



Artificial Intelligence
The Last Temptation

Portfolio Strategy Quarterly | Q4 2025

October 2025



In this issue

Note from the Chief Wealth Strategist	4
Cracking Complexity	5
PSQ4.2025 Executive Summary	6
The Last Temptation	9
Leading Macro Indicators.....	20
Elements of Wealth Management	23
Wealth Asset Allocation Committee.....	24
Direction from WAAC.....	25
Wealth Investment Policy Committee.....	28
Economic Outlook: Monetary Policy in Action.....	31
Quarter in Review: Navigating the Pivot	35
Fixed Income: Compelling Interest Income, Downside Protection	41
Equities: AI Suppliers Get a Lift	47
Private Markets: Liquidity squeeze or generational opportunity?	54
Commodities: Strong Returns, Valuable Diversification	59
Currencies: Don't Call It a Comeback.....	61
Market Performance	63
Disclosure	64



The Last Temptation

Is this the top of the market? Should I get out? These are probably the biggest questions investors are asking today. Makes sense. The S&P 500 and the Nasdaq are at, or near, all-time highs, largely driven by a very narrow group of mega-cap tech and AI-related themes. Some may be wondering whether all this tech euphoria seems a little too reminiscent of the 2000 Tech Wreck.

When the dotcom bubble burst in March 2000, the Nasdaq fell nearly 78% peak-to-trough by October 2002. The S&P 500 declined about 49%, and global equities followed. How did the S&P/TSX Composite Index perform during this time? Interestingly, between January 1999 and December 2002, the TSX was up 2%, whereas the Nasdaq and the S&P 500 had fallen 39% and 28%, respectively. Why? At the turn of the millennium, the S&P 500 had larger weights in U.S. tech and telecom stocks, while the TSX was composed of banks, energy and materials companies.

Those numbers tell an important story. We are of the view that the current AI boom will not end soon, and ensuring we are invested in this long-term theme is critical. Successful investment is about staying diversified and not giving in to temptation. If your whole portfolio was in Cisco, Ciena, Nortel and AT&T in 2000, you learned a painful lesson you'll never forget. If you owned a diversified investment portfolio like our Wealth Strategy Process benchmark portfolio, you learned a positive lesson you'll never forget. For investors, today's market environment argues not for panic but for measured discipline — trim excess risk, don't give in to the last temptation, and be truly diversified.

Be well,



Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

AI = -13% Gen Z

There's no doubt that artificial intelligence will result in huge cost savings. Already, the most AI-exposed occupations are seeing a 13% decline in junior-level employment. AI-powered customer service platforms are expected to reduce overall costs by 94%.

10 Companies = 40%

Tech euphoria has led to unprecedented concentration in the S&P 500, with 10 names now accounting for 40% of the index. Investors are counting on AI to improve margins and supercharge innovation.

+2% TSX > -28% S&P

The current climate evokes memories of the 2000 Tech Wreck. As always, diversification is the answer. For example, from 1999 through 2002, the S&P was down 28%, while the TSX (banks, energy, materials) was up 2%.
Diversify, diversify, diversify.

2030 = 3x Energy

AI also opens the door to less obvious opportunities. Energy consumption from data centres is set to triple by 2030, and utilities stocks have already benefited, up 20% YTD. But utilities also figure prominently in the private markets, where illiquid funds aim for higher returns.

AI ≠ U.S.

The AI revolution is perceived to be a U.S. growth story, but that's just not true. While the U.S. leads in chip design, about 80% of chip fabrication takes place outside the U.S., offering investors another way to participate in less crowded markets.

Gold Up = USD Down

The astonishing 58% rise in gold prices so far this year may have long-term implications for the U.S. dollar. We may be entering a long-term structural decline in the USD, as major central banks continue to buy gold as a way to diversify their reserves.

67% market cap > 28% GDP

We also anticipate a more level playing field for global equities. Currently the U.S. economy accounts for around 28% of global GDP, but U.S. equities make up about two-thirds of global market cap. A gradual decline in the USD may occur alongside increased capital flows to EM and international markets.

High Inflation vs. Weak Growth

In North America, the spread between Canadian long-term government bond yields and their U.S. counterparts (around -90 bps) underscores the dichotomy for investors: larger fiscal deficits and inflation fears in the U.S. pushes up yields, while weak growth in Canada drags them down.

Adaptation

Adaptive Approach

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

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.

True Diversification

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



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.

Be Compensated

The goal of factor diversification is to reduce unintended risk exposures and target exposure to compensated factors while minimizing exposure to uncompensated factors.

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.

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.

PSQ4.2025 | Executive Summary

■ House Views

Fixed Income, modest underweight: As the outlook for the Canadian economy remains challenged by U.S. policy uncertainty, the Bank of Canada (BoC) is not committing to a specific future policy path. We believe the BoC has sufficient flexibility to respond to a wide array of economic outcomes and, as such, we expect bonds to provide diversification benefits, reduce overall portfolio volatility, and preserve capital. **Equities, modest overweight:** Global equity markets are up year-to-date, as tariff risks appear manageable and earnings trends remain positive. We remain overweight equities; while there could be bouts of volatility as valuations have expanded, government policy is increasingly pro-business, central banks are accommodative, and earnings growth remains positive. **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

Q3 2025 saw modest equity gains amid slowing U.S. growth and cautious optimism. Rate cuts buoyed markets, yet policy uncertainty, tariffs and structural tensions signal a deeper economic regime shift. **Tariff impact receding, Inflation overhang remains.** Q3's muted tariff impact reflected temporary corporate workarounds, but fading buffers expose cost pressures. As inventories deplete, inflation risks could complicate Fed easing, while easing labour costs and positive operating leverage favour larger firms. **The rates dichotomy: Cuts as catalyst, Volatility as constraint.** The Fed's rate cut boosted markets, lowering volatility and supporting equities. Financials, small-caps and emerging markets benefited from cheaper capital and weaker dollar trends, though future easing remains uncertain amid potential inflation surprises. **USD and gold: A secular alignment.** In Q3 2025, the dollar weakened moderately amid dovish Fed policy, tariffs and trade shifts, while strong U.S. capital inflows and stablecoin adoption sustained support. Gold surged as a hedge, and emerging markets benefited from softer dollar conditions, marking a structural regime shift emphasizing diversification, policy adaptation and resilience amid evolving global monetary dynamics.

■ Economics

Canada's consumer resurgence stems largely from lower interest rates, which have encouraged spending over saving despite labour and housing headwinds. Falling debt costs freed disposable income, fuelling broad consumption gains. Domestic spending strengthened as foreign travel declined, while a nascent housing rebound promises further support. Together, these dynamics suggest consumer momentum may persist even as unemployment edges higher. **Monetary policy can only go so far.** Rate cuts cushion Canada's economy, but rising unemployment, weak housing and limited borrowing relief restrain growth. Consumer spending should slow to near 1.3% to 1.4%, driven by savings drawdowns, with housing and debt trends posing key risks.

■ Fixed Income

Geopolitical tensions, persistent inflation and slowing U.S. employment have clouded monetary policy outlooks. Despite regional divergence, global yields remain elevated, reinforcing bonds' role in diversified portfolios. We remain modestly underweight fixed income, neutral on government bonds, modestly overweight investment-grade credit, and neutral on high-yield, favouring shorter maturities and higher-quality issuers. **Government bonds.** Government-bond volatility persisted amid trade tensions and fiscal worries. Yields rose globally but fell in North America on weaker data and Fed dovishness. We remain neutral on Canadian bonds, expecting range-bound yields, emphasizing active management and a long-term, risk-managed approach. **Credit: Investment-grade and sub-investment-grade.** Credit markets remain stable with tight spreads and strong fundamentals.

We remain modestly overweight investment-grade credit, favouring short-dated Canadian IG bonds, and neutral on high-yield, preferring U.S. bank loans. Active, quality-focused management remains key amid uncertain conditions. Canadian IG remains a relative safe haven amid tariff and market volatility, supported by stable fundamentals and strong demand. HY credit faces greater risk from economic uncertainty. Active management is essential to effectively navigate valuations, volatility and shifting credit dynamics. **Higher yields and diversification.** Diversification is vital. We remain modestly underweight fixed income but see value in high-quality bonds, where active management and attractive yields support long-term returns amid uncertainty.

■ Equities

Over two centuries, industrial revolutions have transformed productivity — from steam and electricity to the Digital Revolution and the current AI era. Today's AI-driven cycle, led by tech giants and semiconductor makers like Nvidia and Broadcom, underpins equity gains. Massive global capital spending on AI infrastructure, including initiatives like OpenAI's \$500-billion Stargate Project, signals a trillion-dollar market and sustained growth potential. **Themes in AI: From hardware down the AI value chain.** AI hardware leaders may face cyclical slowdowns, shifting focus to software developers and industries like health care, banking and utilities, which are poised to harness AI-driven productivity and efficiency gains across the next growth phase. **Utilities.** North American utilities are surging, driven by AI, infrastructure and electrification tailwinds. **Health care.** AI is transforming health care by accelerating drug discovery, enhancing diagnostics and enabling personalized, data-driven treatment advancements. **Banking.** AI could transform banking by boosting productivity, profitability and efficiency through automation and task delegation. Banks adopting AI may double returns via workforce optimization, enhanced customer service and cost reductions, though long-term competitiveness will depend on defending profitability advantages. **Canadian equities shine.** The S&P/TSX Composite outperformed major U.S. indexes in Q3, driven by surging gold and copper prices. Gold gained from dollar weakness and fiscal concerns, while copper benefited from tariff-driven demand. Broader resilience reflected CUSMA protections and rebounding confidence across Canadian sectors. **North American equities summary.** We remain modest overweight equities, favouring U.S. and Canada. Strong earnings growth, AI-driven margins and reasonable valuations support returns, though selectivity is vital amid elevated tech valuations and concentrated market leadership. **International equities: Misplaced or mistimed optimism?** International equities lagged U.S. markets amid weak European growth, political instability and tariff headwinds. We maintain a modest underweight view, expecting meaningful recovery only by mid-2026. Japan outperformed on AI momentum and pro-stimulus leadership, though inflation pressures persist. Structural challenges remain, yet long-term prospects appear favourable once earnings growth materializes. **EM: Is the rally in Chinese equities sustainable?** Emerging markets outperformed, led by China and Taiwan on tech strength and policy support. Despite capital-market stabilization, China's weak consumption and price wars pressured earnings. Taiwan and South Korea benefit from AI demand, while India faces tariff strain. We remain modest underweight EM but advocate selective diversification beyond the U.S., emphasizing semiconductor supply-chain exposure and attractive valuations.

■ Private Markets

Private equity has lagged public markets recently, but long-term performance remains strong. Despite concerns over excess dry powder and continuation vehicles, we view private equity as a vital catalyst for operational improvement, capital efficiency and long-term value creation. With deal volumes subdued and distributions at decade lows, disciplined investors can capitalize on market dislocations, particularly in LP-led secondaries. Successful strategies emphasize operational intervention, realistic valuations and sustainable cash flow growth over leverage-driven returns. **Power generation: An AI bottleneck.** We maintain conviction in a "picks and shovels" strategy for AI and cloud growth — investing in data centres, power infrastructure and utilities benefiting from surging electricity demand. With data-centre power needs tripling by 2030, selective exposure to power generation, transmission and regulated utilities offers attractive, risk-adjusted returns amid supply constraints and long development lead times. **Notable events in Q3 2025.** CPPIB and KKR will acquire majority stakes in Sempra Infrastructure Partners, funding major energy projects, while Saudi Arabia's PIF, Affinity Partners and Silver Lake lead a record \$55-billion leveraged buyout to take Electronic Arts private.

■ Currencies

We are structurally bearish but tactically bullish on the U.S. dollar amid shifting fiscal, electoral and geopolitical dynamics. **USD.** The U.S. dollar's decline has slowed but remains structural, driven by political uncertainty, tariffs and fading safe-haven appeal, with a further 3% drop expected later this year. **CAD.** Low hedging and U.S. asset divestment may pressure the U.S. dollar further, benefiting the Canadian dollar amid global portfolio rebalancing.

■ Commodities

Gold and copper have surged — gold up 58% year-over-year and copper over 10% — driven by strong investor and central-bank demand amid constrained supply. Commodities offer compelling diversification, inflation protection and drawdown mitigation, especially in volatile, high-deficit environments. With tight supply and low correlations to traditional assets, direct commodity exposure strengthens portfolio resilience and enhances long-term risk-adjusted returns.

The Last Temptation

When fears emerge, base impulses offer a tantalizingly simple option: buy or sell. Rational investors must resist the temptation to stray from their diversified strategy.

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

Is this the top of the market? Should I get out? These are probably the biggest questions on investors' minds right now. Makes sense. The S&P 500 and the Nasdaq are at, or near, all-time highs, largely driven by a very narrow group of mega-cap tech and AI-related themes. It's times like this that investors start thinking about years like 2000, 2007 and 2021 — all times when market breadth was deteriorating while indexes were making new all-time highs. Perhaps there are even more saying, "Forget 2007 and 2021 — this whole market is nuts and reminds me too much of the period leading up to the 'Tech Wreck' of 2000." Figure 1 summarizes the parallels between 2000 and now.

Being concerned that we are in a similar period is understandable. When the dotcom bubble burst in March 2000, the Nasdaq fell nearly 78% peak-to-trough by October 2002. The S&P 500 declined about 49%, and global equities followed. How did the

S&P/TSX Composite Index perform during this time? Interestingly, between January 1999 and December 2002, the TSX was up 2%, whereas the Nasdaq and the S&P 500 had fallen 39% and 28%, respectively. Why? At the turn of the millennium, the S&P 500 had larger weights in U.S. tech and telecom stocks, while the TSX was composed of banks, energy and materials companies.

When the U.S. tech sector collapsed, the TSX basically had only one major tech company: Nortel, whose weight briefly helped the info-tech weight surpass the financial sector (Figure 2). Once Nortel imploded, this massive weight disappeared, and most of the rest of the index was stable or rising. Canadian banks remained profitable and conservative, while gold and oil began to strengthen as investors sought hard assets amid falling real yields.

Figure 1: Are we reliving the dot-com bubble?

2000 Internet Era	2025 AI Era
Narrative: "The internet will change everything"	Narrative: "AI will be everything"
Massive retail participation	Massive retail participation amplified with passive ETF flows
High valuations and negative equity risk premium	Elevated multiples and signs of exuberance in the market
Weak breadth – Tech dominance	Narrow leadership again – AI mega caps
Easy monetary policy – "productivity miracles"	Easy monetary and fiscal policy – 'kick the can down the road'

Source: Wealth Investment Office

Figure 2: S&P/TSX Composite – Before and after the Tech Wreck

Top 10 Companies in S&P/TSX Composite Index					
	1998		2000		2003
BCE Inc.	6.8%	Nortel Networks Corporation	18.0%	Royal Bank of Canada	5.2%
Nortel Networks Corporation	5.5%	BCE Inc.	4.3%	Bank of Nova Scotia	4.3%
Royal Bank of Canada	4.3%	Royal Bank of Canada	3.8%	Toronto-Dominion Bank	3.6%
Bank of Nova Scotia	3.0%	Toronto-Dominion Bank	3.3%	Bank of Montreal	3.4%
Bank of Montreal	3.0%	Bombardier Inc. Class B	2.9%	BCE Inc.	3.4%
Seagram Company Ltd.	2.9%	Manulife Financial Corp.	2.7%	Ovintiv Inc	3.0%
Toronto-Dominion Bank	2.9%	Bank of Nova Scotia	2.6%	CIBC	3.0%
CIBC	2.9%	Bank of Montreal	2.5%	Nortel Networks Corporation	2.9%
Barrick Mining Corporation	2.0%	CIBC	2.2%	Alcan Inc.	2.8%
Bombardier Inc. Class B	2.0%	Sun Life Financial Inc.	2.0%	Sun Life Financial Inc.	2.5%

Source: Macrobond, Wealth Investment Office, as of October 15, 2025.

Further, the early 2000s saw a shift from digital capital to physical capital, thanks in large part to a new commodity super-cycle that began in no small part due to China's entry into the World Trade Organization. The September 11, 2001, attack on the United States, after an initial shock, was also a positive for the TSX — thanks to its high resource sensitivity — benefiting from the Middle East conflicts that followed.

There were other positive areas for returns during the Tech Wreck. Between 2000 and 2003, the Fed cut interest rates from 6.5% to 1% to ward off a recession. Bonds became the stabilizer, as bond benchmarks delivered double-digit annual returns. It was one of the clearest demonstrations of the defensive power of duration during disinflationary recessions. Long/short and market-neutral strategies also delivered positive performance.

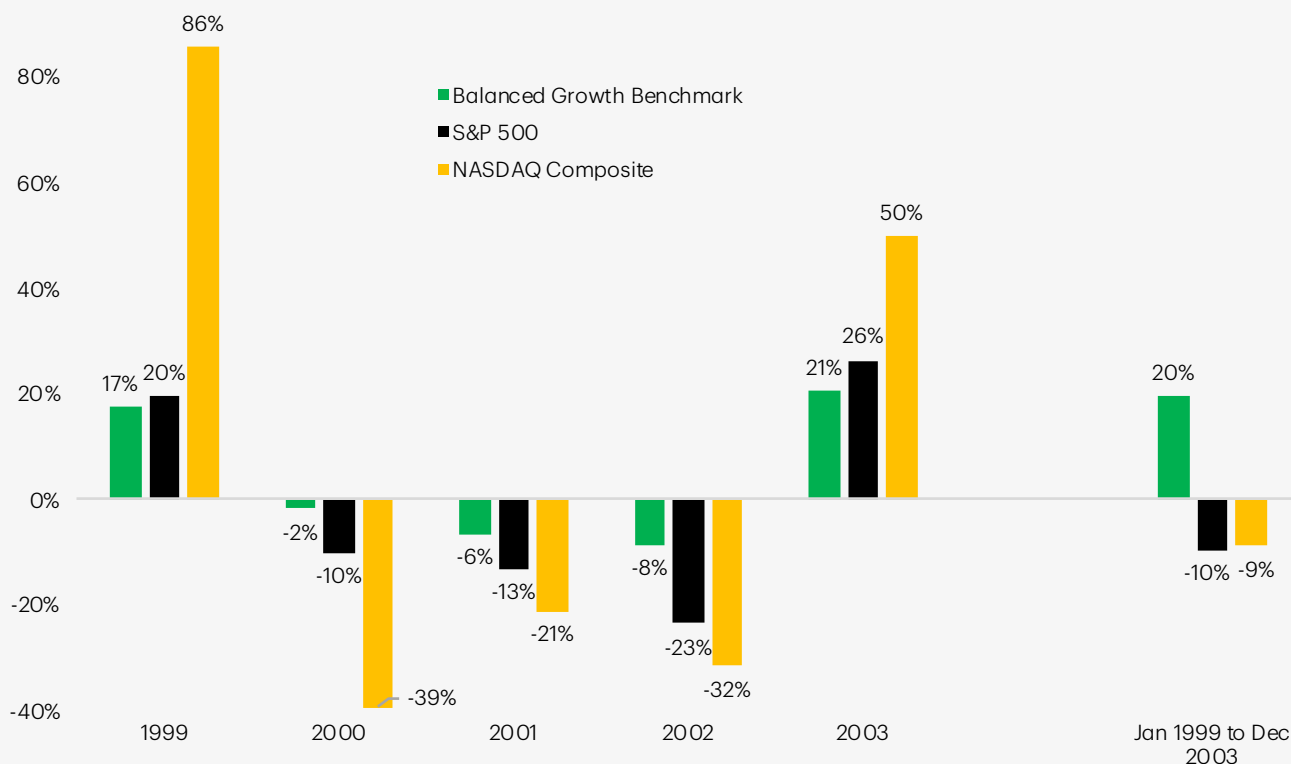
Successful investment is about staying diversified and not giving in to temptation. If your whole portfolio was in Cisco, Ciena, Nortel and AT&T in 2000, you learned a painful lesson you'll never forget. If you owned a diversified investment portfolio like our Wealth Strategy Process benchmark portfolio, you learned a positive lesson you'll never forget.

Figure 3 compares the dramatic difference between being in a balanced benchmark investment portfolio and being invested in the S&P 500 and Nasdaq during the Tech Wreck period between 2000 and 2003. With the S&P down 10%, the Nasdaq down 9%, and the balanced portfolio up 20%, being diversified made all the difference.

This time around, it is highly likely that the same lesson will be learned. On the extremes, there is the temptation to be either all in or all out. The key is not to give in to either temptation. We are of the view that the current AI boom will not end soon, and ensuring we are invested in this long-term theme is critical. We are in the midst of a transformative period that will change how we live, how countries conduct themselves, and how companies operate. However, this theme will have its ups and downs. Finally, true diversification — comprising asset and risk-factor diversification as well as an understanding of one's behavioural risks — will be paramount in growing and protecting capital.

For client readers who are invested out of necessity, with the desire to achieve specific goals and objectives — i.e., those who don't live to parse through the trials and tribulations of financial markets — read the above again. For the keen clients and professionals who read our *Portfolio Strategy Quarterly* for a deeper understanding of our thinking, read on.

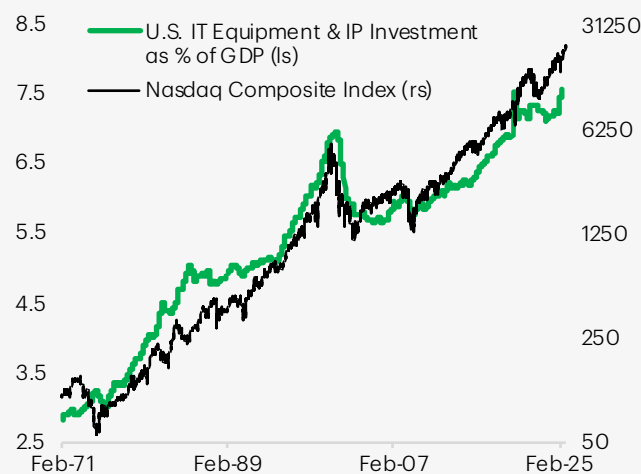
Figure 3: Balanced Growth vs. Broad Indexes



2000 vs. 2025

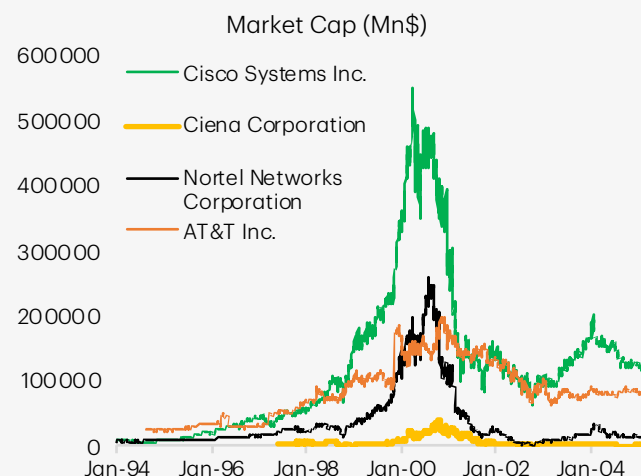
Some of us remember the turn-of-the-millennium Internet Era as a boom-bust cycle in fibre optic investments, which actually occurred between 1994 and 2002, laying the groundwork for the digital world we have today (Figure 4). During this period, telcos laid extensive networks of fibre optic cables amid the anticipation of exponential growth in internet traffic, leading to significant overcapacity. Equipment providers like Cisco, Ciena and Nortel experienced a boom in selling equipment to telecom companies that were aggressively building networks and laying fibre (Figure 5).

Figure 4: Hardware investment driving Nasdaq



Source: Macrobond, FactSet and Wealth Investment Office as of October 10, 2025

Figure 5: When the dot-com bubble burst



Source: FactSet and Wealth Investment Office as of October 10, 2025

Although the internet bubble ended in tears for many investors when it burst in 2000 and 2001, the telco industry's overinvestment in fibre optic cables significantly lowered the cost of internet connectivity for end users and allowed internet platform companies, including Google and Amazon, to build on top of the available digital infrastructure. In the decade following the burst of the tech bubble, labour productivity in the U.S. rose sharply as businesses and households saw an exponential increase in computer adoption and access to the internet.

Today, a select few semiconductor companies represent the "picks and shovels" of the AI boom, analogous to telecom equipment providers for the internet 30 years ago. In the next phase of AI development, companies built on top of the current investment in data centres, training and inference will likely be the winners — not unlike Netflix, Facebook, and Google today.

Whereas the first and second industrial revolutions primarily boosted the productivity of manufacturing workers, the ongoing AI revolution has the potential to boost productivity for workers in both goods and service sectors. The music and movie industries are already seeing the disruptive impact of AI that competes with human talent. In science, AI has the potential to help formulate new drugs faster than previously possible and to help radiologists read scan results with greater accuracy.

With trillions of dollars of investments being poured into data centres, the relevant question today is whether we will see an overinvestment in AI infrastructure in the coming years. We do not know for sure, but historically, overbuilding may be a necessary evil: the cost of progress. At a tech conference in early October, Amazon founder Jeff Bezos argued that the huge surge of investment in AI is fuelling a "good" kind of bubble — delivering lasting benefits for society even if equity prices collapse as in the late 1990s — drawing parallels with investment in fibre optic cable during the dotcom era and the life-saving drugs that resulted from the 1990s biotech boom and bust.

The more immediate concerns for investors today surround the elevated expectations and valuations for many AI companies — in the latest funding round, OpenAI is valued at \$500 billion (all USD), larger than the top three Canadian banks' market cap combined, up from \$157 billion less than a year ago. In the first half of this year, OpenAI's cash burn is estimated to be around \$2.5 billion on \$4.3 billion in revenue.

Thinking Machine Labs, co-founded by OpenAI's former chief technology officer Mira Murati in February 2025, raised \$2 billion at a \$12-billion valuation, with a focus on making AI systems more widely understood and customizable. The largest beneficiary of investments in AI capacity has been Nvidia, which saw its revenue rise tenfold from \$16 billion in 2021 to \$165 billion over the last 12 months. Analysts expect revenue for the chipmaker to rise to \$276 billion in 2027, and the stock is currently trading at 29 times its 2027 earnings estimate.

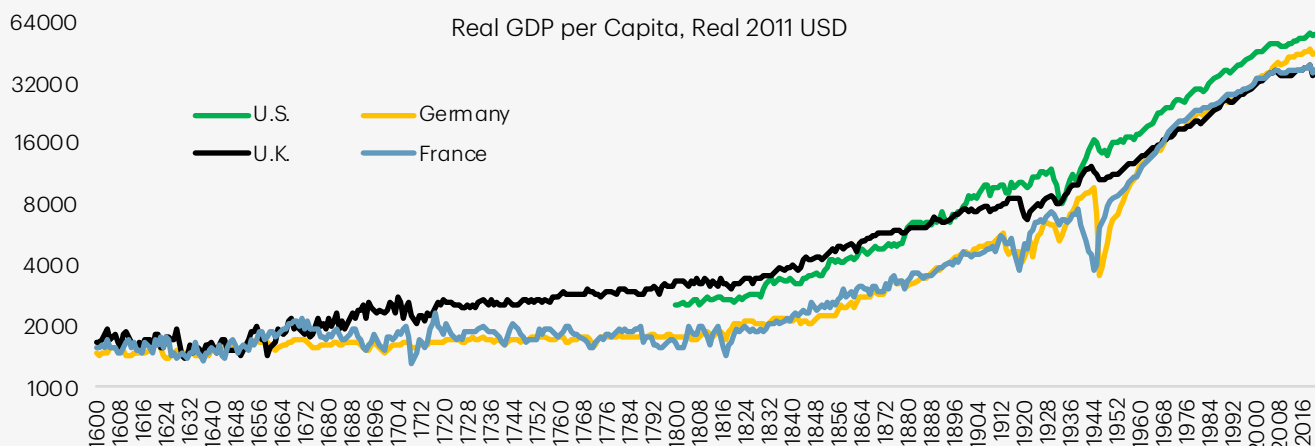
Another concern today relates to the sustainability of AI semiconductor investment. Nvidia's recent \$100-billion investment in OpenAI, which is also the largest buyer of its AI systems, evokes memories of the late 1990s vendor-financing practice to sustain growth. Then, telecom equipment companies provided vendor financing to their telco customers, who used the credit to buy equipment and build out fibre optic capacity.

Currently, OpenAI has committed to building 26 GW of new data-centre capacity, which would cost over \$1 trillion to develop. To do so, OpenAI has raised \$60 billion this year and is looking to lean on its partners' balance sheets and the debt market.

But it is also possible that we are underestimating the longer-term positive impact of AI. In fact, humans have in the past underestimated the pace of innovations and the associated rise in living standards. Figure 6 shows that, prior to the start of the Industrial Revolution, GDP per capita was stable. Only after the 18th century did living standards begin to accelerate with the invention of steam power.

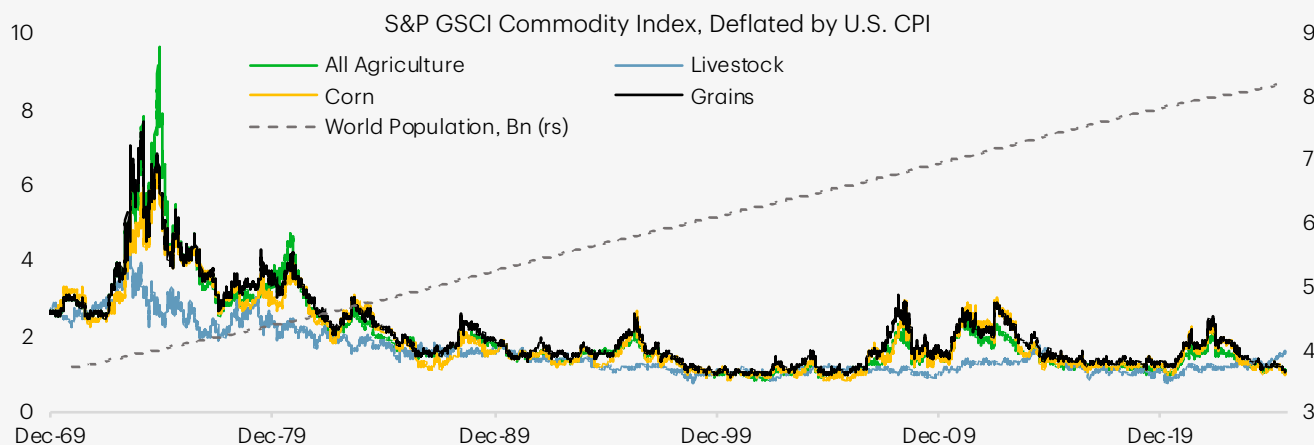
Perhaps among all the innovations in the past century, none is more important than those in the agricultural sector. Global food prices have declined and remained stable over the past 50 years, despite the doubling of the world's population (Figure 7). This refutes the fear of Chinese policymakers in 1979 that the country would at some point be unable to feed its population, which resulted in the disastrous one-child policy.

Figure 6: Technological advancements have lifted productivity



Source: Macrobond and Wealth Investment Office as of October 10, 2025

Figure 7: Food prices fall despite population doubling

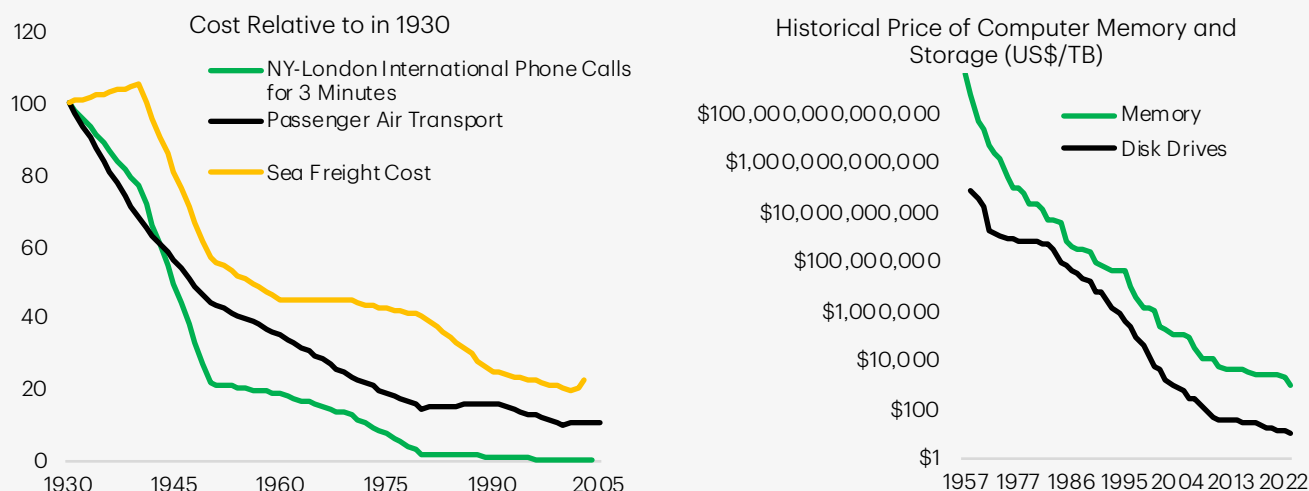


Source: Macrobond and Wealth Investment Office as of October 10, 2025

Although the focus on technological innovation in the past tended to be in the goods sector rather than services, there are many instances where lower goods prices translated to a lower service cost. Technological advancements are inherently deflationary. For instance, thanks to investment in telecommunication infrastructure, the cost of a three-minute phone call between New York and London has collapsed to essentially nothing in the past century, whereas the build-up in the transportation industry reduced the cost of passenger air transport and shipping by 90% and 78%, respectively, during the same period (Figure 8). Meanwhile, the dramatic decline in computing power has led to the mass adoption of computers and brought down prices for services such as accounting (bookkeeping) and financial analysis, database management and architectural design.

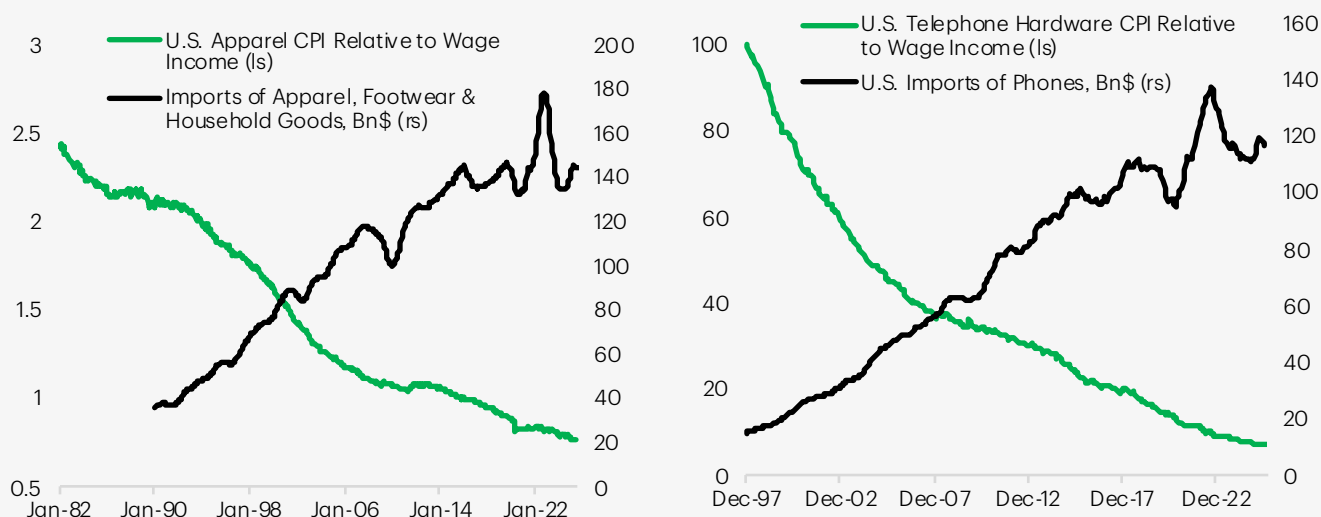
Given that technological progress tends to enrich the few inventors and capitalists — with many losers in industries replaced by technology — technological breakthroughs could translate to higher social tension in the period that follows. These tensions sometimes end in violence and propagate collectivist ideas, such as socialism and communism. Think of the textile workers who used to spin yarn and weave cloth in 1811 being replaced by the spinning jenny. In Nottingham, the replaced and suddenly unemployed weavers morphed into what later became known as the Luddite movement. They turned their animosity toward the machines and began destroying textile factories and machinery. Little was thought at the time that mass production of textiles meant lower prices for consumers and eventually translated into greater demand for clothes (Figure 9).

Figure 8: Process improvements enable mass adoption



Source: Macrobond, Wealth Investment Office, as of October 15, 2025.

Figure 9: Tech lowers costs, raises consumption



Source: Macrobond, Wealth Investment Office, as of October 15, 2025.

AI could also have a disruptive impact on workers across industries. Early research on the productivity boost from AI applications so far has been encouraging. In one paper by Fabrizio Dell'Acqua et al. ("Navigating the Jagged Technological Frontier"), researchers concluded that workers who were assessed as having below-average performance saw a 43% jump in scores by using AI, compared to only a 17% increase for workers assessed as having above-average performance. In sum, AI could help level the playing field for less-skilled workers.

It's early days for AI, but initial research shows significant variation in the adoption and utilization of AI across different industries. So far, white-collar workers in the information-technology, finance and professional sectors tend to see greater benefits from using AI in their daily work, whereas blue-collar workers in the hospitality industry have seen less benefit from AI utilization (Figure 10).

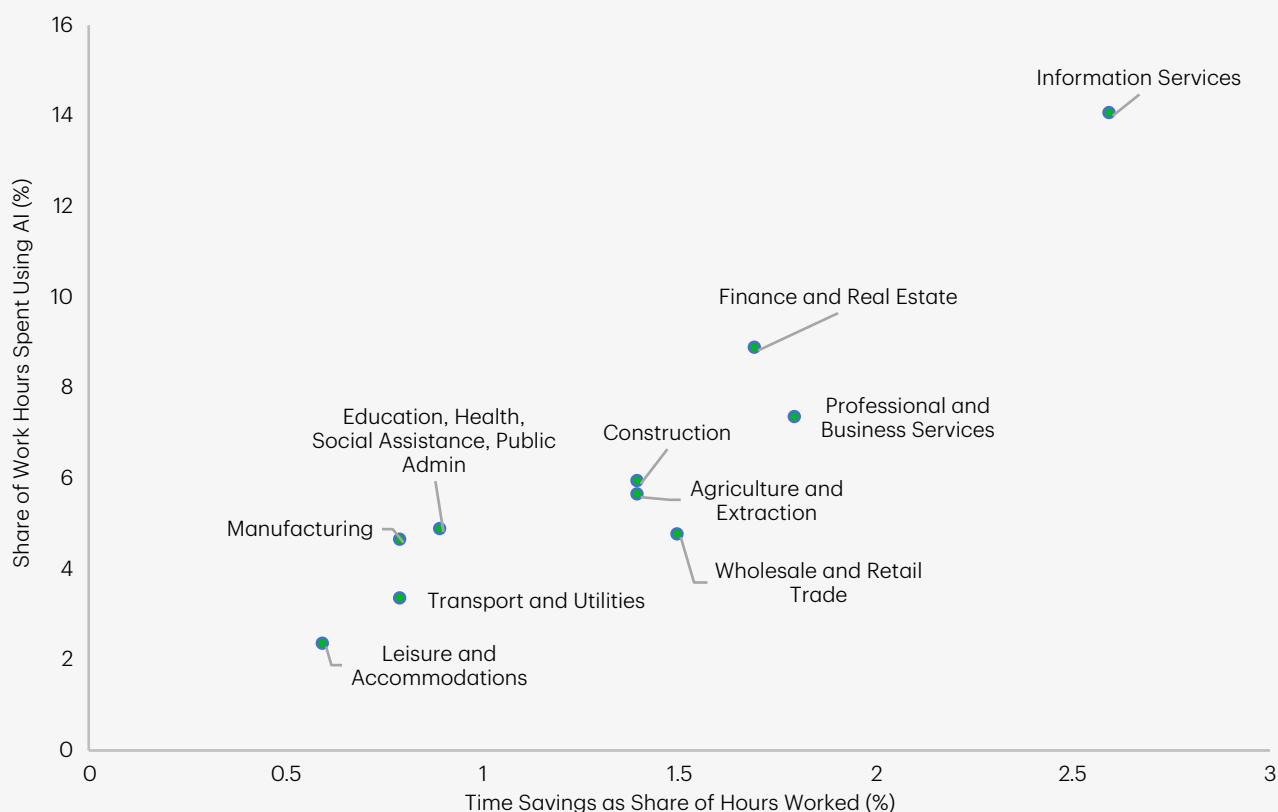
This may simply reflect the natural progression of AI applications, which started first with search, then integrated into productivity tools, such as Microsoft CoPilot, and platforms that help engineers code faster — all tools that help mainly white-collar workers do their jobs more efficiently. However, AI also has the

potential to be disruptive for blue-collar workers, with improvements in self-driving capability potentially upending the transport industry, and smart robots capable of performing complex tasks being deployed in the medical and manufacturing industries.

More worrisome is the job prospect for younger workers who tend to perform entry-level tasks and are now competing with AI. Brynjolfsson, Chandar and Chen ("Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence") highlight that early-career workers in the most AI-exposed occupations saw a 13% decline in employment compared to negligible change for workers in less exposed fields.

Increasingly, governments are also seeing the importance of developing their own AI models for military applications such as intelligence-gathering, surveillance and cyber warfare. In short, there are endless potential applications for AI models that we have yet to uncover — but this does not mean investors should bet the ranch on semiconductor companies either. After all, an air pocket or signs of overinvestment in data-centre capacity could swing market sentiment and valuations away from today's very bullish starting point.

Figure 10: AI may speed up work, depending on industry

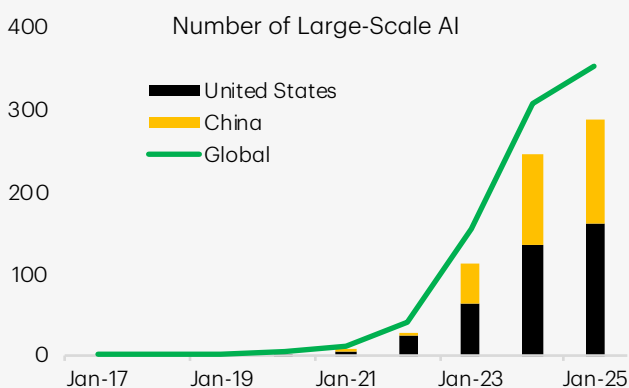


Source: Bick, A., Blandin, A., Deming, D.J., 2025; The Rapid Adoption of Generative AI, Federal Reserve Bank of St. Louis Working Paper 2024-027

Navigating through the AI Revolution

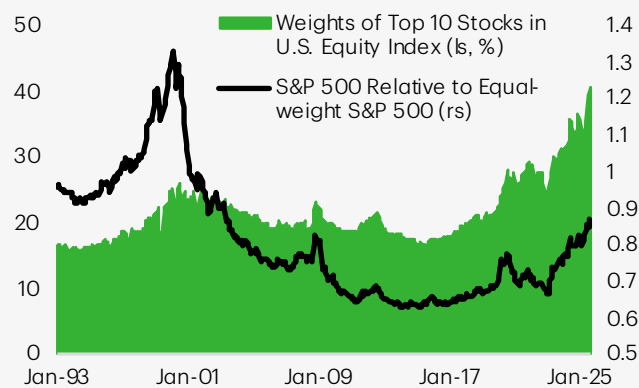
Looking at the proliferation of large-scale AI models and the rally in semiconductor stocks, it seems like the bulls will be winning for the third consecutive year (Figure 11). Investments in AI infrastructure continue to grow, with analysts increasing their capex projections for the big four hyperscalers by over 35% so far this year. In August, McKinsey released a forecast on data-centre investments and expects that \$6.7 trillion will be cumulatively deployed in building data-centre infrastructure through 2030 — a sum equivalent to 23% of the current U.S. GDP. Within this forecast, around \$3.5 trillion is expected to be spent on servers, which include graphics processing units (GPUs) and central processing units (CPUs) — benefiting Nvidia, Broadcom, AMD and other semiconductor names we are all familiar with today.

Figure 11: AI race has propelled mega-caps



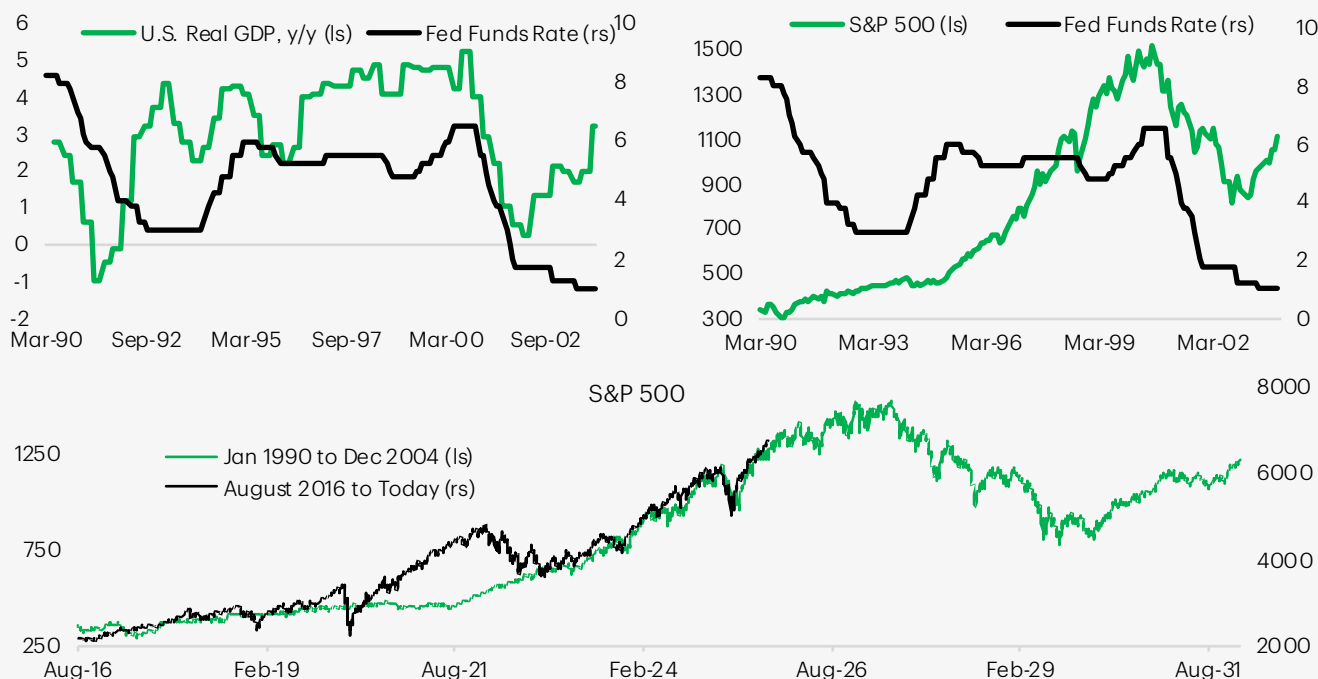
Given the cyclical nature of IT hardware investments, analysts have been wary of the potential for an air pocket in chip demand. However, based on companies' reporting in the most recent quarter, there are no signs that we are going to see one anytime soon. Indeed, the macroeconomic and monetary-policy environment has been supportive of the animal spirit in the market.

The Fed's easing of monetary policy alongside the ongoing technology boom is analogous to the period between 1994 and 2001. Figure 12 shows the federal funds target rate against U.S. GDP growth and the S&P 500. During both the 1995 and 1998 rate cuts, the U.S. economy was in decent health, and the Fed was more concerned about the potential negative blowback to the U.S. economy from crises in Latin America (Tequila Crisis 1994) and Asia (Asian Crisis 1998). The U.S. financial market experienced tightening liquidity as a



Source: Macrobond, FactSet and Wealth Investment Office as of October 10, 2025

Figure 12: Will rate cuts mirror 1995, 1998, or 2001?



Source: Macrobond, FactSet and Wealth Investment Office as of October 10, 2025

result of the Russian Sovereign Crisis and the failure of Long-Term Capital Management (LTCM) in September 1998. The Federal Reserve organized a bailout for the firm and eased liquidity, which further amplified the mania in technology stock prices.

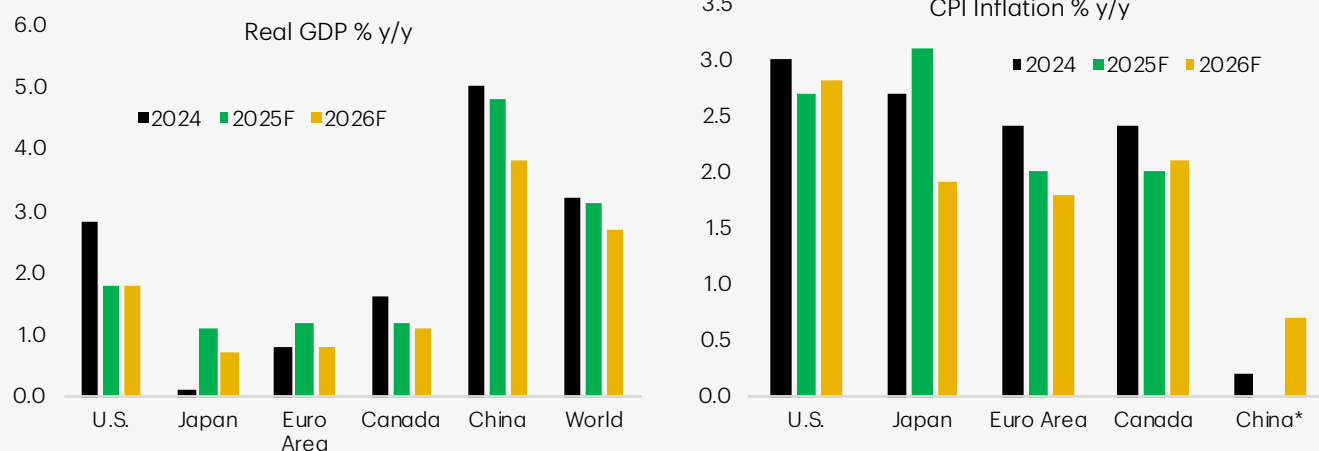
Today, the U.S. economy is also in good shape despite the slowdown in the job market and the impact of tariffs. In addition, the Fed is expected to cut the policy rate by another 100 bps by the end of 2026. All these factors are supportive for risk assets and household spending, especially considering the rise in wealth from higher equity and housing prices over the past five years. To us, the U.S. feels more like 1998 than 1995 or 2001.

Europe is projected to see sluggish, uneven growth, constrained by soft external demand and fiscal consolidation, though gradual monetary easing should prevent a recession. China's economy, meanwhile, should grow between 4% and 4.5%, supported by

policy stimulus but weighed down by property-sector stress and weak global trade, keeping its contribution to world growth positive but smaller than in past cycles. And as for Canada's growth, we think it will remain subdued through 2025 and '26, with GDP expanding slightly more than 1% in these years as rate cuts and housing activity partially offset weak exports and lingering tariff headwinds (Figure 13).

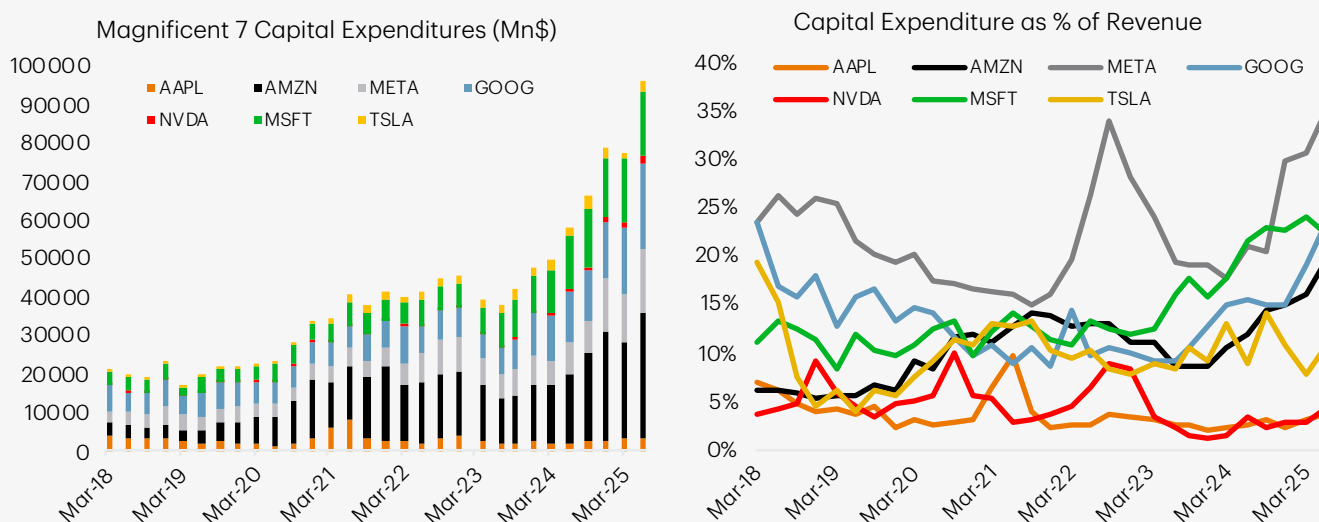
To gauge the durability of investment spending on AI, investors could scrutinize hyperscalers' capital expenditure plans relative to their cash flow from operations, which in the past two and a half years have been increasingly allocated to building AI infrastructure. The Magnificent 7 companies' capital spending is expected to grow 53% this year compared to last (Figure 14), and analysts forecast capital expenditure intensity to remain high in the coming two years. For shareholders, this means lower free cash flow that could be used for share buybacks and dividends.

Figure 13: Economic vs. Inflationary Growth



Source: TD Economics as of October 2025. * China CPI data is the IMF forecast

Figure 14: Big Tech free cash flow falls as capex rises



Source: Macrobond, Wealth Investment Office, as of October 15, 2025.

Unlike in 2022, when Meta's share price was sliding due to the perception that the company's investment in the metaverse was wasteful, investors today think that the build-out of AI capacity will pay off down the road. Still, given the elevated concentration in the S&P 500 Index — with the top 10 names accounting for 40% of the index — investors must be mindful of their approach to allocating to U.S. stocks.

There are many ways to play the AI theme other than investing in the chipmakers' stock, some of which have seen significant gains in recent years. For instance, there has been a jump in demand for electricity and commodities for the build-out of data centres. In the U.S. alone, energy consumption from data centres is set to triple to 600 TWh by 2030 from around 200 TWh currently, bringing the ratio from 5% to 12% of all energy demand for the country. If realized, this will be the largest increase in U.S. energy demand since the introduction and mass adoption of air conditioning in the 1960s. Given that the construction of a small modular reactor or nuclear energy source will take longer than that of data centres, natural gas will likely play a role as a bridging energy source.

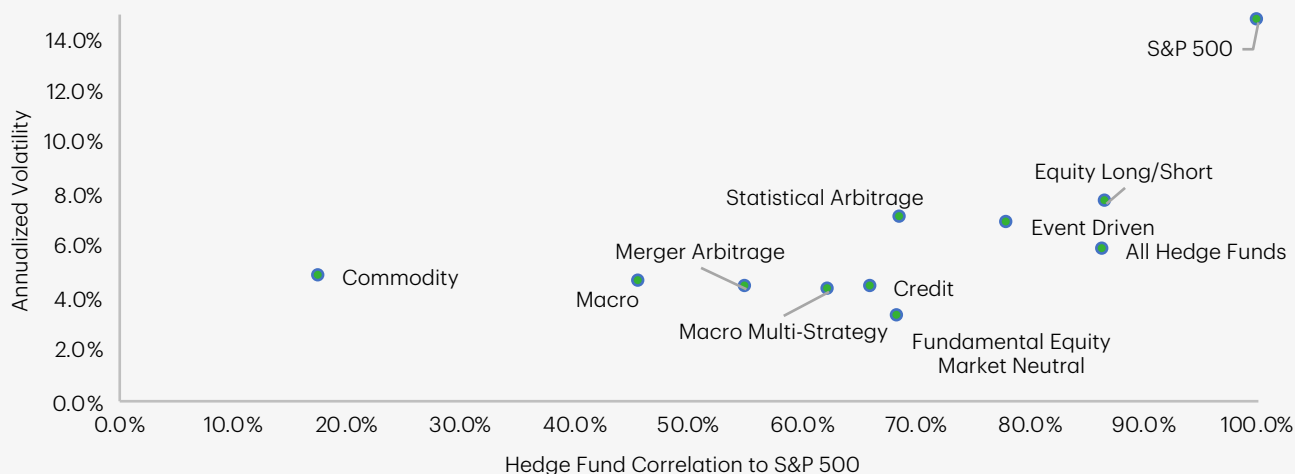
Meanwhile, old-economy industries such as heavy machinery and base metal miners have also benefited from the demand for resources to build data centres and other AI infrastructure. The outlook for copper is attractive, given that supply growth will most likely underwhelm demand growth in the coming decade, which should push prices higher. A recent accident at the Grasberg site in Indonesia, owned by Freeport-McMoRan, highlights the sensitivity of copper prices to supply disruptions. This makes it important for investors to allocate to the actual commodity alongside mining stocks.

On top of diversification in the long-only equity portfolio, we believe that having return sources that are not correlated to the broader market is also key to navigating the current environment (Figure 15). A multi-strategy mandate with low correlation to the equity and bond markets is perhaps the best diversifier, but having market-neutral or long/short equity exposure could also help reduce the portfolio's volatility and drawdown. We are not betting that the current AI boom will end soon, but diversification is becoming increasingly important in protecting capital.

Lastly, we would be remiss if we didn't touch on credit markets. There is certainly an emerging pocket of weakness in the credit market. The bankruptcies of First Brand and Tricolor Holdings share a common underlying theme: the auto sector — which was hit hardest by tariffs — and lower-income consumers, who have suffered much more compared to the high-income group. We have written about this a great deal over the past two years. First Brand's issues appear more idiosyncratic than systemic, given alleged fraudulent accounting, off-balance-sheet rehypothecations and similar issues. It also shines an important light on certain sectors, like the auto industry, that are more susceptible to tariff-induced weakness.

Another possible reason both investment-grade and high-yield bond spreads are tight is that much of the lower-quality companies' borrowing has moved to the private market, skewing the sample of the public market toward companies with stronger balance sheets and fundamentals. While we continue to be allocated to private credit, the quality of the manager is the key in this area. The proliferation of private credit has likely led to more lax underwriting standards in some areas, given increased competition and pressure to deploy capital.

Figure 15: Absolute return mandates offer equity diversification



Source: Macrobond, Wealth Investment Office, as of October 15, 2025.

All this while the credit cycle is getting long in the tooth, adding to broader credit-market risk-taking. We don't believe we're in a contagion situation, but rather a moment of market risk reassessment — which is healthy given where we are in the cycle.

What do you do?

The good news is that there are several actions that can be taken.

Fixed Income (Modest Underweight):

We believe prudence is warranted today. U.S. and Canadian corporate bond spreads across both term and risk spectrums — from short-dated investment grade (IG) to longer-duration high-yield (HY) bonds — continue to grind tighter to near historical lows. Given this risk/reward backdrop, we prefer the safer pockets of the corporate credit market, such as higher-quality, shorter-duration (near- to mid-term) IG over HY.

In terms of domestic government debt, we remain neutral, also with a tilt toward shorter to mid-term maturities, in an effort to manage interest-rate duration risk. In today's rate environment, it is important for investors to be actively aware of impacts from changing policy decisions. We will continue to be selective and diversified across geographies and sectors rather than simply chasing yield.

Equity (Modest Overweight):

Overall we continue to favour a diversified equity-allocation strategy, with a balance of exposure to high-beta growth, lower-volatility defensive growth, consistent dividend growers as well as geographical diversification from American, Canadian and international equities.

Overall, we are maintaining our modest overweight view for U.S. equities and continue to remain selective in our exposure to tech and AI. The sector may still reward those identifying realistic winners, but investor caution is warranted amid frothy sentiment. Look further downstream in the AI value chain to other related industries that will benefit from potentially revolutionary improvements in productivity and information-sharing. Sector opportunities include industries such as utilities, health care and banking, which may benefit from AI in the coming years.

We have also stuck with our modest overweight view for Canada. 2025 EPS growth estimates for the S&P/TSX Composite are still around 13%, which is on par with earnings growth expectations for the S&P 500, but the TSX is trading at a much lower valuation. More

than 50% of the TSX's weight is in defensive, lower-beta (generally less volatile), income-generating sectors like financials, pipelines, telecoms, consumer staples and utilities.

While we maintain our modest underweight stance on international and emerging-market equities, we also recognize that there are many growth opportunities at favourable valuations today. This includes exposure to companies that are leading chip fabricators or equipment providers and are crucial in the production of highly specialized chips. These opportunities are compelling enough to introduce a strategic allocation outside of the U.S.

Alternatives (Modest Overweight):

Insofar as private equity is concerned, we continue to believe that it is important to allocate to general partners that have demonstrated expertise in operational intervention — given that a key driver of top-performing deals is margin expansion beyond revenue growth and higher multiples.

For private credit, we remain modestly underweight and focused on geographically diversified deals, particularly in Europe. We also continue to allocate based on our secular themes of infrastructure, data centres and the energy transition.

Our positioning in global real estate is neutral. We remain confident in investing in data centres and power generation as key parts of the AI and cloud boom. Well-located, high-quality office space with positive ESG attributes is also an area of focus. While we like data centres, we are selective since there is a lot of hype and high valuations.

Finally, we are modest overweight in infrastructure. We believe we are currently experiencing an “infrastructure renaissance” — where roads, transportation systems, and power transmission are all being built or rebuilt — creating good long-term investment opportunities.

Commodities (Neutral):

With elevated equity valuations, the risk/reward of adding commodities to portfolios is compelling. In nominal terms, commodities have rarely been this inexpensive versus equities, and we think we are at the precipice of a long-term shift. We continue to have a positive view on gold, although it would not be a surprise to see some consolidation given how strong it has been this year. We are neutral to cautiously optimistic on energy prices, and we continue to believe copper is attractive over the long term.

Final Thoughts

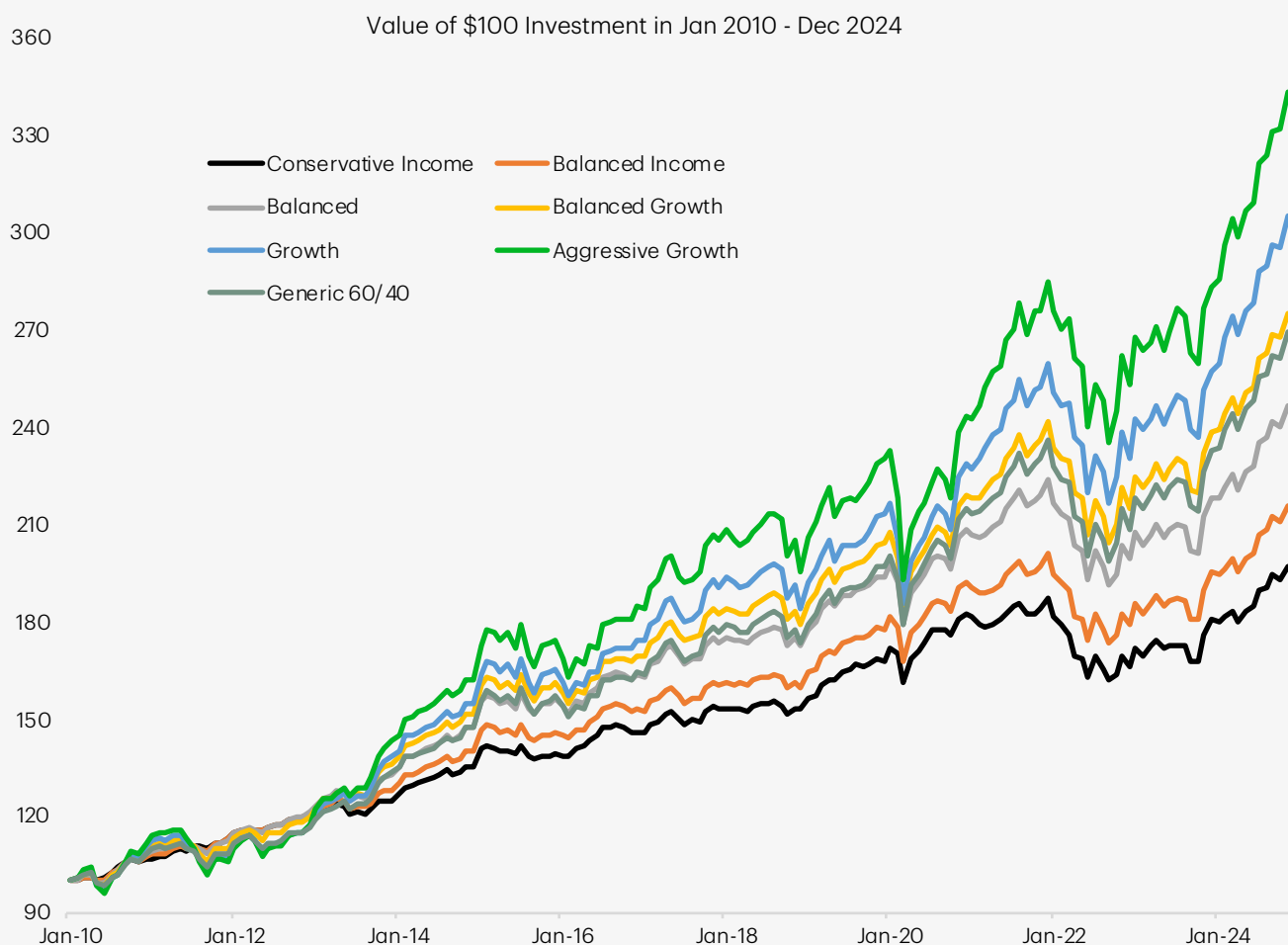
After a multi-year rally powered by liquidity, technology leadership, and resilient corporate earnings, investors are increasingly asking whether risk markets have peaked. Valuations are stretched, breadth is narrow, and policy risk is back in play. Yet two counterarguments continue to keep the bull case alive — both credible, both conditional.

1. Liquidity and Policy Cushion: Global liquidity remains historically ample. Central banks and markets are pricing in rate cuts into 2026. The fiscal impulse persists. Infrastructure spending, industrial policy and the energy transition continue to inject capital into real assets and corporate balance sheets. Finally, private liquidity matters. Large corporate cash balances, sovereign wealth fund allocations and still record private-market dry powder are acting as shock absorbers. Even if growth moderates, the world is awash in liquidity, supporting valuations for longer than fundamentals alone might justify. Tops typically form when liquidity contracts sharply — not when it remains abundant.

2. The Earnings and Productivity Bridge: Corporate earnings have surprised positively across sectors, with margins stable even as input costs rise. The AI and automation cycle is driving productivity gains, particularly in tech, industrials and business services. Consensus projections for low-double-digit earnings growth in 2026 can sustain current valuations. Unlike prior bubbles, the leaders (Microsoft, Nvidia, Alphabet) are cash-flow rich, not leverage driven — a fundamental distinction from 2000.

Until these two arguments weaken, calling the exact peak of the market may remain more psychological than empirical. For investors, today's market environment argues not for panic but for measured discipline — trim excess risk, don't give in to the last temptation, and be truly diversified.

Figure 16: Long-term returns across profiles



Source: Macrobond, Wealth Investment Office, as of October 15, 2025.

Leading Macro Indicators

Overall U.S. Macro Condition Still Weak in Q3

Kevin Yulianto, Portfolio Manager, TD Wealth; Jack Zhang, CFA, FRM, Investment Management Analyst, 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 is weaker than it was at the start of the year. At the end of the third quarter, it sat at the 36th percentile (below the normal 40th to 60th percentile range) and lower than the 37th percentile logged at the end of the second quarter and the 44th percentile recorded at the end of 2024.

In the third quarter, U.S. and global equity markets climbed steadily, boosted by reduced trade tensions and expansionary fiscal and monetary policy, but market concerns about inflation remain elevated and attention has shifted towards the labour market: job gains weakened further in the third quarter and prior data was revised downward.

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 five have deteriorated over the previous 12 months (Figure 2).

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 is currently in a neutral position (Figure 3).

Figure 1: U.S. Macro Composite Indicator

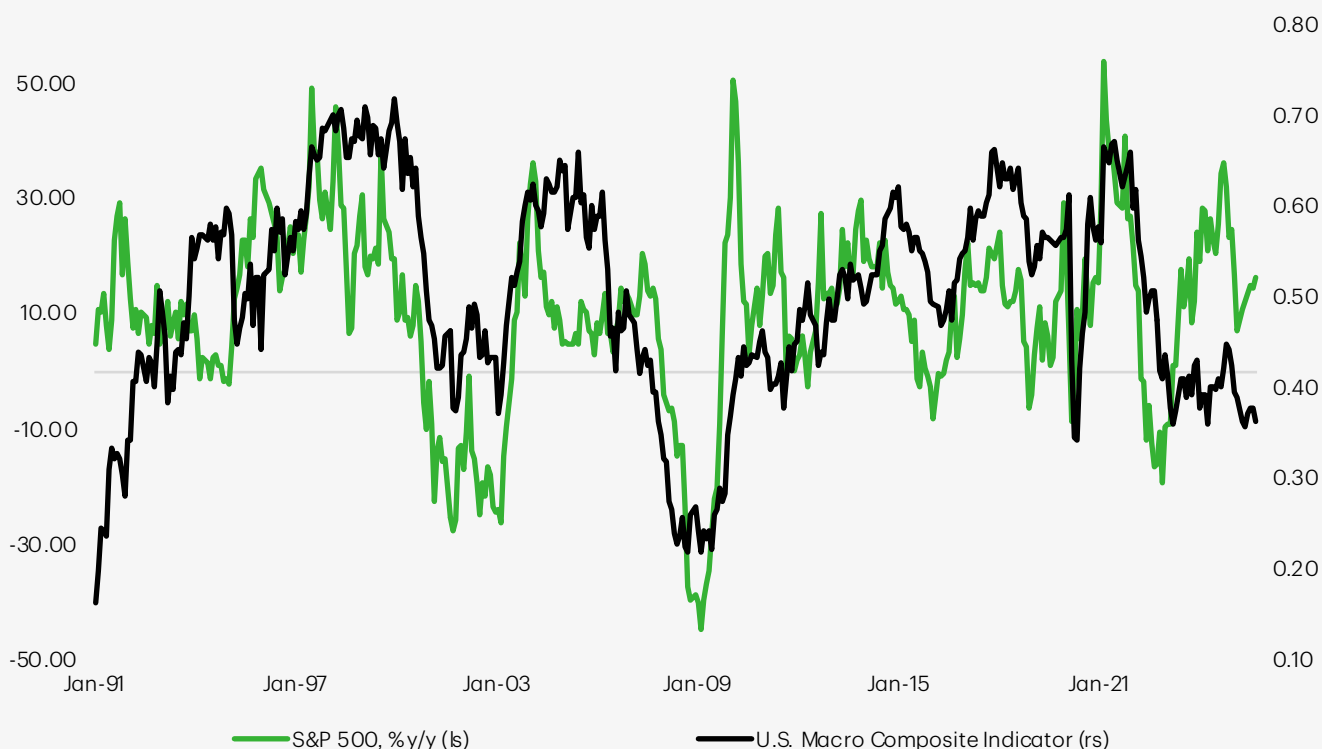
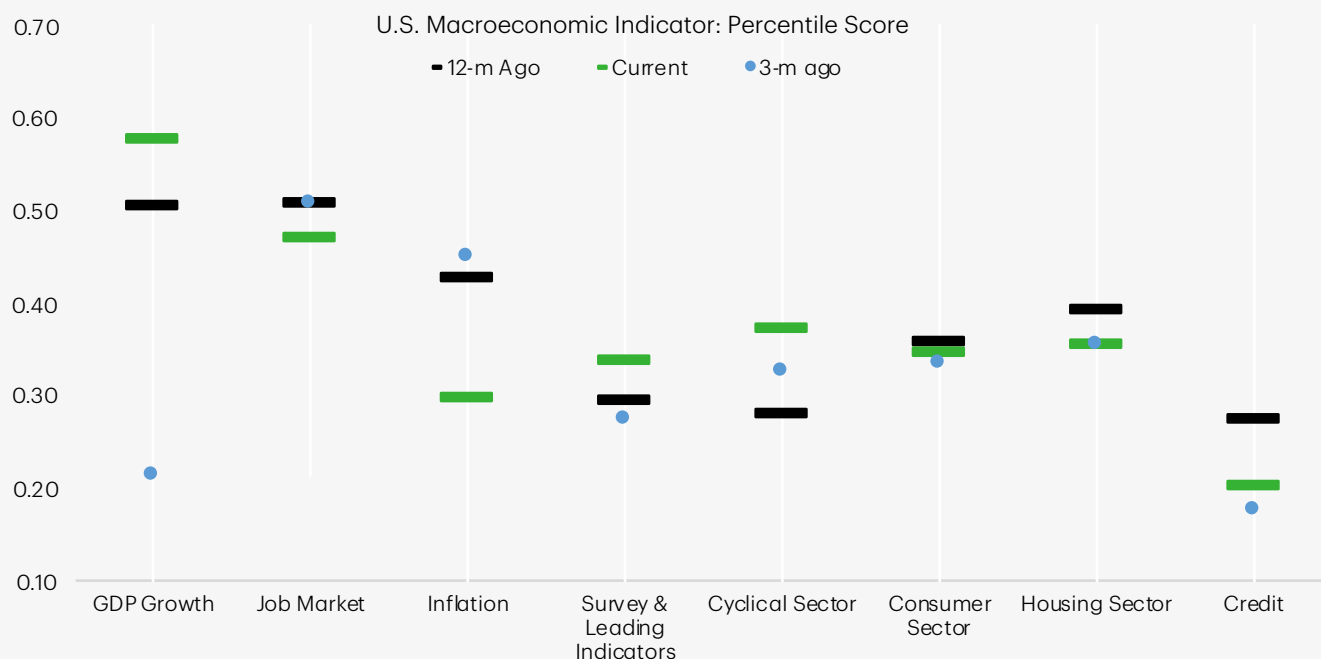
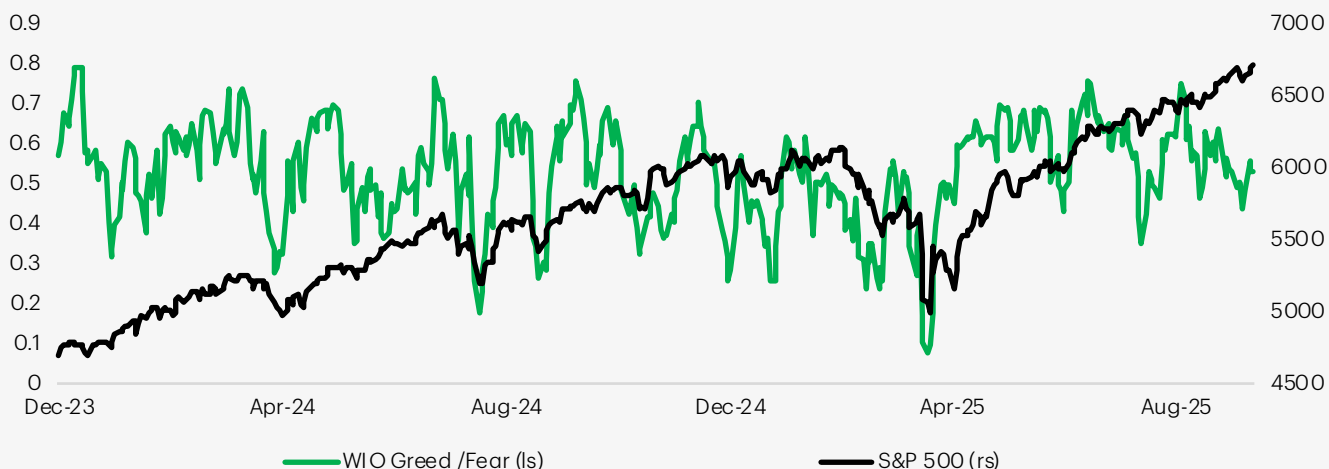


Figure 2: Change in Risk Regime Scores



Source: Macrobond, Wealth Investment Office as of September 30, 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.

Figure 3: Change in market sentiment



Source: Macrobond, Wealth Investment Office as of September 30, 2025

The following are notable developments in Q3:

1. The score for GDP growth rebounded from the 21st percentile at the end of Q1 to the 58th percentile, driven primarily by the swing in net exports from a large deficit in Q1 to a surplus in Q2. In addition, resilient consumer spending and better-than-expected business investment also bolstered the score for this category. The Federal Reserve Bank of Atlanta's GDPNow estimated growth in Q3 will remain healthy at about 3.8%.

2. The U.S. job market continued to soften, with the aggregate score for the category falling to the 47th percentile at the end of Q3 from 51st percentile previously. Job openings and quit rates declined, wage growth slowed, and the pace of job gains tumbled in Q3. On a more positive note, jobless claims remained relatively low but were significantly higher compared to a year ago.

3. The aggregate score for Inflation tumbled in Q3 to the 30th percentile from 45th percentile at the end of Q2. Various price inflation gauges highlighted that inflation remained sticky and others deteriorated—dragging the score lower—while leading indicators for inflation barely improved in Q3, raising questions about whether the Federal Reserve could continue to ease monetary policy as aggressively as expected by markets; at the end of Q3, the bond market was pricing in another 100 basis point rate cut by end 2026.

4. The Survey & Leading Indicators score ticked higher to the 34th percentile at the end of Q3 from the 27th percentile previously. Businesses turned more optimistic as uncertainty around U.S. trade policy pulled back from elevated Q2 levels and indicators for manufacturing and service activity improved in Q3.

5. Cyclical Sector activity remained stable but grew below trend in Q3, with the score ticking up to the 37th percentile from the 33rd at the end of Q2. Manufacturing production improved in Q3, but durable goods and factory orders—which jumped sharply in Q2 as businesses and consumers tried to front run the implementation of U.S. tariffs—normalized and weighed on the Cyclical Sector score.

6. The overall Consumer Sector was broadly unchanged in Q3. Consumer spending growth accelerated in the quarter, supporting the score for the category and offsetting the drag created by the drawdown in retail inventory. Consumers remained downbeat during the quarter: the deterioration in the labour market and inflation put pressure on discretionary spending, especially among lower-income households.

7. The Housing Sector indicator, which stands at the 36th percentile at the end of Q3 (unchanged from Q2), is likely close to the cyclical bottom given the extended period of depressed scores for this category. Overall industry spending and growth remained soft, primarily because of fixed investment in private residence. Meanwhile, the 30-year fixed mortgage rate, while still elevated, has shown tentative signs of easing, which has helped to stimulate a pickup in home sales. This has contributed to a more optimistic consumer sentiment, with a notable factor being the rise in household equity.

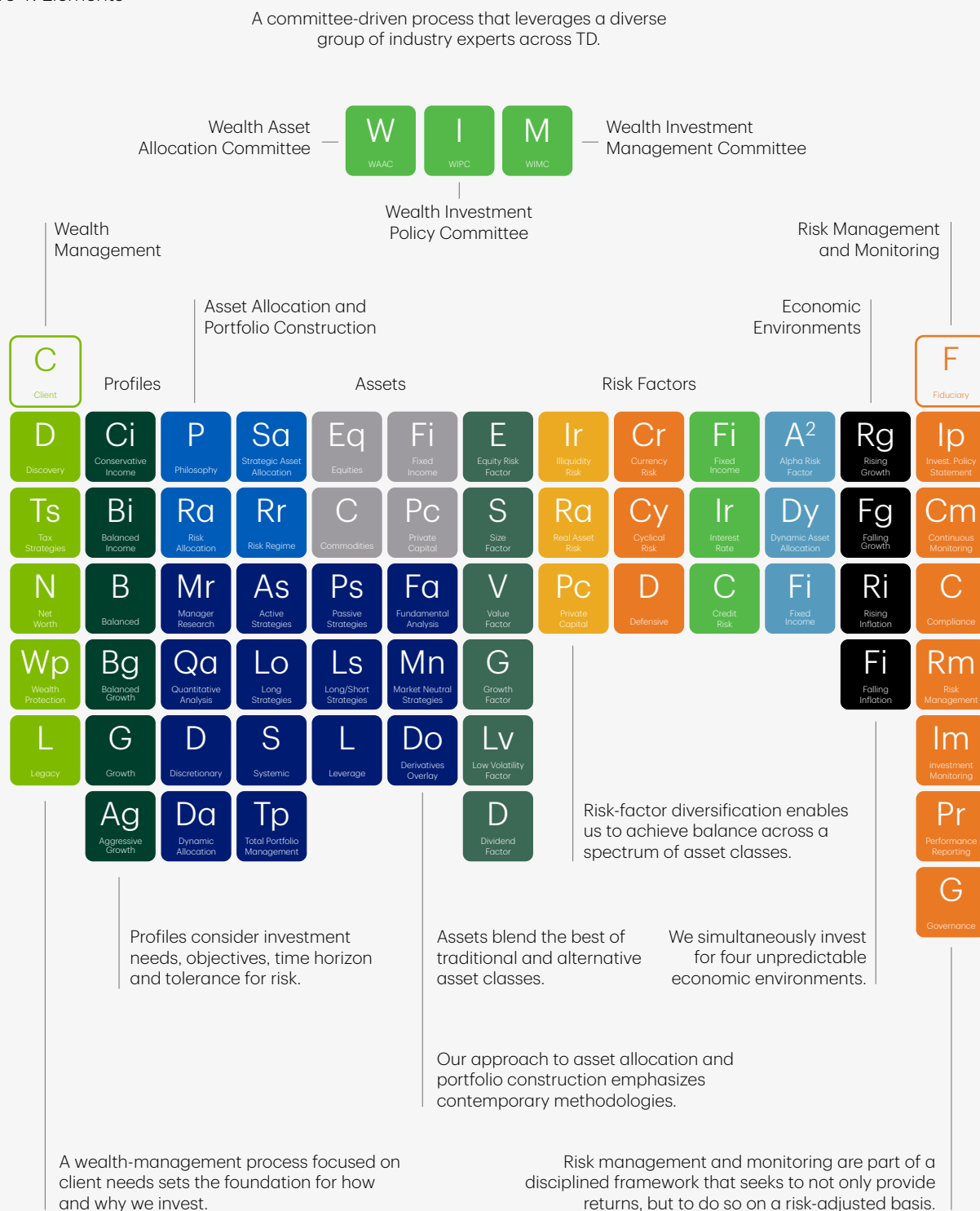
8. Lastly, the score for Credit increased to the 20th percentile at the end of Q3 from the 18th percentile previously. Banks eased credit standards compared to the previous quarter, but credit to consumers and businesses has yet to materially accelerate.

The U.S. business cycle is likely in a late stage of expansion, characterized by a shift in the Fed's focus from combating inflation to addressing emerging weaknesses in the labour market. Equity markets, however, have been focused primarily on the positive developments in AI, supportive monetary policy, and the passing of the One Big Beautiful Big Act (OBBBA), which is expected to translate into an expansion in fiscal policy and boost economic growth in the medium term. In a more optimistic scenario, activity in the Cyclical and Housing sectors could accelerate in the coming quarters as the Fed continues its policy rate cutting cycle while consumer spending and the labour market stabilize. However, there is a risk that the U.S. labour market could soften faster than expected and inflation could potentially accelerate in the coming quarter as goods inventories are gradually depleted. This would put the Fed in the uncomfortable position of trying to juggle the risk of higher inflation with weakness in the labour market.

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

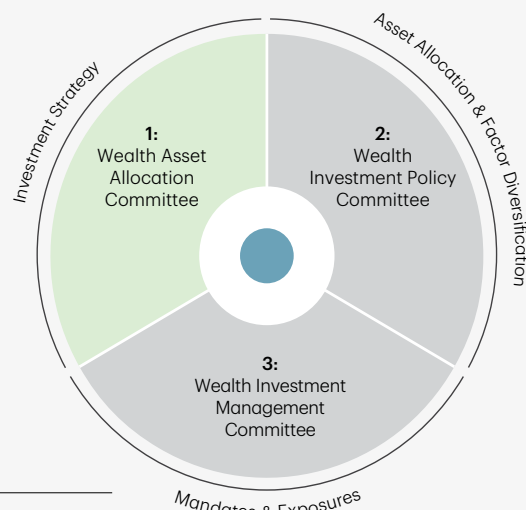


Wealth Asset Allocation Committee

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

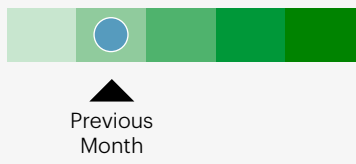
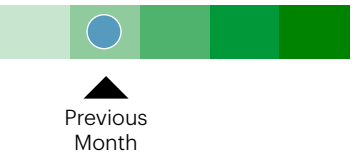
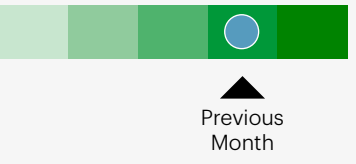
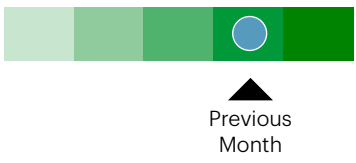
Sid Vaidya, CFA, CAIA U.S. Wealth Investment Strategist, TD Wealth USA

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	As the outlook for the Canadian economy remains challenged by U.S. policy uncertainty, the Bank of Canada (BoC) is not committing to a specific future policy path. We believe the BoC has sufficient flexibility to respond to a wide array of economic outcomes and, as such, we expect bonds to provide diversification benefits, reduce overall portfolio volatility, and preserve capital.
Equity	Modest Overweight  Previous Month	Global equity markets are up year-to-date, as tariff risks appear manageable and earnings trends remain positive. We remain overweight equities; while there could be bouts of volatility as valuations have expanded, government policy is increasingly pro-business, central banks are accommodative, and earnings growth remains positive.
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.



Fixed Income - Modest Underweight

	Positioning	Rationale
Domestic Government Bonds	Neutral	While the BoC's rate cutting cycle is expected to exert downward pressure on shorter rates, longer rates in Canada are expected to remain elevated as the federal budget and fiscal policy take centre stage.
Investment Grade Corporate Credit	Modest Overweight	Credit spreads remain tight as all-in yields drive strong investor demand. Corporate credit fundamentals should be resilient to any near-term economic volatility. 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	While overall credit quality remains solid for high yield issuers, certain sectors are more challenged than others due to their exposures to evolving trade policies and a weakened low-end consumer. This has contributed to some of the recent spread widening in the high yield market, and though the aggregate impact of these sectors is modest, it will likely keep risk premiums more elevated compared to other parts of the credit market. Within high yield we continue to favour higher quality issuers given this dynamic.
Global Bonds Developed Markets	Neutral	We believe that U.S. policy uncertainty will manifest differently across countries with respect to growth and inflation expectations. Therefore, opportunities across developed market bonds will likely vary substantially.
Global Bonds Emerging Markets	Modest Underweight	While emerging markets (EM) are benefiting from a broad-based decline in the U.S. dollar (USD), valuations of USD-denominated EM bonds are screening rich compared to developed market corporate bonds. However, there continue to be opportunities to earn high levels of income in select local currency EM markets.

Equities - Modest Overweight

	Positioning	Rationale
Canadian Equities	Modest Overweight	The positive impact of BoC rate cuts and potential shifts in fiscal policy could provide some economic offset to 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	Modest Overweight	U.S. equities have rallied as technology spending and revenue growth remain robust. Earnings revisions have also shown improvement. U.S. equities could be further supported by "One Big Beautiful Bill" Act tax policies and the potential for further deregulation. While these benefits may be partially captured in valuations, equities continue to be supported by earnings growth.
International Equities	Modest Underweight	International equities have rallied YTD as multiples rebounded from low levels, but at this point there appears to be less scope for further multiple expansion. Japanese equities look attractive on a relative basis with momentum building behind corporate reform and a new pro-business Prime Minister, but there may be volatility as the Bank of Japan may look to continue raising rates.
Emerging Market Equities	Modest Underweight	Emerging Markets (EM) returns have been supported by the market's technology exposure and key central banks have cut rates this year. China continues to struggle with challenges in its property sector but has announced policies that could provide some stabilization for 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 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.

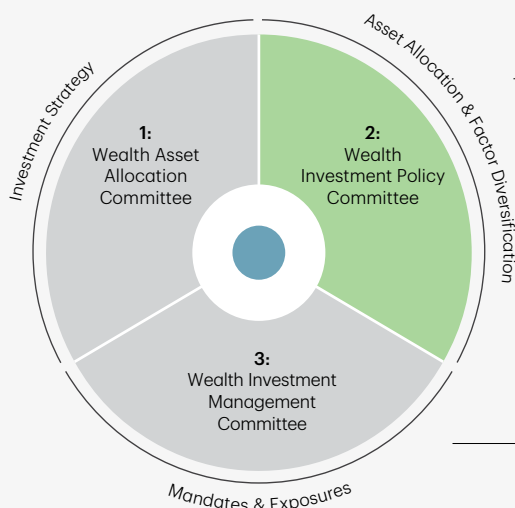
Figure 1: Direction from WAAC: strategic positioning

	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 October 16, 2025.

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

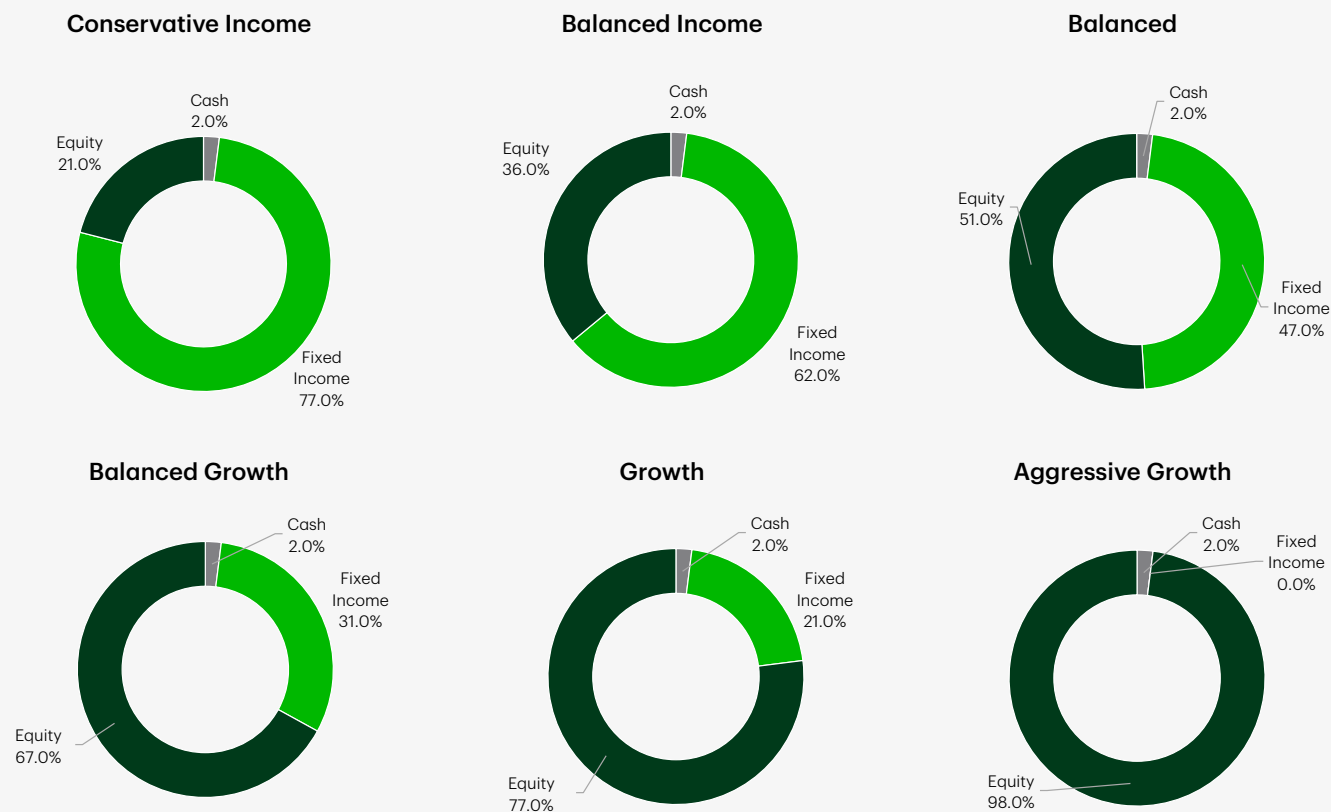
The asset allocation weights from the Wealth Investment Policy Committee are unchanged this month and remain aligned with the Wealth Asset Allocation Committee's (WAAC) recommendations. Overall, the committee continues to have a modest overweight allocation to equities and alternatives and a modest underweight 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. Global bonds from developed countries remain neutral in all profiles and global bonds from emerging markets remains underweight in all profiles.

Within equities, the allocations are unchanged: modest overweight for Canadian and U.S. equities and modest underweight for international and emerging markets, in all profiles.

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)

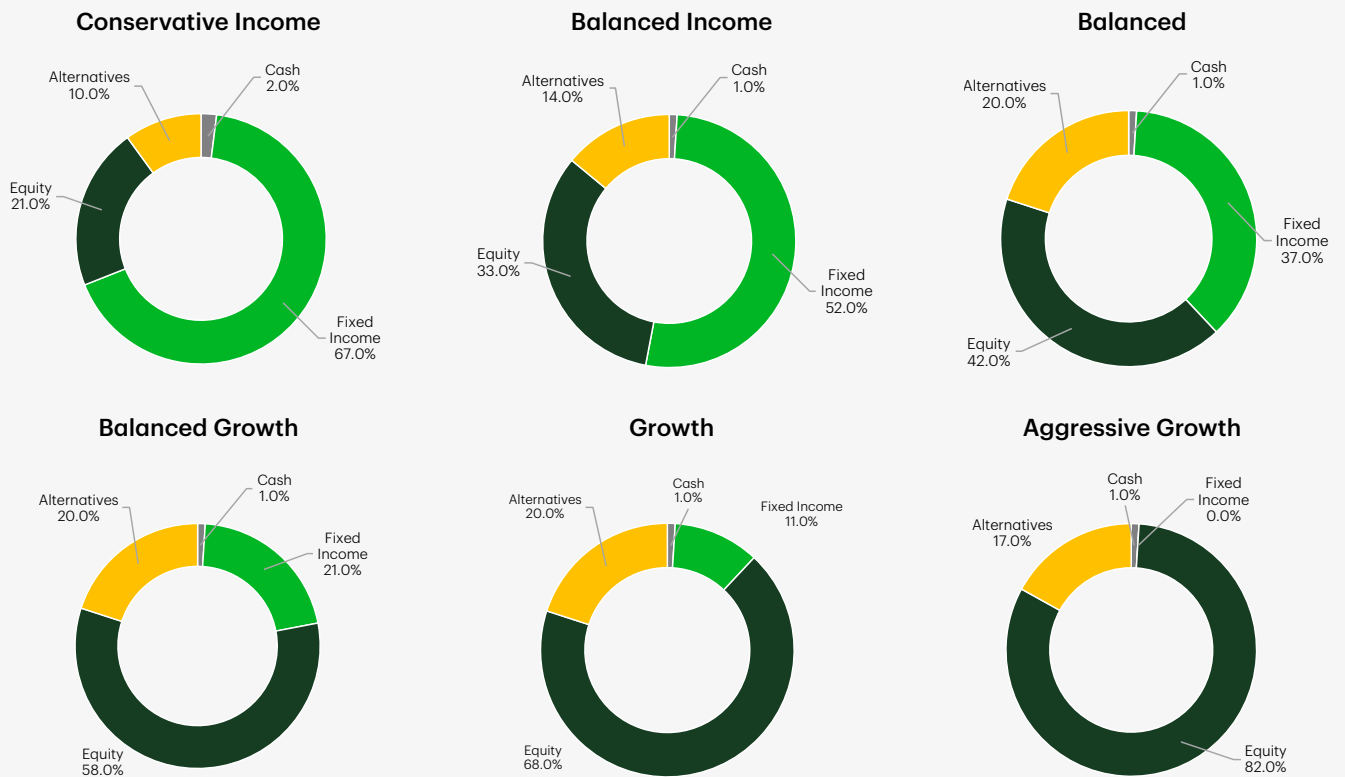


Strategic and dynamic asset-class weights by investor profile (Condensed)

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%	10.0%	0.0%	0.0%
Corporate	39.0%	40.0%	31.0%	32.0%	24.0%	25.0%	16.0%	16.0%	12.0%	11.0%	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%	7.0%	11.0%	12.0%	15.0%	16.0%	20.0%	22.0%	23.0%	25.0%	29.0%	31.0%
U.S.	8.0%	10.0%	14.0%	16.0%	20.0%	22.0%	26.0%	29.0%	30.0%	33.0%	40.0%	42.0%
International	4.0%	3.0%	7.0%	6.0%	10.0%	9.0%	13.0%	11.0%	15.0%	13.0%	19.0%	17.0%
China/ Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of October 16, 2025.

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%	8.0%	6.0%	6.0%	5.0%	5.0%	3.0%	3.0%	2.0%	2.0%	0.0%	0.0%
Global Bonds - Emerging	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Canadian	6.0%	7.0%	10.0%	11.0%	11.0%	12.0%	16.0%	18.0%	19.0%	21.0%	22.0%	24.0%
U.S.	8.0%	10.0%	13.0%	15.0%	17.0%	19.0%	23.0%	26.0%	27.0%	30.0%	35.0%	37.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	9.0%	13.0%	11.0%	15.0%	13.0%
China/Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%
Commercial Mortgages	4.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	0.0%	0.0%
Private Debt	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	1.0%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	0.0%	2.0%	4.0%	5.0%	7.0%	5.0%	7.0%	5.0%	7.0%	9.0%	10.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%
Fixed Income	71.0%	69.0%	56.0%	53.0%	41.0%	38.0%	26.0%	22.0%	16.0%	12.0%	2.0%	1.0%
Equity	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of October 16, 2025.

Economic Outlook

Canada's Consumer: Monetary Policy in Action

Falling rates have reignited consumer demand, but with the labour market softening and savings thinning, the boom may be running on borrowed momentum.

Andrew Hencic, Director & Senior Economist | TD Economics

Highlights

- Canadian consumer spending has been remarkably robust, despite a weak first quarter of 2025. This has been primarily driven by lower interest rates that have encouraged households to spend rather than save, even as the labour market and housing sector remain subdued.
- Household spending growth is expected to run at a below-trend rate as income growth and the labour market weaken, with further drawdowns in the savings rate providing the main support.
- A stronger revival in the housing market or stronger-than-expected debt growth present upside risks to the forecast.

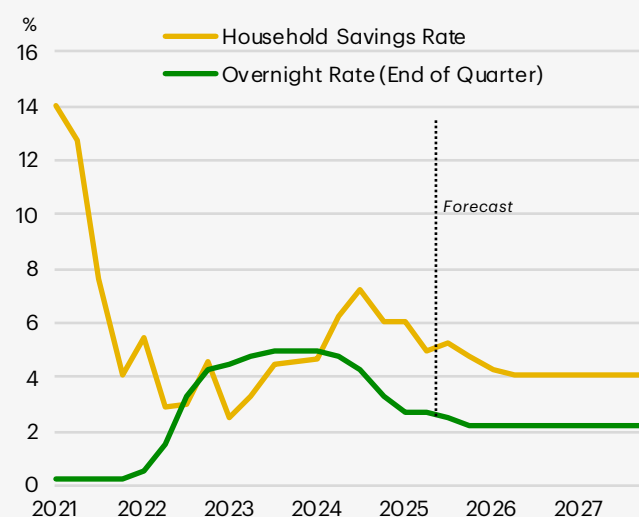
Canada's resurgent consumer has grabbed headlines. Robust spending growth in the face of significant challenges has raised questions about what's behind the surprise and whether it is sustainable. Our answer is simple: monetary policy. Lower interest rates have tilted the math towards spending in households' spend vs. save decisions, helping to cushion the economy from a slowing labour market and subdued housing market. Looking forward, the lower rates mean the savings rate should have a little more room to fall – keeping consumer spending out of the red as the unemployment rate rises.

To set the stage, spending clocked in at a healthy 4.8% (annualized) over the back half of 2024, as the cumulative effect of 125 basis points of Bank of Canada

rate cuts since June 2024 worked their way through the economy. The good times were, unsurprisingly, arrested by the U.S. tariff threats at the start of the year that tanked consumer confidence. However, this proved relatively fleeting with outlays surging 4.5% in Q2. So, what's been going on in the background?

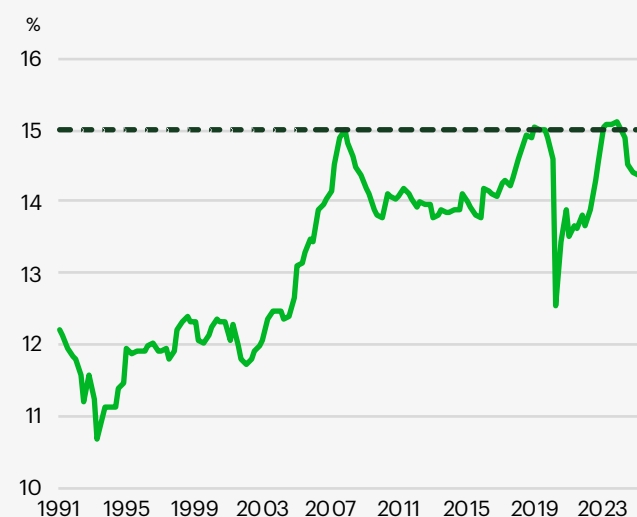
Well, the household savings rate has fallen 2.2 percentage points (pp) since 2024Q3. Not coincidentally, the drop has come as interest rates have fallen (Figure 1). When the Bank of Canada started raising interest rates in 2022, alongside other global central banks, the cost to service the obligations shot higher, driving Canada's household debt service ratio to its previous high of 15% (Figure 2). In what has become a pattern, at this level households shift

Figure 1: Consumers shift from saving as rates fall



Source: Bank of Canada, Statistics Canada, TD Economics.

Figure 2: Household debt service ratio stabilizes below record high

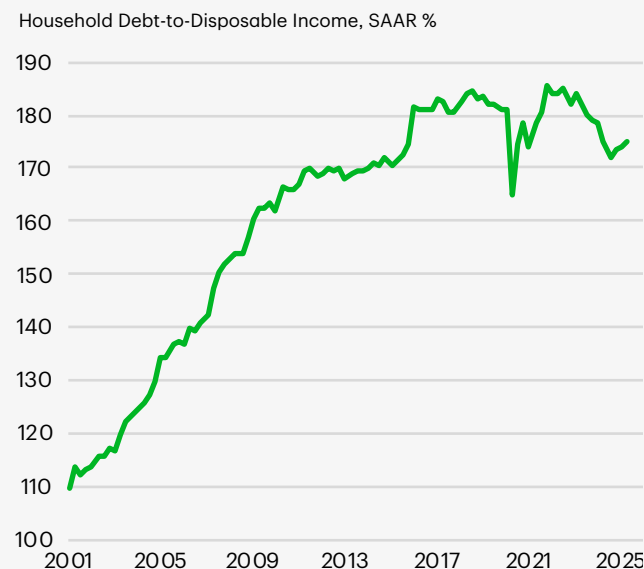


Source: Statistics Canada, TD Economics. Last Observation: 2025Q2

their strategy, pushing pause on additional borrowing (Figure 3). Amid multi-decade high borrowing costs, household borrowing slowed dramatically. This pushed the debt-to-income ratio 13.5 pp lower by late 2024, bringing it back down to levels last seen a decade ago.

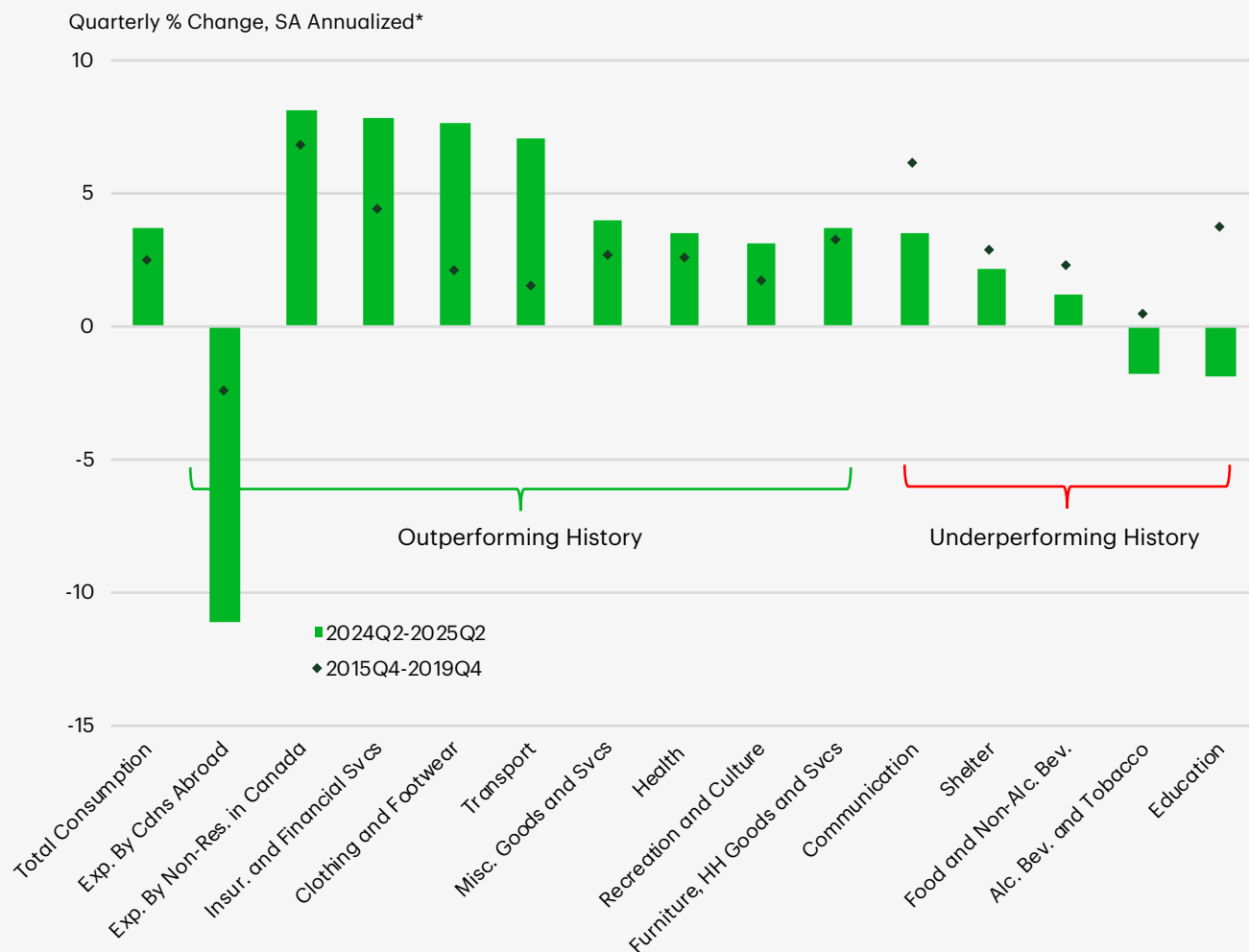
Now, the reverse is occurring as lower borrowing costs have meant more post-debt income available for indebted households, and Canadians have responded by spending it. However, this time, the money hasn't primarily flowed to housing, but on a wide variety of goods and services (Figure 4). Shelter spending, and particularly rent and imputed rent (the quarterly value of housing assigned to homeowners), has grown more slowly than in past cycles. With weak population growth, this is not all that surprising. What is surprising is the strength of just about every other consumption category. The Canadian consumer has splashed out across just about every category of consumption in a way that is far beyond what would be expected in the context of a soft labour market and downbeat sentiment.

Figure 3: Household deleveraging appears over for now



Source: Statistics Canada, TD Economics.

Figure 4: Strong consumer spending across the board



Source: Statistics Canada, TD Economics.

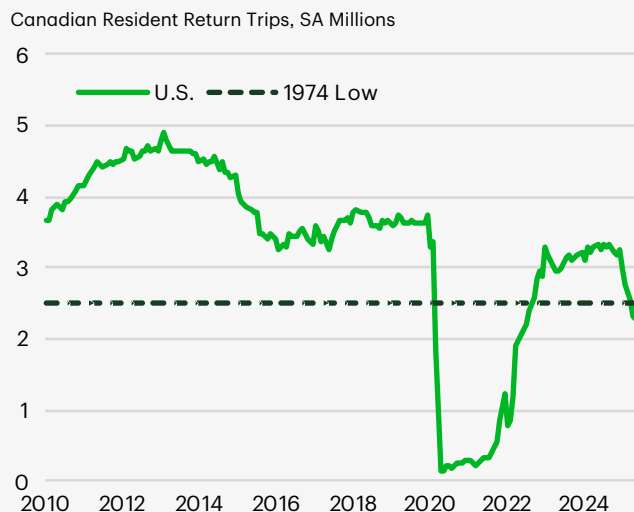
In fact, there are a couple of reasons we expect the consumer to continue to outperform the weak labour market. First, Canadian spending abroad has fallen to a level not seen since 2010. In fact, the 2.3 million (seasonally adjusted) return trips from the United States recorded in July were the lowest total (apart from during the pandemic lockdowns) going back to at least the early-70s (Figure 5). Moreover, the return trips from the U.S. are down 1.2 million year-on-year (y/y) as of this July (-32.4%) and were only partially offset by 80k more returns from other countries. This suggests a structural shift towards domestic tourism and services spending. The tourism sector might still feel a pinch as American entries into Canada were also down 102k in July (-3.0%), but these were nearly totally offset by global entries (ex. U.S.) rising 93k (10.2% y/y). Looking forward, with limited upside for the Canadian dollar against most currencies, Canadians' preference towards domestic travel is likely to persist, to the benefit of domestic firms.

Secondly, the Canadian housing market has started to show some verve of late. Sales have climbed for the past 5 months. Overall activity is still soft by historical standards, but we expect an ongoing recovery. As purchase activity grows, so too will consumption spending, not just for shelter, but for the furniture, appliances, and other household goods that benefit from new home acquisitions.

Monetary Policy Can Only Go So Far

The positive effects from rate cuts are working to offset the drags the economy faces, but the drags are substantial. The unemployment rate looks likely to rise, only limited by slower population growth.

Figure 5: Return trips to the U.S. Fall below historical lows



Source: Statistics Canada, TD Economics. Last Observation: July 2025

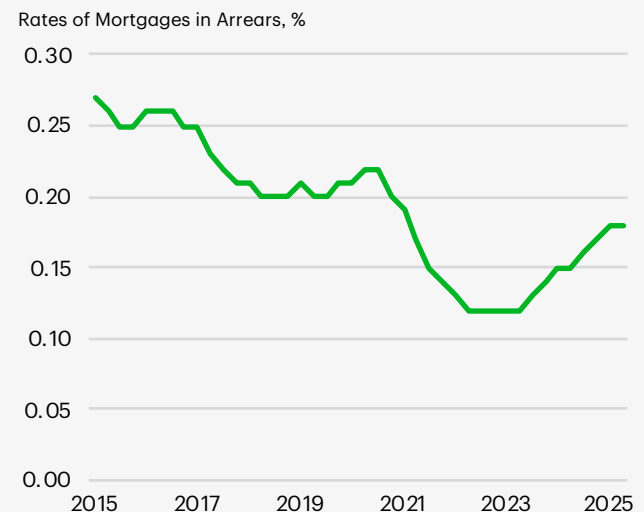
A brief resurgence in vehicle sales in the second quarter should normalize in Q3, dragging goods spending lower. Moreover, medium- and long-term borrowing rates appear unlikely [to offer much more relief](#). The good news is further Fed cuts should also help to limit the upside risk to rates by keeping a lid on U.S. bond yields, and their international counterparts, over the coming months.

The housing market, although appearing to show signs of life as of late, is still mired in a supply glut, with benchmark prices still falling. A small recovery in the coming months will help, but we don't expect boom times to return. More mortgage [rate resets are on the way](#), draining some possible spending, while the rate of loans in arrears has crept higher (Figure 6). The good news is stress tests appear to have worked as intended to prevent a major wave of defaults, and recent income and wealth gains have created some wiggle room for borrowers to navigate resets.

Bottom line, Canadian household spending growth is expected to register a below-trend rate of 1.3%-1.4% in late 2025 and early 2026. Income growth is expected to be modest, in line with a weaker labour market. As such, we're looking for consumer spending growth to moderate in the coming quarters as downbeat economic sentiment and slower income growth act as drags. This means the driving force behind the figures is a further drawdown in the savings rate. Of course, there is potential upside risk comes from the housing market and debt accumulation. A sharper recovery in housing or a larger acceleration in debt growth loom as upside risks.

economics.td.com

Figure 6: Share of mortgages in arrears slowly creeps higher



Source: Transunion and Bank of Canada Calculations, TD Economics. Last Observation: 2025Q2

Asset Class Analysis

Contributors

Christopher Lo, CFA.....Head of Managed Assets, WIO, TD Wealth
Mansi Desai, CFA Senior Equity Analyst, Managed Investments, WIO, TD Wealth
Fred Wang, CFA, FSA, FRM..... Senior Portfolio Manager, Asset Allocation, WIO, TD Wealth
Christopher Blake, MBA, CFA..... Senior Portfolio Manager, Equities, WIO, TD Wealth
Chadi Richa, MBA, CFA Senior Equity Analyst, WIO, TD Wealth
David Beasley, CFA, CMT..... Senior Quantitative Portfolio Manager, Equities, WIO, TD Wealth
Kevin Yulianto, CFA.....Portfolio Manager, Equities, WIO, TD Wealth
Andrej Krneta, MBA, CFA Senior Equity Analyst, WIO, TD Wealth
Neelarjo Rakshit, CFA, CAIA..... Senior Equity Analyst, WIO, TD Wealth
Shezhan Shariff, MBA, CFA Senior Alternative Investments Analyst, WIO, TD Wealth
Daniel Carabajal, MBA..... Senior Fixed Income Analyst, WIO, TD Wealth
Nana Yang, CFASenior Equity Analyst, WIO, TD Wealth
Jack Zhang, CFA, FRMInvestment Management Analyst, TD Wealth

Quarter in Review

Navigating the Pivot

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

The third quarter of 2025 unfolded against a backdrop of cautious optimism and persistent uncertainty, marked by a gradual upward trend in equities and accumulating evidence of moderated growth across major developed economies, particularly the U.S. We have experienced consecutive months of negative payroll revisions combined with declining job openings and slower job growth. The U.S. labour market is lagging: hiring activity has slowed and worker mobility, the willingness or ability to switch jobs, has diminished (Figure 1). Yet equity markets demonstrated remarkable resilience, buoyed by shifting monetary policy expectations, the OBBB (One Big Beautiful Bill) and healthy corporate earnings.

Central banks, led by the Federal Reserve (Fed), found themselves walking a fine line as they delivered long-awaited rate cuts while still cautioning against possible inflationary flare-ups. In the U.S., two high-frequency datapoints—an unexpectedly weak payroll sequence with substantive downward revisions and a series of soft PMI (Purchasing Managers Index) prints—acted as catalysts for the cuts. While markets interpreted these datapoints as early evidence that U.S. growth was losing momentum, the Fed's actions promptly moved the spotlight to policy rate easing and expectations for further rate cuts lifted risk assets, compressed term premia, and encouraged investors to unwind momentum-heavy leadership in favour of broader equity-market participation.

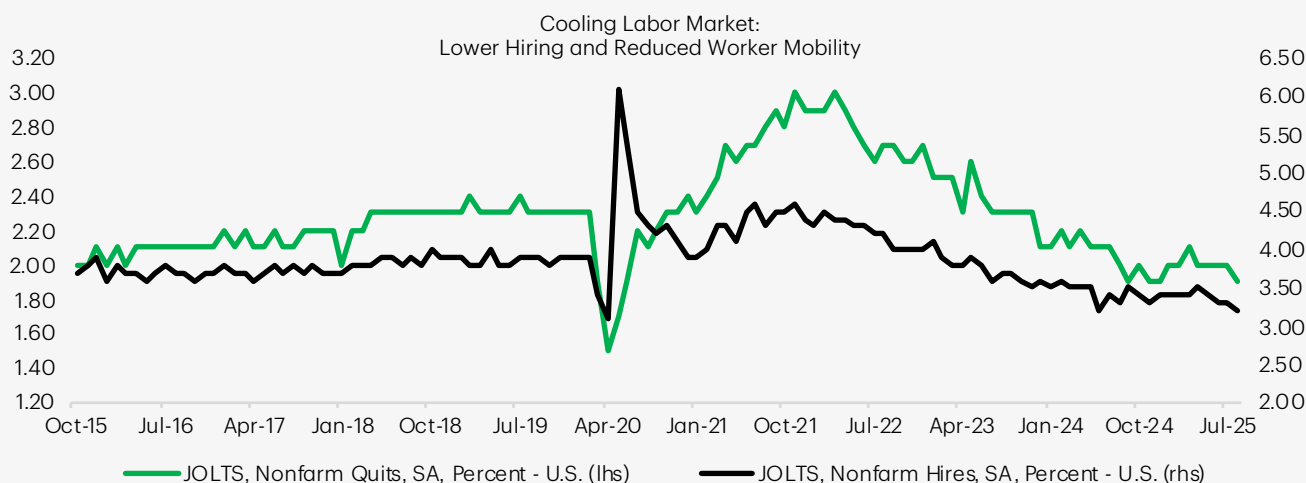
The policy pivot, however, did not erase deeper policy and structural tensions. Political pressure on the Fed, the inflationary impact of tariffs and inventory hangover, as well as the appointment of Stephen Miran to the Board of Governors has brought discussion of a “third mandate” (explicit management of long-term interest rates) into the mainstream. Such shifts mean the next 12 months will be defined by policy uncertainty interacting with a shifting durability of growth—a true pivot in regime rather than a gentle cyclical turn.

Tariff Impact Receding, Inflation Overhang Remains

Compared to previous quarters, the market reaction to tariffs in Q3 was muted. Corporations managed to sidestep the worst of the cost increases through strategic transshipment arrangements and country-specific carveouts. However this temporary buffer is being eroded as we move through the second half of 2025 and into 2026.

The depletion of inventory stockpiles, built at great cost ahead of peak tariffs, is now exposing the underlying vulnerability of many industries. In many end consumer markets (like retail grocery stores or Netflix which sells directly to consumers), firms face limited ability to raise retail prices because of competition, elastic demand, and channel constraints. That means producers and distributors in sectors where tariffs affect input costs (the cost to create a product or service) could see margin compression in the short run.

Figure 1: U.S. Labour market cooling, worker mobility and hiring declining

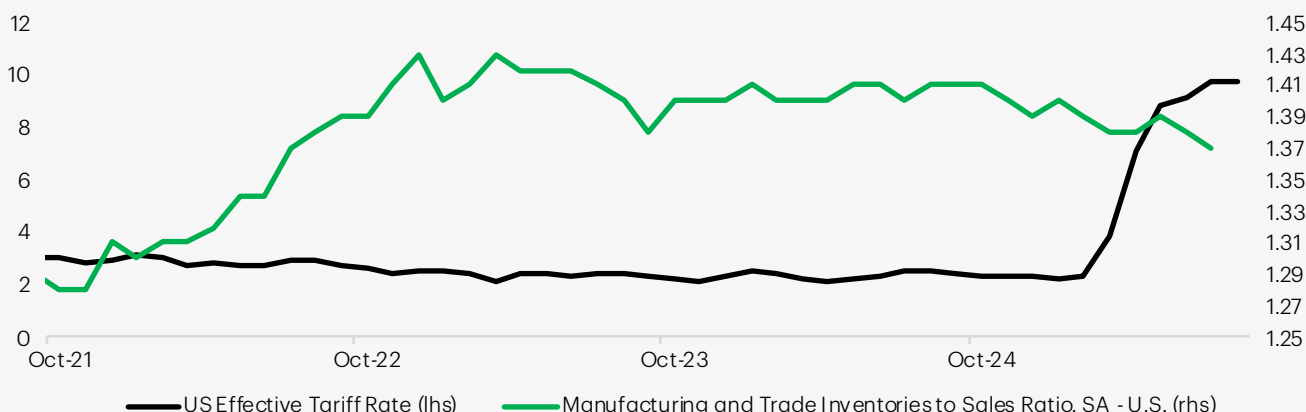


Source: FactSet, WIO, as of September 30, 2025. JOLTS, the Job Openings and Labor Turnover Survey, is produced by the U.S. Bureau of Labor Statistics and estimates seasonally adjusted nonfarm quits and nonfarm hires among other data.

As inventory dwindles, companies will have to decide whether they will pass this extra cost onto consumers and for those that do, we will see a later wave of higher-cost goods (Figure 2).

There is timing risk around the impact of tariffs: the immediate relief from front-loading tariffs muted inflation in the near term, but it could also delay price increases as higher-cost inventories flow through the system. That second-round effect—if it materializes—would complicate the Fed's plans for easing rates and, if inflation data turns hotter than currently anticipated, it could stall the easing process. But not all inflation dynamics are uniformly detrimental. Moderate price pressures can, to some extent, be constructive for corporate earnings. With labour costs easing and wage growth normalizing, companies are regaining breathing room on the expense side. They are also better positioned to convert incremental revenues into outsized gains in profitability. This sets the stage for positive operating leverage to re-emerge (Figure 3).

Figure 2: Hidden inflationary pressure of high tariffs, dwindling inventory cushion



Source: FactSet, WIO, as of September 30, 2025. The U.S. Effective Tariff Rate reflects the average tariff actually imposed on imported goods based on total duties collected relative to the value of imports.

Figure 3: Close correlation between inflation and top-line growth



Source: FactSet, WIO, as of September 30, 2025

Small companies with less negotiating power may need more aggressive Fed cuts to stave off margin compression. Because large companies tend to respond more quickly to surveys by the U.S. Bureau of Labor Statistics (BLS), recent negative revisions to job growth was partly driven by the weakness in Small and Medium-sized Enterprises (SMEs), which are generally the first to scale back on hiring when the economy slows.

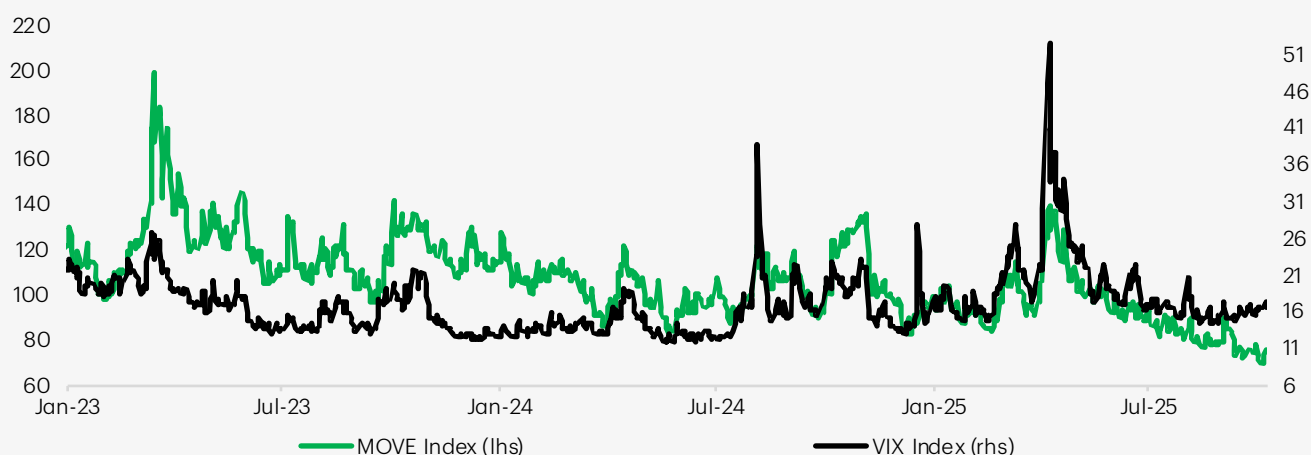
The Rates Dichotomy: Cuts as Catalyst, Volatility as Constraint

The Fed's pivot to rate cuts has been greeted with enthusiasm: the shift signals that policymakers were able to prioritize growth concerns (labour market softening) without immediately re-igniting any inflationary fears. While the Fed has increasingly emphasized its balanced approach, the path ahead is fraught with uncertainty which will affect the magnitude and pace of any subsequent easing. If inflation surprises to the upside or proves stickier than anticipated, current market expectations will appear to be too optimistic.

The market mechanics of the Fed's pivot were immediate and—importantly—uneven. Short-term rates were repriced first; longer yields fell because of softening longer term growth expectations and further expected cuts. At the same time, interest-rate volatility plunged to multi-month lows as market players expected fewer shocks in the immediate term. This decline in rate volatility, irrespective of the absolute level of policy rates, affects equity performance. Historically, equities have rallied when volatility indices for U.S. treasuries and stocks have trended down because when there is less uncertainty around rates, risk premia drops and this supports equities (Figure 4).

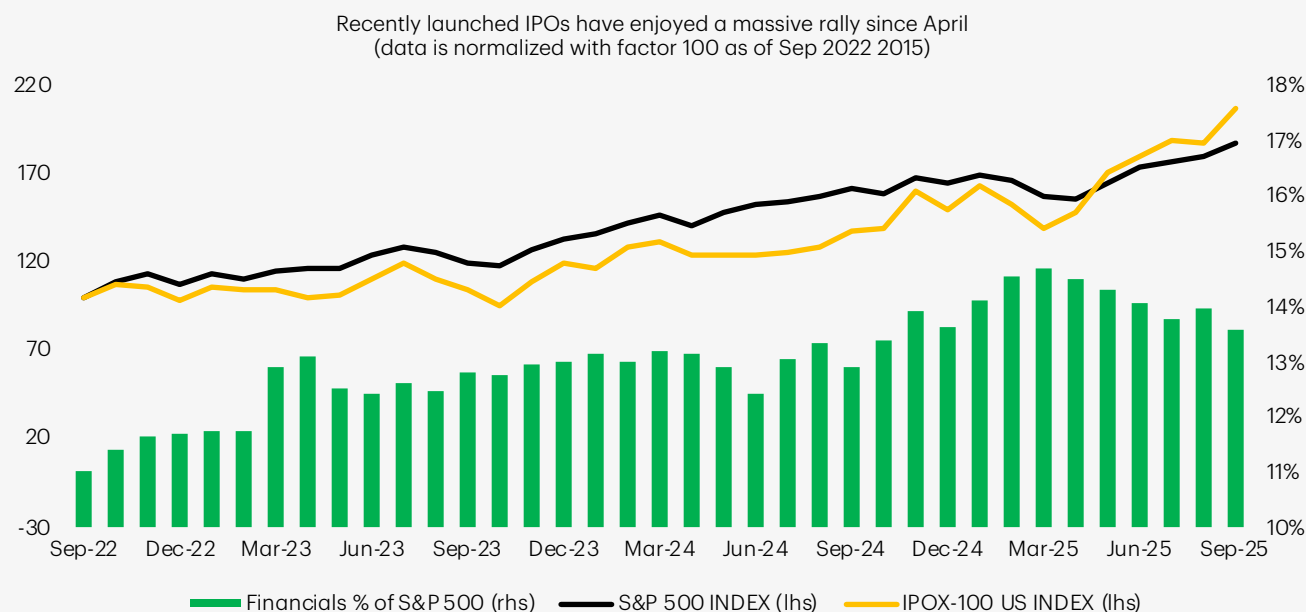
The shift towards lower rates is generally viewed as a positive for the financial sector, particularly at this time because the previous high rate environment was suppressing IPO and M&A markets. A resurgence of IPO and deals, fueled by strong sentiment and cheaper capital, could drive positive earnings revisions (Figure 5). Moreover, structural tailwinds, including potential regulatory rollbacks, may amplify these gains.

Figure 4: Equities rally as volatility trends down



Source: FactSet, WIO, as of September 30, 2025. The MOVE index tracks implied volatility for U.S. bonds and the VIX index shows implied volatility for stock options.

Figure 5: Rally since april for recently launched IPOs



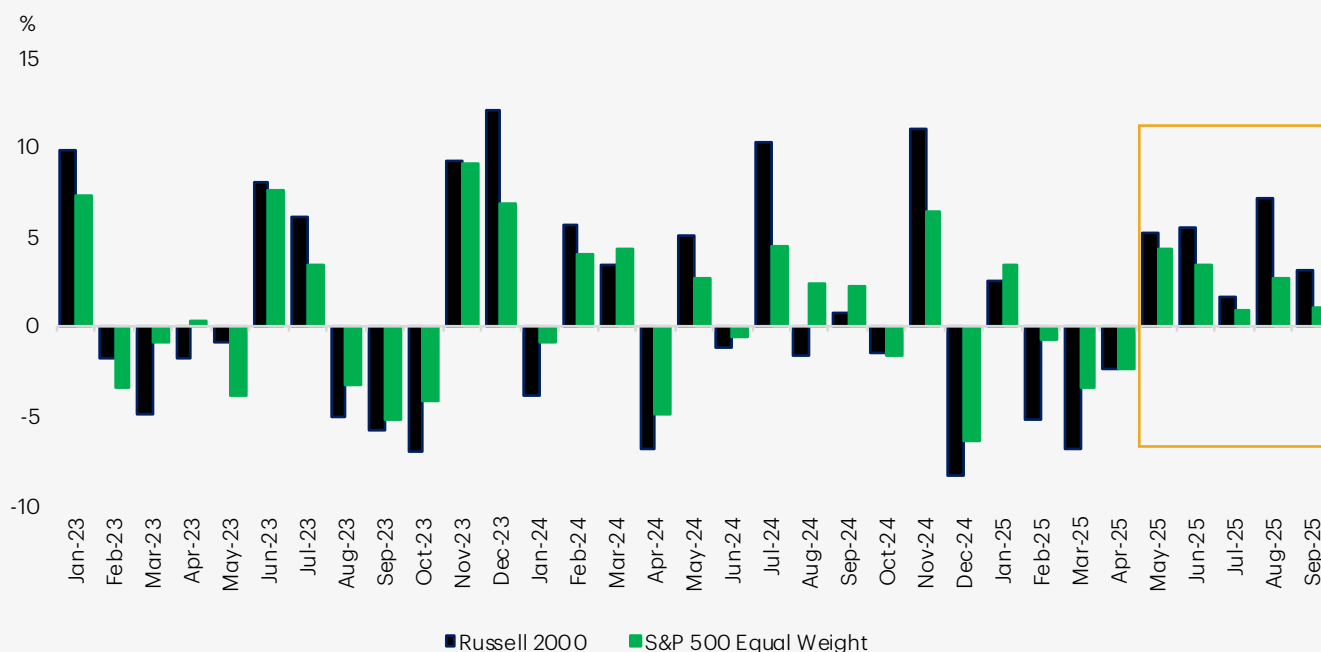
Source: FactSet, WIO, As of September 30, 2025. Left-hand side data is normalized with factor 100 as of September 2022. The IPOX-100 U.S. index measures the performance of the top 100 newly listed companies.

Rate-sensitive segments of the market, including small caps tend to benefit from rate cuts because lower borrowing costs can boost the potential for growth. Monthly returns for the Russell 2000 have outperformed the S&P 500 Equal Weight index since May with the August outperformance being the most significant following Fed Chair Jerome Powell's dovish tone at the annual Jackson Hole gathering (Figure 6). Small caps, which carry relatively high depreciation & amortization and interest costs, will also see a lift to net income from the OBBB. Emerging markets have also historically benefited from Fed easing cycles which weaken the U.S. dollar and improve capital flow dynamics.

The U.S. Dollar and Gold: A Secular Alignment

The dollar's trajectory over the third quarter reflects the pulls exerted by multiple forces, the outcome of which was not a disorderly plunge but rather a controlled depreciation. Tariff-induced trade reconfigurations, elevated policy uncertainty, and an increasingly dovish Fed worked together to weaken the dollar. Indeed, the White House has signaled an explicit preference for a weaker dollar as part of its trade rebalancing strategy. Meanwhile, the U.S. current account deficit narrowed sharply as the flood of imports ahead of tariff implementation slowed (Figure 7).

Figure 6: Small caps soar as rate expectations shift



Source: FactSet, WIO, as of September 30, 2025

Figure 7: U.S. Trade deficit normalizes post tariff surge



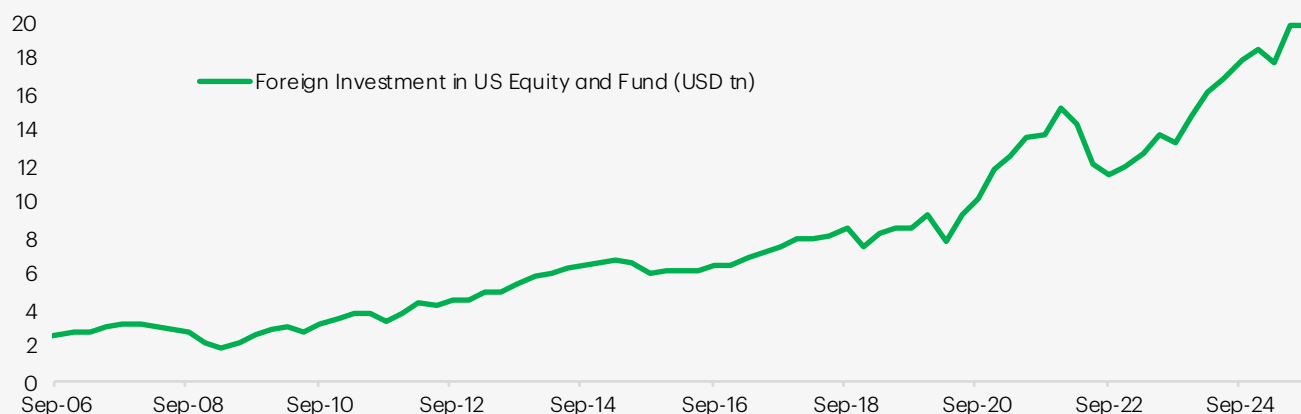
Source: FactSet, WIO, as of September 30, 2025

At the same time, global investment demand is accelerating, fueled by the urgent need to rebuild vulnerable supply chains and expand domestic industrial capacity in semiconductors, energy infrastructure, and defense.

Yet U.S. dollar supports remain in place. The U.S. continues to draw large-scale cross-border capital inflows, underpinned by AI-driven capital expenditures, the depth and resilience of U.S. financial markets, and increasingly by new instruments such as regulated stablecoins (Figure 8). The passage of federal stablecoin legislation and accompanying implementation guidance in mid-2025, combined with proactive Treasury debt management, provides a credible path for the U.S. to maintain—and potentially extend—its central role in global payments and short-term funding markets. This sets the stage for a dollar dynamic that is less about unilateral depreciation and more about a ‘battle of flows,’ where persistent policy-driven headwinds are partially offset by robust foreign capital inflows into U.S. assets.

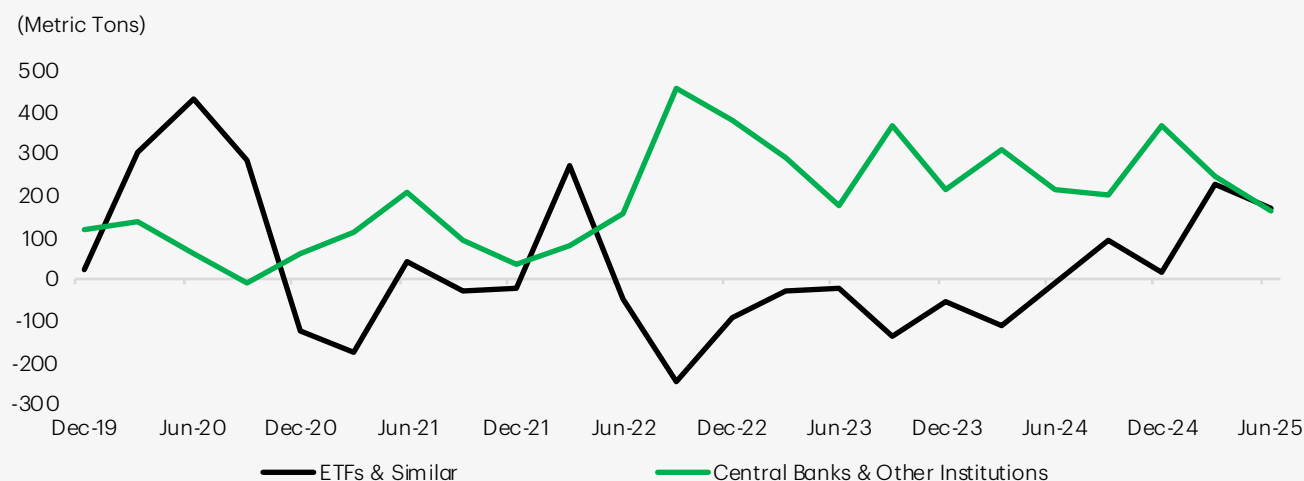
Dollar debasement concerns have created an environment where alternative stores of value, most notably gold, have regained prominence. Strong investment flows into Exchange Traded Funds (ETFs) alongside steady central-bank purchases underscore that this is not merely a transient retail trend, but rather part of a broader institutional shift in reserve management strategies. In fact, gold rose 46% from January 1 to September 30. If the dollar’s downward drift persists against a backdrop of heightened political uncertainty and questions around central-bank independence, gold stands to benefit both from the lower real-rate environment and from its role as a safe-haven diversifier in official reserves. Importantly, gold is also functioning as a hedge against the administration’s appetite for engineered ‘boom-and-bubble’ dynamics ahead of the midterm elections, reinforcing its role as a strategic anchor in a more fractured global monetary order.

Figure 8: U.S. continues to draw global capital, cushioning dollar weakness



Source: FactSet, WIO, as of September 30, 2025

Figure 9: Gold shines on strong etf inflows, steady central bank demand

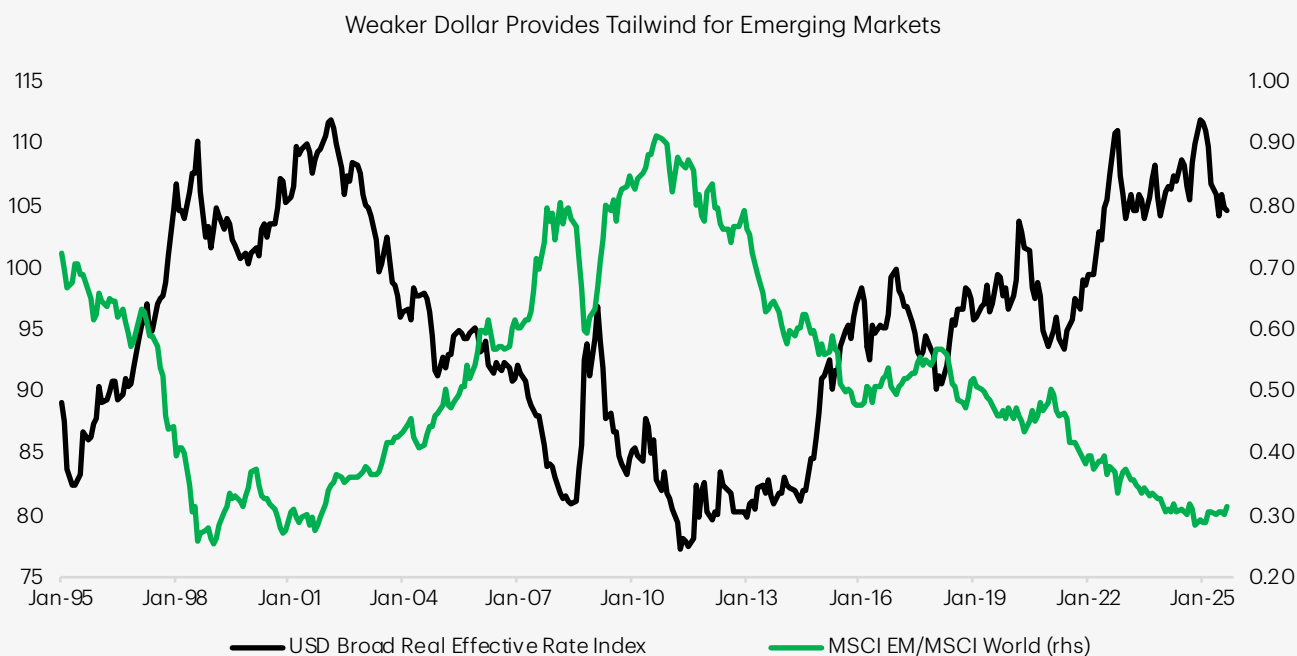


Source: FactSet, WIO, as of September 30, 2025.

A weaker dollar has historically created a more favourable environment for emerging markets. By lowering the cost of servicing dollar-denominated debt and often supporting higher commodity prices, dollar softness tends to provide a tailwind for many emerging market (EM) countries. It also improves the relative appeal of EM assets by encouraging cross-border capital inflows into higher-yielding markets. Beyond these direct financial effects, the combination of a weaker dollar and easier global monetary conditions is frequently associated with a rebound in risk appetite, adding an additional layer of support to EM performance. In this sense, the dollar's adjustment functions as both a relief valve for external financing pressures and a catalyst for renewed capital engagement with the developing world (Figure 10).

To conclude, the key narrative of the third quarter has been the market's adaptation to a pivotal policy shift. This transition, however, goes beyond a simple easing cycle: it introduces a complex interplay of growth moderation, inflationary concern from tariffs, and significant structural changes in global reserve assets and policy frameworks. For investors, this underscores the importance of portfolio diversification across sectors poised to benefit from lower rates, a weaker U.S. dollar, and broader participation, all while mindful of the latent risks in the system. The journey ahead is one of navigating a true regime change, demanding both discernment and flexibility.

Figure 10: Weaker dollar provides boost to emerging markets



Source: FactSet, WIO, As of September 30, 2025

Outlook on Fixed Income ● Modest Underweight

Compelling Interest Income, Downside Protection

As central banks diverge and inflation proves stubborn, investors face a bond market shaped by shifting mandates, geopolitical tensions and the enduring value of active management.

Daniel Carabajal, Senior Fixed Income Analyst | TD Wealth

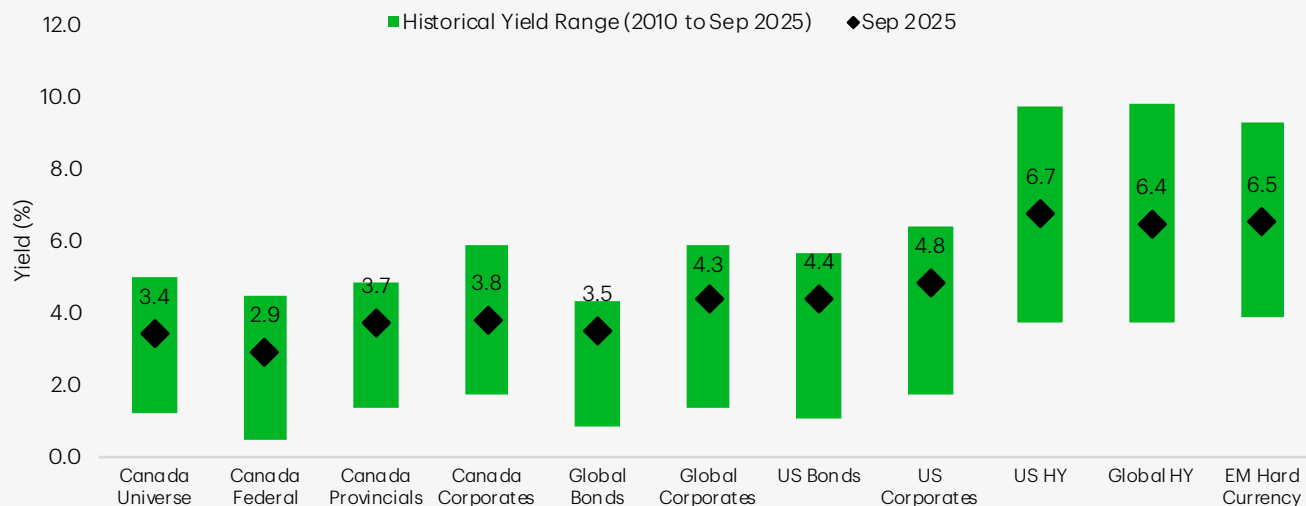
This year has vividly illustrated the complexities of geopolitical conflicts and trade negotiations, particularly in the U.S., the world's largest bond market. While some key issues have been resolved, new concerns have arisen, notably regarding the Federal Reserve's independence. Recently, market participants have shifted their attention to key economic indicators. Current inflation data indicates that inflation remains persistent, with limited progress in reaching the Fed's 2% target. Although inflation expectations may suggest potential upward pressure in the near term, the ultimate impact of tariffs on consumer prices remains uncertain. In addition, the latest U.S. employment figures came in weaker than expected, with downward revisions from prior months indicating a slowdown in economic activity. We think the growing tension between the Fed's dual mandates of maximum employment and price stability could further cloud the rate outlook. However, unless we face significant rate volatility before year-end, most fixed income segments, particularly short-term instruments, are well positioned to deliver low single-digit returns this year.

In previous editions of PSQ, we highlighted that monetary policy paths will be different for every region as central banks evaluate their unique circumstances. The third quarter has further illustrated this divergence.

In North America, both the Fed and the Bank of Canada resumed rate cuts in September after several months of holding steady, signaling a commitment to support economic stability. Conversely, in Europe, the European Central Bank opted to maintain its rates, with President Christine Lagard signaling that any policy shifts will only occur if conditions changed materially. In Japan, the Bank of Japan kept rates unchanged in September and recent political shifts suggest the direction of rates is uncertain. While rate volatility has calmed somewhat, we may still experience bouts of volatility ahead. For global investors, the U.S. might be in a rate cutting cycle, but recent sharp moves in government bond yields remind us that we need to be prepared for anything. Given the many uncertainties, any forecasts regarding central bank policy rates remain inherently precarious.

Government yields will likely remain higher than pre-COVID levels for longer than expected, even taking into consideration the global move towards modest easing. Given the macroeconomic uncertainty, bonds continue to offer yields on the higher side of the historic range (Figure 1). We believe that higher yields reinforce the positive role of fixed income in a broadly diversified portfolio, delivering income as well as downside protection.

Figure 1: Yields still attractive



Source: FactSet, Wealth Investment Office (WIO), as of September 30, 2025. Global HY: Bloomberg Global High Yield Hedged to CAD. EM Hard Currency: JP Morgan EMBI Global Core Hedged to CAD.

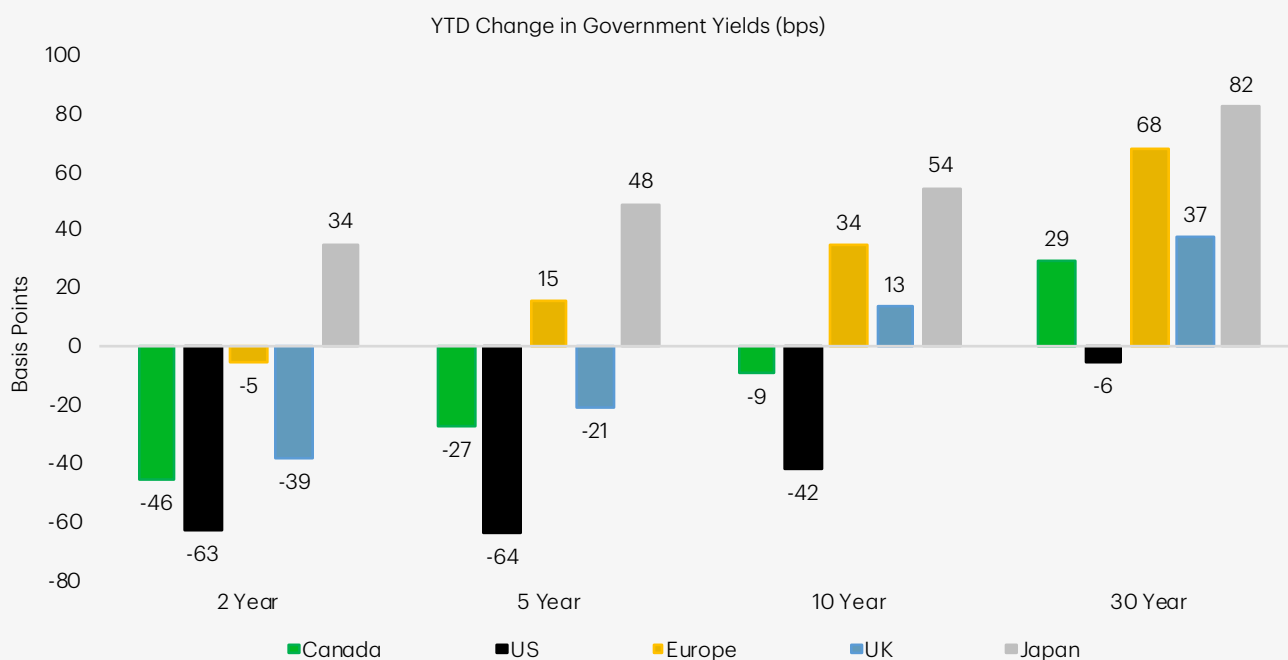
- We maintain our modest underweight view on fixed income overall. We believe returns going forward will largely be in line with average historical levels and mainly composed of the coupon.
- We hold a neutral view on domestic government bonds. Canadian government bonds are attractive at current yields and offer opportunities for income generation and downside protection, but we expect yields to be volatile given the uncertain outlook. Importantly, Canadian government bond yields remain highly correlated to more volatile U.S. government and global bond yields.
- We maintain a modest overweight view on investment grade (IG) credit. IG spreads are historically tight, and we favour Canadian IG corporate bonds, with their slightly wider spreads, over U.S. IG. Given the high level of economic uncertainty globally, spreads could widen (indicating the market is pricing in more risk) and as such we prefer short-term corporate bonds over longer maturities. We remain focused on high quality credit—companies with robust balance sheets—and we expect technicals to remain supportive and healthy yields to mitigate losses from price volatility.
- We hold a neutral view on high yield (HY) credit. HY bonds have been volatile due to the substantial uncertainties around U.S. trade policies and their impact on the global economy. HY spreads are tight reflecting their rich corporate valuations and

little premium for increased economic uncertainty. We expect spreads to widen if the growth outlook softens. We continue to favour the higher quality cohort of the HY credit market and floating rate loans (also known as bank loans or leveraged loans) offer better relative value than traditional fixed coupon HY bonds.

Government bonds

Government bonds have experienced bouts of volatility due to trade tensions, geopolitical issues, and worries about the U.S. fiscal outlook (Figure 2). In the third quarter, we witnessed rising yields across most regions, with the exception of Canada and the U.S., where yields declined. In North America, lower yields were particularly noticeable at the front end of the curve, driven by weaker payroll numbers and dovish comments from the Fed at the Jackson Hole Economic Symposium. In other rate markets, such as the U.K, yields increased materially, particularly at the long end of the curve, fueled by ongoing concerns about persistent inflation. This environment makes it challenging to have strong convictions about the direction of government bonds or positioning across different yield curves. Therefore, investors should keep on top of the situation, particularly because new economic data on inflation and employment may provide insights into the impact of recent U.S. policy changes like the One Big Beautiful Bill Act (OBBA).

Figure 2: Bouts of volatility for government yields



We remain neutral on Canadian government bonds. Canadian yields and U.S. equivalent yields have diverged since 2022 reflecting their country's different economic recoveries and the pace of central bank policy rate adjustments. We doubt this divergence can extend further and expect it to remain range bound, implying that Canadian yields will be at the mercy of their more volatile U.S. counterparts. We believe it's still best to take a longer-term view on government yields given the growing risk of an economic slowdown here in Canada as well as in other developed economies. If this occurs, we believe investors will move back into the safe haven of government bonds. On the other hand, a new fiscal package—and the accompanying higher deficit and higher bond issuance—might boost term premiums for government bonds. After the strong performance of past quarters and minus a severe recession, the outlook for Canadian government bonds is now more balanced over the medium to long term. Given the continued volatility, we still encourage investors to take a risk-managed approach to government bonds and rely on active management. Since 2021, only actively managed interest rate duration that has tapped into tactical opportunities has performed well.

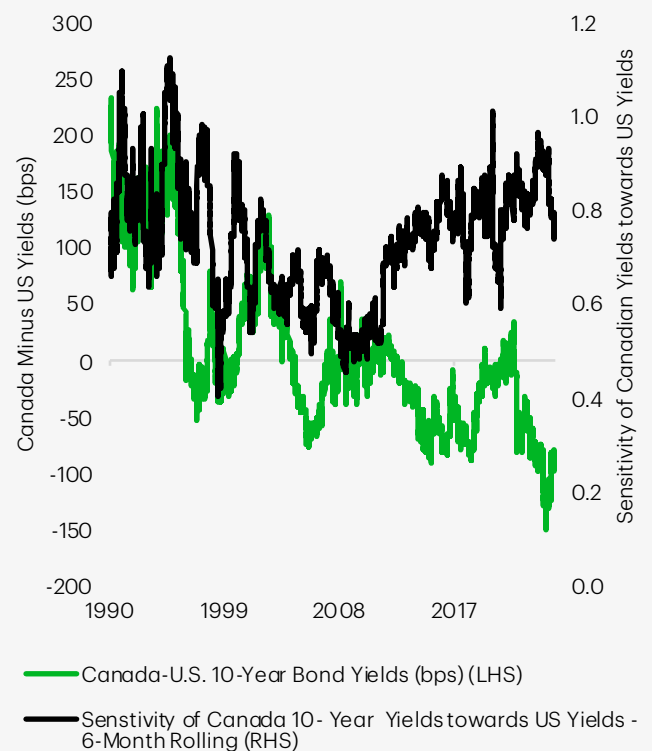
Key Themes for Government Bonds

- **U.S. Government Policies.** U.S. government policies and President Trump's trade talks are still driving increased volatility in government bond yields. While negotiations could continue for some time, the broader 10% tariff seems to be the new base level for many U.S. trading partners, and we still don't fully understand the long-term implications of these tariffs on the global economy. Trade talks between China and the U.S. remain a key focus for the market. As we approach the end of the current trade truce (Nov. 10) without making real progress, worries about consumer sentiment and inflation may increase, leading to an increase in rate volatility. We expect volatility to continue until we get a clearer picture of how U.S. policies will affect the world economy.

- **Forecasts and Market Expectations.** The recent policy shift continues to generate uncertainty around U.S. monetary policy. Any hints of rising inflation could limit rate cuts in the coming months, and trade conflicts are poised to hurt U.S. and global economic growth. As such, the Fed's policy rate path has become more uncertain, and the risk of stagflation is increasing, which means we may see a wider margin of errors for policy rate forecasts. As a result, it's crucial to adopt a tactical approach when investing in government bonds.

- **U.S. and Canadian Bond Yields.** The spread between Canadian long-term government bond yields and their U.S. counterparts remains wide. From the late 1990s until about mid-2022, spreads (Canadian yields minus U.S. yields) toggled around the zero line or were slightly positive (Figure 3). At the start of 2025, those spreads tumbled to roughly -150 basis points (bps) for 10-year bonds before moving to -88 bps on October 14, 2025. These wider spreads and higher U.S. yields reflect the fact that U.S. yields have been pushed higher by renewed inflation concerns, fiscal worries, tariff uncertainty, and tax cuts, and in Canada by lagging growth and the fiscal outlook. We maintain that Canadian yields are likely to outperform U.S. yields and at the same time will remain sensitive to U.S. yields, moving closely with them. For example, if domestic issues drive U.S. yields higher, Canadian yields will also rise, but less so and if recessionary fears send U.S. yields lower, Canadian yields will likely follow suit, but to a lesser extent. The BoC's easier monetary stance and lower terminal rate will not prevent Canadian yields from rising; indeed, the BoC might have less room than the Fed to move aggressively if cuts are required. This does not help with the outlook for Canadian government bonds.

Figure 3: Performance, sensitivity of canadian government yields vs. U.S yields



Source: FactSet, WIO, as of October 14, 2025

Credit: Investment-grade and sub-investment-grade

Credit markets showed resilience in the third quarter, supported by an economic environment that seems unlikely to lead to a recession in the near term. The stability of credit fundamentals was underpinned by strong credit ratios and healthy demand-supply conditions. Consequently, U.S. credit spreads for both investment (IG) grade and high yield (HY) bonds are expected to remain within a historically tight range. Most credit segments are trading at the lowest spreads in years. In the absence of substantial drivers, further compression of spreads may be limited. Therefore, adopting an active credit strategy that prioritizes high credit quality and carefully considers term exposure is essential. This approach could not only enhance potential returns but also strengthen resilience during vulnerable periods or unexpected market shocks.

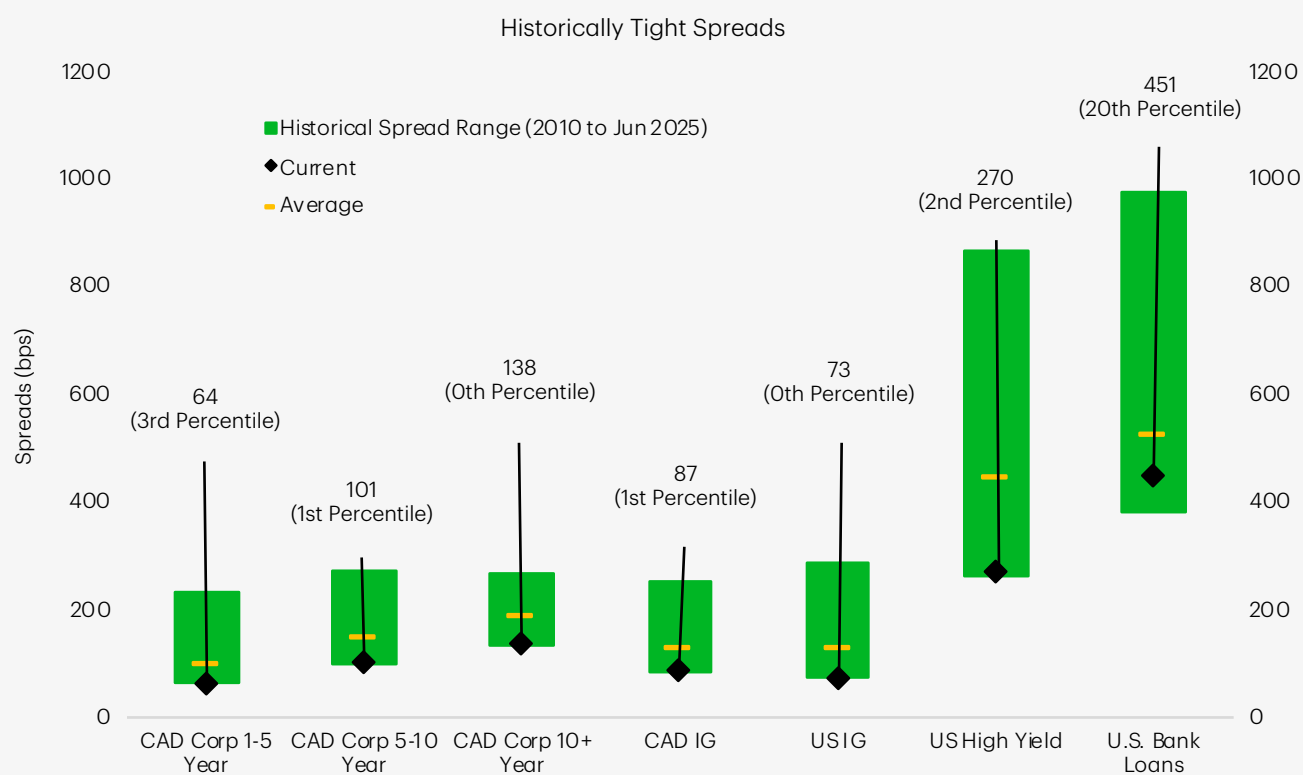
We maintain our modest overweight view on IG credit and our neutral stance on HY credit. Within the broader IG complex, we prefer short-dated Canadian IG bonds as a total return investment because they still offer attractive all-in yields with lower interest rate sensitivity and are expected to keep offering better forward excess returns than longer maturity corporates. Higher yields provide more protection when spreads widen (risk premium increases) and higher quality shorter maturity credit will widen less than the broad IG index.

We expect U.S. HY spreads to widen more relative to IG if fundamentals deteriorate and the probability of defaults increases. Within HY credit we prefer U.S. bank loans over the traditional fixed coupon HY credit bonds. Based on current historically tight valuations, and within the broad HY universe, U.S. bank loans with floating coupons based on the short-term rate, are trading with a higher spread cushion (premium) at the 20th percentile. Broadly we're more comfortable owning IG, with its better outlook and balance sheet strength, over HY. Given the wide range of views on the economic outlook, credit investors should rely on active management and sectoral trends.

Key Themes for Corporate Bonds

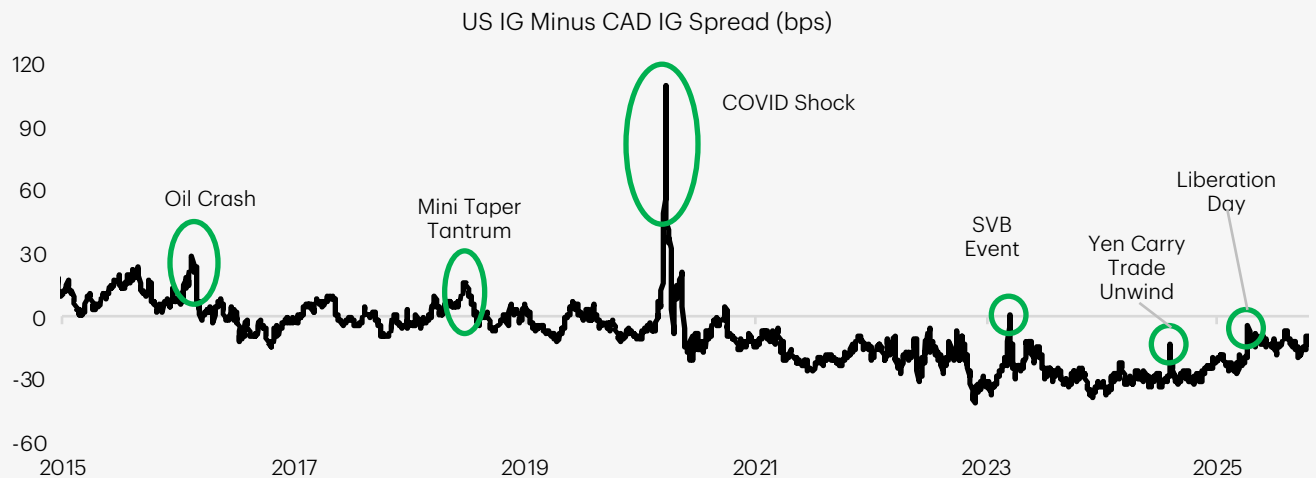
- **Prefer Canadian IG to U.S. IG.** We still expect Canadian IG to fare better than U.S. IG on a relative basis. Even if tariffs cause an uptick in the sensitivity of Canadian IG spreads to their U.S. counterparts, Canadian IG remains a lower beta alternative. The issuers most at risk are concentrated in the automotive sector (offshore issuers/guarantors), or in HY. Therefore, the Canadian IG space should prove a relative safe haven and should perform reasonably well through this turbulent period (Figure 5).

Figure 4: Current spreads near historical lows



Source: FactSet, WIO, as of September 30, 2025. Using historical month-end spreads since January 2010.

Figure 5: Historically, Canadian IG spreads widen less than U.S. IG spreads in times of stress

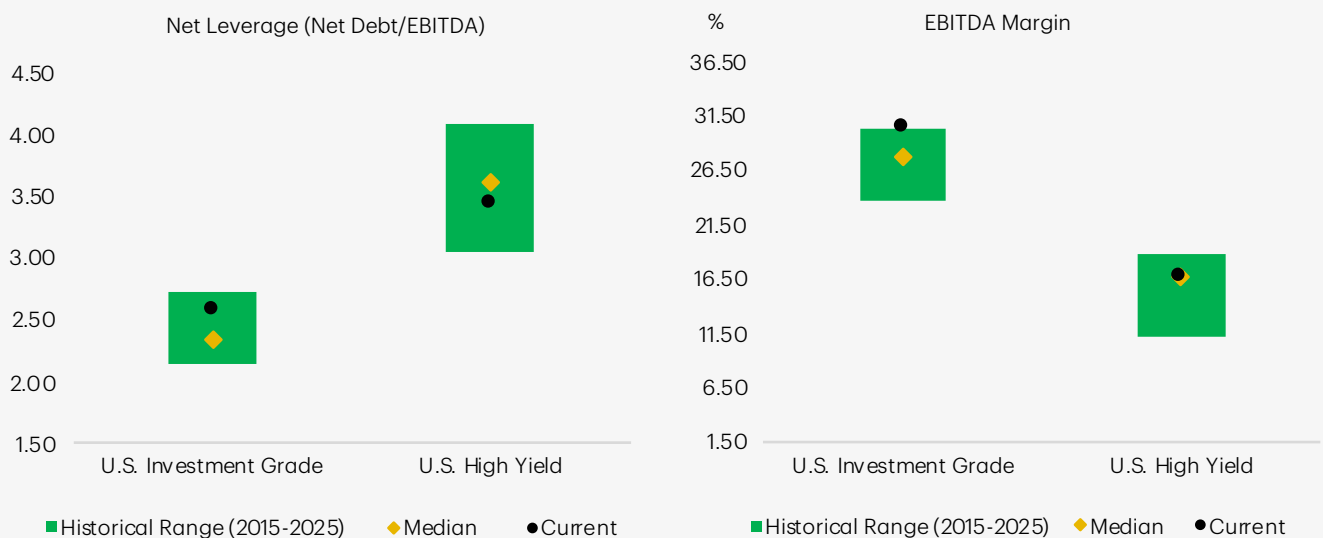


Source: FactSet, WIO, as of October 10, 2025

• **Credit Fundamentals, Technicals Poised to Boost Corporate Bond Valuations.** In an environment marked by uncertainty, the latest earnings season showed that credit fundamentals are holding steady, with most credit ratios consistent with long-term averages. In the IG arena, firms have experienced limited impact from tariffs, averaging healthy profit margins so far (Figure 6). However, it is still unclear whether these firms will absorb most of the costs or pass them on to consumers. In terms of technicals, gross bond issuance has remained elevated so far this year, with market projections estimating that year-end volume will exceed historical averages. The market has absorbed this bond supply relatively well—solid demand for historically high all-in yields means issuers were able to attract investors and sell their bonds at only a minimal discount.

• **HY Market Remains Susceptible.** Historically, periods of tight credit spreads have often been followed by a sharp widening, and selloffs tend to align with recessions, like the 2007-08 Global Financial Crisis. No one can predict these movements but understanding the underlying factors shows us how credit spreads could change. Uncertainty around fiscal policies, stubborn inflation, sluggish economic growth, or broader concerns, can all influence credit spreads. With credit spreads nearing historically tight levels, the risk premium looks relatively low given economic uncertainties.

Figure 6: U.S. credit metrics stable, Operating margins near historical highs



Source: FactSet, Economic Policy Uncertainty Index, WIO, as of June 30, 2025. The EBITDA Margin is EBITDA/Total Revenue.

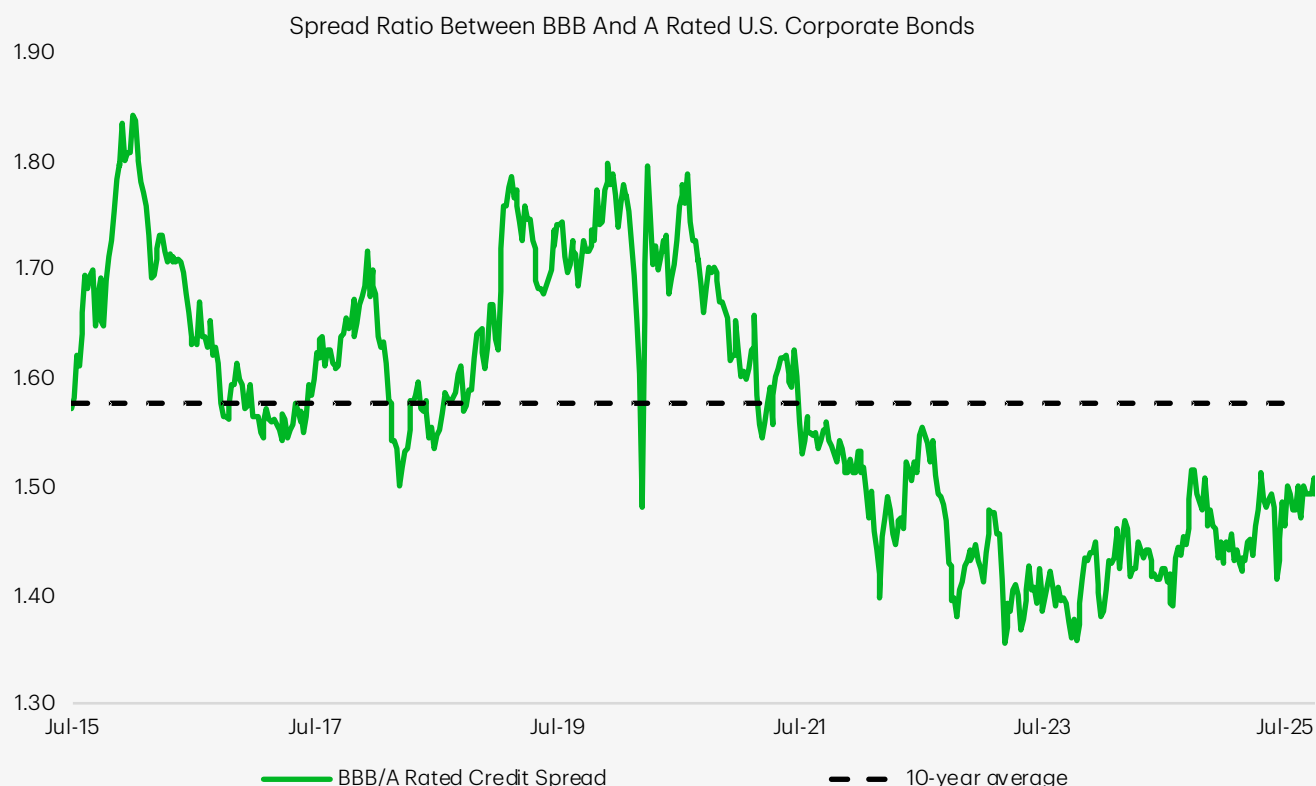
• **Active Management Offers More When Markets Offer Less.** Credit entered 2025 underpinned by fundamental and technical support but the heightened volatility and wider spreads experienced in the first week or so of April showed us that we can't take anything for granted. In the IG credit space, valuations are still a challenge, and HY credit is susceptible to economic cycles (Figure 7). During this turbulent time, active managers will be well positioned to correctly evaluate credit, curve positions, and sectors, and to initiate or trim credit risk hedges, when it matters most.

Higher yields and diversification

Investors should hold a balanced and diversified portfolio in any given environment, but this is even more crucial now. We maintain a modest underweight view on fixed income overall and expect returns for Canadian fixed income over the next 12 months will be closer to the current yield. We expect the bond market will likely return to more conventional

behaviour after trade conflicts settle down and, if the economic slowdown is more pronounced than currently expected, bonds could offer returns better than our base case. The diversification benefits of bonds might be confusing on certain days, but over longer intervals bonds retain their risk diversification capabilities. Current yields remain attractive, provide a buffer against volatility, offer diversification, and add the income back into the fixed income mix. Starting yields have been a strong indicator of long-term fixed income performance and, based on current high yields and market conditions, we believe there is compelling value in high quality, liquid public fixed income. Active management that balances duration and credit exposure and makes tactical adjustments will help investors sort through the wide range of government yields and capture strong returns.

Figure 7: BBB credit spreads historically costly vs higher rated U.S. Corporate bonds



Source: FactSet, WIO, as of October 10, 2025. Using historical end of week spreads since July 2015

Outlook on Equities ● Modest Overweight

AI Suppliers Get a Lift

The AI Industrial Revolution continues to drive a secular equity bull market as new industry investment opportunities emerge down the value chain.

By Christopher Blake, Senior Portfolio Manager; David Beasley, Senior Portfolio Manager; Caroline Escott, Manager, Research and Strategy; Mansi Desai, Senior Equity Analyst; Chadi Richa, Senior Equity Analyst; Neelarjo Rakshit, Senior Equity Analyst; Nana Yang, Senior Equity Analyst | TD Wealth

Industrial revolutions have reshaped economies and societies over the past 200 years through their effects on productivity and information sharing. The first was defined by the transition from agricultural to industrial economies, with the leading technologies of the steam engine and manufacturing machinery. The second took place from the late 19th to the early 20th century, driven in large part by the expansion of electricity and railroads, as well as new innovations like the internal combustion engine and the assembly production line.

With the advancement of the modern era came the Digital Revolution, including the widespread adoption of personal computers and a wave of “dot-com” startups that initially offered more than they could deliver. That first cycle of the internet era peaked with a burst bubble, but the industry eventually evolved through subsequent cycles, and leading technology growth companies like Apple, Microsoft, Amazon and others transformed society and productivity through their ever-expanding product offerings and business model evolutions.

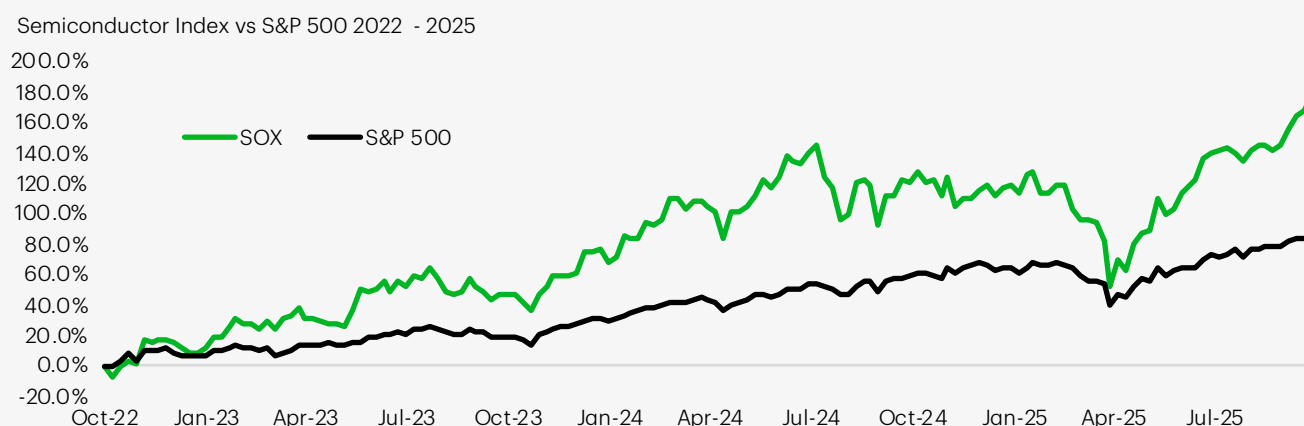
That second internet era, starting in the early 21st century after the 1999-to-2000 bubble phase and accelerating after 2009, has driven what we consider to be an ongoing secular equity growth bull market — that is, throughout alternating cyclical bull and bear market cycles of the past 15 years, the stock market

has generally been on an upward trajectory driven by technology growth stocks.

Following the bear-market cycle of 2022, the technology growth trade morphed into what may be considered our fourth major industrial revolution — the Artificial Intelligence revolution. This era sprouted the so-called “Magnificent Seven,” the AI-focused group of mega-cap technology companies that drove equity markets to new all-time highs. As of writing, the S&P 500 and the Nasdaq Composite indexes have risen by more than 90% and nearly 130%, respectively, from their 2022 bear-cycle lows.

Building digital infrastructure (data centres) to train and operate artificial intelligence models requires a level of computing power beyond that available from conventional servers. The source of this computational power comes from a network of semiconductor chips used to accelerate output, as well as the next generation of connectivity hardware. Thus, semiconductor equities — particularly those in the AI infrastructure supply chain, such as general-purpose GPU (graphics processing unit) maker NVIDIA Corp. (NVDA) and custom silicon or ASIC (application-specific integrated circuit) maker Broadcom (AVGO) — together have been at the core of the upward growth of U.S. equities in the current cycle, accounting for an 11% weight in the S&P 500 (Figure 1).

Figure 1: Semiconductors vs. S&P 500 since 2022 bear-market low



Source: FactSet and Wealth Investment Office, as of October 3, 2025

Equity bull markets are ultimately driven by earnings growth and expanding valuations, and in order to achieve the former, you need customers with growing spending that translates to the bottom line for these companies. The reason semiconductor and other AI-focused hardware makers are driving this bull market is the massive growth in capital expenditures of those customers — the companies leading the charge of the AI-infrastructure buildout. This includes the hyperscalers, i.e., large cloud service and computing resource companies, such as Microsoft, Meta, Amazon and Alphabet. The Big Four have spent over \$300 billion year-to-date. That buys a lot of semiconductors! Of course, this spending is not infinite, so we want to continue to be measured in our exposure to the hardware trade.

However, these companies are also among the highest-quality businesses in the world, generating the largest amounts of free cash flow. This is an important distinction from the dot-com era, when investments often came from subscale companies building out a vast supply of underutilized infrastructure (dark fibre). We have not seen any signs of a course reversal yet. On the contrary, we are still seeing capital budgets expand. In addition to the big four, other firms are stepping into the AI infrastructure ring in a big way, with recent headlines from OpenAI, xAI and others. Given this newly uncovered “expansion” tier of capex intentions, and recent developments in “Sovereign AI,” it appears the Big Four represent just one part of the total addressable market for the infrastructure buildout.

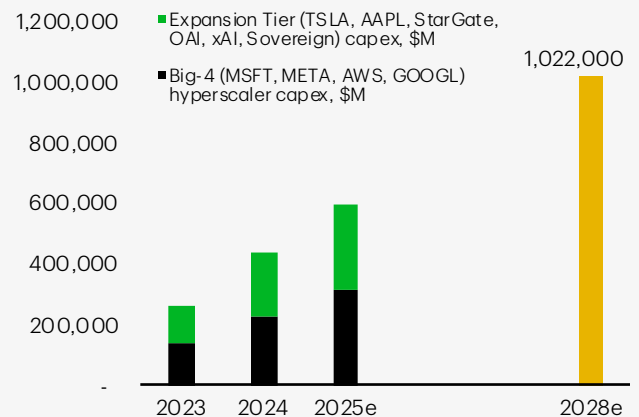
The Stargate Project, the American joint venture created by OpenAI, SoftBank, Oracle and investment firm MGX, which was announced at the White House earlier this year, intends to invest \$500 billion in AI infrastructure in the United States by 2029. This appears to have ignited a Sovereign AI spending boom, as most countries looking to cut down on government services and costs, particularly in light of excessive deficits and debt levels, will need to use some form of AI.

As a first move in this direction, in September the UK government signed a deal to build Stargate UK data centres to support public services, national security and regulated industries. As part of this tier, the United Arab Emirates is spending \$20 billion on OpenAI's Stargate UAE, and OpenAI has pledged a \$25-billion investment as part of the recently announced Stargate Argentina project,

According to market research consulting firm Dell'Oro Group, this expansion tier of AI-infrastructure capital

spending could see the total addressable market grow to over a trillion dollars by 2028 — which would likely continue to drive AI hardware company earnings and, correspondingly, the ongoing equity growth cycle (Figure 2).

Figure 2: AI capex could reach \$1 trillion by 2028



Source: FactSet, Dell'Oro; Wealth Investment Office as of August 12, 2025

Themes in AI: From Hardware Down the AI Value Chain

While these hardware-focused companies have been, and continue to be, at the forefront of the AI-driven equity trade, with strong earnings and valuation growth, we expect the cycle to take its natural course and slow down at some point. Particularly common in the semiconductor cycle, companies risk encountering an “air pocket” when their customers decide to slow down capital expenditures. Although we do not see that yet, it’s important to remain measured in exposure to high-growth, high-beta names.

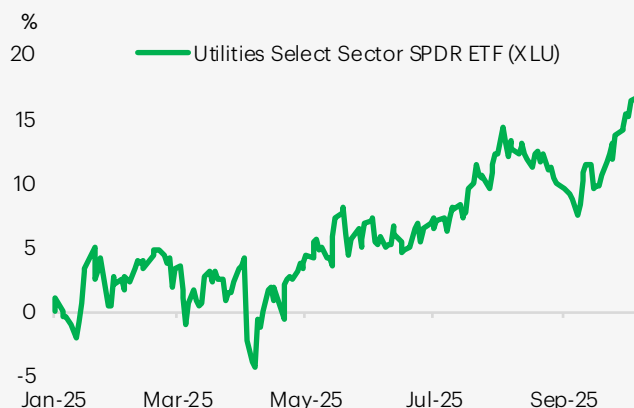
Alternatively, we want to look further downstream in the AI revolution value chain to other related industries that will benefit from potentially revolutionary improvements in productivity and information sharing. Perhaps the most obvious beneficiary companies are those that can integrate AI into their productivity-focused end-market offerings — the software developers.

The market is still waiting to see how these companies can harness access to powerful AI models to develop “killer apps” that can transform business processes and consumers’ lives — driving massive productivity gains and a new era of consumerism. Rather, it has thus far been the opposite. The market has shown concerns that AI models could replicate what many software applications now do, and either reduce demand for them or replace them instead of improving their offerings. That being said, it’s easy to imagine opportunities for industries like utilities, health care and banking to benefit from AI in the coming years.

Utilities

The North American utilities sector has quietly performed very well recently, with the Utilities Select Sector SPDR ETF (XLU) up 20% year-to-date and 46% over the past three years (Figure 3). While utilities have often been seen as a safe haven during periods of market volatility and economic uncertainty due to their consistent cash flows and high dividend yields, they are also seeing strong upside momentum due to a combination of secular tailwinds, including data-centre demand, the acceleration of AI adoption, load-growth acceleration and nearshoring/onshoring trends. Additionally, government policy, infrastructure spending, and grid modernization are providing long-term tailwinds for the North American utilities sector.

Figure 3: Utilities ride the AI wave



Source: FactSet, Wealth Investment Office as of October 3, 2025

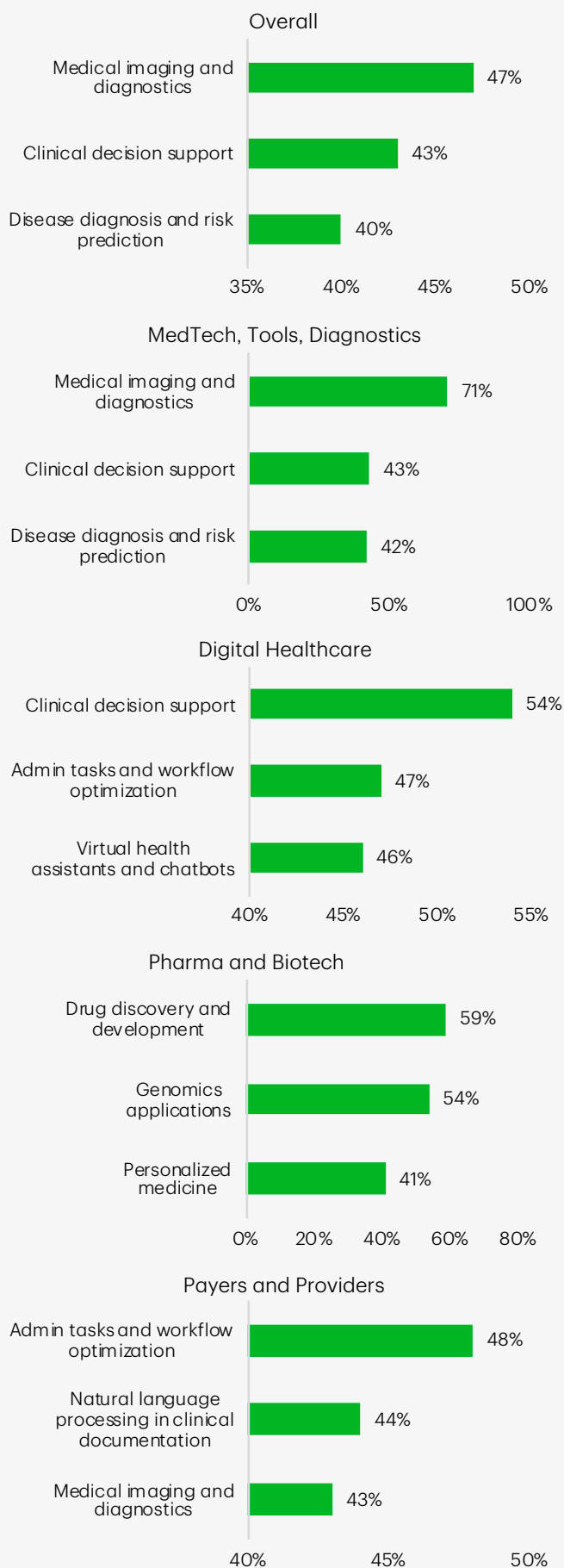
Health Care

Like most industries, AI has the potential to transform the health care industry — from revolutionizing drug discovery to accelerating diagnosis and personalizing treatment plans (Figure 4). Traditional drug discovery is a long and expensive process. Scientists screen millions of chemical compounds and undergo extensive lab testing to develop new drugs.

AI can revolutionize this process by analyzing massive datasets to predict which compounds are most likely to succeed before testing begins. It can also analyze vast amounts of medical data faster — and perhaps more accurately — than humans, enabling earlier detection of diseases.

At TD Cowen's Healthcare Conference in 2025, NVIDIA's VP of Healthcare and Life Sciences said one of NVIDIA's fastest-growing segments is helping pharma. In fact, one of the earliest adopters of accelerated computing was the health-care industry. AI supports breakthroughs in science, drug discovery and medical robotics.

Figure 4: Top 3 AI use cases in health care



Source: NVIDIA company filings, Wealth Investment Office as of October 15, 2025

Banking

If we measure productivity by revenue generated per employee, banks rank favourably compared with other sectors. Nevertheless, the industry is labour-intensive and stands to benefit from the power of AI to transform it. Beyond ushering in the next wave of automation, AI promises to make banks more intelligent, more efficient and better able to achieve stronger financial performance. For investors, it is the latter point that is of primary interest.

Banks also face competition from non-depository financial institutions, such as private-credit firms, fintechs, neobanks and payment solutions businesses, for the largest profit pools. To maintain their current profitability, which has already suffered since the global financial crisis due to increasing regulation, banks will need to cut costs without sacrificing competitiveness and revenue growth.

AI has the potential to solve this problem and put banks on more solid footing in the years to come by boosting labour productivity, with employees delegating a growing number of routine tasks to increasingly sophisticated and capable AI systems.

As shown in Figure 5, there is a strong relationship between employee productivity (revenue per employee) and profitability (return on equity). While other factors influence banks' profitability over time — such as the shape of the yield curve, changes in business mix or regulation — employee productivity is where AI can be a game changer, whether through automation or augmentation. According to some estimates, banks' return on equity could double over the next five years simply by reducing the workforce by 10%.

Most likely, this will not occur through massive layoffs, as the industry would not want to attract negative public attention. Instead, banks could achieve workforce reduction by eliminating jobs vacated through natural attrition or retirement. As a result, higher profitability would drive a rerating in stock valuation and higher capital returns through dividends and share buybacks.

For example, one area that banks are targeting for automation is customer support — more specifically the call centre — by rolling out a conversational AI agent. The end result is a 94% expense reduction per customer call compared to a human picking up the phone. What's more, it would improve the customer experience significantly by eliminating wait times.

The main question is what will happen to the competitive landscape once profitability increases. AI will level the playing field for all banks that adopt

the technology, large and small, just as the cloud and other technologies did. At the end of the day, banking is a commodity industry, and higher profitability will be competed away. But only a few can defend it — and it's those rare few that are worth investing in.

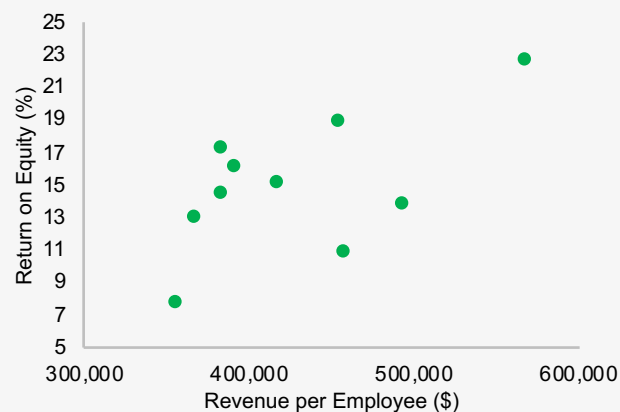
Canadian Equities Shine

The Canadian equity market, as measured by the S&P/TSX Composite Index, outpaced the S&P 500, the Dow Jones Industrials and even the Nasdaq Composite with a 12.5% total return compared to 8.1%, 5.7% and 11.4%, respectively, for the other three. There were a few factors catalyzing the strong performance for the TSX in the third quarter. By far, the materials sector produced the largest return in the quarter, at 37.8%, primarily on the back of gold, which rose 17.1% in the quarter.

Gold's performance was attributable to several factors, as the U.S. dollar saw weakness on the expectation of declines in the interest-rate structure of U.S. fixed income markets, narrower GDP growth differentials with other developed economies, and increasing concerns over the U.S. fiscal outlook. The U.S. dollar did stabilize over the quarter, with the dollar index trading between 96 and 100.

Since gold has continued to increase in price, market talk has now turned to the idea of currency debasement — a situation in which all fiat currencies decline relative to commodities, leading to inflation. One development we continue to see is strong demand for gold from central banks for reserve diversification, which is very supportive of the price of gold given a fairly fixed supply (in the near term) from mines. Of course, gold companies have positive performance relative to the commodity, since in the short-term costs of production are essentially fixed as the selling price in the market goes up.

Figure 5: Employee productivity drives profitability



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

However, it was not gold companies alone that drove the TSX. Copper producers also saw significant gains as copper rebounded late in the quarter. The price of copper fluctuated through the quarter as traders quickly moved to ship copper into the U.S. to avoid tariffs amid expected strong demand for electrical projects. That trade may have been overdone in the near term, and copper softened in late July; however, it rebounded by the end of the quarter. Copper is expected to remain tight over the next few years as a shortage of new mines meets the demand of the AI revolution.

Some Canadian equities benefitted through the third quarter from a rebound effect, as the market initially punished certain sectors on the expectation that the tariffs announced by the U.S. in April would have a more devastating near-term effect. In the end, more goods than originally thought were covered under the CUSMA (Canada U.S. Mexico Agreement), leading to less of an impact on Canadian GDP. The CUSMA is due for joint review in July 2026, which may lead to some headline risk in the coming nine months.

North American Equities Summary

Overall, we continue to recommend an overweight allocation to equities in general and a modest overweight to the U.S. and Canada specifically. Historically, earnings growth drives stock returns, and as long as the earnings outlook remains attractive, we expect equities will continue to deliver attractive returns. As industries ramp up the use cases for AI, margins are expected to benefit — another tailwind to earnings growth over the medium term.

That said, with the strong performance in tech and AI-related stocks this year, it is important to remain selective in the U.S. given the lofty valuations in some segments. In general, both Canadian and U.S. markets continue to offer attractive risk/reward potential. Canadian equities, in particular, remain well positioned to deliver strong returns given the solid earnings growth forecast and reasonable valuation level.

The 2025/2026 consensus earnings forecast for the S&P/TSX Composite Index remains in the range of 13% to 15%, with a forward P/E of 16.4x. The earnings outlook is well supported by accommodative monetary policy and reasonable expectations for financials and resource companies. The S&P 500 is expected to deliver similar earnings growth but is trading at a slight premium, with a forward P/E of 22.8x.

There are also many areas in the U.S. that offer attractive prospects and could see additional support from the “One Big Beautiful Bill Act” and potential

deregulation. However, with the strong performance of the Mag 7 and the full valuation of many AI-related stocks, it remains important to be selective.

International Equities: Misplaced or Mistimed Optimism?

The pace of appreciation has slowed in international equities. International equities underperformed U.S. equities by 6.9% in Q2 and 3.0% in Q3, after outperforming by 6.8% in Q1. Given such disappointing performance, many investors have begun to question the growth outlook for international equities, reconsidering whether the euphoria around them is misplaced.

TD's Wealth Asset Allocation Committee maintains an underweight positioning in international equities. We highlighted in previous editions that, while structural tailwinds — in the form of strong defence commitments by Europe, monetary loosening and an expansion in fiscal stimulus — will all drive economic growth in the coming years, we were less optimistic that the anticipated growth would appear before mid-2026. We also noted the challenges that Europe faces from the balkanized nature of its defence industry and the inability of several European nations, such as France and Italy, to fund defence spending (5% of GDP by 2035) given that government debt-to-GDP ratios have exceeded 110%.

The recent political upheaval in France — where Sébastien Lecornu became the third prime minister to resign in less than three years amid concerns of a hung parliament — confirms that the strategic moves highlighted above will take time to implement in Europe.

On the bright side, we do see green shoots of economic recovery on the continent. Since December 2024, manufacturing PMI in Europe has increased consistently, and growth in industrial production has remained in positive territory after recording negative growth for the past 21 months. Going forward, expansion in manufacturing activity in the U.S. and China will be crucial for Europe to sustain its economic recovery. Stagnation or contraction in manufacturing activity in these regions will likely impede Europe's recovery.

Japanese equities recorded a strong performance of 10% during the quarter, which can be attributed to the tentative election of a pro-stimulus candidate, Sanae Takaichi, and strong momentum in the AI investment theme, which has benefited Japan's industrials and semiconductor equipment companies. Many of these companies are leading suppliers of equipment that are crucial in the production of highly specialized chips manufactured today. Although Japanese inflation

remains stubbornly above 2%, wage growth has not increased at the same pace, which has led to negative growth in real household income. Going forward, the Bank of Japan will be challenged with the dilemma of balancing rate hikes with the slowdown in economic activity and consumer spending.

While we remain optimistic about the long-term growth prospects for international equities, there are a series of challenges that these regions will have to overcome in the near future. As shown in Figure 6, much of the price appreciation for international equities has come from multiple expansion, and higher earnings growth is only expected to be reflected in 2026. After trade negotiations with the U.S., a 15% tariff rate was imposed on imports from Japan and the EU, with differential treatment for a few specific sectors. So far, we haven't seen a meaningful decline in import prices from these regions, signifying that importers have been able to maintain the prices of their finished goods, and U.S. consumers are taking a hit by paying higher prices. It remains to be seen at what point importing companies will be compelled to reduce prices if demand for imports declines significantly.

EM: Is the rally in Chinese equities sustainable?

Emerging-market equities recorded strong performance during the quarter, primarily driven by Chinese and Taiwanese stocks, which increased by 13.0% and 16.0%, respectively. The rally in Chinese equities was mainly fuelled by tech enterprises offering promising growth opportunities, such as Alibaba, PDD Holdings, JD.com and Tencent Holdings, among others, combined with loosened financial conditions.

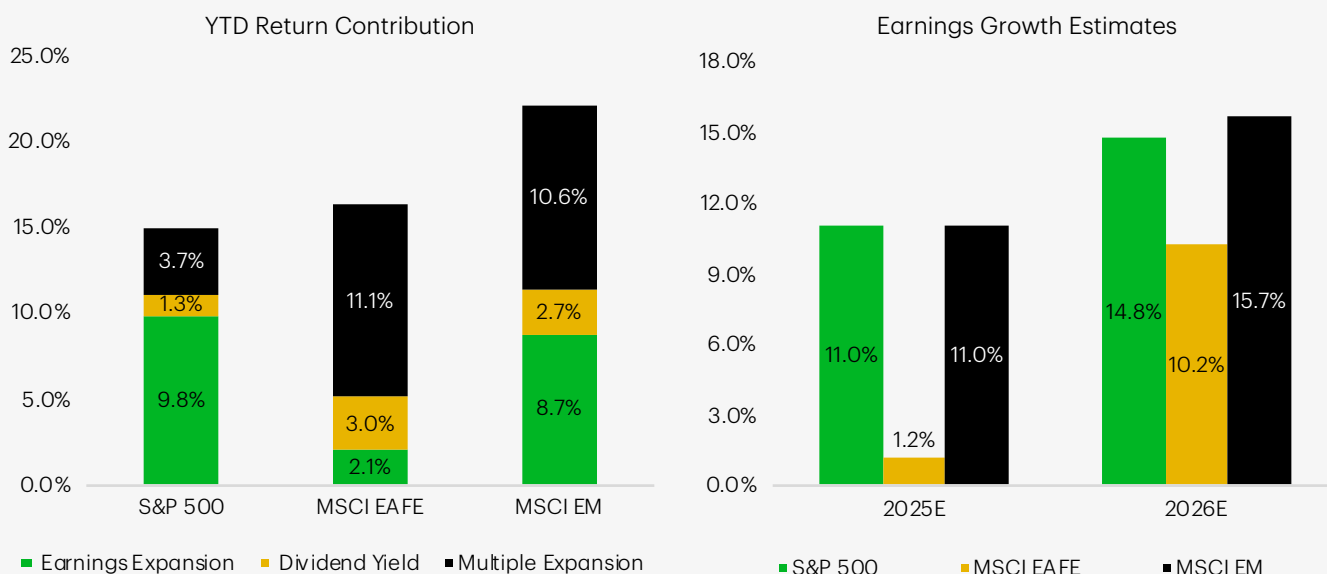
In September 2024, China launched two funding schemes worth \$1.2 billion — a \$700-million swap scheme for financial institutions to access highly liquid assets from the People's Bank of China (PBoC) to buy stocks through asset collateralization, and a \$450-million relending scheme that allowed institutions to borrow from the PBoC to fund share repurchases. These measures were expected to bring stability to China's capital markets and eventually help build consumer confidence and rejuvenate household spending.

One year after these measures were launched, the Shanghai Stock Exchange has surged 37%. However, consumer spending remains sluggish, as reflected in retail sales growth during the year, which stood at 5.0%, lower than the historical average of 9.5%. Another challenge for China has been the intense pricing war undertaken by corporations to capture higher market share. While such intense price competition benefits the end consumer, it's detrimental for equity shareholders as earnings growth takes a hit.

In the past three years, earnings growth in China declined by 3.4%, combined with a 100-basis-point contraction in operating margin. Consequently, the government is discouraging companies from engaging in intense price wars, giving hope to investors that the pace of decline in earnings growth is close to its bottom.

Other EM nations recorded mixed performance during the quarter. Countries integral to the AI supply value chain, such as Taiwan and South Korea, continued to record strong performance, while Indian equities

Figure 6: Can Europe spend 5% of GDP on defence?



Source: FactSet, Wealth Investment Office as of September 30, 2025

declined amid the aggressive tariff war with the U.S., which imposed 50% tariffs on imports from the nation. It is important to note that the implications of higher tariffs on GDP, as well as equities, are higher for developed-market equities compared with emerging-market equities, given that the former have higher exposure to U.S. exports as a percentage of GDP. Except for Taiwan and South Korea — which will continue to benefit from the AI trade — other EM equities have a higher share of revenues from domestic markets (Figure 7).

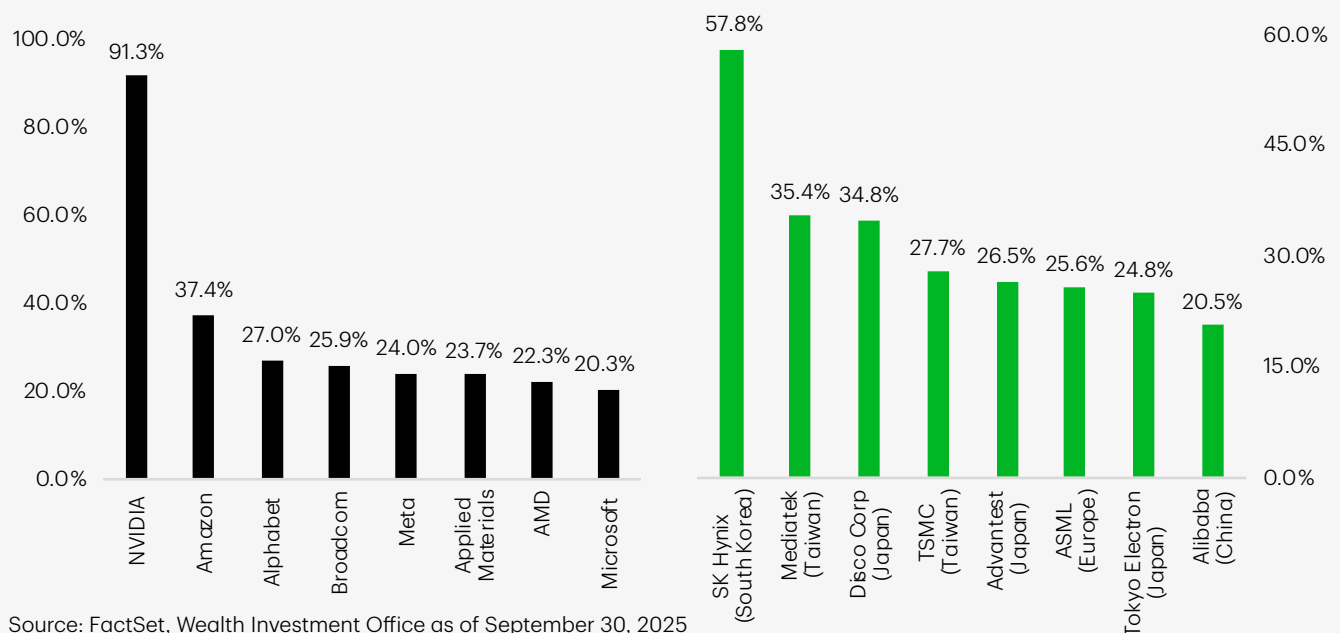
While we maintain our underweight stance on international and emerging-market equities for the reasons highlighted in this section, we also recognize

Figure 7: EM less exposed to tariffs than developed markets

Countries	US exports % of GDP	% of Revenues sourced from the US
Mexico	29.9%	10.0%
Canada	25.5%	33.0%
Taiwan	16.4%	43.0%
Europe	10.4%	23.0%
South Korea	8.2%	14.0%
United Kingdom	4.9%	27.0%
Japan	4.4%	17.0%
India	3.8%	8.0%
China	3.0%	3.0%
United States*	10.9%	41.4%

Source: FactSet, Wealth Investment Office as of September 30, 2025. *For the U.S. % of revenues sourced outside of the U.S. is reflected

Figure 8: Opportunities to diversify across AI supply chain



Source: FactSet, Wealth Investment Office as of September 30, 2025

that a strategic allocation outside of the U.S. has become crucial today, given the concentration risks for U.S. equities as well as the political risk arising from the change in the U.S. administration. While we are less optimistic about the overall economic and earnings growth for international and emerging-market equities, we also recognize many growth opportunities that are available at favourable valuations today — creating the opportunity to introduce a strategic allocation outside of the U.S. while still maintaining an overweight positioning in the U.S. (Figure 8).

This also holds true for diversifying within the AI investment theme. While the U.S. offers exposure to the hyperscalers that are investing massive amounts in data centres and the chip makers that provide computing power, outside the U.S. lies the supply value chain for chip production. While the U.S. leads in chip designing, about 80% of chip fabrication and assembly processes take place outside the U.S. Consequently, international and emerging-market equities offer exposure to companies that are leading chip fabricators or equipment providers and are crucial in the production of highly specialized chips that are designed today.

Earnings growth for these companies over the past five years has been at par with the U.S. hyperscalers and semiconductor companies, where we have now begun to see signs of crowding, given their share of 35% in the S&P 500. With the global economic order changing, historical returns generated over the past few decades might not be similar to the prospective returns recorded in the next decade — underscoring the importance of diversification in an investment portfolio.

Outlook on Private Markets ● Modest Overweight

Liquidity squeeze or generational opportunity?

As distributions hit decade lows and continuation vehicles draw scrutiny, disciplined investors may find value in private markets — especially where patient capital meets the growing demand for data and power.

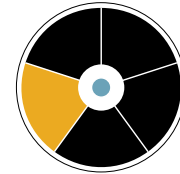
By Shezhan Shariff, P.Eng., CFA, Manager – Private Markets | TD Wealth

With private equity underperforming public stocks over the past three years, we are often asked whether there is too much private equity dry powder chasing too few deals, and whether general partners (GPs) are using continuation vehicles (CVs) to play hot potato with underlying portfolio companies. The use of CVs is motivated by limited monetization opportunities in a higher interest-rate environment, especially for 2021 fund vintages that deployed capital at peak valuations.

As of the end of June 2025, the Preqin Buyout North America quarterly index returned 7.2% annualized over three years, compared to 10% for the Russell 2000 total-return index. The story is different on a five- and ten-year annualized basis, with the private equity benchmark returning 17.0% and 14.9%, respectively, reflecting outperformance of close to seven percentage points in both cases.

Perhaps it is worth revisiting the private equity value proposition as a change agent and catalyst for business transformation through efficiency gains in a large, mature economy. Our view is that economic stagnation can be circumvented when managers of patient, long-term capital are laser-focused on pursuing: (1) growth at a reasonable entry price; (2) operational intervention to drive profit-margin expansion; and (3) prudent capital allocation. The latter includes choosing between capital expenditures (i.e., hard assets), research and development, mergers and acquisitions (M&A), non-core asset sales, recapitalizations and distributions. Control-oriented buyouts executed by financial sponsors that are proven operators offer one way to practically achieve such exposure.

At the back end of a transaction, there's nothing wrong with seeking a liquidity event after a medium-term holding period. This allows a fresh set of eyes with different expertise to own and operate a portfolio company to unlock further value. This is intuitive, given that there are typically diverse sets of levers to pull as an enterprise scales in size. Deal exits are often achieved through strategic sales, sponsor-to-sponsor transactions, or by floating in the public markets. Recall that strategic buyers may be competitors, companies in complementary industries, suppliers or customers



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.

TD Wealth maintains a modest overweight on alternatives.

— all of whom are typically motivated by revenue and cost synergies, market expansion or economies of scale.

Uncalled committed capital raised specifically for corporate buyouts in North America increased sevenfold from \$105 billion in 2000 to \$673 billion at the end of last year (all USD). As a reference point, U.S. GDP has tripled from \$10.4 trillion to \$29.8 trillion over the same period. Coupled with the fact that close to half of GDP is sourced from small to medium-sized businesses — prime hunting ground for private equity sponsors — it's easy to draw the conclusion of excess capital supply.

Our take is that this represents something else entirely; specifically, more of these types of companies that form the backbone of the U.S. economy are sourcing their capital from private equity and credit shops as opposed to the public securities markets. If we bifurcate the prior 45 years at the turn of the millennium, the first cohort (1980 to 1999) averaged 307 initial public offerings (IPOs) per year, while the latter period through 2024 averaged 125 IPOs per year.

This generational shift down implies that companies have self-selected to stay private for longer given the evolution of capital access, the regulatory burden of maintaining an exchange listing, and the impatience of Wall Street analysts chasing quarterly earnings beats. Of all the U.S. companies that generate more than \$100 million in annual revenue, 86% are privately held and 64% have annual sales less than \$500 million. This group forms what is known as the “middle market.”

We aren't convinced that this investable universe is saturated with private capital. On the contrary, we believe that private equity continues to be helpful and, from the investor lens, offers less correlated cash flows and inefficient market pricing when compared to large and mega-cap stocks.

We've been keeping a close eye on decade-low distributions — 10% of net asset value (NAV) in 2024 compared to 30% in 2014 — from closed-end drawdown funds since the Federal Reserve started hiking the federal funds rate in early 2022 to fight inflation. To be sure, the Fed has been cutting rates over the past year, but the lower bound of its target range is still 4% compared to 0% between March 2020 and March 2022. The silver lining is that expectations between buyers and sellers are narrowing as company insiders come to terms with valuations that are in line with current monetary conditions.

A result of this recalibration, up until very recently, has been muted IPO and M&A transaction volumes. Low churn of underlying portfolio companies means that

some clients lose patience and try to sell their limited partner (LP) units in the secondary market at a discount to NAV, or general partners (GPs) are forced to transfer crown jewel or trophy assets out of funds that are close to legal termination dates and into continuation vehicles (CVs). There will always be unscrupulous players in such an environment; however, we believe that, with due diligence and patience, we can and should capitalize on such market dislocations to generate compelling risk-adjusted returns on behalf of our clients.

The ongoing liquidity squeeze has presented us with a generational opportunity to allocate to the private equity asset class, given our long-term view. Transaction volumes for LP-led secondaries have accelerated in recent years and are expected to exceed \$200 billion in 2025 for the first time, despite still comprising a mere 1.5% of alternative assets under management (AUM). That being said, we can't be careless and simply chase discounts to NAV. Our view is that it is crucial to underwrite investments over an entire deal cycle, with intrinsic value foremost in mind. If we happen to get a price that is lower than what we believe something is worth, this should be treated as icing on the cake. This is one way to enforce discipline and avoid value traps.

To clarify, one elementary principle of investment decision quality that we like to see from a given GP is the discounting of both expected future cash flows (over a given investment time horizon) and terminal value (the exit or sale price) to the present, to yield an internal rate of return (IRR) that exceeds the GP's idiosyncratic hurdle rate, as informed by their opportunity set. Ideally, the GP's estimate of terminal value is grounded in reality and not dependent on an aggressive discount rate that is biased to the downside by expectations of a central bank put — a situation where the yield curve prices in ultra-easy monetary policy in response to economic weakness.

The alternative would be investing solely to capture the immediate mark-up of a discounted price to NAV, followed by flat or negative cash flow growth due to poor underwriting standards. The nature of evergreen or perpetual capital funds is that a point of entry today at subscription is marked at the current NAV, which captures all prior discounted prices that were marked up to their respective contemporaneous NAVs. As such, an investor today benefits only from future discounts to NAV, not prior ones.

The effect of these future discounts on overall performance naturally decays as this kind of fund ramps up in size, and organic NAV appreciation becomes increasingly dominated by the growth

of after-transaction cash flows generated by the underlying portfolio companies. We call this “back-end IRR” — and when we screen for opportunities, we like to see discounts to NAV contributing at most one-third of since-inception total return. In the case of CVs, we insist that GPs roll both the majority of their prevailing LP base as well as performance fees or carry.

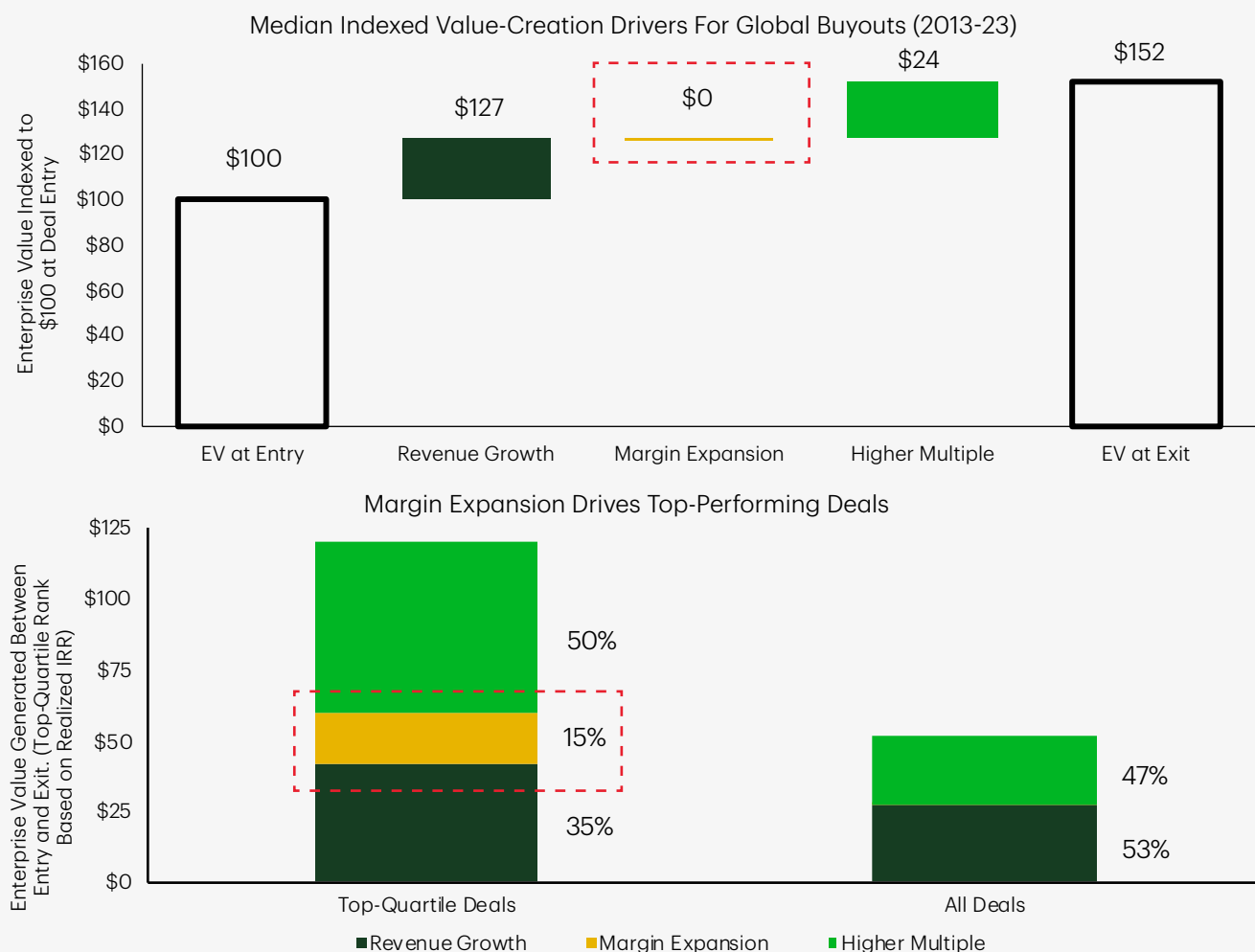
With respect to capturing IRR in general, it’s clear that we have to move beyond sole reliance on leverage to drive private equity returns going forward. Figure 1 indicates that, for a median-performing buyout deal executed over the 10 years through 2023, the build-up of enterprise value was sourced roughly equally from revenue growth and higher valuation multiples; however, the best GPs typically demonstrated excellence in operational intervention. Specifically, 15% of total enterprise value creation in deals ranked in the top quartile by realized IRR was sourced from profit margin expansion. This tells us that this upper echelon of sponsors makes use of their board seats to select and steer best-in-class management teams that are capable of not only growing revenues and optimizing capital structures, but also right-sizing expenses.

Power Generation: An AI Bottleneck

Not to sound like a broken record, but we continue to emphasize our conviction in the “picks and shovels” approach to playing the cloud computing and artificial intelligence theme. This means seeking exposure to proven data-centre platforms with material pre-leased development pipelines and land banks that enjoy unfettered access to power. The latter piece of the puzzle was strongly featured throughout a recent research and due diligence trip to Midtown Manhattan in early October, where we met with some of the best-in-class general partners on our product shelf. Multi-modal power generation and ancillary battery storage for renewables are the linchpins in the successful build-out of critical infrastructure to support the demands of hyperscalers and their ambitious clients — those at the forefront of developing large language models (LLMs).

To put this opportunity into perspective, the power needs of data centres are expected to more than triple by 2030 — from 25 gigawatts (GW) in 2024 to more than 80 GW in 2030 — representing a compound annual growth rate in the low 20% range.

Figure 1: Operational intervention drives margin expansion

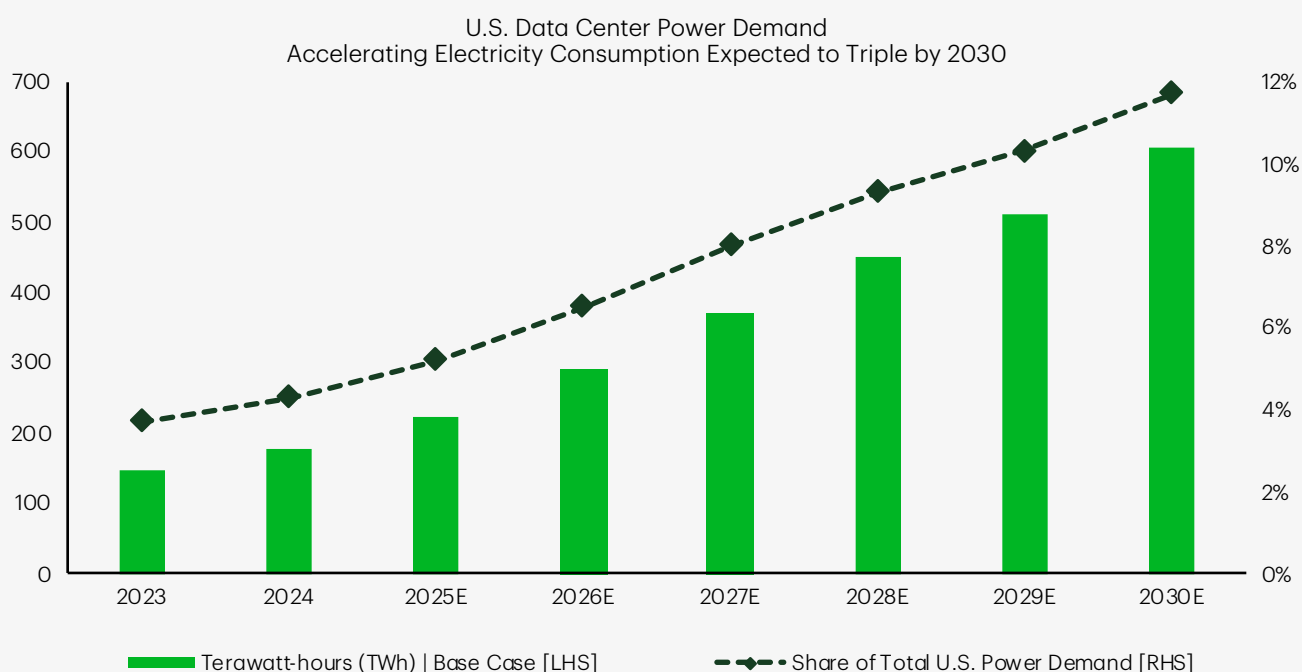


Source: Wealth Investment Office, Preqin, Brookfield as of September 30, 2025

Figure 2 shows a base case forecast of U.S. data-centre electricity consumption expressed in terawatt-hours (TWh). For context, a single TWh could power the entire state of California for about one and a half weeks or 100 million homes for one hour. Data centres are expected to account for 12% of the entire U.S. power demand curve by 2030, compared to 4% today, and may comprise a third of all net new electricity capacity added in that timeframe. Skyrocketing data demands — 100 times growth from two zettabytes in 2010 to over 200 zettabytes today — are being further accelerated by efficiency gains in computing capabilities alongside reductions in chip efficiency relative to power consumption.

Nathan Rothschild (1777-1836), founder of the British branch of the prominent Rothschild banking dynasty, once stated, “I care not what puppet is placed upon the throne of England to rule the empire on which the sun never sets. The person who controls the British money supply controls the British Empire, and I control the British money supply.” The obvious corollary here is that one way to generate compelling risk-adjusted returns for our clients is not to bet on which LLM will win, but rather to ensure that we invest alongside general partners that are capturing a share of what may be a materially supply-constrained global power market. For example, at present, the lead time to power new data centres in large clusters, such as northern Virginia, Santa Clara (California) and Phoenix (Arizona), is estimated to be more than three years.

Figure 2: U.S. data-centre power demand



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

Locations outside of the U.S., such as Amsterdam, Dublin and Singapore, have placed moratoriums on new builds in recent years because they lack the power infrastructure to support them. To frame this further, Figure 3 shows historically high lead times of nearly two years for dependable electricity as well as power equipment, such as transformers, generators and power distribution units — a significant departure from just five years ago.

Figure 3: Lead time of major data-centre critical equipment (months)

	2019	2024
Generator	6-10	10-16
Uninterruptible power supply	6-10	16-20
Medium-voltage transformer	4-6	18-24
Medium-voltage switchgear	3-5	8-12
Power distribution units	2-3	8-10

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

One way to play this theme is to own independent power-generation assets — such as through a pure-play private infrastructure fund — that are contracted directly with hyperscalers. Alternatively, creditworthy off-takers for such assets can be independent system operators that exist to match supply and demand across a given electricity grid. Another way is to hold established data centres through private real estate income trusts that have long-term leases in place.

Exposure can also be achieved by investing in transmission and distribution electric utilities located in jurisdictions with friendly regulators that allow generous deemed equity layers and returns on equity. The caveat is that demand projections for electricity can be overly optimistic; as such, it's crucial to deploy capital investments strictly where constructive revenue frameworks are in place, such as in the form of long-term leases, power purchase agreements, and electricity rate-regulated regimes.

Notable Events in Q3 2025

The Canada Pension Plan Investment Board (CPPIB) has entered into a definitive agreement to acquire a 13% stake in Sempra's infrastructure unit, Sempra Infrastructure Partners, for \$3 billion, alongside existing investor KKR, which is acquiring an additional 32%. The combined \$10 billion in cash implies a \$22-billion equity value and \$32-billion enterprise value for Sempra Infrastructure Partners — a leading North American energy infrastructure company that develops, owns and operates natural gas pipelines, power generation and liquified natural gas (LNG) export facilities in the U.S. and Mexico. The company also owns and operates more than 1,600 MW of renewable generation and a gas-fired power plant. The transaction funds Sempra's \$56-billion 2025-to-2029 capital plan without equity issuances. Sempra is expected to receive 47% of the cash at close, 41% by year-end 2027, and the balance approximately six years later. All told, KKR and CPPIB will hold 65%, Sempra will retain 25%, and the Abu Dhabi Investment Authority (ADIA) will keep 10% after the expected deal close in mid-2026.

Electronic Arts (EA), the videogame publisher behind global franchises FC (Fifa), Madden NFL, Battlefield and The Sims, is going private in a \$55-billion leveraged buyout (LBO) — the largest in history — led by Saudi Arabia's Public Investment Fund (PIF, through its Savvy Games Group), Jared Kushner's Affinity Partners and Silver Lake. The capitalization includes \$36 billion in cash, the rollover of PIF's 9.9% equity interest, and \$20 billion in debt financing led by J.P. Morgan. Existing shareholders are set to receive a premium of 25%. The take-private offer comes after 36 years as a publicly

traded company and at a crucial time for EA, which is banking heavily on its core sports portfolio and action shooter intellectual property to weather a competitive industry, as gamers become increasingly selective. The deal is a huge gamble that AI can significantly cut EA's operating expenses, allowing the equity consortium to manage a large debt load on a balance sheet that historically carried limited net debt. EA must pay a \$1-billion break fee if it terminates the deal due to a board reversal, accepts a higher bid or pursues another deal within a year of a shareholder rejection.

Outlook on Commodities ● Neutral

Strong Returns, Valuable Diversification

Gold's surge and copper's resilience underscore a new era of commodity strength — driven by supply constraints, geopolitical risk and the return of inflation-hedging as a core portfolio necessity.

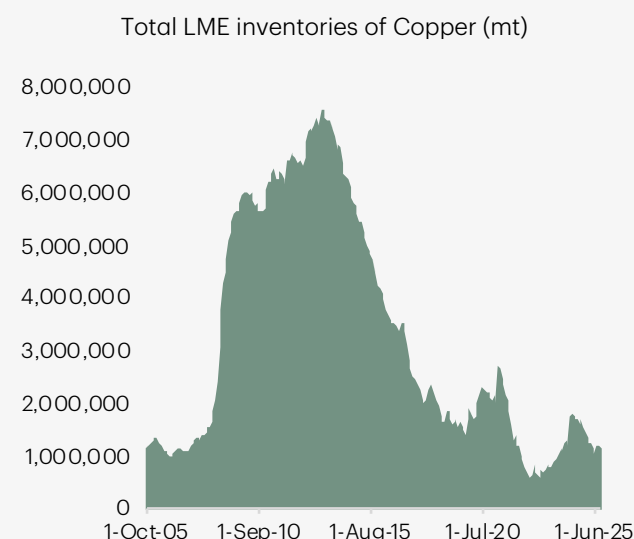
Hussein Allidina, Managing Director and Head of Commodities | TD Asset Management
Humza Hussain, VP and Director, Commodities | TD Asset Management

Gold and copper have been garnering attention and rightfully so. Gold has appreciated by an impressive 58% year-over-year and has doubled in value since the beginning of 2024, reaching new highs in inflation-adjusted terms. While emerging market central banks have been the primary drivers of gold demand in recent years—having doubled their purchases compared to the decade before COVID—the latest rally has been propelled by individual investors in the west, as evidenced by ETF gold holdings (Figure 1). This marks a notable shift, as these investors had been net sellers since early 2020, with the trend reversing and buying activity accelerating from March of this year.

Looking ahead, our outlook for gold remains constructive. The factors that have motivated central banks to accumulate gold—chiefly geopolitical risk and widespread concerns about currency debasement as developed economies (particularly the U.S.) embark on a deficit-fueled fiscal expansion—persist and may be intensifying. Recent investor buying has occurred against a backdrop of robust equity performance, a strong U.S. dollar, and measured rate cuts. If equities falter, the dollar weakens, or the Federal Reserve adopts a more aggressive easing stance, it is likely that gold buying could accelerate further. Importantly, gold allocations across central banks, institutions, and individuals remain low by historical standards, suggesting room for increased investment if allocations revert toward long-term averages.

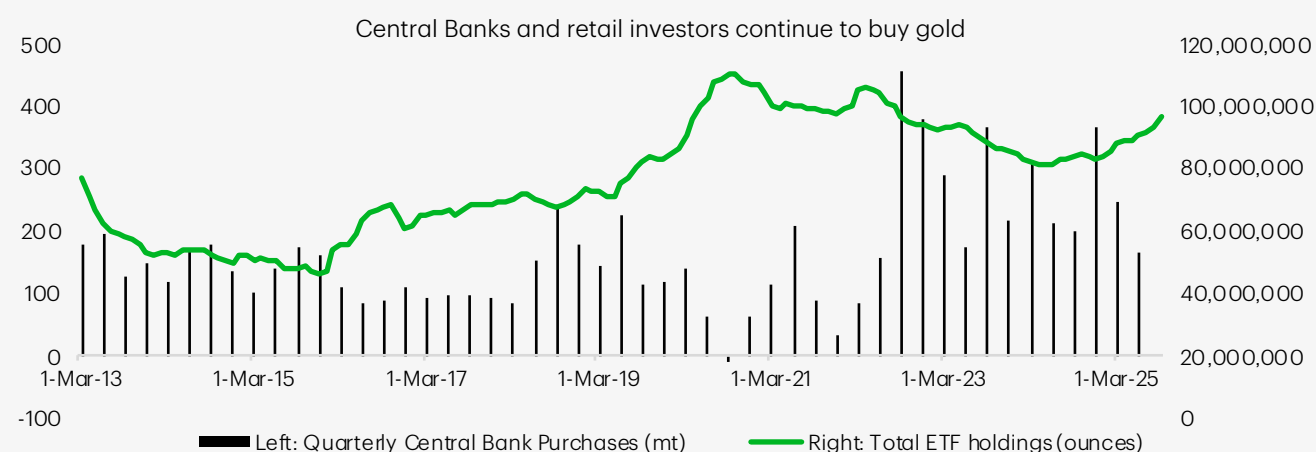
Copper, while less dramatic than gold, has also seen a sharp rise, jumping over 10% in the last month following a major supply disruption at the Grasberg Block cave mine in Indonesia, which is expected to reduce global supply by 1% in 2026. This price increase reflects how tight the copper market is, with LME inventories sitting near 20-year lows (Figure 2). We remain very constructive on copper as demand growth and constrained supply are expected to intensify market tightness over the next decade.

Figure 2: Copper inventories near 20-year lows



Source: TD Asset Management as of September 30, 2025

Figure 1: Central bank buying and gold etf holdings



Source: TD Asset Management as of September 30, 2025

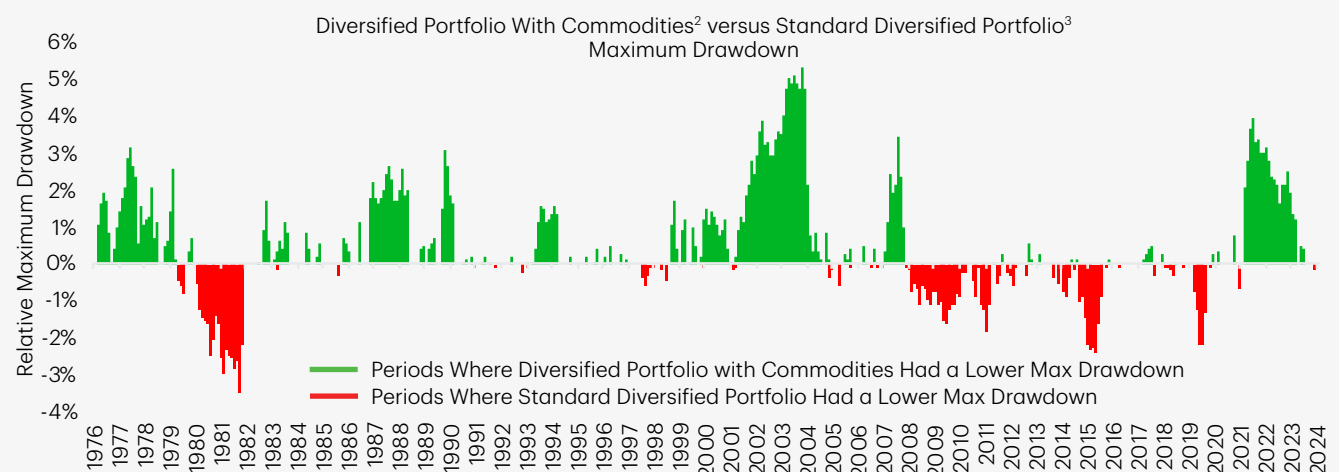
Supply issues extend beyond copper, reflecting the lack of investment across the commodity complex over the past 15 years. While economic growth and inflation remain uncertain, commodity supply constraints are clear, and prices will continue to reflect this. Commodities are expected to deliver strong, above-average returns, as they have over the past five years.

Beyond returns, commodities offer valuable diversification. In an environment where some equity valuations have reached elevated levels, bonds have not provided a negative correlation to equities, and the uncertainty around growth and inflation remains elevated, we need to revisit the foundations of portfolio diversification and recognize the necessity of introducing new asset classes. Commodities, in particular, stand out as a robust solution. Their negative correlation to fixed income and minimal correlation with equities make them exceptional diversifiers. Moreover, commodities exhibit fundamentally different behaviour compared to traditional portfolio components, especially during periods of elevated inflation and inflation volatility. Whereas equities and fixed income, most notably the latter, tend to react adversely to inflationary pressures, commodities typically outperform in such environments. By integrating commodities into a portfolio, investors not only enhance risk-adjusted returns but also construct a more resilient portfolio, effectively insulating themselves from unforeseen inflationary shocks.

Another critical advantage of commodities is their capacity to mitigate maximum drawdowns, a benefit that becomes increasingly relevant amid stretched valuations and heightened geopolitical risk and market volatility. Historical data spanning the past 50 years reveals that commodities have helped to offset equity drawdowns approximately 66% of the time. Notably, the remaining 33% of instances where commodities did not provide this buffer took place predominantly during commodity bear cycles (Figure 3). Given our conviction that we are in the nascent stages of a commodity bull cycle, it is reasonable to expect that the diversification and drawdown mitigation benefits of commodities will be even more pronounced than historical averages suggest.

It is essential to emphasize that these portfolio benefits are derived from direct investment in commodities themselves, rather than commodity-related equities. The latter tend to exhibit a higher correlation with the broader equity market, particularly when commodities are performing strongly. As a result, those who invest in commodity equities rather than the underlying commodity, do not realize the full spectrum of benefits—diversification, inflation protection, drawdown mitigation, expected returns. In this environment we cannot emphasize enough that commodities should be a part of the portfolio mix. We believe that the future looks more like the world of the last five years than it does the decades prior to COVID, and the last five years have been a clear demonstration of why commodities should be a part of every portfolio.

Figure 3: Commodities help reduce maximum drawdowns in a diversified portfolio



1977 - 2024 ¹	Diversified Portfolio with Commodities ²	Standard Diversified Portfolio ³
Annualized Return	8.30%	8.44%
Standard Deviation	9.43%	10.15%
Sharpe Ratio	0.36	0.34

¹ Monthly Data from 1977 to 2024. ² Diversified Portfolio with Commodities: 54% MSCI USA Index, 36% Bloomberg U.S. Aggregate Bond Index, 10% BCOM Total Return Index. ³ Standard Diversified Portfolio: 60% MSCI USA Index, 40% Bloomberg U.S. Aggregate Bond Index. Source: TD Asset Management as of December 31, 2024

Outlook on Currencies

Don't Call It a Comeback

The U.S. administration is intent on shaking up the global economic order. That, however, comes with consequences for the U.S. dollar's role as reserve currency.

TD Securities, Global Rates, FX & Commodities Strategy

Highlights

- Structurally, the macro backdrop supports a U.S. dollar decline, driven by U.S. convergence to global growth and rates, waning safe-haven appeal, and increasing concerns around the Federal Reserve's independence.
- However, we are tactically bullish the U.S. dollar in the near term as focus shifts to fiscal and electoral problems outside the U.S. Recent bounce is a result of a positioning squeeze rooted in a reduction in expectations of Fed rate cuts along with an improvement in growth and equity profiles. However, beyond the near-term we expect structural downward pressure on the U.S. dollar to resume with the overhang of the Fed cuts, risks to U.S. data and impact from tariffs, and concerns around Fed independence.
- While the Canadian dollar is undervalued, given the lingering uncertainty around trade agreements and potential negotiation of the USMCA, we expect the USD/CAD will remain largely rangebound.
- Geopolitics continue to drive markets as the intersection of geopolitics and global macro remains the dominant theme. The upcoming months are filled with critical calendar dates both in the U.S. and outside.

U.S. Dollar

We are tactically bullish the U.S. dollar as the near-term focus has shifted to fiscal and electoral problems outside the U.S. We had been expecting this to play out in the end of summer, but it has delayed through the autumn. In the absence of U.S. data, we expect focus to remain on the world outside of the U.S., allowing the U.S. dollar to behave like a safe-haven again.

However, we don't think this near-term rally in the U.S. dollar will re-establish its reign. Trade and tariff uncertainty has continued with important countries like China and India. USMCA negotiations are yet to begin. Russia-Ukraine talks ebb and flow. Now the legality of tariffs themselves is being challenged.

Structurally we have entered a downward U.S. dollar phase as U.S. policy uncertainty chips away at its safe haven status and fuels the hedge or cautious America trade. The latter still has a ways to go as the U.S. dollar moves from exceptionalism to equilibrium, forcing investors to re-examine their U.S. asset and U.S. dollar exposures.

The hedge America trade, where foreign investors continue to buy US investments but hedge their currency exposure, can get another boost as the Fed cuts interest rates. Europe has already undergone a significant repatriation and hedge ratio adjustment; other regions can follow and provide the next leg lower in the U.S. dollar.

Canadian Dollar

The Canadian dollar has been weak relative to other currencies as the Loonie has been used as a funder in place of the U.S. dollar due to the overhang of the BoC cuts and pending USMCA negotiations, and we expect that will remain the theme in the near term.

The US/CAD can continue to trade in these frustrating ranges and while the Loonie remains undervalued, it needs a catalyst to realize it (fiscal package and swift progress on the trade front combined with increased hedging by pension funds are creating a tailwind for lower USD/CAD).

Exemptions for USMCA compliant goods have helped cushion the blow, but we estimate that the effective tariff rate will settle near 8% with 60-80% of Canadian exports already eligible for preferential treatment. This would still preserve some advantage for the Canadian exports against other advanced economies, but it is hard to see further relief without changes to sector specific tariffs on autos and metal products.

As noted above, as focus shifts to fiscal, electoral, and geopolitical problems outside the U.S., the U.S. dollar could continue to see near-term strength. However, structurally the macro backdrop continues to support an eventual U.S. dollar decline and that should provide some support to the Canadian dollar.

Figure 1: Foreign Exchange Forecasts

	2025			
	09-Oct-25	Q3A	Q4F	Q1 2026F
USD/JPY	153	148	146	140
EUR/USD	1.16	1.17	1.18	1.20
GBP/USD	1.33	1.34	1.35	1.38
USD/CHF	0.81	0.80	0.79	0.78
USD/CAD	1.40	1.39	1.38	1.36
AUD/USD	0.66	0.66	0.68	0.69
NZD/USD	0.57	0.58	0.59	0.61
BBDXY	1216	1200	1188	1164

Source: TD Securities as of October 9, 2025

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)		126 699	5.40	12.50	23.94	28.60	21.31	16.68	11.82	8.27
S&P/TSX Composite (PR)		30 023	5.11	11.79	21.41	25.09	17.63	13.24	8.48	5.14
S&P/TSX 60 (TR)		6 114	4.72	11.52	22.07	26.71	20.45	16.48	11.97	8.50
S&P/TSX SmallCap (TR)		2 051	8.91	20.86	36.26	37.20	22.51	17.98	11.04	5.43
S&P/TSX Preferred Share(TR)		2 358	0.80	4.25	11.85	15.76	12.65	9.16	6.61	3.44
U.S. Indices (\$US) Return										
S&P 500 (TR)		14 827	3.65	8.12	14.83	17.60	24.94	16.47	15.30	10.97
S&P 500 (PR)		6 688	3.53	7.79	13.72	16.07	23.10	14.74	13.29	8.84
Dow Jones Industrial (PR)		46 398	1.87	5.22	9.06	9.61	17.33	10.80	11.04	7.68
NASDAQ Composite (PR)		22 660	5.61	11.24	17.34	24.58	28.92	15.20	17.24	12.49
Russell 2000 (TR)		13 313	3.11	12.39	10.39	10.76	15.21	11.56	9.77	8.14
U.S. Indices (\$CA) Return										
S&P 500 (TR)		20 642	5.08	10.47	11.10	21.21	25.35	17.52	15.74	11.98
S&P 500 (PR)		9 312	4.96	10.13	10.02	19.64	23.51	15.78	13.73	9.83
Dow Jones Industrial (PR)		64 595	3.28	7.51	5.51	12.98	17.72	11.80	11.46	8.66
NASDAQ Composite (PR)		31 547	7.08	13.66	13.53	28.41	29.35	16.24	17.69	13.52
Russell 2000 (TR)		18 534	4.54	14.84	6.80	14.16	15.59	12.56	10.19	9.13
MSCI Indices (\$US) Total Return										
World		20 446	3.25	7.36	17.83	17.75	24.29	14.94	13.00	9.09
EAFE (Europe, Australasia, Far East)		14 027	1.96	4.83	25.72	15.58	22.33	11.71	8.70	6.04
EM (Emerging Markets)		3 659	7.18	10.95	28.22	18.17	18.81	7.51	8.43	6.50
MSCI Indices (\$CA) Total Return										
World		28 465	4.68	9.69	14.00	21.37	24.70	15.98	13.44	10.08
EAFE (Europe, Australasia, Far East)		19 529	3.37	7.11	21.63	19.13	22.73	12.72	9.12	7.00
EM (Emerging Markets)		5 093	8.67	13.36	24.05	21.80	19.21	8.47	8.85	7.47
Currency										
Canadian Dollar (\$US/\$CA)		1.39	1.30	2.29	-3.23	2.92	0.22	0.89	0.45	0.90
Regional Indices (Native Currency, PR)										
London FTSE 100 (UK)		9 350	1.78	6.73	14.41	13.52	10.69	9.77	4.43	2.71
Hang Seng (Hong Kong)		26 856	7.09	11.56	33.88	27.07	15.96	2.74	2.57	2.81
Nikkei 225 (Japan)		44 933	5.18	10.98	12.63	18.49	20.10	14.15	9.96	6.17
Benchmark Bond Yields										
		3 Months		5 Yrs		10 Yrs		30 Yrs		
Government of Canada Yields		2.44		2.75		3.18		3.63		
U.S. Treasury Yields		3.97		3.74		4.14		4.71		
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		482	0.27	0.71	2.20	3.30	4.28	2.75	1.87	
FTSE TMX Canada Universe Bond Index		1 204	1.89	1.51	2.98	2.93	4.66	-0.16	2.02	
FTSE TMX Canada All Government Bond Index		1 122	1.98	1.41	2.60	2.20	3.92	-0.84	1.59	
FTSE TMX Canada All Corporate Bond Index		1 499	1.62	1.81	4.13	5.20	6.83	1.79	3.24	
U.S. Corporate High Yield Bond Index		320	0.69	2.08	5.90	5.73	10.01	4.73	5.31	
Global Aggregate Bond Index		266	0.62	0.77	2.73	1.25	4.12	-0.32	1.75	
JPM EMBI Global Core Bond Index		578	1.76	4.32	9.27	6.36	10.97	1.12	3.21	
S&P/TSX Preferred Total Return Index		2 349	0.41	3.84	11.42	16.10	12.18	9.07	6.57	

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of September 30, 2025

The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward- looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

TD Wealth represents the products and services offered by TD Waterhouse Canada Inc., TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company).

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2025. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®", "Russell®", and "FTSE Russell®" are trademarks of the relevant LSE Group companies and are used by any other LSE Group company under license. "TMX®" is a trade mark of TSX, Inc. and used by the LSE Group under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. All rights reserved.

All trademarks are the property of their respective owners.

® The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.

