TD Wealth

The Brand New Renaissance

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The Brand New Renaissance

Over the past several years, financial markets have been fuelled as much by expectation as by execution, but not anymore. This is no longer a theoretical environment. The real cost of capital is once again shaping behaviour. Fiscal deficits are no longer abstract. Power grids, supply chains, labour markets and political systems are being tested by the physical and financial limits of the world they must now support.

The Renaissance showed how capital could reorganize culture, power and economic life. We believe a new Renaissance is underway — one where capital is now reshaping intelligence, infrastructure and energy systems. As AI moves from concept to implementation, its impact should broaden across sectors and earnings, extending market leadership beyond a narrow group of early winners.

At the same time, a more competitive geopolitical regime, rising fiscal demands and the limits of monetary policy point to structurally higher long-term yields and greater market dispersion. In this environment, portfolio construction matters. Our positioning reflects a modest pro-growth stance, a consistent modest overweight position on alternatives and a structural role for commodities — aligning portfolios with the real-world buildout that underpins the next phase of this new Renaissance.

Be well,

Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

War Worries

Our annual survey of client concerns finds that four in 10 respondents now cite global geopolitical conflict as their primary worry. Technology-related risk, specifically the fear of a valuation-driven correction, came a distant second at 18%, while global trade war risk followed at 9.5%.

35,000 & 7,900

The S&P/TSX and S&P 500 could end the year at these levels assuming current estimates are achieved and multiples remain stable. Geopolitics has generated loads of uncertainty, but earnings guidance is looking good. These levels would represent annual earnings of 11% in Canada and 16% in the U.S.

Cheques in the mail

U.S. fiscal policies are turning into a tailwind in 2026, expected to boost GDP between 0.5 and 0.9%. The OBBBA will encourage business investment, while retroactive personal income tax cuts will deliver roughly $80 billion in refunds in the first quarter of 2026.

USD Under Pressure

The U.S. dollar lost ground across the board last year, led by a nearly 15% depreciation against the euro and a 9% depreciation against the pound sterling. Smaller 6% to 8% drops were recorded vis-à-vis the Canadian dollar and the Australian dollar, while the USD was roughly flat against the yen.

40% to Central Banks

Over the past three years, central banks bought 1,000 metric tons of gold per year — double the rate of the prior decade and roughly 40% of global production. This trend is likely to support gold prices well into the year.

AI Superpower

China has turned into an electrical superpower. As of 2024, China's total electricity generation was 10,000 TWh compared to 4,000 TWh in the U.S. — a significant advantage in the race to power AI data centres.

AI in EM

While the U.S. owns 61% of the market share in chip design, EM nations hold 60% and 56% market share in chip fabrication and chip assembly and testing, respectively. EM equities also provide crucial exposure across the AI supply chain — from electronics manufacturing and commodities to power-supply units.

Not Employed ≠ Unemployed

While the official U.S. unemployment rate is low, at 4.4% in December, that figure does not capture those outside the labour force who want a job. Including those people, it could be closer to 6.0%.

Adaptation

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.

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%.

Foursquare

There are four basic economic environments: rising growth, falling growth, rising inflation and falling inflation. Markets react as economies shift from one to another, but transitions are unpredictable and can be fraught. We don't predict the future, we invest in all four areas.

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.

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.

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.

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.

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.

PSQ1.2026 | Executive Summary

House Views

- **Fixed Income, modest underweight:** The Canadian economy remains resilient, giving the Bank of Canada cover to be patient in charting the path ahead for monetary policy. We expect Canadian yields to remain steady, anchoring fixed income returns over the next 12 to 18 months.
- **Equities, modest overweight:** Global equity markets have rallied over the past year due to positive earnings trends and AI investments, which resulted in valuations expanding. While there could be volatility around AI and economic expectations, we remain overweight equities, with earnings growth, as well as increasingly pro-business government policies, creating a supportive backdrop for markets.
- **Alternatives, modest overweight:** We believe that an allocation to alternative assets can benefit diversified portfolios, especially when implemented over the long term. Alternative assets can provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams. Given the nature of private asset classes as well as the present phase of value adjustment in several markets and asset classes, we believe that this may be an attractive time to increase or consider an allocation to alternative assets.

Quarter in Review

Global equities rallied broadly in Q4, with leadership rotating from the U.S. toward Europe and emerging markets. U.S. growth stayed resilient despite sticky inflation and mixed labour signals. Broader equity participation, easing trade frictions and synchronized U.S. fiscal and monetary stimulus underpin optimism, while debt management and productivity divergences may add to uncertainty ahead.

- **The K-Shaped Economy: Productivity boost and societal divergence.** AI-driven productivity boosted corporate profits and disinflation, but U.S. growth remained K-shaped, with younger and lower-income households squeezed by rates, affordability strains, a loosening labour market and widening wage inequality.
- **Equity Markets: Concentration, broadening and structural opportunities.** Equity performance reflected transition amid continuity. AI dominated, but investors increasingly gravitated towards issuers with credible monetization. Market concentration stayed high, yet low correlations signalled a stock-picker's environment and broader participation. Cyclicals outperformed defensives, discounting future growth despite mixed manufacturing data. Policy synchronization supported assets, while wealth effects drove consumption. Geopolitically, AI leadership split between U.S. chip dominance and China's power infrastructure, reinforcing diversification. Structural K-shaped divergence intensified as productivity gains accrued to capital, leaving younger and lower-income households under pressure.

Economics

- AI adoption within U.S. labour markets is broader than in Canada, though the lack of a global standardized definition complicates cross-border comparisons.
- Canadian employment in AI-exposed occupations is more resilient, but both nations are exhibiting steady job creation in roles complementary to AI usage.
- The normalization of Canada's labour demand is more a function of cyclical factors rather than AI, although some AI-related productivity relationships are loosely emerging.
- Youth wages in AI-complementary roles in the U.S. and Canada are growing at a faster pace than other roles in the labour market. These include industries such as health care, real estate and professional occupations in applied sciences.

Fixed Income

As we begin 2026, the fixed income narrative appears to be shifting from surviving the cycle to navigating a period of normalization where credit valuations leave little room for error. The Fed has continued recalibrating policy, easing rates to a restrictive but manageable range despite inflation remaining stubbornly elevated, at closer to 3% than the 2% target rate. Additionally, major changes may be on the horizon at the Fed this year: Chair Jerome Powell's term is set to end in May, and a number of governor seats will turn over, presenting opportunities for the U.S. president to potentially reshape Fed membership to reflect his highly dovish views. Meanwhile, the Bank of Canada appears set to cautiously pause rates, having signalled as much in December 2025. Consequently, it seems much of the easy money — capital appreciation driven by declining yields — may largely be behind us. With U.S. and Canadian credit spreads extremely tight and hovering near historic lows, credits are arguably priced near perfection, while longer-term government yields appear to be moving higher. Given this backdrop, it seems likely that 2026 total returns will be driven mostly by coupon-clipping, with limited upside for capital gains from incremental price appreciation.

- We maintain our **modest underweight view on fixed income** overall.
- We maintain a **neutral view on domestic government bonds.**
- We maintain a **modest overweight view on investment-grade credit.**
- We also maintain a **neutral view on high-yield credit.**

Equities

North American equities ended 2025 with exceptional multi-year gains, far above long-term averages. Despite growth skepticism, a healthy "wall of worry" persists, with shallow corrections quickly bought. Entering 2026, valuations are elevated, but strong earnings-growth forecasts support current multiples. Sustained earnings expansion could offset valuation risk and allow further upside without irrational exuberance.

- **Base, bull and bear cases within the secular bull market**. Base case implies moderate upside as earnings forecasts are achieved. Bull case assumes stronger AI-driven earnings and higher multiples. Bear case reflects AI capex slowdown, earnings disappointment and multiple compression.

- **The Fundamentals.** North American equities faced a transitional year as AI-driven tech leadership softened amid durability concerns, though AI investment continues to support U.S. growth and reshoring. Markets broadened beyond mega-cap tech into industrials, financials, health care and AI-adjacent areas. Canada benefited from strength in materials, consumer discretionary and banks, but faces risks from energy competition, commodity volatility and looming CUSMA trade negotiations amid heightened U.S. tariff pressures.

- **International Equities: Now is the time for action.** International and EM equities outperformed in 2025, driven by multiple expansion, currency moves and AI-linked optimism. Europe benefited from ECB rate cuts and German fiscal stimulus, but future gains require stronger earnings as valuations normalize. Japan's rally reflects pro-growth policies, massive fiscal support and AI momentum, though inflation risks constrain policy. Emerging markets surged on technology and commodity exposure within the AI supply chain, led by China, Korea and Taiwan. China's heavy AI and power investment contrasts with weak earnings amid deflation and price wars. With structural tailwinds but uneven growth and political risks, the outlook remains cautious: neutral on EM and underweight international equities, as earnings growth must materialize to justify valuations and sustain returns across regions longer term.

Private Markets

There were some headlines in the fourth quarter of 2025 regarding the bankruptcies of two companies (First Brands and Tricolor) that borrowed in size from banks in the broadly syndicated loan (BSL) market. These idiosyncratic situations allegedly involved fraud, embezzlement, and multiple pledges of the same receivables and inventory collateral. Additionally, Blue Owl, a prominent private credit manager failed to merge its flagship public and private business development companies (BDCs) — the former trading at a about a 20% discount to the latter at the time — thereby attempting to force a haircut on its gated private BDC unitholders. These issues created pockets of volatility and negative headlines in private credit, but proved to be deal specific setbacks, not systemic deterioration in credit conditions.

Despite these concerns private credit markets saw solid deal activity through the end of 2025. Due to lower credit quality and concerns about default risks we continue to have an underweight to the asset class.

Currencies

- The U.S. dollar is coming off a difficult year, but concerns that global investors are fleeing it in droves are overblown.
- The depreciation over the past year still leaves the dollar close to 2024 levels on a trade-weighted basis and in line with its long-term average against many major currencies.
- Looking ahead to 2026, we see additional downside to the greenback of around 3%.
- There is little evidence that the diversification away from dollar-centric systems has accelerated, but it does continue gradually.

Commodities

Markets entered 2026 with a paradox: demand is accelerating while supply remains constrained. Despite solid post-Covid returns, capital has flowed to buybacks and dividends, not new production, even as AI, electrification, defence and infrastructure drive commodity-intensive demand. Governments prioritize resource security. Fiscal deficits fund capital-heavy programs. And a weaker dollar supports cycles. Prices likely must rise to attract investment, with supply responding only after long lags, underpinning a constructive outlook for real assets and sustaining inflation risks despite moderation across global markets broadly.

The Brand New Renaissance

Every economic revolution is defined by what imagination can unleash — and by what reality will permit. As 2026 begins, markets are crossing the line where vision must contend with practical limitations.

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

“Bring on the brand new renaissance ’cause I think I’m ready”

— *The Tragically Hip*

Bring on the brand New Renaissance. The original one some 500 years ago was not simply an era of great art and ideas but a tremendous shift in how people saw knowledge and themselves and their place in the order of things. It was a period when humans began to see themselves at the centre of the universe — when imagination, new technologies and expanding pools of capital converged to dramatically widen what societies believed was possible.

This golden era was powered by new tools and new capital structures: the printing press, advances in navigation and shipbuilding and double-entry bookkeeping. But the Renaissance was also marked by upheaval. As new ideas collided with old structures and real-world limits, religious wars, financial crises, plagues and fierce institutional resistance ripped through society. Cathedrals had to stand, trade routes had to function and states had to fund, defend and govern what imagination had unleashed. The tension between creative explosion and real-world consequence makes the Renaissance such a powerful lens for understanding today’s New Renaissance.

The New Renaissance has been defined by transformation at scale — with extraordinary technological breakthroughs, enormous pools of capital and powerful narratives about artificial intelligence, productivity, reshoring and a reordering of the global economy. The promise and threat of super (agentic) artificial intelligence calls into question who, or what, is going to be at the centre of it all: humans or AI? Read that again a couple of times.

Over the past several years, financial markets have been fuelled as much by expectation as by execution. We believe that 2026 will mark a decisive shift in the driver of this cycle. This is the year when the New Renaissance moves beyond promise and into proof — when the rubber hits the road and narrative must give way to consequence.

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

Figure 1: Renaissance vs. Brand New Renaissance

Attribute	The Renaissance (14 to 17th Century)	The Brand New Renaissance (2026+)
Primary shift	From medieval theology to humanism and a human centered universe	From humanism and biology to a synthesis of human, biological and technological intelligence
Source of power	Art, science, navigation, mechanics	Compute, energy systems, materials, infrastructure
Key technology	Perspective, printing press, and navigation tools	AI, robotics, energy grids, biotech, semiconductors
Economic engine	Trade routes, city-states, patronage	Reshoring, industrial policy, digital-physical convergence
View of the human	Human as creator and discoverer	Human + machine as multiplier and architect
Geopolitical backdrop	Collapse of feudal order, rise of empires	Fracturing globalization, return of hemisphere blocs and power laws
Warfare	Gunpowder, religious wars, standing armies, empires (nationalism), capital markets and continuous wars	Uni-to-multipolar shift, digital and AI revolution, permanent security-tech systems, platform states and blocs and continuous grey zone conflict
Speed of change	Generational	Exponential and compounding
Market implication	Birth of modern commerce and finance	Repricing of time, capital, labor, and resilience

Source: Wealth Investment Office as of December 2025.

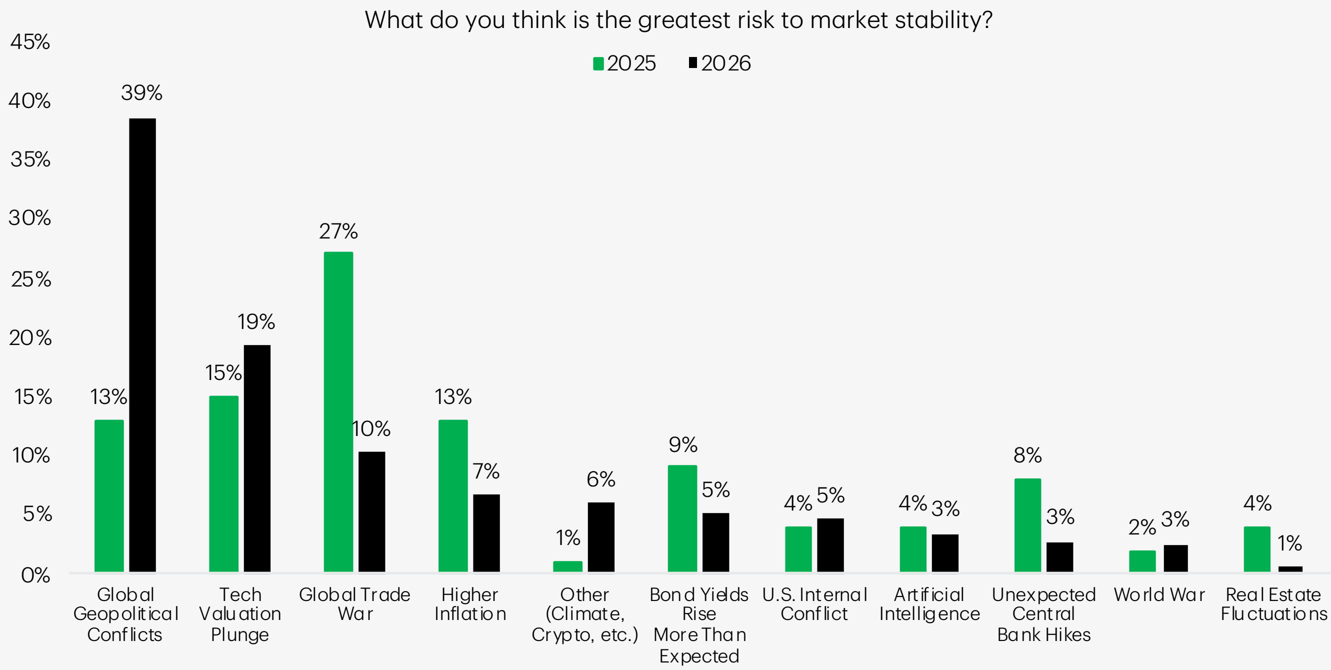
Click here to read our Year Ahead: 2026 report

History shows that these transitional periods, when optimism confronts constraint, are often among the most important for long-term investors. They are the moments when excess is exposed, when durable business models separate from fragile ones and when capital must be allocated with discipline rather than assumption. The opportunity set for 2026 is therefore not defined by the loudest narratives of the past but by the quiet mechanics of execution: who can fund, who can build, who can scale and who can pass costs through without losing demand. Our year-ahead outlook is built around that central idea — that the next phase of the New Renaissance will not be decided by what we can imagine but by what we can actually deliver.

That sense of transition, from narrative to consequence, is not just an intellectual framework. It's already embedded in how investors themselves interpret the world. For the past few years, we have conducted a survey of our advisors to gauge their clients' greatest fears as they enter the new year. This year the results marked a clear shift in mindset. Concern has become far more concentrated. Four in 10 respondents now cite global geopolitical conflict as their primary worry (Figure 2). Technology-related risk, specifically the fear of a valuation-driven correction, came a distant second at 18.0%, while global trade war risk followed at 9.5%.

Risks 1 and 3, global geopolitical conflicts and global trade war, are fraternal twins. Geopolitical risk, and its law-of-the-jungle foundation, is no longer a background macro variable that you can price in once and forget about. It's become a pervasive structural force shaping today's nation-state relationships, trade policy, industrial strategy, defence spending and ultimately how financial markets function and capital flows. This regime is marked by an AI arms race alongside an actual arms race, energy security, supply-chain nationalism, currency and capital wars.

Figure 2: Geopolitics tops this year's litany of client concerns



Source: Wealth Investment Office as of January 12, 2026 *Based on 412 respondents in 2025 and 436 respondents in 2026

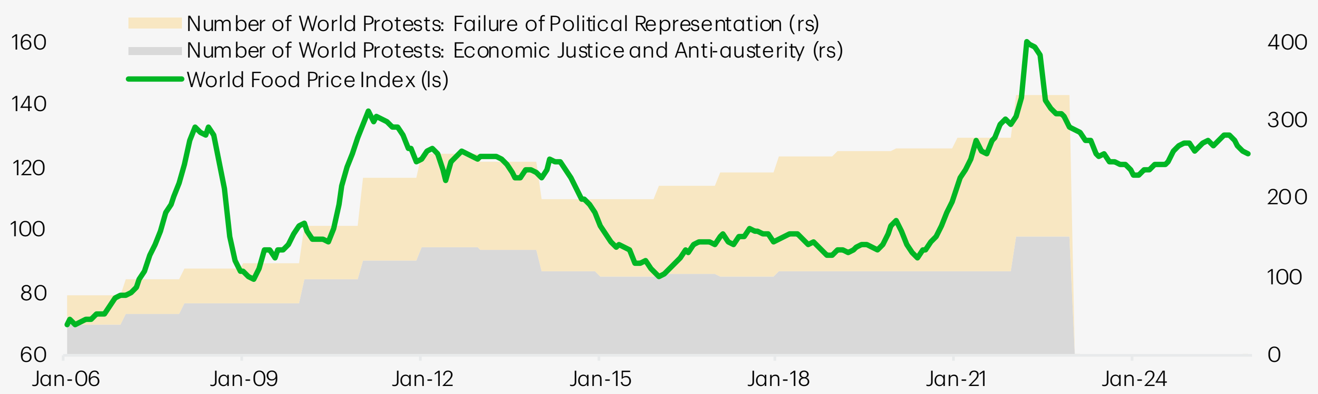
It's important to remain mindful of the fact that Risks 1 and 3 are not linear. For example, despite all the geopolitical noise in January, we may be at an intracycle peak for geopolitical risk. One of the themes in our Year Ahead: 2026 document, "Policy uncertainty trumps narrative noise — geopolitical risk peaks," argues as much (click here for more). We hold this view because domestic policy will likely dominate world powers in 2026. Markets are also getting accustomed to the new world order, as witnessed by the markets' rather tepid response to the U.S. special forces action in Venezuela. It's not a peaceful world but it's a more predictable one. Given this new regime, it becomes imperative to adapt portfolios to balance risk and opportunities by adopting a new mindset in approaching asset allocation.

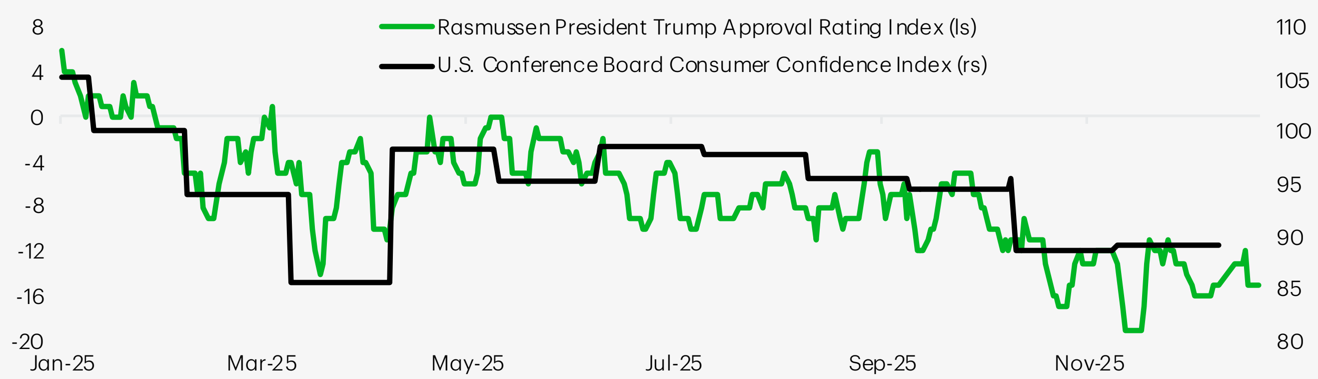
Figure 3 shows the number of protests globally that are driven by either failure of political representation or economic injustice. In general, an increase in global food prices tends to be followed by an increase in the number of protests, as highlighted by the 2011 Arab Spring revolution and the 2022 Russian invasion of Ukraine — the world's breadbasket. In 2025, frustrated young people led anti-government protests in Indonesia, Nepal, Peru, Morocco, Kenya and Madagascar. This year, Iran has seen a mass and deadly protest arising from domestic affordability issues. The good news is that global food prices have been declining in the past year, which should put a lid on the prices of necessities for most countries.

Across the globe, governments will likely be looking inward to generate growth, enhance productivity, reindustrialize their domestic economies, adapt to demographic challenges and address affordability issues and other social pressures. In the U.S., we expect the affordability issue to remain important going into the U.S. midterm elections.

At the end of the day, the approval rating of the current administration depends on how voters feel about their quality of life (Figure 3). This increases the pressure for the government to increase social spending to win votes. Increasing public spending, however, necessitates an increase in taxes — an unpopular policy for any politicians — or the issuance of more debt. If governments across the world choose the latter, the bond market will likely continue to push back by demanding a higher term premium for governments' long-term borrowing.

Figure 3: Geopolitical conflicts weaken consumer confidence





Source: Macrobond, Wealth Investment Office, as of January 16, 2026

As for the fear of a tech valuation plunge, we address this in detail throughout this report. Further, our Year Ahead document explores this fear as part of our No. 1 theme for 2026: "A more durable market, the bull continues." Our base case is that a bull market endures as long as valuations remain justifiable, liquidity ample and investor psychology positive — and it ends when the opposite is true. As such, the bull market is unlikely to come to an end next year. Two years ago, in 2023, we saw a market that was narrative-driven and AI-concentrated, with narrow leadership. The year 2025 was more fundamentally driven, with fewer stocks trading like AI proxies.

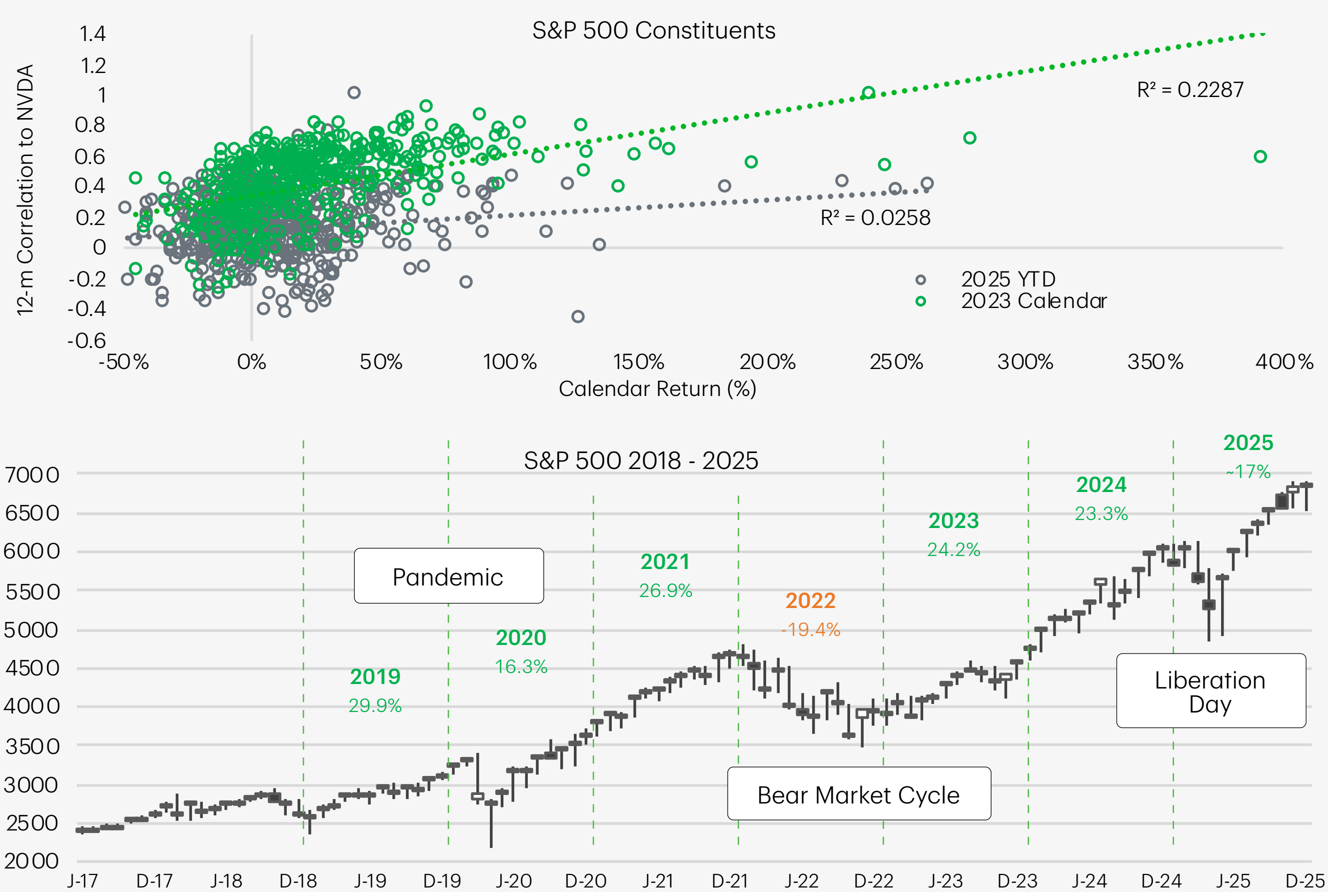
In Figure 4, we measure the correlation of monthly returns between stocks in the S&P 500 index and Nvidia — a proxy for the AI theme — and plot their respective calendar returns for 2023 and 2025. First, there were more stocks with higher correlation to Nvidia in 2023 compared to today. Second, in 2023, stocks that performed well tended to be closely tied to the AI theme. This relationship was weaker in 2025. This broadening is exactly what extends cycles and sets the stage for even more diversified leadership in 2026. As such, we continue to recommend a modestly overweight position in equities.

Renaissance or New Renaissance, our central theme remains unchanged: markets are driven by the economy, liquidity and earnings growth.

The Economy: Growth holds, rotation broadens

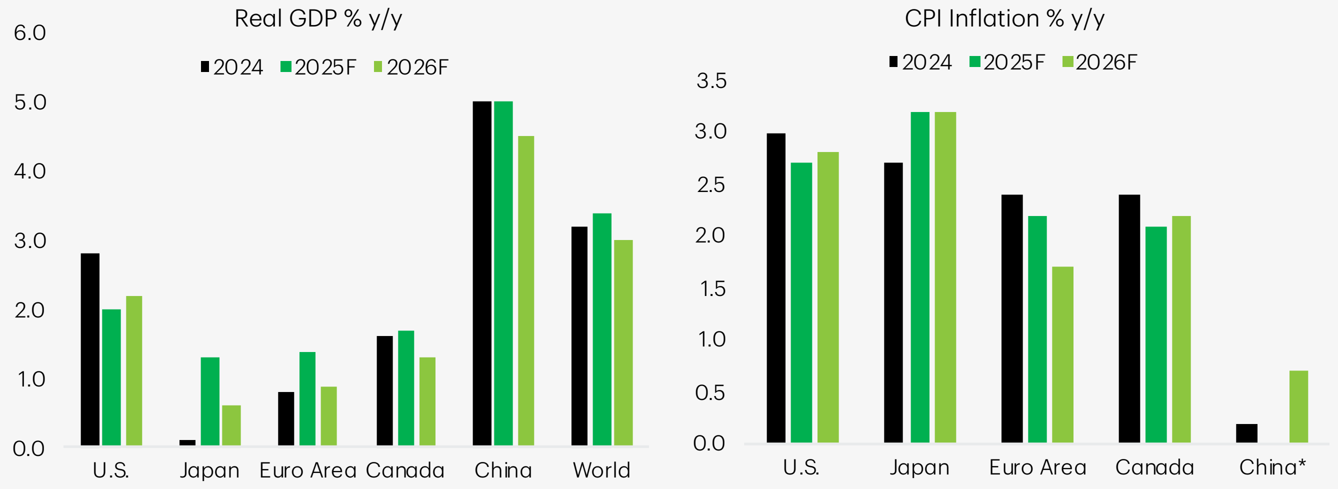
Amid the wall of worries for 2026, TD Economics sees advanced economies growing modestly but below the long-run trend — with the U.S. expanding at around 2.2%, while Canada lags slightly due to slower population growth and export demand (Figure 5). Europe and Japan, meanwhile, are expected to post modest, subdued growth amid structural headwinds. China is expected to continue expanding above major advanced peers but at a gradually moderating pace consistent with longer-term rebalancing, while inflation in most regions trends back toward central-bank targets. This landscape reflects not stagnation but a recovery in which mature markets shift from old growth engines toward productivity reinvention (from capital toward knowledge and innovation) and emerging markets reassert leadership in the next phase of the global economic evolution.

Figure 4: A more durable market continues



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

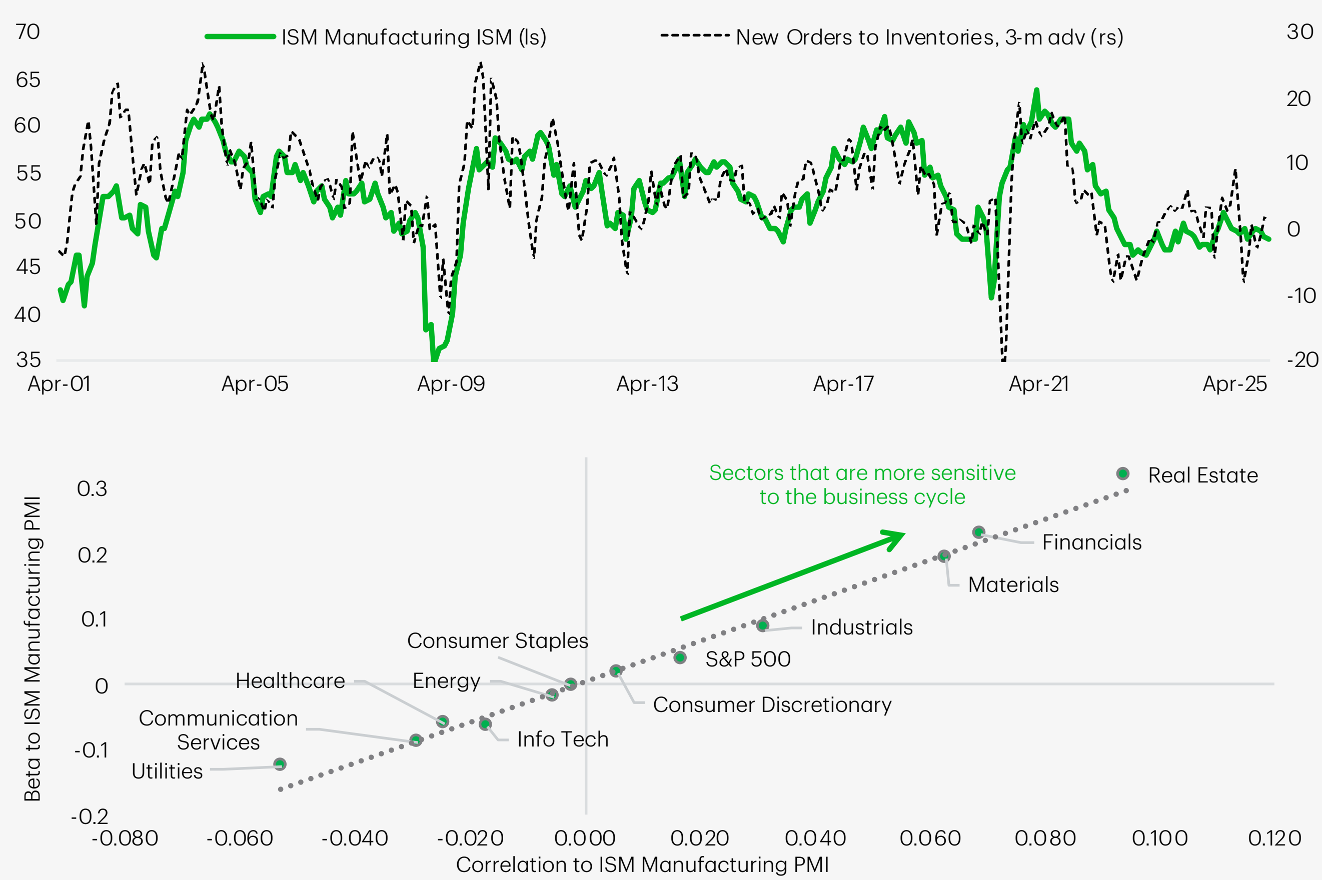
Figure 5: 2026 Economic and inflation outlook



Source: TD Economics and Wealth Investment Office as of December 2025. * China CPI figures are IMF forecast

Further, we think all eyes will still be on the United States and its economy. In short, if we are correct that the U.S. business cycle is accelerating without a recession — that is, the labour market does not weaken materially from here — stock prices for left-behind industries could catch up in 2026. For investors, this presents the opportunity to shift their allocation away from tech-oriented growth stocks to a broader palette, which includes beaten-down cyclicals (Figure 6) and other sectors that benefit from acceleration in business activity, such as base-metal miners, chemicals, banks and consumer discretionary companies that cater to higher-income households. We remain underweight in our exposure to defensive sectors, especially consumer staples, which should continue to lag, given that we expect U.S. GDP growth next year to remain close to its potential growth rate.

Figure 6: Improved outlook for U.S. manufacturing bodes well for cyclicals



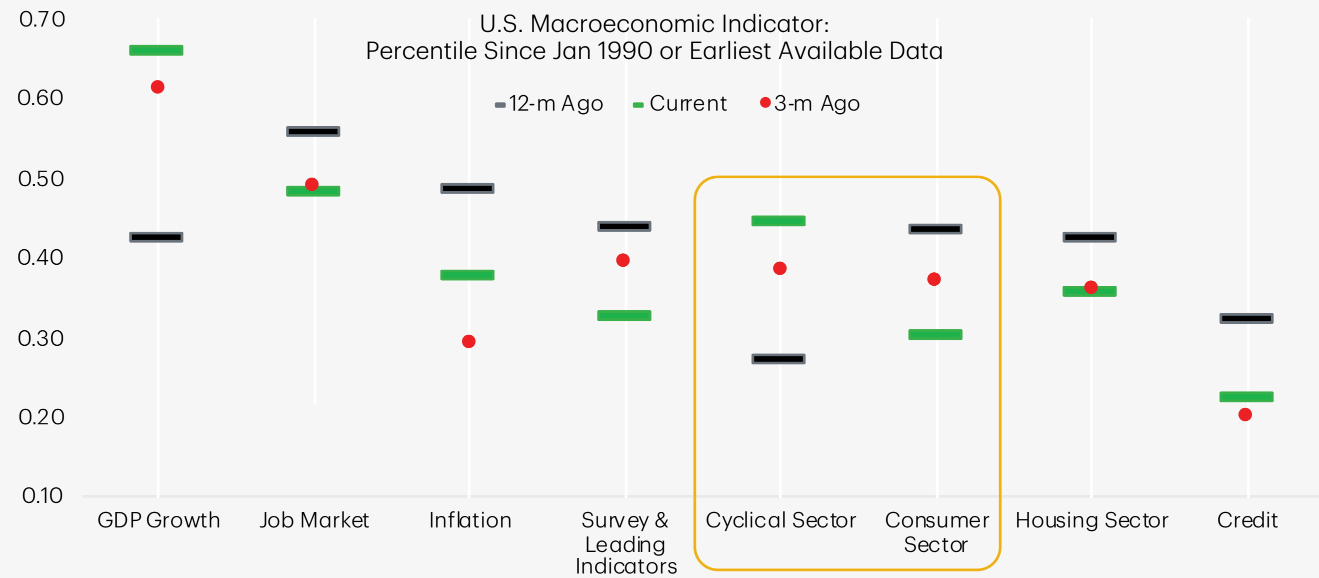
Source: Macrobond, Wealth Investment Office, as of January 16, 2026

One of our main convictions for 2026 is that the outlook for U.S. consumers will remain downbeat while that of cyclical sectors should improve — essentially a continuation of the trend we have seen over the past year (Figure 7). We expect risk to the U.S. economy will primarily come out of the job market, and we expect inflation to become less of a concern for policymakers and investors. Essentially, the path is open for a disinflationary, jobless economic boom in 2026.

To support this view, let's first lay out the "facts" from both the macro and micro point of view:

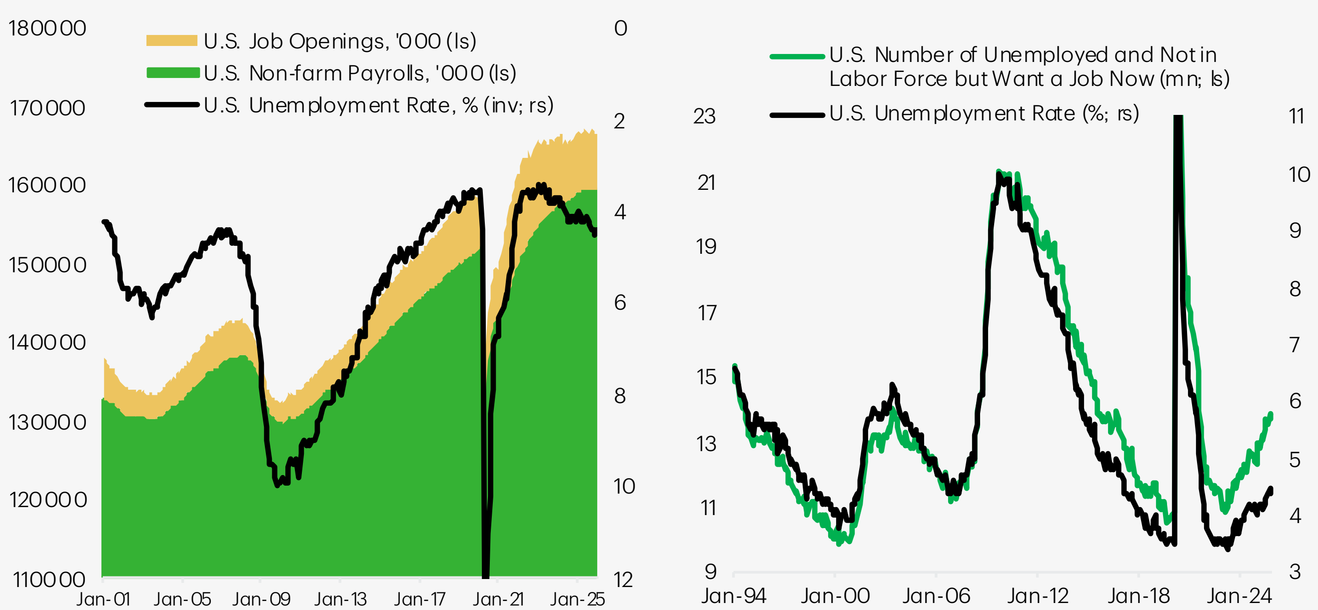
1. Consumers are correctly worried about the job market. The hard data show that total job demand has plateaued, the unemployment rate is rising and both the quit rate and wage growth have declined to below-trend. Workers have also said it is becoming increasingly difficult to get a new job. If we include people not in the labour force but who want a job, the unemployment rate could already be close to 6.0% rather than the officially reported 4.6% (Figure 8). This is in line with the underemployment (U-6) measure rising to 8.7% in November, a cycle-high last seen in 2017.

Figure 7: Cyclical sector improving, in contrast to the outlook for consumers



Source: Macrobond, Wealth Investment Office, as of January 16, 2026

Figure 8: U.S. unemployment rate "understated" and rising



Source: Macrobond, Wealth Investment Office, as of January 16, 2026

2. The soft data on the U.S. labour market is even worse, with households very pessimistic about their job outlook (Figure 9). Given the highly uneven distribution of income and expenditures across income quintiles, household surveys are more pessimistic than actual income and spending-growth numbers that skew toward high-income earners. However, there are signs that the worst of the labour-market deterioration is behind us, taking cues from the commentaries of Robert Half and Manpower Group, whose stocks have fallen over 75% from their peaks in 2021.

From Manpower Group's third-quarter 2025 earnings call:

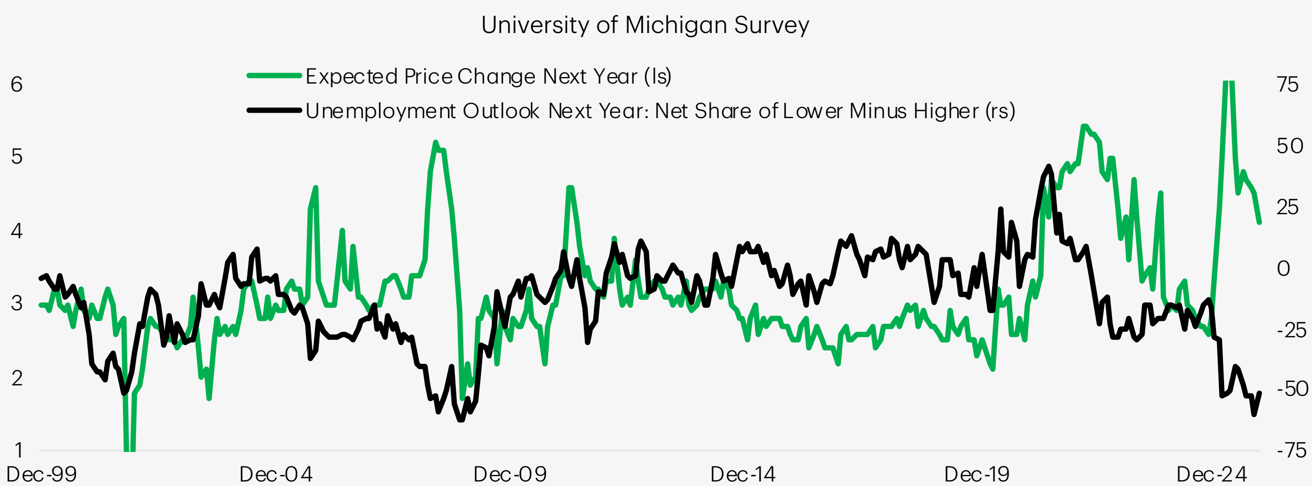
"… after 11 consecutive quarters of organic constant currency revenue declines, we crossed back over to growth during the third quarter. The stabilization of demand in recent quarters in North America and Europe, despite ongoing tariff uncertainty, has been a key factor in the revenue trend improvement."

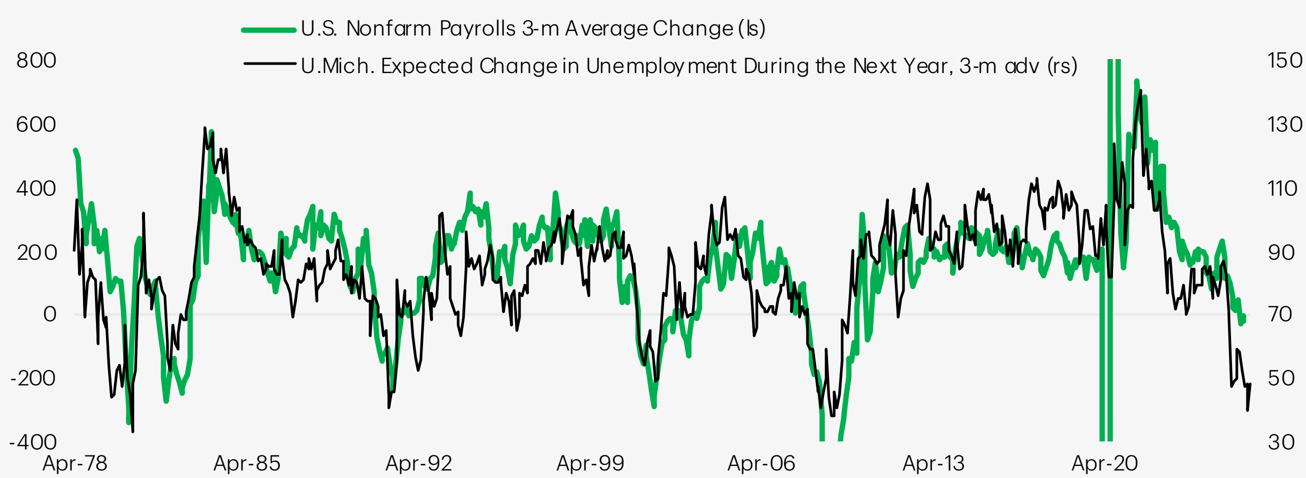
And Robert Half's third-quarter 2025 earnings call:

"Client and job seeker caution continued during the quarter, subduing hiring activity and new project starts. That said, we are encouraged by the weekly trends in contract talent revenues, which sustained late second-quarter levels for most of the third quarter and began to grow sequentially in September and into October. Our fourth-quarter revenue guidance, at and above the midpoint, reflects a return to sequential growth on a same-day constant currency basis for the first time since the second quarter of 2022."

3. The U.S. housing sector is weak and could remain so in 2026, but this is likely partially priced into the valuation and earnings estimates of homebuilders and home-furnishing stores such as Home Depot. Given the still-elevated house price-to-income ratio and mortgage rate, we are less optimistic that the housing sector will stage a meaningful recovery in 2026. In addition, valuation for the subsector is in line with the prior 10-year average.

Figure 9: Are households too pessimistic on their job outlook?





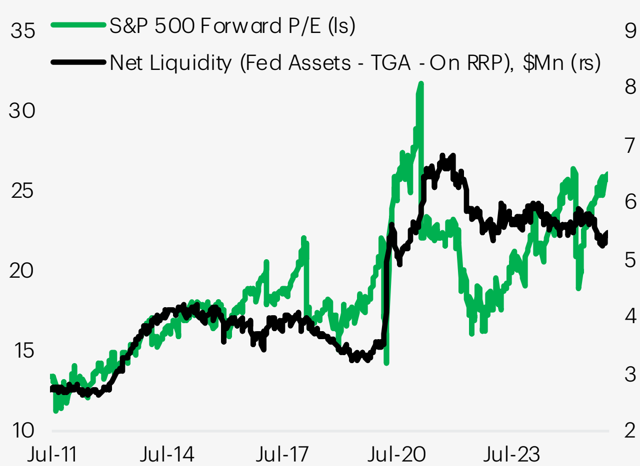
Source: Macrobond, Wealth Investment Office, as of January 16, 2026

4. Policy uncertainty likely has peaked. Domestic policy will likely dominate world powers in 2026. This will especially be true in the United States. Consumer confidence has weakened significantly suggesting households are worried about prices, jobs and future conditions. U.S. President Trump's approval rating has also been softening, partly because U.S. citizens often judge their presidents by how they feel about the economy. When consumers feel uncertain or pessimistic about the economy, they tend to spend less which can slow economic growth over time. Incumbents often get blamed politically when sentiment sours. We believe the US administration will recognize this and begin to reduce policy uncertainty to reduce this economic and political risk at home going into the U.S. midterm election.

Liquidity: Monetary and fiscal tailwinds

Liquidity is a big theme for the year ahead, and it relates to the stance of both monetary and fiscal policy.

Figure 10: Liquidity continues to support equities



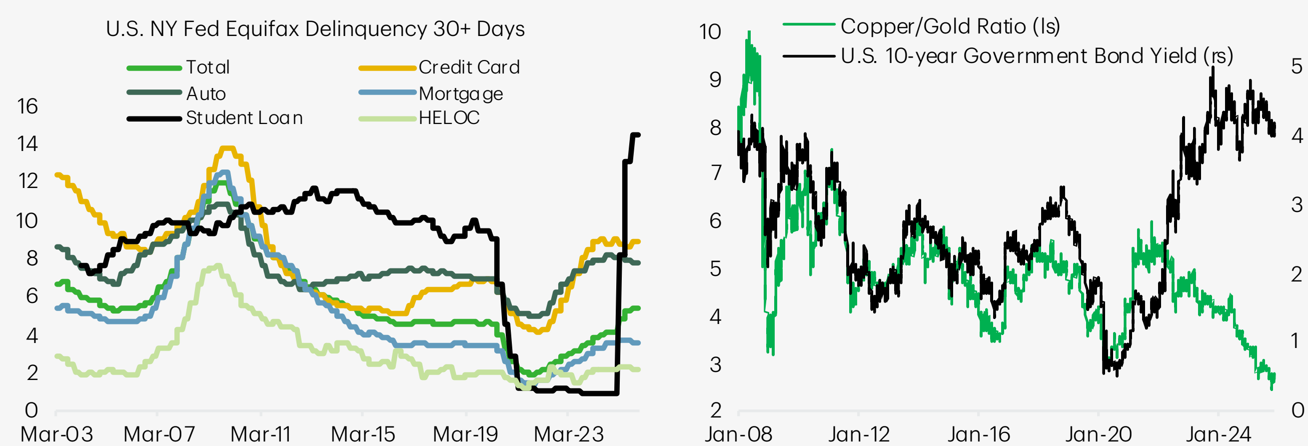
Source: Macrobond, Wealth Investment Office, as of January 16, 2026

Monetary policy: The lagged impact of monetary easing is still in the pipeline alongside easing lending standards, which are supportive for rate-sensitive sectors. The Federal Reserve did *de facto* pivot from quantitative tightening to quantitative easing in December 2025 in order to maintain ample reserve balances, essentially boosting liquidity in the financial system. An improved outlook for the U.S. economy and business cycle, alongside easier financial conditions, is a backdrop that historically has been supportive for equity valuations (Figure 10) and the performance of cyclicals, such as transportation, materials and U.S. regional banks. On the latter, for example, U.S. Bancorp is now trading at 11.9x forward earnings and is expected to grow earnings by 8.0% in the coming year, while paying a dividend of 3.9% — higher than most in the sector. Even as U.S. financials have rallied in 2024 and 2025, regional banks have lagged and may be due for a catch-up.

The bottom line is that a stabilizing U.S. labour market, declining policy uncertainty, fiscal tailwinds, the continuation of an easy monetary backdrop and a potential upswing in the U.S. business cycle mean that the macroeconomic environment will likely remain conducive for risk assets, with left-behind cyclical subsectors potentially playing catch-up.

Fiscal policy: Fiscal impulse is turning from headwind to a tailwind in 2026. This is estimated to boost growth between 0.5% to 0.9% of GDP, with the OBBBA and the depreciation tax benefit encouraging business investment and reshoring. Front-loaded stimulus from retroactive personal income tax cuts means U.S. households are expected to receive roughly $80 billion in refunds in the first quarter of 2026. This should stabilize consumer credit delinquency rates (Figure 11) and potentially boost consumers' spending power — improving sentiment for retailers. For instance,

Figure 11: Fiscal tailwind, tax refunds could stabilize delinquencies and boost metals



Source: Macrobond, Wealth Investment Office, as of January 16, 2026

Lululemon is now trading at only 16x forward earnings, half its historical average, on a forward earnings growth expectation of -11.8% year over year (January 2026), improving to approximately 0.0% year-over-year growth in January 2027. The P/E appears to reflect extreme pessimism regarding the company's outlook. Moreover, as the outlook for the U.S. and the rest of the world improves this year, our preference for commodities exposure expands from long precious metals to industrial metals (Figure 11).

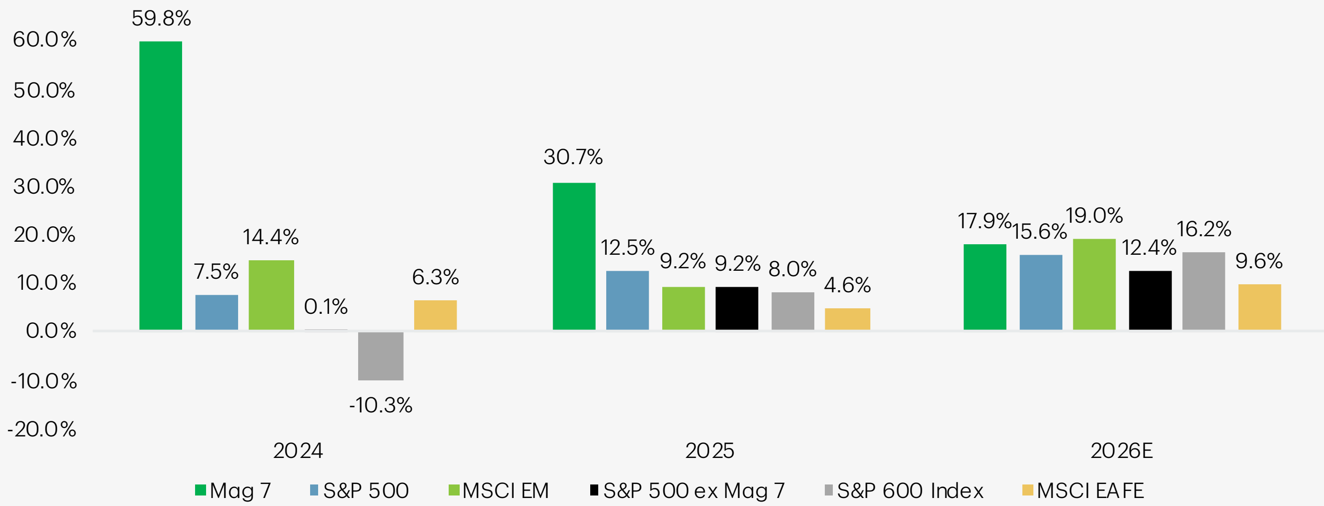
Earnings: Broader growth supports equities

In 2023 and 2024, we saw a market that was narrowly led by AI-related stocks. 2025 was more fundamentally driven. This broadening is exactly what extends cycles and sets the stage for even more diversified leadership in 2026. We expect earnings growth in 2026 to remain positive and supportive for equity markets (Figure 12).

Within equities, we are slightly more constructive on the outlook for international stocks than the consensus, which remains skeptical of the region's prospects. Overall, we remain modestly underweight international equities, but we also believe there are attractive opportunities within select markets. At a geopolitical level, the AI race highlighted contrasting constraints: the U.S. maintained a clear advantage in advanced chips and software ecosystems but faced mounting challenges around power generation and infrastructure.

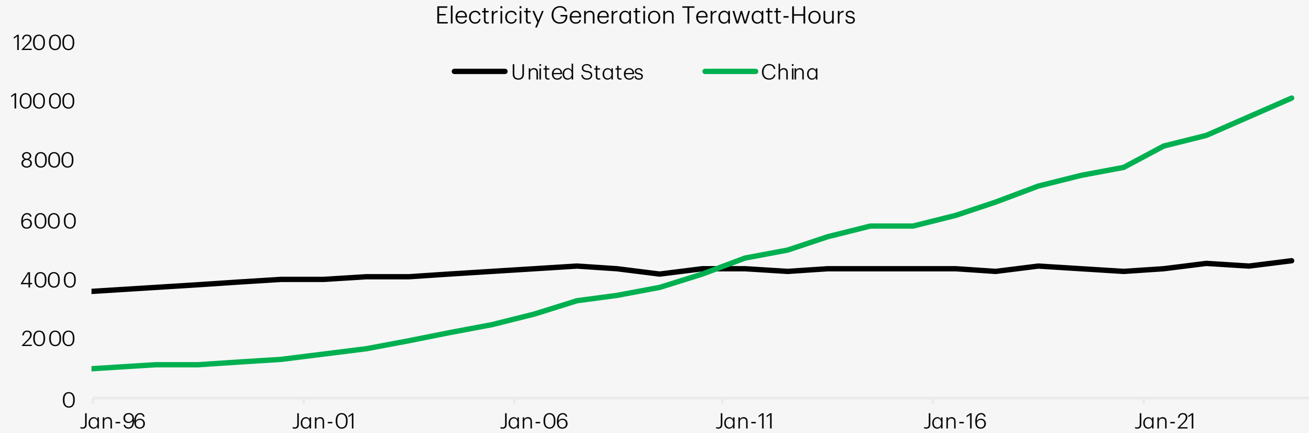
Running massive AI data centres and large language models requires immense and reliable energy. China's vast and growing power infrastructure represents a foundational, scale-based strength in the global AI race, creating a landscape where leadership in chips and leadership in power generation are distinct but equally crucial pillars. While China rapidly expanded power capacity, it remained constrained by limited access to cutting-edge semiconductors. Each system's strength increasingly mirrored the other's weakness, underscoring the uncertain geography of long-term AI leadership (Figure 13). For investors, this landscape reinforces the value of diversification.

Figure 12: Earnings upturn expected to broaden in 2026



Source: FactSet and Wealth Investment Office, as of January 16, 2026

Figure 13: At a geopolitical level, the AI race highlighted contrasting constraints



Source: Macrobond, Wealth Investment Office, as of January 16, 2026

The ECB's aggressive rate cut, the German trillion-euro spending plan on infrastructure and defence and a potential ceasefire for the Russia-Ukraine conflict should all be supportive of domestic demand and drive down energy prices.

Overall, we continue to expect positive returns from global equity markets. However, we are shifting our exposure at the margin by reducing our view on U.S. equities to neutral from modest overweight and upgrading our view on emerging markets to neutral from modest underweight. We continue to hold an overweight view on Canada.

Positioning: Modest pro-growth tilt

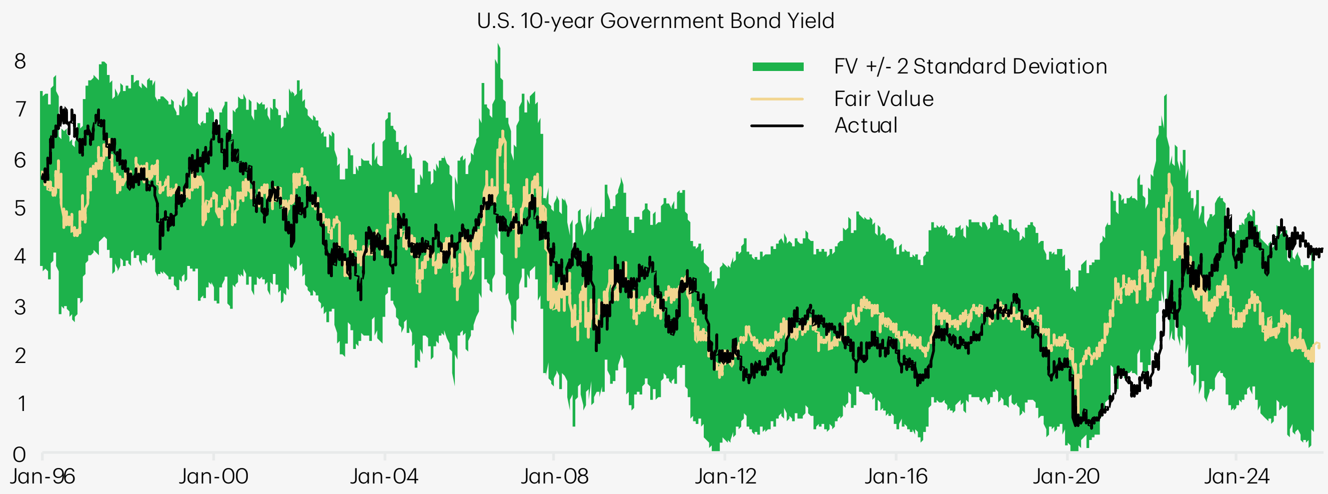
Cash (modest underweight).

Fixed income (modest underweight). One of our most heated internal debates is on the outlook for long-term bonds. On one hand, an upswing in the U.S. business cycle and fiscal-sustainability concerns are two factors that could push yields higher. However, we are also cognizant that the term premium has increased significantly in the past three years — to above 1.0% currently — and that these factors may already be reflected in the current yield level. We believe the U.S. 10-year yield undershot between 2020 and 2022, and it appears to have now overshot. With inflation making decent progress over the past three years and risk to the U.S. labour market tilted to the downside, historical data would suggest that 10-year yields have the potential to move lower. However, the change toward a more unilateral, "law of the jungle" U.S. foreign-policy regime points to structurally higher long-term yields. Greater geopolitical risk, defence and industrial-policy spending and the weaponization of trade and capital all reinforce higher deficits, stickier inflation risk and a larger term premium in sovereign bond markets.

We believe that short-term rates in the U.S. are headed lower and longer-term rates are going to continue to be surprisingly sticky on the upside given tremendous geopolitical uncertainty and mounting deficits. As such, we have downgraded global government bonds - developed markets to modest underweight from neutral and increased emerging-markets bonds to neutral from modest underweight.

Equity (modest overweight). In 2026, AI will transform from market theme to market input. What began as a narrow mega-cap story in 2021 will increasingly show up in greater productivity, better margins and broader earnings, pulling more sectors and companies into a growth cycle. To recap, we continue to advocate that investors shift allocation from growth-oriented tech stocks into a broader palette, given that an upswing in the U.S. (and the rest of the world's) business cycle should translate into recovery for other subsectors from depressed sentiment and valuation. Given the higher cyclical-sector exposure of international and emerging-market stocks, it is perhaps unsurprising that we also think the regions could continue to perform well in 2026, after doing so in 2025. As noted above, we continue to expect overall positive returns from global equity markets; however, we are shifting our exposure at the margin by reducing our view on U.S. equities to neutral from modest overweight and upgrading our view on emerging markets to neutral from modest underweight. Some of this reflects the underlying exposure of the two regions — EM offers attractive exposure to the AI theme, similar to U.S. equities, but at a better valuation. We continue to maintain a modest overweight view on Canada. Earnings growth estimates for the S&P/TSX Composite, currently at 13.4%, have continued to improve for 2026, which is on par with earnings growth expectations for the

Figure 14. Macro models point to lower 10-year yield, regime models point to higher



Source: Macrobond, Wealth Investment Office, as of January 16, 2026

S&P 500, but the TSX is trading at a much lower valuation. After outperforming the S&P 500, international and emerging-market equities could continue to do so although they are no longer as attractive as they were at the beginning of 2025.

Alternatives (modest overweight). Our position on alternatives reflects a new framework for constructing portfolios in an investment environment that is more complex, placing greater value on differentiated return streams. With concentration risk for the public equity markets at an all-time high, investors would do well to expand their portfolio holdings and exposure. Infrastructure and private credit are alternative asset classes that enhance portfolio yield and could complement traditional fixed income exposure. Meanwhile, private equity exposure could complement public equity exposure. In addition, hedge-fund mandates, such as multi-strategy, long/short and market neutral, could enhance the risk-adjusted return of a 60/40 portfolio. Broadening in the equity markets and low correlation among stocks tend to bode well for long/short strategies.

Commodities (neutral). Our current position reflects a modest pro-growth bias. Commodities play a strategic role in investors' portfolios amid their diversification properties and favourable supply/demand balance, which is expected to bode well for prices. For the past few years, we have been advocating that clients incorporate commodity exposure in their portfolios — not as a tactical trade but as a structural allocation tied to themes like the rise of defence spending, infrastructure buildout, power-grid expansion and supply-chain re-engineering. Given that commodities are a very diverse asset class, it pays to be active in this space. We have seen prices diverge across various commodities amid differing supply-and-demand dynamics and responses to geopolitical events. For instance, over the past year, oil prices have slumped while precious and base-metal prices have jumped to record highs. This provides tremendous opportunity for active managers.

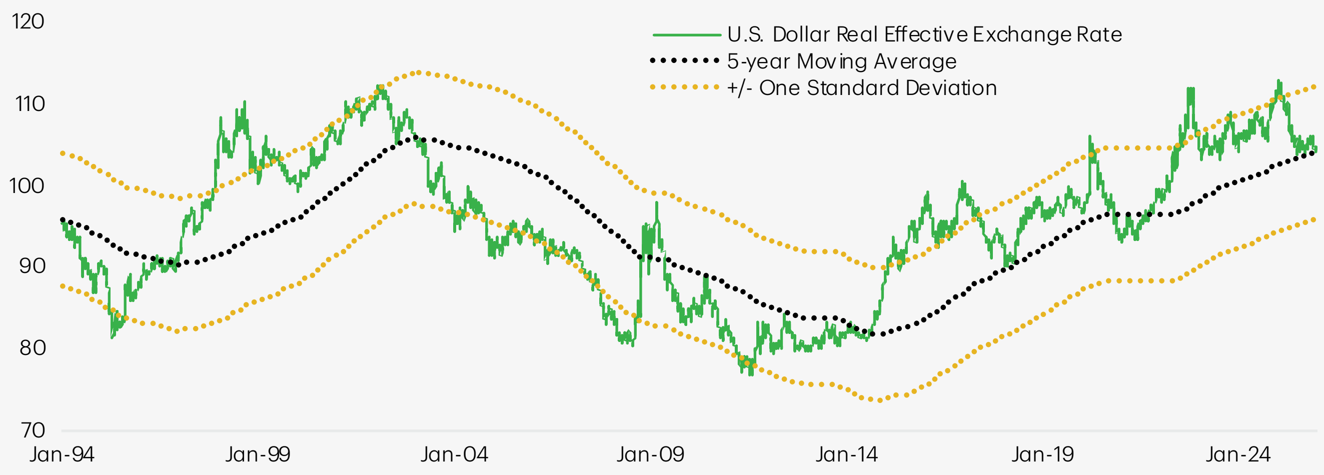
U.S. dollar (modest underweight). Lastly, on the U.S. dollar. For the past few months, we have become less bearish on the outlook for the greenback, given that it has fallen quite a bit on a real effective basis and is now close to its prior five-year moving average (Figure 15). If we are correct that the European business cycle is also inflecting higher and that the continent's growth outlook will also improve in 2026, the U.S. dollar could resume its slide but likely at a more gradual pace relative to the rapid depreciation we saw in 2025. Note that the ECB is likely already at the end of its monetary easing cycle, whereas the Federal Reserve is still expected to cut several more times this year.

Final words: From imagination to delivery

The Renaissance showed how capital could reorganize culture, power and economic life. We believe a new Renaissance is underway — one where capital is now reshaping intelligence, infrastructure and energy systems. As AI moves from concept to implementation, its impact should broaden across sectors and earnings, extending market leadership beyond a narrow group of early winners.

At the same time, a more competitive geopolitical regime, rising fiscal demands and the limits of monetary policy point to structurally higher long-term yields and greater market dispersion. In this environment, portfolio construction matters. Our positioning reflects a modest pro-growth stance, a consistent modest overweight position on alternatives and a structural role for commodities — aligning portfolios with the real-world buildout that underpins the next phase of this New Renaissance.

Figure 15: The U.S. dollar is no longer overbought



Source: Macrobond, Wealth Investment Office, as of January 16, 2026

Leading Macro Indicators

Overall U.S. macro condition broadly unchanged in Q4

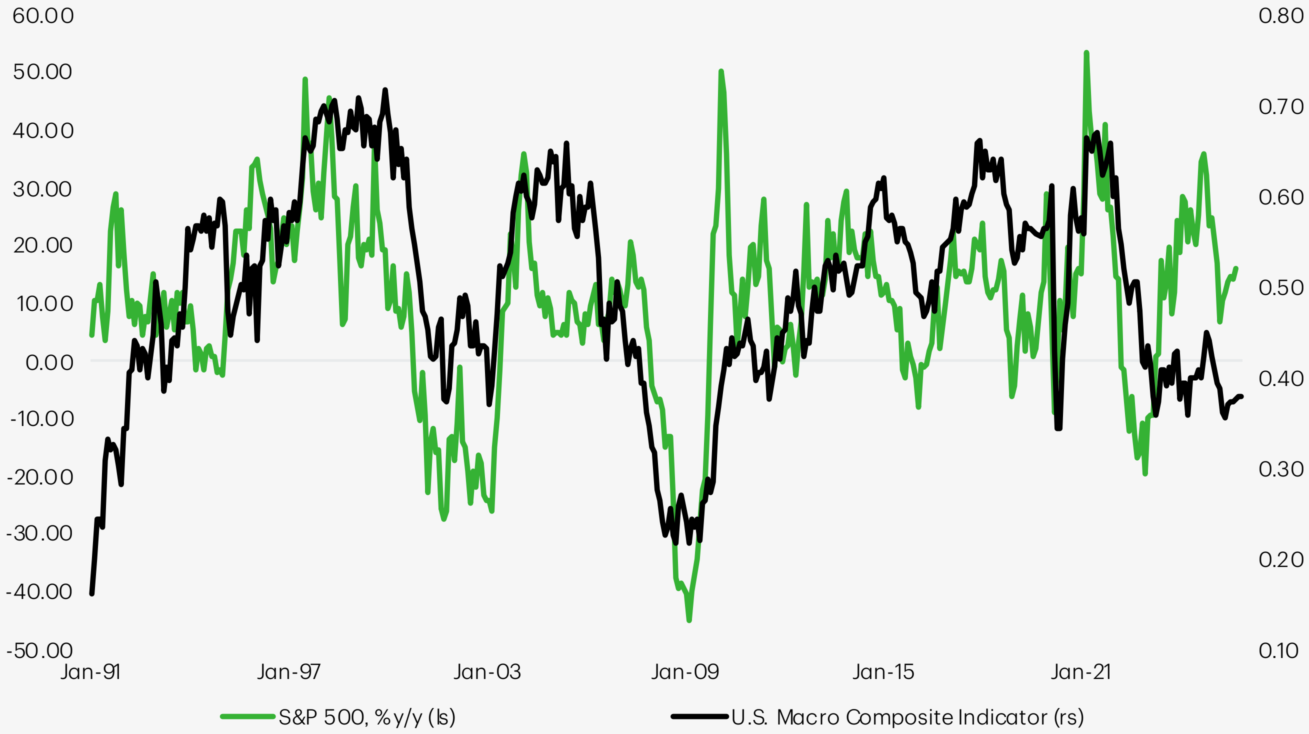
Kevin Yulianto, Portfolio Manager, TD Wealth

Based on our recently enhanced U.S. macro composite indicator, which shows the overall ebb and flow of the U.S. business cycle, the aggregate score for the U.S. economy stabilized at a level slightly higher than the trough seen in April 2025. At the end of the fourth quarter, it sat at the 38th percentile (below the normal 40th to 60th percentile range), a tick higher than the 37th percentile logged at the end of the third quarter.

In the fourth quarter, U.S. and global equity markets climbed, helped by the rally of sectors that have lagged the broader market in the past three years. Investors and policymakers became more constructive on the outlook for inflation despite the implementation of U.S. tariffs on goods imports. Meanwhile, continued weakness in U.S. labour market continues to be a source of concern. These allow the Federal Reserve to cut policy rate by 50 bps during the quarter, fueling the rally in risk assets.

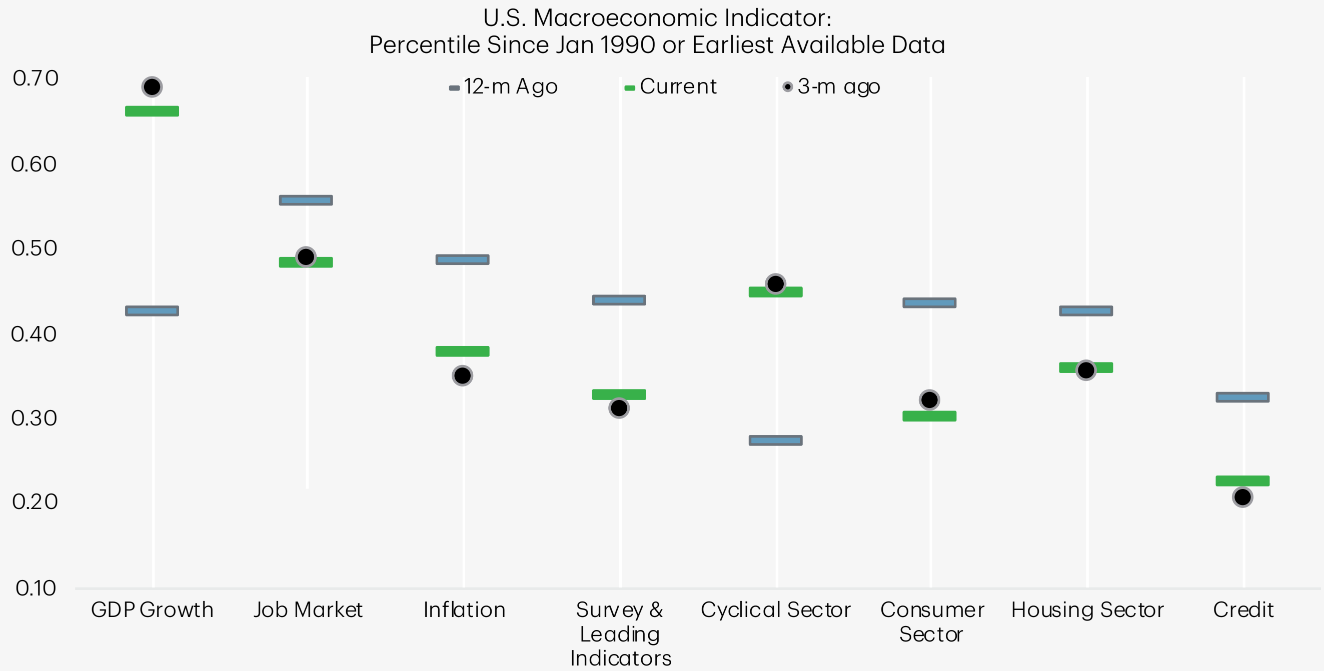
Our macro composite indicator—which endeavours to capture these changes by using 120 key U.S. economic variables that inform our understanding of the macroeconomic and risk environment—is part of our process-driven approach to investment management. When we compare the annual rate of change of the S&P 500 index with changes to the 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 six have deteriorated over the previous 12 months (Figure 2).

Figure 1: U.S. macro composite indicator



Source: Macrobond, Wealth Investment Office as of December 29, 2025

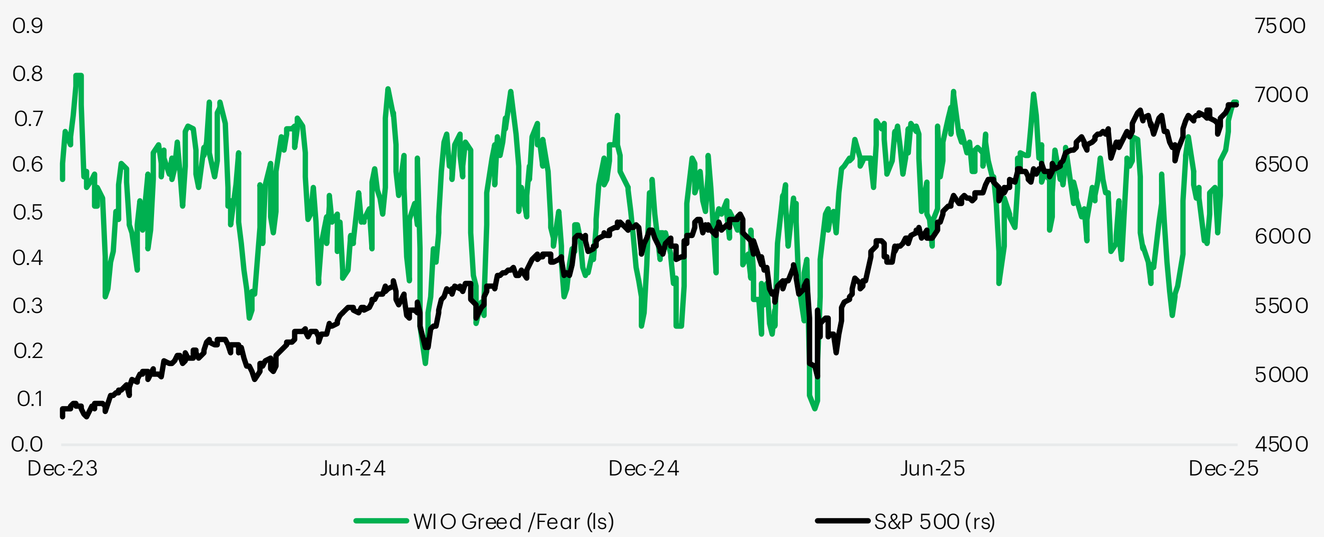
Figure 2: Change in market risk regime scores



Source: Macrobond, Wealth Investment Office as of December 29, 2025.
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.

To give investors a better picture of risk sentiment we also built a Greed/Fear index using 37 market-based daily indicators that span from traditional metrics, such as equity and bond indices, to equity market breadth and momentum, retail sentiment, and speculative positioning. When we plot the Greed/Fear index against the S&P 500, we can see that it rises and falls alongside the U.S. equity market and currently reflects high optimism among investors (Figure 3).

Figure 3: Change in market sentiment



Source: Macrobond, Wealth Investment Office as of December 29, 2025

The following are notable developments in Q4:

1. The score for GDP Growth stabilized at around the 65th percentile at the end of Q3, driven primarily by the stronger-than-expected consumer and government spending. In addition, growth in business investments remains strong, albeit at a slower pace compared to the first half of the year. The Federal Reserve Bank of Atlanta's GDPNow estimated growth in Q4 will be close to trend growth at about 2.3%.

2. The U.S. Job Market slightly softened, with the aggregate score for the category falling to the 48th percentile at the end of Q3 from 49th percentile previously. Job openings stabilized but quit rates continued to decline – reflecting pessimism among workers – and wage growth slowed further. Private employers announced more layoffs in Q4, and jobless claims were significantly higher compared to a year ago.

3. The aggregate score for inflation slightly improved in Q4 to the 38th percentile from 35th percentile at the end of Q3. Various price inflation gauges highlighted that inflation has fallen somewhat on a month-on-month basis, but readers need to be mindful that the disruption to data collection process during the government shutdown in Q4 may have distorted the numbers for various categories. Encouragingly, the outlook for future prices has also improved as both businesses and consumers expect lower input costs in the coming year.

4. The Survey & Leading Indicators score ticked slightly higher to the 32nd percentile at the end of Q4 from the 31st percentile previously. Regional Federal Reserve's business surveys indicate rising optimism in the quarter and an increase in new orders – a proxy for future business activity – but the headline number for manufacturing sector PMI continued to weigh on the score for this category. The outlook for service sector improved while those of the manufacturing sector stabilized in Q4.

5. Cyclical Sector activity remained stable in Q4, with the score ticking slightly lower to the 44th percentile from the 45th at the end of Q3. Industrial production growth and capital goods orders improved in Q4, but the normalization in durable goods orders weighed on the score for this category.

6. The overall Consumer Sector further deteriorated in Q4 to the 30th percentile from the 32nd percentile at the end of Q3. Retail sales and real personal spending growth slowed in the quarter while auto sales contracted compared to a year ago level, dragging down the score for the category. As the labour market weakened, consumer sentiment further deteriorated to a level that historically indicates a recession. There are signs that lower-income and, increasingly, middle-income households are pulling back on discretionary spending.

7. The Housing Sector indicator, which stands at the 35th percentile at the end of Q3, ticked slightly higher to the 36th percentile in Q4. The pace of house price growth slowed materially and home sales remained depressed, but mortgage applications saw a rebound amid slight improvement in affordability.

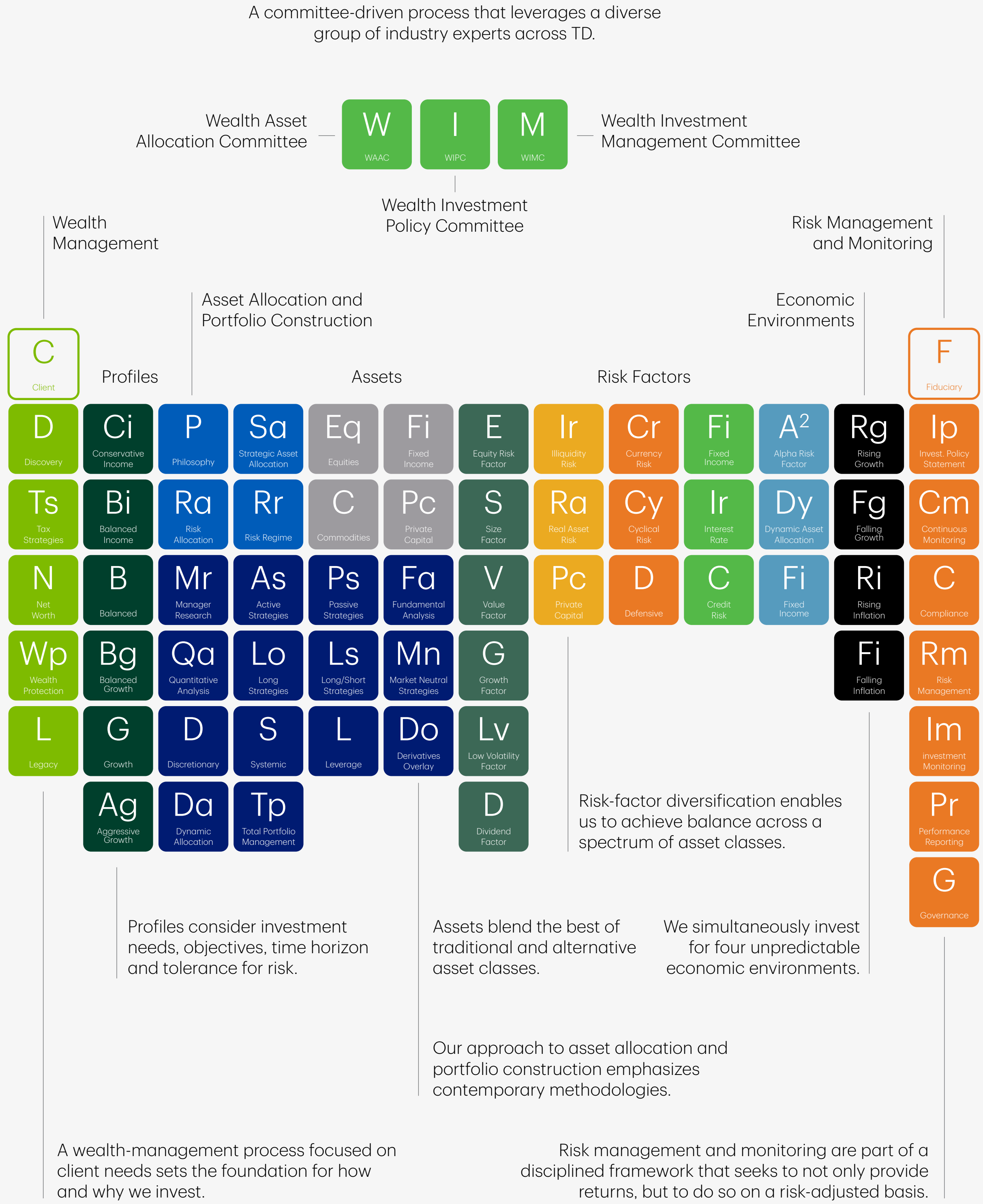
8. Lastly, the score for Credit increased to the 22nd percentile at the end of Q4 from the 20th percentile previously. Banks eased lending standards further compared to the previous quarter, and credit to both consumers and businesses stabilized.

9. The U.S. business cycle has been in the late stage of expansion for several quarters currently and potentially entering an early stage in 2026 as the lagged impact of monetary policy easing and fiscal tailwind boost the more cyclical and rate-sensitive parts of the economy. Downside risk remains primarily tied to the weakening U.S. labour market, which shifts the focus for policymakers away from inflation concerns, which have been bolstered by growth-oriented technology stocks that benefit from investments in AI, could potentially see a broadening in 2026.

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:

David Sykes, CFA ..... Chief Investment Officer, TD Asset Management Inc (Chair)

Michael Craig, CFA ..... Managing Director & Head of Asset Allocation & Derivatives, TD Asset Management Inc.

Anna Castro ..... Managing Director, TD Asset Management Inc.

Justin Flowerday, CFA ..... Head of Public Equities, TD Asset Management Inc.

Jennifer Nowski, CFA ..... Vice President & Director, TD Asset Management Inc.

Michael Augustine CFA ..... Managing Director & Head of Fixed Income, TD Asset Management Inc.

Alex Gorewicz ..... Vice President and Director, TD Asset Management Inc.

Colin Lynch ..... Managing Director and Head of Global Real Estate, TD Asset Management Inc.

Bruce MacKinnon .. Managing Director, Head of Private Debt Research & Origination, TD Asset Management Inc.

Kevin Hebner, Ph.D. ..... Managing Director, Epoch Investment Partners, Inc.

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

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

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

Bryan Lee, CFA ..... Vice President & Director, TD Asset Management Inc.

Jafer Naqvi, CFA ..... Managing Director, Head of Client Portfolio Management, TD Asset Management Inc.

Direction from WAAC

Core Asset Class Allocations

	Positioning	Rationale
Cash & Equivalents	**Modest Underweight** Previous Month	We are underweight cash as in a declining rate environment other asset classes should provide more attractive returns.
Fixed Income	**Modest Underweight** Previous Month	The Canadian economy remains resilient giving the Bank of Canada ("BoC") cover to be patient in charting the path ahead for monetary policy. We expect Canadian yields to remain steady, and anchor fixed income returns over the next 12 to 18 months.
Equity	**Modest Overweight** Previous Month	Global equity markets have rallied over the past year due to positive earnings trends and artificial intelligence ("AI") investments, which resulted in valuations expanding. While there could be volatility around AI and economic expectations, we remain overweight equities as earnings growth, as well as increasingly pro-business government policies, create a supportive backdrop for markets.
Alternatives	**Modest Overweight** Previous Month	We believe that an allocation to alternative assets can benefit diversified portfolios especially when implemented over the long-term. Alternative assets can provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams. Given the nature of private asset classes as well as the present phase of value adjustment in several markets and asset classes, we believe that this may be an attractive time to increase or consider an allocation to alternative assets.

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Fixed Income - Modest Underweight

	Positioning	Rationale
Domestic Government Bonds	**Neutral**	Canadian bond yields are expected to remain steady as investors await evidence of promised federal program spending cuts as well as signs of improving domestic business investment.
Investment Grade Corporate Credit	**Modest Overweight**	Credit spreads remain tight, supported by strong fundamentals, but rising AI-related spending and mergers and acquisition activity is creating a more challenging supply and demand backdrop. With risk premiums fairly flat across the yield curve, we continue to favour short to mid-term corporate bonds over longer term bonds.
High Yield Credit	**Neutral**	Financial conditions should continue to ease and combine with solid growth across the global economy to improve fundamentals for high yield issuers. This effect will likely be more beneficial for returns in the riskier cohort of the high yield market, as overall credit spreads are at tight levels. While we see a near term trading opportunity in riskier corporate bonds, we remain neutral on the high yield category overall given rich valuations.
Global Bonds Developed Markets	**Modest Underweight (From Neutral)**	We expect political and policy uncertainty to rise across developed markets, which will likely increase bond market volatility. This could pressure long bond yields higher and lead to negative capital returns, although income will likely offset price losses over the next 12 to 18 months.
Global Bonds Emerging Markets	**Neutral (From Modest Underweight)**	Emerging Market government bonds denominated in local currencies broadly offer attractive yields on a nominal and inflation-adjusted basis. Unhedged exposure to local currencies are also expected to boost total return outcomes in an environment where the US dollar is stable or declining. However, country selection will be critical to avoid regions where inflation or political risks may be a source of volatility.

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 offsets the uncertainty of trade negotiations with the U.S. The S&P TSX Composite Index (TSX) potential returns are supported by the strong financial position of the Financials and resource sectors and earnings growth expectations.
U.S. Equities	**Neutral (From Modest Overweight)**	The U.S. market has rallied as AI technology spending and earnings growth remain robust. U.S. equities could be further supported by the "One Big Beautiful Bill" Act tax policies and the potential for further deregulation. Earnings are expected to continue to grow and be more broad-based over the next year. However, we are shifting our positioning to neutral from modest overweight, as the U.S. premium valuation leaves less room for further expansion.
International Equities	**Modest Underweight**	International equities may lag as earnings growth, while positive, remains lower than in other markets, and valuations have moved toward the upper end of their historical range. Japanese equities look attractive on a relative basis with momentum building behind corporate reform, but there may be volatility as the Bank of Japan may look to continue raising rates.
Emerging Market Equities	**Neutral (From Modest Underweight)**	We are upgrading Emerging Markets to neutral, as we view their technology companies as more attractively valued with strong earnings growth potential. China continues to face challenges in its property sector, but recently announced policies could help stabilize its economy.

Private Markets - Modest Overweight

	Positioning	Rationale
Commercial Mortgages	**Neutral**	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Private Debt (Universe)	**Modest Underweight**	High credit quality and global diversification provides an income ballast in an uncertain economic environment. Incremental income and potential capital appreciation from interest rate moderation provide upside.
Domestic Real Estate	**Neutral**	We believe most value adjustments in Canadian commercial real estate are complete. Office occupancy (especially in Toronto) should improve by 2026 as large users mandate returns to work. Despite U.S. tariff policy volatility, Canada's industrial market remains healthy. Poor condo markets and lower immigration have temporarily pressured residential rental rates in Toronto and Vancouver due to housing shortages.
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. New capital raising and significant redemption recissions are also early indicators of the improved sentiment for continued recovery.
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 assets, creating compelling investment opportunities.
Commodities (Gold, Energy, Metals, Agriculture, Carbon)	**Neutral**	Gold continues to benefit from demand from central banks and investors as they seek a safe-haven in uncertain times. Despite the economic uncertainty, metals prices have held-in YTD as markets are currently balanced. Oil has weakened as Organization of the Petroleum Exporting Countries (OPEC+) looks to slowly return supply, but also to manage member commitments and might adjust as market conditions warrant.

Asset Sub-Classes

	Positioning	Rationale
U.S. Dollar (USD) vs. Canadian Dollar (CAD)	**Modest Underweight**	The USD has declined YTD, and based on our long-term valuation metrics, remains overvalued. Current U.S. policy has led to uncertainty in trade and fiscal deficits. While this has increased the attractiveness of other developed market currencies for diversification, the momentum of USD weakness versus the CAD may moderate near term due to Canada's weaker growth fundamentals and trade negotiation headwinds.

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 Real Estate			●		
	Infrastructure				●	
	Commodities			●		
Sub-Classes	U.S. Dollar vs Basket of Currencies		●			

Source: Wealth Asset Allocation Committee, as of January 15, 2026.

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.

Interprets WAAC views and sets general investor profile asset-class weights

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

Committee members:

Brad Simpson, CIM, FCSI ....Chief Wealth Strategist, Wealth Investment Office (WIO), TD Wealth (Chair)

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, Head of Managed Investments, WIO, TD Wealth

Fred Wang, CFA ....Senior Portfolio Manager, WIO, TD Wealth

Mansi Desai, CFA ....Senior Equity Analyst & Portfolio Manager, WIO, TD Wealth

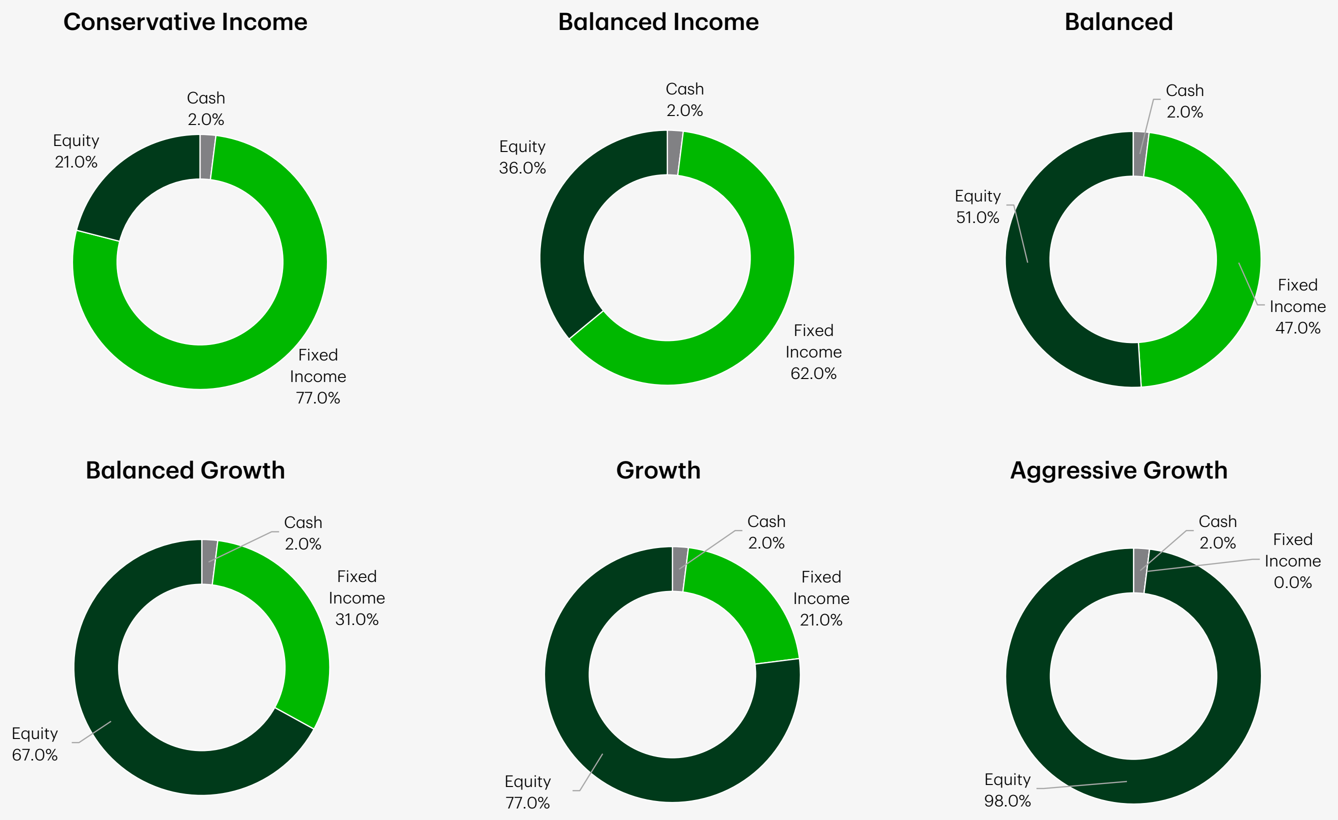
The Wealth Investment Policy Committee has made adjustments to the asset allocation weights within the sub-classes to align with the changes from the Wealth Asset Allocation Committee (WAAC) this month. Overall, the committee continues to have a modest overweight allocation to equities and alternatives and a modest underweight allocation to cash and fixed income.

Within fixed income, the allocation to domestic government bonds remains unchanged at a modest underweight position across all the profiles. The allocation to investment-grade corporate bonds is unchanged at a neutral to modest overweight position, and high-yield remains at a neutral weight across all profiles. WIPC has trimmed 1 pp (percentage point) from developed-market global bonds and has added 1 pp to emerging-market global bonds in all profiles, which aligns with the WAAC changes.

Within equities, the allocation remains modest overweight for Canadian equities. The allocation to U.S. equities has been trimmed by 1 pp in the conservative income to growth investor profiles and by 2 pp in the aggressive growth profile, while the allocation to emerging markets has been increased by 1 pp in the conservative income to growth profiles and by 2 pp in the aggressive growth profile. This brings exposure for U.S. equities and EM equities to neutral positions, as per the WAAC changes. To maintain a slightly higher equity overweight allocation in the balanced growth and growth investor profiles, 1 pp was added to international equities.

The allocations within the alternatives asset class are also unchanged this month and remain neutral in commercial mortgages, real estate, private credit and commodities, and overweight in infrastructure.

Dynamic asset-class weights by investor profile (Condensed)

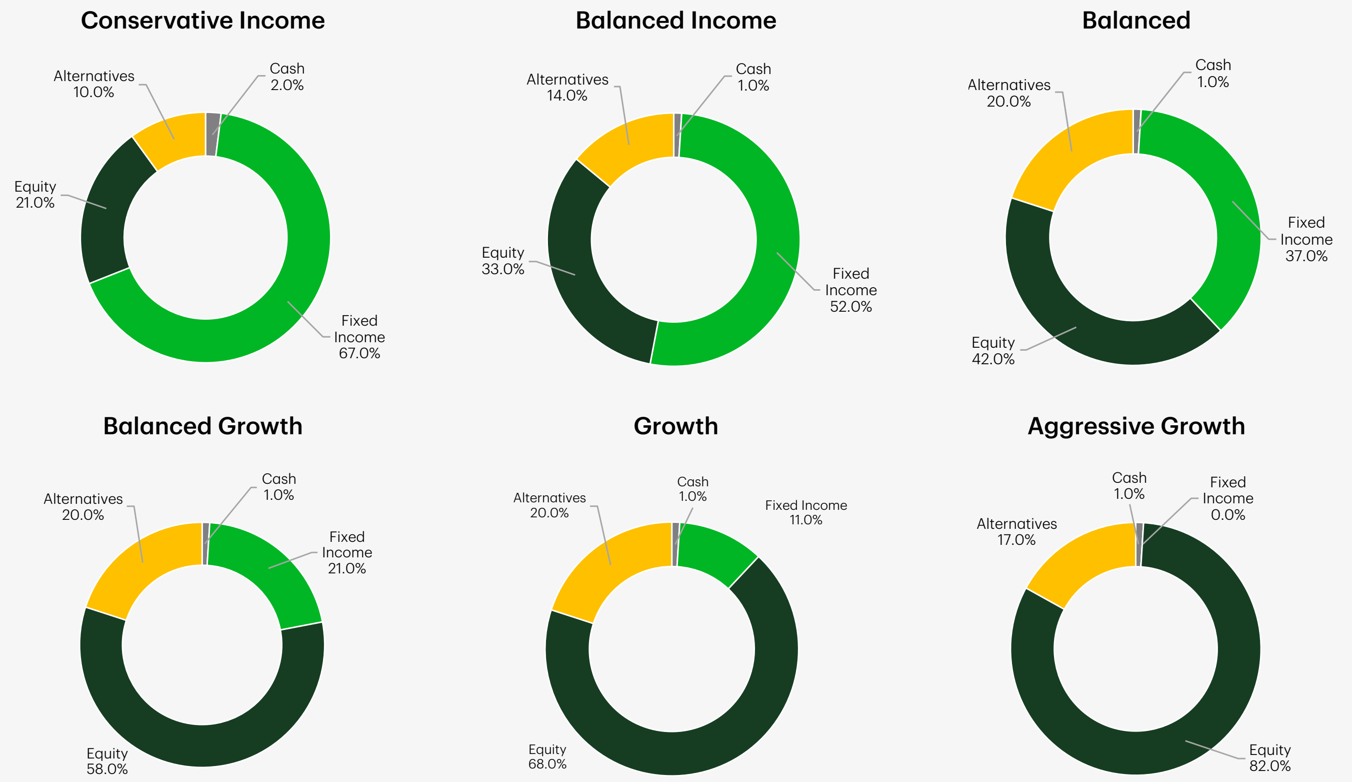


Strategic and dynamic asset-class weights by investor profile (Condensed)

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 January 15, 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%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	0.0%	0.0%
Private Debt	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	1.0%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	0.0%	2.0%	4.0%	5.0%	7.0%	5.0%	7.0%	5.0%	7.0%	9.0%	10.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%
Fixed Income	71.0%	69.0%	56.0%	53.0%	41.0%	38.0%	26.0%	22.0%	16.0%	12.0%	2.0%	1.0%
Equity	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of January 15, 2026.

Economic Outlook

Is Canada's Labour Market Mirroring American's AI Impact?

Early evidence shows AI is transforming U.S. labour markets, while Canada lags — raising questions about productivity, wages and the future of work.

Marc Ercolao, Economist | TD Economics

Highlights

- AI adoption within U.S. labour markets is broader than in Canada, though the lack of a global standardized definition complicates cross-border comparisons.
- Canadian employment in occupations at higher risk of AI displacement is more resilient, but both nations are exhibiting steady job creation in roles complementary to AI usage.
- The normalization of Canada's labour demand is more a function of cyclical factors rather than AI, although some AI related productivity relationships are loosely emerging.
- Youth wages in AI-complementary roles in the U.S. and Canada are growing at a faster pace than other roles in the labour market. These include industries such as healthcare, real estate, and professional occupations in applied sciences.

The rapid advancement of artificial intelligence (AI), particularly since the introduction of generative AI tools in late 2022, has sparked intense debate about its impact on labour markets. AI adoption is a double-edged sword – fuelling both concerns about job displacement and optimism about productivity gains. But the actual effects on employment, wages, and workforce dynamics are complex and evolving.

As a global leader in AI corporate adoption, investment, and research, the U.S. is showing early signs of labour market shifts. Employment is growing at a slower pace in industries where AI usage has ramped up, especially where job displacement risk is higher in technology, finance and professional roles. AI is also starting to shape higher wage outcomes for high-skilled workers, while demanding new skill sets from new graduates. This report sets out to examine whether Canada's labour market is exhibiting the same trends, drawing on recent empirical research, industry surveys, and comparative analysis.

Canadian AI Adoption Lags the U.S. – With Some Caveats

It is important to lead the discussion with one point: the term "AI adoption" does not have a universally accepted definition. This inherently presents challenges when comparing data on AI utilization between Canada and the U.S. For example, surveys often employ varying criteria for what constitutes AI and measure its use differently. Additionally, differences in survey design, as well as variations in firm sizes and industry compositions, can influence reported outcomes related to AI adoption.

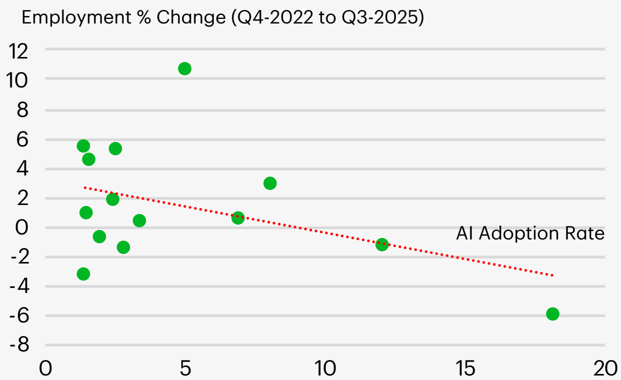
With that said, the most consistent and comparable estimates place Canada behind the U.S. in both breadth and depth of AI integration. An aggregation of recent data suggests that up to 60-80% of U.S. companies now use AI[1] in some capacity compared with the lower rates reported, on average, in Canada. Despite lagging the U.S., Canada stacks up well on the global scale, ranking in the top 15 according to recent studies that aim to establish a one-size-fits all approach to AI adoption[2,3].

Industry AI Use and Employment Trends Are More Pronounced in the U.S.

In our best attempt to avoid mismeasurement of AI adoption rates by industry, we leverage specific U.S. and Canadian surveys[4,5] that similarly qualify AI adoption as the percent of businesses reporting to have used AI to produce goods or deliver services over the past 12 months. We find consistencies across both countries in the industries with the highest AI adoption rates: information and culture, professional/scientific/technical services, finance and insurance, real estate, and health care. Similarly, the data show that the accommodation and food, forestry, and transportation and warehousing sectors are lagging in AI adoption in both the U.S. and Canada.

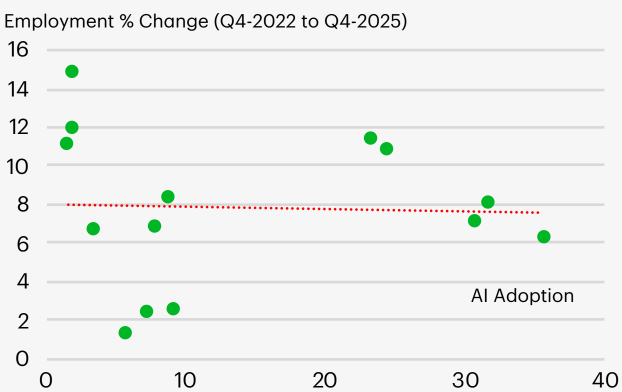
How this translates into employment outcomes is becoming more measurable in the U.S. The impacts are modest, but a negative correlation south of the border shows industries with higher AI adoption rates are seeing worse employment outcomes since early-2023 (Figure 1). This relationship is so far absent in Canada (Figure 2).

Figure 1: U.S. employment growth lagging in sectors with more ai adoption



Note: Green dots represent U.S. industries. Sources: Census Bureau Business Trends and Outlook Survey, TD Economics.

Figure 2: AI adoption is not yet impacting canadian employment outcomes



Note: Green dots represent Canadian industries. Sources: Statistics Canada, TD Economics.

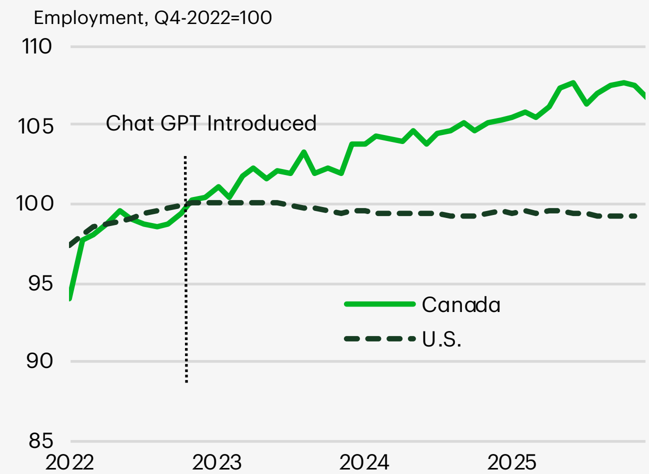
AI Adoption vs AI Exposure

The terms AI adoption and AI exposure are related, with the latter being a broader term for its influence across the labour market. We are particularly interested in the industries and occupations which are highly exposed to AI and whether these areas are likely to see job displacement or transformation based on its capacity to replace or augment certain positions. We leverage AI exposure qualifiers from Statistics Canada[6], which is often used a basis for analysis in Canada. It classifies occupations and industries based on their exposure to AI and the degree to which it compliments work functions[7].

Starting with employment in highly AI-exposed sectors with low-complementarity, which is where AI is likely to replace jobs. These workers have fared much better in Canada than in the U.S. since late-2022 (Figure 3). U.S. employment has seen virtually no growth, led by information and professional services, versus Canada showing fewer signs of job displacement.

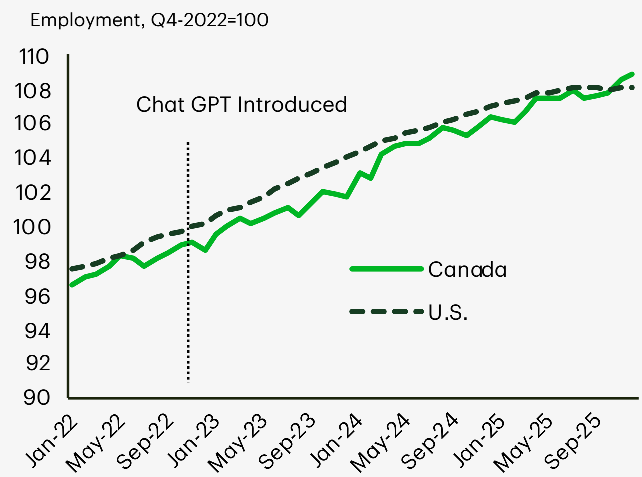
The narrative converges for AI-exposed occupations that are highly complementary with AI. In both the U.S. and Canada, aggregate employment growth in occupations such as engineering, physical and life sciences professionals, and professional occupations in education, law, and nursing, has remained robust (Figure 4). These roles tend to be higher paid and require advanced education.

Figure 3: Canadian employment outperforms the U.S. In jobs susceptible to AI replacement



Source: Statistics Canada, TD Economics.

Figure 4: Canadian employment growth mirrors the U.S. for AI-augmenting roles



Source: Statistics Canada, TD Economics.

Canada's Labour Markets and the Business Cycle

Even though Canadian employment in AI-exposed sectors is more resilient than the U.S., the broader labour market has still cooled over the past couple of years. This reflects a normalization in labour demand following the pandemic recovery, when Canadian companies chose to hoard labour amid hiring difficulties. The unemployment rate has risen by roughly 1.5 percentage points over the last two years, driven by reduced hiring activity and normalizing job vacancies (Figure 5). Across all industries, whether AI-exposed or otherwise, employment and GDP growth are falling in tandem, suggesting that cyclical factors are the primary drivers of current trends.

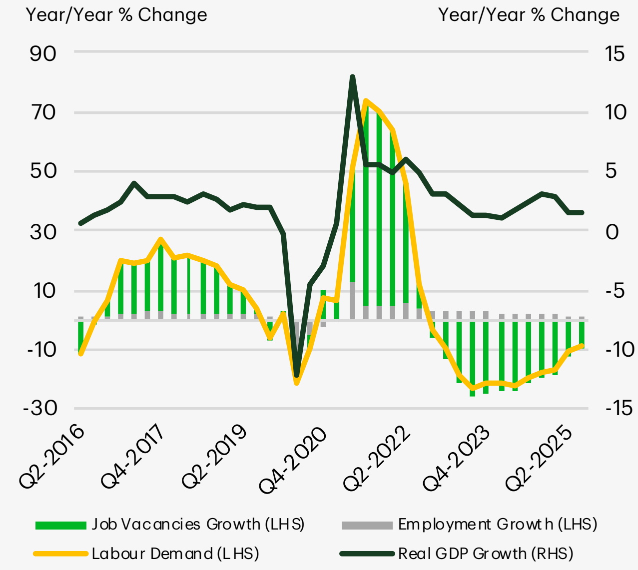
There is some, albeit limited, evidence that AI may be influencing Canadian productivity similar to American trends. Recent studies show that AI is credited with helping the U.S. economy avoid a deeper slowdown and its adoption correlates with higher productivity growth across tech, finance and data-intensive sectors[8]. Figure 6 shows that in Canada, productivity is higher in industries that are likewise higher in adoption rates, though the relationship is tenuous. Given Canada's lagging productivity growth over the past several years, AI presents one of the more substantial levers to shrink the productivity gap with other G7 countries.

Uncovering AI Wage Trends

The impact of AI on wages is nuanced and varies by sector, job type, and skill level. In the U.S., entry-level wages in highly AI-exposed roles are facing downward pressure, as it automates many routine tasks traditionally performed by younger workers. Conversely, young workers with AI skills can command higher wages. Overall, high-complementarity jobs — where AI augments human work — are commanding significantly higher wages and are experiencing more robust wage growth[9].

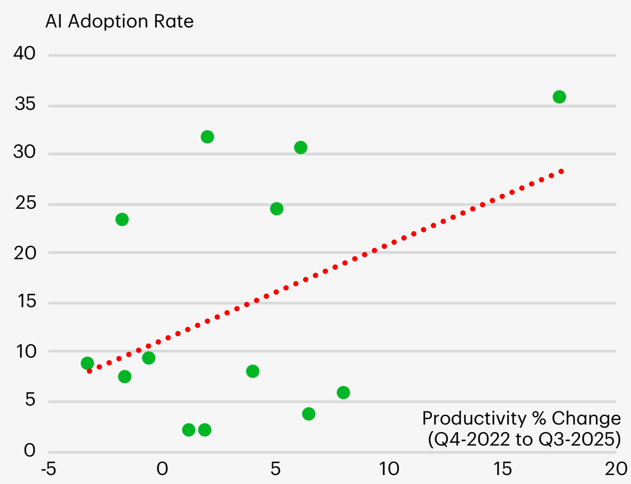
In Canada's case, we're finding some similarities. Wages for youth workers (aged 15–24) in AI-complementing industries have grown at a faster pace, on average, than ones with lower AI-exposure over the last few years (Figure 7). This wage deviation does not occur for core-aged workers (aged 25- 54), suggesting a wage premium potentially exists for younger workers with AI skills. The data also suggests that, so far, youth are not at a comparative disadvantage to core-aged workers in highly AI-exposed sectors. Looking ahead, overall economic conditions are still expected to be the primary governor of wage dynamics in Canada. AI-specific wage effects are likely to take longer to materialize in Canada due to slower broad adoption rates.

Figure 5: Canadian labour demand has normalized



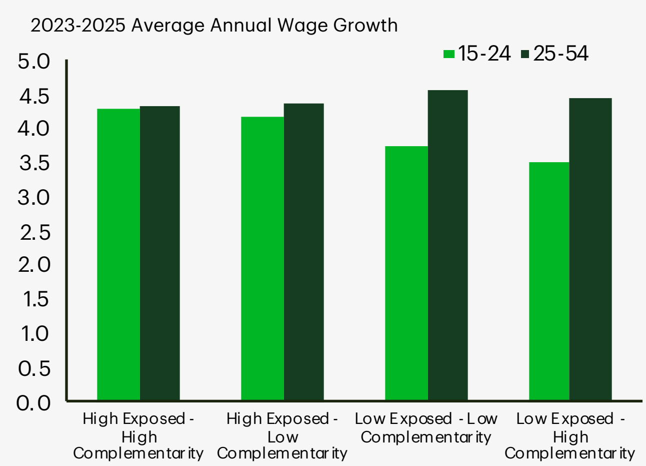
Source: Statistics Canada, TD Economics.

Figure 6: Productivity gains loosely higher in canadian industries with higher AI adoption



Sources: Statistics Canada, TD Economics.

Figure 7: Youth wages demand a premium in AI-exposed industries



Source: Statistics Canada, TD Economics.

Education Matters

Both the U.S. and Canada are seeing higher unemployment pressures for recent graduates. In the U.S., AI is more directly correlated with declines in entry-level hiring and graduate employment in exposed sectors. A Stanford report found that AI-driven automation has caused a 13% drop in entry-level jobs since 2022, disproportionately impacting young workers aged 22–25.

In Canada, we don't find direct evidence of the same. Indeed, the unemployment rate for recent graduates – defined as those 18-24 with university degree or postsecondary certificate or diploma – had recently risen to 4-year highs. But this is more directly attributed to the rapid increases in the labour force as the student population ballooned. The graduate unemployment rate is now moderating in line with the drastic reduction in student base (Figure 8), suggesting that immigration and demographics remain the primary drivers of jobless rates for new graduates. Instead, AI in Canada is reshaping graduate hiring through increasing demand for related skills. Canadian universities are adapting by emphasizing critical thinking and preparing students to work alongside AI, focusing on skills that technology cannot easily replicate.

Bottom Line

AI doesn't appear to be a dominant force in shaping Canada's labour market, but its influence continues to grow. The U.S. offers a glimpse of the future as the rate of adoption expands in Canada. AI is no different than other technological leaps of the past, it will offer both opportunities and challenges. It's only a question of whether the nation can work toward making the transition more transformative than destructive. The trajectory of AI's impact remains uncertain, but proactive adaptation will be key to ensuring that Canadian workers can thrive in the evolving labour market.

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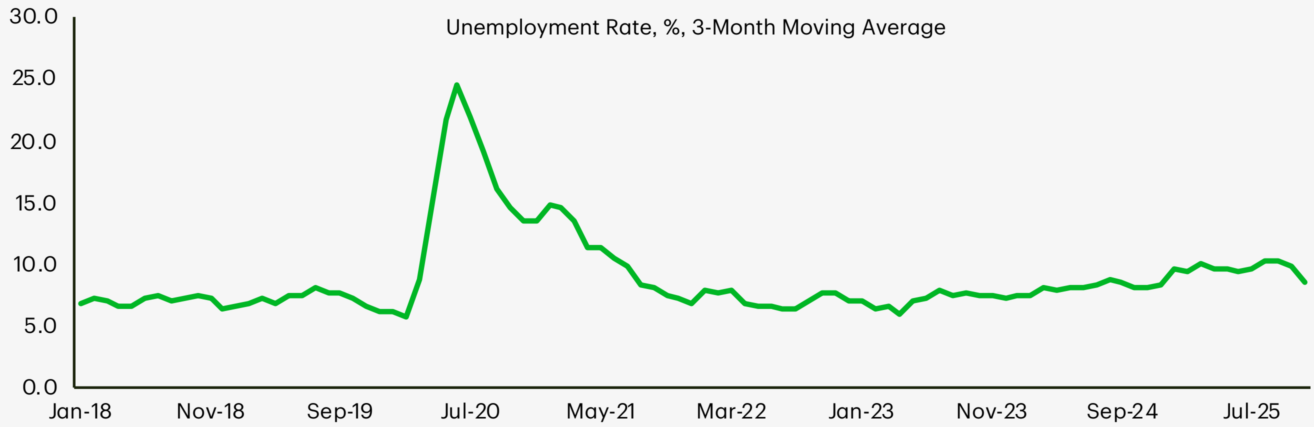
Figure 8: Graduate unemployment rate in canada is easing in line with a shrinking student population



Source: Statistics Canada, TD Economics.

1. Arledge, R. (2025, September 15). Census Bureau's 2023 Annual business survey provides insight into technology adoption by businesses. Census.gov. https://www.census.gov/library/stories/2025/09/technology-impact.html

2. Li, M. (2025, December 17). Top 10 countries with highest AI adoption rates in 2026. Second Talent. https://www.secondtalent.com/resources/top-countries-with-highest-ai-adoption-rates/

3. The ai engagement index: Countries leading the AI adoption in 2025. ApX Machine Learning. (n.d.). https://apxml.com/posts/ai-engagement-index-country-rankings

4. Bryan, V., Sood, S., & Johnston, C. (2025, June 16). Analysis on artificial intelligence use by businesses in Canada, second quarter of 2025. https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2025008-eng.htm

5. Bryan, V., Sood, S., & Johnston, C. (2025b, September 11). Analysis on expected use of artificial intelligence by businesses in Canada, third quarter of 2025. https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2025011-eng.htm

6. Mehdi, T., & Frenette, M. (2024, September 25). Exposure to artificial intelligence in Canadian jobs: Experimental estimates. https://www150.statcan.gc.ca/n1/pub/36-28-0001/2024009/article/00004-eng.htm

7. The report introduces a framework dividing jobs into four quadrants: High-Exposure, High-Complementarity (HE-HC): Jobs like engineering and healthcare, where AI assists and augments complex, cognitive tasks. These roles tend to be higher paid and require advanced education. High-Exposure, Low-Complementarity (HE-LC): Roles such as administrative assistants and data entry, where AI is more likely to automate routine digital tasks. These jobs are at greater risk of disruption and tend to offer lower wages. Low-Exposure, High-Complementarity (LE-HC): Jobs with limited direct AI exposure but where AI could assist, such as nursing. Low-Exposure, Low-Complementarity (LE-LC): Roles with little AI interaction and high potential for automation, like some factory work.

8. Bick, A., Blandin, A., & Deming, D. (2026, January 5). The impact of Generative AI on work productivity. Federal Reserve Bank of St. Louis. https://www.stlouisfed.org/on-the-economy/2025/feb/impact-generative-ai-work-productivity

9. Dodson, R. (2025, November 13). The Ai Readiness Report: Which Industries are falling behind?. Nexford University. https://www.nexford.edu/research/ai-readiness-report

Asset Class Analysis

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Quarter in Review

Divergence, Momentum and Structural Shift

We are living in a pivotal moment. The shadows of past inflation and trade conflicts are receding, while new growth patterns, policy synchronization, and societal cleavages are decisively shaping the investment horizon.

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

The final quarter of 2025 concluded amidst a global financial landscape shaped by the interplay of complex macroeconomic signals and accelerating structural transformations. Market performance reflected not only immediate reactions to shifting policies and economic resilience but also the clearer emergence of long-term economic pathways defined by technological revolution and fiscal choices.

This review aims to distill the key market dynamics of the fourth quarter, analyze the underlying macro drivers and internal economic divergences, and assess the evolution of equity markets under these new paradigms.

Policy Synchronization and Latent Concerns

We saw a broad rally in global risk assets, with strength extending beyond the U.S. and into European and emerging markets. During December in particular, global equities advanced in tandem, while leadership tilted away from the U.S., reflecting a wider reassessment of growth, policy, and trade dynamics. The U.S. market lagged but participation broadened. This rotation was driven by a confluence of factors. The U.S. economy demonstrated notable resilience, underpinned by strong GDP growth (Q3 GDP growth was 4.3%, above the consensus forecast of 3.3%), slowing yet sticky inflation, and reasonably robust consumer spending. The core PCE (Personal Consumption Expenditures) inflation rate stabilized year-over-year at 2.8%—declining but holding stubbornly above the Fed's 2% target—indicating the last mile of the inflation fight continues. However, wage growth has slowed to target-consistent levels, which should exert downward pressure on non-housing services inflation. These conditions allowed U.S. equity performance to broaden beyond mega-cap technology, even as relative momentum favoured non-U.S. markets where tariff and trade frictions had already receded into the rear-view mirror.

The U.S. labour market presented mixed signals. Some weakness likely represented a temporary hiring freeze following the disruptions of Liberation Day in April and this is expected to thaw as the quarters progress. Yet, deeper structural adjustments are underway. Improved operational excellence at the company level (favourable micro conditions) has been a key driver of profits and equities, reducing reliance on massive levels of new hiring in some sectors. The growing divergence within the labour market itself has become a critical, yet contradictory, window into economic health.

A significant catalyst for U.S. markets is the rare synchronized stimulative stance of both monetary and fiscal policy. On the fiscal front, the implementation of the One Big Beautiful Bill Act (OBBBA) set the stage for a front-loaded boost to household cash flows via larger tax refunds alongside a renewed wave of capital expenditure incentives. Its impact is projected to materialize around Q2 2026, coinciding with Tax Day in April. The Congressional Budget Office (CBO) projects the OBBBA will boost GDP by almost a full percentage point in 2026.

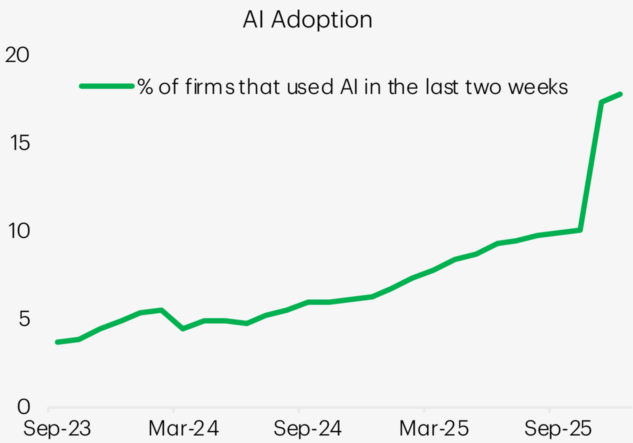
On the monetary side, a crucial and often overlooked transmission mechanism is at work. To manage a steep yield curve and minimize debt-servicing costs, the U.S. Treasury has significantly increased the issuance of short-dated bills, making government interest expenses more sensitive to central bank rate decisions. The adjustment of debt maturity profiles has become more tightly bound to monetary policy. This short-term debt-reliant strategy reflects a calculated assumption that the current high rates are temporary, and the government will soon refinance maturing bills at lower rates. The success of this bet hinges on effective inflation control enabling additional Fed rate cuts. Furthermore, receding trade policy tensions provided a tailwind. The Trump administration, aiming to keep consumers and voters onside, likely moderated its tariff stance at least temporarily. While uneven productivity gains create broader macro uncertainty, the cost of living remains a central issue driving voter sentiment and policy calculus.

The K-Shaped Economy: Productivity Boost and Societal Divergence

Beneath the aggregate resilience of growth, the U.S. economy in late 2025 continued to exhibit pronounced K-shaped characteristics (a growing disparity). Artificial Intelligence continues to attract immense investment and drive significant productivity gains. At the upper end of the corporate world, rapid adoption of artificial intelligence and automation technologies drove a powerful productivity impulse (Figure 1). Firms embedding AI at the core of their operations reported materially higher profit per employee, reflecting the ability to scale output while minimizing reliance on labour—the most expensive and least flexible input. This operating leverage is a key source of corporate earnings power. (Figure 2). From a macro perspective, this productivity surge expanded supply capacity faster than demand in certain segments, exerting disinflationary pressure even as nominal growth remained firm.

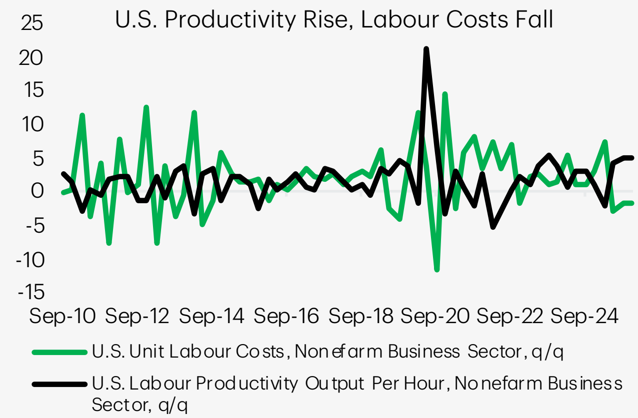
When it comes to the population, however, gains were unevenly distributed. Younger cohorts and lower-income households faced a markedly different reality, constrained by the convergence of high interest rates, deteriorating affordability, and softer labour prospects. The resumption of federal student loan payments emerged as a tangible headwind, particularly for middle- and lower-income consumers with limited balance-sheet flexibility. AI adoption threatens to amplify this imbalance. By weakening labour's bargaining power and reducing the marginal demand for certain skill sets, productivity windfalls increasingly accrue to capital rather than labour. While lower-income workers experienced meaningful wage catch-up in the immediate post-pandemic period, this phase has largely passed. Data from the Federal Reserve Bank of Atlanta show that wage growth for the lowest-paid quartile has fallen well behind that of higher-income workers, indicating a renewed widening in income dynamics and suggesting that affordability pressures are more acute than aggregate wage statistics imply (Figure 3).

Figure 1: AI adoption among U.S. firms



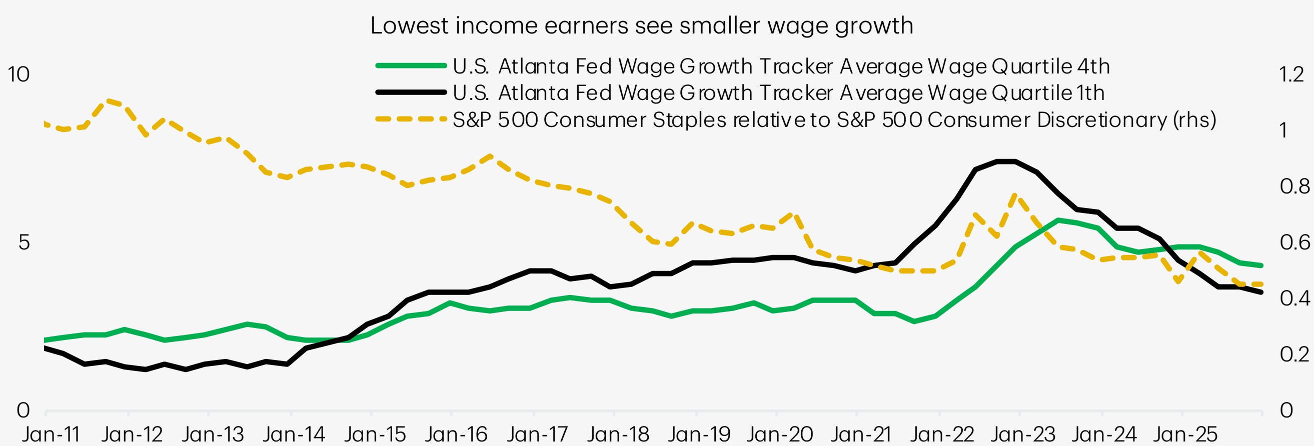
Source: FactSet, Wealth Investment Office, as of December 31, 2025. Percentage of U.S. firms that used AI in the last two weeks of each month.

Figure 2: U.S. productivity gains outpace labour cost growth



Source: FactSet, Wealth Investment Office, as of December 31, 2025

Figure 3: Wage growth divergence between low- and high-income workers



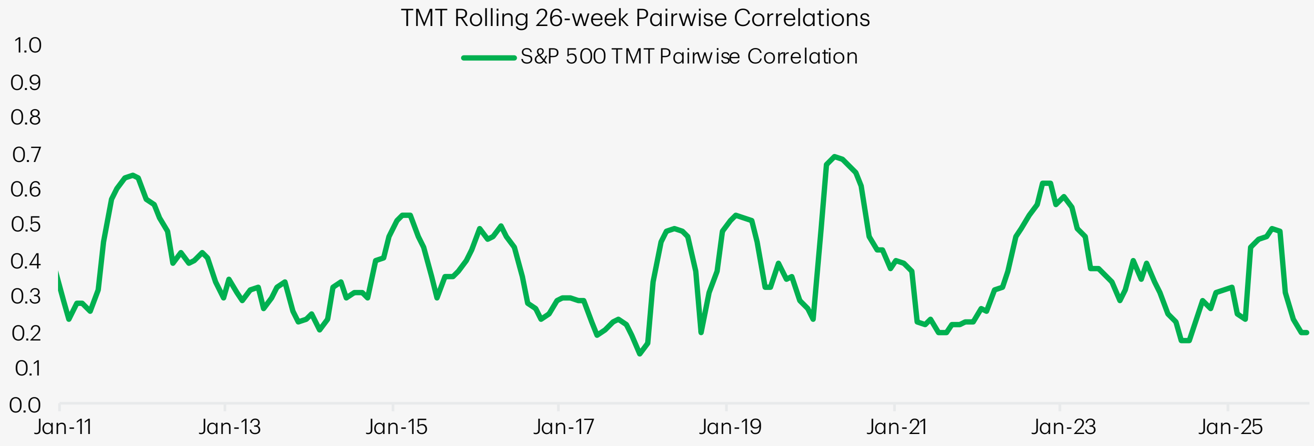
Source: FactSet, Wealth Investment Office as of December 31, 2025

Equity Markets: Concentration, Broadening, and Structural Opportunities

Equity performance in Q4 reflected both continuity and transition. AI remained the dominant structural theme, but investor scrutiny intensified around monetization and scalability. A growing differentiation emerged between firms with credible paths to translating AI investment into durable cash flows and those whose narratives remained largely aspirational. The AI/tech sector itself offers natural diversification within portfolios, and the market is sharply differentiating between firms with credible monetization paths and mere aspirants. Correlations at end December for the TMT (Technology, Media, and Telecommunications) sector within the S&P 500 fell well below the long-term average, indicating that stocks within TMT are moving less in sync. This low correlation highlights the sector's inherent natural diversification—where even within the same industry, different companies can exhibit distinct performance trends, helping to mitigate concentration risk in a portfolio (Figure 4).

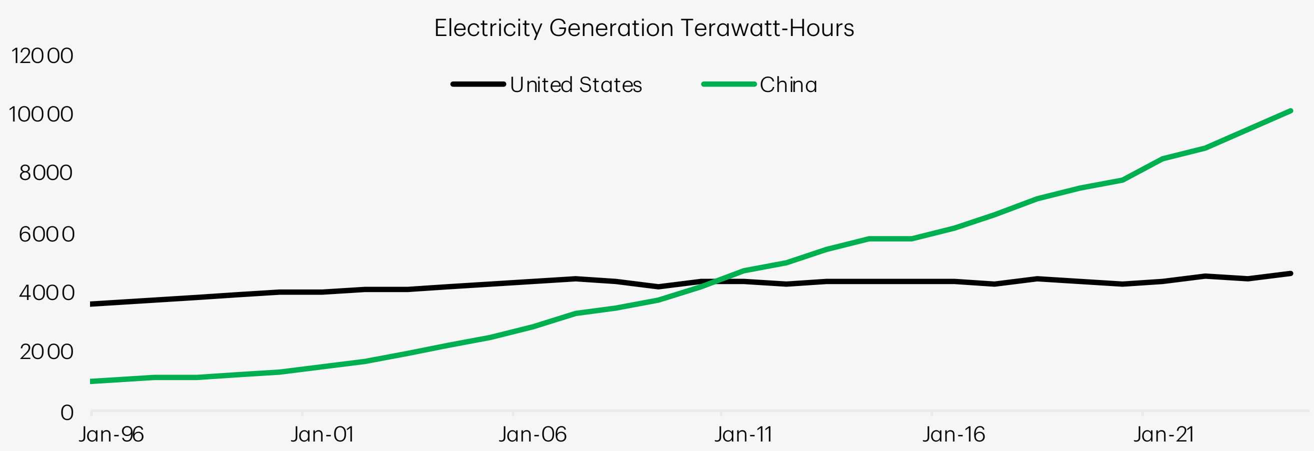
At a geopolitical level, the AI race highlighted contrasting constraints: the U.S. maintained a clear advantage in advanced chips and software ecosystems but faced mounting challenges around power generation and infrastructure. Running massive AI data centres and large-language models require immense amounts of reliable energy. China's vast and growing power infrastructure represents a foundational, scale-based strength in the global AI race, creating a landscape where leadership in chips and leadership in power generation are distinct but equally crucial pillars. While China rapidly expanded power capacity, overtaking the U.S. in 2011 and significantly widening the gap since then, it has been hampered by limited access to cutting-edge semiconductors. Each system's strength increasingly mirrored the other's weakness, underscoring the uncertain geography of long-term AI leadership (Figure 5). For investors, this landscape reinforces the value of international diversification.

Figure 4: Strong natural diversification within TMT sector



Source: FactSet, Wealth Investment Office as of December 31, 2025. Pairwise correlations measure price movements between two different elements.

Figure 5: China leads power generation

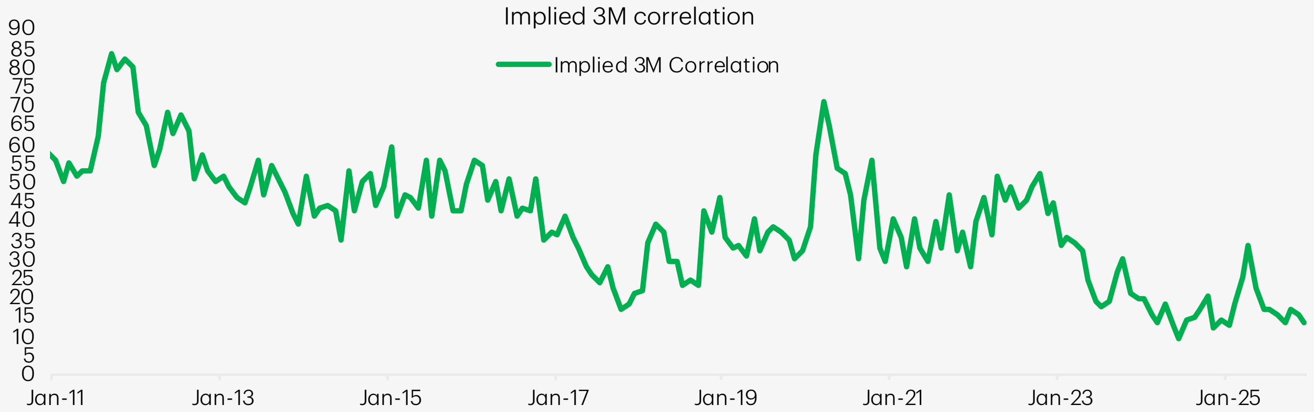


Source: FactSet, Wealth Investment Office as of December 31, 2025

Market concentration remained elevated. By year-end, the ten largest stocks in the S&P 500 accounted for roughly over 40% of total market capitalization and nearly one-third of index earnings. This concentration has been a defining feature of recent performance—those same companies contributed more than half of the index's gains in 2025—yet it also embedded rising idiosyncratic risk. Investor outcomes became increasingly dependent on the sustained execution of a narrow cohort of firms, raising sensitivity to company-specific shocks. At the same time, signs of market broadening became more visible. While mega-cap technology retained structural appeal, the opportunity set expanded toward firms leveraging AI to streamline costs, enhance margins, and differentiate earnings trajectories. This environment was reflected in persistently low implied correlations within the S&P 500, suggesting that fundamentals rather than macro factors dominated return dispersion. Such an environment supports alpha generation through security selection, often referred to as a stock picker's market, where earnings differentiation plays a larger role. Recent performance trends have shown cyclicals outpacing defensives, highlighting the market's preference for segments more leveraged to growth. (Figure 6).

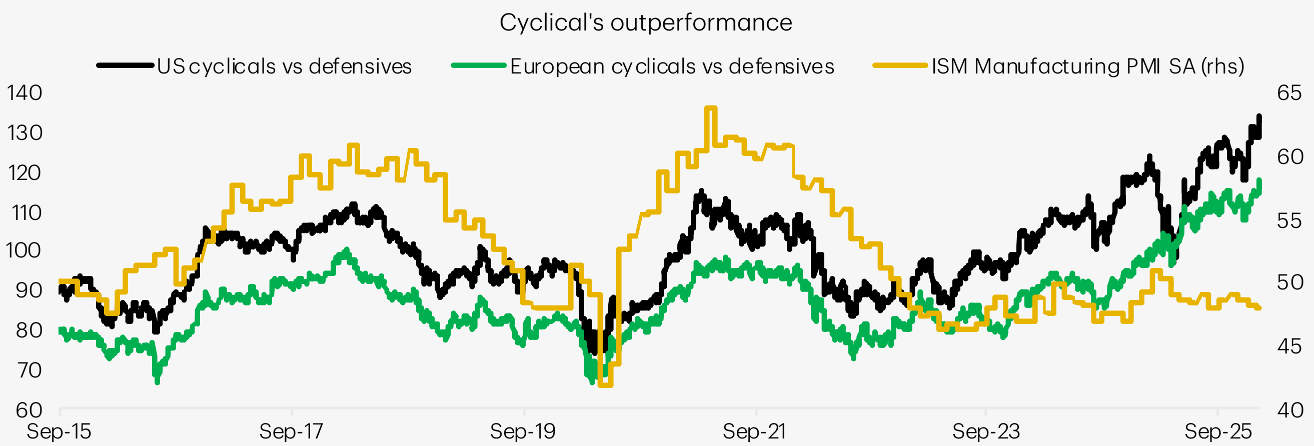
Cyclicals—sectors sensitive to economic growth—outpaced defensives into late 2025 in U.S. and European markets, consistent with a market favouring growth-linked earnings streams despite lingering concerns over manufacturing softness. This strength in cyclicals is notable because it has persisted even as key indicators like the ISM Manufacturing Index have signaled economic contraction. This suggests equities were discounting a prospective growth re-acceleration rather than contemporaneous activity. Fiscal and monetary accommodation further supported asset prices, lifting a wide range of assets simultaneously. Consumption remained resilient, increasingly driven by wealth effects and asset appreciation rather than labour income growth—a shift that reinforced the divergence between asset-owning and wage-dependent households (Figure 7).

Figure 6: Fundamentals drive market performance



Source: FactSet, Wealth Investment Office as of December 31, 2025

Figure 7: Cyclicals outperform defensives in U.S. and europe



Source: FactSet, Wealth Investment Office as of December 31, 2025

Within cyclicals, there are still near-term opportunities. Cyclicals exposed to the middle-income consumer are being supported by fading tariff headwinds, tentative labour stabilization, and the prospect of tax refunds linked to the OBBBA. Consumer discretionary trends reflected these dynamics in Q4 2025. As tariff pressures eased and household cash flows stabilized, spending patterns showed early signs of normalization. Nevertheless, the sustainability of this momentum remains contingent on broader labour conditions, leaving the sector sensitive to any renewed deterioration in employment.

Financials occupied a distinct position in the late-2025 landscape. Regulatory momentum shifted toward a lighter-touch framework, with proposed modifications to enhanced supplementary leverage ratio requirements aimed at reducing constraints on systemically important banks. These changes, combined with a steeper yield curve and elevated term premia, have altered the operating environment for the sector. Meanwhile, AI-driven fundraising activity and consolidation created renewed M&A engagement, adding another layer of complexity to the earnings outlook.

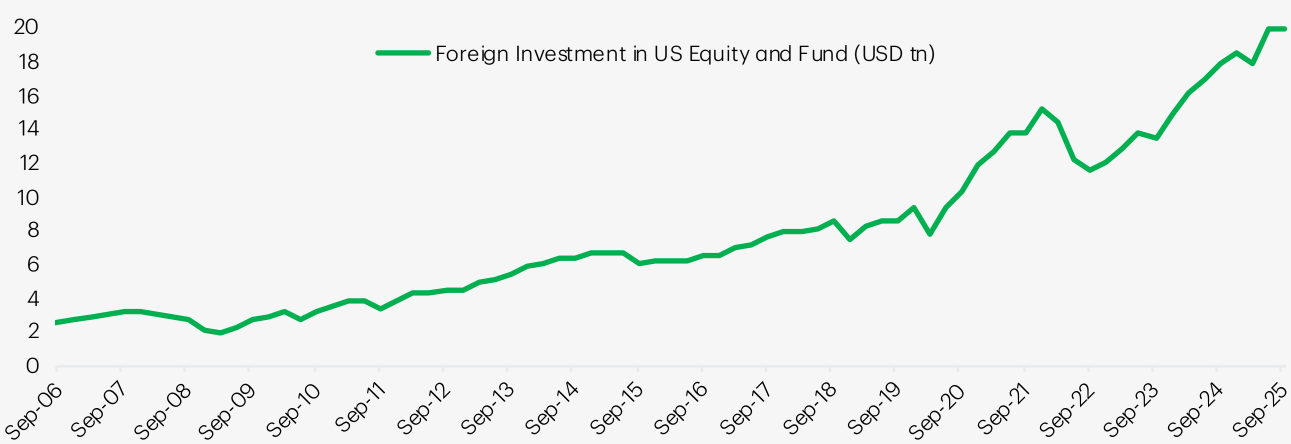
Foreign demand for U.S. assets remained robust (Figure 8), partly explained by the centrality of the U.S. to the global AI investment cycle and yield differentials favouring U.S. assets. Despite the dominance of U.S. narratives, 2025 also marked a notable broadening of returns across regions. Canada, Europe and Emerging Markets all delivered solid performance. Non-U.S. equities exhibited lower correlation to various phases of the AI trade. Defensive strategy styles (including low-volatility and dividend-oriented) displayed even weaker linkage to growth and AI expectations, offering additional diversification tools.

The fourth quarter of 2025 saw markets advancing on policy synchronization while still diverging in the currents of technological revolution. At the macro level, growth resilience, inflation stickiness, and a unique monetary-fiscal linkage have created an environment of contained near-term risk but the future, especially long term, will depend on how these themes unfold. Structurally, the K-shaped economic divergence has intensified, with AI-driven productivity gains and corporate profitability juxtaposed against the significant challenges facing younger generations and lower-income households. This is a critical long-term socio-political economic theme.

The U.S. equity market stands at an inflection point: the dominance of mega-caps coexists with the potential for broader participation; the fervour around AI exists alongside opportunities for fundamental stock selection; and the allure of U.S. markets is balanced by the necessity of global diversification.

Looking ahead, markets will continue to operate along trajectories shaped by the interplay of three forces: macro policy, technological change, and structural societal fissures. For investors, understanding these deep-seated dynamics is more crucial than ever. It is a task that concerns not only quarterly returns but also positioning within an economic world that is being fundamentally redefined.

Figure 8: Strong foreign demand for U.S. equities and funds



Source: FactSet, Wealth Investment Office as of December 31, 2025

Outlook on Fixed Income • **Modest Underweight**

The Great Rate Normalization, Clipping Coupons and Credit Divergence

With limited upside to capital gains, the "easy" money has been made leaving investors to shift from surviving the cycle to navigating rate normalization, and focusing on high quality credit, income generation and coupon clipping.

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

As we turn the page on 2025, the global fixed income landscape stands at yet another juncture. The past year defied some of the gloomiest predictions of recession and demonstrated the surprising resilience of the U.S. consumer and the ability of global markets to adapt to a generational shift in global trade dynamics. While 2024 ended in uncertainty after U.S. elections ushered in a second Trump presidency and a fully Republican-controlled Congress, 2025 was largely the story of a soft landing, albeit with some turbulence driven by renewed fiscal anxieties and U.S.-led trade frictions. Ultimately the brief spike in Liberation Day-induced market volatility subsided as the market digested potential tariff implications. With many major central banks having eased rates in 2025, and risk premia anchoring longer-dated government bond yields, yield curves steepened across many developed economies including the U.S. and Canada. This steepening disproportionately benefited short-and-mid duration bonds while dampening returns for longer-duration fixed income instruments. As shown in Figure 1, 2025 ended with solid total returns across most fixed income segments, led by Emerging Markets Government Debt (USD-denominated) at 12%. This marks the third consecutive year of positive performance for the majority of the global fixed income universe.

As we begin 2026, the fixed income narrative appears to be shifting from surviving the cycle to navigating a period of normalization where credit valuations leave little room for error. The Federal Reserve (Fed) has continued recalibrating policy, easing rates to a restrictive-but-manageable range despite inflation remaining stubbornly elevated at closer to 3% than the 2% target rate. Additionally, major changes may be on the horizon at the Fed this year: Chair Jerome Powell's term is set to end in May, and a number of governor seats will turn over presenting opportunities for Trump to potentially reshape Fed membership to reflect his highly dovish views.

Figure 1: Returns by credit segment

Canada Gov | Canada IG | Canada HY | Canada RRB | US Gov | US IG | US HY | US IL | US Loans | Global Gov | Global IG | Global HY | US MBS | EMD (USD)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
22.0%	18.3%	19.2%	8.3%	13.2%	3.8%	16.9%	10.0%	2.1%	14.9%	13.0%	6.2%	-0.9%	12.6%	11.5%	12.0%
15.0%	14.0%	19.0%	8.2%	9.3%	2.8%	16.6%	9.9%	2.1%	13.6%	11.5%	6.0%	-5.4%	12.5%	8.1%	7.6%
14.9%	11.0%	16.5%	6.2%	9.2%	2.7%	15.1%	7.4%	1.5%	13.2%	9.0%	5.2%	-9.9%	12.1%	8.1%	6.9%
12.3%	10.2%	15.9%	5.8%	8.6%	2.0%	9.9%	7.0%	1.1%	13.2%	8.7%	5.1%	-11.1%	10.0%	7.2%	6.8%
11.1%	8.9%	11.7%	0.8%	8.4%	2.0%	9.7%	5.9%	0.3%	11.6%	8.7%	3.6%	-11.2%	9.7%	7.0%	6.7%
10.1%	8.3%	10.6%	0.8%	8.2%	1.5%	5.9%	5.2%	0.2%	8.8%	8.1%	1.8%	-11.7%	8.4%	5.1%	6.4%
9.4%	8.2%	10.4%	0.8%	7.6%	0.9%	5.7%	3.6%	0.0%	8.5%	7.5%	-0.8%	-12.3%	8.2%	3.7%	5.9%
7.6%	7.2%	7.3%	-0.7%	7.1%	0.3%	4.8%	3.4%	-0.5%	8.1%	6.7%	-1.1%	-12.3%	7.5%	3.3%	5.3%
7.3%	6.5%	6.2%	-0.9%	6.0%	-0.1%	3.7%	3.3%	-1.5%	8.0%	5.7%	-1.1%	-12.6%	6.1%	2.7%	4.5%
6.5%	5.4%	5.3%	-2.0%	4.4%	-0.5%	3.7%	2.2%	-1.8%	7.7%	5.2%	-1.3%	-12.8%	5.9%	2.0%	4.5%
6.5%	5.1%	3.4%	-2.0%	3.7%	-1.7%	2.9%	2.0%	-2.8%	6.5%	5.0%	-1.8%	-14.3%	4.1%	1.8%	4.1%
6.3%	3.2%	2.9%	-6.0%	3.2%	-2.8%	1.5%	1.8%	-3.0%	6.4%	4.2%	-2.2%	-14.6%	3.8%	1.0%	2.1%
5.9%	2.4%	2.8%	-9.3%	2.5%	-3.8%	0.9%	1.7%	-3.3%	6.1%	3.8%	-2.3%	-16.3%	3.2%	0.1%	2.1%
4.1%	2.1%	2.6%	-13.1%	1.2%	-4.5%	0.8%	0.7%	-6.1%	5.6%	1.8%	-3.0%	-19.0%	2.0%	-0.5%	0.9%

Source: Morningstar and Wealth Investment Office, as of December 31, 2025

Meanwhile, the Bank of Canada (BoC) appears set to cautiously pause rates, having signalled as much in December 2025. Consequently, it seems much of the easy money—capital appreciation driven by declining yields–may largely be behind us.

With U.S. and Canada credit spreads extremely tight and hovering near historic lows, credits are arguably priced near perfection while longer-term government yields appear to be moving higher. Given this backdrop, it seems likely that 2026 total returns will be driven mostly by coupon clipping with limited upside for capital gains from incremental price appreciation.

- We maintain our modest underweight view on fixed income overall. We believe returns will remain largely in line with average historical levels and be mainly composed of the coupon.

- We maintain a neutral view on domestic government bonds. At current yields, Canadian government bonds remain relatively attractive and offer opportunities for both income generation and reasonable downside protection. However, we expect yields may experience bouts of volatility given the underlying economic uncertainties and a less coherent outlook on rates. Bear in mind that Canadian government bond yields tend to be highly correlated to U.S. government bond yields and are likely to be directionally impacted by future Fed policy rate decisions and the U.S. fiscal outlook.

- We maintain a modest overweight view on investment grade (IG) credit overall. Although both U.S. and Canada IG spreads remain at or near historically tight levels, we still see value in certain segments of corporate IG credit with a slight preference for Canadian IG over U.S., mainly due to its wider spreads. As elevated levels of global economic uncertainty persist, we are cognisant that spreads have meaningful room to widen (indicating the market is pricing in more risk) and, as such, we prefer short-term corporate IG bonds over longer maturities. We remain very focused on high quality credits—companies with robust balance sheets, healthy credit metrics and ample liquidity—and expect technicals to remain supportive (particularly in the first half of 2026) considering respectable yields can still be earned while providing some cushion to potential price volatility down the road.

- We also maintain a neutral view on high yield (HY) credit. HY bonds tend to be more volatile than IG because HY borrowers have higher average corporate leverage levels, generally weaker balance sheets, and are more susceptible to refinancing risks as yields have increased from near-zero rate environments post-Global Financial Crisis and post-COVID. HY spreads are currently very tight reflecting rich credit valuations and arguably insufficient risk premia to adequately compensate investors for higher default risks. As with past cycles, we expect HY spreads to widen substantially if the economic growth outlook softens.

Government Bonds

Government bonds experienced periodic bouts of volatility in 2025 due to diverging global rate paths, global trade tensions, heightened geopolitical instability, and evolving concerns about the U.S. fiscal outlook including the passage of the One Big Beautiful Bill Act (OBBBA). Over the course of 2025, we witnessed steepening and/or rising yield curves across many regions globally. In the U.S. and Canada, front-end yields declined meaningfully driven by a series of rate cuts from both the Fed and BoC amidst surprisingly resilient GDP, relatively tepid employment data, and sticky (albeit moderating) inflation.

In other rate markets, such as the E.U., bond yields increased materially across most of the curve, fueled by ongoing concerns about deficit spending, trade tensions and lingering inflation. In Japan, government bond yields also jumped across the entire curve as the BoJ effectively ended its decades-long yield curve control regime by shifting away from an ultra-accommodative monetary policy and raising rates multiple times (and into positive territory) throughout the year.

We remain neutral on Canadian government bonds. The spread between 10-year Canadian government bond yields and U.S. equivalent yields narrowed in 2025, roughly halving from around 150 bps in February to around 75 bps at year-end. We believe this largely reflects a confluence of macroeconomic factors and the market's current consensus expectations of a BoC rate pause along with incremental easing from the Fed in 2026. Our view is that Canadian government bond yields will likely stay rangebound with potential bouts of volatility but will ultimately remain largely at the mercy of U.S. Treasury movements. We still believe it is preferable to take a longer-term view on government yields given lingering risks of economic stagnation, particularly in Canada. On the other hand, resilient economic data and a renewed focus on U.S. fiscal expansion (as exemplified by OBBBA's tax package which is forecast to add US$1.7 to US$2.0 trillion to the fiscal 2026 federal budget deficit) could support or further boost term premia thus keeping long-dated (20-30 year) U.S. Treasury yields anchored or even pressure them higher. Given the tug-of-war between easing policy rates and rising fiscal premiums, we continue to encourage investors to take a risk-managed, active approach to government duration.

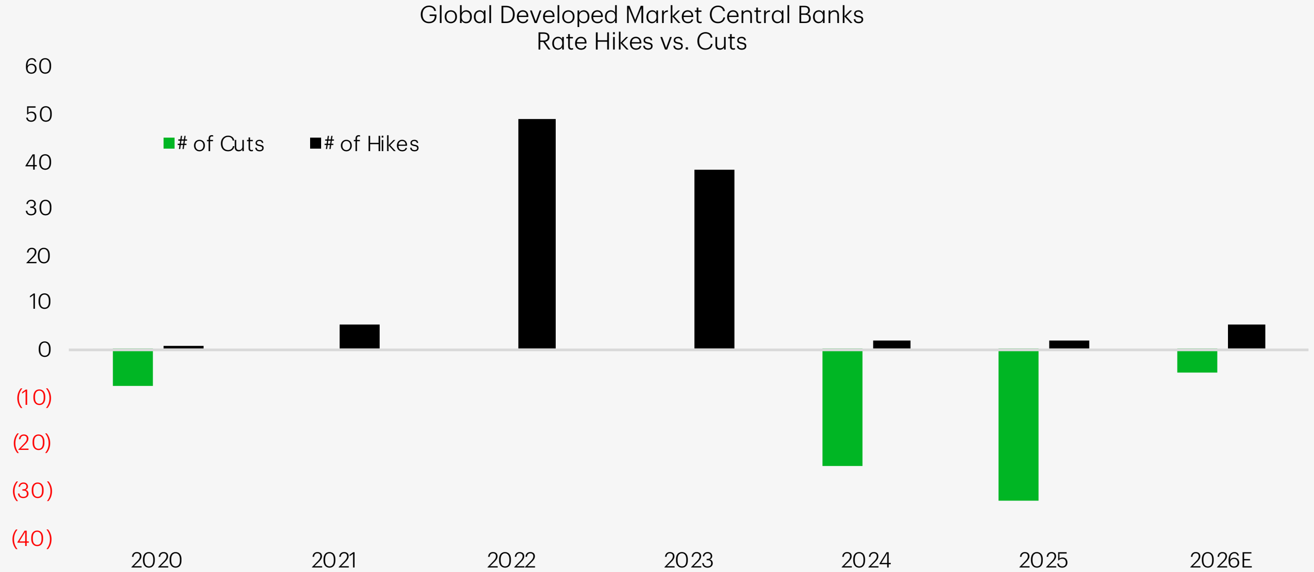
Key Themes for Government Bonds

The Great Normalization to Neutral: We believe that the era of major global central banks aggressively cutting rates is behind us. Instead, 2026 is setting up to be a period where major western central banks, such as the Fed, ECB and BoC, cautiously search for and aim to pivot to a hold at neutral rates (policy rates that neither stimulate nor hinder economic growth). In the U.S., a deeply divided Fed is debating if, when, and how much to continue cutting rates as it wrestles with stubborn inflation nearer 3.0% than its 2.0% target and a tepid (mixed at best) job market—both of which are set against a relatively robust GDP growth environment. In the Eurozone, markets are anticipating a rate hold or minimal shifting, with rates settling in around the current 2.00%-2.15% area as the ECB manages sticky services inflation and moderate economic growth prospects. In Canada, after a series of rate cuts in 2025 (to 2.25%), the BoC has signalled a more balanced view heading into 2026 emphasising its next move will be highly data dependent. As a result, consensus market expectations are anticipating little policy rate change for much of 2026, and some prognosticators are even forecasting a reversal and pivot to a rate hike in the latter half of the year. Even Japan (discussed further below) appears to be entering a rate normalization path.

Overall, we believe we are entering an environment that will be characterized by major central banks approaching more neutral rates whereby the bar for additional rate cuts going forward is becoming increasingly high. Therefore, in our view, investors should be mindful that rate volatility may shift from the front end of the yield curve (driven more by monetary policy bets) to the longer end of the curve (driven more by long-term economic growth projections and inflation expectations).

Return of the Fiscal Premium: Persistently high–and growing–fiscal deficits have been and continue to accrue on government balance sheets across many large, developed economies including the U.S., France, U.K., and Italy, as just a few stark examples. Specific drivers (such as aging populations/shifting demographics, low economic growth or poor productivity, structural spending pressures like entitlements, increased defence spending, excessive public costs, etc.) may vary but the outcome and effects often tend to be the same: investors demand a higher risk premium (translating into higher bond yields) to buy and hold a country's debt (and corresponding rising interest burdens for governments). Given that rising yields push bond prices lower, we tend to prefer shorter-to-mid duration sovereign bonds over longer maturities; this will help strike a balance between yield and safety and to guard against rising fiscal or term premia particularly if bond vigilantism gains traction. We believe it is incumbent upon investors to actively monitor the markets in which they invest, remain selective on duration and consider country-specific risks. It is also important to keep in mind however, that not all governments will manage their fiscal houses the same way and each central bank policy path may differ. Ultimately, we feel that countries demonstrating greater fiscal discipline alongside prudent central banks that adhere to clear data-driven decision making will be rewarded by sovereign debt investors.

Figure 2: Global developed market central bank rate moves



Source: FactSet, Wealth Investment Office as of January 15, 2026

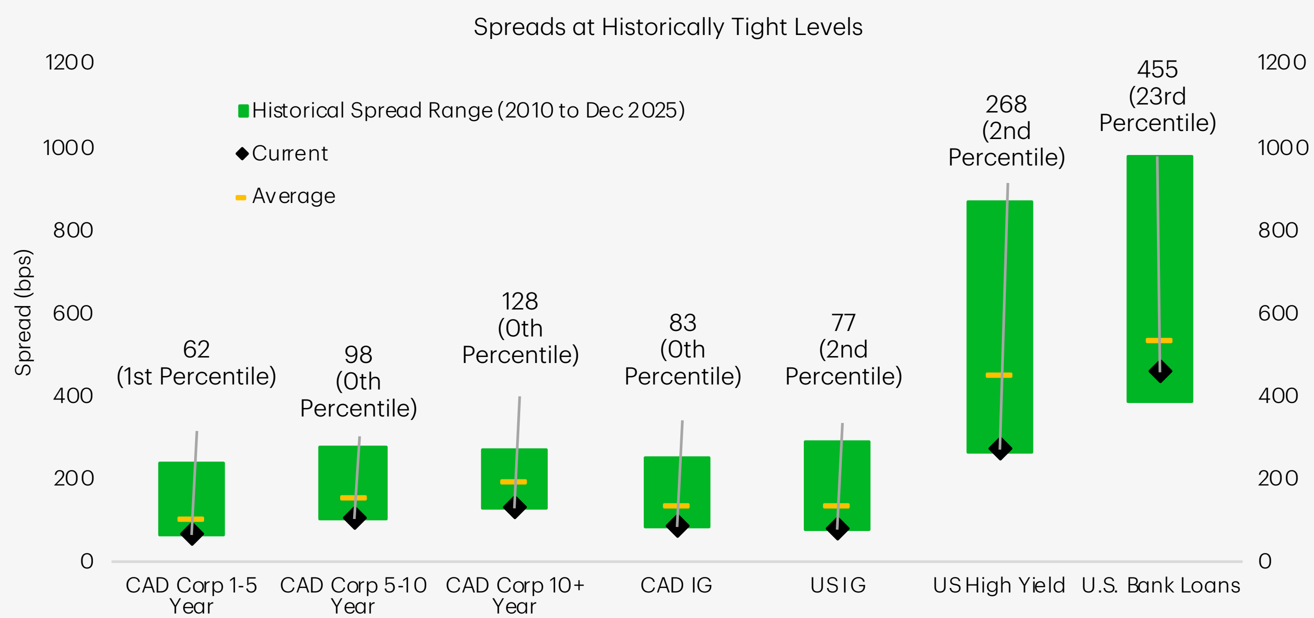
The Japanese Divergence (the Yen Carry Unwind): It seems plausible that the Bank of Japan (BoJ) will be one of very few major central banks primed to hike rates meaningfully in 2026, potentially making Japanese Government Bonds (JGBs) more attractive especially to domestic Japanese investors if yields keep marching higher. While many other major developed market central banks are expected to end their current rate cutting cycles in 2026 or settle into data-dependent rate pausing periods, Japan is poised to diverge from its peers and its own long-standing rate policy, by potentially raising rates to 0.75%-1.25% in 2026 and to 1.5% by 2027 (from negative or near-zero levels much of the past 30 years). Such a move has the potential to create powerful global liquidity crosscurrents. Japanese investors holding significant amounts of foreign debt, including U.S. Treasuries, could begin repatriating capital invested abroad, which in turn could place incremental upward pressure on sovereign bond yields. A corresponding strengthening of the Yen could–if the yield gap between U.S. (or other sovereigns) and Japan narrows enough–make unhedged JGBs more attractive to foreign investors as well for the first time in decades.

Credit: Investment-Grade and Sub-Investment-Grade (High Yield)

Corporate credit markets showed continued resilience in the fourth quarter of 2025, supported by an economic environment that appears unlikely to lead to a recession in the near term despite some mixed economic data, most notably on inflation and employment. The stability of credit fundamentals is currently underpinned by generally healthy credit ratios and robust supply/demand conditions, even as corporate interest expenses begin to normalize in a relatively higher interest rate environment compared to much of the past 20 years. In the near-term, U.S. and Canada credit spreads for both investment grade (IG) and high yield (HY) bonds are expected to remain within a historically tight range, absent any unforeseen economic shocks or material downturns. Currently, most credit segments are trading at or near the tightest spreads in years which does not provide much room for error. Barring any substantial upside surprises, further spread compression is likely to be limited, implying current credit valuations are priced at or near perfection. Accordingly, we believe it is essential to adopt an active credit strategy that prioritizes high credit quality and carefully considers term exposure (duration). This approach could not only enhance potential returns but also strengthen resilience during vulnerable periods or unexpected market turbulence.

We maintain a modest overweight view on IG credit and a neutral view on HY credit. Within the broader IG universe, we prefer shorter-dated Canadian IG bonds as a total return investment given their relatively attractive all-in yields combined with their lower interest rate sensitivity—a desirable defensive trait in current tight market conditions. With IG credit spreads standing near historically tight levels (Figure 3), higher-quality shorter-dated credit may offer more protection against volatility than the broader index. Similarly, tight U.S. HY spreads risk widening materially relative to IG if economic conditions deteriorate.

Figure 3: Historical credit spreads



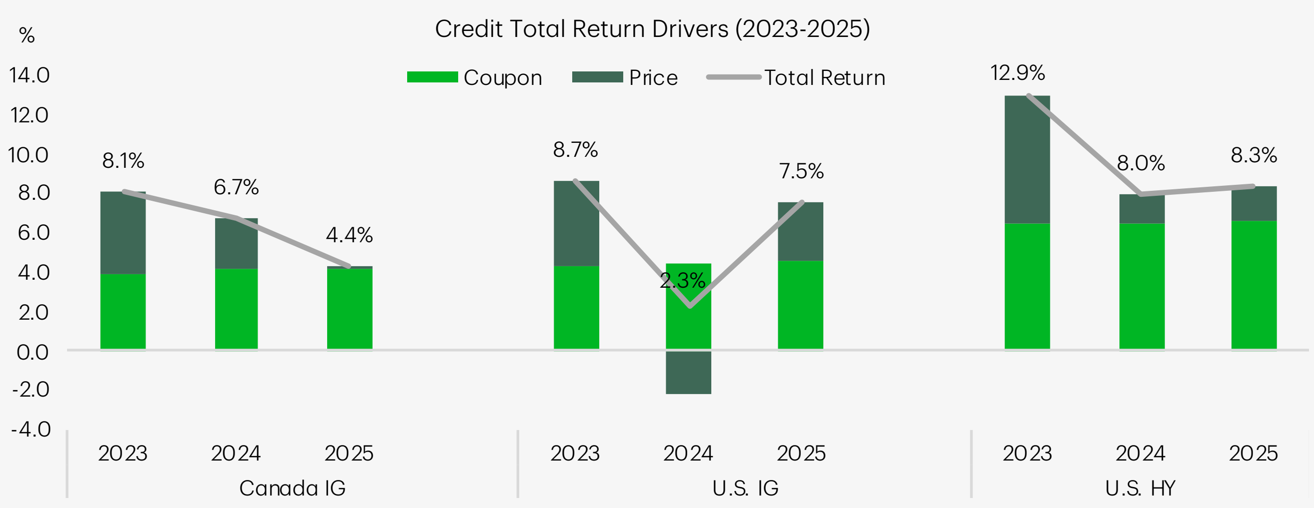
Source: FactSet, Wealth Investment Office (WIO), as of December 31, 2025. Using historical month-end spreads since January 2010

Within HY credit, our view on U.S. bank loans has continued to evolve along with the Fed's rate easing cycle and we now see less upside for leveraged loans or floating rate instruments but still value their senior secured position if 'hard' default rates tick up. In HY, given today's stretched credit valuations and narrow spreads, we prefer higher-quality (BB rated and above) fixed-rate bonds, while tactically utilizing loans for safety and capital preservation. However, overall, we prefer IG over HY given its superior balance sheet strength and relative value in this historically tight spread environment.

Key Themes for Corporate Bonds

- **Quality Carry Rules the Day (and Year):** Much has been discussed about how U.S. and Canadian IG and HY credit spreads are trading at-or-near historically tight levels. That said, all-in yields in these segments remain reasonably attractive at around 3.8% for the Canadian IG index, about 4.8% for the U.S. IG index, and around 6.6% for the U.S. HY index as of mid January 2026. Since tighter credit spreads generally translate into lower potential upside return for investors, we currently believe bondholders may not be adequately compensated in the riskier parts of the credit spectrum and should prioritise higher quality carry and safer credits (IG or high-rated HY such as BB+) over lower-quality HY with more questionable balance sheets, greater refinancing risk, or lower free cash flow generation. This approach aims to limit exposure to credit where the risk premium and compensation seem insufficient and underscores our current view that high-quality corporate debt offers the best risk-adjusted return without having to stretch for yield lower down the corporate credit risk spectrum when spreads are so tight. Additionally, corporate borrowers largely did an admirable job navigating 2025, making 2026 more manageable, by opportunistically refinancing upcoming maturities, and pushing back a looming maturity wall. On the other hand, many lower-rated (including CCC and below) issuers are now facing rollover interest costs that are materially higher than prior borrowing rates which could drive a growing wedge between the relative safety of IG and the riskier credits in HY over time.
- **Coupon Clipping and Income Over Price Appreciation:** With consensus market views currently forecasting 10-year U.S. Treasuries to trade rangebound for much of 2026, absent any shocks such as unexpected sharp drops in rates, or further spread compression which we believe is unlikely, corporate bond prices appear well set up for a period of relative price stability. If this comes to fruition, we believe fixed income investors should recalibrate 2026 return expectations to focus more on income generation (yield) and less on upside potential from capital gains (prices). Said differently, our view is that the material bond price appreciation of the 2024-2025 rate cutting cycle may be largely in the rearview mirror. By contrast, 2026 total returns appear likely to consist mostly of coupon payments in a relatively rangebound market characterized more by interest rate stabilization or normalization rather than plunging rates. Supporting this view is a sticky 2.5%-3.0% inflation backdrop in the U.S.; this could conceivably prevent the Fed from cutting rates more aggressively than anticipated unless, or until, inflation grinds lower over a sustained period. Such a dynamic could effectively create a floor under rates which, in turn, may constrain bond price upside in 2026.

Figure 4: Credit returns attribution breakdown



Source: FactSet, Wealth Investment Office as of December 31, 2025

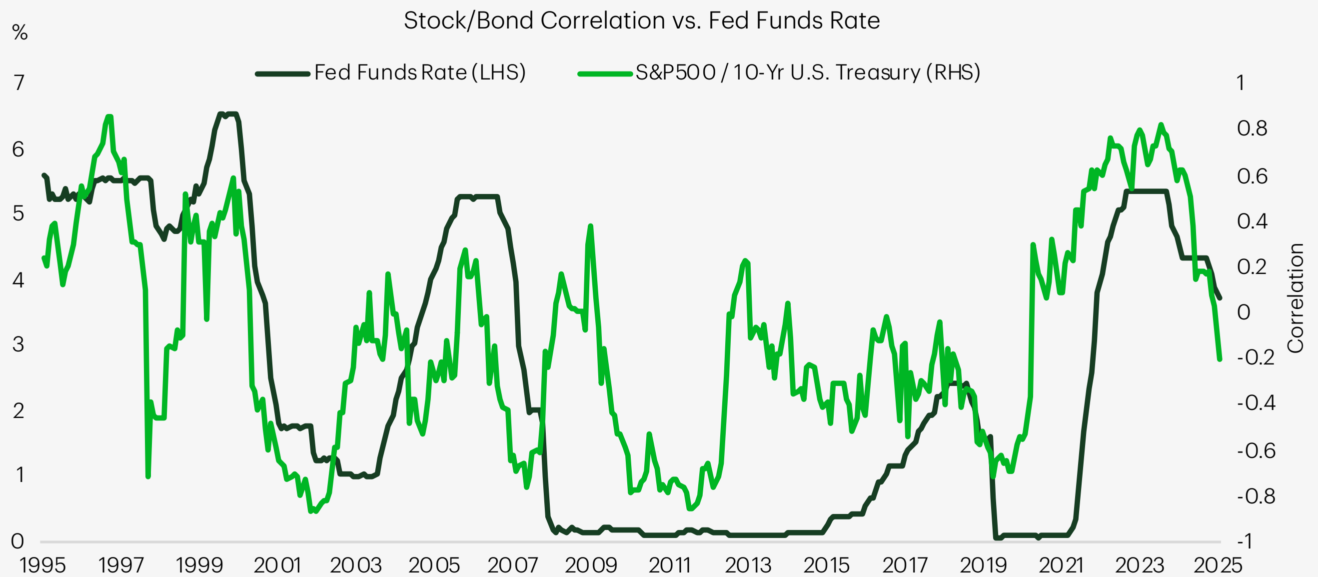
• **Credit Decompression and Sector Dispersion:** Credit decompression refers to a widening performance gap between strong and weak credits. With that in mind, Warren Buffett's famous adage "you don't find out who's been swimming naked until the tide goes out" feels apt for fixed income in 2026. Given our view that we may be entering the latter innings of the credit cycle and much of the low-hanging fruit was picked over in the 2024-2025 rate easing cycle (which buoyed many corporate bonds regardless of credit quality or sector), credit decompression has potential to arise in 2026. If so, certain sectors like consumer discretionary or consumer cyclicals could lag sectors like AI-centric tech hyperscalers, power/energy, or infrastructure which are driven by enormous investor demand and massive capital needs. In the former sectors, heavily indebted issuers who are overly levered to lower income consumers could face mounting challenges, particularly in a K-shaped economy where a softening labour market disproportionately impacts lower income households, thus increasing default and recovery risks. Conversely, we anticipate outperformance of more in-demand sectors like tech (AI hyperscalers), power, and utilities that offer an attractive combination of growth and defensive opportunities. Our preference is to focus on the highest-quality credits of IG issuers with strong free cash flow and pristine balance sheets, for example Meta, Alphabet, Microsoft, Amazon, etc.—companies that look poised to keep riding the wave of eyewatering AI-related buildouts that will be funded, in part, by a heavy supply of new debt which may be accompanied by investor-friendly concessions not always available in the secondary market.

Conclusion: Patience, Precision and Active Management

Given the backdrop, it appears as though 2026 could well be the 'year of the coupon' when returns will be driven by income (yield) and coupon clipping rather than price appreciation or meaningful spread compression. In this sense, the bond market appears ripe for a return to its conventional function as a provider of stable income and an important portfolio diversifier that helps offset equity market volatility, although likely not a driver or significant contributor to outsized returns in 2026.

As the Fed and other major developed market central banks continue along rate normalization paths, bonds have once again regained an important portfolio diversification characteristic: inverse correlation to equities (Figure 5). For the disciplined investor, high quality credits, active management, and patient coupon clipping should carry the day in 2026. By anchoring portfolios in high-grade credits, shorter-duration bonds, and employing the expertise of strong active fixed income managers, investors should still be able to realize respectable returns in 2026 while guarding against market volatility or maturity wall refinancing risks that could soon loom large over weaker pockets of fixed income particularly in the lower-rated HY universe.

Figure 5: Historical stock/bond correlation



Source: FactSet, Macrobond and Wealth Investment Office as of December 31, 2025

Outlook on Equities ● **Modest Overweight**

Where to Next?

Heightened risk sentiment did much of the heavy lifting last year. From here, sustained earnings growth will have to carry markets forward.

By Christopher Blake, Senior Portfolio Manager; David Beasley, Senior Portfolio Manager and Mansi Desai, Senior Equity Analyst | TD Wealth

North American equities closed 2025 with their third consecutive year of strong positive gains, driving a three-year average price return (compound annual growth rate) of over 18% for the S&P/TSX and nearly 22% for the S&P 500 — far ahead of their 50-year average annual price returns of 8.4% and 10.3%, respectively.

After a strong run in growth equities, investors naturally begin to express skepticism about whether it can continue. As conviction in their equity allocation oscillates somewhere between the "fear of losing their gains" and the "fear of missing out on even more," a bull market's proverbial "wall of worry" is formed. That's generally a healthy thing for equity markets as investors participate cautiously: those with higher conviction are first to commit to growth, followed by some defensive rotation to protect gains, in turn selling to newly encouraged investors, thus keeping the cycle moving along with the typical ebbs and flows of a bull market.

More concerning would be the emergence of irrational exuberance — a euphoria that draws more investors into excessive risk-on allocations, driving high-beta stocks too high, too fast. That scenario typically doesn't end well, so we prefer the moderately growing equity curve to a parabolic one.

What we see as we enter 2026 is that the wall of worry is firmly in place. Concerns about the sustainability of the AI data-centre buildout — owing to financing doubts — triggered several short corrections in the S&P 500 during the later stages of 2025. Investors have been resilient, though; the drawdowns were generally shallow, with price drops contained to within around 5.0% before dip-buying resumed.

Looking forward to what lies before us as equity investors in 2026, our focus remains on the underlying drivers of equity markets: compounding corporate earnings and what the market is willing to pay for them. In that context, we examine earnings growth and multiple compression and expansion, starting with where we are and considering scenarios for where we may be going.

The S&P/TSX Composite and the S&P 500 are our proxies for Canadian and U.S. equities. In Figure 1, we show their current price-earnings ratio (P/E) as well as their five-year averages and five-year highs and potential outcomes given various levels of earnings growth. (Note that, for the five-year period, we are using 2022 to 2026, including forecasts, rather than 2021, which was an outlier year due to the outsized rebound from the 2020 pandemic lows.)

Figure 1: TSX, S&P earnings growth, P/E multiples

(S&P/TSX Composite) 2026 y/y Earnings Growth							
			5-year avg.		2026e/2025e	2027e/2025e*	EPS beat (5PP)
			8%	12%	16.0%	29.1%	34.1%
PE	5-year avg.	14.4x	25,589	26,538	27,530	30,642	31,828
	Current	16.6x	29,477	30,570	31,713	35,297	36,664
	5-year high	17.0x	30,209	31,330	32,501	36,174	37,575

(S&P 500) 2026 y/y Earnings Growth							
			5-year avg.		2026e/2025e	2027e/2025e*	EPS beat (5PP)
			9%	11%	14.0%	32.1%	37.1%
PE	5-year avg.	20.3x	5,942	6,051	6,228	7,217	7,490
	Current	22.3x	6,531	6,651	6,846	7,933	8,233
	5-year high	23.1x	6,747	6,871	7,072	8,195	8,505

Source: FactSet, Wealth Investment Office as of December 29, 2025. Note: Represents a two-year compounded growth; the 1-yr 2027 EPS growth of the TSX is 11.0%, and for the S&P 14.8%

On the P/E multiple side, we see that both Canadian and U.S. equities' current forward P/E multiples (2026 estimates) are near their five-year highs. This puts them at the higher end of their valuation range. If we see those multiples compress toward their averages, that could result in index levels contracting by about 13.0% for the S&P/TSX (to around 27,500) and 10.0% for the S&P 500 (to around 6,200) at the current earnings projections, versus 31,723 and 6,846 as of the end of 2025.

However, as a rule of thumb, higher earnings growth supports a higher P/E multiple. Consider the price-earnings-to-growth ratio (PEG), which describes what the market is willing to pay for growth (which ultimately determines how quickly corporate earnings compound and grow equity value).

At their five-year averages, the PEG for the S&P/TSX is 1.8x and 2.6x for the S&P 500. However, in 2026 both equity markets are expected to see corporate earnings grow well above their five-year averages, which at their current P/E ratio translates to PEG ratios of close to 1.0x and 1.6x. That suggests that, as long as earnings growth can be realized and sustained into 2027 (currently forecast at 11% for Canada and 15% for the U.S.), these markets have room for expansion.

Base, bull and bear cases within the secular bull market

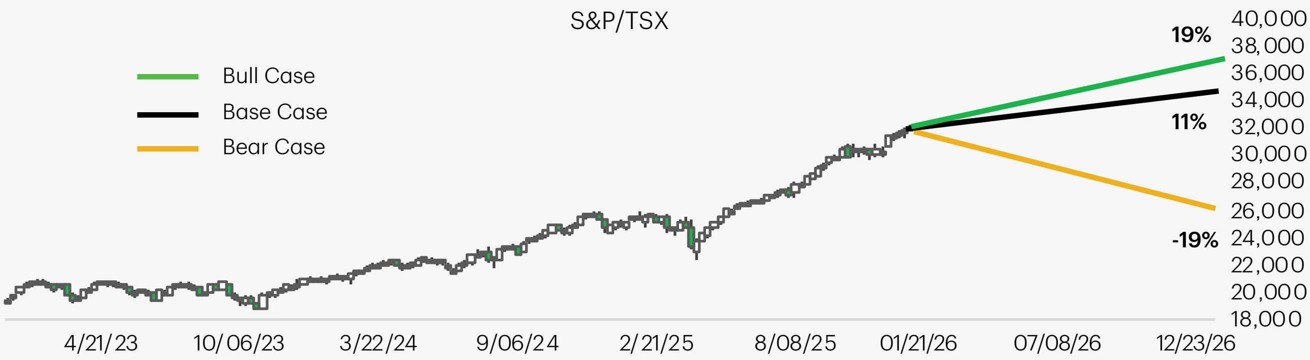
Base case: Markets look forward and begin to re-rate prices toward fair value as 2026 and 2027 growth projections become realized as we move further through 2026. If the current forecasts are maintained at the current multiple, we could see a base case for the S&P/TSX of around 35,300 (+11%) by the end of the year. Likewise, if the same takes place for the S&P 500, that base case would be close to 7,900 (+16%).

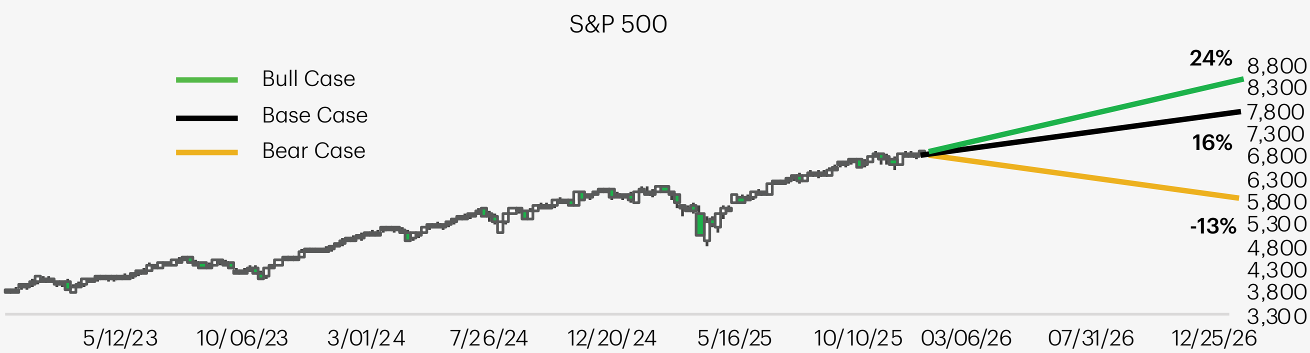
Bull case: In the bull case, earnings growth outperforms the base case by five percentage points, potentially owing to continued productivity and market improvements by AI beneficiary companies, and the market pushes the P/E to its five-year high. This could see the S&P/TSX trade toward the 37,500 level (+19%) and the S&P 500 toward the 8,500 level (+24%). Even at those levels, these markets would be trading at PEG ratios within reason: the S&P/TSX at about its five-year average and the S&P 500 near current levels.

Bear case: The bear case is based on a shorter-term bear-market cycle within an ongoing secular bull market, so there would be greater risk in the event of a shock currently not priced into forecasts. In this case, fears over the sustainability of the AI infrastructure buildout begin to be realized. Capital expenditure decelerates in this scenario, taking growth expectations lower. If we were to see earnings-growth rates revert toward five-year averages as multiples compress to the mean as well, we would expect markets to reprice the S&P/TSX toward the 25,600 level (-19%) and the S&P 500 to return to around 5,900 (-13%).

These cases are illustrated in Figure 2.

Figure 2: TSX, S&P 2026 path scenarios





Source: FactSet, Wealth Investment Office as of December 26, 2025

Given these scenarios, it appears that the current above-average earnings-growth expectations and higher-end valuation multiples have been priced in to a large degree. The base case suggested that attractive upside is available for North American equities in 2026, but there is likely very little room for error. Corporate earnings will have to deliver as currently forecast over the next couple of years to see equity markets deliver these above-average returns. That translates to a market that's "priced for perfection".

Investors will want to watch the continued AI-driven corporate investment cycle, which is at the core of generating earnings growth more broadly. In the event of deceleration in these activities, potentially signalled by corporate guidance in the coming quarters, a defensive rotation strategy may come into play to offset volatility in growth positioning through investments in income and value strategies.

The Fundamentals

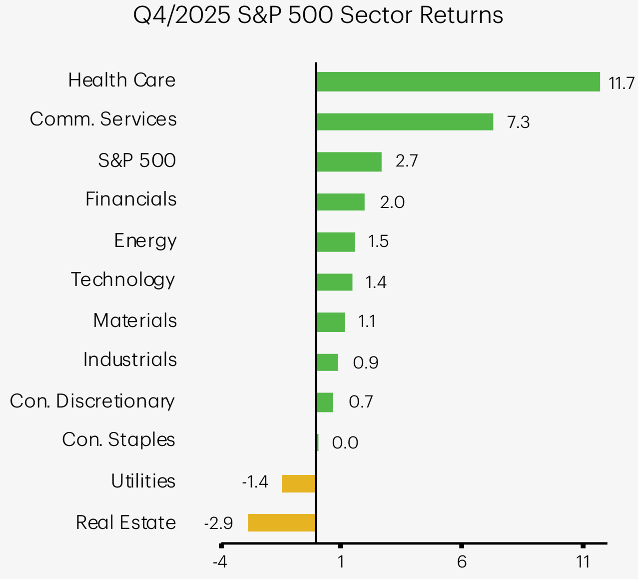
Last year appears to have been a transitional year for North American equity markets. The strong outperformance of technology stocks, particularly those with artificial intelligence exposure, softened as market participants began to question the durability of the trade. Concerns emerged around the circular investments being made between various players as memories of the internet bubble began to feature prominently in discussions about the sector.

There were also questions about how much more growth in demand could exist for the processors at the heart of the AI systems, and what might happen in the wake of the current buildout. Would it be like the denouement of the internet bubble? At the same time, investors have continued searching for companies with peripheral exposure to the AI buildout. Power generation, engineering, cooling and electric utilities are examples of the types of businesses that have been bid up based on more certain and higher future growth prospects, while heavily exposed commodities such as copper were bid up on the prospects of future shortages.

So, what will the new year bring? As a start, it's worth noting that, whether we see the direct beneficiaries of the AI theme as pricey or not based on future growth prospects, the United States is likely to see continued strength in its economy both because of the AI buildout and a move to re-shore manufacturing. Moreover, there are material differences between the AI buildout and the internet craze at the turn of the century, not the least of which is that the companies at the centre of the theme — the "hyper-scalers" and their suppliers — have strong existing businesses to fund the build. They are not raising capital on mere promises of future prospects.

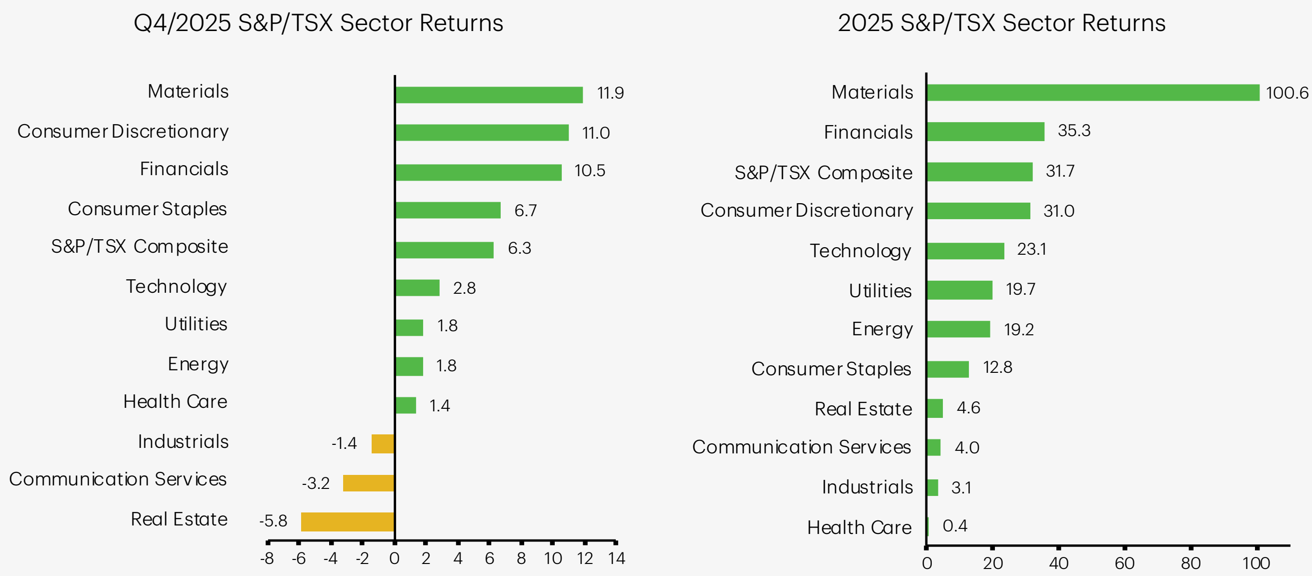
The current year is likely to see a continuation of the broadening that has occurred. While technology is no longer the strong leader it was, it remains a sector with opportunity for growth investors. Within tech, there is a rotation underway away from hyper-scalers and processor suppliers and into companies associated with memory and optical networking. Financial services, industrial and health-care companies have also shown strength recently, while industrials stand to benefit from the data-centre buildout along with other themes (re-shoring and re-militarization).

Figure 3a: TSX, S&P Returns by Sector (Q4/25, 2025)



Source: FactSet as of December 31, 2025 *Total returns including dividends in local currency

Figure 3b: TSX, S&P returns by sector (Q4/25, 2025)



Source: FactSet as of December 31, 2025 *Total returns including dividends in local currency

In Canada, the top performing sectors of late have been materials, consumer discretionary and financial services (Figure 3). The materials sector has benefited from a combination of factors including a softer U.S. dollar, demand for materials involved in the buildout of data centres, a long period of underinvestment and central-bank gold purchases. For the consumer discretionary sector, the results were driven partially by idiosyncratic factors related to a single company but also to a general recognition that the North American economy continues to hum along and that the auto industry is continuing to do well despite the tariff environment. Financial services results in Canada were driven by solid performance from the Canadian banks, which reported fiscal year-end results in early December.

While we are positive about the outlook for Canadian equities, the coming year is likely to present challenges for some important sectors. Energy, for one, will be challenged by the possible rejuvenation of Venezuelan oil exports to Texas. Venezuelan oil has characteristics similar to Canadian product and therefore has the potential to displace it. However, it's not exactly the same and as such is not a seamless substitute. At the same time, there's some question as to how quickly a federal plan to increase egress capacity from the west coast can develop.

In the materials sector, volatility in commodity prices is likely to increase given the strong price increases we have seen for gold, copper and other industrially important metals. That said, continued global growth should keep demand in the markets strong and should, given the lack of investment over the past 15 years, keep commodity prices and cash flows strong. It also appears that demand for gold as a diversifier of central-bank reserves should continue in 2026.

One of the most important issues for the Canadian economy this year will be the mandatory joint review of the North American trade agreement (CUSMA), which is scheduled to begin on July 1 of this year. Currently, approximately 90% of Canadian exports to the United States are covered under the agreement.

Outside of the agreement, the U.S. administration has set "reciprocal" tariffs on Canada at 25%, which were enacted under the International Emergency Economic Powers Act (IEEPA). There have also been tariffs imposed under Section 232 of the Trade Expansion Act, including a 50% tariff on steel and copper, 25% on non-CUSMA-compliant autos and parts, as well as medium- and heavy-duty vehicles and parts, 10% on timber and 25% on kitchen cabinets, vanities and upholstered furniture.

Many of these products are exported to the United States from Canada, making the negotiations around the review very important to the future performance of the Canadian economy. Early discussions have made clear the extent to which the process has become more political and led to a concerted effort on the part of Canadian trade officials to develop other markets for our exports.

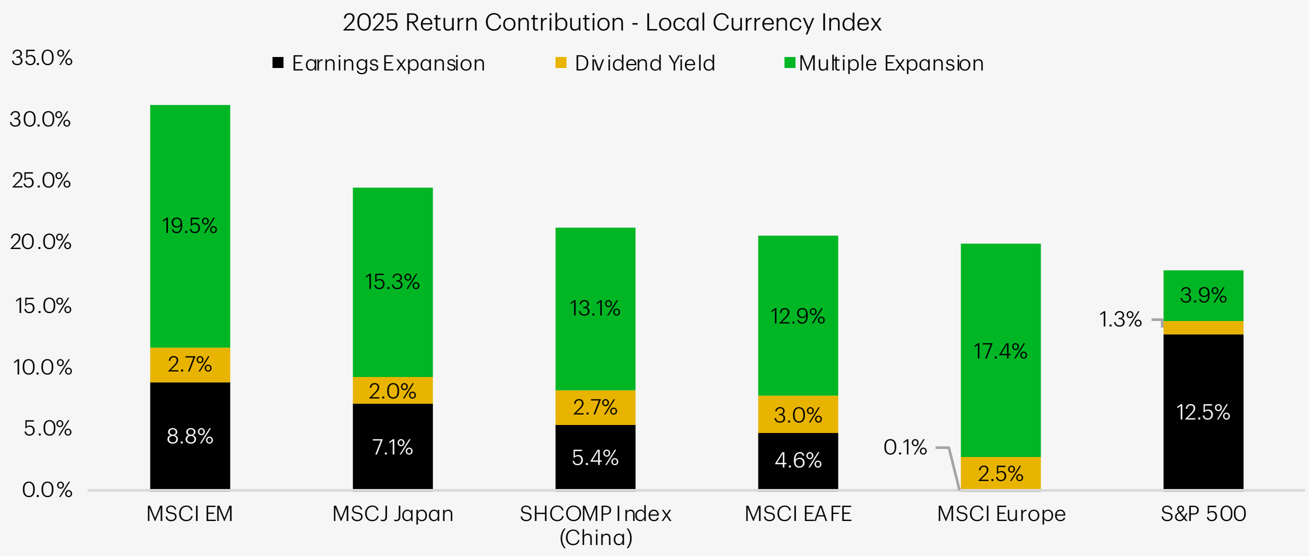
International Equities: Now is the time for action

International equities recorded a strong year in 2025, outperforming U.S. equities by 2.9 percentage points. Several factors led to the strong performance: (1) a structural tailwinds for Europe owing to Germany's commitment to defence and infrastructure spending; (2) the ECB's lowering of rates by 100 bps; (3) a strong commodity rally; and (4) the "Takaichi trade," in which the recently elected Prime Minister of Japan, Sanae Takaichi, is seen as pro-growth, pro-reform and supportive of fiscal expansion.

Returns for foreign investors were further boosted by the 13% depreciation in the U.S. dollar against the euro. While these factors led to the highest yearly return recorded by the MSCI EAFE Index since 2020, much of the appreciation came from multiple expansion, while earnings growth remained subdued at 4.6% in 2025 (Figure 4).

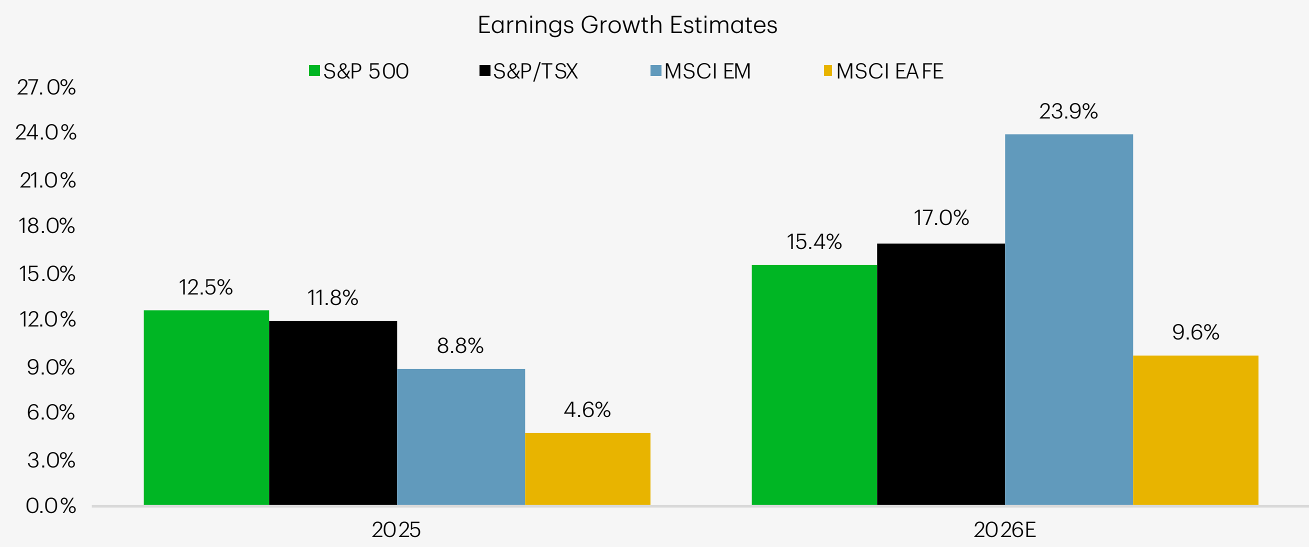
For the rally in international equities to continue, given that P/E multiples are now closer to their historic mean — 17.3x as of December 2025 versus 16.4x historically — it will be crucial for international companies to deliver higher earnings growth (Figure 5). We believe there are multiple factors in place that will allow that to happen.

Figure 4: 2025 rally driven by multiple expansion



Source: FactSet, Wealth Investment Office as of December 31, 2025

Figure 5: Earnings growth crucial to sustain euphoric sentiment



Source: FactSet, Wealth Investment Office as of December 31, 2025

First, despite rate cuts announced by the ECB, the manufacturing PMI in Europe has hovered close to 50. This can be attributed to suppressed global manufacturing activity due to higher rates in the U.S., tariff risks and the ongoing industrial slowdown in China. While the latter is a structural issue, we believe major risks from tariffs are now behind us and the Fed should, unless inflation spikes meaningfully, be able to maintain a more dovish stance from here on out. Besides, the EU's manufacturing capacity utilization rate is closer to recessionary levels, which in our view should improve based on the reasons highlighted above combined with the rise in fiscal stimulus globally (Figure 6).

According to estimates from the International Monetary Fund and Congressional Budget Office, incremental fiscal spending in the U.S. and Japan will contribute 0.9% and 0.5% of GDP, respectively. Germany, in its December 2025 federal budget, announced $70.9 billion of defence spending and $50 billion of infrastructure spending (part of the €500-billion special infrastructure fund), which together represents close to 2.5% of GDP.

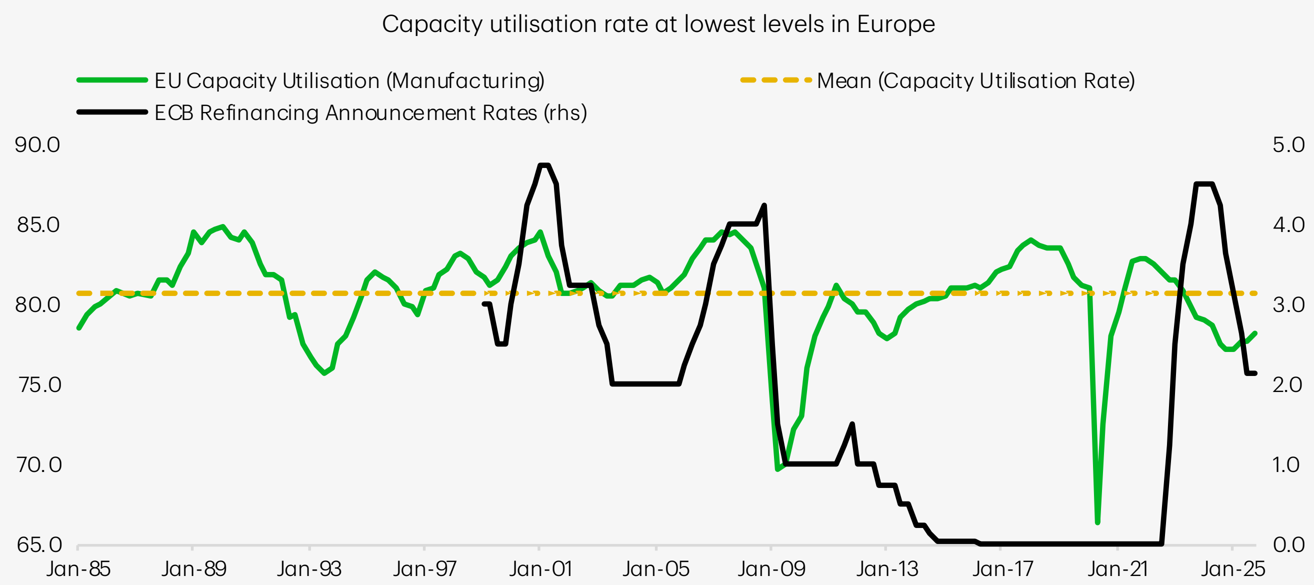
After struggling with an industrial slowdown for over three years, primarily due to rising Chinese imports, Germany is finally starting to boost its manufacturing capabilities, which would have ripple effects on other European countries as well. We expect the boost in manufacturing activity to kick in in the latter half of 2026, provided the U.S. administration maintains a pragmatic tariff policy.

Japanese equities, meanwhile — after recording a strong performance of 24.4% — are expected to continue to rally, based on the AI momentum and fiscal expansion announced by the recently elected prime minister. In November 2024, Takaichi unveiled an $18-trillion of a stimulus package, funding 17 strategic industries, such as robotics, quantum computing, nuclear fusion, semiconductors and infrastructure. The stimulus package also includes utility subsidies and cash handouts to boost real household income, which has declined after December 2024 due to lower real wage growth.

Japan is strategically positioned to benefit from AI momentum given the presence of leading chip fabrication and equipment makers. The country is also home to leading robotic manufacturers, which are expected to benefit from AI adoption in the coming years. Going forward, however, the Bank of Japan will be put between a rock and a hard place, how to prevent a spike in inflation without impacting meagre economic growth.

Emerging-market (EM) equities posted an exceptional return of 31% in 2025, primarily driven by South Korean, Chinese and Taiwanese equities. Around 50% of the MSCI Emerging Markets Index's return can be attributed to technology and commodity sectors, both being driven by AI momentum. While the U.S. dominates 61% of the market share in chip design, EM nations hold 60% and 56% market share in chip fabrication and chip assembly and testing, respectively. And beyond the chip-production beneficiaries, EM equities provide crucial exposure across the AI supply chain — from electronics manufacturing and commodities to power-supply units.

Figure 6: Fiscal stimulus, lower rates expected to boost manufacturing



Source: FactSet, St. Louis Fed, Wealth Investment Office as of December 31, 2025

Latin America holds a strategic advantage given the presence of the largest reserves for copper and lithium — key commodities used in chips and batteries. While growing investments in AI infrastructure remain a structural tailwind for Latin American equities, a few countries, such as Brazil, Colombia and Peru, face heightened electoral uncertainty in 2026, which could increase policy volatility and intensify the geopolitical situation.

Growing AI dominance in China combined with the government's multiple funding schemes, which provided liquidity for share purchases, led to a strong appreciation of 21.1% for Chinese equities. While Taiwan and South Korea have emerged as critical players in the chip supply chain, China is emerging as a close contender to the U.S. in developing competitive AI models, building data centres and designing chips, apart from contributing to the chip supply chain.

Leading tech companies such as Alibaba and Tencent have committed $50 billion and $10 billion in annual spending, respectively, for AI infrastructure including advanced chip design. Other players, such as ByteDance, JD.com and Xiaomi, together have committed close to $70 billion toward AI infrastructure, prioritizing investments in domestic chips and data centres amid U.S. restrictions. The Chinese government itself is also considering a $70-billion investment for its domestic chip industry — one of the largest government-funded semiconductor investments — sending a clear message to the U.S. that it is becoming self-reliant in AI computing.

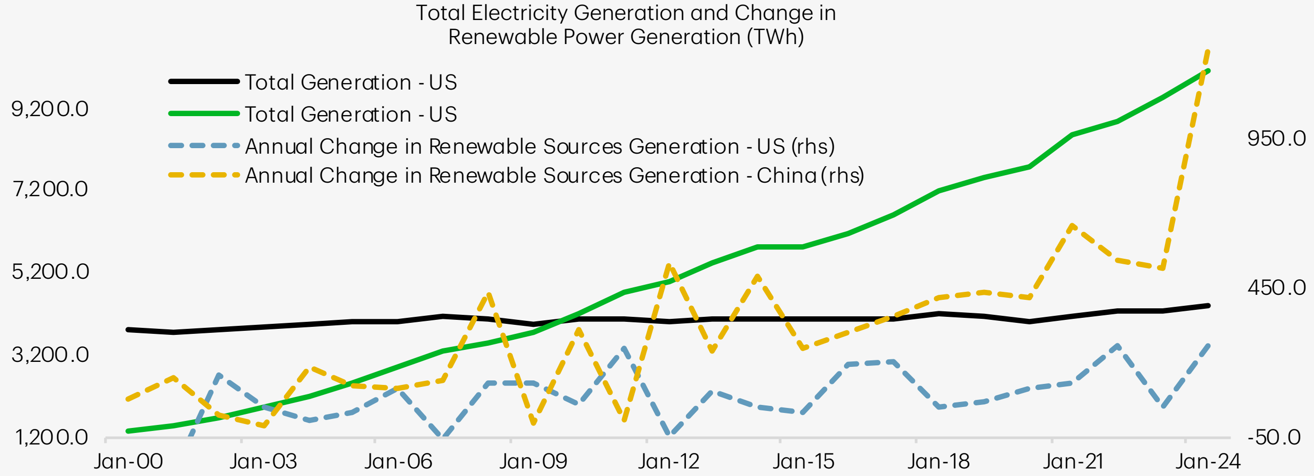
The U.S. is of course a front-runner in AI investment. However, lack of adequate power supply and related infrastructure could represent a bottleneck to growth of data centres. China, on the other hand, has been at the forefront of adding power-generation capacity, with significant growth in renewable electricity generation since 2015 (Figure 7). As of 2024, China's total electricity generation was 10,000 TWh compared to 4,000 TWh in the U.S. China also controls 75% of battery technology and production, which is a critical factor to energy storage in an environment where power demand is booming.

While all these factors led to a strong rally in Chinese equities last year, earnings growth remained subdued. Since 2022, annual revenue and earnings growth in China have been abysmal, at -3.0% and -1.5%. This is primarily attributed to intensive pricing wars among corporations and deflationary pressures driven by weak consumer spending.

Last year was one in which many equity indices recorded their highest returns in recent years — the MSCI EAFE Index since 2020, the MSCI Europe Index since 2021, the Shanghai Stock Exchange since 2014, the KOSPI since 1999 and the MSCI Latin America Index since 2009. Given that these equities entered 2025 with depressed valuations alongside positive sentiment on the structural factors discussed above, multiple expansion is justified. For the rally to sustain from here on, however, earnings growth should now follow.

While we recognize the structural forces that will drive higher returns for international and emerging-market equities over the long term, over the medium term we are also cognizant of the ongoing economic issues in these regions and their potential impact on economic and earnings growth. This explains our neutral stance on EM equities and our underweight stance on international equities.

Figure 7: China's edge in power supply cannot be ignored



Source: FactSet, Statistical Review of World Energy 2025, Wealth Investment Office as of December 31, 2025

Outlook on Private Markets

Private Credit's Cockroach Moment

Bankruptcies at First Brands and Tricolor sparked a public BDC selloff, but fundamentals point to stress that looks exaggerated rather than systemic.

By Shezhan Shariff, P.Eng., CFA, Manager – Private Markets | TD Wealth

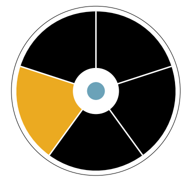
There were some headlines in the fourth quarter of 2025 regarding the bankruptcies of two companies (First Brands and Tricolor) that borrowed in size from banks in the broadly syndicated loan (BSL) market. These idiosyncratic situations allegedly involved fraud, embezzlement, and multiple pledges of the same receivables and inventory collateral. Additionally, Blue Owl, a prominent private credit manager failed to merge its flagship public and private business development companies (BDCs) — the former trading at a about a 20% discount to the latter at the time — thereby attempting to force a haircut on its gated private BDC unitholders. These issues created pockets of volatility and negative headlines in private credit, but proved to be deal specific setbacks, not systemic deterioration in credit conditions.

Despite these concerns private credit markets saw solid deal activity through the end of 2025. Due to lower credit quality and concerns about default risks we continue to have an underweight to the asset class.

What happened at First Brands and Tricolor

Let's begin with arguably the most famous quote of the earnings season, in which Jamie Dimon, the CEO of J.P. Morgan Chase, stated: "I probably shouldn't say this, but when you see one cockroach, there are probably more. And so ... everyone should be forewarned on this one." He was commenting on the failures of First Brands and Tricolor.

Direct lending has been in a slump of late. At the end of November, trailing one-year realized losses (non-accruals) for Cliffwater's flagship direct lending index were 0.7% (1.4%) — well below average historical gains of 1.0% (2.1%). This index captures over $500 billion in middle-market private loan assets and roughly 40% of the entire U.S. direct lending market. The press can always find and report on one-off stories about credits that have gone bad among a universe of over 20,000 middle-market corporate borrowers. First Brands and Tricolor were bank-syndicated, not traditional private credit, and succumbed to poor bank underwriting. They will impact the leveraged loan index performance as opposed to direct lending benchmarks.



Why consider adding alternatives to your portfolio?

Investors with a long-term horizon could benefit from exposure to alternative investments in their portfolios, namely private equity, private credit, unlisted real assets — such as real estate and infrastructure — and hedge funds. Alternative investments can enhance risk-adjusted portfolio returns through cash flows and valuation drivers that are different in nature to those found in companies that issue publicly traded equity and fixed income securities. Additionally, unlisted real assets in particular provide investors with income streams that rise with inflation, unlike the nominal dividends and interest payments that are typically received from stocks and bonds.

Privately held assets in general help to reduce portfolio volatility due to relatively muted drawdowns across market cycles because they're less influenced by the noise that sometimes causes dislocations in public markets. Beyond exposure to a wider cross-section of systematic risk factors, private markets provide opportunities to capture additional skill-based risk premiums and generate attractive absolute returns. This is by virtue of lower information efficiency, which rewards specialized origination capabilities; active ownership that enables operational intervention and capital-structure optimization; and trading illiquidity that provides for disciplined compounding of capital over the long term.

Defaults happen; they're part in parcel with the credit markets. With private credit default rates as low as they are today, as shown in Figure 1, it's reasonable to believe they will go up. The focus should be on who minimizes them best and who drives the best recoveries when they happen. This requires human capital to originate, underwrite and execute specific deals in a conservative manner — especially when base rates are seductively near zero, akin to during the decade following the global financial crisis — in addition to being able to zoom out and manage a portfolio holistically.

Dedicated workout specialists must also be on hand to assist companies through challenging periods; triggering a default with a term sheet that is flexible by nature can be more art than science. Finally, a value-creation team that often partners with equity holders can identify cost savings and revenue growth opportunities.

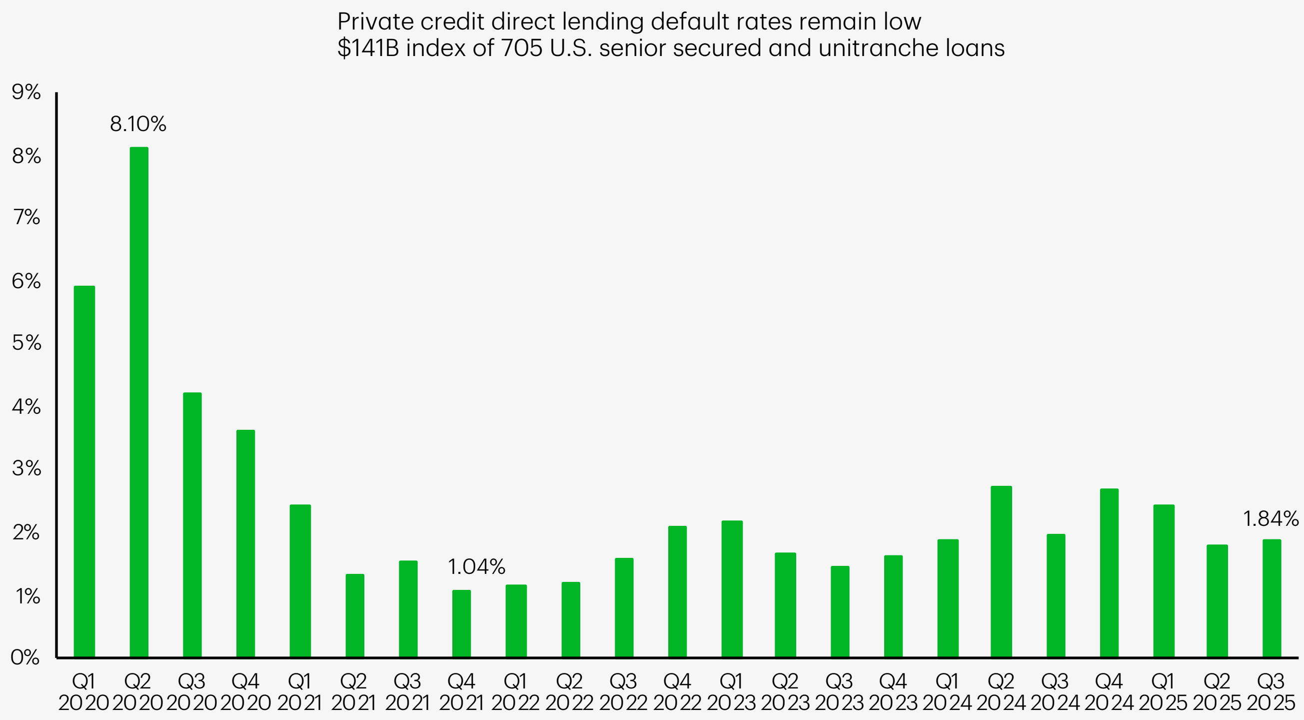
First Brands Group was founded in 2013 as Crowne Group in Cleveland, Ohio, and develops, markets and sells parts in the automotive retail aftermarket. It owns brands such as Trico (windshield wipers), FRAM (oil/air filters), Raybestos (brakes) and Autolite (spark plugs). Between 2018 and 2025, First Brands completed more than 20 acquisitions, which resulted in an overleveraged and unsustainable capital structure.

Debt financing comprises term loans, supply-chain financing and off-balance-sheet working capital facilities. Because First Brands is privately owned and controlled by its founder, there were no sophisticated institutional capital providers (such as a private equity sponsor) involved in operating the business or optimizing its cost of capital. Governance has historically been poor, in that there were no independent directors and no formal oversight of capital-allocation decisions.

First Brands declared bankruptcy to reorganize (Chapter 11) in late September after a failed refinancing. Management attempted to roll close to $6 billion of debt, but lenders pushed back and requested a "quality of earnings" report. This brought to light significant off-balance-sheet financing. The first-lien term loans traded down from par to 36 cents on the dollar — clearly not illiquid Level 3 private assets — and the second-lien term loans fell from 91 cents on the dollar to 10 cents on the dollar.

Thereafter, the issuer missed payments on a $1.9-billion inventory financing facility, and a lessor declared a default. The Chapter 11 entity has sourced $1.1 billion of debtor-in-possession (DIP) financing and creditors are attempting to recover $11 billion in liabilities, including $5 billion of term loans, $2 billion in off-balance-sheet inventory and lease facilities, and $225 million in asset-backed lending (ABL) and lines of credit.

Figure 1: Private credit direct lending default rates remain low



Source: Wealth Investment Office, Carlyle, Proskauer Rose LLP as of October 23, 2025

Tricolor Holdings was a used-car dealer founded in Dallas, Texas, in 2007 that offered financing to subprime borrowers. The business model focused on lending to a unique customer niche: those buying a vehicle without traditional credit scores (two-thirds of clients), Social Security numbers or even driver's licences (over half). Similar to First Brands, Tricolor was privately owned and controlled by its founder.

The gambit was to originate loans and then sell them to investors in the form of subprime auto-loan asset-backed securities (ABS). The average loan had a balance close to $21,000 and an interest rate of 16%. Allegedly, Tricolor expected borrowers to default so that vehicles could be quickly repossessed and resold. In September, the issuer filed to liquidate through bankruptcy (Chapter 7). Its most secure tranche, with a triple-A rating, traded down from 78 cents on the dollar to 12 cents on the dollar — again, clearly not illiquid Level 3 private assets. There was $1.5 billion outstanding across 12 publicly traded securitizations, of which seven were rated by agencies and five were not.

J.P. Morgan, Barclays and U.S. regional lender Fifth Third Bank were secured lenders, with $200 million of exposure each. Fifth Third noted that the remainder of its asset-based lending book had been reviewed, showing a historical loss rate close to 6 bps with no further losses expected. Tricolor had 26,688 loans and is accused of an $800-million collateral fraud scheme involving dual-pledging of inventory and falsifying records to show that customers on non-accrual were in good standing.

What about Blue Owl?

Blue owl is a dramatically different situation. Blue Owl (formerly Owl Rock) manages over $30 billion in direct lending net assets across five BDCs: two public (OBDC and OTF) and three non-traded (OBDC II, OCIC and OTIC). Repurchase offers for the private BDCs are currently closed. In early November, the firm tried to merge the smaller $1.7-billion non-traded OBDC II into the larger $17.1-billion public OBDC at net asset value (NAV), given the overlap in holdings between the two vehicles, but this was terminated after pushback from clients and press coverage.

Effectively, unitholders of non-traded OBDC II would have endured a loss of about 20%, given that public OBDC was trading at that discount to NAV in the markets at the time. Blue Owl contemplated restricting investors in OBDC II from pulling money from the fund until the share exchange with OBDC closed in early 2026, at which time they would have permanently lost the ability to redeem cash at the fund's NAV.

When it launched in 2017, OBDC II was Blue Owl's first vehicle targeting retail investors; however, it has bled assets through redemptions in recent years as it was closed to new investments, with the fund manager directing investors to the newer fund, OCIC, which it believed had a more appealing structure. In the end, rather than pushing through the merger that would have locked in losses for private holders, Blue Owl withdrew the transaction, citing market volatility and shareholder interests. This retreat helped defuse the immediate structural dispute and shifted the focus back onto underlying credit fundamentals rather than product mechanics.

The late-summer public BDC stress

All in all this uncertainty caused havoc in the public BDC market. From July 17 to October 10, the peak-to-trough decline of a popular ETF that tracks the public BDC universe (ticker BIZD) was 17.6% (from $15.92/share to $13.12/share). The top three holdings, weighted by net assets, comprise approximately one-third of the ETF: 15% Ares Capital Corp. (ARCC), 9% Blue Owl Capital Corp. (OBDC) and 8% Blackstone Secured Lending Fund (BXSL). At the end of the trough, the public BDC sector was priced at 0.83 times NAV (i.e., a 17% discount), a level that implied significant stress or asset impairment.

This was the widest discount observed since the early-2020 Covid crash and in line with previous periods of distress in 2008 to 2009 (global financial crisis) and 2015 to 2016 (oil crash). Extreme selloffs were noted for FS KKR Capital (FSK) at 0.68 times NAV and Goldman Sachs BDC (GSBD) at 0.75 times NAV, near a five-year low. The accelerated capitulation was ignited by the Tricolor bankruptcy in early September and catalyzed by the First Brands filing later that month.

This was despite the fact that fundamental performance metrics of the major BDCs remained intact. Beyond the data in Figure 1, as of mid-2025, a widely followed BDC monitor published by a middle-market investment bank cited an average non-accrual rate of 1.3% — a very low number that was up only a meagre 8 bps from the prior quarter. For context, during acute stress periods, such as 2009 or 2020, this figure can be in the mid-single digits.

For the few loans that were on non-accrual, recovery of principal estimates remained fairly robust at 50% on average. This suggested no severe write-downs. Furthermore, despite PIK income increasing by 1% year over year, it was actually down from the prior quarter to 8% of total interest income. In other words, over 90% of interest payments from BDCs were in cash. This level is similar to what you would find during benign periods.

This dislocation painted everything in credit with the same brush. Direct lending has evolved from strictly mezzanine and junior tranches to first-lien senior secured and uni-tranche positions at the top of the capital structure, which correspond to a higher claim on assets and cash flows. The repayment priority impacts the likelihood of return of capital given the event of default. Figure 2 shows that average loan-to-value (LTV) in direct lending is much lower today than in prior periods, providing a larger equity cushion that would need to be wiped out before debt is impacted.

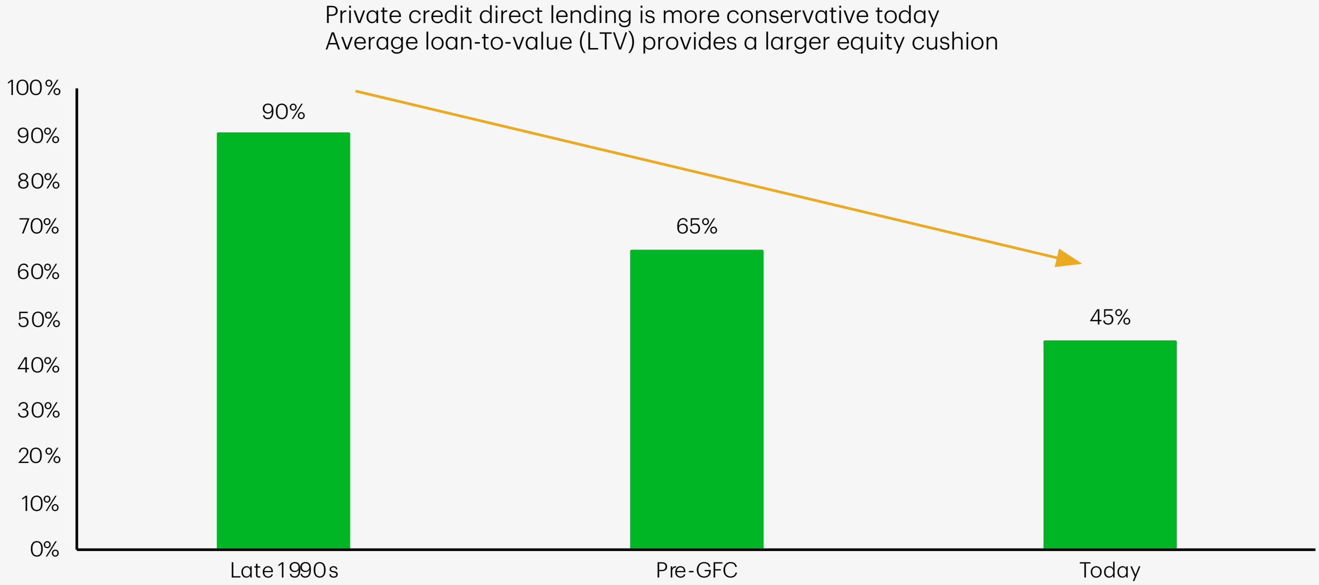
As investors, we can mitigate default and gating risk by allocating to fund managers that underwrite conservatively to high-quality businesses with institutional ownership.

The dislocations seen with First Brands, Tricolour, and even parts of Blue Owl were fundamentally idiosyncratic, meaning they were driven by asset-specific leverage, vintage concentration, and underwriting decisions, rather than evidence of broad-based stress across private credit.

By Q4, private credit markets themselves had largely normalized: capital was deploying, refinancings were clearing, and spreads stabilized. The issues that surfaced were about who was financed, not whether the market was functioning.

We remain modestly underweight on private credit not because the market is broken, but because returns are becoming more dispersed while risks are becoming more visible. With private credit largely normalized from Q4, spreads now compensate less for rising idiosyncratic risk, while leverage, refinancing walls, and slower growth increase the probability of credit selection mistakes. In this phase of the cycle, we prefer to be selective rather than broadly allocated, emphasizing managers with restructuring depth, conservative underwriting, and true sourcing advantages.

Figure 2: Private credit direct lending is more conservative today



Source: Wealth Investment Office, Blackstone as of December 31, 2025

Outlook on Commodities ● **Neutral**

Raw Material Renaissance

Structural scarcity, slow burn inflation, and the early innings of a new commodity cycle

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

Commodity markets entered 2026 faced by a striking contradiction. After a decade of subdued prices, and despite generating an average of more than 10% annually since Covid, the sector has still not attracted the capital required to satiate growing demand. Producers have invested cautiously, often opting to spend on buybacks and increased dividend issuance. Yet, at this very moment, capital is pouring exuberantly into AI and digital infrastructure — a boom that is extraordinarily commodity-intensive.

Data centres, high-voltage transmission, electrification, defence modernization: all require vast quantities of copper, aluminum, steel, rare earths and energy. In effect, the world is aggressively funding demand while starving supply. For commodities to attract the capital needed to relieve these bottlenecks, prices will likely need to move meaningfully higher — and production will respond only with a multi-year lag. This asymmetry sits at the centre of our constructive outlook.

Compounding this imbalance are three global macro forces that provide a durable tailwind:

1. Resource security becomes policy. Governments are favouring resilience over efficiency: reshoring capacity, subsidizing critical minerals, building redundancy into supply chains and maintaining higher inventories. This is structurally commodity-supportive.

2. Fiscal deficits drive physical demand. Fiscal deficits are wide, persistent and strategically oriented. Industrial policy, defence spending, clean-energy buildouts and AI-era infrastructure expansion are capital-intensive. These programs, funded by already large and growing deficits, tighten physical markets and are inflationary.

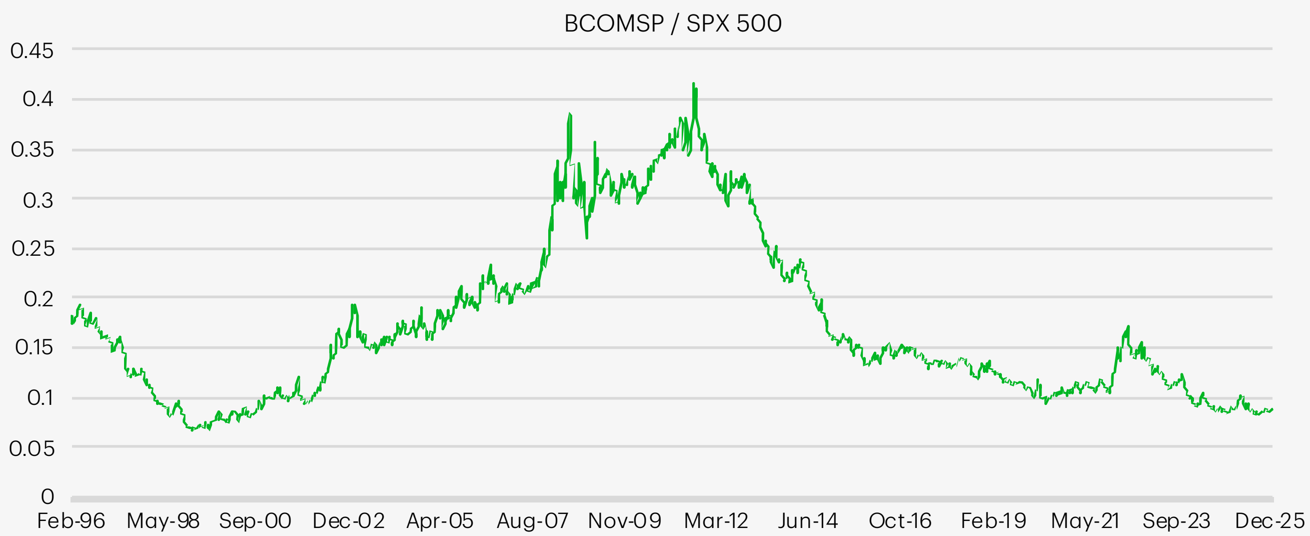
3. A weaker dollar supports cycles. The long-term direction of the dollar index is weakening. A softer dollar extends commodity cycles, supports emerging-market demand and increases the hurdle rate for resource producers globally.

Together, these forces create an environment where inflation may moderate but is unlikely to vanish, and where real assets regain strategic importance.

Energy: Tightness lurks beneath surplus

Structural decline rates remain steep, new supply has been insufficient and geopolitical risk is elevated. While we've seen near-term surplus with growing OPEC and non-OPEC supply outpacing demand, we caution that this oversupply is likely fleeting. Much of the production growth, outside of U.S. shale, was incented at the tail end of the last commodity investment cycle, which ended around 2011 to 2012. Expected supply growth is slowing as we move through this year, with little evidence that demand is peaking.

Figure 1: Capital has not been allocated to commodities



TD Asset Management as of January 16 2026

We believe medium-term tightness is under-appreciated. Stockpiling behaviour and a weakening U.S. dollar add resilience to demand. Crude oil and product markets are more likely to surprise to the upside than the downside, especially as we move through the year. We are constructive on U.S. natural gas, given that baseload demand continues to reach highs, supported by growing LNG exports and power demand. However, the ability of U.S. producers to ramp production around $4-per-mmBtu suggests less meaningful structural upside in gas.

Base Metals: Deficits underestimated

Metals sit at the heart of simultaneous investment booms: electrification, transmission infrastructure, renewable energy, re-armament cycles and the AI and data-centre buildout. Inventories are lean, permitting cycles are slow and capital expenditures have not recovered meaningfully. Although consensus is constructive on select transition metals, we believe the scale and persistence of upcoming deficits remain underestimated.

Challenged margins for much of the past decade contributed to tightening the supply side — production estimates for 2026 to 2028 are being revised lower as mines age and producing countries look to nationalize assets.

Precious Metals: Structural demand remains

Gold and silver prices stole headlines in 2025, rallying 56% and 129%, respectively. On gold, we remain constructive and reaffirm our thesis that emerging-market central banks, in particular, will remain stout buyers of the yellow metal as they diversify their reserves. Despite robust demand in recent years — central banks consistently bought 1,000 metric tons per annum in the past three years, double the rate of the prior decade and roughly 40.0% of global production — emerging-market central-bank gold holdings still pale in comparison to those of their developed-market counterparts. Retail and institutional investors, partially reflecting robust equity-market performance since 2020, are also scantly allocated. Downside in equities or the U.S. dollar would likely present further upside to gold and the broader precious-metals complex.

Softs and Grains: Supply responds faster

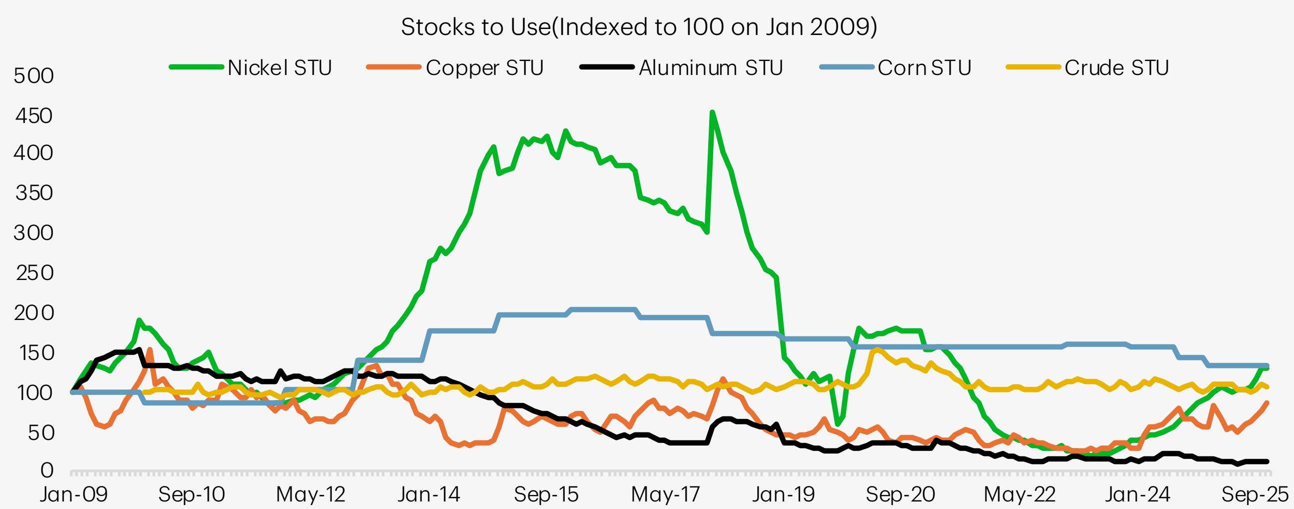
We are more bearish on grains and softs. A faster supply response — less inelastic than metals and energy — and generally favourable weather allowed inventories to rebuild. Weather remains a wildcard, but the balance of risks skews toward softer pricing rather than the tightness seen in prior years.

2025 Performance and the Road Ahead

Despite returning a robust 15% in 2025, the structural backdrop of capital scarcity, demand acceleration, tight inventories and inelastic supply supports our view that commodities will continue to generate double-digit annualized returns in 2026 as the sector reprices to attract much-needed capital to grow supply. We believe we are in the early stages of a commodity investment cycle, defined not by exuberance but by structural scarcity and policy-driven demand. Supplies are low, constrained and costly; demand is accelerating. So long as global growth remains broadly supportive, these conditions give commodities long, durable legs.

In our view, a portfolio allocation to commodities offers a compelling trifecta of benefits: meaningful return potential, enhanced diversification and robust inflation protection.

Figure 2: We have lower inventories today than at the end of the last commodity cycle



TD Asset Management as of January 16 2026

Outlook on Currencies

Special Feature from TD Economics

The U.S. Dollar in 2025: Down, But Not Out

Despite a softer dollar and louder critics, there's still no credible rival to the greenback.

Vikram Rai, Senior Economist | TD Economics

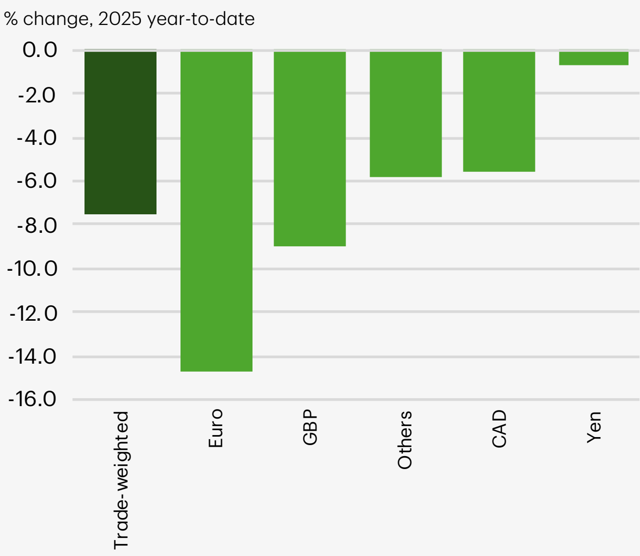
Highlights

- The U.S. dollar is coming off a difficult year, but concerns that global investors are fleeing it in droves are overblown.
- The depreciation over the past year still leaves the dollar close to 2024 levels on a trade-weighted basis and in line with its long-term average against many major currencies.
- Looking ahead to 2026, we see additional downside to the greenback of around 3%.
- There is little evidence that the diversification away from dollar-centric systems has accelerated, but it does continue gradually.

In broad trade weighted terms, the U.S. dollar fell roughly 8% in 2025, with a more notable ~10% decline against the majors (Figure 1). This marked an end to a fairly steady run of appreciation since the end of 2023.

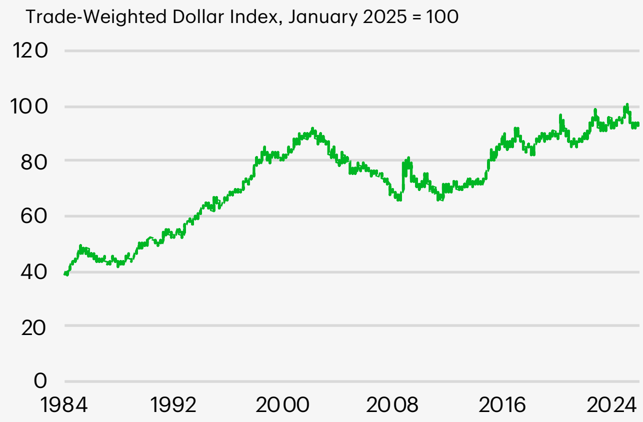
Still, for all the recent chatter around the greenback's woes the currency is hardly plumbing the depths. Last year's pull-back only took the USD back to its level prevailing in 2024 and close to its average level over the past decade. Taking an even longer perspective, the trade-weighted dollar continued to hold near its 3-decade high (Figure 2 & 3).

Figure 1: U.S. dollar year-to-date change vs selected currencies



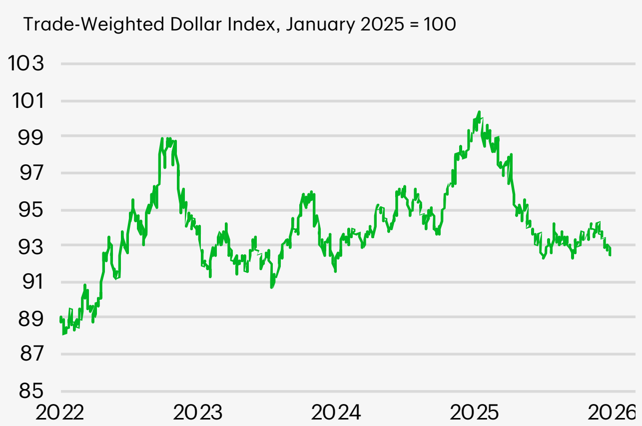
Source: National Statistical Agencies, TD Economics.

Figure 2: USD over the past 40 years



Source: Federal Reserve, TD Economics.

Figure 3: USD over the past four years



Source: Federal Reserve, TD Economics.

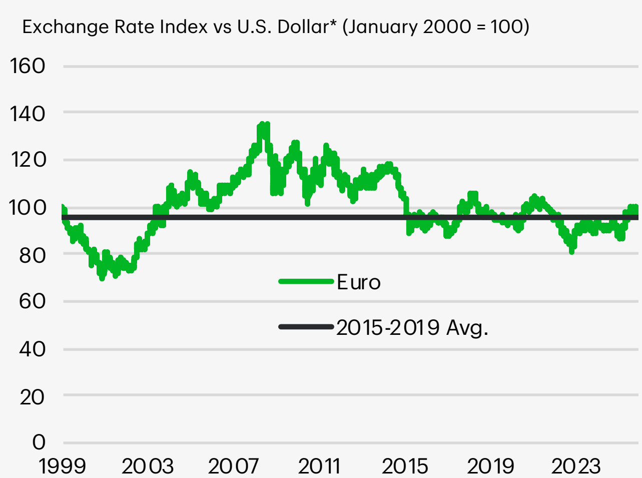
Factors conspiring against the dollar

Part of the perception is fueled by the delta between actual USD performance and the lofty expectations at the start of last year. Many forecasters had anticipated another step up in the dollar in 2025, under the assumption that U.S. import tariffs would be imposed, which in theory should be currency supportive. Moreover, many expected that U.S. growth exceptionalism since the pandemic would carry over into the first half of last year.

It didn't take long for that thesis to unravel as 2025 got underway. Market attention quickly shifted to the potential negative impact tariffs would have on the U.S. expansion and hopes for Fed rate cuts. Although the rate relief was ultimately delayed until the autumn due to stubborn core inflation, investors never lost hope that U.S. central bank rate cuts would eventually materialize. And, indeed, as the Fed resumed monetary easing in the closing months of 2025, the extra yield offered by dollar-denominated assets relative to global assets narrowed.

Technical factors also contributed to the bout of dollar weakness. Research from the Bank for International Settlements indicates that a decline in hedging costs between January and May spurred increased foreign currency hedging activity. This effect was particularly pronounced during Asian trading hours, placing incremental downward pressure on the dollar[1]. We suspect, as well, that the steepening yield curve through May 2025, as the United States Congress debated the One Big Beautiful Bill and its impact on the national debt – alongside discussion around Fed independence – contributed to a souring in sentiment towards the dollar. The depreciation coincided with the increased spreads witnessed on long-term U.S. Treasuries relative to short-term Treasuries (Figure 4).

Figure 4: Euro appreciation still within historical range



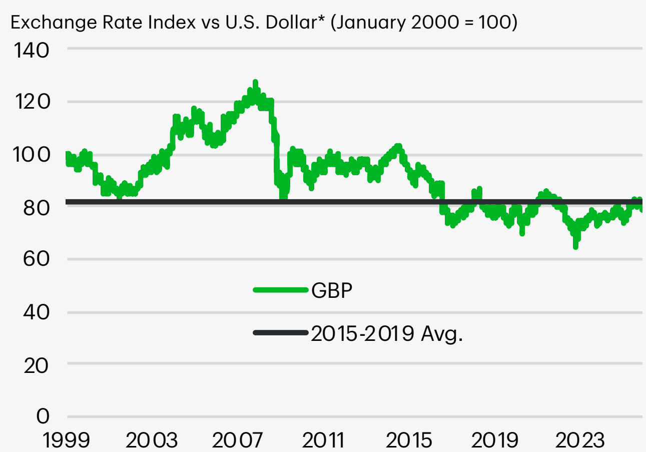
*Higher value indicates USD depreciation. Source: Federal Reserve, TD Economics.

Euro and pound record the strongest gains

Taking a look under the hood, the U.S. dollar lost ground across board last year, led by a nearly 15% depreciation against the euro and a 9% depreciation against the pound sterling. Smaller 6-8% drops were recorded vis-à-vis the Canadian dollar and the Australian dollar, while the USD was roughly flat against the Japanese yen. The USD was not alone in depreciating against the euro, which reached an all-time high in trade-weighted terms in September, benefiting from perceptions that Europe's fiscal and strategic shift would raise growth in the coming years.

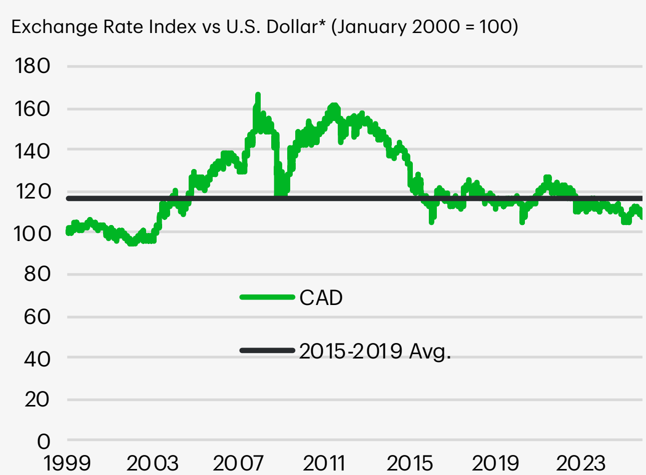
Figures 5-8 show 2025-ending levels for the dollar against their major counterparts. Against the euro, the pound, and the Canadian dollar, the dollar now trades close to its 2015–2019 averages. Bucking the trend is the yen, which sits well below its pre-pandemic levels, hit by concerns around the direction of Japanese fiscal policy, and more recently, the pro-stimulus, expansionary policy bent of the new Prime Minister.

Figure 5: USD within historical range vs GDP



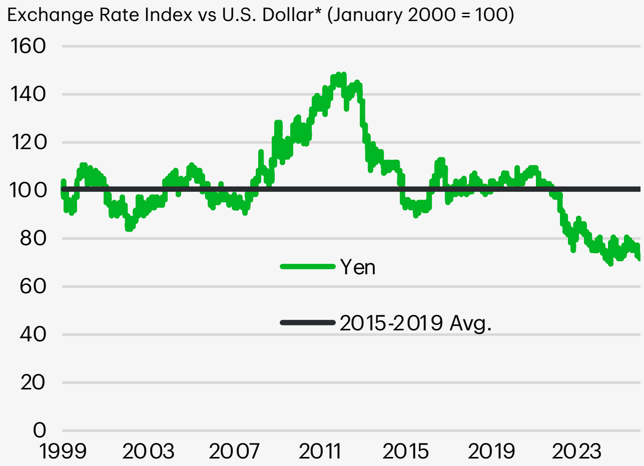
*Higher value indicates USD depreciation. Source: Federal Reserve, TD Economics.

Figure 6: USD within historical range vs CAD



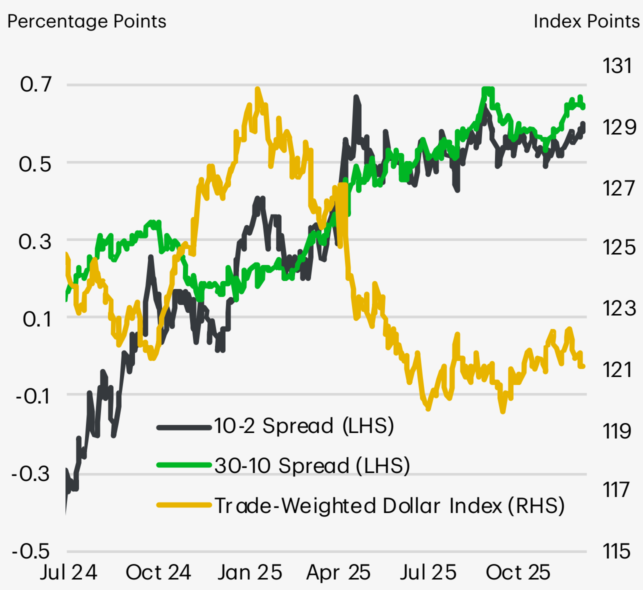
*Higher value indicates USD depreciation. Source: Federal Reserve, TD Economics.

Figure 7: Yen depreciation



*Higher value indicates USD depreciation. Source: Federal Reserve, TD Economics.

Figure 8: U.S. yield curve has steepened in 2025



Source: Federal Reserve, TD Economics.

Further downside in store for 2026

We are not expecting a repeat of 2025 but do see scope for a further USD modest depreciation on the order of 3% in the year ahead. U.S. growth is likely to be a relatively neutral factor on the dollar, as the U.S. continues to outperform most other developed market currencies. However, the rate-differential story will likely translate into some downdraft in the greenback against the euro, CAD, and GBP. The other major central banks have largely concluded their easing cycles, but we see room for the Federal Reserve to lower interest rates this summer. While additional monetary easing is already priced into the market, we still see further selling pressure as the specter of the cuts draws nearer.

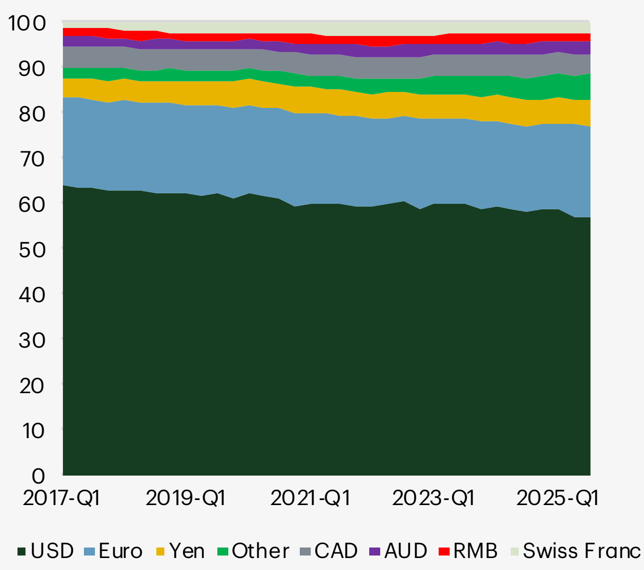
We see this modest appreciation shared across most of the majors. In Canada, a continued gradual easing in trade uncertainty is likely to support a 2-3% bounce in the Loonie to around the 0.74 CAD per USD level. A similar gain is expected in the euro (to around 1.20) predicated on promised fiscal expansions and defense spending commitments materializing. On the flip side, the yen appears oversold, and should start to the turn the corner, though a snap election set in Japan in the coming weeks and a period of heightened uncertainty about the direction of policy could keep it below 150 to a dollar for longer.

Based on our estimate, the trade-weighted USD is currently at a level not far off its fundamental value and consistent with our baseline macro outlook. Thus, a large move from the prevailing level would likely take the realization of major downside or upside surprise, such as a major geopolitical event, a more durable erosion of central bank independence than we have seen to date, or a significant change to the economic growth outlook.

What about "De-dollarization"?

Turning back to the "de-dollarization" theme that has made lots of hay over the past year, the truth of the matter is that a gradual move away from the greenback has been ongoing for many years. For example, official foreign exchange reserves have been slowly, but steadily, trending away from the greenback (Figure 9). The small move down we see over 2025 in the USD share of official reserves is almost entirely attributable to the depreciation and not official sales of USD reserves[2], which is to say that 2025 largely looks like another year on the same trend, rather than an abrupt shift in the status and perception of the dollar.

Figure 9: Foreign reserves still dominated by the U.S. dollar

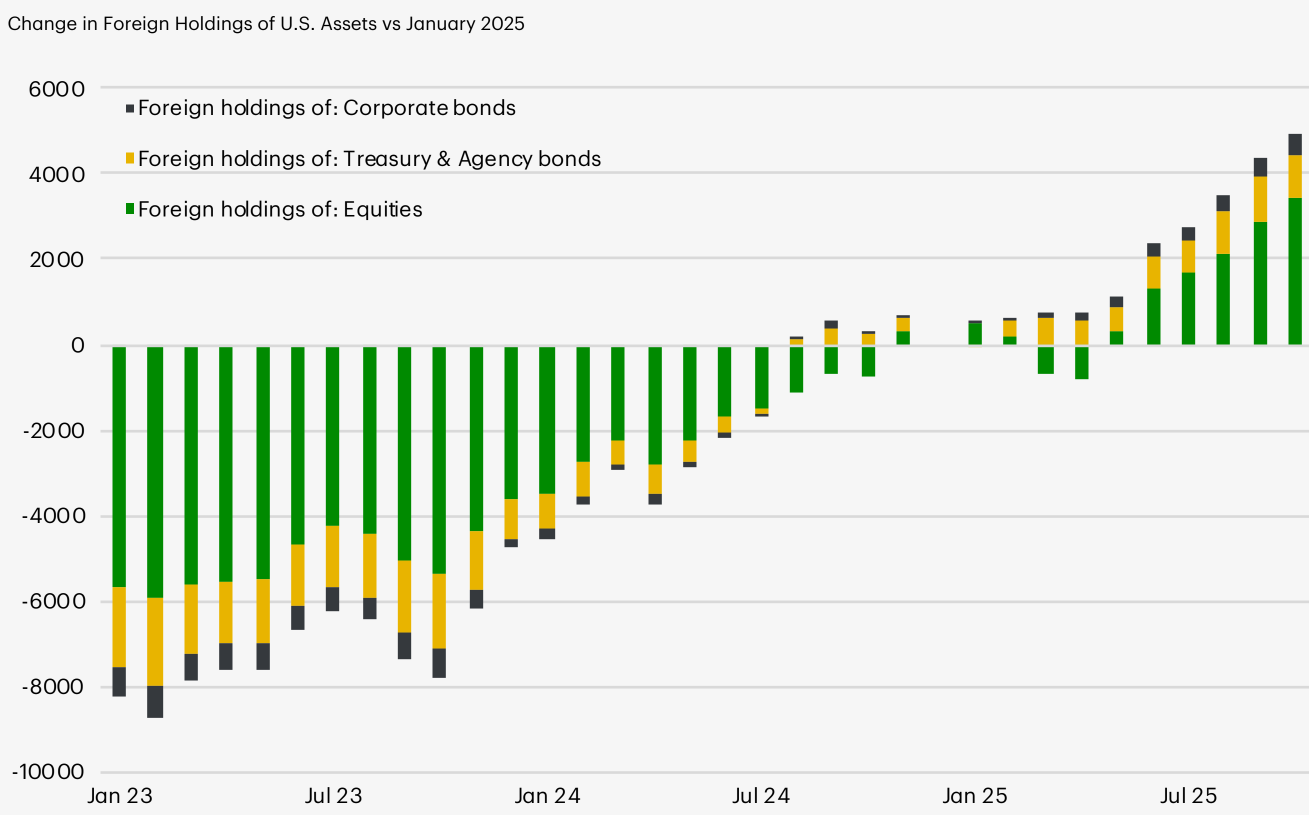


Source: IMF, TD Economics.

We also do not see a prolonged decrease in investor appetite for U.S.-dollar assets; in fact, foreign investors had a healthy appetite for US dollars in the second half of 2025. There was a brief pause in foreign investors' accumulation of U.S. assets in early-2025 and outflows in April and May, and accumulation resumed thereafter (Figure 10). Undoubtedly, some of the factors we previously touched on were on the minds of investors – the expanding deficit, the uncertain impact of tariffs, and the change in the Federal Reserve's stance all seemed to come together to briefly sour sentiment on the dollar in those months, but this was clearly temporary. The $US 4 trillion inflow into USD assets show in Figure 8 likely dwarfs the flows into alternative assets such as crypto and gold over 2025 – and stablecoin demand is actually positive for the USD in its current form, since most are backed by the USD. Gold had a banner year in 2025, but available data show that flows into gold-related funds were a small fraction of broader flows into USD assets, around $US 100 billion in 2025[3].

This underscores that there is no clear alternative to the U.S. dollar, even while there may be appetite for one. Competitors such as China have sought alternatives that would free it and the countries it has close economic ties with from reliance on the U.S. dollar and the associated constellation of financial architecture. It created the Cross-Border Interbank Payment System to build a cross-border payments network that settles transactions in yuan to further this end. While the growth in this system has been substantial, having seen participation by over 18 countries and exceeding US$50 billion in daily transactions, the RMB still only accounts for a low-single-digit share of global cross-border payments. Related initiatives underway elsewhere the world. The European Union, for example, is moving to adopt a digital euro, which would allow electronic retail payments to occur without the involvement of payment processors (primarily U.S. businesses), but this is not yet fully approved and remains years from being operational.

Figure 10: Foreign holdings of U.S. assets only briefly slowed their increase in 2025



Source: Department of Treasury, TD Economics.

It is all but certain that many economies' quests to reduce their reliance on the U.S. dollar will continue apace in the coming years, but completely displacing the USD as the global reserve currency and the central currency in international trade and finance is not realistically in the cards. Figure 11 shows how the closest competitors, in our view, lack the characteristics necessary to take on the role of a reserve asset. The U.S. dollar and U.S.-dollar denominated assets exist in far greater supply and have shown to provide more liquidity than the closest substitutes that exist today.

As it stands, there is little evidence that de-dollarization has accelerated. Flows into dollar-based assets have returned to trend, dollar use has been relatively stable, official reserves are mostly unchanged, and the world still lacks a convincing alternative. The U.S. dollar remains, by far, the most widely available, freely traded, and commonly accepted currency, in part because it has been issued by the world's largest economy for nearly eighty years now. This is a privileged position that it cannot be dislodged from quickly.

Going forward, we expect that the international financial system will continue to become more multi-polar and less dominated by the dollar, as innovations in payments technologies continue, rivals further development of competing architecture to the existing dollar-based systems, and alternatives expand in size. But this gradual diversification away from the U.S. dollar globally still leaves the greenback in a leading position for some time to come.

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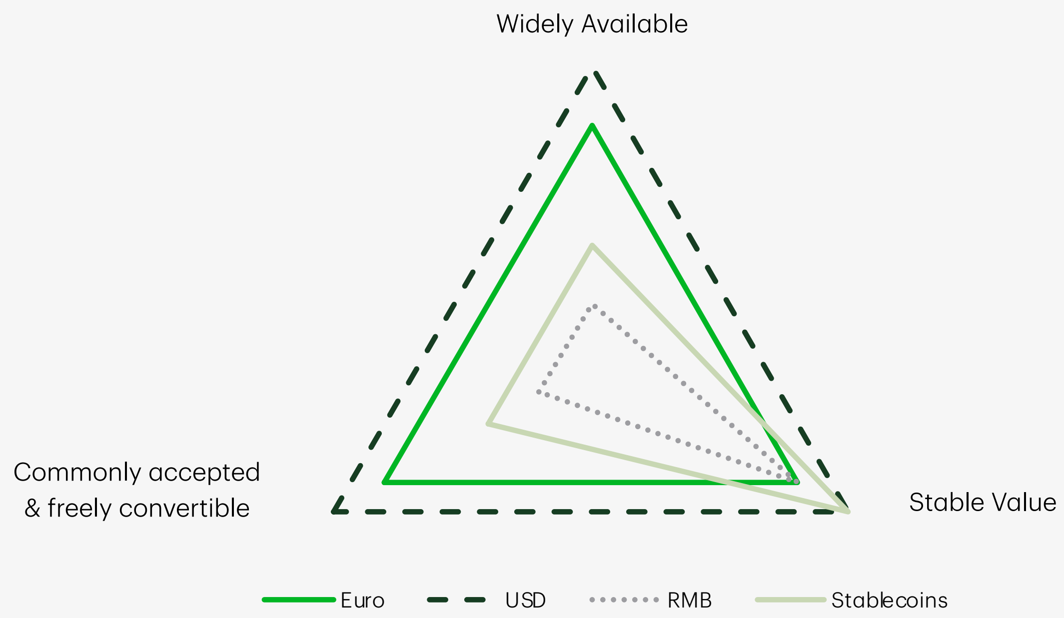
Figure 11: U.S. dollar still best meets the requirment of a reserve asset compared to alternatives



Source: TD Economics

1. https://www.bis.org/publ/bisbull105.htm;
2. https://www.imf.org/en/blogs/articles/2025/10/01/dollars-share-of-reserves-held-steady-in-second-quarter-when-adjusted-for-fx-moves;
3. https://www.gold.org/goldhub/data/gold-etfs-holdings-and-flows

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	134,621	1.32	6.25	31.68	31.68	21.42	16.09	12.66	8.44
S&P/TSX Composite (PR)	31,713	1.05	5.63	28.25	28.25	17.83	12.71	9.32	5.31
S&P/TSX 60 (TR)	6,464	1.27	5.72	29.06	29.06	20.52	16.01	12.78	8.65
S&P/TSX SmallCap (TR)	2260.33	2.39	10.22	50.19	50.19	23.21	15.33	12.00	5.84
S&P/TSX Preferred Share(TR)	2446.01	1.55	3.74	16.03	16.03	15.29	8.42	6.30	3.58
U.S. Indices ($US) Return									
S&P 500 (TR)	15220	0.06	2.65	17.88	17.88	23.01	14.42	14.82	11.00
S&P 500 (PR)	6846	-0.05	2.35	16.39	16.39	21.26	12.75	12.85	8.88
Dow Jones Industrial (PR)	48063	0.73	3.59	12.97	12.97	13.18	9.45	10.68	7.79
NASDAQ Composite (PR)	23242	-0.53	2.57	20.36	20.36	30.46	12.52	16.59	12.50
Russell 2000 (TR)	13605	-0.58	2.19	12.81	12.81	13.73	6.09	9.62	8.20
U.S. Indices ($CA) Return									
S&P 500 (TR)	20884	-1.76	1.17	12.40	12.40	23.58	16.08	14.73	11.92
S&P 500 (PR)	9393	-1.87	0.87	10.98	10.98	21.83	14.39	12.76	9.79
Dow Jones Industrial (PR)	65948	-1.10	2.09	7.72	7.72	13.72	11.03	10.59	8.69
NASDAQ Composite (PR)	31890	-2.34	1.09	14.76	14.76	31.08	14.15	16.50	13.43
Russell 2000 (TR)	18667	-2.39	0.72	7.56	7.56	14.27	7.63	9.53	9.10
MSCI Indices ($US) Total Return									
World	21100	0.84	3.20	21.60	21.60	21.72	12.66	12.74	9.09
EAFE (Europe, Australasia, Far East)	14716	3.01	4.91	31.89	31.89	17.82	9.47	8.72	6.08
EM (Emerging Markets)	3834	3.02	4.78	34.36	34.36	16.98	4.67	8.86	6.38
MSCI Indices ($CA) Total Return									
World	28951	-0.99	1.71	15.95	15.95	22.29	14.30	12.65	10.00
EAFE (Europe, Australasia, Far East)	20191	1.14	3.39	25.76	25.76	18.38	11.06	8.63	6.96
EM (Emerging Markets)	5260	1.15	3.27	28.11	28.11	17.53	6.19	8.78	7.26

Currency									
Canadian Dollar ($US/$CA)	1.37	-1.81	-1.41	-4.59	-4.59	0.42	1.52	-0.08	0.84
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	9931	2.17	6.21	21.51	21.51	10.05	8.98	4.75	2.89
Hang Seng (Hong Kong)	25631	-0.88	-4.56	27.77	27.77	9.02	-1.20	1.58	2.76
Nikkei 225 (Japan)	50339	0.17	12.03	26.18	26.18	24.49	12.90	10.21	5.86

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	2.20	2.97	3.43	3.86
U.S. Treasury Yields	3.64	3.73	4.17	4.85

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	485	0.19	0.63	2.84	2.84	4.15	2.88	1.93
FTSE TMX Canada Universe Bond Index	1200	-1.28	-0.32	2.64	2.64	4.51	-0.35	1.89
FTSE TMX Canada All Government Bond Index	1116	-1.50	-0.54	2.05	2.05	3.81	-0.99	1.43
FTSE TMX Canada All Corporate Bond Index	1504	-0.59	0.34	4.48	4.48	6.60	1.49	3.21
U.S. Corporate High Yield Bond Index	323	0.40	0.83	6.78	6.78	8.79	3.63	5.64
Global Aggregate Bond Index	267	-0.37	0.31	3.05	3.05	3.92	-0.42	1.77
JPM EMBI Global Core Bond Index	592	0.48	2.48	11.98	11.98	8.89	0.45	3.33
S&P/TSX Preferred Total Return Index	2446	1.55	4.15	16.03	16.03	15.29	8.42	6.30

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of December 31, 2025

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