Views

- **Fixed Income, modest underweight:** The Bank of Canada can continue to be patient and on hold with respect to its rate policy given the two-sided risks from growth and inflation. Despite persistent geopolitical volatility and policy uncertainty, global higher-for-longer rate dynamics are anchoring bond yields at attractive and historically elevated levels. Expect income to drive bond returns and for bonds to provide a measure of stability during periods of broader market volatility.
- **Equities, modest overweight:** Global equity markets are in positive territory year-to-date as strong earnings growth has offset modestly lower valuation multiples. While areas driven by AI and data centre spending continue to lead performance, improving earnings participation across a broader set of sectors have provided additional support for markets. While there could be increased volatility in the near term, we remain constructive on Equities due to positive global economic and earnings growth, as well as more pro-business government policies.
- **Alternatives, modest overweight:** We believe an allocation to alternative assets can benefit diversified portfolios, particularly over the long term. Alternatives can offer inflation protection and attractive absolute returns, while enhancing portfolio stability through diversification and less correlated income streams. Recent geopolitical developments have reinforced the role of alternatives as sources of resilience.

Quarter in Review

Global equities rebounded as geopolitical pressures eased, but sticky inflation, hawkish policy and narrow, AI-led growth left the broader outlook uncertain.

- **Macro Backdrop: Resilient growth, sticky inflation constrain the Fed.** U.S. economic resilience defined Q2, with strong consumer spending, improving payroll growth, positive corporate earnings and accelerating investment supporting equities. However, persistent core inflation — including AI-related technology price pressures — limited the disinflationary benefit of lower oil prices. Markets therefore expected the Fed to keep rates higher for longer, reinforced by Chair Kevin Warsh's inflation-focused communication. Meanwhile, fading liquidity support suggested a less accommodative backdrop, leaving markets dependent on strong fundamentals.
- **Geopolitics and Oil: Energy remains the swing factor.** Middle East de-escalation lowered oil prices and improved Q2 sentiment, but geopolitical risk remained unresolved. Tight inventories and supply-chain vulnerability could keep energy prices elevated, sustaining inflation risks and complicating growth, monetary policy and financial conditions.
- **Equities: Risk appetite returned, but leadership remained narrow.** Global equities rebounded strongly in Q2 as easing geopolitical tensions, lower oil prices and resilient U.S. growth revived risk appetite. Gains remained concentrated in AI-linked technology and semiconductor stocks, while narrow breadth, crowded positioning and weak small-cap earnings increased vulnerability to volatility, hawkish policy and disappointment.
- **AI: The Dominant Earnings Story.** AI remained the dominant investment theme in Q2, but investors increasingly questioned whether record capital spending could produce durable returns. Falling inference costs supported broader adoption and entrepreneurship, while earnings remained concentrated in technology. The cycle's durability will depend on whether AI-driven productivity and profitability spread more widely across the economy.

Economics

Strong commodity exports have offset AI-driven imports, but the U.S. trade deficit may soon widen.

- **Liquid and physical gold bolstering exports.** Surging gold and oil prices drove most U.S. export growth, though their support is fading. Technology exports also rose, but largely through low-value re-exports to Mexico linked to AI infrastructure demand, which has simultaneously fuelled a much larger increase in U.S. imports.

- **AI boom reshaping U.S. import profile.** Surging AI infrastructure investment has lifted machinery's share of U.S. imports from 15% to 25%, offsetting tariff-related weakness elsewhere. Imports of computing equipment from Taiwan and Mexico reflect substantial new demand and expanding North American supply chains. Machinery now accounts for more than half the U.S. trade deficit, which could widen as commodity export support fades.
- **Widening deficits.** AI imports and fading commodity exports threaten a wider U.S. deficit.

Fixed Income

AI infrastructure spending is turning hyperscalers from asset-light technology companies into major debt issuers. Their enormous data-centre investments are driving record investment-grade bond supply, potentially diverting capital from utilities, industrials, financials and other borrowers, raising financing costs even when fundamentals are unchanged. Because bond indexes are market-value weighted, passive investors are gaining more AI-related exposure automatically. Hyperscaler bonds also carry longer-than-average duration, increasing market sensitivity to interest-rate changes. Continued issuance could compete with U.S. Treasuries for institutional demand, especially among duration-focused investors. The result may be wider spreads, higher issuance concessions and upward pressure on long-term Treasury yields.

- **Government bonds.** We remain modest underweight domestic government bonds as well as developed-market government bonds. We maintain a modest overweight view on emerging-market government bonds.
- **Corporate credit.** We maintain a modest overweight view on investment grade (IG) credit. Tight credit spreads and persistent inflation risks favour high-quality, short-duration investment-grade bonds, emphasizing capital preservation over excess-return potential despite attractive yields today. We maintain a neutral view on High Yield (HY) credit. Favour investment-grade credit and high-yield issuers with strong balance sheets.
- **Navigating volatility, anchoring in quality.** Prioritize high-quality, short-duration credit, active management and tactical positioning amid persistent rate volatility.

Equities

AI drives global stocks, but regional risks diverge

- **United States: Bubble risk or transformational upside?** The U.S. equity bubble debate centres on whether AI infrastructure spending can continue. Bears argue hyperscalers are exhausting free cash flow, borrowing to fund capex and risking an overbuild that could crush hardware suppliers' earnings. Bulls see a long-term industrial buildout, comparable to the railroads, that will underpin productivity and economic growth. Current projections suggest Amazon, Alphabet, Microsoft and Meta can self-fund spending, while their low leverage leaves borrowing capacity. Sentiment also remains cautious rather than euphoric. Investors should therefore monitor capex closely and balance exposure between hardware suppliers benefiting today and hyperscalers positioned to benefit later from stronger free cash flow.
- **Canada: Fundamentally sound, fairly valued.** The TSX's second-half performance will depend heavily on Canadian banks as resource stocks are expected to moderate. Banks enjoy strong fundamentals, including elevated rates, healthy capital markets, stable credit and potential loan growth. However, historically high valuations, despite slower expected earnings growth than U.S. peers, leave little room for error and may constrain market gains.
- **International: AI provides a lift, but earnings lag.** International and emerging-market equities rallied 13.6% and 25.6%, respectively, driven mainly by rising AI capital spending and a manufacturing recovery. Hyperscaler capex increased from an expected $600 billion to about $750 billion, benefiting semiconductor, equipment, hardware and infrastructure suppliers worldwide. However, gains were highly concentrated, particularly in emerging markets, where TSMC, SK Hynix and Samsung drove the bulk of the return given the significant weight of the three companies in EM markets. Europe and Japan showed improving industrial activity and exports, but elevated energy costs, geopolitical uncertainty and supply disruptions pressured margins and earnings. China's recovery remained divided between strong technology exports and weak consumption and real estate. Despite positive structural trends, concentration, leveraged ETFs and possible capex slowdowns reinforce the need for broad diversification.

Currencies

The U.S. dollar appears to be reverting back to a more traditional safe-haven profile, with correlations to equities and rates somewhat normalizing. However, a sustained U.S. dollar surge looks unlikely as rate differentials are not expected to return to 2022 extremes when the Fed materially outpaced its global peers. The U.S. economy is in a different place: monetary/fiscal policy are not overly lax; the labour market is resilient but no longer extremely tight; there's no pent-up consumer demand fuelled by excess savings, and ex-commodity global supply chains are not under as much stress.

- **Canadian Dollar: Upside Potential in H2 2026.** The market has become too pessimistic with Canada's growth outlook again, despite improvement in recent weeks. Expect domestic growth to rebound above the consensus forecast after recent negative growth, which should allow the loonie to move higher relative to the U.S. dollar.

Commodities

The backdrop for commodities shifted meaningfully in Q2, but beneath the price action, fundamentals remain stronger than current sentiment suggests.

- **Markets are still sorting the signal from the noise.** Higher rates, a stronger U.S. dollar and softer demand expectations have weighed on sentiment. However, fundamentals appear more resilient: oil weakness may partly reflect inventory shifts, gold retains durable central-bank support and copper faces tight supply alongside long-term demand from electrification, infrastructure, data centres and AI.

- **Commodities don't need to spike to add value.** Commodities offer inflation protection and diversification, but gradual price strength is preferable to sharp rallies. Despite volatility and risks, disciplined exposure remains warranted while fundamentals hold.

Never Mind the Nonsense: Here's the New Regime

Dread may define the mood, but it does not define the opportunity. A new investment regime is emerging from today's economic and geopolitical upheaval.

Brad Simpson, Chief Wealth Strategist; Kevin Yulianto, Quantitative Portfolio Manager | TD Wealth

"There's no future. No future for you."
— The Sex Pistols

That was the mood of the late 1970s. Inflation was high, energy was scarce, confidence was low and the economic order after the Second World War appeared to be running out of road. It did not feel like the beginning of a new investment regime. It felt like the end of one.

I was a preteen when the '70s gave way to the '80s, but I remember that mood vividly. The Iran hostage crisis seemed to play endlessly in the background. Inflation was part of everyday conversation. The Vietnam War had ended, but the postwar autopsy was in full swing. What was America's role in the world? What were the limits of its power? Could force produce desired outcomes? Had the institutions that had led the world after the Second World War lost the confidence of the people they were meant to serve? Energy felt scarce. Politics felt consequential. When Ronald Reagan and Jimmy Carter debated, it was not simply a contest between two candidates; it felt like a contest between two very different views of what the future could be.

At the same time, the economic regime was beginning to shift. The answer that emerged was not purely monetary and it was not purely political. It was both. Paul Volcker represented the hard end of the inflationary 1970s: central banks would have to restore credibility, even at significant economic cost. Ronald Reagan represented the political side of the same turn: lower taxes, deregulation, privatization and a belief that growth would come from getting government out of the way and allowing markets, businesses and capital to move more freely. Alan Greenspan inherited that new settlement. Inflation was moving lower, globalization was expanding, financial markets were deepening and interest rates began a long structural decline.

This changed the Federal Reserve's role in a fundamental way. Over time, investors learned to associate the Fed not only with inflation control but also with monetary shelter — the belief that the institution could cushion shocks, provide liquidity and help extend the cycle. That became the old regime's core bargain: governments would step back, central banks would stabilize, global markets would integrate and capital-light companies would scale. Efficiency became the organizing principle. At the time, it did not feel like the beginning of a powerful new market era. But the cynics were only half right. The old regime was ending. The future was not.

What followed was a powerful era built on globalization, disinflation, central-bank credibility, falling interest rates, expanding trade and, eventually, a capital-light technology boom. It rewarded efficiency: global supply chains, duration, passive beta, U.S. equity leadership and companies that could scale with extraordinary margins and limited physical capital.

Today, the mood again feels heavy. Wars are growing larger and more systemically important. Governments are rearming. Energy security is back at the centre of policy. Deficits matter. Supply chains are fragmenting. Artificial intelligence is creating both excitement and anxiety. And, as such, central banks may have less freedom to rescue markets when inflation and fiscal pressures remain elevated.

But dread is not destiny.

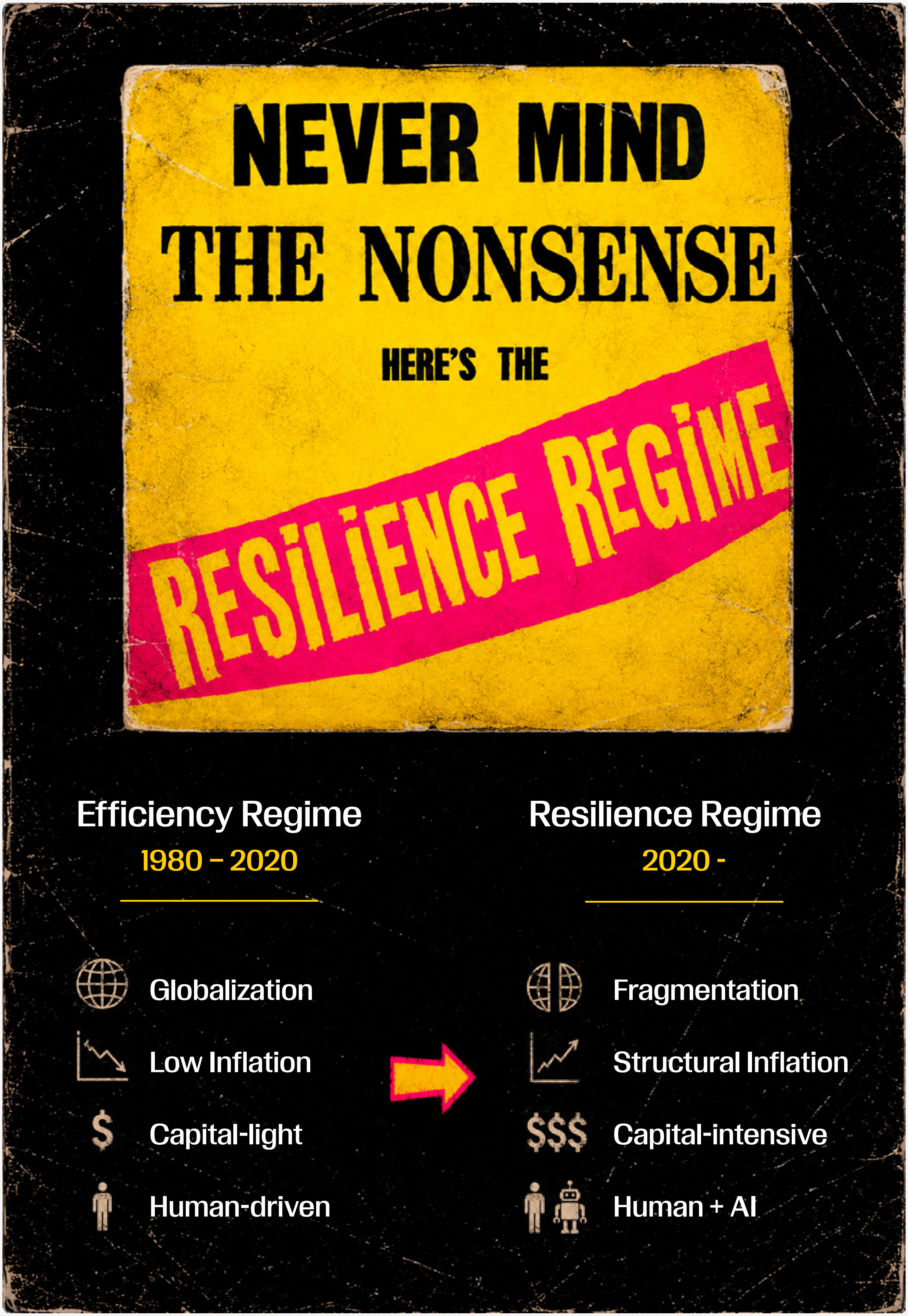
The old regime, the "Efficiency Regime", so called because it was built for efficiency: globalization, disinflation, monetary support and capital-light growth. The new one, the "Resilience Regime" is being built for resilience: fragmentation, fiscal power, industrial capacity, energy security, defence and capital-intensive technology (Figure 1). That does not mean the future is bleak. It means how we manage portfolios must change.

The Mood: "No future" then and now

Dread is the mood. Regime change is the reality. Portfolio change is the consequence.

The 1970s felt like decline: inflation, energy shocks, political dysfunction, labour unrest and a sense that the old economic order had run its course. Punk gave that mood a soundtrack. But what looked like exhaustion was also the beginning of a new regime. Today has a similar emotional texture, with the war, inflation scars,

Figure 1: Efficiency regime gives way to the resilience regime



housing pressure, distrust in institutions, AI anxiety, fiscal deficits and geopolitical fracture.

Yet the comparison has limits. The Misery Index, a simple combination of inflation and unemployment, remains well below the levels reached at the beginning of the 1980s (Figure 2). The calendar says this is not 1980, but the mood suggests something more complicated. Housing affordability, institutional distrust, geopolitical instability and anxiety over technological change sit largely outside the index but increasingly shape how people experience and evaluate the economy.

These forces are not abstractions; they translate into concrete investment implications. The closure of the Strait of Hormuz has exposed how dependent many economies remain on Gulf crude — a vulnerability that will only accelerate the build-out of alternative energy, including nuclear, solar and wind power, and push buyers to diversify their oil and gas suppliers. The same retreat makes defence and industrial innovation necessities rather than options, given that nations are moving to reduce their reliance on allies.

Meanwhile, rising trade restrictions shrink the addressable market for firms built on open borders, whether they operate in consumer goods, like Unilever and Nestlé, or advanced chips and chipmaking tools, like Nvidia and ASML. The countries caught in the middle may face the most difficult path of all. Many risk becoming stuck in a middle-income trap just as the global environment becomes less supportive. Central banks themselves have diversified reserves away from U.S. Treasuries, and some have also repatriated gold from foreign vaults, notably the New York Federal Reserve's vaults. This trend creates a potential tailwind for Latin American economies, which could benefit from both higher commodity prices and deeper integration into North American supply chains as friend-shoring continues.

More broadly, these developments are reminders that important transitions rarely feel comfortable while they are unfolding. The primary lesson is not that today is identical to the 1970s. It is that new regimes often begin in discomfort.

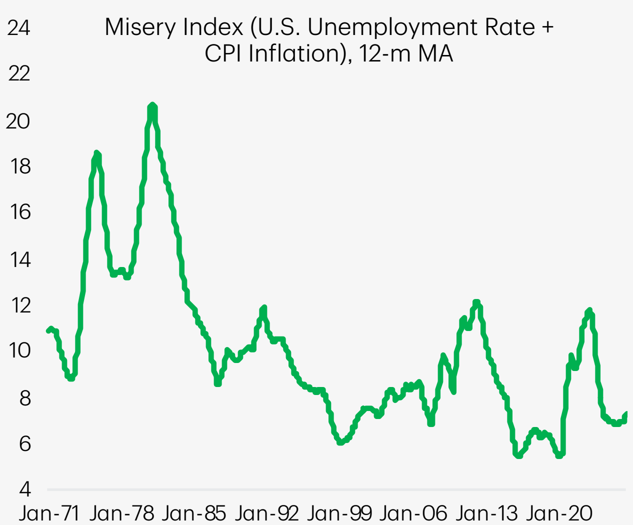
1. Geopolitics Becomes a Structural Market Force

The old regime optimized for efficiency. The new regime is paying for resilience.

In the prior regime, conflicts were often tragic but more localized in their market impact. Today's conflicts are more directly connected to energy, food, shipping lanes, sanctions, defence budgets, technology controls and supply chains. The war in Ukraine affects European defence, energy, food, sanctions and fiscal policy. Middle East conflicts affect oil supply, shipping, insurance, alliances and defence readiness. U.S.-China rivalry affects semiconductors, tariffs, export controls, capital flows and supply chains. Markets are no longer pricing only for efficiency; they are pricing security of supply.

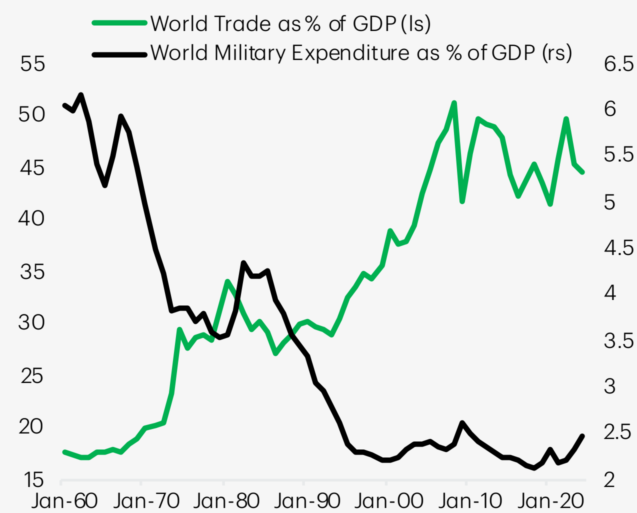
While the war has been limited in many ways, this is not the same as peace. NATO has stayed out of the fighting in Europe, and internal divisions, alongside open questions about the credibility of the U.S. commitment to Article 5, are quietly testing the usefulness of the alliance. The result is a more unstable middle ground: contained conflicts, fraying alliances, higher defence spending and a fading peace dividend. Figure 3 captures the regime shift. Global trade is declining, military spending is rising and investors are

Figure 2: Our "misery" pales in comparison



Source: Macrobond, Wealth Investment Office as of July 13 2026

Figure 3: The end of the "peace dividend"



Source: Macrobond, Wealth Investment Office as of July 13, 2026

being forced to price geopolitics as a structural driver of inflation, margins, capital allocation and portfolio construction.

The peace dividend helped define the external environment of the old regime. The rise of central banks would come to define its internal architecture.

2. From Volcker to Greenspan: The Birth of Monetary Shelter

Volcker broke the inflation regime. Greenspan monetized the credibility that followed.

The prior regime was not accidental. It emerged from a profound shift in the global economic and financial landscape and was reinforced by powerful internal logic. Globalization lowered production costs, while decades of disinflation pushed interest rates steadily downward. Central banks gained credibility and increasingly assumed the role of market shock absorbers. Their leaders were elevated to near-mythical status in financial markets, hailed as "maestros," "titans" and "guardians" of stability whose policy decisions could shape asset prices around the world.

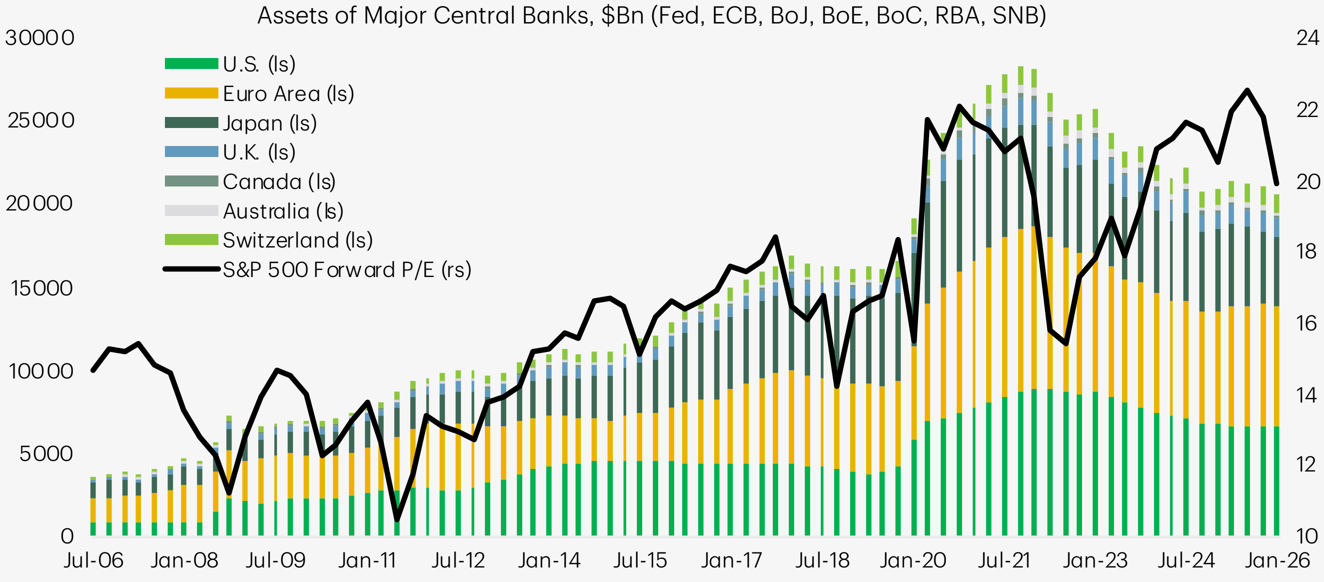
The "Greenspan Put," followed by the perceived protection offered by successive central-bank interventions, reinforced the belief that policymakers would step in whenever financial stress threatened systemic stability. At the same time, technology firms were able to scale globally with modest physical capital requirements. Together, these forces created an unusually supportive investment environment — one that rewarded duration exposure, U.S. equity leadership, passive investing, growth stocks, private markets and, increasingly, large-cap technology companies with expanding valuations.

The easy-liquidity backdrop of this era also reshaped investor behaviour. After more than a decade of quantitative easing, markets became conditioned to abundant liquidity, suppressed discount rates and the expectation that central-bank balance sheets would expand whenever financial stress threatened the system (Figure 4).

Critics are not entirely wrong to argue that this effectively socialized certain forms of risk. Cheap money lowered the cost of speculation, encouraged leverage and extended risk-taking beyond what underlying fundamentals might otherwise have supported. It also fostered the belief that volatility was temporary rather than dangerous because, particularly after 2008, episodes of market stress were often met with additional liquidity rather than a withdrawal of support.

Take the pandemic and the U.S. regional-bank crisis in 2023 as examples. These episodes, in many ways, reflect the evolution of the Fed and other central banks over the past half-century. Such backstops may be necessary in the moment, but they also create moral hazard by weakening the discipline of private lenders and investors. If market participants believe policy will rescue the system whenever stress becomes acute, they have less incentive to price risk conservatively in advance. The lines between investing, trading and gambling have become increasingly blurred, reflected in everything from meme stocks and cryptocurrencies

Figure 4: Rise in central banks' balance sheets coincides with higher S&P 500 forward P/E



Source: Macrobond, Wealth Investment Office as of July 13, 2026

to sports betting and prediction markets. While these developments have many causes, they share a common thread: a growing willingness to take risk in pursuit of outsized returns.

The consequence was not merely higher asset prices, but a generation of investors shaped by a specific set of assumptions: inflation would remain low, interest rates would trend downward, globalization would continue and policymakers would intervene aggressively when risks emerged. The problem is that many of those assumptions are now being tested simultaneously.

To understand how deeply embedded these assumptions became, it's worth returning to Alan Greenspan. Greenspan's reputation for bold policymaking was cemented during Clinton's second term, when a booming economy put the Fed under pressure to raise rates and choke off any hint of inflation. Greenspan resisted. He suspected that rapid technological change was quietly lifting the economy's speed limit in a way the official statistics had not yet captured, which meant he could afford to run policy looser than the textbook prescribed.

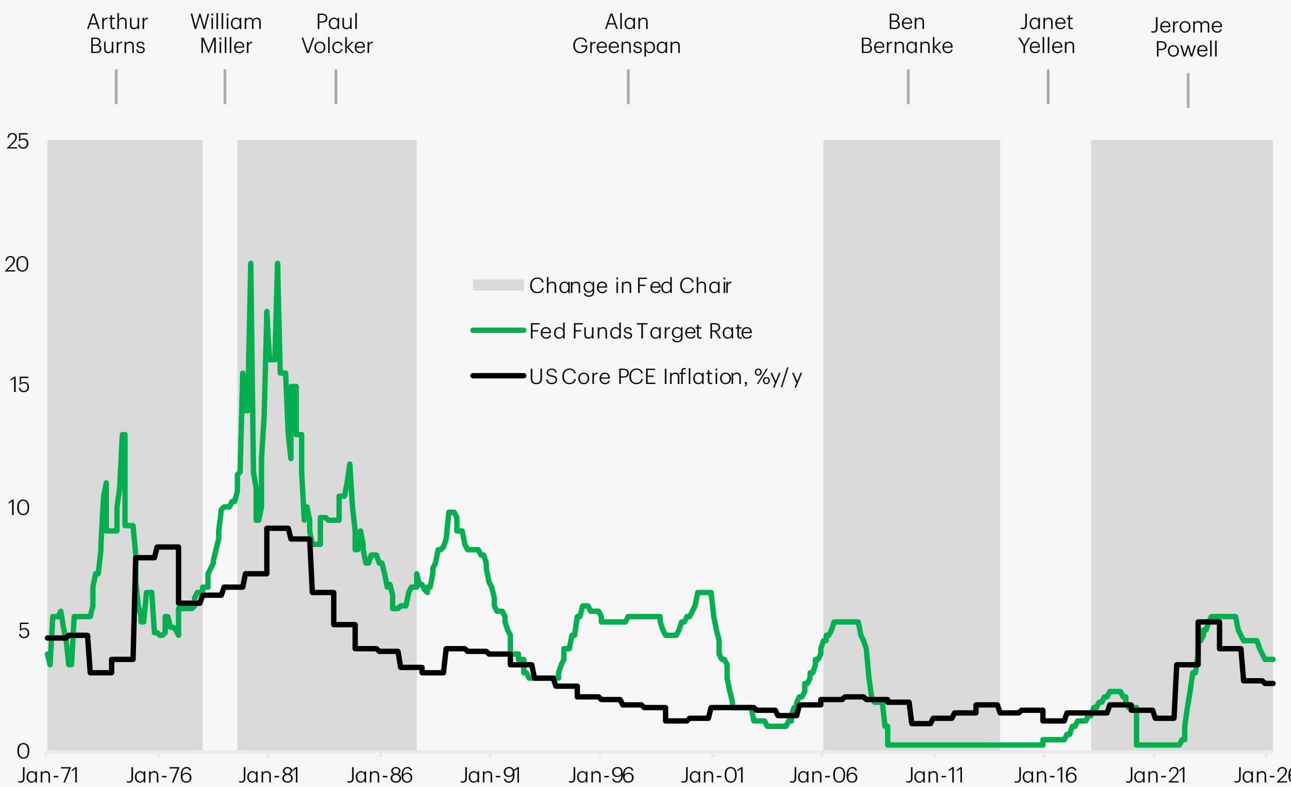
On the real economy, his judgment proved prescient. While productivity had grown about 1.5% a year from 1970 to 1995, that pace roughly doubled between 1995 and 2003. The more difficult question concerned financial markets. As technology stocks surged in the late 1990s, concern within the Fed about increasingly stretched valuations intensified. Greenspan himself warned of "irrational exuberance" as early as 1996. Yet the Fed never mounted a sustained effort to lean against the boom through monetary policy (Figure 5). Whether that decision was right or wrong remains under debate. What matters is the lesson investors took from it: markets increasingly came to believe that, as long as inflation remained contained, monetary policy would be reluctant to stand in the way of rising asset prices and willing to respond aggressively when financial instability threatened the broader economy.

3. From Greenspan to Warsh: The End of Monetary Shelter?

Greenspan represented the rise of monetary shelter. Warsh may represent the return of market discipline.

If the period from Volcker to Greenspan marked the birth of the "monetary dominance" era, a Warsh-led Fed could symbolize the other side of that arc. His incipient tenure may remind investors that markets also impose discipline — that is, gains must be earned, losses must be borne and risk once again carries consequences. More importantly, it could challenge some of the operating assumptions that have governed monetary policy since the Greenspan era. As shown in Figure 6,

Figure 5: A half-century of Fed policy versus inflation



Source: Macrobond, Wealth Investment Office as of July 13, 2026

Figure 6: Potential Implications of the Warsh Review of the Federal Reserve

Area Under Review	Current Framework	Possible Direction Under Warsh	Market Implications
Fed's Role in Markets	Active stabilizer during periods of market stress	More limited role in cushioning financial-market volatility	Investors cannot assume policy support during every market correction
Forward Guidance	Extensive signalling of future policy intentions	Reduced reliance on guidance; greater policy uncertainty	Markets rely more on economic fundamentals and price discovery
Balance Sheet Policy	Frequent use of QE and balance-sheet expansion	Higher hurdle for future asset purchases	Less liquidity support and higher risk premia
Market Discipline	Policymakers often respond to tightening financial conditions	Greater tolerance for market-led adjustments	Volatility becomes a feature rather than a policy failure
Inflation vs. Asset Prices	Inflation prioritized, but financial stability often influences decisions	Stronger focus on inflation and economic mandates	Asset prices receive less implicit protection
Cost of Capital	Suppressed by monetary accommodation	More market-driven cost of capital	Increased valuation discipline and capital allocation

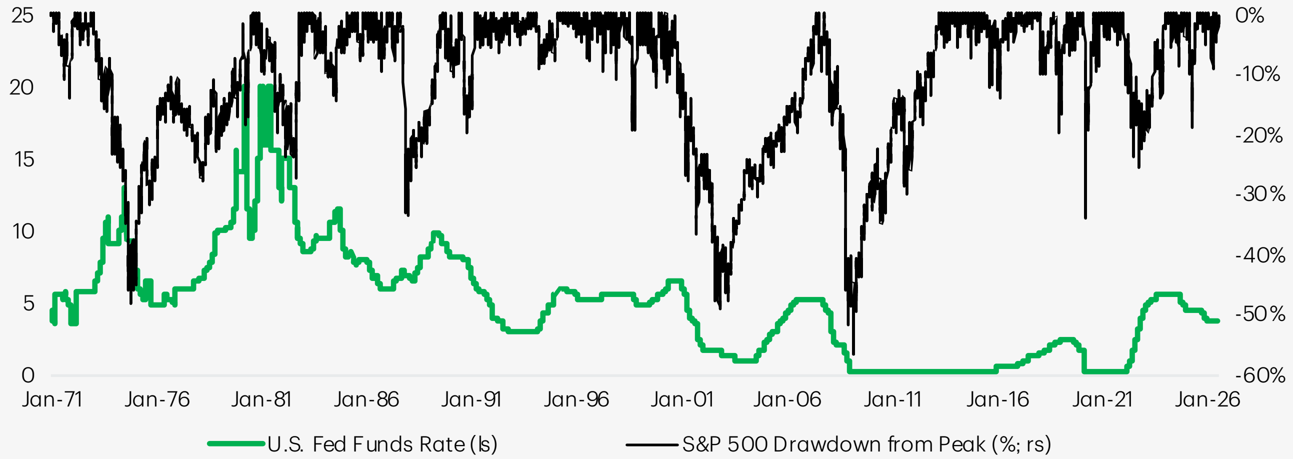
Source: Wealth Investment Office

a review of the Fed's role, communication strategy, balance-sheet policies and relationship with financial markets could ultimately result in a less interventionist institution and greater reliance on market discipline.

AI has the potential to lift productivity, much as the technology revolution did in the 1990s. However, today's policymakers face a very different landscape: abundant investment demand, scarcer savings, larger fiscal deficits, persistent inflationary pressures and governments that are increasingly shaping economic outcomes.

With opportunities to deploy capital plentiful — the AI capital-expenditure cycle chief among them — the cost of capital is re-pricing higher. The term premium has already moved from roughly negative 100 basis points in 2022 to approximately 60 basis points today. In contrast to the Greenspan era, financial conditions may increasingly be determined by fiscal policy, borrowing needs and capital scarcity rather than monetary policy alone. Figure 7 illustrates why, in a more inflationary and fiscally constrained environment,

Figure 7: Fed tightening could take the punchbowl away



Source: Macrobond, Wealth Investment Office as of July 13, 2026

the Fed's bias may at times tilt toward restraint rather than rescue. The challenge for policymakers may not be deciding when to refill the punchbowl, but whether they can afford to remove it.

4. Fiscal Dominance and the Return of the State

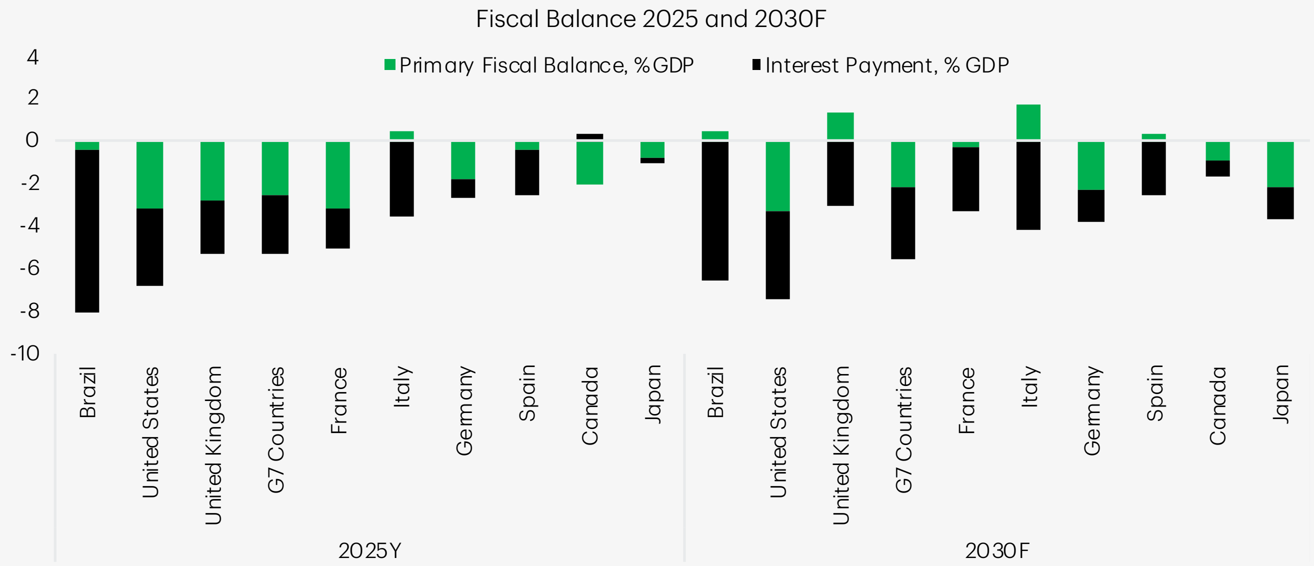
In the old regime, central banks were the shock absorbers. In the new regime, fiscal policy is increasingly both the shock creator and the shock absorber.

If the story of the past four decades was the rise of central banks, the story of the next decade may be the return of the state. The emerging regime is not simply about higher interest rates or a different Federal Reserve. It reflects a much deeper shift in the machinery of the economy itself. The era of monetary dominance is giving way to an era of fiscal dominance.

Central banks will remain powerful institutions, but they are no longer the only hand on the wheel. Governments are running larger deficits, directing capital, reshaping supply chains, subsidizing strategic industries, rearming and pursuing national objectives that increasingly shape economic outcomes and constrain monetary policy (Figure 8).

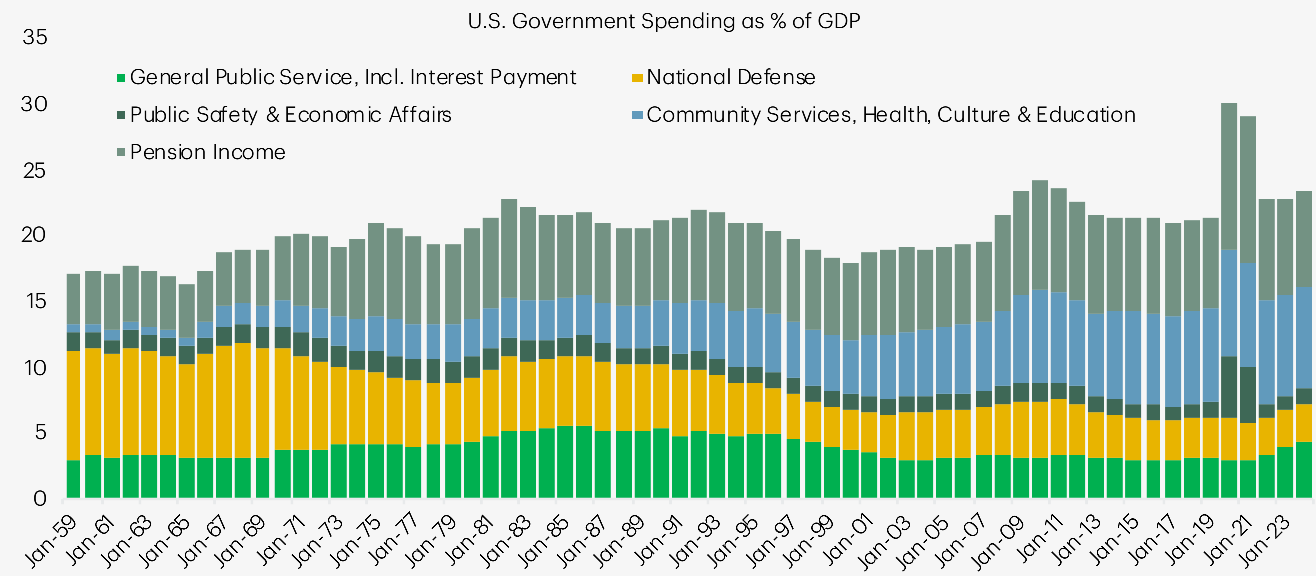
There are several reasons why fiscal deficits are proving difficult to restrain across both developed and emerging economies. The first is the rise of populism, nationalism and political dissatisfaction, fuelled by widening inequality and growing frustration with the status quo. Ageing populations are placing increasing pressure on health care, pensions and social-support

Figure 8: Big fiscal deficits are likely here to stay, driving interest costs even higher



Source: Macrobond, Wealth Investment Office, as of July 13, 2026

Figure 9: Government spending on the rise as populations age, defence commitments expand



Source: Macrobond, Wealth Investment Office as of July 13, 2026

systems, while voters simultaneously demand improved public services and resist higher taxation. The result is a persistent bias toward larger deficits and higher government borrowing (Figure 9).

The advent of AI clearly changes things, but the renewed embrace of tariffs, industrial policy, strategic subsidies and economic nationalism suggests that governments are once again prioritizing resilience and national security over efficiency and globalization. The consequence is that governments are becoming larger economic actors at precisely the moment that central banks are becoming less dominant ones. The old regime relied on monetary policy to stabilize the business cycle. The emerging regime increasingly relies on fiscal policy, industrial policy and state-directed investment. That shift has profound implications for inflation, interest rates, capital allocation and, ultimately, investment outcomes.

5. Technology Is Still Central — But It Is a Different Kind of Technology

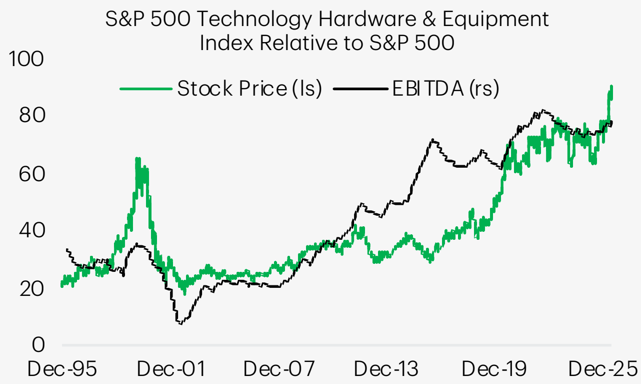
In the old regime, technology reduced the need for physical capital. In the new regime, technology is creating a new demand cycle for physical capital.

The last technology cycle was software-led, consumer-facing, asset-light, cash-rich and largely disinflationary. Companies could scale globally with little physical capital, reinforcing many of the characteristics that defined the era of monetary dominance. The emerging technology cycle looks very different. AI may be digital in output, but it is profoundly physical in its requirements. Building an AI-powered economy requires semiconductors, data centres, power generation, cooling systems, transmission infrastructure, specialized equipment, financing and, increasingly, government support.

The defining characteristic of this cycle is not intelligence alone, but capital intensity. For the first time in decades, technology is becoming a driver of physical investment rather than a substitute for it. The semiconductor complex sits at the centre of that debate. Its parabolic advances have not been built on imagination alone. Revenues and profits have been expanding explosively for several years, far outpacing the growth of the broader market (Figure 10). However, unlike the late 1990s, today's technology leaders are delivering real earnings, real cash flows and real economic value. Yet genuine earnings power does not preclude speculative excess. In fact, the most dangerous manias often begin with a powerful real-world story ... and then overshoot it.

Technology manias are especially powerful because they emerge when imagination collides with genuine opportunity. Railroads, electricity, automobiles, radio, the internet and now artificial intelligence all share that characteristic: their technology ultimately changes the world. Many of the investments do not. Today's AI cycle contains the same tension. Demand for compute

Figure 10: Unlike the '90s, today's tech boom is driven by earnings



Source: Macrobond, Wealth Investment Office as of July 13, 2026

Figure 11: Global IPO value and data-centre investment needs (2026-2028)

Source: Macrobond, Wealth Investment Office as of July 13, 2026

is exploding, data-centre investment requirements are enormous and the long-term productivity promise is real (Figure 11). Yet the eventual winners, returns on invested capital and distribution of economic value remain uncertain.

How to Invest in the New Regime

If the previous regime rewarded the beneficiaries of globalization, disinflation and monetary dominance, the next may increasingly reward the assets required to finance, build, power and secure the emerging economy.

The investment conclusion is not that the future is bleak. Nor is it that the assets that worked in the previous regime will suddenly stop working. It is that the conditions supporting them have changed. For much of the past four decades, investors benefited from globalization, disinflation, falling interest rates, expanding valuations and increasingly capital-light business models. The emerging regime is likely to be more fragmented, more fiscally active, more capital-intensive and more prone to inflation and interest-rate volatility.

That does not argue for retreat. It argues for a broader and more deliberate portfolio, one that can participate in innovation while also owning the assets required to build it. The objective is not to predict a single outcome. It is to construct portfolios that can participate in the opportunities created by the new regime while remaining resilient to a wider range of economic, geopolitical and policy outcomes.

As the global economy evolves toward a more fragmented, capital-intensive and fiscally active regime, we continue to position portfolios for resilience and long-term opportunity. Our current asset allocation remains measured but intentional, reflecting both the opportunities created by major structural investment cycles and the risks associated with inflation, interest-rate volatility and geopolitical uncertainty.

- **Cash:** Modest underweight
- **Fixed income:** Modest underweight
- **Equities:** Modest overweight
- **Alternatives:** Modest overweight

We're not trying to make large tactical bets. Rather, we're trying to align portfolios with the structural forces increasingly shaping economic and market outcomes while maintaining diversification and flexibility. Our current positioning reflects a preference for productive assets, durable income streams and exposure to long-term, capital-investment themes.

Of all our positioning decisions, the modest overweight position on alternatives may best capture the central investment implication of the emerging regime. If the previous cycle rewarded capital-light business models and financial assets, the next may increasingly reward the physical assets, infrastructure and private capital required to build, power and secure the world taking shape.

Portfolio Consequences: Diversification must evolve

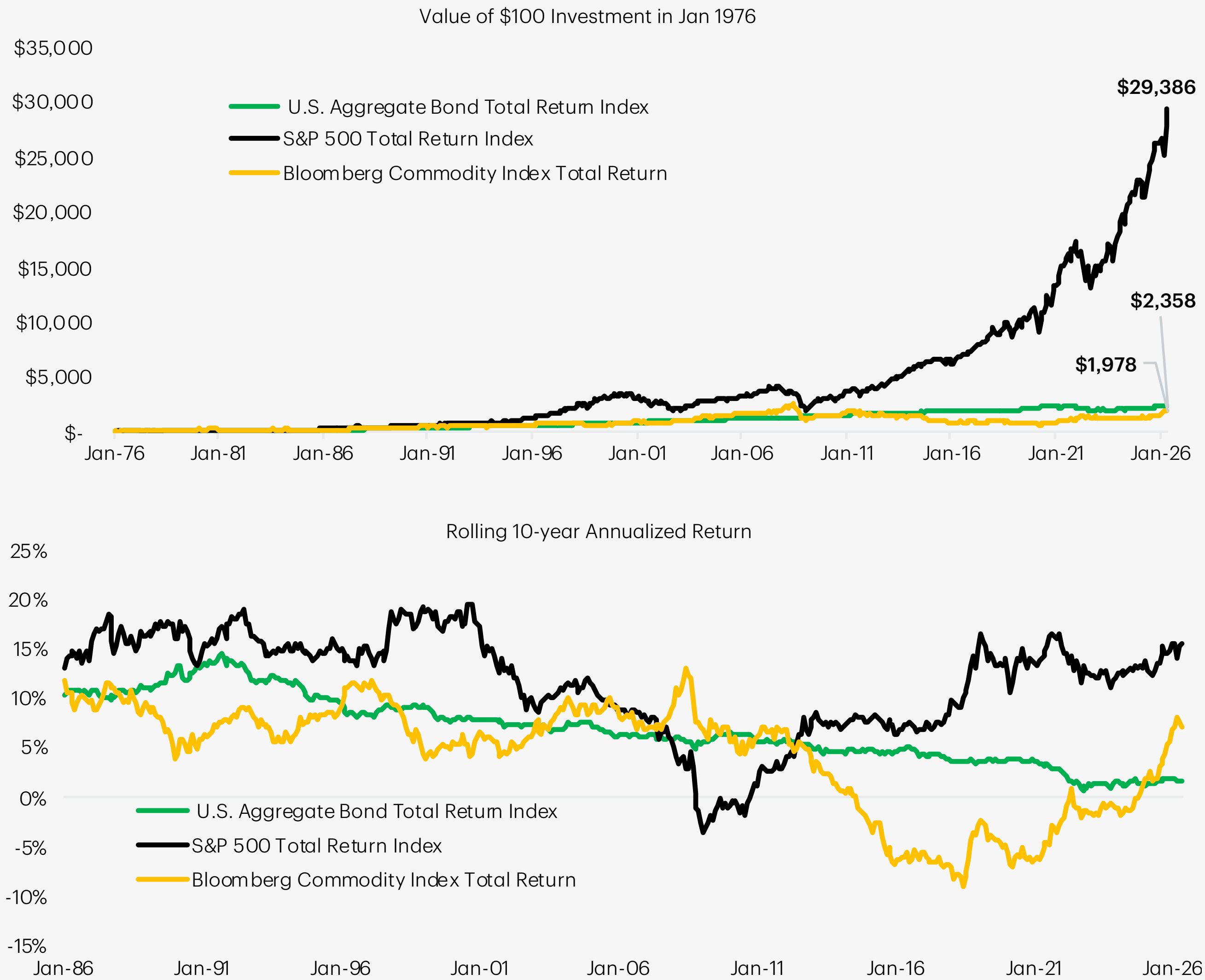
If all this feels unsettling, it's understandable. The old playbook served investors well for decades, and portfolios and expectations were built around it. A changing regime does not mean abandoning portfolio fundamentals. Cash still makes sense and always will. Bonds still have a role, albeit a somewhat different one. Nor does it mean abandoning growth, equities, technology or innovation. It means recognizing that the conditions that rewarded the old playbook are changing.

A more fragmented, more fiscally active and more capital-intensive world creates a different set of pressures. Rebuilding supply chains, energy systems, defence capacity and industrial infrastructure requires enormous amounts of capital. Governments are competing for that capital at the same time that protectionism is adding friction to the global economy. The result may be greater volatility, more persistent inflationary pressures and central banks that are both less able and less willing to shelter markets when trouble arrives.

For investors, that makes diversification more important but also more complicated. The question is no longer simply how much to allocate to stocks and bonds. It is whether the assets within a portfolio are exposed to the same underlying forces and whether yesterday's diversifiers will behave the same way in the regime now taking shape (Figure 12).

Over decades, equities have compounded far ahead of bonds and commodities, but never in a straight line. Leadership has rotated across asset classes as growth, inflation, policy and economic conditions have changed. Investors are often surprised by how quickly yesterday's winners become tomorrow's laggards and how frequently diversification proves its value precisely when it appears unnecessary. One of the lessons of the past four decades is that many investors came to mistake a particular market environment for a permanent one. Falling inflation, declining interest rates, globalization and central-bank support created powerful tailwinds across most financial assets. Diversification appeared easier because many asset classes were benefiting from the same underlying forces.

Figure 12: Yesterday's diversifiers may not be the diversifiers of tomorrow



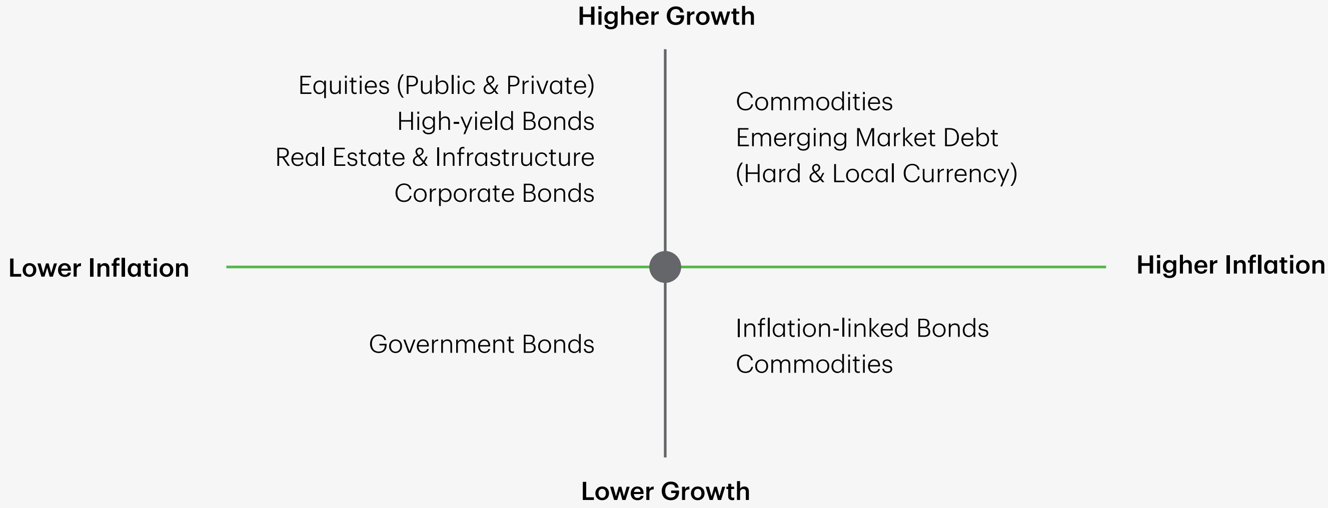
Source: Macrobond, Wealth Investment Office as of July 13, 2026

The regime now emerging may be different. Fiscal dominance, higher capital intensity, geopolitical competition and the reduced willingness or ability of central banks to cushion every shock may create an environment in which traditional relationships become less reliable. Diversification remains essential, but investors may need to think differently about the risks they are trying to diversify. Rather than viewing markets through the traditional lens of stocks, bonds and cash, it may be more useful to think about portfolios through the lenses of growth and inflation. Those two variables continue to drive most asset returns and help explain why different investments perform well under different economic conditions. Figure 13 provides a simple framework for understanding how assets behave across four possible economic environments.

Understanding where assets sit within this framework helps explain why diversification cannot simply be defined by the number of holdings in a portfolio. True diversification comes from owning assets that respond differently to changes in growth and inflation. A portfolio holding hundreds of securities may appear diversified on the surface yet still be highly vulnerable if those assets ultimately depend on the same underlying economic outcome.

This distinction is becoming increasingly important. For most of the period following the financial crisis, falling inflation, declining interest rates, globalization and central-bank support acted as powerful tailwinds across multiple asset classes. Equities, bonds, private equity, credit, real estate and infrastructure all benefited, to varying degrees, from the same broad macroeconomic forces. The regime now emerging may be different. Fiscal dominance, higher capital intensity, geopolitical fragmentation and a less activist Fed may alter the relationships investors have grown accustomed to. If the drivers of returns are changing, diversification must also evolve.

Figure 13: Growth/Inflation Framework



Source: Wealth Investment Office as of July 13, 2026

The key risk today is that many portfolios are increasingly exposed to the same underlying theme: artificial intelligence. The AI narrative now runs through public equities, private equity, infrastructure, real estate, credit markets and even sovereign and corporate bonds through its influence on growth expectations, capital spending and financing needs. As a result, portfolios may be less diversified than they appear. Investors who believe they own multiple themes may instead be expressing the same idea through different vehicles.

One area that may deserve greater attention is multi-strategy investing. Unlike traditional asset classes, multi-strat approaches seek to generate returns from manager skill, security selection and relative-value opportunities rather than broad market exposure alone. Because their return streams are often less dependent on the direction of equity and bond markets, they can provide valuable diversification when traditional correlations break down. In a world characterized by fiscal dominance, greater macro volatility and more frequent inflation shocks, skill-based returns may become increasingly valuable portfolio stabilizers.

Perhaps the most important lesson is that diversification should not be judged by how a portfolio is labelled, but by how it behaves. As the investment backdrop changes, investors may need to devote as much attention to the drivers of return as they do to the assets themselves.

Don't Know What I Want, But I Know How to Get It

The future rarely announces itself clearly. The major regime shifts that shaped the past century — the rise of globalization, the end of Bretton Woods, the Volcker disinflation, the internet revolution and the emergence of China — were only obvious in hindsight. Investors living through them experienced confusion, volatility and disagreement, not certainty. The shift underway today is no different. Some of the forces that defined the past four decades are becoming less powerful. In their place, new forces are emerging: fiscal activism, industrial policy, geopolitical competition, energy security, strategic resources and a technology cycle that is increasingly physical rather than purely digital.

But that does not mean the future is bleak.

Nor does it mean that innovation, entrepreneurship, technology or capitalism have reached their limits. Quite the opposite. The world may be entering another period of profound innovation and investment. The difference is that this cycle is likely to require more capital, more infrastructure, more energy and a larger role for governments than the one that came before it.

Investors do not need to predict every outcome, but they do need to recognize that regimes change and portfolios built for one era are not always optimized for the next. The challenge ahead is not deciding whether to own growth or value, public or private assets, technology or real assets. It is understanding how these forces are becoming increasingly interconnected. The winners of the next decade may not simply be those who create the technology, but also those who finance it, power it, build it and secure it.

So, is there really no future? The Sex Pistols may have captured the mood of investors better than they realized in a lyric about not knowing what they wanted but knowing how to get it. That may be the most honest description of the moment. We cannot know with certainty how the next decade will unfold. We can, however, identify the forces reshaping the world around us and build portfolios designed to participate in them. The goal is not to predict the future. It is to prepare for it. And that, ultimately, is how investors get there.

Leading Macro Indicators

Signs of Improving Fundamentals

While the overall U.S. macro condition continued to stagnate, cyclical sector activity accelerated, and consumer spending growth may have bottomed.

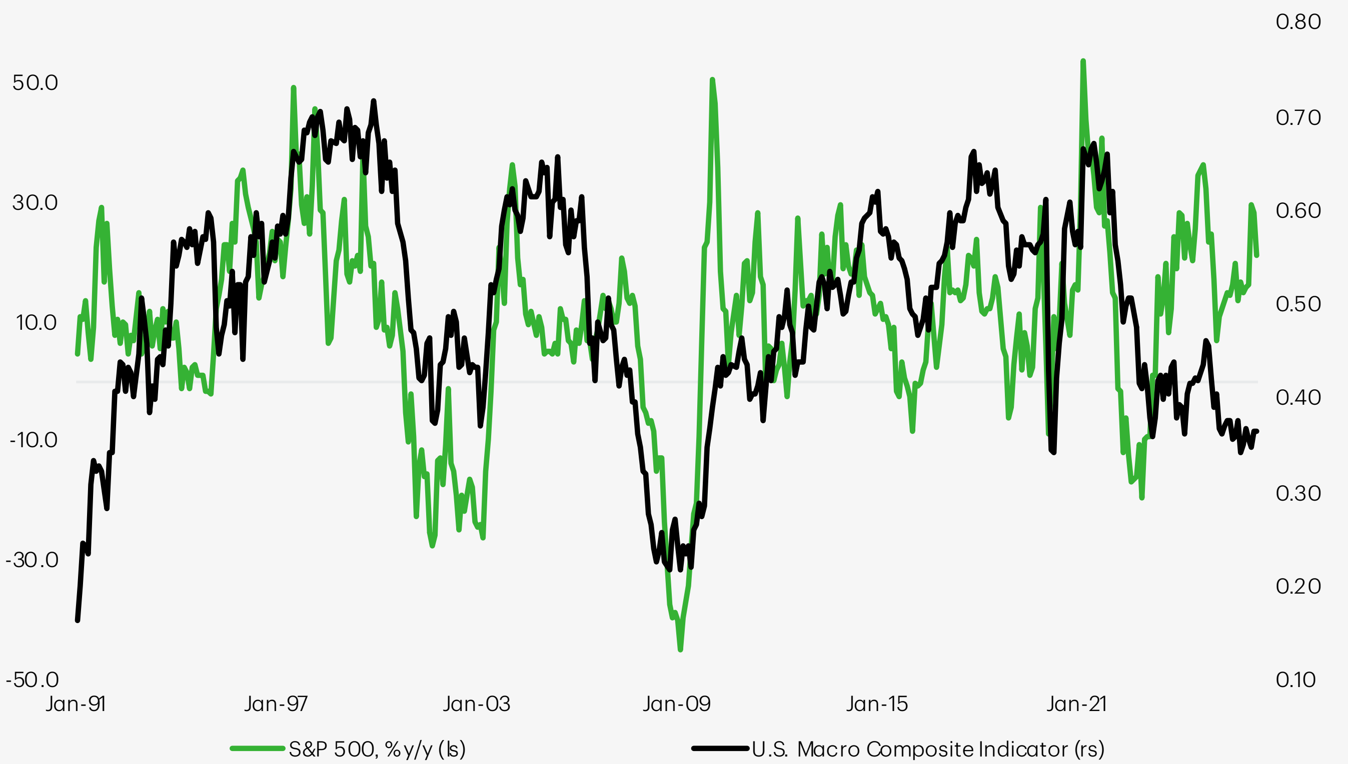
Kevin Yulianto, Quantitative Portfolio Manager, TD Wealth

Based on our U.S. macro composite indicator, which reflects the ebb and flow of the U.S. business cycle, the aggregate score for the U.S. economy has fluctuated between the 30th and 40th percentile over the past 18 months. At the end of the second quarter of 2026, it sat at the 36th percentile (below the normal 40th to 60th percentile range), unchanged compared to the end of the first quarter.

In Q2, U.S. and global equity markets rallied sharply as the conflict between the U.S. and Iran de-escalated and AI investment spending showed no signs of slowing down. Semiconductor stocks led the jump alongside the industrial sector, while the Consumer Discretionary Sector (consumer cyclicals) also benefitted as investors expected consumer spending to improve. Policymakers are still concerned about inflation and the new Federal Reserve Chair Kevin Warsh is revamping the way the central bank communicates to market participants. This, combined with the stabilization in the labour market, has meant expectations are now centering around a 25-basis point Fed rate hike this year.

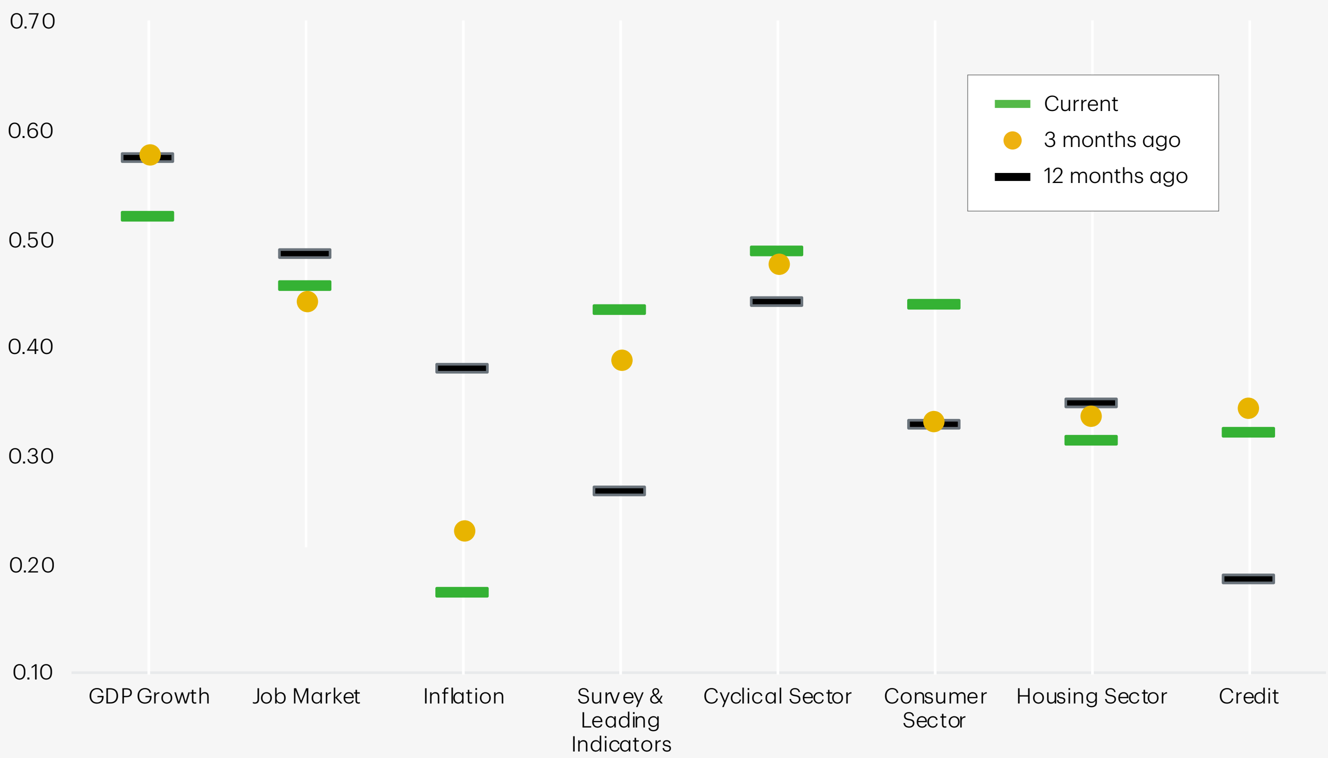
Our macro composite indicator (which works to capture changes in the U.S. business cycle through 120 key economic variables that inform our understanding of the macroeconomic and risk environment) is part of our process-driven approach to investment management. When we compare the annual rate of change of the S&P 500 index with changes to our U.S. macro composite indicator, we see that the two tend to move loosely in the same direction over time and that in recent years the score has been materially below market performance (Figure 1). When we break the overall score down into eight subsectors, we see that four (GDP Growth, Job Market, Inflation, Housing) have deteriorated over the previous 12 months (Figure 2).

Figure 1: U.S. macro composite indicator



Source: Macrobond, Wealth Investment Office as of June 30, 2026

Figure 2: Change in market risk regime scores



Source: Macrobond, Wealth Investment Office as of June 30, 2026.
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.

The following are notable developments in Q2 2026:

1. The score for GDP Growth slightly fell to the 52nd percentile at the end of Q2 from the 58th percentile in Q1, driven mainly by the downward revision in the Q2 GDP estimate by the Atlanta Fed GDPNow. The GDP score was supported by robust investment spending (led by AI capex) but weighed down by slowing consumer spending on services.

2. The U.S. Job Market improved, albeit slightly, and the aggregate score for the category rose to the 46th percentile at the end of Q2 from the 44th percentile in Q1. Employment gains, job openings, and wage growth all rose. The post-pandemic normalization of the labour market seems to be at an end, and barring a sharp economic slowdown, the outlook for the labour market should continue to improve going forward.

3. The aggregate score for Inflation deteriorated in Q2 to the 17th percentile from the 23rd percentile at the end of Q1. Both the actual inflation figure and the price outlook worsened in Q2. Consumer and producer prices rose in Q2 on the back of higher energy prices, and consumer inflation expectations deteriorated. However, the resolution of the conflict in the Middle East and declining oil prices should translate to an improved score for inflation in Q3.

4. The score for Survey & Leading Indicators rose to the 43rd percentile at the end of Q2 from the 39th in Q1. The ISM Manufacturing surveys posted six consecutive months of expansion, and the new orders subcategory continued to expand, highlighting robust goods orders in the coming quarters. The outlook for the service sector also improved in Q2 and ISM Services survey pointed to the continued expansion of this sector.

5. The Cyclical Sector maintained its acceleration, despite the disruption caused by the conflict in the Middle East, which suggests we're entering an early phase of the manufacturing cycle expansion. Cyclical Sector activity saw a slight uplift in Q2, and the score nudged up to the 49th percentile from the 48th at the end of Q1. Industrial production growth and factory orders accelerated, but durable goods orders declined (particularly because of the more volatile aircraft orders) and kept a lid on the score for this category.

6. The score for the Consumer Sector overall rose in Q2 to the 44th percentile from the 33rd percentile at the end of Q1, supported by increased spending on goods and services. Consumer sentiment remained at a depressed level and should improve in Q3 as long as energy prices fall and labour markets improve.

7. The Housing Sector indicator, which stood at the 34th percentile at the end of Q1, slipped to the 32nd percentile in Q2. Mortgage rates rose slightly in Q2 and weighed on activity and prices in the housing sector. Sentiment on future house prices is improving from a low base, but the housing affordability measure remains depressed. Without a sustainable decline in mortgage rates, the recovery of the Housing Sector will be further delayed.

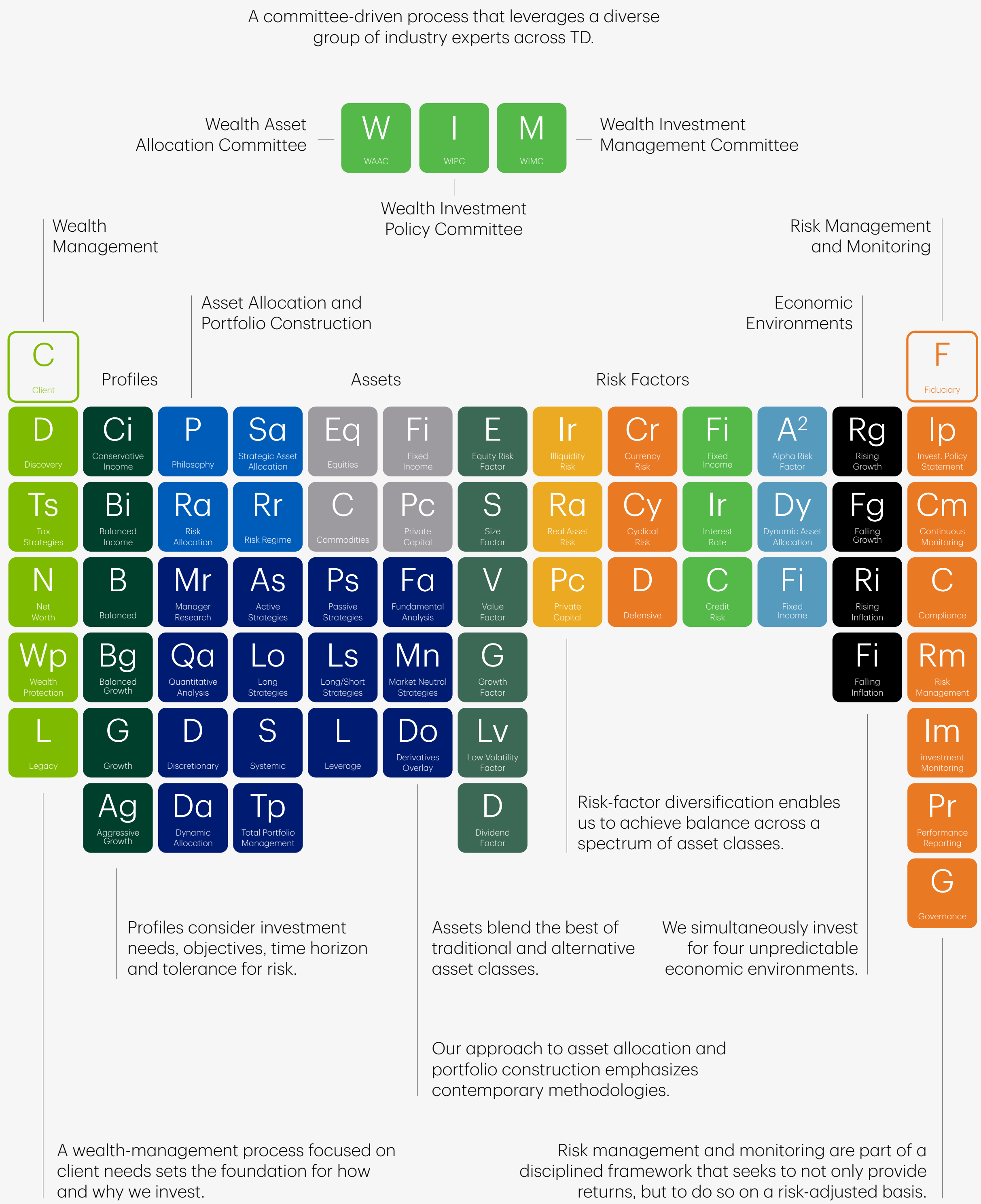
8. Lastly, the score for Credit fell to the 32nd percentile at the end of Q2 from 35th percentile prior. Lending standards tightened slightly in the quarter, and commercial and industrial loan growth was roughly unchanged.

The U.S. business cycle continued to stagnate in the second quarter of 2026, but there are encouraging signs underneath the surface that it will improve in coming quarters. The Inflation score, which plummeted in Q2 as the blockade of the Strait of Hormuz sent energy prices soaring, should improve in Q3 reflecting the decline in oil prices after peace negotiations. And this should help push the overall macro composite indicator higher. Meanwhile, based on survey and leading indicators, the Consumer Sector has potentially bottomed out while the acceleration in Cyclical Sector activity could gather speed in the second half of 2026. The Housing Sector has been stagnating for several quarters and will need lower mortgage rates to recover. Taken together, the backdrop for U.S. economic growth should remain favourable in the coming quarters and support the broadening rally in equities outside AI-related names.

Elements of Wealth Management

Investors are often left to make decisions without any formal process. Our solution? Follow an investment philosophy — a guiding set of principles designed to work in a world that's constantly changing, often with dramatic impact on financial markets. At TD Wealth, we call that philosophy "Risk Priority Management," and it provides the foundation for our decision-making process. That process is then broken down into its most basic components, similar to a periodic table of elements, as illustrated below, with groupings and weights. These components comprise our entire process, from wealth management to risk management to monitoring. All in all, there are 72 "elements" that fall into eight categories.

Figure 1: Elements



Wealth Asset Allocation Committee

The TD Wealth Asset Allocation Committee (WAAC) is composed of a diverse group of TD investment professionals. WAAC's mandate is to consider the financial-market environment and provide direction and themes for equities, fixed income, real assets and sub-classes for the next six to 18 months.

Considers the financial-market environment and provides direction and themes

Utilizing risk factors to manage exposures, we build and manage portfolios that blend the best of traditional and alternative asset classes.

Committee members:

Justin Flowerday, CFA (Chair) .... Chief Investment Officer, TD Asset Management Inc (TDAM)

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

Anna Castro, CFA... Managing Director, Head of Retail Asset Allocation, TDAM

Vitali Mossounov, CFA, CPA, CA .... Managing Director, Head of Public Equities, TDAM

Jennifer Nowski, CFA .... Managing Director, Portfolio Manager, TDAM

Michael Augustine, CFA, FCIA, FSA .... Managing Director, Head of Institutional Investment Solutions, TDAM

Alex Gorewicz, CIM.. Vice President and Director, Active Fixed Income, TDAM

Colin Lynch .... Managing Director, Head of Private Markets, TDAM

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

Kevin Hebner, Ph.D.. Managing Director, Global Portfolio Management, TD Epoch

Kevin Hebner, Ph.D.. Managing Director, Global Portfolio Management, TD Epoch

William Booth, CFA, ..Managing Director, Chief Investment Officer & Portfolio Manager, & U.S. Region Head, TD Epoch

Brad Simpson, CIM, FCSI... Chief Wealth Strategist, Wealth Investment Office, TD Wealth

Sid Vaidya, CFA, CAIA .... U.S. Wealth Chief Investment Strategist, TD Wealth

Bryan Lee, CFA .... Vice President & Director, Lead of Asset Allocation Client PM Team, TDAM

Jafer Naqvi, CFA... Managing Director, Head of Client Portfolio Management, TDAM

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Direction from WAAC

Core Asset Class Allocations

As of July 16, 2026

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

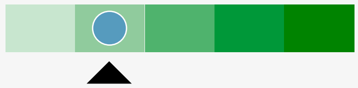
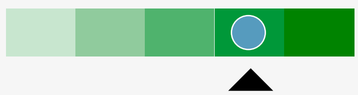
	Positioning	Rationale
Cash & Equivalents	**Modest Underweight**  Previous Month	We maintain a modest underweight to cash as prospective returns are expected to remain limited relative to other asset classes. In this environment, we see greater value in deploying capital into higher-returning asset classes.
Fixed Income	**Modest Underweight**  Previous Month	The Bank of Canada (BoC) can continue to be patient and on hold with respect to its rate policy given the two-sided risks from growth and inflation. Despite persistent geopolitical volatility and policy uncertainty, global higher-for-longer rate dynamics are anchoring bond yields at attractive and historically elevated levels. As such, we expect that income will drive bond returns, enabling bonds to provide a measure of stability during periods of broader market volatility.
Equity	**Modest Overweight**  Previous Month	Global equity markets are in positive territory year-to-date as strong earnings growth has offset modestly lower valuation multiples. While areas driven by artificial intelligence (AI) and data centre spending continue to lead performance, improving earnings participation across a broader set of sectors have provided additional support for markets. While there could be volatility depending on Middle East oil flows and AI sentiment, we remain constructive on equities due to positive global economic and earnings growth, as well as more pro-business government policies.
Private Markets & Alternatives	**Modest Overweight**  Previous Month	We believe an allocation to alternative assets can benefit diversified portfolios, particularly over the long term. Alternatives can offer inflation protection and attractive absolute returns, while enhancing portfolio stability through diversification and less-correlated income streams. Recent geopolitical developments have reinforced the role of alternatives as sources of resilience. Given the nature of private assets and the current phase of value adjustment across several markets, we believe this may be an attractive time to increase or consider an allocation to alternative assets.

Figure 1: Direction from WAAC: strategic positioning

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

Source: Wealth Asset Allocation Committee, as of July 16, 2026.

Fixed Income - Modest Underweight

	Positioning	Rationale
Domestic Government Bonds	**Modest Underweight**	Canadian rates have outperformed recently on softer domestic data, but the BoC remains firmly on hold. With domestic policy largely anchored, further moves in yields are likely to be driven by U.S. rates and global term-premium developments.
Investment Grade Corporate Credit	**Modest Overweight**	Spreads remain near cycle tights amid resilient fundamentals. While AI-related capex and M&A activity continue to drive elevated issuance, investors are becoming more price sensitive, particularly toward frequent issuers, limiting further spread compression near term for AI-related sectors.
High Yield Credit	**Neutral**	Fundamentals remain supportive and defaults low, but spreads near cycle tights provide limited compensation for downside risks tied to geopolitics, private credit dynamics, and broader market volatility. We remain neutral given tight valuations.
Global Bonds Developed Markets	**Modest Underweight**	A resilient U.S. economy continues to support a higher-for-longer rate environment. Uncertainty surrounding future central bank reaction functions, rising global term premia, and higher Japanese government bond yields, are expected to contribute to elevated volatility across developed market bond markets.
Global Bonds Emerging Markets	**Modest Overweight**	Emerging market local currency government bonds offer attractive income, however, total return prospects vary by region. We favour short-maturity bonds or currency positions in select Latin American, eastern European and African countries, where inflation-adjusted yields are attractive. In contrast, we remain cautious on Asian countries where yields are lower and external risks are elevated.

Equities - Modest Overweight

	Positioning	Rationale
Canadian Equities	**Modest Overweight**	Canadian economic growth is expected to remain low, but positive, as a more pro investment federal government helps offset uncertainty around U.S. trade negotiations. The S&P TSX Composite Index (TSX) sector mix acts as a diversifier for U.S., & Emerging markets that are heavily influenced by the Information Technology sector. TSX returns are supported by strong earnings growth combined with shareholder friendly dividend and buyback policies.
U.S. Equities	**Neutral**	U.S. equity returns are driven by earnings growth, particularly in information technology and sectors that benefit from AI spending. Tax policies under the "One Big Beautiful Bill Act," lagging impact of past U.S. Federal Reserve cuts, and the potential for further deregulation offer additional tailwinds. Key sources of volatility include concerns around AI driven disintermediation in the Information Technology Software & Services sector, the trajectory of AI capital expenditure (capex) and funding, and ongoing geopolitical uncertainty.
International Equities	**Modest Underweight**	International equities may lag as earnings growth, while positive, remains lower than in other markets. European earnings could face additional headwinds if energy costs remain above pre-conflict levels. The Japanese market has rallied on the back of corporate reform, a more pro-growth government, and benefits from AI spending, but there may be volatility as the Bank of Japan has raised rates.
Emerging Market Equities	**Neutral**	Emerging Markets provide exposure to technology companies with strong earnings growth potential. China continues to face challenges with weak domestic consumption and its property market.

Private Markets and Alternatives - Modest Overweight

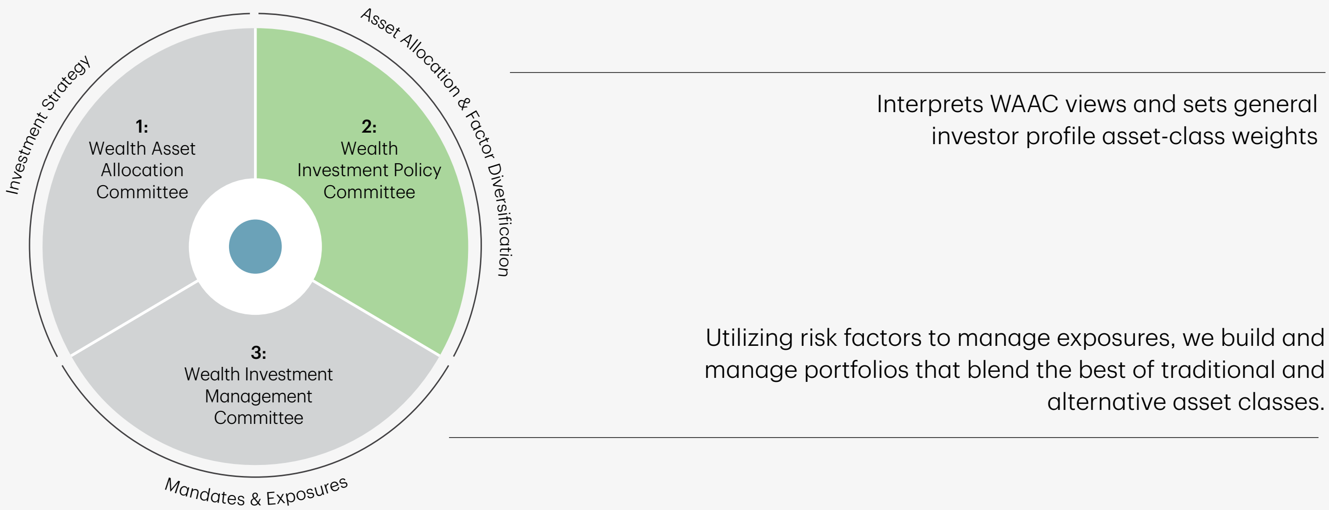
	Positioning	Rationale
Commercial Mortgages	**Modest Underweight**	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Investment Grade Private Debt (Universe)	**Modest Underweight**	High credit quality and global diversification can provide an income ballast in an uncertain economic environment. A robust illiquidity premium can provide a vital income boost in an environment of narrowing public credit spreads. Incremental income and potential capital appreciation from interest rate moderation may provide upside.
Domestic Real Estate	**Modest Underweight**	We believe most value adjustments in Canadian commercial real estate are complete. Office occupancy (especially in Toronto) has begun to improve as large users mandate returns to office. Despite U.S. tariff policy volatility, Canada's industrial market remains healthy. Poor condominium markets and lower immigration have temporarily pressured residential rental rates in Toronto and Vancouver. Long-term multi-unit residentials will likely see strong rental growth due to structural supply-demand imbalance.
Global Real Estate	**Neutral**	Returns are starting to improve globally. U.S. and Asian Pacific markets have seen the capitalization rate stabilizing, while Europe continues to outperform. In Japan, strong office, residential, retail, and hotel fundamentals continue to support rental growth despite rising rates. In Korea, healthy office, industrial, and hotel markets should support stable returns, though higher financing costs are making performance increasingly income-driven.
Infrastructure	**Modest Overweight**	Infrastructure continues to offer stable returns and lower volatility due to its essential long-term nature. The persistent global infrastructure spending gap remains a key investment driver, reinforcing the need for increased investment. Additionally, accelerating trends such as the electrification of industry and the expansion of digital infrastructure are significantly increasing demand for power generation, energy storage and supporting infrastructure, creating compelling investment opportunities.
Commodities (Gold, Energy, Metals, Agriculture, Carbon)	**Modest Overweight**	Commodities have strengthened amid supply disruptions, particularly in energy, natural gas, and select industrial inputs. Recent gains appear driven more by curtailed supply than excess demand, reinforcing commodities' role as a portfolio diversifier during periods of geopolitical stress.
Global Private Credit	**Modest Overweight**	Global Private Credit provides premium income through diversified global origination across corporate, real estate, infrastructure, and specialty finance, including middle-market corporate relationships. TDAM's robust credit risk infrastructure supports strong governance and disciplined access to attractive risk-adjusted return opportunities.

U.S. Dollar

	Positioning	Rationale
U.S. Dollar (USD) vs. Canadian Dollar (CAD)	**Modest Underweight**	Longer-term valuation metrics suggest the USD remains overvalued, supporting a modest underweight positioning. While the USD continues to benefit from safe-haven demand amid ongoing geopolitical uncertainty, upside versus the CAD may be more limited from current levels. Canada's softer growth outlook and sensitivity to global trade dynamics continue to act as near-term headwinds for the CAD, partially offset by support from elevated energy prices. Overall, we view the CAD as broadly fair valued, with relative currency movements likely to be driven by shifts in global risk sentiment and commodity dynamics.

Wealth Investment Policy Committee

The Wealth Investment Policy Committee (WIPC) is composed of a diverse group of TD investment professionals. WIPC's mandate is to interpret WAAC views and set general asset-class weights for each investor profile.



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

Anna Castro, CFA .... Managing Director, TDAM

Jafer Naqvi .... VP & Director, TDAM

Christopher Lo, CFA .... Senior Portfolio Manager, Investment Strategy Management, WIO, TD Wealth

Fred Wang, CFA .... Senior Portfolio Manager, Head of Asset Allocation & Managed Investments, WIO, TD Wealth

Mansi Desai, CFA .... Portfolio Manager, Equities, WIO, TD Wealth

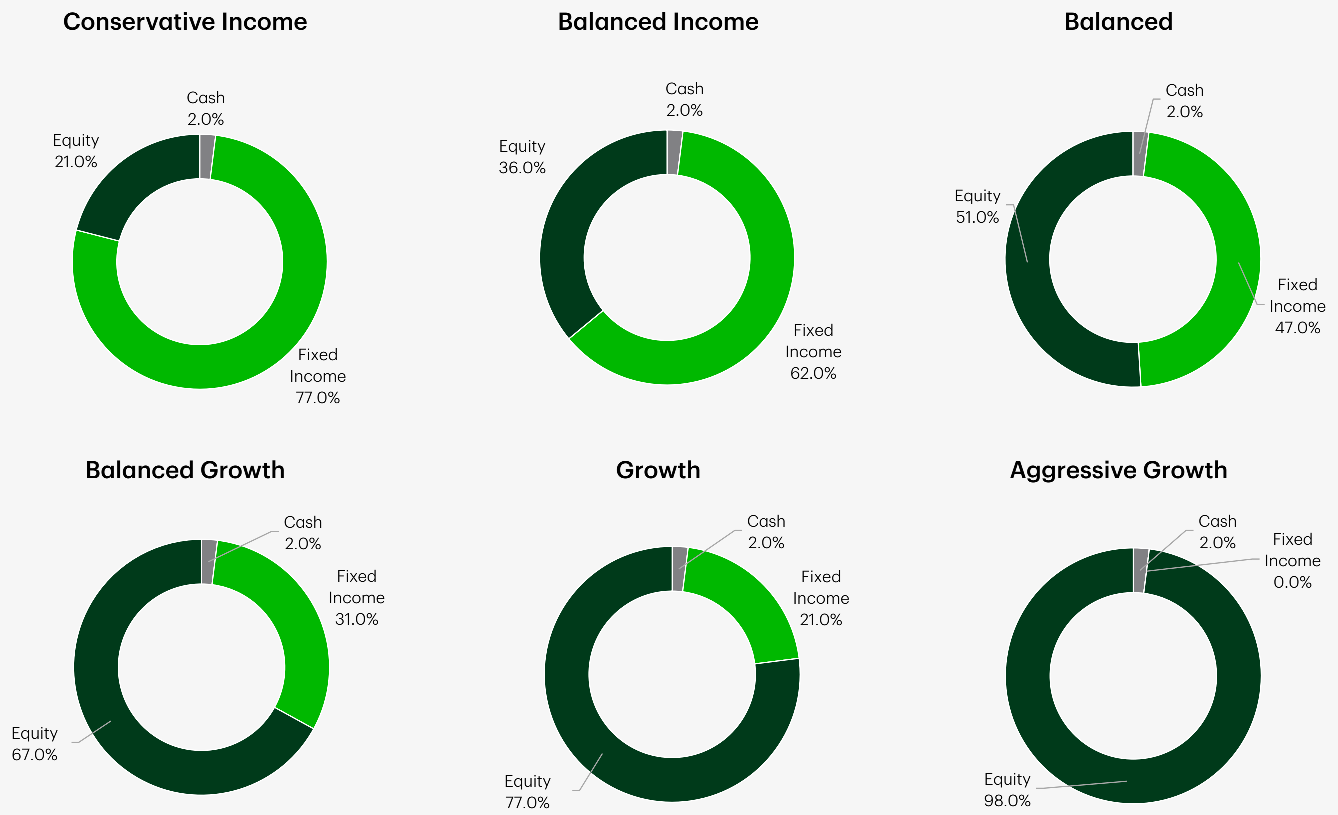
The Wealth Investment Policy Committee (WIPC) asset allocation weights are unchanged this month and remain aligned with the Wealth Asset Allocation Committee's (WAAC) recommendations. Overall, the committee has a modest overweight allocation to equities and alternatives and a modest underweight allocation to cash and fixed income.

Within fixed income, the allocation to domestic government bonds remains at a modest underweight position, while the allocation to investment-grade corporate bonds is unchanged at a neutral to modest overweight position. High-yield remains at a neutral weight across all profiles. The allocation to developed-market global bonds remains unchanged at a modest underweight position and to emerging-market global bonds at a neutral position in all profiles.

Within equities, the allocations remain unchanged; modest overweight for Canadian equities, neutral to modest overweight for U.S. equities, neutral to Emerging Markets and modest underweight to International Equities.

The allocations to the alternatives asset class continue to be neutral in commercial mortgages, real estate, and private credit, and modest overweight in commodities and infrastructure.

Dynamic asset-class weights by investor profile (Condensed)

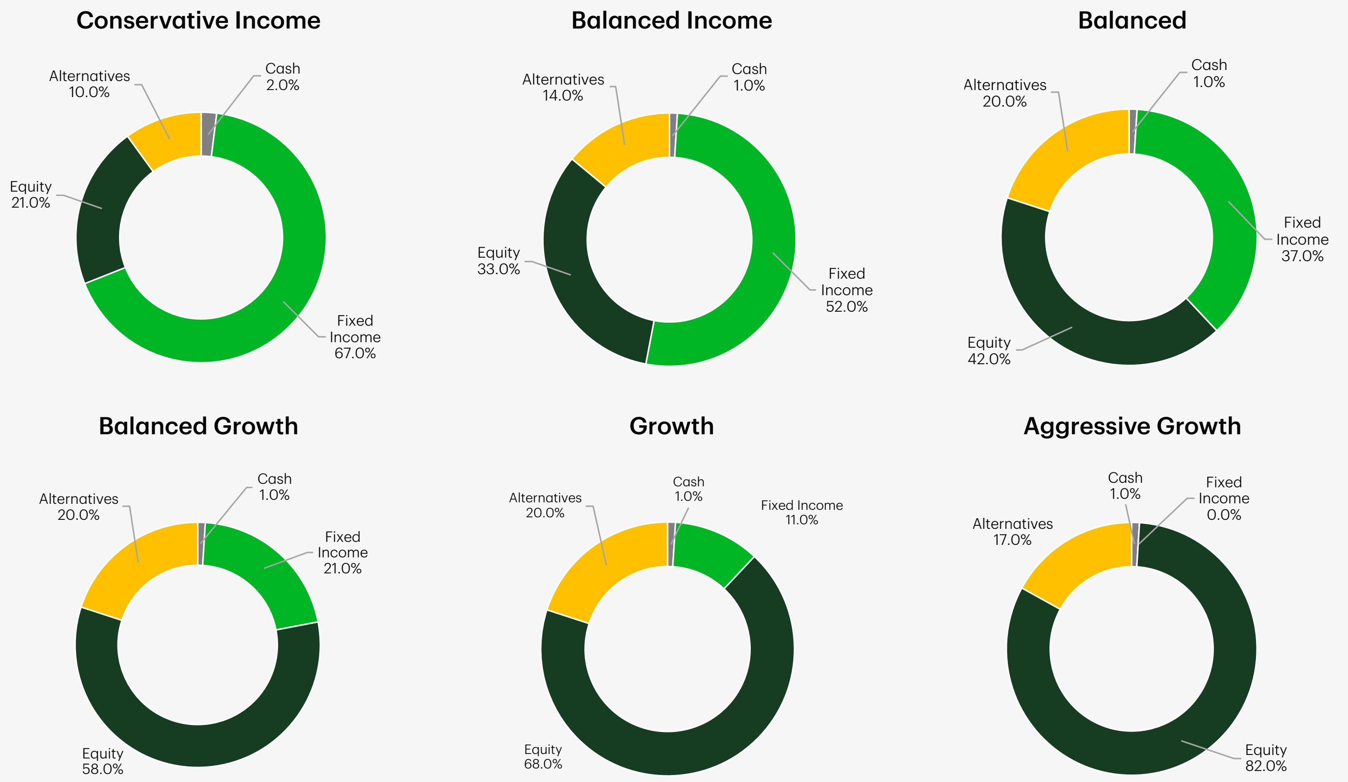


Strategic and dynamic asset-class weights by investor profile (Condensed)

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.
Cash	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Public Fixed Income	**78.0%**	**77.0%**	**63.0%**	**62.0%**	**48.0%**	**47.0%**	**33.0%**	**31.0%**	**23.0%**	**21.0%**	**0.0%**	**0.0%**
Government	39.0%	37.0%	32.0%	30.0%	24.0%	22.0%	17.0%	15.0%	11.0%	9.0%	0.0%	0.0%
Corporate	39.0%	40.0%	31.0%	32.0%	24.0%	25.0%	16.0%	16.0%	12.0%	12.0%	0.0%	0.0%
Public Equities	**20.0%**	**21.0%**	**35.0%**	**36.0%**	**50.0%**	**51.0%**	**65.0%**	**67.0%**	**75.0%**	**77.0%**	**98.0%**	**98.0%**
Canadian	6.0%	8.0%	11.0%	13.0%	15.0%	17.0%	20.0%	22.0%	23.0%	25.0%	29.0%	31.0%
U.S.	8.0%	8.0%	14.0%	14.0%	20.0%	20.0%	26.0%	27.0%	30.0%	31.0%	40.0%	40.0%
International	4.0%	3.0%	7.0%	6.0%	10.0%	9.0%	13.0%	12.0%	15.0%	14.0%	19.0%	17.0%
China/ Emerging Markets	2.0%	2.0%	3.0%	3.0%	5.0%	5.0%	6.0%	6.0%	7.0%	7.0%	10.0%	10.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of July 16, 2026.

Dynamic asset-class weights by investor profile (Expanded)



Strategic and dynamic asset-class weights by investor profile (Expanded)

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.
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%	7.0%	6.0%	5.0%	5.0%	4.0%	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%
Global Bonds - Emerging	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	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%	9.0%	13.0%	14.0%	17.0%	18.0%	23.0%	24.0%	27.0%	28.0%	35.0%	35.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	10.0%	13.0%	12.0%	15.0%	13.0%
China/Emerging Markets	2.0%	2.0%	3.0%	3.0%	5.0%	5.0%	6.0%	6.0%	7.0%	7.0%	10.0%	10.0%
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%	4.0%	4.0%	3.0%	4.0%	3.0%	4.0%	3.0%	4.0%	3.0%	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%	2.0%
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%	3.0%	2.0%	3.0%	3.0%	4.0%	3.0%	4.0%	3.0%	4.0%	4.0%	5.0%
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%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of July 16, 2026.

Economic Outlook

The Stationary U.S. Trade Deficit

Commodity Tailwinds, AI Headwinds, & Price Distortions.

Andrew Foran, Economist | TD Economics

Highlights

- The U.S. trade deficit has remained broadly unchanged over the past year, but only because temporary commodity export tailwinds have offset a stronger increase in AI-related imports.
- Gold and oil have accounted for roughly two-thirds of export growth over the past year, though support from higher commodity prices appears likely to continue to fade.
- The AI infrastructure buildout is driving a surge in imports of advanced computing equipment and could place renewed upward pressure on the trade deficit over time.

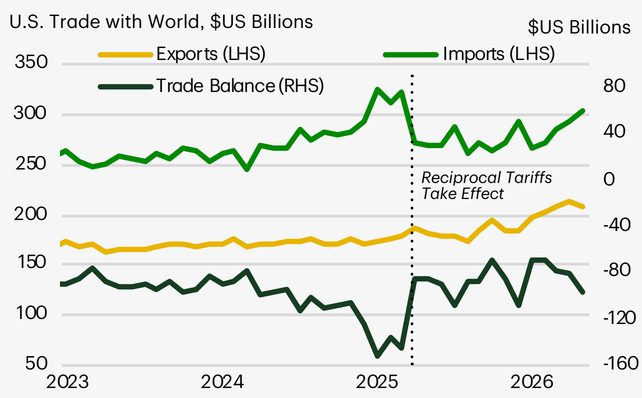
U.S. trade has seen notable growth over the past year, with exports and imports both up 13-14% year-on-year in May (Figure 1). This may sound counterintuitive given the protectionist stance of trade policy under the current administration, but the sectors driving these trends have been subject to specific demand shocks. In the case of exports, higher global demand for commodities, like gold and oil, and rising prices for these goods has benefitted the U.S. However, this has not led to a lower trade deficit for the U.S. because imports are being driven higher by domestic demand for AI-related goods.

Cumulatively, the trade deficit remains largely unchanged relative to the end of 2024, but this is the byproduct of notable offsetting trends in different goods categories. Moving forward, emerging trends suggest existing support for exports is waning, while support for imports via AI-related demand appears more durable. This suggests that the trade deficit may widen if offsetting trends do not emerge.

Liquid & Physical Gold Bolstering Exports

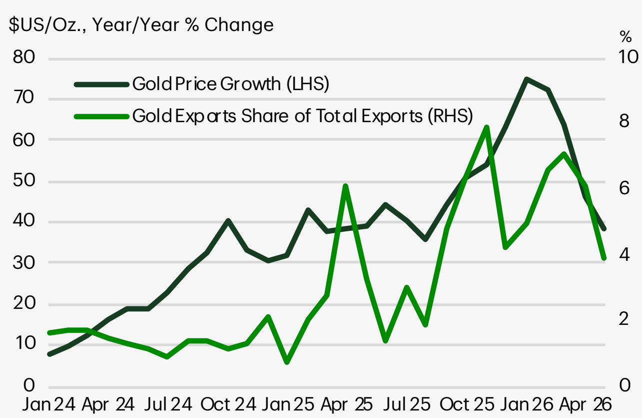
Throughout 2025, global demand for gold rose materially, but also sporadically, as heightened trade uncertainty, falling real interest rates, central bank reserve diversification, and market euphoria cumulatively pushed prices to an all-time high. Although U.S. exports of gold typically account for a small share of total exports (~2%), higher export volumes combined with the roughly 70% increase in gold prices last year pushed the metal's share of total exports to 6-8% (Figure 2). These exports were primarily routed to global financial capitals in the U.K. and Switzerland. While gold prices have retreated over the past few months, they are still roughly 20% higher year-on-year and continue to influence U.S. export data, but to a lesser extent than last year.

Figure 1: Trade Deficit Has Changed Little As Exports Rise in Concert with Imports



Source: U.S. Census Bureau, TD Economics.
Last Observation: May 2026.

Figure 2: Higher Price of Gold Bolstered U.S. Exports in Nominal Terms, But Has Fallen Recently

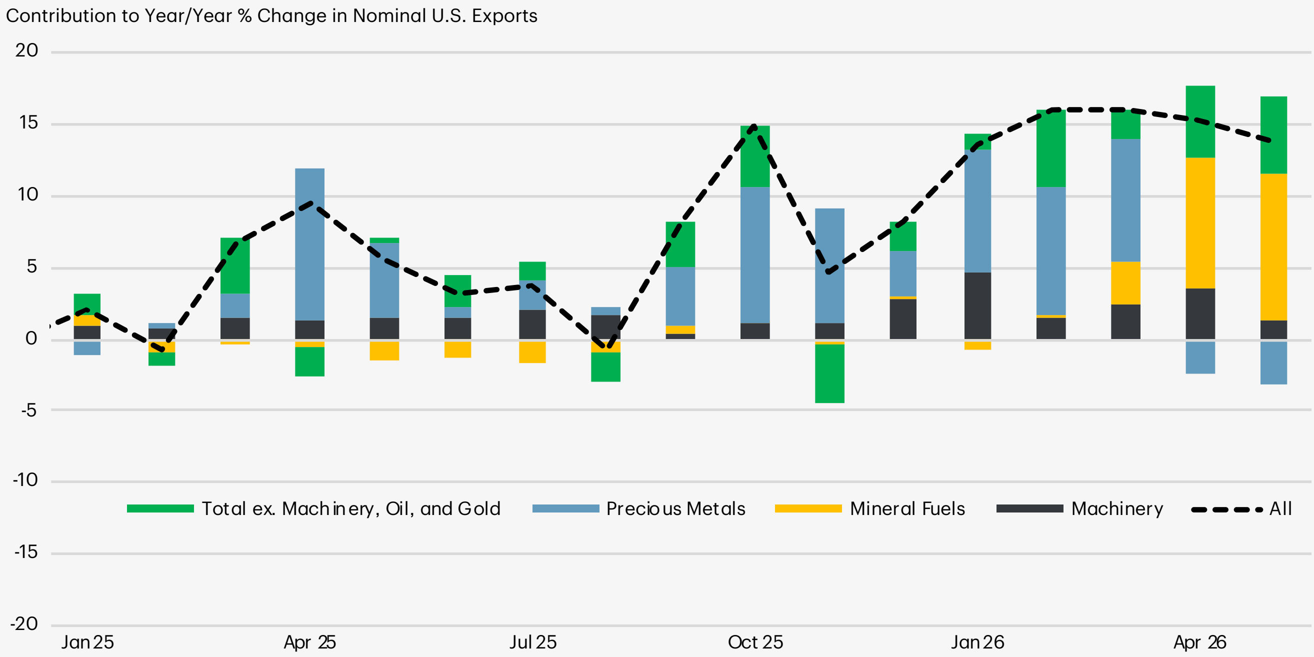


Source: Wall Street Journal, U.S. Census Bureau, TD Economics.

For total exports, growth remains strong in 2026, but the driving influence has shifted towards gold of the liquid variety – metaphorically speaking that is (Figure 3). Crude oil exports in May were 105% higher year-on-year. Higher prices accounted for roughly three-quarters of the year-on-year increase in oil exports, but volumes have also increased. The increase was likely supported by releases from the U.S. Strategic Petroleum Reserve (SPR), alongside stronger export demand. Given that the release is expected to be completed by mid-July, and oil prices have since returned close to their pre-conflict level – removing the price influence on exports and reducing the incentive for higher domestic production – support for U.S. oil exports is likely to wane relative to current levels through the rest of the year.

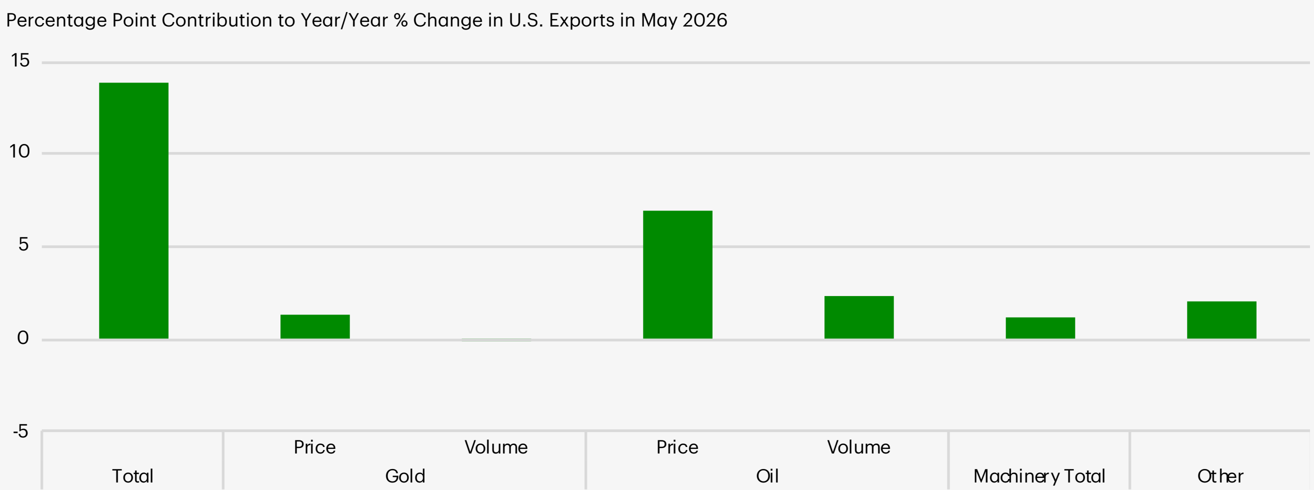
Cumulatively, higher gold and oil prices have contributed 60% of the year-on-year growth in U.S. exports (Figure 4). When higher export volumes in each of these products are included the share rises to two-thirds. Of the remaining contributors to the year-on-year increase in exports, technology is the largest category.

Figure 3: Gold, Oil, & Machinery Account for Majority of Export Growth



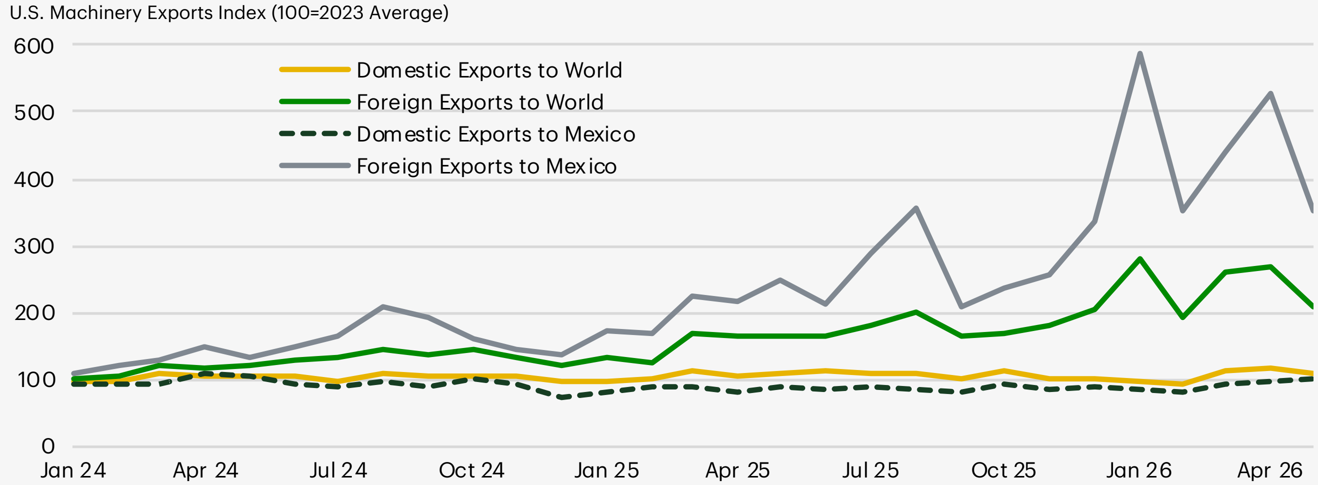
Source: U.S. Census Bureau, TD Economics.

Figure 4: More Than Half of Nominal U.S. Export Growth Driven by Commodity Prices



Source: U.S. Census Bureau, Wall Street Journal, TD Economics.

Figure 5: Uptick in Machinery Exports Fully Driven by Re-Exports to Mexico

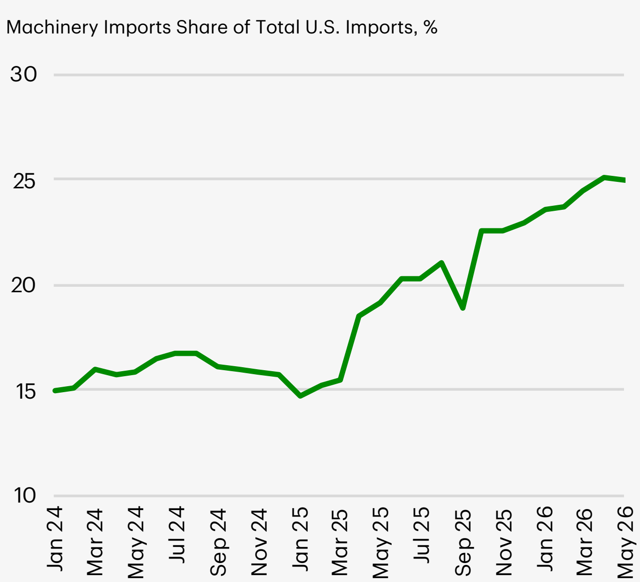


Source: U.S. Census Bureau, TD Economics.

On the surface, this seems like a positive development, as it would likely have stronger foundations tied to the boom in AI as opposed to the fluctuations in global commodity prices. However, looking under the hood, the trend of higher tech exports has been solely driven by higher re-exports to Mexico (Figure 5). Re-exports, sometimes referred to as foreign exports, are goods that are imported to one country and exported to another without being materially changed. This means that there is little economic value created by these exports, as the U.S. is primarily serving as a distribution hub for these products.

This development is largely a function of the voracious demand for computational hardware currently occurring in the U.S. related to the buildout of AI infrastructure. While this led to a partial impact on export activity via re-exports, it is tied to the significant uptick in imports of these products.

Figure 6: Tech Now Accounts for a Quarter of U.S. Imports



Source: U.S. Census Bureau, TD Economics.

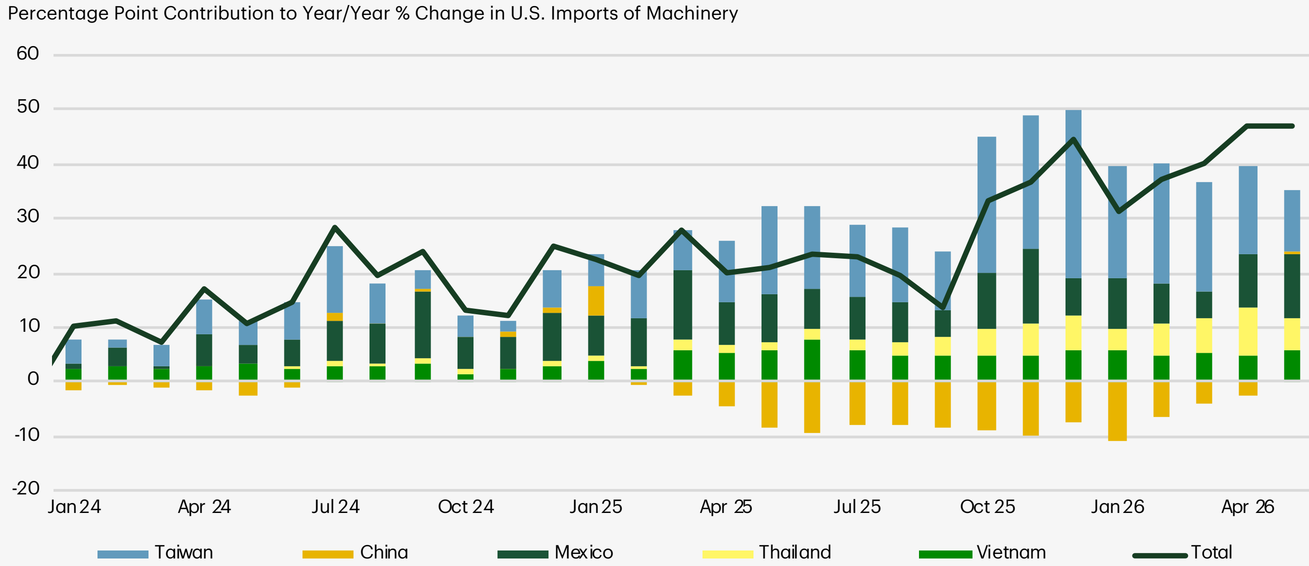
AI Boom Reshaping U.S. Import Profile

To say that the boom in demand for AI hardware is the driving force behind recent developments in U.S. imports would be a significant understatement. Over the past year, the share of U.S. imports accounted for by machinery, the category which includes AI hardware, rose from roughly 15% to 25% (Figure 6). Most other import categories saw declining inflows over the past year under the implementation of global tariffs, but strong demand for AI hardware provided a material offset.

The products driving this increase are concentrated in advanced computing and data-processing equipment categories associated with the ongoing buildout of AI infrastructure. These goods include servers, storage systems, networking equipment, and other automatic data-processing equipment used in AI data centers and high-performance computing applications. As hyperscalers and other firms have accelerated investments in AI-related computing capacity, imports of these products have risen sharply.

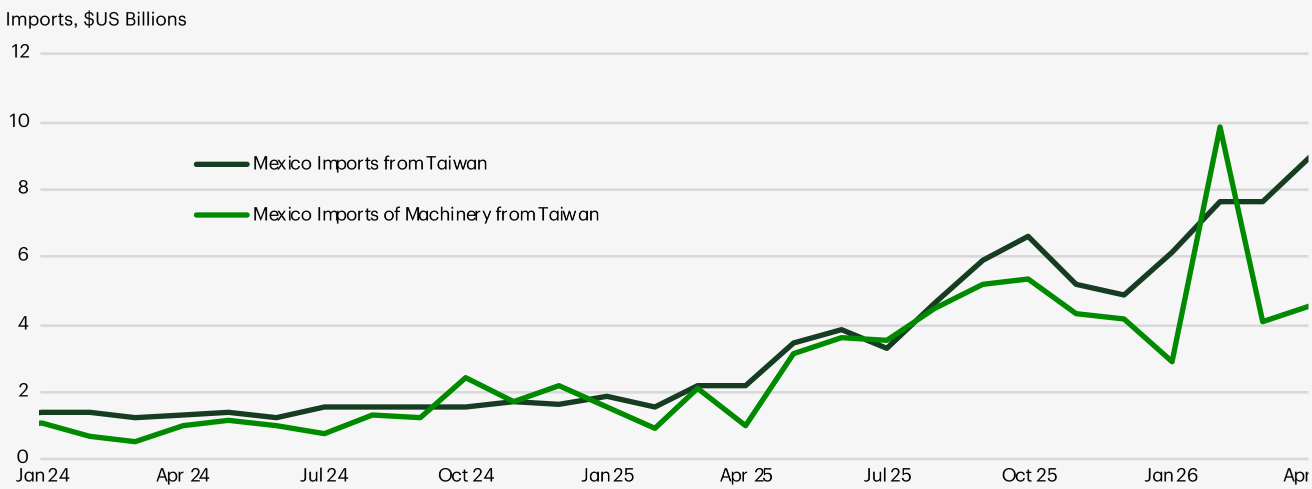
Geographically, U.S. imports of these products have primarily flowed from Taiwan and Mexico (Figure 7a), with smaller allocations coming from Vietnam and Thailand. Taiwan remains the dominant supplier of advanced computing hardware, while Mexico's growing role reflects its increasing importance within North American technology supply chains. Some of this shift was likely driven by supply chain diversification away from China amid elevated trade tensions last year, as reflected by the decline in imports from China. However, growth in technology imports from Taiwan and Mexico has far exceeded the decline from China, suggesting that these developments reflect substantial net new demand rather than a simple reallocation of existing trade flows.

Figure 7a: Taiwan & Mexico Primary Markets for U.S. Tech Imports



Source: U.S. Census Bureau, TD Economics.

Figure 7b: Mexican Imports of Tech Products More Than Doubled Over Past Year

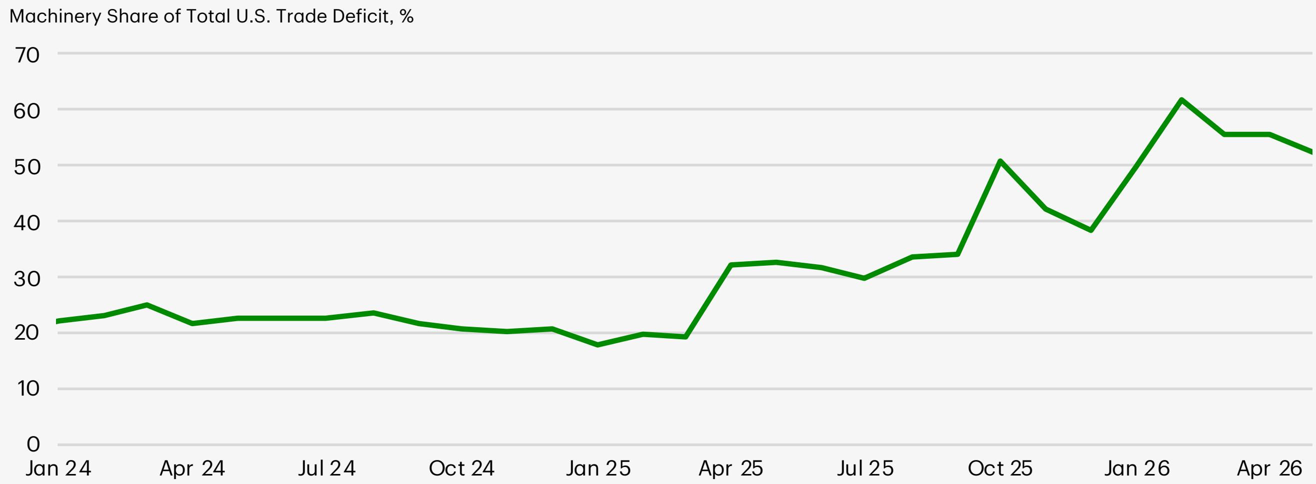


Source: Banco de Mexico, TD Economics.

The case of rising imports from Mexico is interesting for several reasons. First, it appears to be occurring alongside an uptick in re-exports from the U.S. to Mexico, reflecting the integration of the regional market and Mexico's growing role in technology manufacturing. This near-shoring trend began nearly a decade ago amid rising trade tensions with China, as businesses sought to insulate their supply chains. Second, Taiwanese technology exports to Mexico accelerated materially in 2025 (Figure 7b). Although this acceleration coincided with the rollout of reciprocal tariffs in April 2025, the relevant product categories were exempted shortly afterward, making tariff avoidance an unlikely explanation. Rather than creating a new trade corridor, heightened trade uncertainty appears to have reinforced an existing near-shoring trend, as businesses increasingly sought the predictability afforded by North American production networks and the USMCA framework.

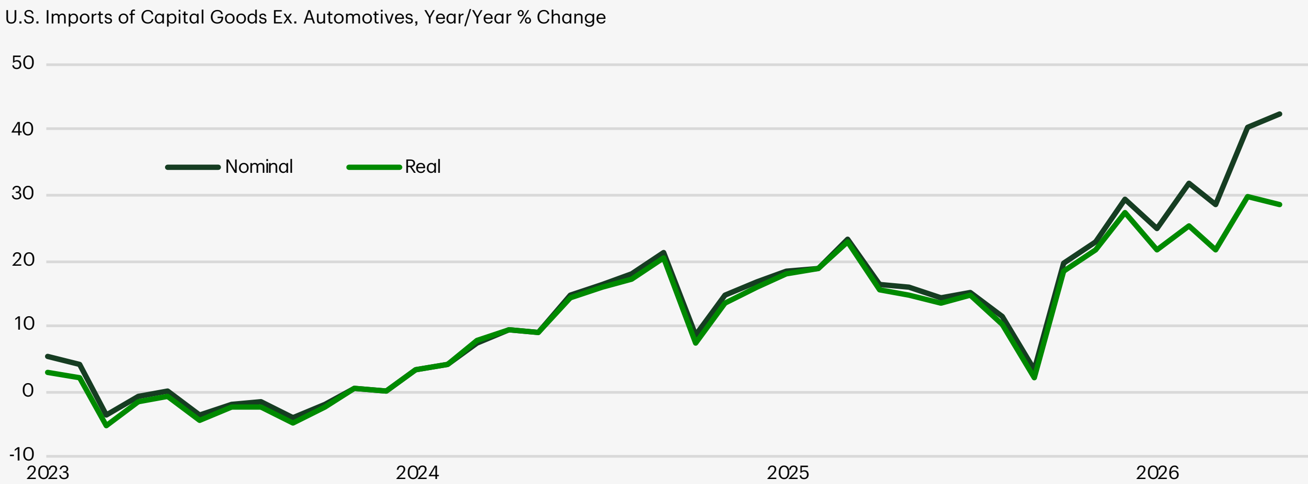
The magnitude of demand for AI is also likely to have implications for the U.S. trade deficit. In May 2026, the monthly U.S. trade deficit in machinery hit $51.6 billion – a roughly three-fold increase relative to 2023. This is equal to more than 50% of the aggregate U.S. trade deficit (Figure 8), reflecting the significance of these trends for the future of the U.S. trade balance. Currently, the increase in commodity prices and volumes is largely offsetting this trend, but if these trends subside as the demand for AI persists, then U.S. trade imbalances are likely to only worsen moving forward.

Figure 8: Tech Products Share of Total Trade Deficit More Than Double Prior Historical High



Source: U.S. Census Bureau, TD Economics.

Figure 9: Inflation is Boosting Nominal U.S. Tech Imports



Source: U.S. Census Bureau, TD Economics.

One caveat needs to be added here. Similar to the inflation of U.S. exports being driven by strong commodity price growth, the AI boom has also had an inflationary impact on U.S. imports. Looking at the Census Bureau data for U.S. imports of capital goods excluding automotives, which is roughly 70% technology products, we can see the material difference between year-on-year growth in nominal and real U.S. imports of these categories (Figure 9). If these trends recede as the AI boom matures, then the impact on the U.S. trade deficit may be less, but this would likely only be a modest offset to the broader shift in the composition of U.S. import demand.

Bottom Line

The U.S. trade deficit has remained broadly stationary, but the stability is masking a meaningful shift in its underlying drivers. Commodity-linked exports have provided an important near-term offset to the import impulse from AI-related hardware demand, though that support is likely to diminish as gold and oil tailwinds fade. By contrast, the buildout of AI infrastructure appears more durable, increasingly routed through Taiwan and Mexico, and likely to keep upward pressure on machinery imports. Unless new export drivers emerge, or the AI import cycle moderates more meaningfully than expected, the balance of risks points to a wider U.S. trade deficit over the medium term.

Asset Class Analysis

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Quarter in Review

Resilient Growth, Narrow Leadership

Q2 was strong but built on unstable foundations and it remains to be seen whether that strength will broaden beyond AI-related sectors.

Jack Zhang, CFA, FRM, Investment Analyst | TD Wealth

The second quarter of 2026 marked a sharp reversal from the shock-driven environment that defined the beginning of the year. As tensions in the Middle East eased and oil prices retreated from their highs, investors regained confidence that the worst of the geopolitical inflation shock had passed. Global equities rebounded strongly, volatility declined, and growth stocks once again led market performance.

Yet beneath the recovery, the macro backdrop remained considerably more complex than market performance alone would suggest. Resilient U.S. activity, robust corporate earnings, and accelerating AI-related investment supported risk appetite, while sticky core inflation and a more hawkish Federal Reserve (Fed) continued to constrain the policy outlook. Rather than returning to the benign environment investors had anticipated entering 2026, markets increasingly relied on a narrow set of structural growth drivers to offset a more restrictive macro environment.

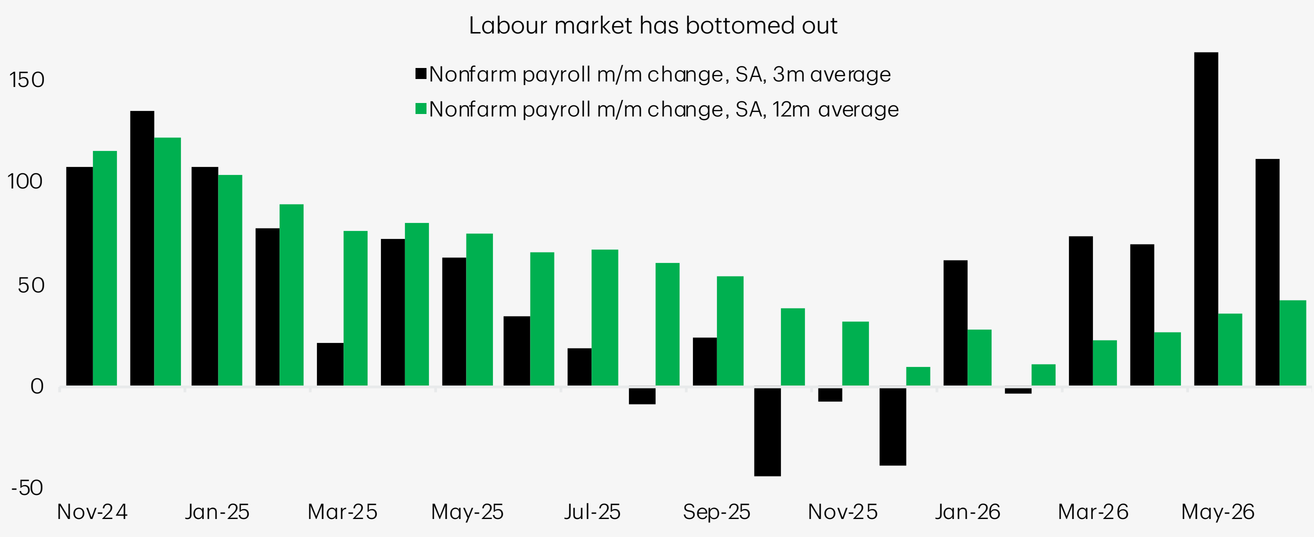
The defining feature of Q2 was therefore not simply the return of risk appetite, but the growing divergence between market leadership and the broader macro landscape. As geopolitical concerns moderated, investor attention shifted decisively toward the AI infrastructure cycle, while monetary policy, liquidity conditions, and energy markets remained important sources of uncertainty. Whether this earnings-driven rally can broaden beyond AI-related sectors will likely become the central question for markets in the second half of 2026.

Macro Backdrop: Resilient Growth, Sticky Inflation Constrain the Fed

Unlike the deterioration in sentiment observed in Q1, economic data released throughout Q2 consistently pointed toward a remarkably resilient U.S. economy. Consumer spending continued to benefit from healthy household balance sheets and the wealth effect, corporate earnings surprised positively across much of the large-cap universe, and business investment accelerated further as companies increased spending on data centres, semiconductors, defence, pharmaceuticals, and broader industrial capacity.

The labour market reinforced this picture of resilience. Payroll growth stabilized after slowing earlier in the year, while the moving average of non-farm payrolls turned higher, suggesting that hiring momentum may have bottomed out (Figure 1). Stable employment conditions continued to support household income growth and consumer spending, reducing the probability of a near-term downturn.

Figure 1: U.S. Payroll Growth Points to Labour Market Resilience



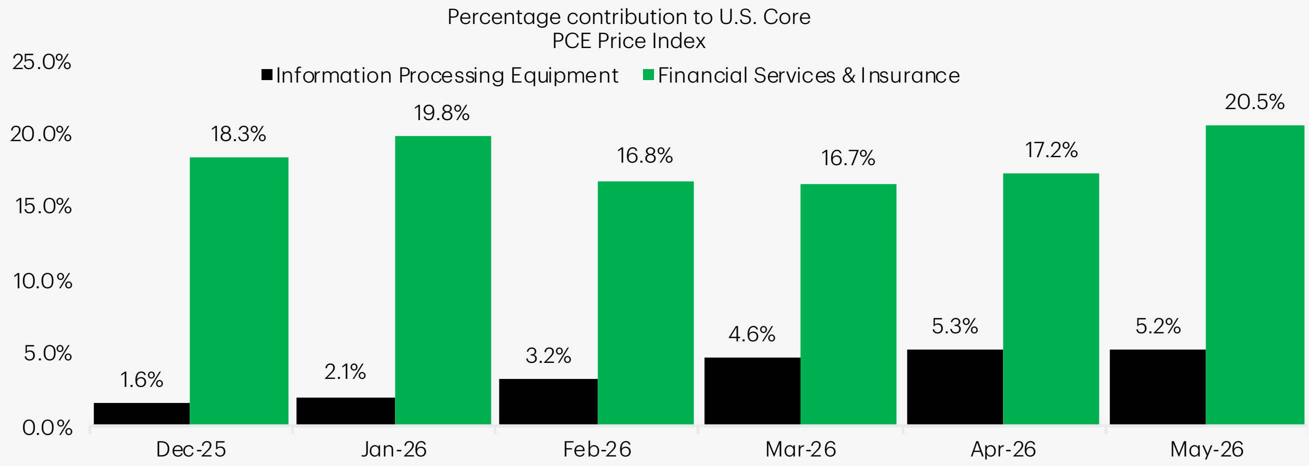
Source: FactSet, WIO, as of July 10, 2026

This resilience, however, carried important implications for inflation. While the reversal in energy prices was expected to lower headline inflation over coming months, underlying price pressures remained considerably more persistent. The moderation in gasoline prices offered temporary relief for consumers, but core inflation is still elevated. Financial services inflation remained elevated, while the ongoing AI infrastructure boom created additional pricing pressure across information processing equipment, memory products, software, and related technology components (Figure 2).

The growing contribution of technology-related goods to core inflation highlights an important distinction between the current cycle and previous inflation episodes. Traditionally, technological innovation has been viewed as inherently disinflationary because it reduces production costs and improves productivity. While this relationship is likely to hold over the longer term, the early stages of the AI investment cycle have created substantial demand for scarce computing resources. Rapid expansion in hyperscaler capital expenditure has tightened supply of memory chips, networking equipment, storage solutions, and supporting infrastructure, temporarily generating inflationary pressure within precisely those sectors expected to deliver future productivity gains. Apple has already cited AI-driven memory and storage shortages as a source of product price pressure.

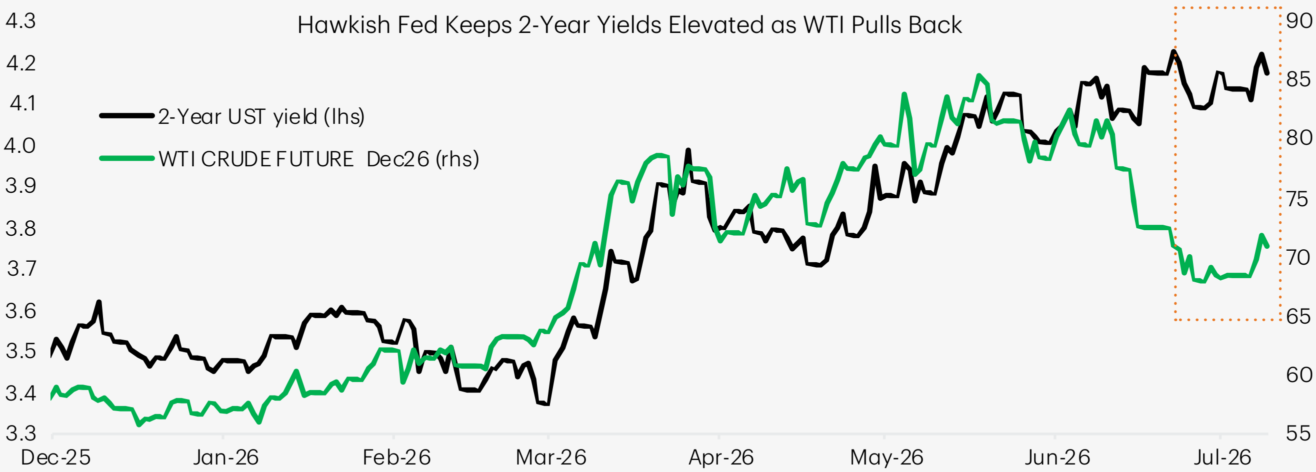
Consequently, falling oil prices did not translate into the lower interest-rate expectations that many investors anticipated. Instead, markets increasingly interpreted lower energy prices as supportive of an economy that was already demonstrating considerable strength. Rather than signalling weaker inflation, declining oil prices effectively reinforced expectations that demand would remain resilient and therefore allow the Fed to maintain a restrictive policy stance without significantly increasing recession risks. This dynamic helped keep front-end Treasury yields elevated even as oil prices declined (Figure 3).

Figure 2: Financial Services, Information Processing Equipment Keep Core PCE Elevated



Source: FactSet, WIO, as of June 30, 2026

Figure 3: Lower Oil Prices Fail to Pull Front-End Yields Down



Source: FactSet, WIO, as of July 9, 2026

The evolution of market expectations also reflected a broader reassessment of the Fed's reaction function. Earlier in the year, investors had expected the Fed to keep easing the policy rate as inflation gradually moved toward target. By the end of Q2, however, resilient economic conditions and persistent core inflation had shifted attention away from the timing of future rate cuts and toward the possibility that policy rates would remain restrictive for much longer.

This shift became even more pronounced following Chair Kevin Warsh's first Federal Open Market Committee meeting. He emphasized restoring the Fed's inflation-fighting credibility, reinforcing that policymakers will place greater weight on incoming inflation data than on financial market expectations or forward guidance. Warsh said the Fed should refrain from providing explicit policy projections so that financial markets respond only to evolving economic conditions. This subtle but meaningful change in communication suggested a greater willingness to tolerate market volatility in pursuit of inflation stability.

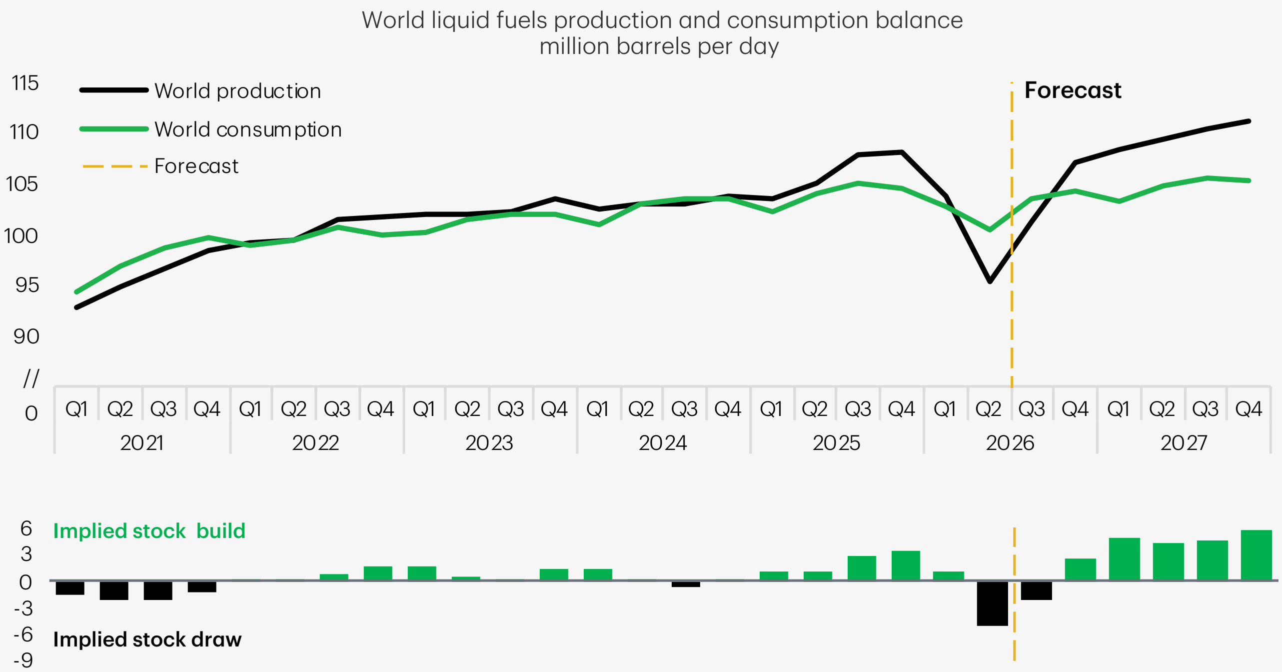
At the same time, liquidity conditions also began evolving in a less supportive direction. Although the Fed continued to provide sufficient reserves to maintain orderly funding markets, several important sources of incremental liquidity faded over the quarter. The pace of balance-sheet support slowed as the Reserve Management Program was reduced, Treasury buybacks became less aggressive, and stronger lending activity absorbed a greater share of available liquidity. None of these developments individually represented a meaningful tightening of financial conditions, but collectively they pointed toward a market environment likely to become incrementally less accommodative.

In sum, the macro backdrop in Q2 was defined less by weakness than by resilience. Stronger growth, healthier labour-market conditions, and continued corporate investment all supported the constructive earnings outlook that drove equity markets higher. Yet these same developments simultaneously reinforced the Fed's ability (and arguably the necessity) to maintain restrictive policy. The result was a macro environment in which robust economic fundamentals supported risk assets while also limiting the monetary accommodation that has historically underpinned elevated equity valuations. We expect this increasingly delicate balance to become one of the defining themes for financial markets over the second half of 2026.

Geopolitics and Oil: Energy Remains the Swing Factor

The improved market sentiment in Q2 was linked to developments in the Middle East. The U.S.-Iran conflict in late February briefly raised concerns about a prolonged disruption to global energy supplies, however the subsequent de-escalation significantly reduced the probability of an extended supply shock. As fears surrounding the Strait of Hormuz eased, crude oil prices retraced much of their earlier surge, reducing one of the largest macro headwinds on financial markets in Q1.

Figure 4: Inventory Rebuilding Supports Oil Demand After Geopolitical Shock



Source: U.S. Energy Information Administration, WIO, as of July 2026

Importantly, however, lower oil prices should not be interpreted as the end of geopolitical risk. The transmission mechanism between geopolitical developments and financial markets remains largely unchanged: energy prices continue to influence inflation expectations, consumer spending, corporate profit margins, and ultimately monetary policy. While the de-escalation and negotiations in Q2 reduced the probability of an immediate supply disruption, increased tensions in July highlight the broader strategic uncertainty surrounding the region.

Indeed, inventories across several refined petroleum products remained relatively tight in Q2, and global crude inventories declined meaningfully after the conflict. Even if shipping through the Strait of Hormuz normalizes in the near term, the process of rebuilding inventories is likely to support oil demand over the coming quarters (Figure 4). Governments and commercial buyers may also choose to maintain larger strategic inventories after experiencing the vulnerability of global supply chains during the conflict. Consequently, oil prices may remain structurally higher than pre-conflict levels even without active military escalation.

Recent developments reinforce this point and highlight how quickly geopolitical risk can re-enter financial markets. Although hostilities eased during much of Q2, any setbacks will send oil prices higher. Geopolitical energy shocks (unlike traditional demand-driven commodity cycles) create asymmetric risks by simultaneously reducing growth while increasing inflation, and present a much more difficult environment for policymakers and corporate decision-makers.

Overall, Q2 demonstrated that geopolitics should be viewed as a persistent source of macro risk and less as a one-off market shock. The more buoyant investor sentiment reflected reduced uncertainty rather than its complete resolution. As long as energy markets remain vulnerable to geopolitical disruptions, oil will continue to represent one of the most important transmission channels through which international events influence inflation, monetary policy, and broader financial conditions.

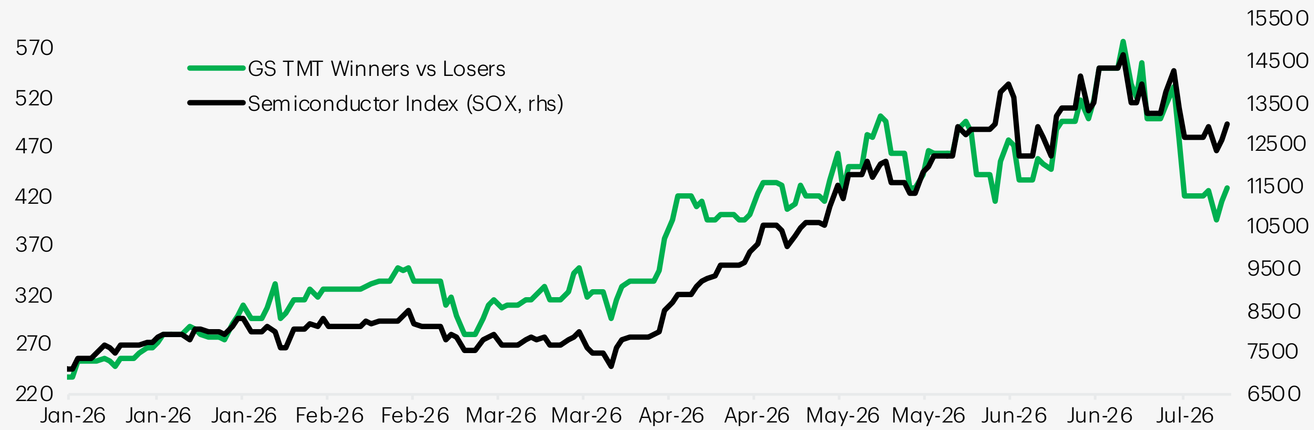
Equities: Risk Appetite Returned, but Leadership Remained Narrow

Global equity markets staged a powerful recovery in Q2 as investors rotated decisively back into risk assets. The easing of geopolitical tensions, the reversal in oil prices, and resilient U.S. economic activity significantly improved market sentiment following the shock-driven weakness of Q1. The S&P 500 moved toward record highs, while growth-oriented sectors once again assumed market leadership.

The recovery, however, remained highly concentrated. Technology, communication services, semiconductors, and other companies benefiting from the expanding AI investment cycle continued to outperform as investors revised earnings expectations higher. Emerging markets also delivered strong returns, led primarily by South Korea and Taiwan, whose dominant positions in the global semiconductor supply chain made them key beneficiaries of accelerating AI infrastructure investment.

Beneath the strong headline performance, market internals (metrics that measure breadth and depth) became progressively less uniform as the quarter advanced. Following an exceptionally strong rally through much of the first half, momentum strategies experienced increasing volatility as crowded positioning made leading sectors more vulnerable to profit-taking. Semiconductor shares rallied dramatically from their March lows, while trading activity in leveraged equity ETFs surged, highlighting the return of aggressive risk appetite and increasingly stretched positioning (Figure 5).

Figure 5: Crowded Momentum Positioning Leaves AI Leaders Vulnerable to Sharp Reversals



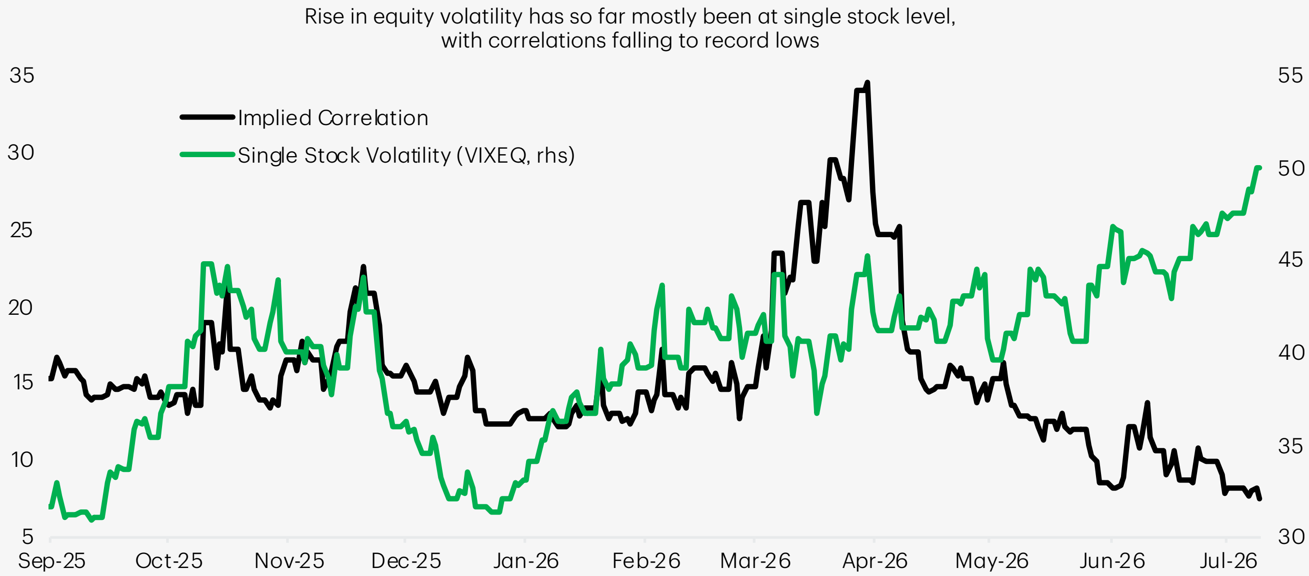
Source: FactSet, WIO, as of July 9, 2026

Importantly, rising volatility reflected greater dispersion rather than broad market weakness. Measures of implied correlation fell toward historically low levels even as single-stock volatility remained elevated, suggesting investors were becoming increasingly selective. Rather than rewarding entire sectors, investors and investment strategies increasingly differentiated between companies based on earnings quality, AI exposure, and the expected returns on capital investment (Figure 6).

Small-cap equities also benefited from the improvement in risk appetite during the first half of the year, helped by stronger economic activity, expectations for a more supportive policy environment, and exposure to selected beneficiaries of the AI infrastructure buildout.

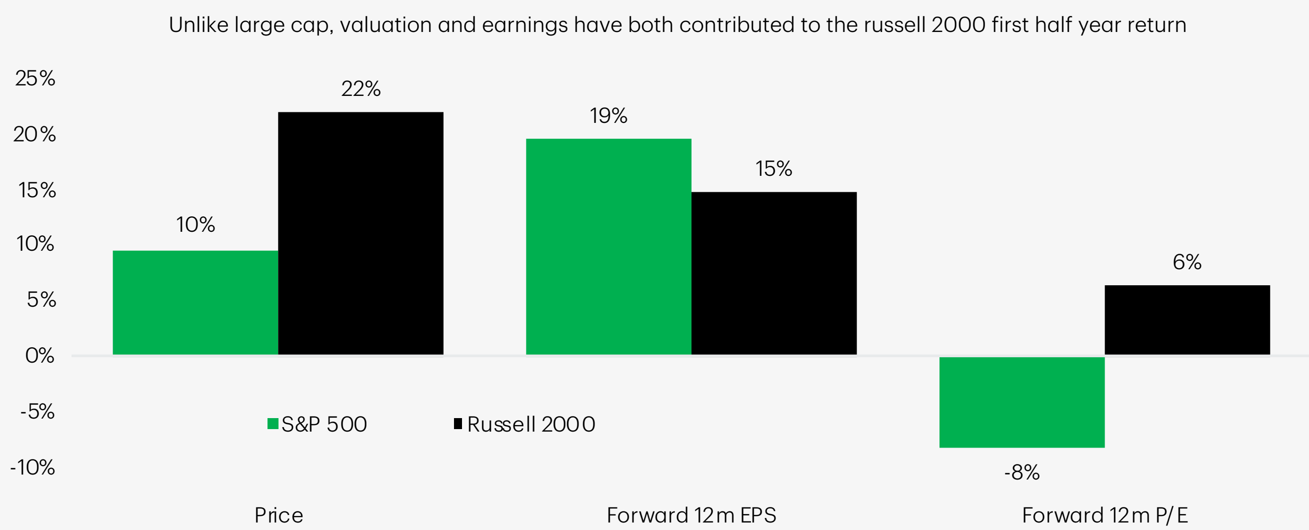
That said, the case for sustained small-cap leadership appears less straightforward. Part of the AI-related support is likely to fade after the Russell index was reconstituted on June 29 and some AI infrastructure beneficiaries moved into larger-cap benchmarks. At the same time, compared with large caps, a greater share of small-cap returns has come from multiple expansion rather than earnings growth, making the segment more vulnerable to any disappointment in growth or policy expectations (Figure 7). A stronger economy or broader AI capital-spending cycle could still provide upside, but a more hawkish Fed would weigh on small caps given the greater exposure of the Russell 2000 to unprofitable companies and floating-rate debt.

Figure 6: Market Volatility Becomes More Idiosyncratic as Correlations Collapse



Source: FactSet, WIO, as of July 9, 2026

Figure 7: H1 Return Attribution Differs Between Small Caps and Large Caps



Source: FactSet, WIO, as of June 30, 2026

A similar dynamic emerged across emerging markets. While headline returns remained strong, an increasing share of performance became concentrated within a relatively small group of semiconductor and AI hardware companies. As a result, index-level strength increasingly masked a less synchronized recovery across the broader emerging market universe (Figure 8).

AI: The Dominant Earnings Story

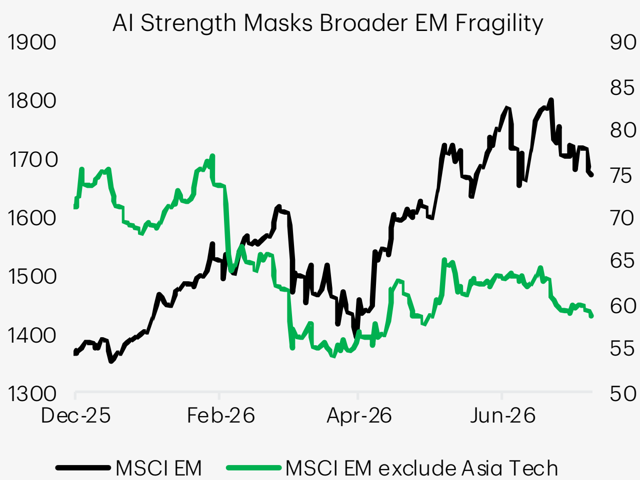
Artificial intelligence remained the dominant investment theme in Q2, but investor attention increasingly shifted from future potential to the sustainability of the investment cycle. Markets became more focused on whether unprecedented levels of capital expenditure could translate into durable earnings growth, productivity improvements, and ultimately attractive returns on investment.

Hyperscalers continued to increase spending on data centres, semiconductors, networking equipment, memory, storage, and power infrastructure, reinforcing confidence that demand for AI computing capacity remained exceptionally strong. Unlike earlier stages of the cycle, however, investors increasingly evaluated not only the scale of spending but also its potential economic payoff. As investment in AI infrastructure accelerated, the market's focus gradually shifted from the larger capital expenditure plans announced to assessing whether these investments could create sustainable revenue growth and higher productivity.

Take, for example, the continued growth in AI usage. The price of AI inference has declined substantially over the past year as models became more efficient, and while AI expenditure moderated in June, the overall trend remains upward, suggesting that lower costs continue to support broader adoption across businesses and consumers (Figure 9). This dynamic is consistent with Jevons' Paradox, whereby greater efficiency ultimately increases aggregate demand rather than reducing it. In practice, cheaper intelligence has expanded the range of economically viable AI applications, reinforcing demand for the underlying computing infrastructure.

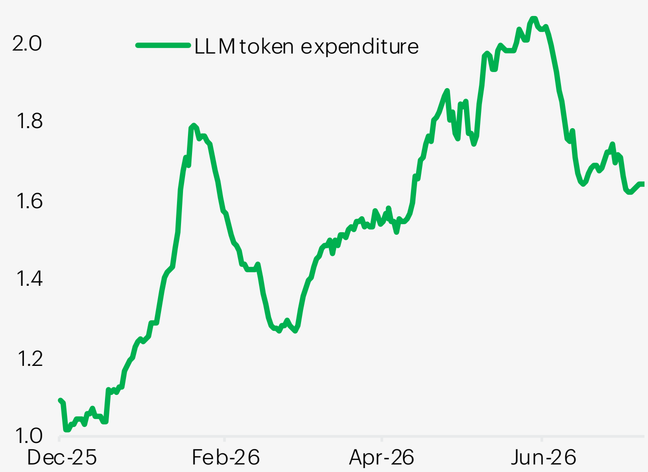
Broader economic implications are also beginning to emerge. AI adoption continues to accelerate workflow automation, software development, and data analysis, while lowering barriers for entrepreneurs to launch new businesses. Interestingly, much of the recent increase in U.S. business formation has been driven by non-employer firms rather than businesses intending to hire significant numbers of workers (Figure 10). This suggests AI may reshape labour markets not only by automating existing tasks but also by lowering the cost of entrepreneurship and enabling more independent economic activity.

Figure 8: Emerging Market Performance Reflects Concentrated AI Leadership



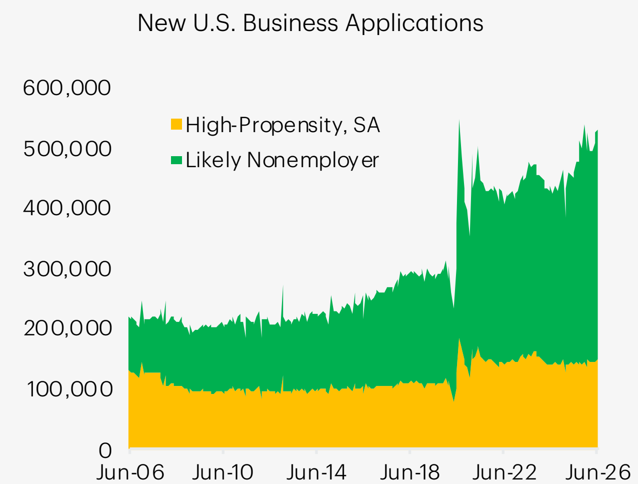
Source: FactSet, WIO, as of July 9, 2026

Figure 9: AI Expenditure Continues to Rise as Adoption Broadens



Source: FactSet, WIO, As of July 9, 2026

Figure 10: New U.S. Business Applications Point to Rising AI-Enabled Entrepreneurship



Source: FactSet, WIO, As of July 9, 2026

At the same time, the current AI cycle differs from previous technology booms in several ways. Unlike the technology bubble of the late 1990s, today's share price gains have been supported by earnings growth and internally funded capital investment rather than speculative multiple expansion or excessive leverage. Nevertheless, investors are becoming increasingly focussed on whether current levels of AI spending can generate sufficient returns. Perhaps the most important question is whether the benefits of AI can extend beyond the companies building its infrastructure. Much of the recent improvement in corporate profitability remains concentrated in technology, while profit margins across much of the broader market have changed comparatively little (Figure 11). History suggests that productivity gains eventually spread through the economy as competition intensifies and new technologies become more widely adopted. Whether AI follows a similar path will likely determine not only the durability of current earnings growth, but also the breadth of the next phase of the equity rally.

Viewed through this lens, Q2 marked an important transition in the AI narrative. Investors no longer viewed artificial intelligence primarily as a promising technological innovation, but increasingly as a measurable driver of earnings, capital investment, and economic productivity. The next phase of the cycle will therefore depend less on expectations for AI itself and more on whether today's unprecedented investment can generate sufficiently broad and durable economic returns to justify the market's optimism.

Looking Ahead: The Test for Markets

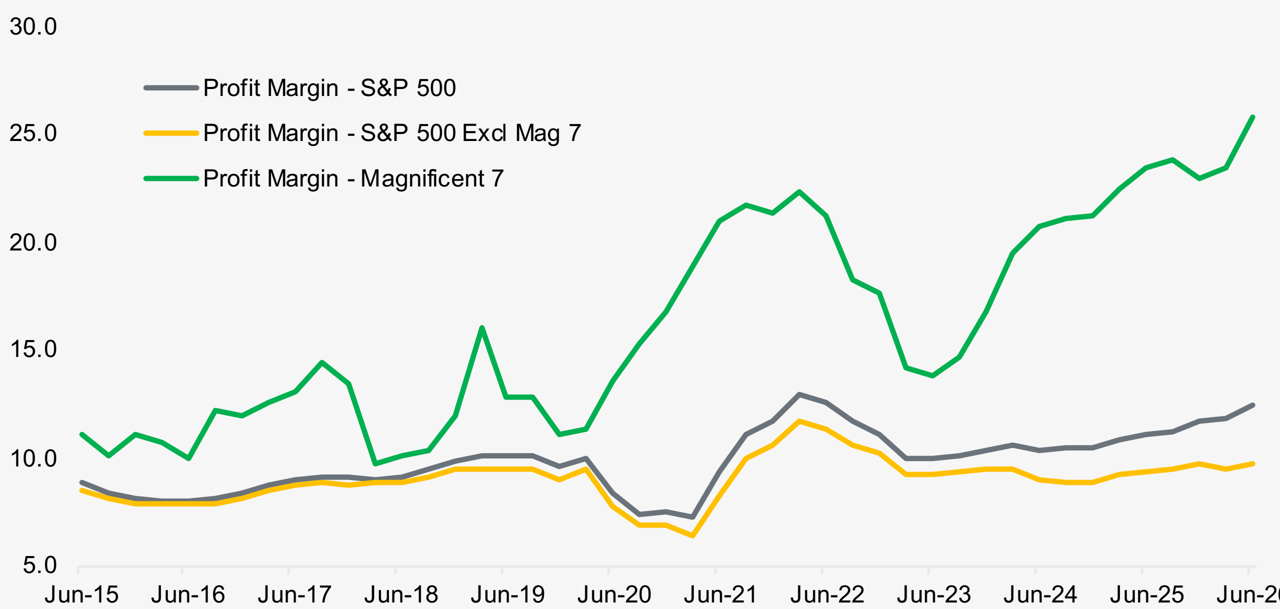
The second quarter marked an improvement in market sentiment following the uncertainty that characterized the start of 2026. Easing geopolitical tensions, resilient economic growth, and continued strength in corporate earnings supported a broad recovery in risk assets, while the AI investment cycle remained the dominant driver of equity-market leadership.

At the same time, the quarter also highlighted the increasingly uneven nature of the current expansion. Monetary policy remains somewhat restrictive, core inflation continues to prove more persistent than expected, and liquidity conditions are becoming incrementally less supportive.

Looking ahead, the central question is no longer whether AI will continue to attract investment, but whether those investments can generate productivity gains that extend beyond the technology sector. Continued strength in earnings across industries should provide continued support for equity markets, while continued concentration in a handful of AI beneficiaries may leave markets increasingly vulnerable to changes in expectations or policy.

Ultimately, Q2 reinforced that the current market cycle is being supported by a combination of resilient economic fundamentals and extraordinary technological investment. Whether those two forces can remain aligned as monetary policy evolves will likely become the defining investment question for the second half of 2026.

Figure 11: AI-Driven Margin Gains Remain Concentrated in Technology



Source: FactSet, WIO, as of June 30, 2026

Outlook on Fixed Income ● Modest Underweight

The Butterfly Effect: How AI is Changing the Investment Grade Corporate Bond Market

AI Hyperscalers are set to leave a large and lasting imprint on the corporate credit landscape, creating a seismic shift, changing the composition of the market itself, and marking the start of a new regime.

Daniel Carabajal, Senior Fixed Income Analyst; Adam Weingarten, Senior Fixed Income Analyst | TD Wealth

Imagine the annual monarch butterfly migration, one of the greatest natural phenomena, where hundreds of millions of butterflies travel up to 4,800 kilometres from Canada and the U.S. to southern climes. Now take a step back, or sideways, and think of this in terms of AI hyperscalers.

Inside the corporate halls of a hyperscaler, leaders are approving one multibillion-dollar data centre investment after another. At first, this may seem like just another one-off growth project, another AI campus, another GPU cluster, another power contract. It may appear isolated. Just one more butterfly taking flight.

But in fixed income markets, nothing occurs in a vacuum. Everything is connected, the same way monarch butterflies and their migration patterns are intricately linked to other ecosystems. Today, the AI race is no longer just a simple tech story. As hyperscalers flood the market with new bonds to help finance ballooning capital expenditures, this story is rapidly becoming a hyperscaler-debt saga that has the power to reshape the fixed income landscape and usher in a new regime (Figure 1).

This is what we call the butterfly effect.

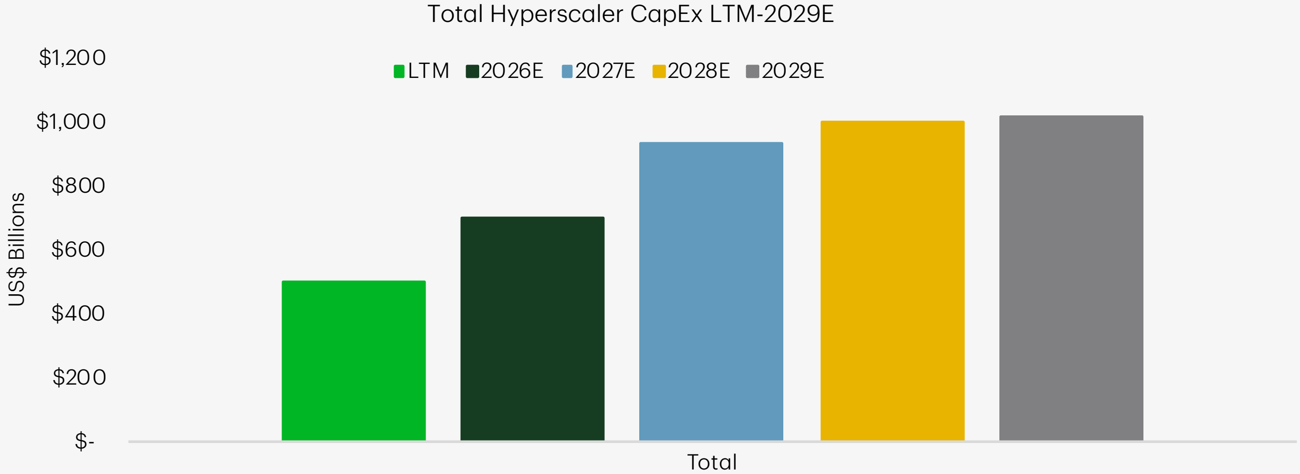
The term 'butterfly effect' was coined in the 1960s by Edward Lorenz, a meteorology professor at MIT. It alluded to the fact that small, ostensibly trivial events could have huge nonlinear consequences. This is what we are seeing in the investment grade (IG) corporate bond market today. The sheer volume of new debt issues from hyperscalers will leave a lasting imprint and change the very composition of the bond market itself.

The butterfly effect, or chain reaction, set in place by hyperscaler AI infrastructure and data centre buildouts is picking up steam and its ramifications are likely to reverberate far-and-wide driving: increased high-quality IG corporate bond supply, a potential redirection of capital flows, and structural changes that affect market weightings and duration.

Increased IG Corporate Bond Supply

Most hyperscalers (e.g. Meta, Oracle, Google, Amazon) plus Nvidia have already begun to tap the IG corporate credit market with jumbo deals and this is only the start. Some investors may view tech companies as asset-light, but AI data centre buildouts are not your typical asset-light software story. They are extremely capital intensive and require vast amounts of land, buildings, substations, GPUs and semiconductor chips, cooling systems, power and transmission, and other long-lived assets just to become operational.

Figure 1: Hyperscalers + Nvidia Capex Could Eclipse US$1 Trillion by 2029



Source: FactSet, Consensus estimates (AMZN, GOOGL, NVDA, ORCL, META, MSFT), WIO as of July 13, 2026.

While hyperscalers generally enjoy significant cash flow generation today, the sheer magnitude of their capex financing needs is driving them, in part, to the public IG corporate debt markets. For context, the five hyperscalers plus Nvidia collectively issued over US$215 billion in IG debt year-to-date through mid-July alone (Figure 2). That's as much as 14% of the entire 2025 U.S. IG corporate market.

Redirection of Capital Flows

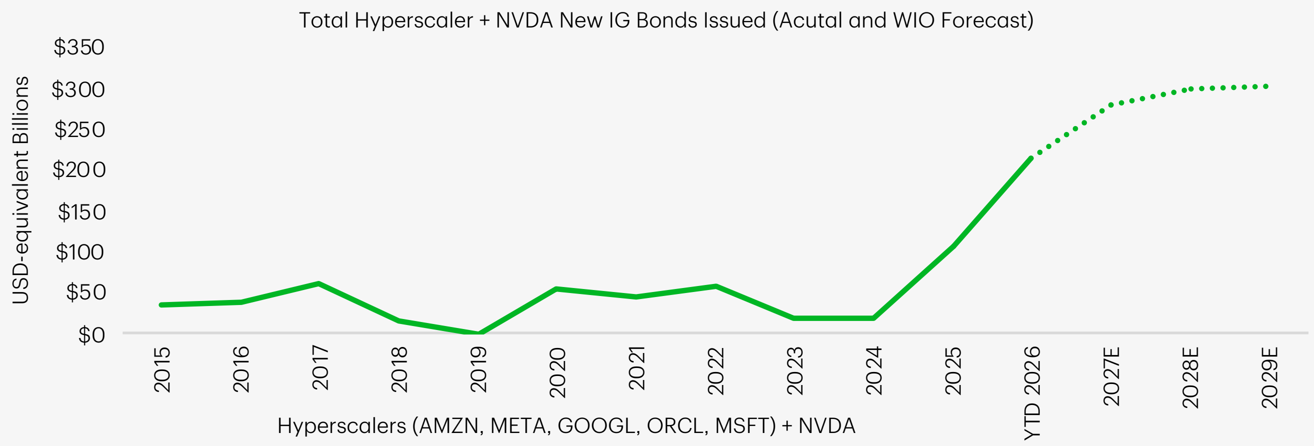
New supply currents can potentially redirect capital flows, pulling investors toward hyperscaler new debt issues at the expense of other issuers, and reshaping demand across the broader IG corporate bond market. If, and when, investors rebalance to add new hyperscaler debt, pricing pressure could appear elsewhere and affect a range of non-hyperscaler issuers even though their fundamentals may not have changed. For example, when a hyperscaler brings a large, attractive, high-quality deal to market, participants may decide to sell, reduce or even forego allocations or exposure to other sectors like industrials, utilities, pipelines, agencies, or financials to make room in their portfolios for relatively attractive hyperscaler new debt. If this occurs, other companies could face higher future borrowing costs simply because the market adjusted to absorb massive amounts of new hyperscaler debt issuance.

Structural Impacts: Market Weightings and Duration

The final impacts are more structural in nature, influencing the broader IG corporate debt complex, specifically when it comes to relative market weightings and duration profiles.

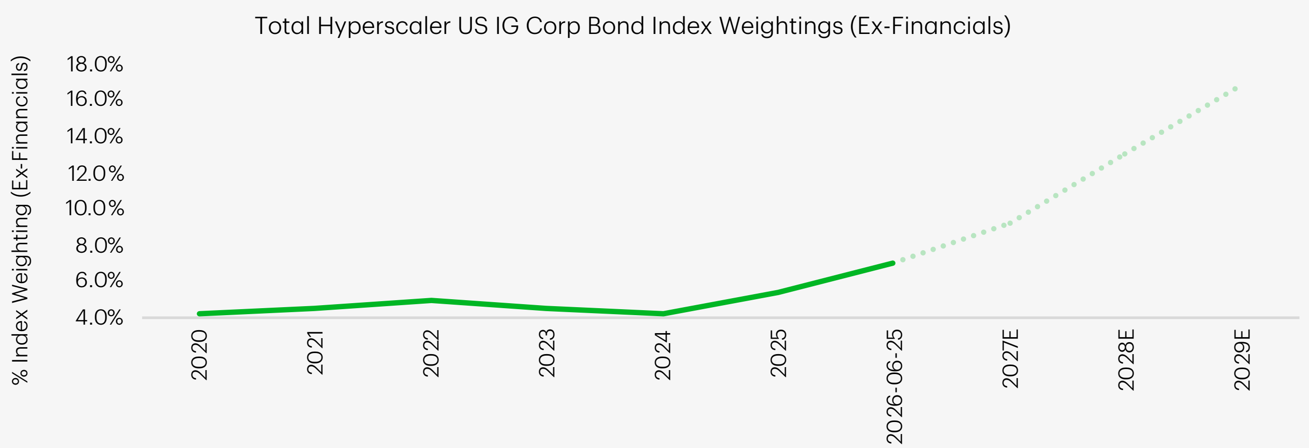
IG corporate bond benchmarks are typically market-value weighted by par value outstanding, so any new issuance (particularly large ones like the recent hyperscaler or Nvidia deals) changes the overall market many passive investors buy into or benchmark against. This has already begun and is poised to continue (Figure 3). Therefore, investors who allocate funds to the broad IG corporate bond market may find themselves owning incrementally more and more AI-related exposure, even without deciding to do so.

Figure 2: Hyperscaler + Nvidia New IG Debt Issuance



Source: Company filings, FactSet, WIO, as of July 13, 2026.

Figure 3: Hyperscaler IG Corporate Bond Market Weightings (Ex-Financials) to Surge



Source: FactSet and WIO Forecasts, as of July 13, 2026.

In terms of duration (the sensitivity of bond prices to changes in interest rates, measured in years), data shows recent hyperscaler new issuance carries a weighted average duration of about 8.0 years, compared with around 6.7 years for the broader U.S. IG corporate bond universe today (Figure 4). This matters for bond investors. When a company issues new bonds, investors aren't just lending money, they're also taking on interest rate risk. The longer a bond's duration, the more sensitive its price is to changes in interest rates and the more risk investors absorb.

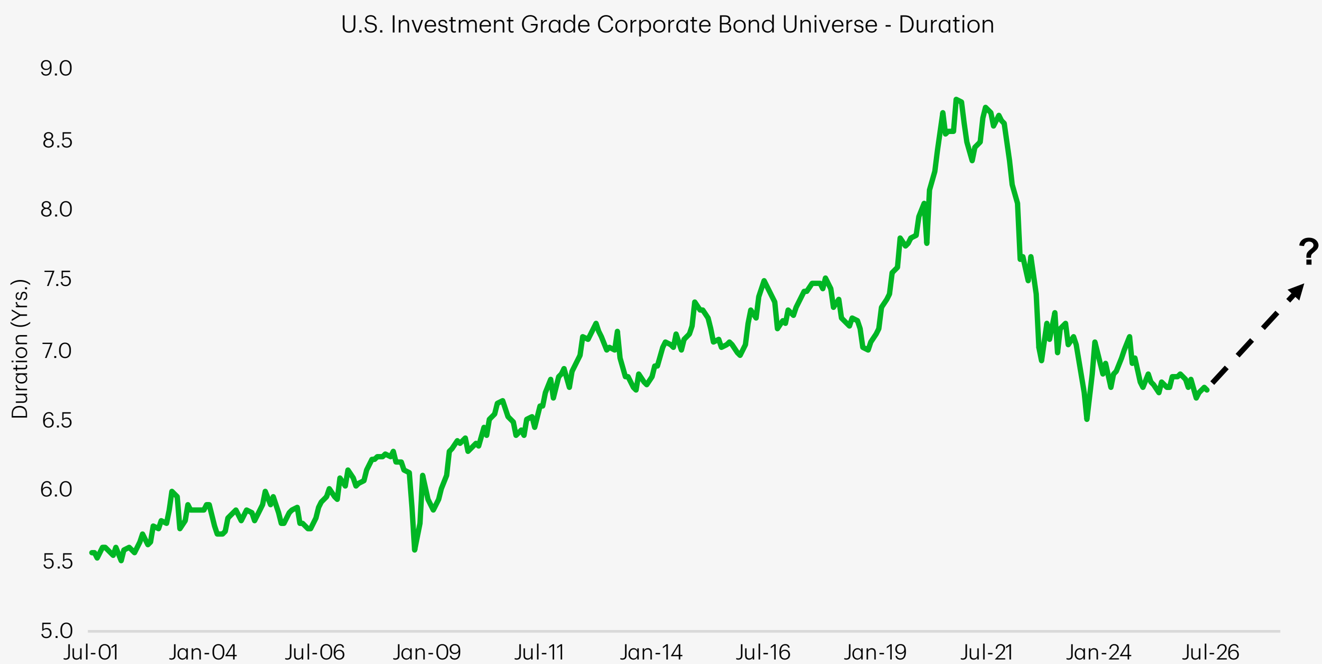
To illustrate, a US$20 bln bond with a 10-year duration would lose approximately US$2 billion in market value for every 100 basis-point increase in interest rates. That's 10 times more than a US$20 billion bond with a one-year duration would lose under the same circumstance. As hyperscalers issue larger, longer-duration bonds, the rate sensitivity absorbed by the market grows well beyond what headline issuance volumes alone suggest. For passive index investors, this is particularly significant as they are poised to inherit increasingly more interest rate risk as hyperscaler debt floods the market, all else being equal.

We don't have to stretch our imaginations too far to see the butterfly effect drift beyond the corporate debt market and into U.S. Treasuries, the world's deepest and most important bond market. In fact, the changing dynamics of AI buildouts by hyperscalers could affect 'risk-free' interest rates simply because they lure marginal buyers away from U.S. government bonds.

We know that high-quality IG corporate bonds and U.S. Treasuries sometimes compete for the same duration-seeking investors such as pension funds, insurers, foreign buyers, reserve managers, and passive index funds. But if hyperscalers or Nvidia issue longer-duration, higher-quality corporate debt at the same time as the U.S. government (with its persistent fiscal deficits and growing borrowing needs) institutional investors might find they have more, or arguably better, options for deploying capital into high-quality longer-duration credit. In some cases, hyperscalers (such as Microsoft which is AAA-rated) may even carry higher credit ratings than the AA+ of the U.S. government. If so, AI data centre buildouts by hyperscalers may not need to be mechanically inflationary to impact Treasury rates. They may simply affect rates by luring marginal buyers away from U.S. government bonds and into new hyperscaler debt as an attractive alternative.

The key point is not that hyperscaler bond issuance will single-handedly determine Treasury yields or IG corporate bond spreads. It is that the marginal buyer of duration now has more high-quality supply to choose from and more options available. If supply grows faster than investor appetite, markets may adjust through some combination of wider spreads, higher concessions, or a steeper yield curve. The pressure may be gradual, but the torrid pace of hyperscaler new borrowing and debt issuance could ultimately make the long end of the U.S. Treasury bond market feel heavier over time.

Figure 4: U.S. IG Corporate Bond Market Duration Set to Rise



Source: FactSet, Company Filings, and WIO as of July 13, 2026.

Conclusion: Active Management Even More Crucial

Another hyperscaler deciding to build another AI data centre may seem like a trivial event at first but remember the butterfly effect. The buildouts will spread and permeate entire financial ecosystems, reverberating across broad markets in less obvious, yet meaningful ways.

More data centres require more capex. More capex means more long-term financing needs. Increased financing needs drive more IG corporate bond issuance. More IG corporate bond issuance changes index weights, duration exposure, and relative-value investment and capital allocation decisions. And investor decisions will influence spreads for unrelated corporate issuers, including utilities and infrastructure companies that are themselves becoming cogs in the AI supply chain.

What does this mean for investors?

Passive investors are inheriting greater AI exposure and interest-rate risk as hyperscaler bonds become a larger part of market-weighted benchmarks. This changing dynamic makes active management of duration, sector allocation, and relative value even more crucial as the U.S. IG corporate bond market becomes more concentrated around a small group of AI hyperscalers.

Just like the monarch butterfly migration, what began as a single flutter has set in motion powerful market forces that will re-shape fixed income markets, benchmark indices, portfolio allocations, and perhaps ultimately even Treasury yields. It could be deemed a textbook example of the AI butterfly effect unfolding in real time and ultimately remembered not only as a technological revolution, but also as a seismic shift in credit markets that ushered in the beginning of a new regime.

Outlook On Fixed Income – Modest Underweight

• We maintain our modest underweight view on fixed income overall and expect most global bonds, including Canadian bonds, to be heavily influenced by oil, energy markets and geopolitical developments in the near term. This implies that bond yields and coupon income are likely to remain elevated over the next 12 to 18 months.

• We maintain a modest underweight view on domestic government bonds. At current yields, Canadian government bonds appear slightly less attractive on a relative basis and offer opportunities for modest income generation with reasonable downside protection. Canadian government bond yields are expected to remain elevated as investors assess the duration of the Middle East conflict and the impact of disruptions to commodity and global trade flows on global economic growth and inflation.

• We maintain a modest overweight view on investment grade (IG) credit. U.S. and Canadian IG credit spreads remain tight, underpinned by generally strong corporate fundamentals, although rising AI-related spending and M&A activity present a more challenging supply and demand backdrop. With risk premia fairly flat across yield curves, we continue to favour short- to mid-term corporate bonds over longer term maturities particularly as elevated levels of geopolitical and global economic uncertainty persists. We continue to remain focused on higher quality credits (companies with robust balance sheets, healthy credit metrics and ample liquidity).

• We maintain a neutral view on High Yield (HY) credit. HY bonds tend to be more volatile than IG because HY borrowers generally have higher average corporate leverage levels, weaker balance sheets, and are more susceptible to defaults and refinancing risk particularly as rates increase. While earnings growth and fundamentals generally remain constructive, uncertainties around inflation, pressures on private credit and highly leveraged AI-vulnerable businesses could tighten lending conditions and pressure valuations further. Overall, while risks appear somewhat balanced in HY, tight valuations combined with heightened volatility and geopolitical uncertainty tempers our appetite in this riskier segment. As with past cycles, we expect HY spreads to widen if the economic outlook weakens, potentially presenting more attractive entry points down the road.

• We maintain a modest underweight view on Global Bonds - Developed Markets. We anticipate global bond yields will likely remain elevated as solid U.S. data indicate a backdrop of higher growth and inflation, which is sustaining elevated global yields. Ongoing uncertainty about rate hikes from major central banks is likely to keep global bond markets volatile over the next 6 to 12 months.

• We maintain a modest overweight view on Global Bonds - Emerging Markets (EM). EM local currency government bonds have cheapened relative to their developed market counterparts amid broader market volatility. Yields remain attractive on both a nominal and inflation-adjusted basis, but currency movements are likely to influence total returns as geopolitical issues persist. Careful country selection will be essential to avoid markets where inflationary pressures or political risks could disproportionally add to volatility.

Government Bonds

Global government bonds rebounded slightly in the second quarter amid the U.S.-Iran conflict. This modest gain masks dispersion across regions and maturities. In the U.S., short-term yields rose sharply in Q2, reflecting elevated inflation expectations amid a spike in oil prices and a surprising repricing of the Fed's policy path from modest year-end cuts to year-end hikes (Figure 5). In contrast, Canadian short-term yields remained relatively stable, as a weak domestic economy limited upward movement. On the long end, U.S. yields edged up as investors demanded a higher risk premium amid persistent concerns around inflation and fiscal deficits. In Canada, long-term yield movements were mostly driven by oil price fluctuations tied to the U.S.-Iran war.

Given renewed U.S.-Iran tensions, we expect government yields to remain highly volatile in the near term. On the monetary policy front, we believe the era of major central banks aggressively cutting rates is behind us. We maintain the view that we are entering a period in which major central banks are cautiously seeking more neutral rates even as the bar for additional rate cuts rises. In the U.S., for instance, the Fed under the leadership of Chair Kevin Warsh is characterized by a hawkish inflation-focused stance, with less forward guidance, and a higher bar for easing. As such, rate volatility may again shift from the front end of the yield curve (driven more by predictions around monetary policy) to the longer end of the curve (driven more by long-term economic growth projections and inflation expectations).

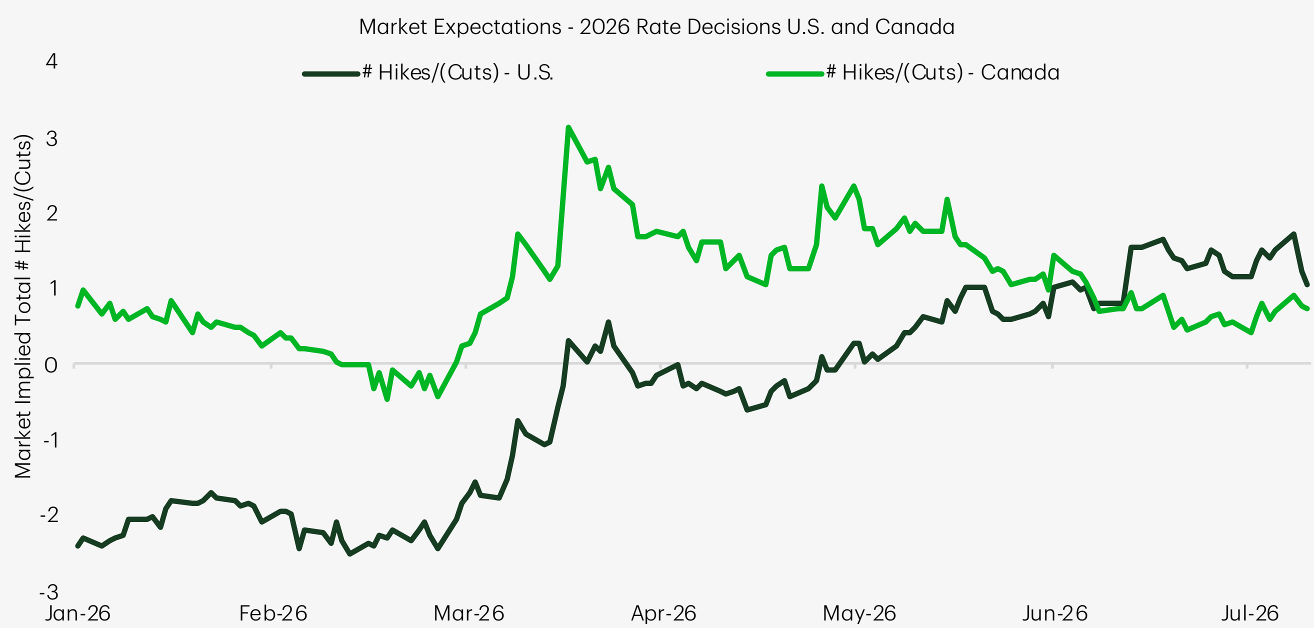
Credit: Investment-grade (IG) and high yield (HY)

The credit selloff triggered by the U.S.-Iran conflict in early March proved to be short lived. Credit spreads initially widened but soon reverted as geopolitical tensions eased and the global economy remained resilient despite higher energy prices. As a result, credit spreads gradually returned to historically tight levels. In this environment, strong credit fundamentals and healthy technicals continue to support the asset class.

Given historically tight spreads, we expect IG corporate bonds to offer flat or negative forward excess returns (returns over similar maturity government bonds). Our analysis indicates that during periods of extreme credit spread compression like this one, Canadian and U.S. IG credit tend to offer flat or negative forward excess returns over 12 to 24 months (Figure 6).

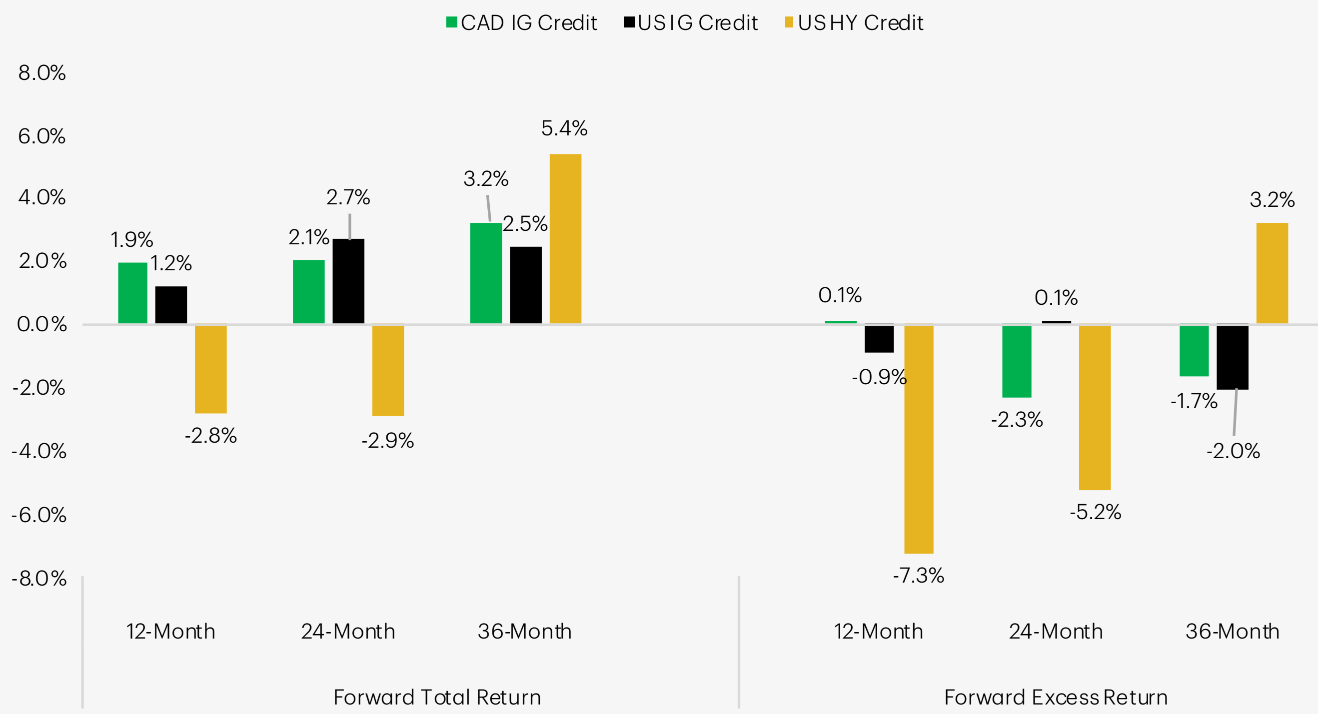
IG credit spreads currently offer limited compensation for emerging risks. Coupon income remains a significant component of total returns, and even though all-in yields remain attractive, capital preservation has become even more crucial for credit investors, especially given the inflation backdrop. Sticky services inflation could keep rates elevated longer than anticipated and add a hawkish tilt to monetary policy. We think investors should recalibrate return expectations for this year toward a high-quality, short-duration profile that seeks to minimize price volatility and maximize capital preservation.

Figure 5: Shifting U.S. and Canada Policy Rate Decisions



Source: FactSet and WIO, pricing from January 1 to July 15, 2026.

Figure 6: IG Credit Forward Excess Returns Flat or Negative Over 1-2 Years



Source: FactSet, WIO, as of June 30, 2026. Using historical month-end spreads since 2003 from periods when spread levels are below the 10th percentile.

In HY, given the current uncertain geopolitical environment and tight spreads, we prefer higher quality (BB-rated and above) bonds from borrowers with stronger balance sheets and cashflow metrics, while generally avoiding lower rated credits (CCC and below) that face significant refinancing risk. Overall, we prefer IG over HY given its superior balance sheet strength, lower default risk, and better positioning in a market where credit differentiation is becoming increasingly important.

Conclusion: Anchor in Quality to Navigate Volatility

The first half of 2026 challenged the 'year of the coupon' thesis as geopolitical shocks, persistent inflation, and central bank policy uncertainty reintroduced interest rate volatility. Rather than stable income generation from pure coupon clipping and relative price stability, fixed income markets instead experienced turbulence that tested investor conviction. In this environment, we believe the fundamental case for high-quality, shorter duration credits and active management strategies has only strengthened.

For the remainder of 2026, fixed income returns appear likely to come more from carry and tactical positioning rather than duration gains, with yields potentially remaining elevated until inflation convincingly moderates or the Fed cuts rates.

Investors should continue to prioritize high-quality IG credits, remain prudent on duration, maintain the flexibility required to capitalize on episodic volatility, and keep abreast of potential refinancing risks particularly in lower rated segments like HY.

Outlook on Equities ● Modest Overweight

The Great Bubble Debate

AI investment continues to lift markets from New York to Tokyo, but the central question remains American: How long can the hyperscaler spending boom endure?

By David Beasley, Senior Quantitative Portfolio Manager; Chadi Richa, Senior Equities Analyst; and Mansi Desai, Portfolio Manager | TD Wealth

- Stocks are riding an AI wave, but the opportunities and risks vary significantly by region. In the U.S., questions about a potential bubble centre on whether hyperscalers can sustain enormous infrastructure spending.
- Canadian equities remain supported by strong bank fundamentals, though stretched valuations may limit further gains.
- International and emerging-market equities have rallied on AI demand and a manufacturing recovery, but earnings growth has lagged amid higher energy costs, geopolitical uncertainty and increasingly concentrated market leadership.

United States: Bubble risk or transformational upside?

The question we are hearing more often as we pass the three and a half year mark of this technology-driven bull market cycle, wherein the S&P 500 has more than doubled, is simply this: "Are we in a bubble?" Bears point to the high concentration of large-cap technology companies in the U.S. stock market — 10 stocks make up nearly 40% of the S&P 500 — and rapid moves in stock prices over short periods, such as Micron Technology's more than 200% rise year-to-date. Bulls contend that this isn't an ordinary bull market cycle. Rather, it's a secular bull market led by the AI infrastructure buildout — an industrial boom comparable to the nation-building railroad infrastructure buildout that continued for decades.

On the surface, both arguments seem reasonable, but as equity investors, we need to delve further into this question and develop a thorough understanding of the risks and opportunities presented by each position. This brings us to our central point of contention: the Great Bubble Debate.

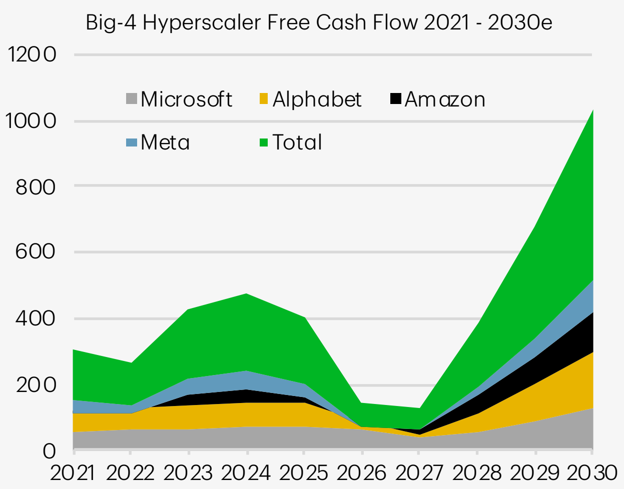
The crux of the bubble debate — the single most important point of disagreement — appears to be the sustainability of AI infrastructure capital spending, or capex, which is driving massive earnings growth and sharp price increases among hardware stocks, including semiconductor, networking, memory and other infrastructure-component suppliers. The combined capex of the Big Four hyperscalers — Amazon, Alphabet, Microsoft and Meta — has grown by more than 50% in each of the past two years and is expected to accelerate in 2026.

What the bears say: Hyperscalers are depleting their free cash flow — defined simply as operating cash flow less capex — and even tapping debt and equity markets to support this massive spending growth. They are likely overestimating demand, which will lead to an overbuilding phase similar to the fibre buildout of the late 1990s. Given that these companies continue to fail to generate an adequate return on invested capital, and given that spending growth outpaces revenue growth, capex will eventually be reduced. When we reach that point, the businesses behind the hardware suppliers' rapid earnings growth will hit a revenue air pocket. Earnings will contract and the AI trade will unwind.

What the bulls say: AI infrastructure spending isn't being driven by immediate returns on capital or revenue-growth objectives. This is an arms race. It's similar to the railroad buildout, requiring significant upfront capital to put in place the "rails" of the future digital economy, which will transform society and become the engine for massive productivity gains and global economic growth. Therefore, the capex cycle will continue in favour of larger deferred financial gains, driven by the infrastructure being built now.

When we examine the free cash flow profiles of these leading companies, we see a significant dip from 2026 to 2027 (Figure 1) because of the large incremental capex commitments. However, along with the recently announced debt and equity financings, the group can, on average, maintain sufficient cash flow to fund this spending growth, followed by a strong recovery in free cash flow by 2028.

Figure 1: Free cash flow takes a dip, but recovery expected



Source: Company Reports and Wealth Investment Office as of July 10, 2026

This free cash flow profile provides reasonable support for the current pace of the investment cycle to continue on a self-funded basis, and it could turn out to be the conservative case in a broader bullish scenario. Within that broader bull case, we will call this the first wave. Hyperscalers are expected to spend approximately $750 billion in 2026, and free cash flow could support close to $1 trillion of annual investment by 2027.

In the second wave, we factor in potential debt financing to further fund the buildout. For example, the Big Four hyperscalers are among the least leveraged large-cap companies in the market. With an average debt/EBITDA ratio of just over 0.8 times, their leverage is approximately half the technology sector median of 1.62 times and nearly one-quarter that of the consumer discretionary and consumer staples sectors, at around 3.0 times. This enormous theoretical capacity, if utilized, could absorb hundreds of billions of dollars in incremental debt at 1.6 times and trillions of dollars at a more aggressive 3.0 times.

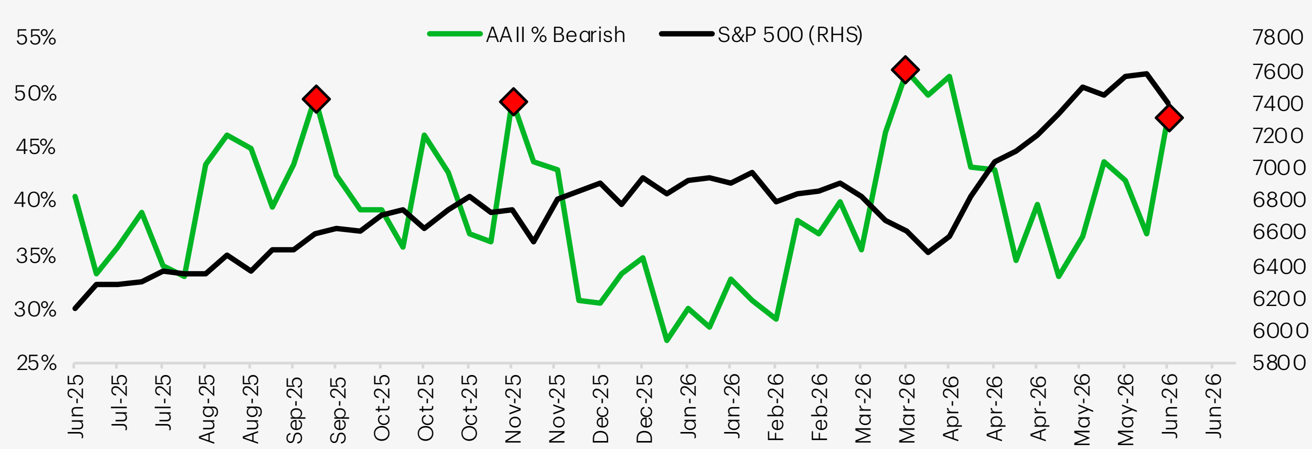
The third-wave scenario to consider comes from comments made by Jensen Huang, CEO of Nvidia, during the company's fiscal first-quarter earnings call this May. He said, "With analysts now forecasting hyperscale capex to exceed $1 trillion in 2027 and agentic AI beginning to proliferate all industries, AI infrastructure spending is on track to reach $3 trillion to $4 trillion annually by the end of this decade." Clearly, these are blue-sky numbers. Given that Nvidia would be a major beneficiary, they warrant some skepticism. However, with the prospect that an agentic AI inflection point could drive demand and skyrocketing enterprise adoption could require additional computational capacity, these estimates may be viewed as at least possible.

Of course, there's no guarantee that management at these companies will maintain a heavy-handed commitment to infrastructure spending. However, unless we see a shift in the buildout strategy, these capital flows should continue to support sound fundamentals for the foreseeable future.

On the question of bubbles, we should also consider sentiment. There are few bulls at market bottoms and few bears at market tops. That isn't the case at current market highs (Figure 2). The recent 5% pullback in the S&P 500 in mid-June brought out enough bears to nearly match the bearish sentiment recorded at the Iran-conflict market lows, suggesting that the bull market's wall of worry is firmly in place.

We believe U.S. growth equity investors should maintain a focus on these spending trends. Bears are right to point out that when spending slows, the music will stop, so to speak, at least for infrastructure hardware suppliers. At the same time, the hyperscalers themselves would see a positive inflection in free cash flow, which we believe would be more likely to prompt flows to return to these stocks, which have

Figure 2: Still plenty of bears



Source: AAII sentiment Survey as of June 11, 2026 generally lagged those of their equipment suppliers. A prudent positioning strategy is to maintain balanced participation on both sides of the AI trade: (1) the hardware providers benefiting from the spending now; and (2) the infrastructure builders that will benefit later from the installed capacity and recovery in free cash flow.

Canada: Fundamentally sound but expensive

About 70% of the S&P/TSX Composite Index comprises two industry groups: financial services and resources. The Big Six Canadian banks alone make up more than one-third of the index. With both energy and mining stock prices likely to moderate, given that commodity prices have moved into sideways trading ranges that may persist over the near term, the performance of the S&P/TSX Composite Index in the second half of the year will likely depend on whether the banks can continue to deliver positive returns.

In our recent *Market Insights* publication, "Extra Time: Canadian Banks with Little Margin for Error" (click here), we noted that Canadian banks are benefiting from one of the strongest fundamental backdrops in years, with elevated interest rates, solid capital-markets activity, stable credit conditions and the potential for renewed loan growth all working in their favour. At the same time, high valuations leave little margin for error, particularly if macroeconomic risks tied to trade uncertainty or credit quality begin to rise.

Valuation, which is elevated by all metrics, is currently the biggest risk, even after taking into account improvements in profitability over the past two years and expectations of solid earnings growth. When fundamentals and profitability improve, a stock typically re-rates higher, but the relationship between valuation and profitability should remain stable over time.

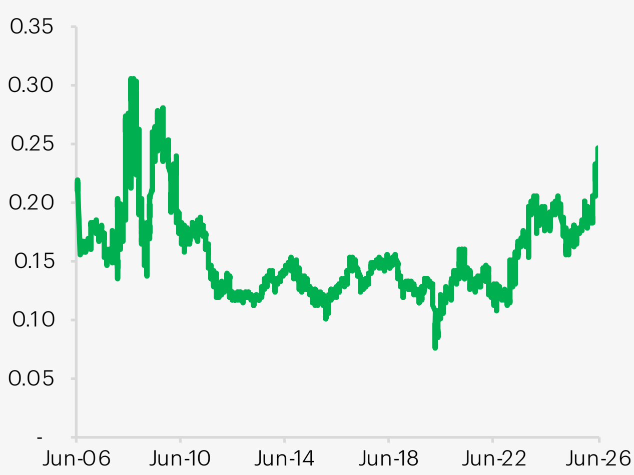
One metric we examine is the ratio of price-to-book value to excess returns, defined as return on equity minus the five-year government of Canada bond yield. This metric was range-bound for much of the period after the financial crisis through 2022, with the exception of some aberrations, such as the 2020 market crash (Figure 3). The ratio currently stands at an 18-year high, or longer when we exclude the financial-crisis period, during which profitability — the denominator in this ratio — was depressed because of elevated credit losses.

Even when we look at price-to-earnings valuations relative to U.S. banks, Canadian bank valuations are at a historic high (Figure 4). Is it possible that Canadian banks are expected to grow earnings at a higher rate, which would justify the premium valuation? Based on consensus estimates, U.S. banks are expected to grow earnings per share by 12.3%, compared with 10.6% for Canadian banks.

It's important to emphasize that the fundamentals for Canadian banks are very strong. It's been a while since we've seen most earnings drivers working in the group's favour at the same time: elevated interest rates, strong capital-markets activity, stable credit conditions, a potential rebound in loan growth and ample excess capital.

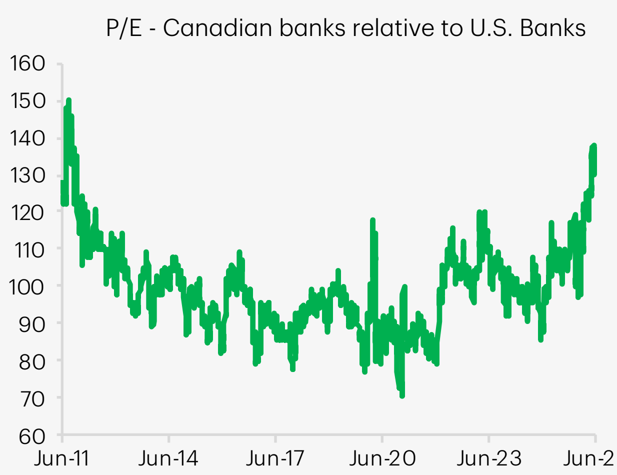
We believe that risks from an unfavourable trade agreement are manageable and could be mitigated by elevated capital levels and allowances, as well as, more importantly, a pro-business agenda from the Canadian government that could drive balance-sheet growth. That said, high valuations remain a risk and don't leave much of a buffer against macroeconomic risks. With this major contributor to the performance of the S&P/TSX Composite Index seemingly priced for

Figure 3: Lofty Valuations (price-to-book over excess return)



Source: FactSet, Wealth Investment Office as of June 23, 2026

Figure 4: Canadian banks pricey relative to U.S.



Source: FactSet, Wealth Investment Office as of June 23, 2026

near perfection, returns for the Canadian market in the second half of the year are expected to be more in line with historical averages.

International: AI provides a lift, but earnings lag

During the quarter, international and emerging-market equities recorded returns of 13.6% and 25.6%, respectively, despite the escalating geopolitical crisis and still elevated energy prices, which especially affected these regions. Continued momentum in AI capex and an expansion in manufacturing activity were the key factors that led to the rally in equity markets.

At the beginning of the year, hyperscalers were expected to commit around $600 billion in capex. However, by mid-2026, hyperscalers had already announced around $750 billion in capex, which will flow globally to semiconductor companies, chip fabricators, chip-equipment manufacturers, power-infrastructure companies, and tech hardware and network-equipment providers in the form of significant revenue growth.

Markets have now shifted their focus from hyperscalers to the “picks and shovels” players, given that they will be the direct beneficiaries of AI investment and are critical to the supply chain for building data centres and meeting advanced-computing requirements. Semiconductors and tech hardware contributed 41.6% and 97.5% of the appreciation in international and emerging-market equities, respectively, while their contribution to the S&P 500 stood at 66.1% (Figure 5).

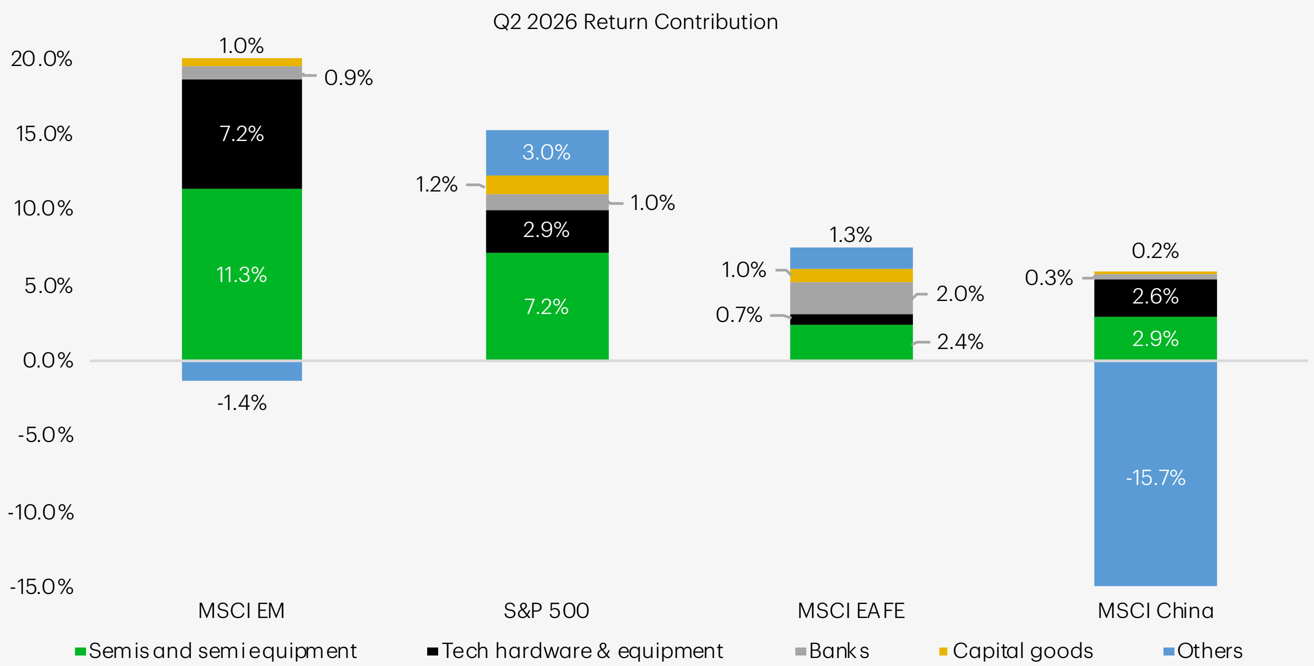
Moreover, this isn’t a hope-based rally; it’s backed by strong fundamental demand, with earnings growth for international semiconductor-equipment makers expected to reach 86.4% in 2026 and 41.6% in 2027.

In addition to AI capex demand, the expansion in manufacturing activity has led to a rebound in industrials, especially in Europe. After an industrial recession lasting more than three years, industrial activity finally rebounded in 2026, with manufacturing purchasing managers’ indices consistently above 50. However, the pace of recovery faded in Q2 because of the effects of the Middle East energy crisis.

According to S&P Global purchasing managers’ index reports, growth in new orders at the end of Q2 was constrained by high input prices and longer supplier delivery times. Both categories recorded their fastest growth since June 2022. On the brighter side, S&P Global’s June report showed growth in manufacturing activity across 12 segments, compared with seven segments in May, combined with easing cost pressures and shorter supplier delivery times.

Interestingly, technology equipment and machinery recorded consistent production growth through June 2026, highlighting the rise in AI investment and the rebound in traditional industrial production. In addition, the auto and auto-ancillary industry, which has consistently recorded sluggish growth over the past five years, is finally showing signs of recovery. It recorded production growth in four of the first six months of 2026, with the fastest pace of production growth since March 2023.

Figure 5: Semis and tech hardware lift all boats



Source: FactSet, Wealth Investment Office as of June 30, 2026

Japan recorded a similar expansion in manufacturing activity, with its purchasing managers' index reaching 55.1 in April 2026, its highest reading since November 2025. This was primarily driven by growth in new orders, although similar to Europe, much of the new-order growth came from the front-loading of orders at the onset of the Iran war.

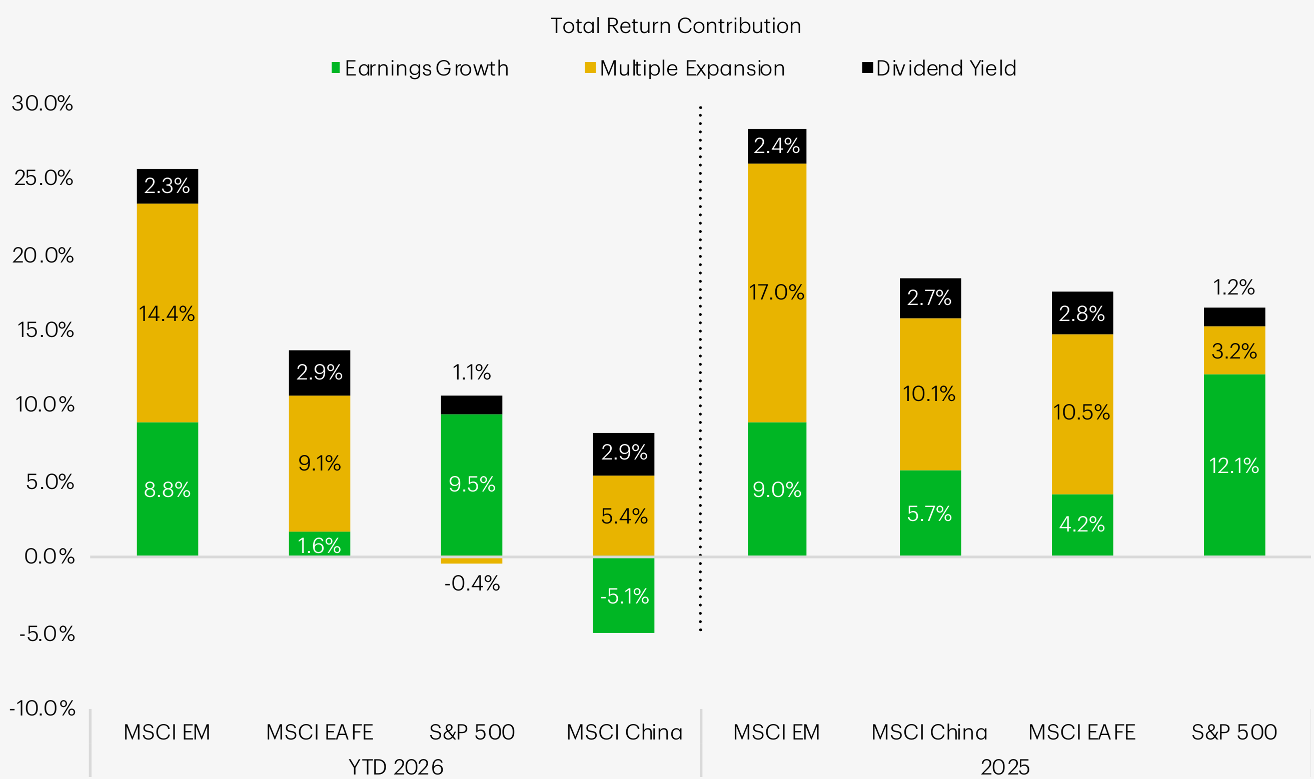
Given the weakness in the yen, Japanese exports recorded remarkable growth of around 13% year-to-date through June 2026, compared with 3.1% in 2025. This was primarily driven by strong demand for semiconductor equipment, electronic components and precision instruments. Despite the strong export growth, volume growth in exports for 2026 year-to-date stood at 0.5%, implying marginal growth in physical shipments. However, companies were able to charge higher prices, underpinned by strong AI investment demand and capacity bottlenecks.

Despite improved growth trends, earnings growth for international and emerging-market equities lagged year-to-date in 2026 (Figure 6). The surge in energy prices has led to a significant rise in input prices, which has hurt profitability and marginally dampened growth in industrial production, although the overall trend has remained positive so far. A prolonged closure of the Strait of Hormuz would add to existing inflationary pressures and remains a core risk to the fundamental growth expected in these regions in 2026. Hence, we remain cautious about the outlook for international equities and maintain our underweight position on them.

Emerging markets recorded the highest return, at 25.6%, among U.S. and developed-market equities. However, the rally in emerging-market equities was concentrated in the semiconductor and tech hardware and equipment segments. Only three stocks — TSMC, SK Hynix and Samsung Electronics — contributed 67.8% of the returns of the MSCI Emerging Markets Index.

Outside the AI investment theme, the rally in broader equities remained weak because of the surge in energy prices and continued structural weakness in Chinese consumer spending. If the conflict between the U.S. and Iran isn't resolved soon, we believe the ongoing energy crisis will have a more pronounced impact on countries that are heavy oil importers or have limited refining capacity, such as India and countries in Latin America. For countries that are hubs of the AI value chain, such as Taiwan and South Korea, the structural tailwinds of AI investment will compensate for the rise in energy costs.

Figure 6: Earnings growth continue to lag for international and EM equities



Source: FactSet, Wealth Investment Office as of June 30, 2026

Chinese equities recorded muted returns of 5.2% in Q2 and 3.2% year-to-date through June 2026. We see a similar trend in Chinese equities in that semiconductors and tech hardware drove 70% of positive returns during the quarter, while both real estate activity and consumption remained weak.

On the other hand, Chinese exports rebounded strongly, recording average growth of 17.1% in 2026, compared with 5.4% in 2025. This growth was primarily driven by semiconductors, computing hardware and electric vehicles. Hence, the economic recovery in China continues to be bifurcated between the tech growth story and structural weakness in real estate and consumption. While we remain bullish on the fundamental growth story for equities — supported by AI investment tailwinds and a rebound in global industrial activity — our concerns about concentration risk and crowded equity trades continue to rise.

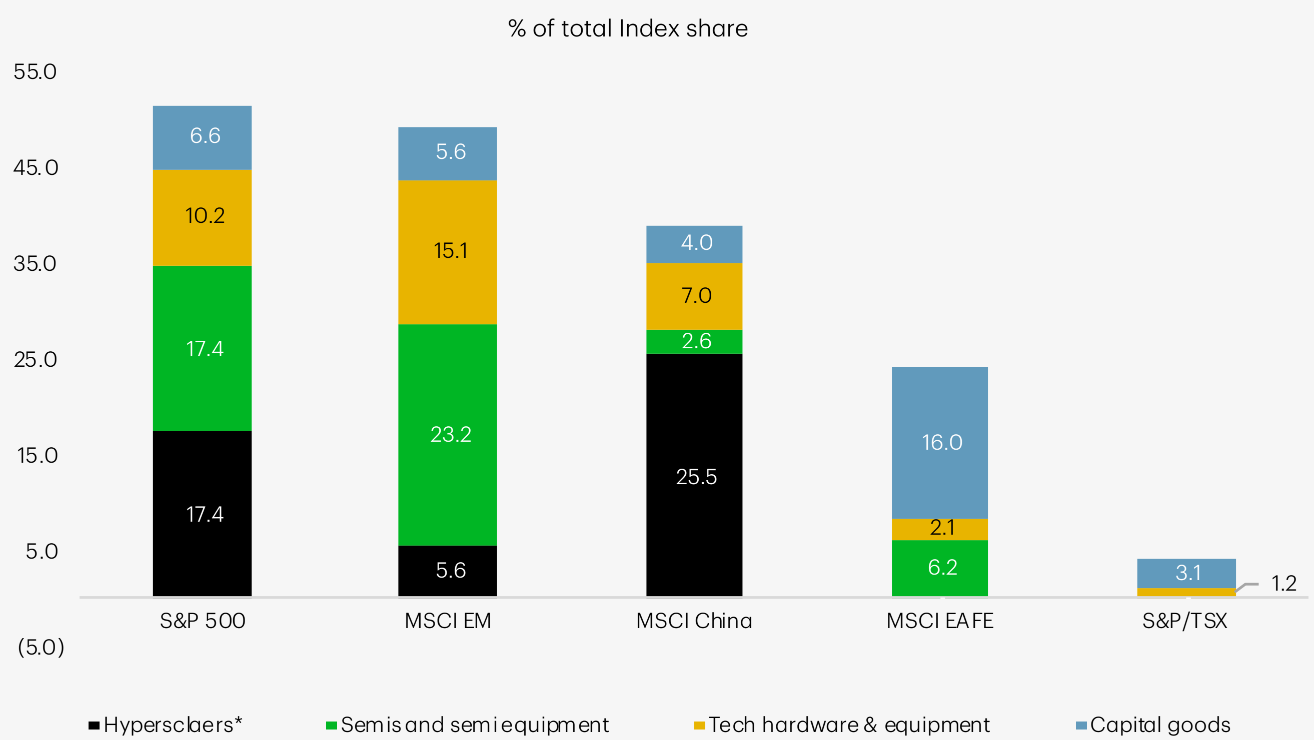
Today, the AI trade has rippled across sectors. The segments that can be quantified most easily are hyperscalers, semiconductors, semiconductor equipment and tech hardware, and account for more than 40% of the S&P 500 and the MSCI Emerging Markets Index, while their weights in the MSCI EAFE Index and the S&P/TSX Composite Index are much lower, at 8.3% and 1.2%, respectively (Figure 7).

Apart from strong fundamental growth, their growing weights in the indices can also be attributed to the growing popularity of single-stock leveraged exchange-traded funds (ETFs) in emerging markets.

For example, in South Korea, CSOP's SK Hynix Daily 2x Leveraged ETF garnered assets under management (AUM) of $6.2 billion within nine months of its inception in October 2025. Similar ETFs have been launched for TSMC and Samsung, accumulating AUM of more than $1 billion.

Such trends have exposed equities to significant risk if liquidity dries up because of monetary tightening or if delayed monetization of AI investments compels hyperscalers to pause their capex commitments. Today's market environment makes diversification a necessity rather than a recommendation. Advisors must ensure that portfolios are diversified not only across equity sectors and regions but also across other asset classes, such as commodities, infrastructure and low-correlation risk-mitigation strategies.

Figure 7: AI trade exposes equities to concentration and liquidity risks, even with strong fundamentals



Source: FactSet, Wealth Investment Office as of June 30, 2026

Outlook on Commodities • Modest Overweight

Filtering out the Noise in Commodities

The recent weakness reflects a more cautious interpretation of the fundamentals than the data currently supports, but the picture is nuanced.

Hussein Allidina, Managing Director and Head of Commodities, Humza Hussain, VP and Director, Commodities, | TD Asset Management

The backdrop for commodities shifted meaningfully this past quarter. While the first quarter rallied on U.S.-Iran tensions and record supply disruption, the second quarter presented a mirror image: investors have refocused on the tougher macro setup (higher rates, a stronger U.S. dollar, and thinner risk appetite) and that has weighed on parts of the complex, precious and industrial metals in particular. Oil has retraced as the market leans into slower demand and the prospect of supply returning more smoothly than feared (Figure 1). But beneath the price action, several fundamentals look more constructive than the headlines suggest.

Figure 1: Broad Commodity Performance

	BCOM	Oil	Gold	Copper
YTD	14.36%	44.90%	-7.37%	8.83%
Q2	-8.08%	-17.60%	-13.54%	10.26%

Source: TD Asset Management as of June 30, 2026

That gap, between near-term sentiment and medium-term fundamentals, is the central question for commodity investors right now.

Markets Are Still Sorting the Signal from the Noise

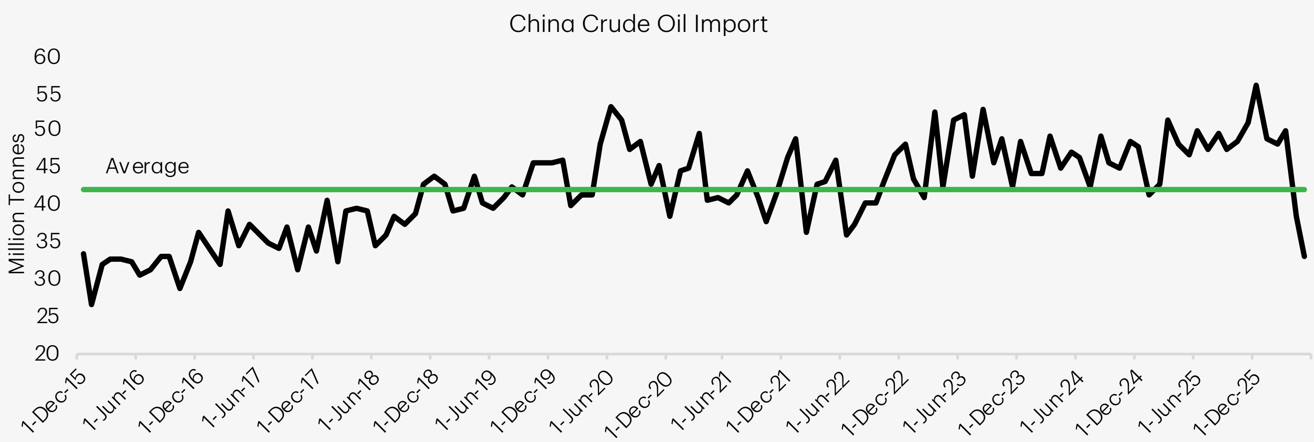
The pullback has fed a more cautious narrative, but the picture is more nuanced. Markets are now putting greater weight on higher rates, a stronger U.S. dollar, softer risk appetite, and doubts about demand. These forces are real: precious metals struggle when real rates rise, industrial metals track growth expectations, and oil is exposed when the market prices slower demand against a smoother return of supply.

But prices can move faster than fundamentals. In uncertain periods, markets tend to lean into the most immediate narrative even when the physical picture is more mixed and that tension is visible across the complex today.

Oil is the clearest example. With crude in the US$70s, the market is pricing a softer demand backdrop, with China at the center of the concern (Figure 2). Weak imports have reinforced the view that the recovery is stalling. We'd be careful reading import data as a clean measure of end demand. Part of the decline likely reflects inventory behaviour, including reserve drawdowns, rather than a structural drop in consumption. If so, the weakness may prove more temporary than current pricing implies.

However, if Chinese import weakness persists, if reserve drawdowns run deeper or longer than we expect, or if supply returns faster than demand recovers, oil could stay under pressure. The point isn't that the bearish case is impossible; it's that current prices may reflect a more cautious interpretation of the fundamentals than the data currently suggests.

Figure 2: China Crude Imports Fall Below Historical Average Range



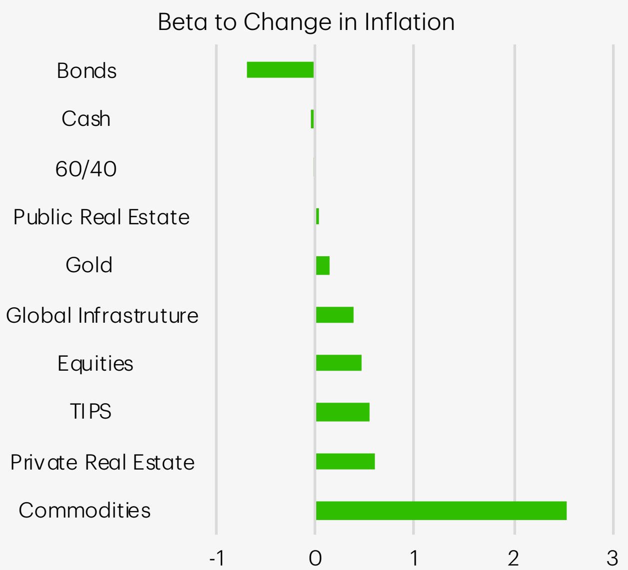
Source: TD Asset Management as of June 30, 2026

Gold has faced a different set of pressures. Higher rates and a stronger dollar have weighed on the metal, and retail and speculative investors have trimmed exposure. None of that is unusual. Gold often struggles short-term when real yields rise, even when the broader backdrop is uncertain. The offset is central bank demand, which tends to be far more persistent and far less price-sensitive than speculative flows, because it's driven by reserve diversification, currency exposure, and financial resilience rather than by the tape.

That doesn't remove the downside. If real rates grind higher or the dollar strengthens further, gold could stay volatile. But the composition of demand has shifted toward a more durable source of support than positioning alone would suggest.

Copper tells the same story of macro sentiment against physical fundamentals and it may be the cleanest expression of the structural case. Prices have pulled back on growth concerns, but the medium-term supply picture stays tight. Accessible inventories are thin, and a meaningful share of available metal has been pulled into the U.S. on policy dynamics,

Figure 3: Commodity Performance Started Long Before the Iran War



Source: TD Asset Management Inc., Bloomberg Finance L.P., Federal Reserve Economic Data., MSCI. As of June 30, 2026 Note: Data from January 1978 to June 2026. Equities, bonds, commodities, gold, public real estate, private real estate, cash and global infrastructure are represented by the MSCI USA Index, the Bloomberg U.S. Aggregate Bond Index, the Bloomberg Commodity Index, the Bloomberg Gold Subindex, the FTSE NAREIT All REITs Index, the NCREIF Property Index, the ICE BofA 3-Month Treasury Bill Index and S&P Global Infrastructure Index respectively. TIPS are represented by the Bloomberg U.S. Treasury Inflation Notes Index. The TIPS data series starts in June 1997. The 60/40 portfolio is comprised of 60% equities and 40% bonds and is rebalanced quarterly. Inflation beta is calculated by regressing quarterly asset returns on quarterly changes in seasonally-adjusted YoY inflation.

leaving less for the rest of the world. Copper also sits at the intersection of the three structural themes we build around: deglobalization, decarbonization, and digitalization. Deglobalization is reshaping where metal is produced, refined, and held; decarbonization runs through electrification, grid investment, and energy transition spending; and digitalization (data centers and AI infrastructure) is now a material and fast-growing draw. All three are copper-intensive and they compound.

The risk here is timing. A sharper global slowdown could delay the point at which tight fundamentals show up in price, and demand tied to electrification and infrastructure isn't immune to financing conditions, policy delays, or the cycle. But given how hard it is to bring new copper supply online quickly, we think the structural case holds.

Commodities Don't Need to Spike to Add Value

There's a common misconception that commodity investors should always want prices moving higher as fast as possible. In practice, a sharp rally acts as a tax on growth because it pressures margins, weighs on equities, and complicates monetary policy. The more constructive setup is one where prices remain supported, the floor rises gradually, and the exposure adds resilience without becoming a drag on the economy.

And the portfolio role goes beyond return. Commodities have historically carried one of the highest sensitivities to inflation of any major asset class and this sits at the core of their case as a strategic diversifier (Figure 3). For Canadian investors, that makes them a valuable complement to traditional stock and bond allocations especially with inflation risk, geopolitical uncertainty, and supply constraints all still in play.

The path from here won't be linear. A more durable slowdown in Chinese demand, a faster normalization of supply, a stronger U.S. dollar, or weaker global growth could each challenge the constructive view. But in our read, recent weakness reflects a more cautious interpretation of the fundamentals than the data currently supports.

For investors, that argues for discipline over headline-chasing. Commodities will stay volatile but volatility on its own isn't a reason to leave the asset class. Periods of weakness are often the best time to maintain or add exposure, provided the fundamentals remain intact.

Within portfolios, commodities remain a strategic diversifier and a source of real-asset exposure. The market may keep trading sentiment in the near term, but we'll stay focused on fundamentals.

Outlook on Currencies

Geopolitics Drive Markets

The intersection of geopolitics and global macro factors continue to serve as a relevant market driver but there is less scope for a 2022-style U.S. dollar surge.

By TD Securities and Wealth Investment Office

The U.S. dollar appears to be reverting to a more traditional safe-haven profile, with correlations to equities and rates somewhat normalizing after the Trump 2.0 distortions, particularly the "hedge American" and "hedge U.S. dollar" trades that emerged in the second quarter of 2025.

A sustained U.S. dollar surge, however, looks unlikely, as rate differentials are not expected to return to 2022 extremes when the Fed materially outpaced its global peers. TD Securities believes this meant U.S. dollar strength became more episodic than trend-like. The U.S. dollar significantly underperformed what growth differentials alone would have implied in 2025, suggesting that a much larger U.S. growth advantage is now required to generate a durable U.S. dollar rally.

While many indicators point to continued improvement in the U.S. dollar's tactical trading weight, (driven by momentum, relative growth, and rate differentials) the intersection of geopolitics and global macro factors continues to serve as a relevant market driver. TD Securities believes this will be the case for the near-term only. Beyond a short-term rebound, however, TD Securities expects structural depreciation and is forecasting a 2% decline in 2026.

As markets look through geopolitical tensions, growth should replace inflation as the dominant macro theme. TD Securities expects carry to perform well through the summer (driven by buoyant risk sentiment rather than U.S. dollar weakness) while the approaching U.S. midterm cycle reduces the likelihood of significant demand or risk shock. In the near-term, oil, inflation and Fed uncertainty are also likely to keep rates risk premia elevated.

Overall, TD Securities sees less scope for a 2022-style U.S. dollar surge. The U.S. economy is in a different place: monetary/fiscal policy are not overly lax; the labour market is resilient but no longer extremely tight; there's no pent up consumer demand fuelled by excess savings; and ex-commodity global supply chains are not under as much stress. The Fed is not behind the curve the way it was in 2022.

Canadian Dollar: Upside Potential in H2 2026

The post-FOMC U.S. dollar rally has become too stretched relative to the Canadian dollar with spot reaching 1.42 in late June. Historically when the USD/CAD saw quick run-ups from sub 1.40 to 1.42 within a month, it retraced back below 1.40 in the subsequent month four out of five times. On the CAD side, the market has become too pessimistic with Canada's growth outlook again, despite improvement in recent weeks. With the help of higher energy prices, Canada is closing its trade deficits from 2025. TD Securities also expects domestic growth to rebound above the consensus forecast after consecutive quarters of negative growth. Improving Canadian data should allow the USD/CAD to eventually retrace below 1.40.

Figure 1: Foreign Exchange Forecasts

		2026			
`	**July 10 '26**	**Q1A**	**Q2A**	**Q3F**	**Q4F**
USD/JPY	162	159	163	162	159
EUR/USD	1.14	1.16	1.14	1.13	1.16
GBP/USD	1.34	1.32	1.33	1.33	1.35
USD/CHF	0.81	0.80	0.81	0.81	0.80
USD/CAD	1.42	1.39	1.42	1.41	1.39
AUD/USD	0.70	0.69	0.69	0.68	0.69
NZD/USD	0.58	0.57	0.57	0.57	0.57
BBDXY	1219	1215	1222	1227	1203

Source: TD Securities as of July 10, 2026

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	149648	0.50	6.96	11.17	32.87	23.48	14.85	12.79	8.79
S&P/TSX Composite (PR)	34857	0.25	6.37	9.92	29.79	20.03	11.57	9.50	5.65
S&P/TSX 60 (TR)	7212	1.65	8.24	11.57	31.54	22.70	14.60	13.08	9.04
S&P/TSX SmallCap (TR)	2667	-3.95	5.94	18.00	57.17	30.33	14.98	11.09	6.40
S&P/TSX Preferred Share(TR)	2553	-0.08	4.02	4.39	12.89	16.89	6.47	7.07	3.81
U.S. Indices ($US) Return									
S&P 500 (TR)	16774	-0.95	15.20	10.21	22.32	20.61	13.41	15.51	11.39
S&P 500 (PR)	7499	-1.06	14.87	9.55	20.86	19.00	11.78	13.58	9.28
Dow Jones Industrial (PR)	52319	2.52	12.90	8.85	18.65	14.99	8.68	11.30	8.04
NASDAQ Composite (PR)	26214	-2.81	21.41	12.79	28.69	23.88	12.57	18.40	13.26
Russell 2000 (TR)	16675	3.74	21.49	22.57	40.78	18.60	6.98	11.62	8.88
U.S. Indices ($CA) Return									
S&P 500 (TR)	23833	1.98	17.46	14.12	27.55	23.52	16.52	16.56	12.75
S&P 500 (PR)	10655	1.87	17.12	13.44	26.02	21.86	14.85	14.61	10.62
Dow Jones Industrial (PR)	74335	5.56	15.11	12.72	23.72	17.76	11.67	12.31	9.36
NASDAQ Composite (PR)	37244	0.07	23.79	16.79	34.19	26.87	15.66	19.47	14.65
Russell 2000 (TR)	23692	6.81	23.87	26.92	46.79	21.46	9.92	12.64	10.21
MSCI Indices ($US) Total Return									
World	23198	-0.69	13.90	9.94	21.81	19.76	11.98	13.70	9.27
EAFE (Europe, Australasia, Far East)	16164	0.09	11.08	9.84	20.80	17.02	9.60	10.20	6.05
EM (Emerging Markets)	4755	-1.36	24.15	24.02	44.18	23.62	7.69	10.52	7.15
MSCI Indices ($CA) Total Return									
World	32959	2.26	16.13	13.84	27.01	22.64	15.06	14.73	10.61
EAFE (Europe, Australasia, Far East)	22965	3.06	13.26	13.74	25.96	19.84	12.61	11.20	7.34
EM (Emerging Markets)	6755	1.56	26.58	28.42	50.34	26.59	10.65	11.53	8.46

Currency									
Canadian Dollar ($US/$CA)	1.42	2.92	2.01	3.44	4.32	2.35	2.75	0.94	1.21
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	10497	0.84	3.15	5.70	19.82	11.70	8.33	4.90	2.98
Hang Seng (Hong Kong)	22881	-9.14	-7.69	-10.73	-4.95	6.55	-4.52	0.96	1.72
Nikkei 225 (Japan)	70062	5.63	37.21	39.18	73.05	28.28	19.47	16.23	7.83

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	2.31	3.05	3.41	3.79
U.S. Treasury Yields	3.68	4.14	4.44	4.98

Bond Indices ($CA Hedged) Total Return	Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
FTSE TMX Canada 91-day Treasury Bill Index	491	0.21	0.61	1.13	2.48	3.81	3.09	2.02
FTSE TMX Canada Universe Bond Index	1227	0.51	2.01	2.24	3.46	4.42	0.80	1.71
FTSE TMX Canada All Government Bond Index	1141	0.55	1.99	2.25	3.14	3.78	0.25	1.25
FTSE TMX Canada All Corporate Bond Index	1538	0.40	2.08	2.23	4.43	6.34	2.41	3.03
U.S. Corporate High Yield Bond Index	327	0.13	2.02	1.08	4.04	7.42	3.12	4.87
Global Aggregate Bond Index	268	0.24	0.91	0.32	1.41	3.13	-0.05	1.23
JPM EMBI Global Core Bond Index	602	0.70	4.19	1.71	8.73	8.30	1.01	2.47
S&P/TSX Preferred Total Return Index	2553	-0.08	4.02	4.39	12.89	16.89	6.47	7.07

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of June 30, 2026

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