TD Wealth

Never Mind the Nonsense

Portfolio Strategy Quarterly | Q3 2026

July 2026

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NEVER MIND
THE NONSENSE
HERE'S THE
NEW REGiME
HERE'S THE

Never mind the nonsense.

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

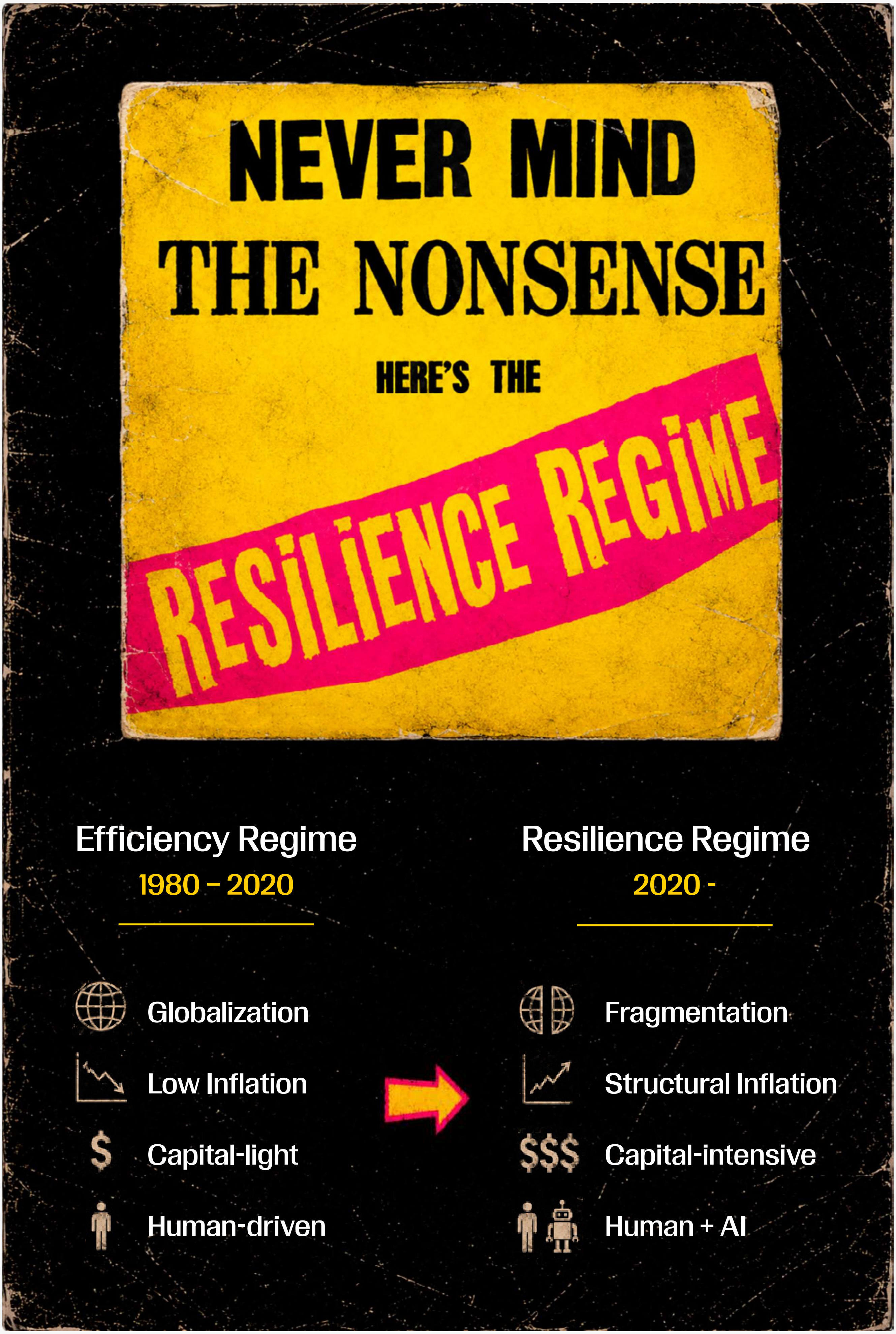
Today, the mood again feels heavy. Wars are growing larger and more systemically important. Governments are rearming. Energy security is back at the centre of policy. Deficits matter. Supply chains are fragmenting. Artificial intelligence is creating both excitement and anxiety. And, as such, central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

But dread is not destiny.

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

Be well,

Brad Simpson
Chief Wealth Strategist, TD Wealth


NEVER MIND
THE NONSENSE
HERE'S THE
RESILIENCE REGIME
Efficiency Regime
1980 – 2020
Globalization
Low Inflation
Capital-light
Human-driven
Resilience Regime
2020 -
Fragmentation
Structural Inflation
Capital-intensive
Human + AI

Cracking Complexity

Complexity

$4 Trillion by 2030?

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

If you build it ...

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

14% of IG

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

And Yet Still Underleveraged

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

EM Shovels

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

Definitely Some Froth

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

... But Hardly Exuberance

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

Return of the Doves?

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

Adaptation

Adaptive Approach

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

Process Over Prediction

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

Remember the 10/10/10 Rule

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

Tactics on the Margins

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

True Diversification

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

Calm Before the Storm

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

High-odds Proposition

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

7 Years Bad Luck

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

PSQ3.2026 | Executive Summary

House Views

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

Quarter in Review

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

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

Economics

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

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

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

Fixed Income

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

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

Equities

AI drives global stocks, but regional risks diverge

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

Currencies

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

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

Commodities

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

- **Markets are still sorting the signal from the noise.** Higher rates, a stronger U.S. dollar and softer demand expectations have weighed on sentiment. However, fundamentals appear more resilient: oil weakness may partly reflect inventory shifts, gold retains durable central-bank support and copper faces tight supply alongside long-term demand from electrification, infrastructure, data centres and AI.
- **Commodities don't need to spike to add value.** Commodities offer inflation protection and diversification, but gradual price strength is preferable to sharp rallies. Despite volatility and risks, disciplined exposure remains warranted while fundamentals hold.

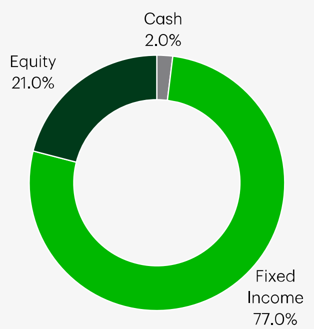
Figure 1: Direction from WAAC: strategic positioning

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

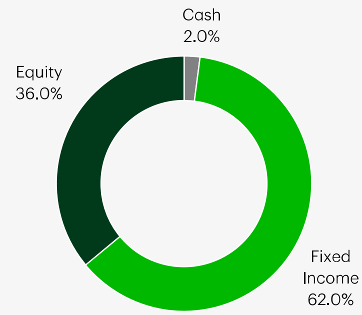
Source: Wealth Asset Allocation Committee, as of July 16, 2026.

Dynamic asset-class weights by investor profile (Condensed)

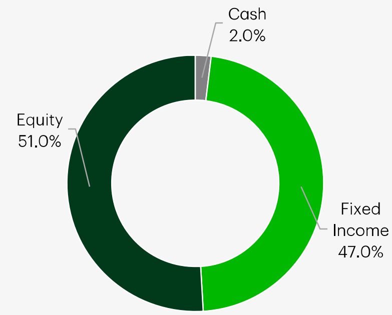
Conservative Income



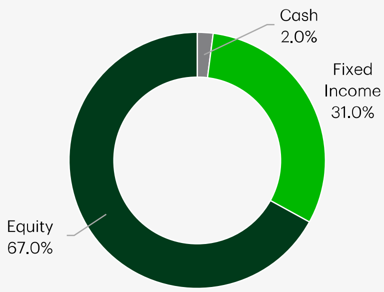
Balanced Income



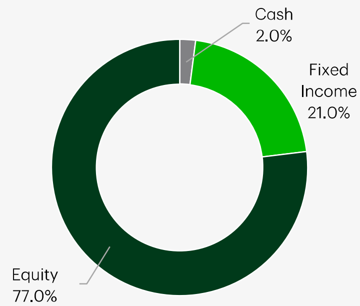
Balanced



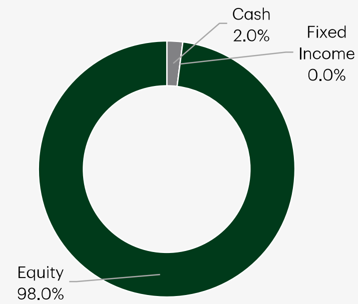
Balanced Growth



Growth

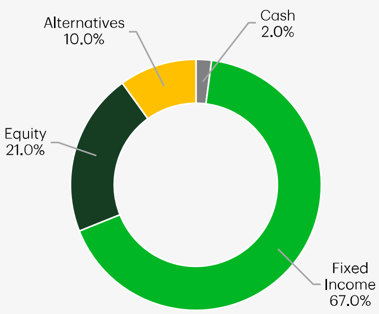


Aggressive Growth

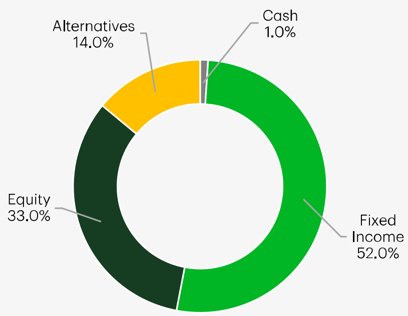


Dynamic asset-class weights by investor profile (Expanded)

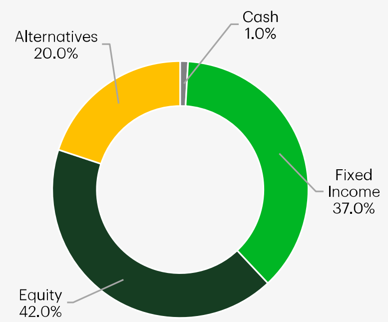
Conservative Income



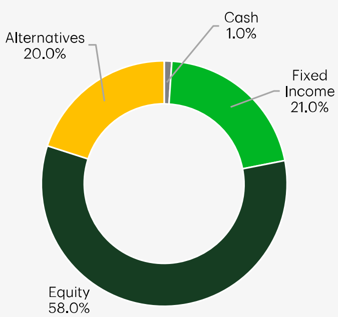
Balanced Income



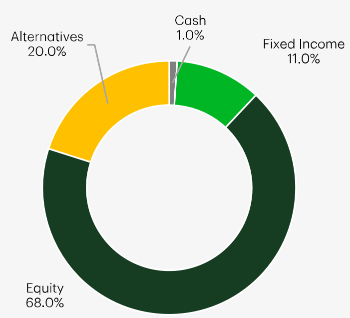
Balanced



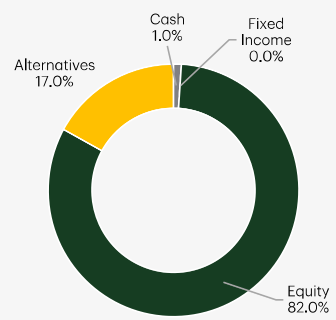
Balanced Growth



Growth



Aggressive Growth



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

Our Positioning I Q3 2026

Portfolio construction for the Resilience Regime

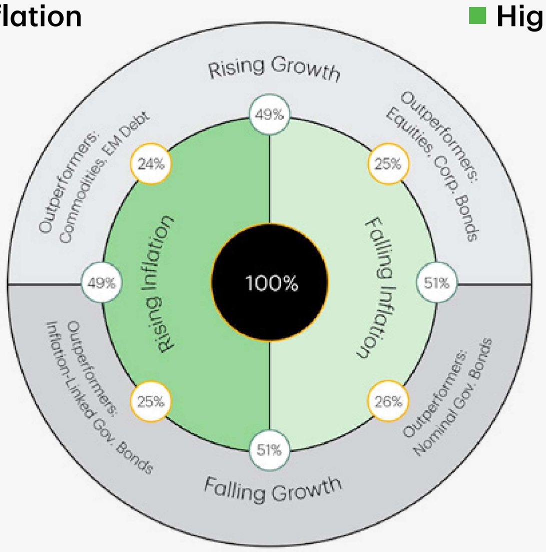
The investment regime has changed. Portfolio construction must reflect a wider range of economic outcomes, not simply a broader mix of asset classes.

Higher Growth/ Higher Inflation

- Commodities
- Emerging Market Debt (Hard Currency)

Higher Growth/ Lower Inflation

- Equities (Public & Private)
- Real Estate & Inf rastructure
- Corporate Bonds
- High Yield Bonds



Diversifiers

Multi-Strategy Hedge Funds

Lower Growth/ Higher Inflation

- Inflation-Linked Bonds
- Commodities
- Gold

Highest Conviction Themes

- Infrastructure
- Commodities
- Private Credit
- Diversification Across Growth & Inflation

Asset Allocation

Our current position.

Cash I Modest Underweight

Fixed Income I Modest Underweight

Equities I Modest Overweight

Alternatives I Modest Overweight

The objective is not to predict the future.
It is to build resilient portfolios prepared for it.

Market Performance

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

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

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

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

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

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