TD Wealth

Amid Forces

Portfolio Strategy Quarterly | Q2 2026

April 2026

En Bref

Amid Forces

It's easy in times like these to feel like a waif amid forces. Geopolitics is shifting in real time. Artificial intelligence is accelerating faster than economic systems can absorb, and public discourse across television, newspapers and social media is increasingly dominated by hyperbole, blurring the line between fact and fiction. In this environment, it's easy to lose one's way.

Last year at our research conference, the theme was "Things Have Changed." At the time, we made the argument that foreign policy was moving toward the "law of the jungle" — a world where rules matter less and power matters more. This shift is now visible in trade and conflict, and in the growing role of economic and military power in shaping outcomes. These gale-like forces are real, but markets, in the end, are simpler than they seem. They respond to three things: the economy, interest rates and earnings growth.

This perspective matters because it reminds us that investors are not merely waifs amid forces — they are allocating within them. In a world where the law of the jungle increasingly applies, uncertainty is not a temporary condition. It is a feature of the system, and that is why portfolio construction is paramount. Remember, diversification is not about avoiding risk, it is about preparing for it.

Be well,

Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

50 bps > 0

Before the Iran war, the market had priced in two 25-bp Fed rate cuts in 2026. Those expectations have been volatile with gasoline prices soaring over 30%. In fact, while the Fed itself is still projecting a single rate cut, the market was expecting the opposite — a chance of a hike. At present, the market is expecting the Fed to stay on hold.

CPI + 90 bps

In March, inflation in the U.S. rose 90 bps, to 3.3% from 2.4% in February. Not surprisingly, the surge was led by gasoline prices, up 21% for the month. With the labour market stumbling, stagflation has reared its head.

Not Just Gasoline

Higher energy costs will of course filter into all kinds of goods and services. Perhaps most vulnerable are food prices. Already, the price of urea — a fertilizer derived from fossil fuels — has risen over 40%. If oil stays high, food prices will be quick to follow.

Forward P/E = 19.6x

Thanks to strong earnings growth expectations (15% to 20%) along with a brief correction, the S&P's forward P/E has come down to a more reasonable 19.6x (at the trough).

No Demand? No Problem

While AI platforms are popular, few people are actually paying for them. So far, though, hyper-scalers like Google and Meta aren't too perturbed about monetization. The top five are expected to spend $700 billion this year on AI capex, up 50% from 2025 — that's music to the ears of chip manufacturers.

Soft on Software

One area of tech that hasn't benefited from the AI boom is software, down 35% on fears of disruption. Credit markets are telling a different story, though. Loans to software companies are down only 7% since January, indicating more stability than the share prices would suggest.

Respect EM Debt

Thirty years ago, most investors would have steered clear of debt in emerging markets, which were prone to political upheaval. But EM nations have made a lot of progress since then. From 2004 to 2024, the asset class rose from 2.6% of the total debt market to 22.1%.

If War Continues

As it stands, the U.S. economy is solid. But if the war continues well into Q2, TD Economics expects weakening across the board. WTI up to US$128, inflation over 3%, growth down to 1.9% next year, and the Fed on hold until mid-2027 — a tenuous economic environment.

Adaptation

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.

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 with chalenges. We don't predict the future, we invest in all four areas.

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%.

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.

Tactics on the Margins

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

True Diversification

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

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.

PSQ2.2026 I Executive Summary

House Views

- **Fixed Income, modest underweight:** Despite the softening of domestic economic conditions, the Bank of Canada (the BoC) has adopted a neutral, balanced stance on monetary policy amid ongoing heightened geopolitical tensions. We expect all global bonds, including Canadian bonds, to be driven by commodity market developments in the near term. This will mean that bond yields, and in return, income, will remain elevated over the next 12 to 18 months.
- **Equities, modest overweight:** Following a strong 2025, global equity markets have been volatile in recent months as the market grapples with the uncertainty surrounding the conflict in Iran. While the extent of disruption to energy markets, and the time it may take them to recover remains uncertain, equity markets overall continue to be supported by positive global economic and earnings growth, as well as more pro business government policies.
- **Alternatives, modest overweight:** We believe an allocation to alternative assets can benefit diversified portfolios, particularly over the long term. Alternatives can offer inflation protection and attractive absolute returns, while enhancing portfolio stability through diversification and less correlated income streams. Recent geopolitical developments have reinforced the role of alternatives as sources of resilience. Given the nature of private assets and the current phase of value adjustment across several markets, we believe this may be an attractive time to increase or consider an allocation to alternative assets.

Quarter in Review

Q1 saw markets shift from soft-landing optimism to shock-driven risk assessment as the Iran conflict disrupted energy flows, lifted inflation risks, weakened growth momentum and widened uncertainty across growth, inflation and policy.

- **U.S. Labour Market: Stability masks structural weakness.** Q1 labour data looked strong, but concentrated job growth, falling participation, demographic pressures and energy-price risks signal structural fragility and growing policy challenges despite headline indicators.
- **The Policy Constraint: A Fed pivot.** Energy-driven inflation has constrained the Fed, forcing rate-cut expectations out as weaker growth collides with supply shocks, making policy trade-offs sharper and reactions harder.
- **Equity: Earnings resilience meets valuation compression.** Equities fell as valuation compression hit rate-sensitive sectors. The Mag 7 lagged, while energy and utilities outperformed amid rising macroeconomic uncertainty.
- **AI: From expansion to disruption narrative.** AI remained central but shifted from optimism to a focus on disruptive impacts, redistributing value, challenging legacy software and raising displacement concerns.
- **Style Rotation: Value as a function of macro condition.** Value stocks outperformed as energy prices, yield-curve steepening and tech weakness favoured defensives, but gains appear macro-driven and temporary.
- **Dollar dynamics and capital flow resilience.** The U.S. dollar strengthened on the Iran shock and Fed repricing, then partially reversed after the ceasefire.
- **Market pricing wider distribution of outcomes.** Q1 2026 marked a shift to shock-driven markets, with geopolitics and structural forces widening uncertainty and driving forward-looking behaviour.

Economics

The Iran war led to a spike in oil prices, which eased after the ceasefire, but supply disruptions persist, delaying rate cuts despite the weaker outlook.

- **Central bank expectations have whipsawed.** The energy surge rattled households and whipsawed rate expectations; markets now see limited hikes, not cuts.

- **No move is the best move ... for now.** Even one Bank of Canada rate hike looks unlikely given weak growth, slack and a supply-driven energy shock. Tightening now would risk damaging demand. Policymakers should look through temporary price effects. In contrast, the U.S. economy remains resilient, energy-independent, and near neutral rates give the Fed flexibility. Inflation expectations are key but remain anchored. TD Economics still expects limited, later Fed cuts. Consensus also favours steady policy through early autumn.

- **Prolonged disruption would keep the Fed on hold for longer.** A prolonged Iran disruption could lift oil to near US$130, slow U.S. growth, raise inflation, keep the Fed on hold, boost yields and the U.S. dollar, while Canada sees a milder growth hit, higher yields and a weaker loonie recovery.

Fixed Income

Fixed income turned volatile in Q1 as the war-driven oil shock lifted inflation fears, hurt U.S. returns, helped Canada and restrained the Fed.

- **Government bonds.** Bond yields turned volatile as Iran-driven oil shocks lifted inflation fears, narrowed Canada-U.S. spreads and left central banks cautious, favouring flexible, risk-managed duration amid growth-slowdown risks and fiscal uncertainty. Aggressive global rate cuts are ending; in 2026 central banks are cautiously seeking neutral rates, with volatility shifting toward longer-end yields amid persistent inflation. Rising deficits have pushed yields higher as investors demand fiscal premiums, favouring shorter sovereign duration, active country-by-country risk selection and fiscally disciplined governments.

- **Corporate credit.** Credit weakened as geopolitics widened IG and HY spreads, then partially reversed. Tight spreads, inflation and rate uncertainty favour defensive positioning: higher quality, shorter dated IG over riskier HY amid refinancing risks ahead globally. Tight spreads and attractive yields also support preference for high-quality IG over HY amid issuance pressures, rising defaults and refinancing challenges. War-driven volatility makes capital preservation paramount, favouring high-quality, short-duration strategies as the easy-money era ends. Sector dispersion accelerated as geopolitics and AI split markets, favouring hyper-scalers, utilities and energy, while lower-quality, cyclical credits weaken, reinforcing the high-quality focus.

- **Emerging markets.** EM fixed income has grown with policies, but geopolitical and energy risks warrant cautious, selective allocations amid wider spreads.

- **Navigating volatility, anchoring in quality.** Q1 challenged the "year of the coupon" as volatility returned; carry and active, high quality, short duration strategies are favoured as central banks pause and refinancing risks rise.

Equities

Markets fear uncertainty, excessively discounting fundamentals amid policy and geopolitical risks.

- **Growth stocks don't like growth shocks**. The tariff announcement last April sparked a sharp selloff, then recovery as clarity reduced uncertainty over global growth impacts.

- **Bottom-up investing through uncertainty.** Periods of heightened uncertainty often create opportunities for disciplined, long-term investors willing to focus on fundamentals. Recent market shocks — from private-credit concerns to the outbreak of the Iran war — triggered sharp selloffs driven by fear, contagion risks and rising oil prices. Yet in many cases, underlying company fundamentals proved more resilient than market reactions suggested, rewarding investors who remained patient. Semiconductor and AI-related stocks were especially hard hit, with valuations compressing sharply. However, continued countercyclical investment by major technology firms, strong capital expenditure plans, and robust long-term revenue outlooks — particularly in AI infrastructure — indicate the growth cycle remains intact. As uncertainty fades, high-quality growth equities appear attractively valued.

- **Canadian equities: Resources hedge uncertainty.** Canadian equities help offset uncertainty as resource stocks benefit from geopolitical supply shocks. Gold remains a strong diversifier, supported by central-bank demand and robust corporate cash flows. Elevated oil prices continue to support Canadian energy stocks. While commodities are volatile, selective bottom-up investing matters. Canadian banks appear fully valued but may see earnings upside from AI-driven efficiency gains and improving domestic economic conditions.

- **International markets: War tests resilience.** International and emerging-market equities outperformed U.S. markets early in 2026, supported by stronger earnings expectations, economic recovery and manufacturing rebounds. However, the U.S.-Israel war with Iran has heightened risks, mainly through energy and supply-chain disruptions linked to the Strait of Hormuz. Europe and Japan are relatively insulated due to diversified energy sources, strategic reserves and alternative power capacity, while many emerging markets — particularly South Korea and Taiwan — are more vulnerable. Supply disruptions, including helium shortages critical to semiconductor production, add pressure. Despite near-term risks from energy, food and fertilizer inflation, emerging markets retain attractive long-term prospects, supported by strong earnings-growth expectations, discounted valuations, AI-related supply chains, commodity demand and resilient domestic growth. Diversification and risk-mitigation strategies remain essential amid prolonged uncertainty.

Private Markets

Private credit faces its first stress test amid AI-driven software repricing, investor scrutiny and redemption limits, yet credit markets remain resilient, suggesting localized repricing rather than systemic risk during transition.

- **How private credit evolved.** Private credit expanded as banks retreated, offering diverse strategies, underwriting and broader financing access, requiring investors to distinguish risks.

- **Key structural features.** Private credit is structured for resilience through long-duration capital, senior secured lending and diversification across vintages. Recent stress, particularly in software, reflects valuation repricing rather than systemic deterioration. Redemption limits are a protective structural feature, defaults remain low, and equity cushions plus supportive liquidity help contain risk. While ties to banks warrant monitoring, current conditions point to concentrated, manageable stress, not a broader financial crisis.

- **Macroeconomic backdrop remains supportive.** U.S. economic resilience supports credit markets, but persistent inflation, energy risks and sticky services prices may delay rate cuts and prolong elevated interest rates.

- **Manager selection is everything in private credit.** Private credit faces its first repricing test, but structural protections, active management and rising dispersion reinforce its ongoing role in diversified portfolios despite higher defaults and sector-specific pressures.

Currencies

The risk-reward outlook points to a weaker U.S. dollar as its safe-haven appeal fades. Geopolitical shocks have not driven sustained strength, while the euro and Swiss franc increasingly attract haven flows. Slowing U.S. exceptionalism, expected Fed rate cuts, fiscal concerns and a shift toward risk assets support dollar downside, despite its dominance.

- **Canadian Dollar (CAD).** Near-term weakness is expected from the economy, trade uncertainty; longer-term, however, commodity support is expected.

Commodities

After years sidelined by ample supply and low rates, commodities are re-emerging amid structural underinvestment and demand.

- **Long-term Anchor: Structural demand in a capital-constrained world.** Prolonged underinvestment since 2011 has constrained commodity supply, while demand surged from electrification, AI, defence and geopolitics. Absent reinvestment, scarcity persists, positioning commodities as strategic hedges against inflation and currency debasement.

- **Short-term Accelerator: High-volatility world increases the need for commodities.** Geopolitical conflict has intensified structural commodity pressures, exposing fragile supply chains and embedding persistent volatility. Energy-driven inflation underscores asymmetric risks, while limited policy easing elevates real assets. Low cross-sector correlations and supply-shock sensitivity make commodities effective diversifiers and practical tools for portfolio resilience.

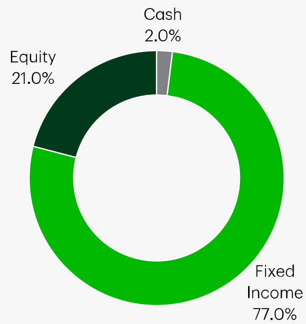
Figure 1: Direction from WAAC: strategic positioning

	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		●			

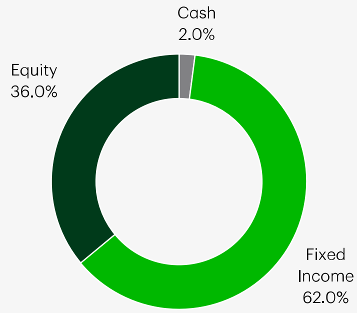
Source: Wealth Asset Allocation Committee, as of April 16, 2026.

Dynamic asset-class weights by investor profile (Condensed)

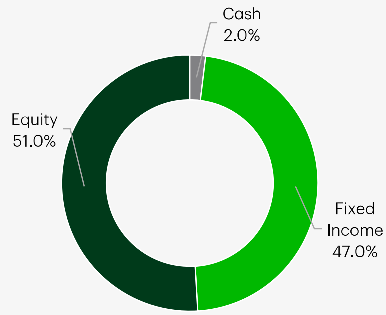
Conservative Income



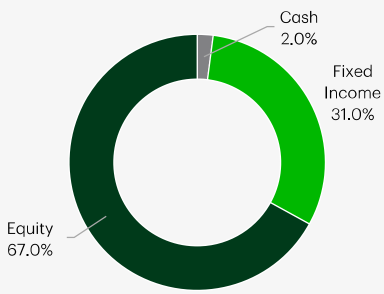
Balanced Income



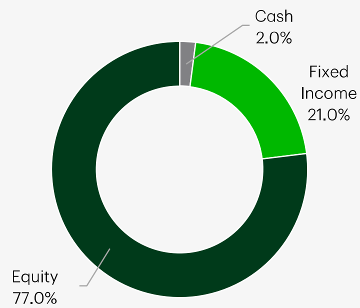
Balanced



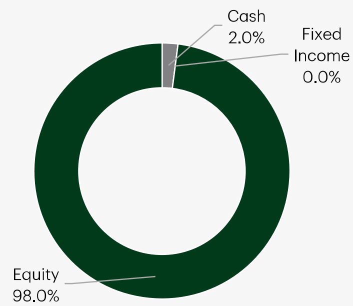
Balanced Growth



Growth

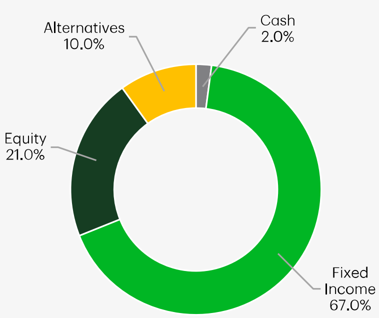


Aggressive Growth

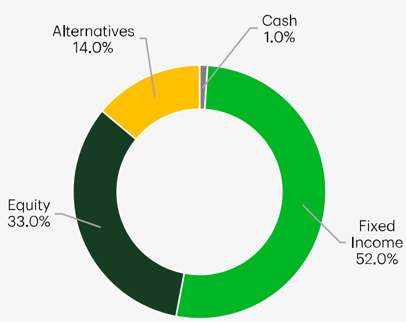


Dynamic asset-class weights by investor profile (Expanded)

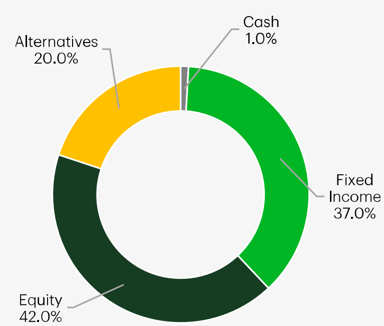
Conservative Income



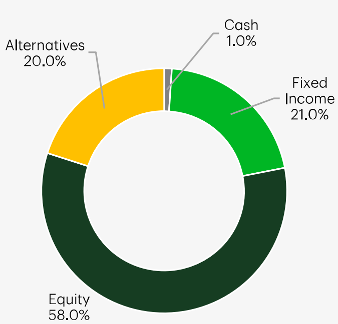
Balanced Income



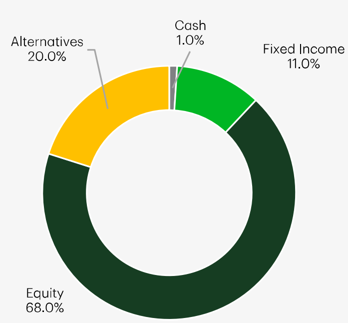
Balanced



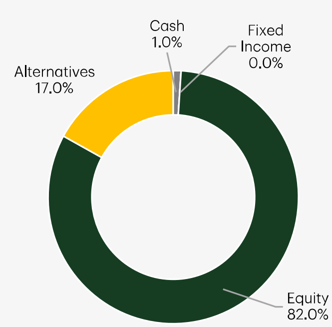
Balanced Growth



Growth



Aggressive Growth



Source: Wealth Investment Policy Committee, as of April 16, 2026.

Our Positioning I Q2 2026

Asset Classes

Diversification is the ballast and is critical to navigating volatility and capturing opportunity.

U.S. Dollar I Modest Underweight

Still the world's primary safe haven, but in a more fragmented and competitive global system, it may provide less insulation than in the past

Fixed Income I Modest Underweight

Yields provide solid income, but capital gains potential is limited.

Equities I Modest Overweight

Supported by the breadth and resilience of earnings across sectors.

- **U.S.:** earnings-driven and broadening
- **Canada:** commodity-driven, leveraged to energy
- **Emerging markets (Latin America):** commodity-linked, attractively valued, and diversifying

Private Credit I Modest Overweight

Fundamentals more resilient than headlines suggest, with improving conditions.

Alternatives I Modest Overweight

Commodities and infrastructure aligned with geopolitics, inflation, and supply constraints

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	139916	-4.32	3.94	3.94	34.83	21.18	15.19	12.59	8.23
S&P/TSX Composite (PR)	32768	-4.58	3.33	3.33	31.51	17.69	11.87	9.28	5.10
S&P/TSX 60 (TR)	6663	-3.11	3.08	3.08	30.75	20.12	14.77	12.66	8.40
S&P/TSX SmallCap (TR)	2517	-8.97	11.39	11.39	65.80	25.85	15.67	12.29	5.98
S&P/TSX Preferred Share(TR)	2455	-0.92	0.35	0.35	13.50	14.56	6.67	6.95	3.56
U.S. Indices ($US) Return									
S&P 500 (TR)	14561	-4.98	-4.33	-4.33	17.80	18.32	12.06	14.16	10.53
S&P 500 (PR)	6529	-5.09	-4.63	-4.63	16.33	16.69	10.44	12.23	8.43
Dow Jones Industrial (PR)	46342	-5.38	-3.58	-3.58	10.33	11.67	7.04	10.11	7.40
NASDAQ Composite (PR)	21591	-4.75	-7.11	-7.11	24.81	20.89	10.26	16.06	11.75
Russell 2000 (TR)	13725	-5.00	0.89	0.89	25.72	13.05	3.77	9.88	7.54
U.S. Indices ($CA) Return									
S&P 500 (TR)	20290	-2.85	-2.84	-2.84	14.19	19.51	14.39	14.98	11.51
S&P 500 (PR)	9097	-2.97	-3.14	-3.14	12.77	17.86	12.74	13.03	9.39
Dow Jones Industrial (PR)	64577	-3.27	-2.08	-2.08	6.95	12.80	9.26	10.90	8.36
NASDAQ Composite (PR)	30087	-2.62	-5.66	-5.66	20.98	22.10	12.55	16.89	12.75
Russell 2000 (TR)	19126	-2.88	2.46	2.46	21.87	14.18	5.92	10.67	8.50
MSCI Indices ($US) Total Return									
World	20367	-6.32	-3.47	-3.47	19.39	17.29	10.77	12.36	8.55
EAFE (Europe, Australasia, Far East)	14551	-10.19	-1.12	-1.12	21.88	14.19	8.45	8.91	5.54
EM (Emerging Markets)	3830	-13.03	-0.10	-0.10	30.30	15.41	4.16	8.24	5.76
MSCI Indices ($CA) Total Return									
World	28381	-4.22	-1.97	-1.97	15.72	18.47	13.08	13.17	9.51
EAFE (Europe, Australasia, Far East)	20277	-8.18	0.43	0.43	18.14	15.34	10.71	9.69	6.48
EM (Emerging Markets)	5337	-11.08	1.46	1.46	26.31	16.57	6.33	9.02	6.71

Currency									
Canadian Dollar ($US/$CA)	1.39	2.02	1.40	1.40	-3.27	0.98	2.07	0.68	0.88
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	10176	-6.73	2.47	2.47	18.57	10.07	8.67	5.12	2.71
Hang Seng (Hong Kong)	24788	-6.92	-3.29	-3.29	7.22	6.71	-2.67	1.78	2.28
Nikkei 225 (Japan)	51064	-13.23	1.44	1.44	43.37	22.12	11.84	11.79	5.63

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	2.32	3.10	3.47	3.90
U.S. Treasury Yields	3.68	3.94	4.32	4.91

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	488	0.16	0.51	0.51	2.52	3.95	2.98	1.97
FTSE TMX Canada Universe Bond Index	1203	-1.97	0.23	0.23	0.84	3.49	0.73	1.77
FTSE TMX Canada All Government Bond Index	1119	-2.06	0.26	0.26	0.22	2.76	0.21	1.32
FTSE TMX Canada All Corporate Bond Index	1506	-1.70	0.14	0.14	2.77	5.67	2.25	3.07
U.S. Corporate High Yield Bond Index	320	-1.35	-0.92	-0.92	5.11	7.25	3.27	5.22
Global Aggregate Bond Index	265	-1.95	-0.58	-0.58	1.63	2.78	-0.04	1.38
JPM EMBI Global Core Bond Index	578	-3.75	-2.38	-2.38	7.48	7.40	1.06	2.57
S&P/TSX Preferred Total Return Index	2455	-0.92	0.35	0.35	13.50	14.56	6.67	6.95

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of March 31, 2026

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).