



The Brand New
Renaissance

Portfolio Strategy Quarterly | Q1 2026

January 2026

En Bref





The Brand New Renaissance

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

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

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

Be well,

A handwritten signature in black ink, appearing to read 'Brad Simpson'.

Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

War Worries

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

35,000 & 7,900

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

Cheques in the mail

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

USD Under Pressure

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

40% to Central Banks

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

AI Superpower

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

AI in EM

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

Not Employed ≠ Unemployed

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

Adaptation

Remember the 10/10/10 Rule

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

High-odds Proposition

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

Foursquare

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

Process Over Prediction

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

7 Years Bad Luck

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

Adaptive Approach

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

Tactics on the Margins

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

Calm Before the Storm

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



PSQ1.2026 | Executive Summary

■ House Views

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

■ Quarter in Review

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

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

■ Economics

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

■ Fixed Income

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

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

■ Equities

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

- **Base, bull and bear cases within the secular bull market.** Base case implies moderate upside as earnings forecasts are achieved. Bull case assumes stronger AI-driven earnings and higher multiples. Bear case reflects AI capex slowdown, earnings disappointment and multiple compression.
- **The Fundamentals.** North American equities faced a transitional year as AI-driven tech leadership softened amid durability concerns, though AI investment continues to support U.S. growth and reshoring. Markets broadened beyond mega-cap tech into industrials, financials, health care and AI-adjacent areas. Canada benefited from strength in materials, consumer discretionary and banks, but faces risks from energy competition, commodity volatility and looming CUSMA trade negotiations amid heightened U.S. tariff pressures.
- **International Equities: Now is the time for action.** International and EM equities outperformed in 2025, driven by multiple expansion, currency moves and AI-linked optimism. Europe benefited from ECB rate cuts and German fiscal stimulus, but future gains require stronger earnings as valuations normalize. Japan's rally reflects pro-growth policies, massive fiscal support and AI momentum, though inflation risks constrain policy. Emerging markets surged on technology and commodity exposure within the AI supply chain, led by China, Korea and Taiwan. China's heavy AI and power investment contrasts with weak earnings amid deflation and price wars. With structural tailwinds but uneven growth and political risks, the outlook remains cautious: neutral on EM and underweight international equities, as earnings growth must materialize to justify valuations and sustain returns across regions longer term.

■ Private Markets

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

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

■ Currencies

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

■ Commodities

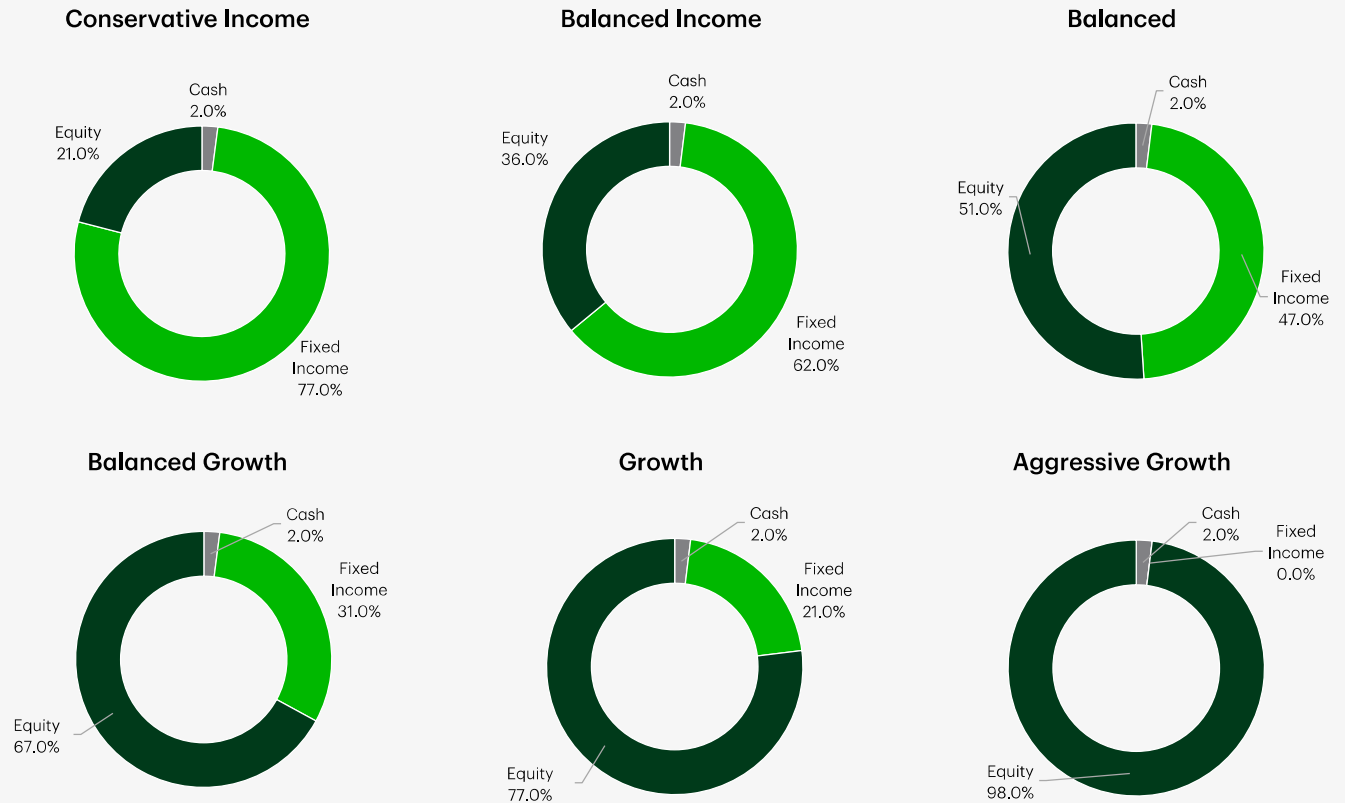
Markets entered 2026 with a paradox: demand is accelerating while supply remains constrained. Despite solid post-Covid returns, capital has flowed to buybacks and dividends, not new production, even as AI, electrification, defence and infrastructure drive commodity-intensive demand. Governments prioritize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

Figure 1: Direction from WAAC: strategic positioning

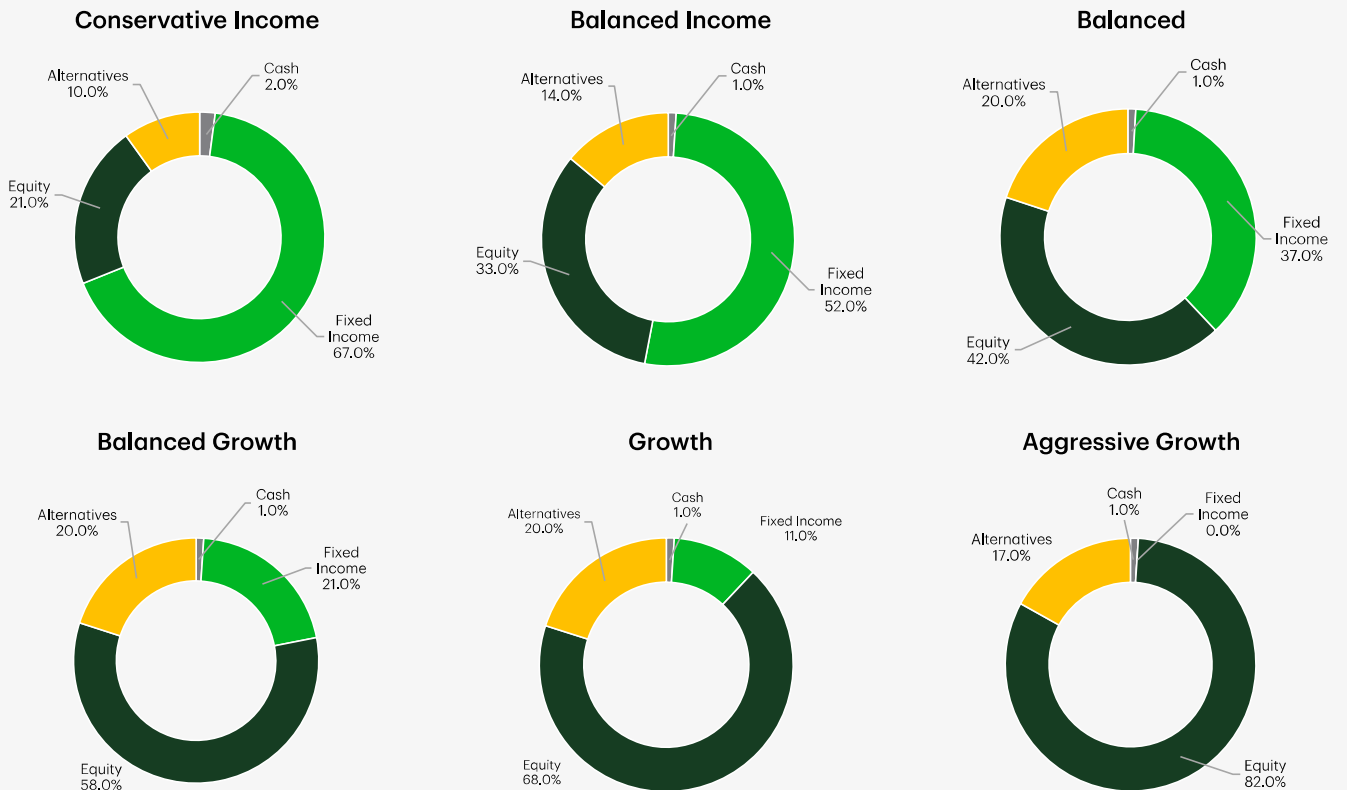
	Asset Class	Underweight		Neutral		Overweight
Cash & Equivalents Modest Underweight			●			
Fixed Income Modest Underweight	Domestic Government Bonds			●		
	Investment Grade Corp. Credit				●	
	High Yield Credit			●		
	Global Bonds - Developed	●				
	Global Bonds - Emerging			●		
Equities Modest Overweight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

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

Dynamic asset-class weights by investor profile (Condensed)



Dynamic asset-class weights by investor profile (Expanded)



Source: Wealth Investment Policy Committee, as of January 15, 2026.

Our Positioning | Q1 2026

■ Fixed Income | Modest Underweight

Historical data would suggest that longer-term yields have the potential to move lower. However, mounting debts and deficits plus the change toward a more unilateral, “law of the jungle” U.S. foreign-policy regime points to structurally higher long-term yields.

Credit spreads remain tight, supported by strong fundamentals, but rising AI-related spending and mergers and acquisition activity is creating a more challenging supply and demand backdrop.

With limited upside for capital gains, the “easy” money has been made leaving investors to navigate rate normalization to focus income generation and coupon clipping.

■ Equities | Modest Overweight

We continue to advocate that investors shift allocation from growth-oriented tech stocks into a broader palette, given that an upswing in the U.S. (and the rest of the world’s) business cycle should translate into recovery for other subsectors from depressed sentiment and valuation.

A broadening out of equity markets is exactly what extends cycles and sets the stage for even more diversified leadership in 2026. We expect earnings growth in 2026 to remain positive and supportive for equity markets.

■ Commodities | Neutral

Supplies are low, constrained and costly; demand is accelerating. So long as global growth remains broadly supportive, these conditions give commodities long, durable legs. In our view, a portfolio allocation to commodities offers a compelling trifecta of benefits: meaningful return potential, enhanced diversification and robust inflation protection.

■ Alternatives | Modest Overweight

- **Private Equity:** We continue to believe that it is important to allocate to GPs that have demonstrated expertise in operational intervention – given that a key driver of top-performing deals is margin expansion.
- **Private Credit:** Idiosyncratic situations created a lot of headlines in 4Q 2025. These issues created pockets of volatility and negative headlines in private credit, but proved to be deal specific setbacks, not systemic deterioration in credit conditions. Despite these concerns private credit markets saw solid deal activity through the end of 2026. Due to lower credit quality and concerns about default risks we continue to have an underweight to the asset class.
- **Global Real Estate:** 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:** 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.

Market Performance

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Canadian Indices (\$CA) Return		Index	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P/TSX Composite (TR)	134,621	1.32	6.25	31.68	31.68	21.42	16.09	12.66	8.44	
S&P/TSX Composite (PR)	31,713	1.05	5.63	28.25	28.25	17.83	12.71	9.32	5.31	
S&P/TSX 60 (TR)	6,464	1.27	5.72	29.06	29.06	20.52	16.01	12.78	8.65	
S&P/TSX SmallCap (TR)	2260.33	2.39	10.22	50.19	50.19	23.21	15.33	12.00	5.84	
S&P/TSX Preferred Share(TR)	2446.01	1.55	3.74	16.03	16.03	15.29	8.42	6.30	3.58	
U.S. Indices (\$US) Return										
S&P 500 (TR)	15220	0.06	2.65	17.88	17.88	23.01	14.42	14.82	11.00	
S&P 500 (PR)	6846	-0.05	2.35	16.39	16.39	21.26	12.75	12.85	8.88	
Dow Jones Industrial (PR)	48063	0.73	3.59	12.97	12.97	13.18	9.45	10.68	7.79	
NASDAQ Composite (PR)	23242	-0.53	2.57	20.36	20.36	30.46	12.52	16.59	12.50	
Russell 2000 (TR)	13605	-0.58	2.19	12.81	12.81	13.73	6.09	9.62	8.20	
U.S. Indices (\$CA) Return										
S&P 500 (TR)	20884	-1.76	1.17	12.40	12.40	23.58	16.08	14.73	11.92	
S&P 500 (PR)	9393	-1.87	0.87	10.98	10.98	21.83	14.39	12.76	9.79	
Dow Jones Industrial (PR)	65948	-1.10	2.09	7.72	7.72	13.72	11.03	10.59	8.69	
NASDAQ Composite (PR)	31890	-2.34	1.09	14.76	14.76	31.08	14.15	16.50	13.43	
Russell 2000 (TR)	18667	-2.39	0.72	7.56	7.56	14.27	7.63	9.53	9.10	
MSCI Indices (\$US) Total Return										
World	21100	0.84	3.20	21.60	21.60	21.72	12.66	12.74	9.09	
EAFE (Europe, Australasia, Far East)	14716	3.01	4.91	31.89	31.89	17.82	9.47	8.72	6.08	
EM (Emerging Markets)	3834	3.02	4.78	34.36	34.36	16.98	4.67	8.86	6.38	
MSCI Indices (\$CA) Total Return										
World	28951	-0.99	1.71	15.95	15.95	22.29	14.30	12.65	10.00	
EAFE (Europe, Australasia, Far East)	20191	1.14	3.39	25.76	25.76	18.38	11.06	8.63	6.96	
EM (Emerging Markets)	5260	1.15	3.27	28.11	28.11	17.53	6.19	8.78	7.26	
Currency										
Canadian Dollar (\$US/\$CA)	1.37	-1.81	-1.41	-4.59	-4.59	0.42	1.52	-0.08	0.84	
Regional Indices (Native Currency, PR)										
London FTSE 100 (UK)	9931	2.17	6.21	21.51	21.51	10.05	8.98	4.75	2.89	
Hang Seng (Hong Kong)	25631	-0.88	-4.56	27.77	27.77	9.02	-1.20	1.58	2.76	
Nikkei 225 (Japan)	50339	0.17	12.03	26.18	26.18	24.49	12.90	10.21	5.86	
Benchmark Bond Yields			3 Months	5 Yrs	10 Yrs	30 Yrs				
Government of Canada Yields		2.20	2.97	3.43	3.86					
U.S. Treasury Yields		3.64	3.73	4.17	4.85					
Bond Indices (\$CA Hedged) Total Return		Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	
FTSE TMX Canada 91-day Treasury Bill Index	485	0.19	0.63	2.84	2.84	4.15	2.88	1.93		
FTSE TMX Canada Universe Bond Index	1200	-1.28	-0.32	2.64	2.64	4.51	-0.35	1.89		
FTSE TMX Canada All Government Bond Index	1116	-1.50	-0.54	2.05	2.05	3.81	-0.99	1.43		
FTSE TMX Canada All Corporate Bond Index	1504	-0.59	0.34	4.48	4.48	6.60	1.49	3.21		
U.S. Corporate High Yield Bond Index	323	0.40	0.83	6.78	6.78	8.79	3.63	5.64		
Global Aggregate Bond Index	267	-0.37	0.31	3.05	3.05	3.92	-0.42	1.77		
JPM EMBI Global Core Bond Index	592	0.48	2.48	11.98	11.98	8.89	0.45	3.33		
S&P/TSX Preferred Total Return Index	2446	1.55	4.15	16.03	16.03	15.29	8.42	6.30		

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

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