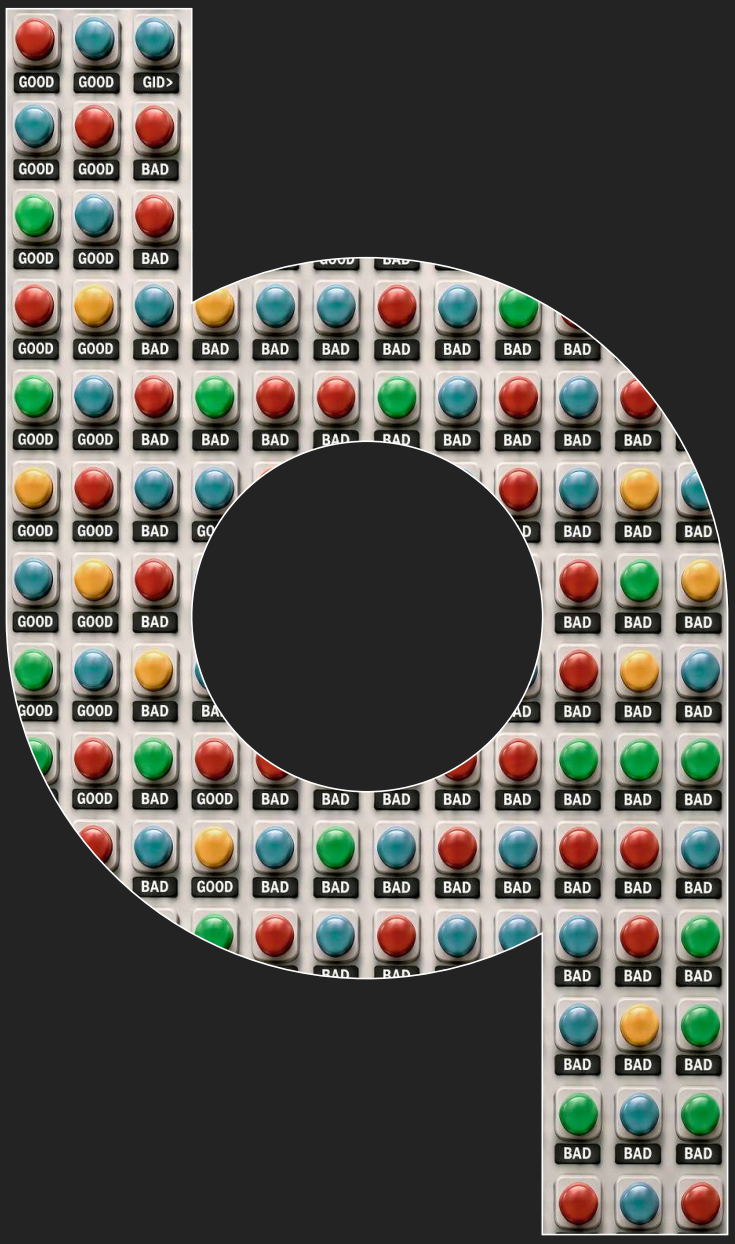
TD Wealth



Bad Decisions

Portfolio Strategy Quarterly | Q4 2026

October 2026


GOOD OUTCOME
SOUND DECISION
BAD OUTCOME
SOUND DECISION
GOOD OUTCOME
POOR DECISION
BAD OUTCOME
POOR DECISION
MARKETS
AI
INFLATION
CLIMATE
WAR

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Bad decisions.

Few things are as financially dangerous as making a bad decision and earning a good return. Yes, some lucky souls made money from Dogecoin, MicroStrategy and Bored Ape Yacht Club NFTs. It's true. The longer a market rewards investors, the easier it becomes to confuse a favourable environment with sound decision-making. Allocations drift, expectations rise, risks become easier to dismiss, and a portfolio built for one set of conditions gradually becomes dependent on those conditions continuing.

A strong run of returns is a good time to ask five questions about your portfolio:

1. Has your allocation drifted away from your plan?
2. Do your holdings reflect today's conditions or depend on yesterday's?
3. How exposed are you if financing becomes more expensive or harder to obtain?
4. Do your investments spread your risks or give you different versions of the same exposure?
5. Are you waiting for certainty before making changes that already make sense?

Remember, a good return can't tell you whether the decision behind it was sound. What matters now is whether the portfolio you own still serves your goals and is prepared for the opportunities and challenges ahead. You don't need to call the market top to make that assessment. A rewarding market has given you room to act. *Use it.*

Be well,



Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

60/40 = 80/20

Failure to rebalance may have turned your portfolio into something far riskier than intended. If you began 2020 with a 60/40 allocation, the AI-driven boom has now left you with 78% equities and 22% bonds. And if those equities consisted of the S&P 500, you'd be 31% invested in mega-cap tech stocks.

One Stock Carried the S&P 500

One stock alone (Microsoft) drove most of the return of the S&P 500 in the quarter. Indeed, while the market-cap-weighted index gained 2.3% in the quarter, the equal-weighted S&P 500 fell about 1.5%.

The D Words

"Dispersion" and "diversification" are operative in this market, where the index performance captures only part of the investing experience. Almost 80% of S&P 500 companies were trading below their 50-day average at quarter end.

120% by 2036

U.S. debt, on its current trajectory, would reach 120% of GDP in 10 years, according to the Congressional Budget Office. Compare that to France — facing violent protests amid proposed spending cuts — which today has a debt-to-GDP ratio of 119%.

5.3% > 25 Years

Rising inflation, rate hikes and concerns about the U.S. debt load has lifted 10-year Treasury yields to a recent high of 5.29% — a level not seen since the turn-of-the-century.

High Diesel Prices ≠ Demand Destruction

While energy prices remain elevated, high-frequency data show little to no demand destruction so far, TSA volumes remain high and rail volumes also continue to increase.

AI = 20% of Layoffs...

A survey conducted by a U.S. executive outplacement firm suggests that 20% of the layoffs planned for 2026 are being attributed to AI efficiencies.

... But Don't Panic

Research examining more than 18,000 workplace tasks found that only 13% of workers used AI on a daily basis, and only 8% of occupations included a task that could be automated at scale. So, while AI is helping with the work, it's not replacing workers *en masse*.

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.

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, respecting to your process, staying diversified and adapting to the environment around you is always the best course of action.

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.

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.

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%.

PSQ4.2026 | Executive Summary

House Views

• **Fixed Income, neutral:** With renewed global energy-price volatility, the Bank of Canada is increasingly concerned about upside risks to inflation. While elevated long-term global growth expectations have repriced bond yields higher, the move towards tighter global monetary policy is expected to weigh on long-term inflation expectations. As such, today's elevated bond yields offer attractive risk-adjusted income and are expected to provide diversification benefits by reducing overall portfolio volatility.

• **Equities, modest overweight:** Global equity markets are in positive territory year-to-date, given that strong earnings growth has offset modestly lower valuation multiples. Areas driven by artificial intelligence and data-centre spending continue to generate strong growth, with earnings participation broadening across a wider range of sectors and providing additional support for markets. While there could be volatility depending on Middle East oil flows, interest rates and AI sentiment, we remain constructive on equities due to positive global economic and earnings growth, as well as more pro-business government policies.

• **Alternatives, neutral:** 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. 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 consider an allocation to alternative assets.

Quarter in Review

The resilient performance of U.S. stock indices masked the narrowing market leadership and the rising cost of capital.

• **Broader demand keeps growth and earnings on track.** The U.S. economy exceeded Q3 expectations as stronger wages, consumer spending, AI investment and earnings supported growth. However, AI hardware demand added inflationary pressure, higher energy prices threatened household budgets, and rising borrowing costs weakened housing, reducing incentives for Fed easing and raising capital costs.

• **The price of a strong economy.** Higher oil prices complicated inflation and Fed policy, but rising real yields drove most of Q3's Treasury selloff. Strong growth, capital-intensive AI investment and heavy borrowing suggested that rates could remain elevated longer. Bond volatility increased while equities stayed resilient, supported by leading companies' earnings. Nevertheless, higher financing costs exposed underlying vulnerabilities, leaving uncertainty about how far yields could rise before stocks weakened.

• **Equities: Calm on the surface, turbulent below.** Low stock correlation masked divergent returns, while concentrated leadership increased passive investors' exposure to AI, growth companies and distant earnings.

• **AI: From big spending to proving the payoff.** AI spending supported growth, but higher borrowing costs intensified scrutiny of returns, while more efficient local models questioned future centralized infrastructure needs.

• **Different labels, shared exposures.** Different asset labels can conceal shared growth, funding and liquidity risks. Commodities and value sectors offer broader exposures, potentially benefiting from inflation, AI infrastructure investment and longer-term reflation.

Economics

Forget the robot job apocalypse — for now. AI's real impact is emerging through changing tasks, slower hiring and widespread retraining.

• **Why AI is more likely to change jobs than eliminate them.** AI can affect many tasks, but widespread job losses require autonomous capability, economic viability and rapid adoption. Current evidence points instead to gradual workplace change, giving businesses, policymakers and workers time to adapt.

- **Current exposure of jobs to AI technologies. .** AI touches many workplace tasks, but exposure rarely means automation; it more often reshapes work than eliminates jobs.
- **The First Condition: Capability and reliability.** AI must perform tasks autonomously and reliably, yet fewer than 2% of jobs appear highly automatable, making near-term displacement limited and uneven overall.
- **The Second Condition: Full AI deployment requires strong economic feasibility.** AI deployment must also make financial sense. Although many tasks are technically exposed, relatively few are economical to automate once implementation, oversight, compliance, infrastructure and usage costs are included. Falling model costs support adoption, but complex tasks and hardware constraints keep returns uncertain.
- **The Third Condition:** The pace of adoption will shape the impact. AI adoption is expanding but remains uneven and gradual: few firms use it, daily worker use is limited, and infrastructure jobs offset layoffs. Stable job churn suggests deployment is supplementing workflows rather than overwhelming labour markets, though close monitoring of future displacement remains essential.
- **Painting a picture of an AI-driven jobs apocalypse.** Even rapid, economically viable AI adoption would produce uncertain outcomes. Moderate and severe scenarios lift productivity but raise unemployment 0.7 and 1.4 percentage points by 2031, with exposed industries hit hardest. New demand and jobs could offset losses, while a concurrent recession could deepen disruption—making an AI jobs apocalypse a risk, not destiny.
- **What we are seeing in employment today.** AI's early effects appear mainly in slower hiring for exposed roles, especially among younger workers, while layoffs remain contained. Gradual adoption gives employers, policymakers and workers time to retrain, adapt and prepare.

Fixed Income

The Fed's new chief architect is opening load-bearing walls and inspecting the foundation of core monetary policy operations. Investors should take note.

- **More renovations at the Fed.** New Fed chair Kevin Warsh is reviewing whether the central bank's policy machinery remains fit for a changing economy. Five independent task forces will examine communications, balance-sheet policy, data, inflation frameworks, and productivity and jobs. Their recommendations may reshape operations, but the Fed's dual mandate and policymakers' ultimate decision-making authority remain firmly intact. **1. Communications task force.** The Fed is simplifying communications to improve transparency and preserve market signals, potentially increasing rate volatility and rewarding flexible duration management and independent analysis. **2. Balance sheet policy task force.** The Fed is reviewing its ample-reserves framework and balance-sheet transmission. Investors should expect possible liquidity and term-premium shifts while favouring high-quality, liquid bonds and avoiding premature assumptions. **3. Data task force.** The Fed will explore timelier alternative data, potentially accelerating policy expectations and market reactions, rewarding investors who distinguish signals from noise. **4. Inflation frameworks task force.** Fed policymakers are reviewing inflation drivers and tools; bond investors should maintain inflation resilience and flexible duration. **5. Productivity and jobs task force.** The Fed is assessing AI's uncertain effects on productivity, employment and inflation. Fixed income investors should pursue opportunities selectively, prioritizing corporate fundamentals rather than presumed policy benefits.
- **Time for investors to do a little inspecting of their own?** The Fed's reviews collectively test whether policy frameworks remain suited to a rapidly changing economy, but recommendations are not final. Potential changes could influence global central banks and increase market volatility. Fixed income investors should stay flexible, emphasize quality and liquidity, monitor inflation, assess AI opportunities selectively, and avoid premature policy assumptions.
- **Government bonds.** Government bond yields rose amid resilient growth, persistent inflation, fiscal deficits and heavy issuance. With volatility elevated, attractive income supports diversification, but investors should favour selective duration management as policy and election uncertainty pressure yields.
- **Corporate credit.** Credit markets remain resilient, but tight valuations limit upside. We favour investment-grade issuers, disciplined selection and income-focused strategies emphasizing quality and capital preservation.

Equities

Tech fortunes reversed, resources rallied and rates bit harder. Beneath modest market gains, a reminder of what diversification is for.

- **United States: Modest gains, hidden strains.** Modest U.S. equity gains masked sharp sector divergence, rising rates and rising oil prices, with underlying performance differences determining portfolio outcomes.
- **Software came back to life.** Software rebounded as AI monetization and short-covering lifted stocks; semiconductors retreated after substantial gains, highlighting portfolio concentration risks.
- **Great companies, high prices.** Excellent businesses can disappoint at excessive valuations, while cheap stocks can rebound on modest resilience; both underscore discipline rather than prediction.
- **The quarter's other story: Higher rates.** Rising rates, surging oil and falling confidence exposed fragile, leveraged strategies, hurting rate-sensitive sectors and revealing longstanding inflation and geopolitical risks.
- **What diversification is actually for.** AI holdings shared risks despite sector variety; rising rates hurt stocks and bonds, while commodities diversified. Concentrated index gains and unreliable forecasts underscored the importance of understanding exposures and building portfolios independent of accurate predictions.
- **Canada: Resources carry the quarter.** Canadian banks corrected approximately 10%, but valuations remain elevated and increased commercial lending heightens potential credit losses during a slowdown, although no contraction is forecast. Resources drove the TSX's 1.6% quarterly gain despite widespread sector declines. The outlook remains constructive but more volatile, with materials favoured and financials facing challenges until valuations normalize or earnings improve further.
- **International equities: Between boom and gloom.** International equities balance industrial recovery against rising costs, yields and concentrated leadership. Europe's manufacturing expansion, supported by AI, defence and infrastructure investment, faces inflation and valuation pressures. Japan's machinery exports benefit from investment demand, potentially offsetting yen appreciation. Emerging markets fell 3.6% in Q3/26 despite resilient semiconductor fundamentals; energy prices favoured Brazil over India, while China's recovery remained uneven. Shared AI exposures reinforce diversification across regions, sectors, commodities, infrastructure and less-correlated assets as long-term growth opportunities coexist with increasingly volatile returns.

Private Markets

A single-asset continuation vehicle can give existing investors cash and the GP more time. But it also represents a concentrated investment with a new price, new terms and a new exit timeline.

- **Fresh underwriting or delayed exit?** Buyout distributions averaged 12% of net asset value from 2022 to 2025, remaining subdued for four years without showing impaired economics. McKinsey reports distributions/AUM of 6% through June 2025, versus 16% from 2015 to 2019. Secondary-market volume reached US$233 billion in 2025; GP-led deals totalled US$116 billion, 53% in single-asset vehicles. These transfers let existing investors sell or roll while sponsors retain companies. Incoming investors face concentration, new pricing, fees, leverage, extended holding periods and sponsor conflicts; prior success and liquidity needs cannot establish a fresh investment case.
- **Three resets demand fresh underwriting.** Continuation investments require fresh underwriting: incremental value creation with funded, observable milestones; pricing that supports returns after leverage, capital, costs and time; and terms preserving meaningful GP exposure through carry rollover, capital commitments and governance. Visibility offers no certainty; past success and near-NAV pricing cannot replace analysis. William Blair's 2025 survey found 91% priced at least 90% of NAV; 48% at or above NAV versus 55% in 2024, and 59% in Europe.
- **When the company's clock differs from the fund's.** Longer ownership requires funded, accountable milestones and adequate returns from current pricing after costs, leverage and time; concentration persists, and informed investors must assess selling or rolling.

Currencies

The greenback's rally looks stretched, but a retreat may have to wait. For the Canadian dollar, meanwhile, patience remains the watchword.

- **Peak Dollar?** The U.S. dollar likely peaked, but limited catalysts and stretched positioning suggest volatile, range-bound trading until Fed or equity dynamics shift.
- **CAD: Patience is required.** Canada's weak momentum argues against imminent BoC tightening. Aggressive hike pricing and rate differentials support USD/CAD above $1.40 near-term, before Canadian recovery and renewed U.S. dollar weakness pull it toward $1.38.

Commodities

War and scarce supply have propelled commodities higher, underscoring their value when traditional portfolio defences come under pressure.

- **Supply shocks reinforce the case for commodities.** Commodities surged as wars exposed supply fragility; resilient demand, constrained capacity and geopolitical risks strengthen their diversification value and strategic portfolio role amid inflation.
- **Commodities demonstrate their diversification role.** Once overlooked, commodities now provide genuine diversification, outperforming traditional assets while maintaining negative correlations during market stress.
- **Demand destruction? More adjustment than collapse.** Despite high energy costs, travel and freight remain resilient, while inventory releases cushion consumption; current pressures resemble prior cycles rather than widespread demand destruction so far.
- **Inventory drawdowns sustain consumption.** Depleted inventories, constrained capacity and slow supply recovery strengthen commodities' role in resilient portfolios amid unpredictable geopolitical shocks.

Bad Decisions

A rewarding market makes it easy to confuse a good outcome with a sound decision. The time to tell them apart is while investors still have the flexibility to change course.

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

Few things are as financially dangerous as making a bad decision and earning a good return. Profiting from speculative bets on Dogecoin, MicroStrategy and Bored Ape Yacht Club NFTs come to mind. Yes, some lucky souls made money on million-dollar cartoon apes, images anyone could copy with a right-click. These are extreme examples, but the temptation to confuse a good outcome with a sound decision is widespread. The longer a market rewards investors, the easier it becomes to confuse a favourable environment with sound decision-making. Allocations drift, expectations rise and risks that haven't yet come to roost become easier to dismiss. A portfolio built for one set of conditions gradually becomes dependent on those conditions continuing (Figure 1).

We remain overweight on equities because we believe the forces supporting the advance remain in place: a healthy economy, substantial capital investment, expanding margins, earnings that continue to surprise to the upside and ample liquidity. But a constructive outlook doesn't remove the need to revisit our allocations. We need to understand today's environment, the expectations embedded in market prices and the underlying exposures we actually own.

After such a long run, the following questions are understandable: Is this the market top? Is the bull market coming to an end? What should you do? You don't need to settle the first two questions to act on the third. Start by asking whether the portfolio you own today still reflects your goals, the current environment and the risks you can afford to take. That means reassessing the decisions a rising market has rewarded (good and bad) and resetting your allocations for the opportunities and challenges ahead. Five common mistakes deserve a closer look.

1. Letting your portfolio drift away from your plan

One of the easiest decisions to make in a rising market is to change nothing. Yet doing nothing doesn't mean your portfolio stays the same. As winners grow, they can quietly change the balance of risk you originally chose.

Suppose you began 2020 with a simple portfolio of 60% equities and 40% corporate bonds. Since then, the S&P 500 has delivered a total return of roughly 154%, while the U.S. corporate bond benchmark has returned just 6% (both cumulative, not annualized). This is the widest gap between the two asset classes since the late 1990s! Your initial $100 would have grown to almost $195 — now that's a rewarding experience.

Few things are as financially dangerous as making a bad decision and earning a good return.

Figure 1: A good outcome can hide a bad decision

	Good outcome	Bad outcome
Sound decision	A good result supported by a sound process.	A disappointing result does not automatically invalidate the process.
Poor decision	Making money can reinforce a mistake.	A mistake becomes easier to recognize.

Source: Wealth Investment Office, as of October 10, 2026

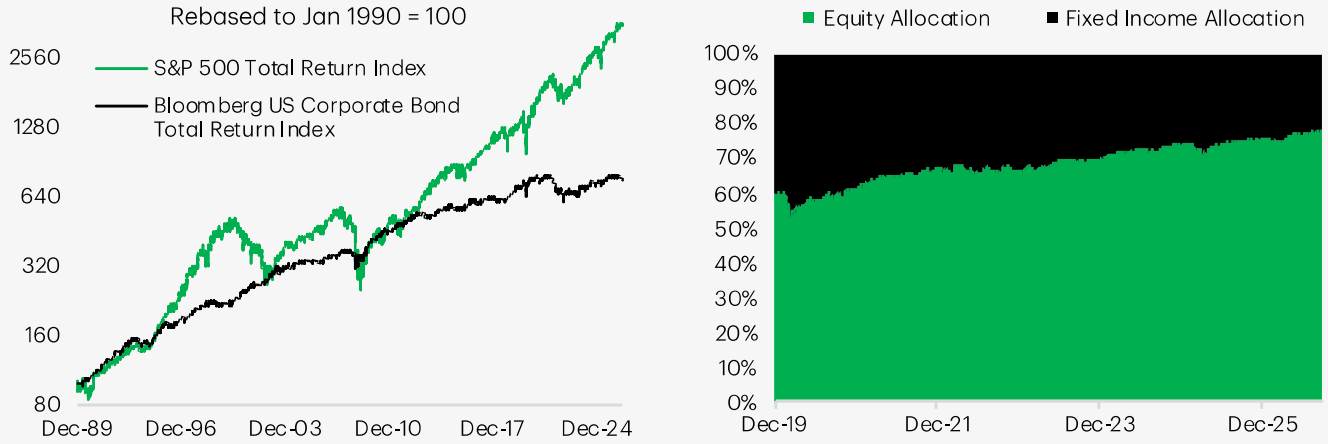
But look inside your portfolio. Your $60 in equities became roughly $152; your $40 in bonds became $42.40. Without rebalancing, your allocation has drifted to roughly 78% equities and 22% bonds — much closer to 80/20 than 60/40 (Figure 2). You didn't necessarily decide to take more risk — the market made that decision for you. Your goals may be unchanged, as may your income needs, time horizon and capacity to absorb a loss. Yet your portfolio now depends far more on continued equity-market success.

An advisor we spoke with recently described the other half of the problem: as balances have climbed, many of his clients have come to expect double-digit returns and have begun spending more freely. There's nothing wrong with enjoying the wealth that successful investing has created. But if you hold more equities and rely more heavily on them to fund your lifestyle, you face a greater risk of having to cut spending if the market corrects.

Those clients aren't alone. Their behaviour reflects a broader economic force: the wealth effect. As asset values rise, households feel more financially secure and become more willing to spend. Equity-market gains have helped support U.S. consumption, particularly among wealthier households. Increasingly, investment accounts are also supplying the cash: research from the JPMorgan Chase Institute shows that withdrawals relative to spending nearly doubled between April 2019 and April 2026 (Figure 3).

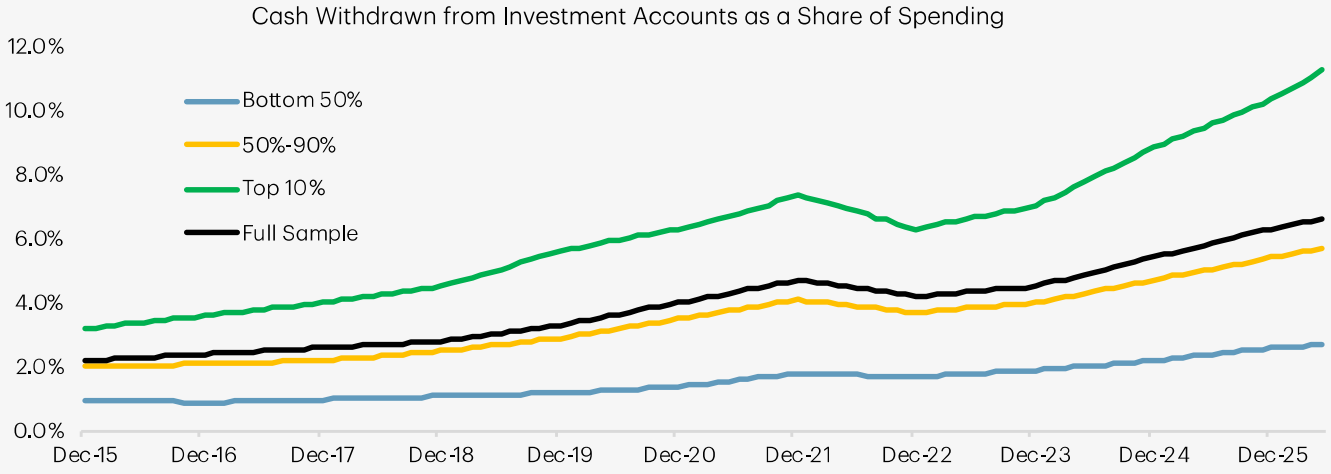
That helps explain the resilience of the consumer, but it also creates vulnerability. When both your portfolio and your lifestyle become more dependent on equities, a market setback can put pressure on both at once. The risk is allowing temporary gains to become permanent spending commitments.

Figure 2: An un-rebalanced 60/40 portfolio has drifted to roughly 80/20 since the start of 2020



Source: Macrobond, Wealth Investment Office, as of October 10, 2026.

Figure 3: Investment withdrawals are funding a growing share of household spending



*Calculated as ratio of average trailing three-month net inflow from investment accounts to average trailing three-month spending
Source: J.P. Morgan Chase Institute, October 17, 2026.

This is the first bad decision: letting your portfolio drift away from your plan. It's particularly tempting after a long run of strong returns, when concentration begins to feel like conviction and rebalancing (trimming your best performers and incurring a tax bill along the way) feels like giving something up.

Resetting your allocations starts with recognizing what has changed, both inside your portfolio and outside it. Simply restoring yesterday's weights assumes they still suit today's conditions. You need to reassess the environment, the forces supporting returns and how much of that strength is already reflected in prices.

2. Assuming yesterday's conditions still apply

Think back to the portfolio you held in 2020. As the pandemic shut down economic activity, central banks cut interest rates towards zero and governments provided extraordinary support. Bond yields fell, borrowing became cheaper and investors were encouraged to take risk. The recovery that followed benefited from that support.

Today, the investment case rests on different foundations. Economic activity is broadening, businesses are investing and corporate earnings are growing. But capital is more expensive, bond yields are higher and policymakers have less room to support growth without adding to inflation pressures. There are still reasons to own equities, but the conditions supporting them have changed.

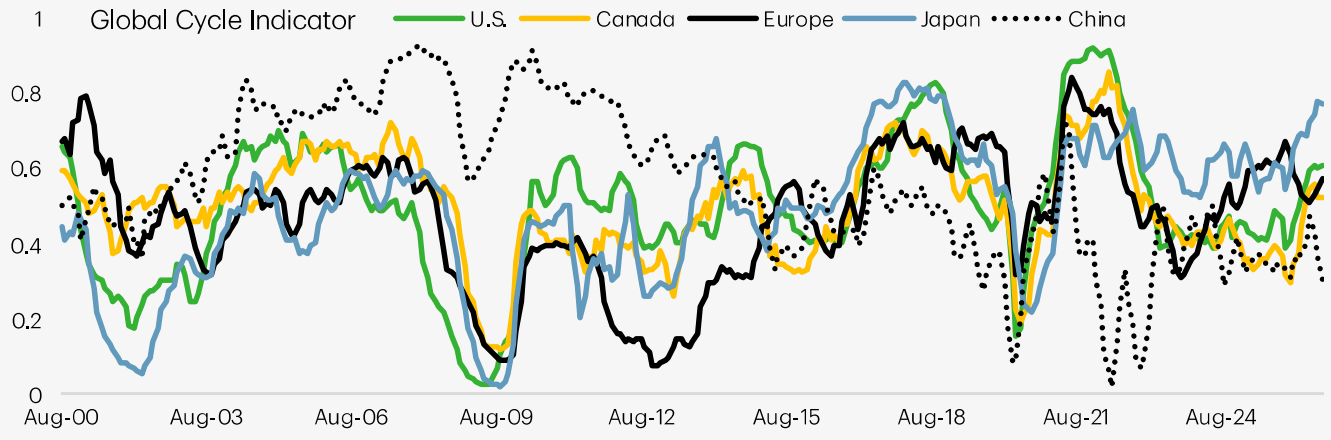
That distinction matters for your allocations. Higher borrowing costs raise the hurdle for businesses, while higher bond yields offer more income to investors. A portfolio built when money was exceptionally cheap deserves another look when capital has a meaningful cost. The mistake is assuming that investments that succeeded in the earlier environment will serve you equally well in this one.

Our global cycle indicator sat above the 70th percentile across the major economies except China in 2021 and 2022, when policymakers were tightening into overheating economies. Between 2023 and 2025, growth and labour-market conditions normalized, bringing it back toward the 50th percentile. This year, the U.S., Canada, Europe and Japan have been in a synchronized upswing (Figure 4), with cyclical activity broadening alongside continued investment in artificial intelligence (AI) infrastructure.

The Institute for Supply Management's Manufacturing Purchasing Managers' Index, a gauge of U.S. manufacturing activity, has now recorded nine consecutive months of expansion, with businesses reporting strong new orders and inventory building. Stronger demand linked to industrial activity, transport and capital investment is benefiting manufacturing supply chains not only in the U.S. but also across Europe, Japan, Canada and China. Historically, equities have tended to perform well in the later stages of a business-cycle expansion.

Corporate earnings deserve equal attention. Stronger-than-expected results and rising estimates have been central to the global equity story in 2026, and expectations for further growth in 2027 give investors reason to remain constructive. Equity markets don't peak simply because a bull market is extended. They usually need some combination of deteriorating profits, restrictive financial conditions, excessive leverage or a shock that changes expectations. Today, profits are expected to grow at a double-digit pace next year, financial conditions aren't restrictive, and corporate and household leverage is contained. Absent an external shock, the outlook for equities remains favourable.

Figure 4: The U.S., Canada, Europe and Japan have been in a synchronized upswing



Source: Macrobond, Wealth Investment Office, as of October 10, 2026.

A favourable outlook is only part of the investment case — the price you pay for those earnings matters just as much. A company can deliver strong earnings and still disappoint its shareholders if its share price already assumes something better. Equally, a business facing difficulties can produce a good return if the outcome is better than investors feared. Aside from that, you also need to understand what you're paying for and how much success the price already assumes.

This was highlighted during the recent earnings season by a few semiconductor stocks that reported a multifold increase in earnings and yet saw their stock prices fall following the release. For the tech-heavy U.S. equity market, the question today is whether the trillions of dollars in AI investment will translate into adequate returns on capital. We remain constructive on equities but acknowledge that they've become less attractive at the margin. The next phase of the bull market may reward selectivity, diversification and active risk management more than broad exposure to the same winners that led the earlier advance. This isn't the time to be complacent.

The same economic strength that supports your equities can put pressure on your bonds and, as yields rise, improve the income they offer from here. A broadening upswing puts upward pressure on long-term yields, weighing on the prices of existing bonds (Figure 5). That helps explain why your bond exposure has disappointed even as equities have advanced, but those higher yields also change the starting point for future returns.

With the economic backdrop this healthy, policymakers are likely to stay biased toward higher policy rates; the bond market now expects a global hiking cycle to run until the second half of 2027. But a mid-cycle rate hike is more about fine-tuning monetary policy than full-blown tightening. This isn't a replay of 2022, a time that will live in infamy for a generation of bond investors.

When we raised the subject of fixed income, the same advisor pushed back bluntly: "I can't lose my clients' money in fixed income." Conversations with clients about bonds had become harder, he said, after disappointing returns and their failure to act as portfolio stabilizers. We understand the objection. But abandoning fixed income because it failed in the last storm could prove costly in a future disinflationary slowdown. The better answer is to know which storm each holding is built for.

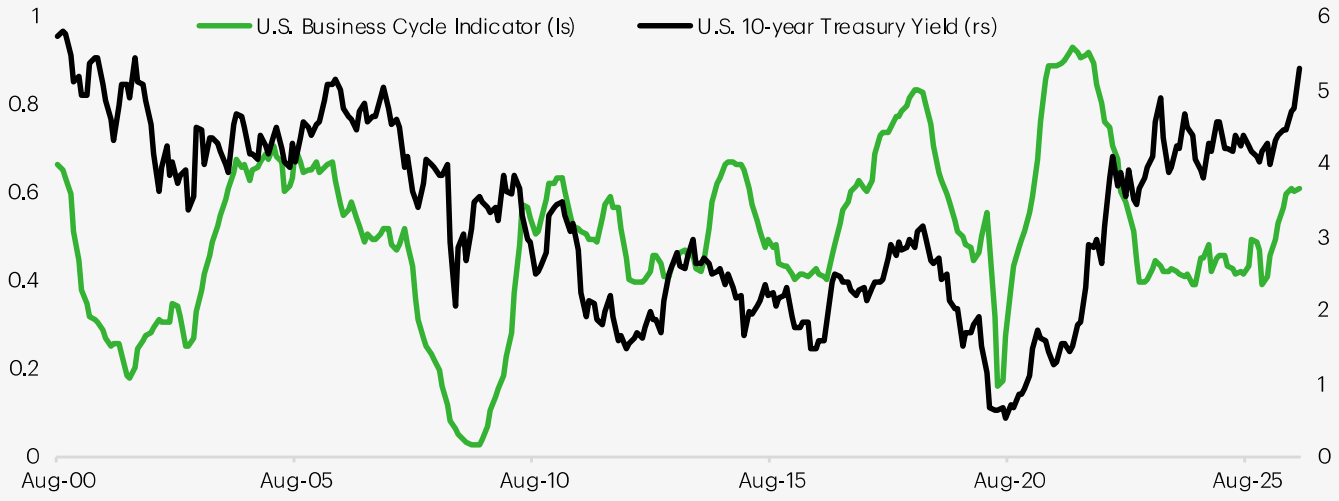
The rise in yields also changes the opportunity ahead. We have moved the weight on fixed income from a modest underweight to neutral, as higher yields strengthen the case for securing income for longer while selectively adding duration..

3. Assuming liquidity will remain abundant

Higher yields create opportunities for your bond allocation, but they also raise the cost of financing the growth you're counting on elsewhere in your portfolio. That brings us to liquidity: how readily governments, businesses and households can access capital, and on what terms.

In our August Perspectives, "A Year of Revelations," we acknowledged that liquidity had remained more supportive than we'd expected. Markets continued to absorb borrowing and uncertainty, supported by resilient growth. But we also made a distinction that matters today: easy liquidity can delay an adjustment without eliminating the need for one. That's why we continue to watch the borrowing demands building beneath an otherwise healthy expansion.

Figure 5: Bond yields tend to rise during upswings in the business cycle, and vice versa



Source: Macrobond, Wealth Investment Office, as of October 10, 2026.

This brings us to one of the current environment's great challenges: deficits are becoming structural. Ageing populations, defence commitments, industrial policy and higher interest costs are making large fiscal deficits structural rather than cyclical across major economies (Figure 6). In the U.S., the Congressional Budget Office projects a federal deficit of 5.8% of gross domestic product (GDP) in 2026, widening to 6.7% by 2036, while debt held by the public rises from 101% to 120% of GDP.

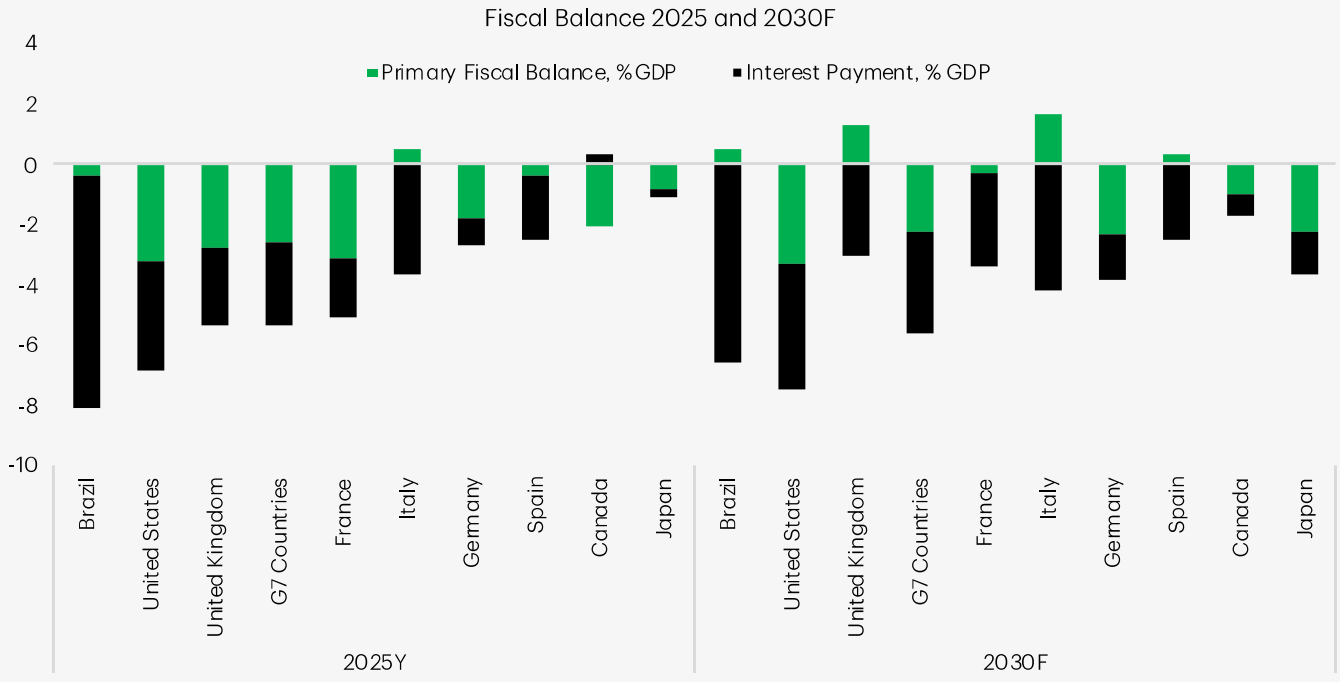
The rise in borrowing costs is an increasing part of these deficits, creating an unfavourable feedback loop for the U.S. and other developed countries alike: higher debt requires more issuance, which can push up term premiums and further raise the cost of servicing that debt. Despite the rate cuts in 2024 and 2025, long-term yields haven't come down, given that investors demand a higher risk premium to hold longer maturities. The same yields set the price of corporate borrowing — and with it the cost of financing the AI investment on which so much of the earnings story depends.

Markets don't need to anticipate default for fiscal sustainability to matter. A gradual loss of confidence can show up as a higher term premium, a weaker currency, greater demand for inflation protection and less willingness among foreign reserve managers to absorb sovereign issuance at prevailing yields. The freezing of Russia's foreign reserves after the invasion of Ukraine also changed the calculus for developed and emerging-market central banks holding Treasuries. Rising U.S. government debt will increasingly be met by price-sensitive buyers, which means a higher risk premium and costlier borrowing. And as investors question whether governments can stabilize debt without higher taxes, lower spending, faster growth or some erosion in the real value of their liabilities, gold is regaining relevance as monetary insurance.

France brings this into sharper focus. The French government ran a fiscal deficit of 5.2% of GDP this year and, unlike the U.S., doesn't have an independent monetary policy. Whereas the Federal Reserve (Fed) could print money to buy Treasury issuance, the European Central Bank (ECB) is unlikely to do so for France short of a fiscal crisis.

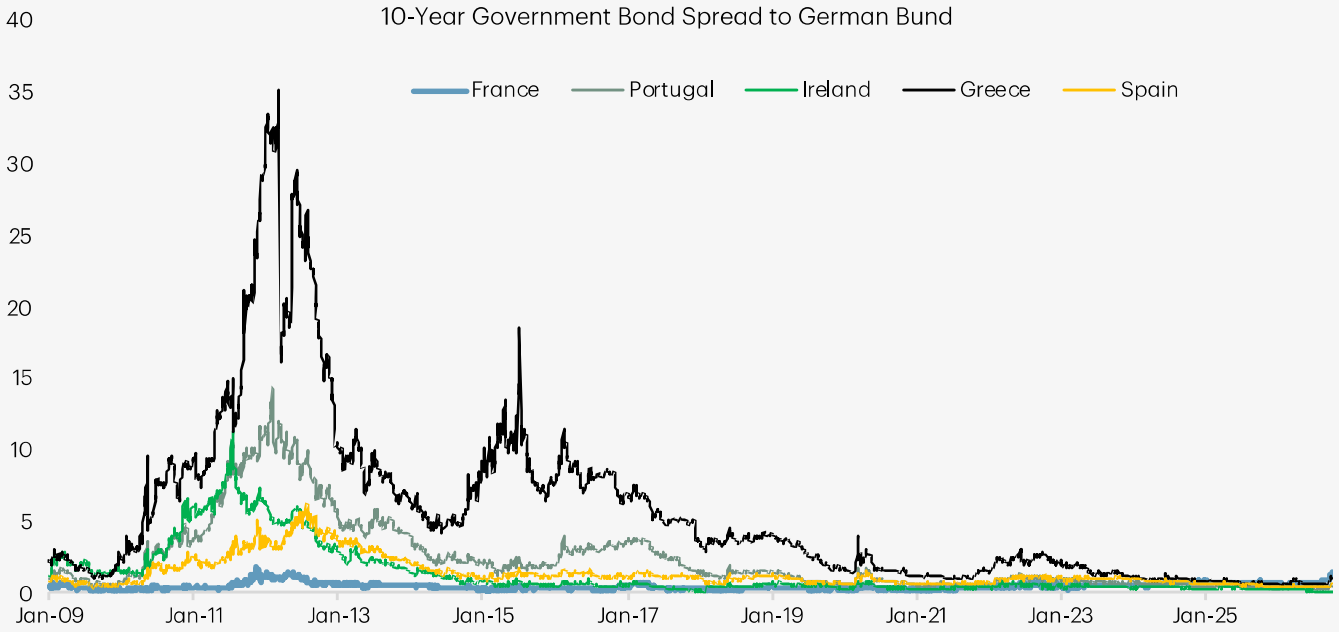
France's widening government bond yield spread over Germany has raised concerns because it has reached its highest since the euro zone debt crisis of 2011 to 2012. Investors are demanding a higher premium to hold French government bonds as worries grow over persistent budget deficits, rising debt and political uncertainty surrounding fiscal reforms. In many ways, the situation resembles 2011 to 2012 in that investors are once again differentiating between the creditworthiness of euro-area governments rather than treating them as equally safe borrowers (Figure 7).

Figure 6: Fiscal deficits are here to stay across major countrie



Source:Wealth Investment Office, as of October 10, 2026.

Figure 7: French bond stress today is meeting a very different market than in 2011-2012



Source: Wealth Investment Office, as of October 10, 2026.

However, this isn't a repeat of the euro zone crisis. In 2011 to 2012, markets were questioning the survival of the euro itself, banks were under severe stress and policymakers lacked many of the tools that exist today. France's current challenge is better described as a gradual fiscal credibility problem rather than an existential crisis for the monetary union. The ECB now has powerful backstops in place, funding markets remain functional, and France continues to enjoy access to capital markets. The key risk is therefore a continued rise in borrowing costs and sovereign risk premiums across Europe, rather than a return to the systemic turmoil that characterized the euro crisis.

4. Counting holdings instead of understanding exposures

You might own a semiconductor company, a utility supplying electricity to data centres, a real estate fund that owns those facilities and an infrastructure investment providing their connections. They sit in different sectors and asset classes, but part of their investment case may depend on the same thing: continued spending on AI. If that spending disappoints, several holdings could come under pressure together. Counting four investments tells you little about how many different risks you own.

Assets carrying different labels can share the same dependence on growth, liquidity or disinflation. The returns of private equity, private credit, private infrastructure and real estate are, at the end of the day, driven by many of the same factors as their public-market equivalents. Several holdings exposed to the same underlying risks don't make a diversified portfolio, especially if they're tied to the same theme, such as AI.

Bonds deserve the same scrutiny, because the reason behind a yield move matters. In a flight to safety, U.S. Treasuries could rally even as equities fall. But if investors instead demanded more compensation for U.S. fiscal or institutional risk, long-term borrowing costs could rise, credit spreads could widen and equity valuations could come under pressure all at once, with Treasury volatility and weaker trading liquidity amplifying the move. High-quality government bonds can diversify a portfolio in a disinflationary slowdown. They may offer less protection when the shock comes from inflation or a loss of confidence in the issuer.

This is also why we think of gold as a hedge against a loss of policy credibility rather than a simple hedge against consumer-price inflation. When higher real yields themselves reflect fiscal stress or heavier sovereign supply, gold and real yields can rise together.

5. Waiting for certainty

It's easy to put off a portfolio decision until the outlook becomes clearer. If markets are rising, you wait because selling feels premature. If markets are falling, you wait for prices to recover. There's always a reason to leave things as they are. But investment decisions rarely come with certainty. You work with the evidence available, assess which investments are better supported by the environment and adjust your allocations as that evidence changes.

Figure 8 illustrates why those adjustments matter. In the periods shown, equities and commodities have generally delivered stronger average returns during global rate-hiking cycles, while fixed income has performed better during cutting cycles. The economic conditions behind those cycles matter: growth can support earnings and commodity demand even as higher yields weigh on bond prices. A slowdown accompanied by easing inflation can create more favourable conditions for high-quality bonds.

Our constructive view on growth and earnings supports a modest overweight for equity. We have also moved the outlook on fixed income from a modest underweight to neutral. Higher bond yields are improving the opportunity to secure income for longer, allowing us to favour equities while selectively adding duration within our bond allocation.

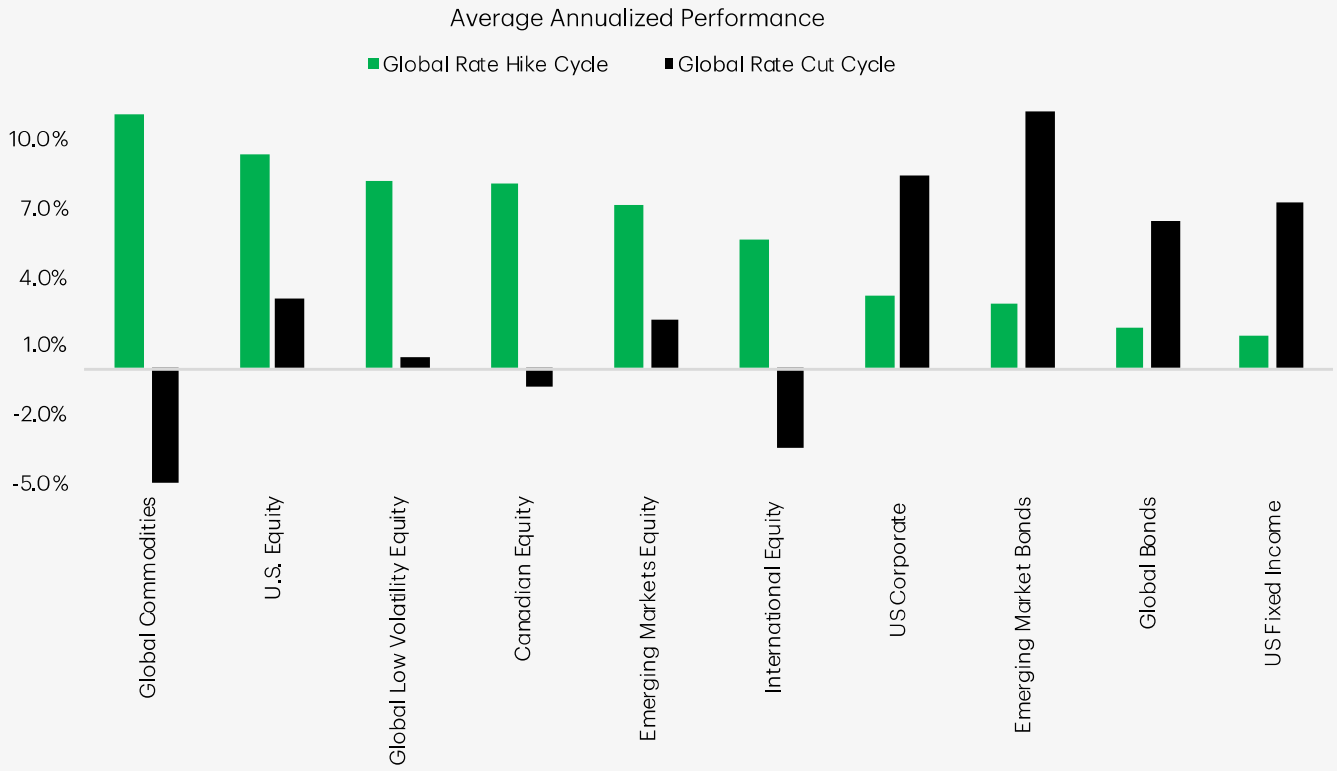
Our latest allocation changes reflect that shift in relative opportunity. We moved fixed income from a modest underweight to neutral as higher yields improved prospective returns and strengthened the income available from high-quality bonds. We also moved private assets and alternatives from a modest overweight to neutral. These investments continue to play an important strategic role in diversified portfolios, providing access to differentiated sources of return while broadening the portfolio beyond public equities and traditional fixed income.

For your portfolio, the response is to adjust at the margin: allocate somewhat more to investments with a stronger forward-looking case and somewhat less to those facing greater headwinds. That still leaves room for holdings whose main purpose is to provide income, meet spending needs or protect against a different outcome. Recent performance alone can't tell you which investments deserve more weight; the mistake is waiting for certainty before making a sensible adjustment. You can act on today's evidence while preparing for the possibility that conditions change. That starts with giving each allocation a clear purpose.

Give each allocation a purpose

Each part of your portfolio should have a job. Equities provide long-term growth. Fixed income contributes income and can meet planned spending needs. Diversified strategies provide exposure to other sources of return, reducing your dependence on equity markets. The mix should reflect your goals, and the investments within it should be chosen for how they work together.

Figure 8: Global rate hike cycles tend to bode well for commodities and equities



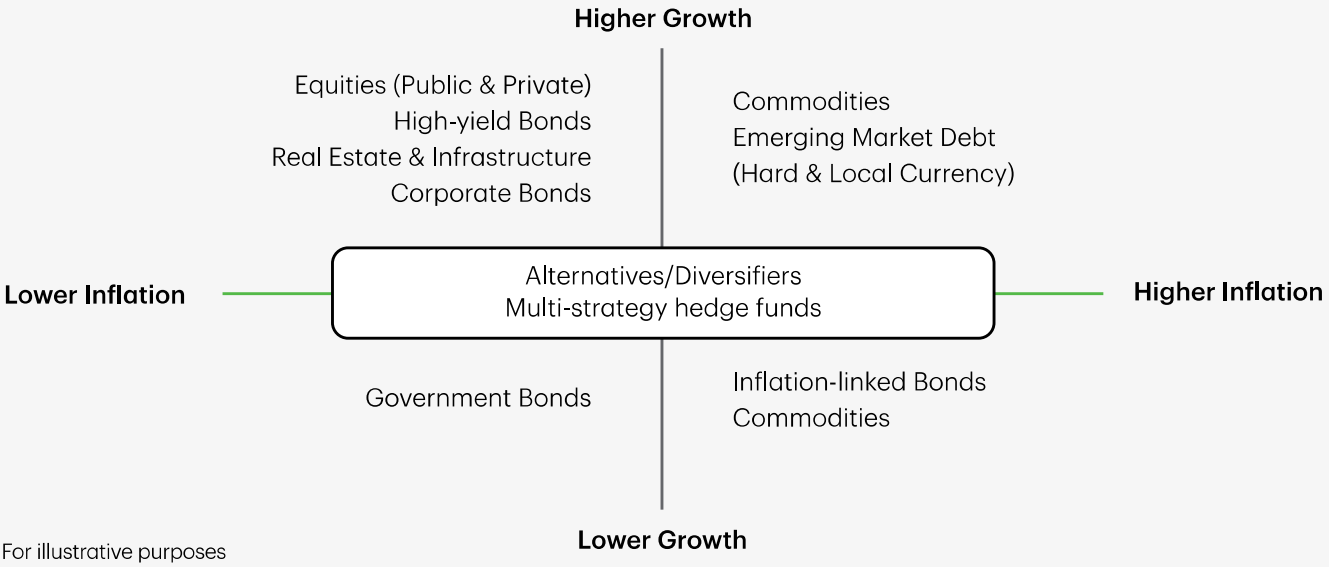
Source: Macrobond, Wealth Investment Office as of October 10, 2026

One way to put those rules into practice is a 60/20/20 framework: (1) 60% in equities for growth; (2) 20% in fixed income primarily for coupon income; and (3) 20% in strategies selected for their ability to diversify the portfolio. Moving from the drifted allocation means redirecting part of the enlarged equity sleeve into sources of return with low dependence on equity markets. Spreading the portfolio across assets that respond differently to growth and inflation helps it withstand a range of economic regimes (Figure 9).

Within equities, you can remain constructive on earnings while trimming concentrated positions, replenishing defensive allocations and rebalancing toward long-term targets. Rebalancing converts part of the gain from a successful asset class into resilience elsewhere in the portfolio. It reduces concentration and creates dry powder to take advantage of future volatility. And because financial-market returns tend to revert to the mean, rebalancing has the potential to shift capital from assets that have performed well into those that may perform well next (Figure 10). The aim is to reduce the risk that a market correction derails your financial plan, while accepting that some of the declines are part of investing.

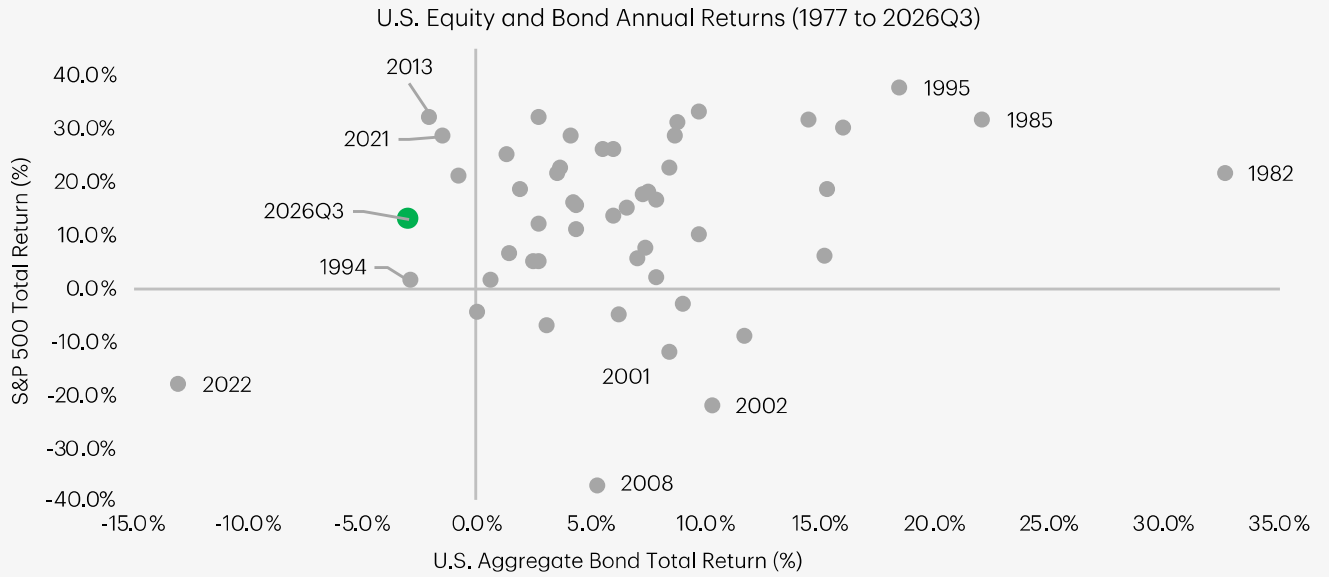
Yields are at their highest in almost two decades, and a bond held to maturity has a known return profile. For an investor with a fixed spending need in the future, matching that need with bonds of similar duration increases the certainty of meeting it. We remain cautious on duration while the hiking cycle runs its course, but the opportunity in bonds is improving as yields rise.

Figure 9: Diversification helps portfolios withstand a range of economic regimes



For illustrative purposes

Figure 10: Financial market returns tend to revert to the mean



Source: Macrobond, Wealth Investment Office, as of October 10, 2026.

For income-oriented investors, there are other ways to generate income:

1. **Long/short credit and merger arbitrage.** These active strategies can substitute for part of a traditional fixed-income position. They rely less on duration risk and more on manager skill to generate returns.

2. **Equity income strategies**. Income-oriented investors can use equity alternative strategies, including mandates that generate income by selling derivatives on top of long equity exposure. Depending on the leverage profile, these strategies can generate an attractive annual distribution yield in the high single digits to low double digits without eroding the invested capital.

3. **Private allocations to infrastructure and real estate.** These could also reduce total portfolio volatility without giving up income.

4. **Multi-strategy mandates**. For portfolio diversifiers, these could be the solution. Select discretionary and systematic multi-strategy funds have proven diversification in recent years and can deliver returns uncorrelated with equity and bond markets — unlike private assets, whose returns remain tied to the same factors as their public-market equivalents.

Good decisions from here

A strong run of returns is a good time to ask five questions about your portfolio:

1. Has your allocation drifted away from your plan?
2. Do your holdings reflect today's conditions or depend on yesterday's?
3. How exposed are you if financing becomes more expensive or harder to obtain?
4. Do your investments spread your risks or give you different versions of the same exposure?
5. Are you waiting for certainty before making changes that already make sense?

We remain constructive on equities. You can share that outlook while trimming concentrations, securing income and broadening your sources of return. Staying invested and reassessing your allocations go hand in hand.

Remember, a good return can't tell you whether the decision behind it was sound. What matters now is whether the portfolio you own still serves your goals and is prepared for the opportunities and challenges ahead. You don't need to call the market top to make that assessment. A rewarding market has given you room to act. Use it.

Leading Macro Indicators

Continued Improvement Among Underlying Indicators

While the overall U.S. macro condition was unchanged, five out of eight categories improved in the quarter.

Kevin Yulianto, Senior Investment Strategist and Senior Portfolio Manager, TD Wealth

Based on our U.S. macro composite indicator, which reflects the ebb and flow of the U.S. business cycle, the aggregate score for the U.S. economy stagnated at the 42nd percentile at the end of the third quarter, unchanged compared to the end of prior quarter.

In Q3, U.S. and global equity markets consolidated as the conflict between the U.S. and Iran escalated again and investors are increasingly concerned on the return outlook of AI investment spending. The Federal Reserve raised its policy rate by 25 bps – the first policy rate hike since 2023 – as inflation worsened during the quarter. This is counterbalanced by the stabilization in the job market, which no longer adding upward pressure to inflation through higher wage growth.

Our macro composite indicator (which works to capture changes in the U.S. business cycle through 120 key 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 our 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 only two (GDP Growth and Inflation) have deteriorated over the previous 12 months (Figure 2).

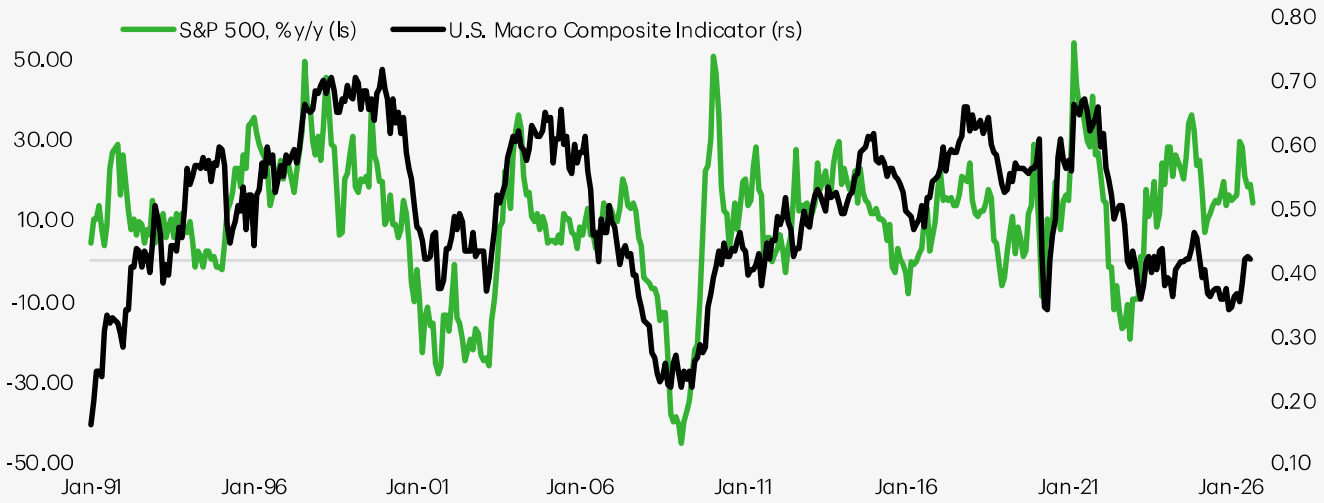
The following are notable developments in Q3 2026:

1. The score for GDP Growth rose to the 60th percentile at the end of Q3 from the 53rd percentile in Q2, driven mainly by the improvement in the U.S. Fed weekly economic index, which climbed to the 84th percentile from the 70th. The GDP quarterly growth score was unchanged at the 35th percentile.

2. The U.S. Job Market improved, albeit slightly, and the aggregate score for the category rose to the 50th percentile at the end of Q3 from the 48th percentile in Q2. Household employment gains strengthened and jobless claims remained near historic lows, while job openings were unchanged. Small business hiring plans and ISM manufacturing employment improved sharply and supported the score for the category. However, wage growth softened, and temporary help services and the quit rate declined.

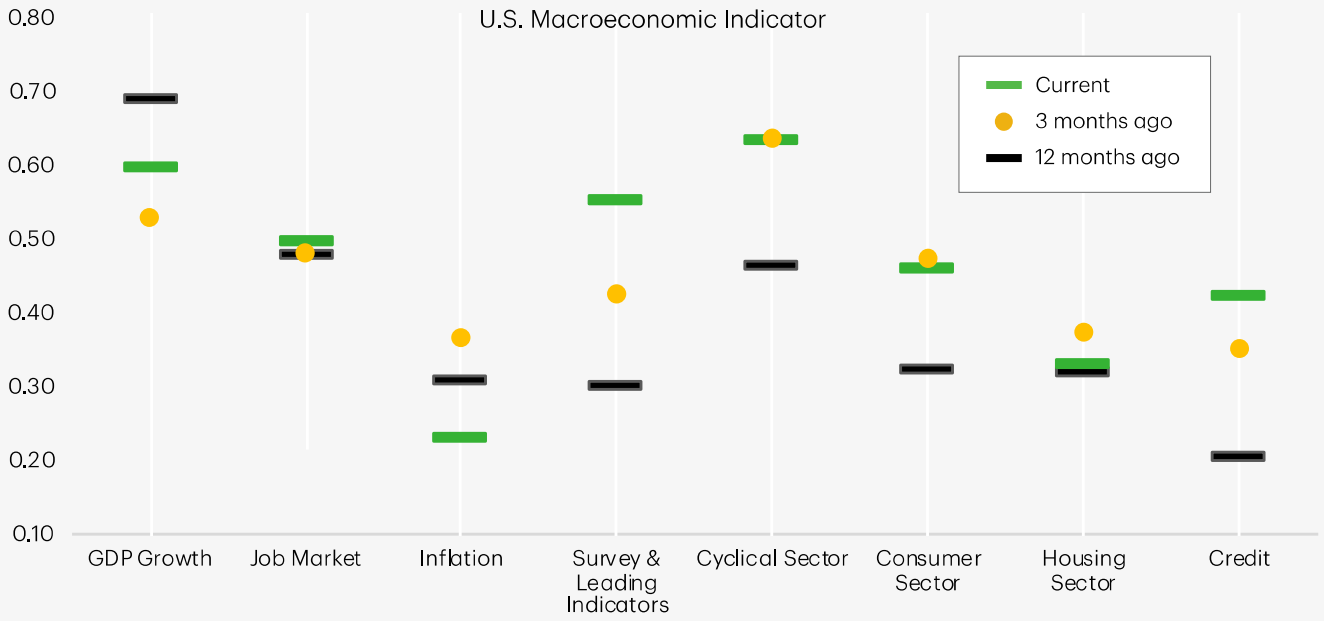
3. The aggregate score for Inflation deteriorated in Q3 to the 23rd percentile from the 36th percentile at the end of Q2. Both the actual inflation figure and the price outlook worsened in Q3. Monthly consumer price and PCE readings, which were unusually benign in June, moved sharply higher, while the year-over-year measures were little changed at elevated levels. ISM prices paid rose in both manufacturing and services, and long-term consumer inflation expectations edged up.

Figure 1: U.S. macro composite indicator



Source: Macrobond, Wealth Investment Office as of September 30, 2026

Figure 2: Change in market risk regime scores



Source: Macrobond, Wealth Investment Office as of September 30, 2026.
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.

4. The score for Survey & Leading Indicators rose to the 55th percentile at the end of Q3 from the 42nd in Q2, though it eased from a July peak at the 62nd percentile. The ISM Manufacturing survey improved to the 66th percentile from the 57th, although the new orders subcategory softened. The outlook for the service sector improved markedly, as ISM Services new orders jumped to the 83rd percentile from the 33rd and the S&P Global services PMI reached the top of its historical range. The Leading Index and several regional Fed services surveys remained weak.

5. The Cyclical Sector held on to its earlier gains, with the score unchanged at the 63rd percentile at the end of Q3. Factory orders accelerated, and core capital goods orders and shipments stayed near historic highs. However, durable goods orders eased, manufacturing production growth slowed, and capacity utilization and construction spending remained depressed, which kept a lid on the score for this category.

6. The score for the Consumer Sector overall slipped in Q3 to the 46th percentile from the 47th percentile at the end of Q2. Spending & Inventory was stable at the 58th percentile, as inventory building offset a sharp drop in auto sales and slightly softer retail sales. Consumer sentiment fell too and the University of Michigan sentiment measures sit near record lows, while the Conference Board expectations index slumped.

7. The Housing Sector indicator, which stood at the 37th percentile at the end of Q2, slipped to the 33rd percentile in Q3. Mortgage rates rose and weighed on activity: mortgage applications, pending and existing home sales, and housing starts all weakened, though building permits improved. Sentiment on future house prices pulled back after a mid-year improvement, and the housing affordability measure remains depressed. Spending on furniture and home furnishings, however, continued to recover.

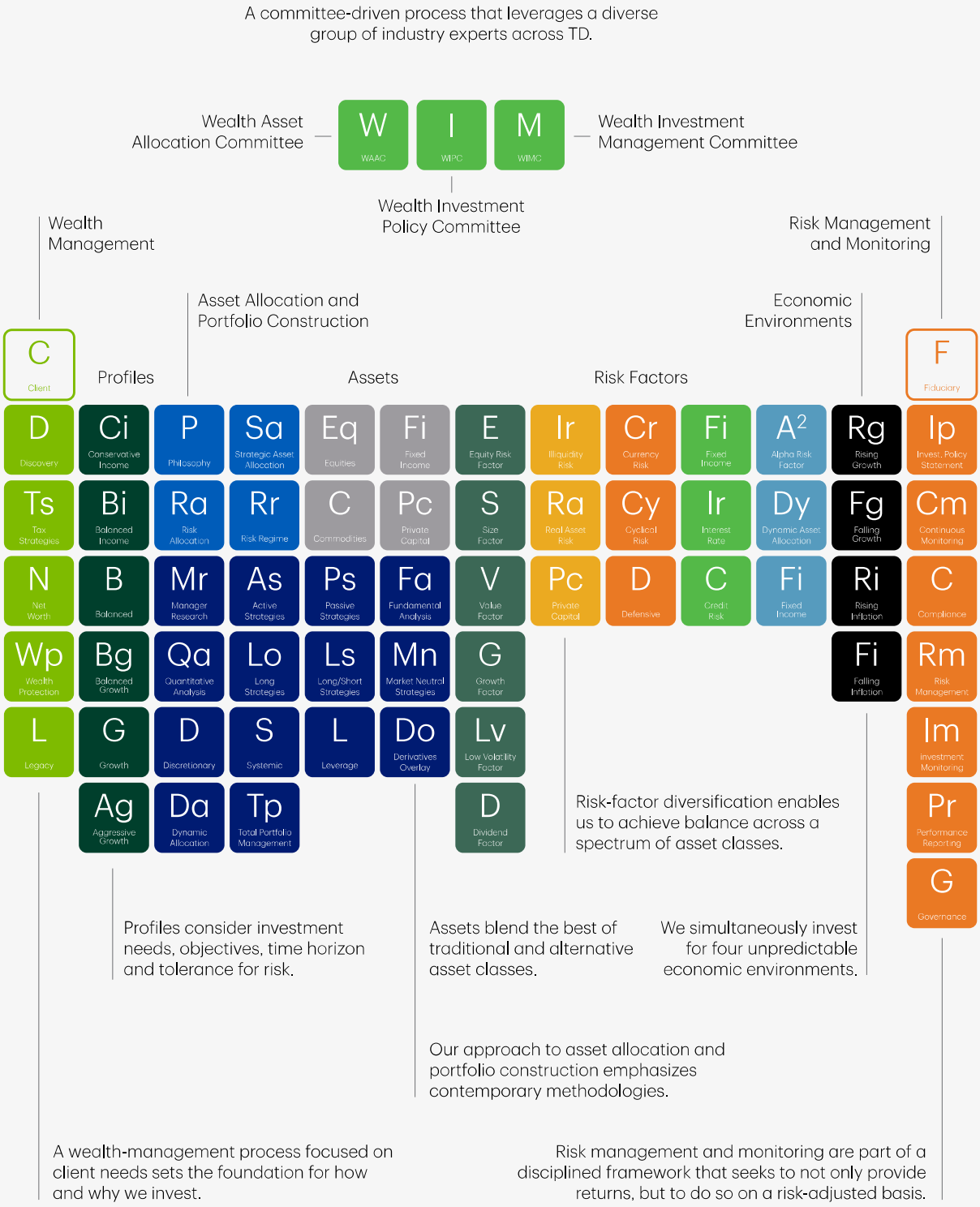
8. Lastly, the score for Credit rose to the 42nd percentile at the end of Q3 from the 35th percentile prior. Lending standards eased in the quarter, commercial and industrial loan growth picked up slightly, and consumer credit growth was roughly unchanged.

The U.S. business cycle continued to stagnate in the third quarter of 2026, but there are encouraging signs underneath the surface that economic fundamentals are improving. The Inflation score, which plummeted in Q3 as the war in Middle East flared up again, weighed on the overall score. Survey and leading indicators continued to improve, which is encouraging for potential recovery in the Consumer Sector and support the ongoing expansion in Cyclical Sector activity. The Housing Sector continued to be weighed by rising mortgage rates and is unlikely to see near-term relief. Taken together, the backdrop for U.S. economic growth should remain favourable in the coming quarters and support the corporate earnings growth, although there is an increased risk of financial conditions potentially becoming too tight should rates continue to move higher.

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:

Justin Flowerday, CFA (Chair) ..... Chief Investment Officer, TD Asset Management Inc (TDAM)

Michael Craig, CFA ..... Managing Director & Head of Asset Allocation, Derivatives, TDAM

Anna Castro, CFA..... Managing Director, Head of Retail Asset Allocation, TDAM

Vitali Mossounov, CFA, CPA, CA ..... Managing Director, Head of Public Equities, TDAM

Jennifer Nowski, CFA .....Managing Director, Portfolio Manager, TDAM

Michael Augustine, CFA, FCIA, FSA ..... Managing Director, Head of Institutional Investment Solutions, TDAM

Alex Gorewicz, CIM..... Vice President and Director, Active Fixed Income, TDAM

Colin Lynch .....Managing Director, Head of Private Markets, TDAM

Bruce MacKinnon..... Managing Director, Head of Private Debt Research & Origination, TDAM

Kevin Hebner, Ph.D..... Managing Director, Global Portfolio Management, TD Epoch

William Booth, CFA, ..Managing Director, Chief Investment Officer & Portfolio Manager, & U.S. Region Head, TD Epoch

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

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

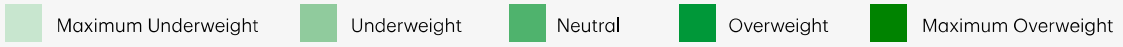
Bryan Lee, CFA ..... Vice President & Director, Lead of Asset Allocation Client PM Team, TDAM

Jafer Naqvi, CFA..... Managing Director, Head of Client Portfolio Management, TDAM

Direction from WAAC

Core Asset Class Allocations

As of October 21, 2026



	Positioning	Rationale
Cash & Equivalents	Modest Underweight Previous Month	We maintain a modest underweight to cash as prospective returns are expected to remain limited relative to other asset classes. In this environment, we see greater value in deploying capital into higher-returning asset classes.
Fixed Income	Modest Underweight Previous Month	With renewed global energy price volatility, the Bank of Canada (BoC) is increasingly concerned about upside risks to inflation. While elevated long-term global growth expectations have repriced bond yields higher, the move towards tighter global monetary policy is expected to weigh on long-term inflation expectations. As such, today's elevated bond yields offer attractive risk-adjusted income and are expected to provide diversification benefits by reducing overall portfolio volatility.
Equity	Modest Overweight Previous Month	Global equity markets are in positive territory year-to-date as strong earnings growth has offset modestly lower valuation multiples. Areas driven by artificial intelligence (AI) and data centre spending continue to generate strong growth, improving earnings participation across a broader set of sectors, and providing additional support for markets. While there could be volatility depending on Middle East oil flows and AI sentiment, we remain constructive on equities due to positive global economic and earnings growth, as well as more pro-business government policies.
Private Markets & Alternatives	Modest Overweight Previous Month	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. 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 consider an allocation to alternative assets.

Figure 1: Direction from WAAC: strategic positioning

	Asset Class	Underweight		Neutral		Overweight
Cash & Equivalents Modest Underweight			●			
Fixed Income Neutral (From 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 Neutral (From 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 October 21, 2026.

Fixed Income - Neutral

	Positioning	Rationale
Domestic Government Bonds	Modest Underweight	Despite U.S.-Canada trade-related uncertainties, a resilient Canadian economy gives the BoC cover to remain patient and on hold. With domestic policy largely anchored, further moves in yields are likely to be driven by U.S. rates and global term-premium developments.
Investment Grade Corporate Credit	Modest Overweight	Softening AI sentiment and rising government bond yields are creating greater dispersion within the investment grade bond market. The cost of debt-financed growth has increased while the pace of AI-related issuance is expected to persist, resulting in underperformance in sectors such as Information Technology and Communication Services. Nonetheless, a resilient economic growth backdrop should continue to support fundamentals and keep spread movements relatively contained.
High Yield Credit	Neutral	Higher bond yields are tightening borrowing conditions and will likely constrain cash flows for high yield borrowers. The weakest cohort of issuers are particularly vulnerable to rapidly rising funding costs and these concerns are driving overall credit spreads wider. While we are more cautious on the sector, we remain neutral given the improvement in valuations and continue to favour a higher quality positioning.
Global Bonds Developed Markets	Neutral	As developed market central banks raise policy rates, investors' inflation concerns are expected to stabilize. This will help anchor or even reduce volatility of global long bond yields. This creates attractive income generating opportunities, net of currency hedges, for Canadian investors in select markets.
Global Bonds Emerging Markets	Neutral	Emerging market government bonds generally screen fair to rich relative to developed market government bonds. Total returns in emerging markets may face downward pressure from currency volatility amid the U.S. Federal Reserve's focus on hiking interest rates to tame inflation. However, we still expect pockets of opportunities in select countries where income levels are attractive, particularly in Latin America and Africa.

Equities - Modest Overweight

	Positioning	Rationale
Canadian Equities	Modest Overweight	The Canadian government continues its push to implement pro-investment policies through the recently announced "Productivity Mega Deduction" and efforts to streamline project permitting. However, U.S. trade remains a source of uncertainty. The S&P TSX Composite Index (TSX) sector mix acts as a diversifier for U.S. and emerging markets that are heavily influenced by the Information Technology sector. TSX returns are supported by strong earnings growth, balance sheets, and shareholder friendly dividend and buyback policies.
U.S. Equities	Neutral	Year-to-date U.S. equity returns have been driven by very strong earnings growth, while valuation multiple contraction prices in the expectation that earnings growth will decelerate next year. Information Technology sector growth remains robust, with earnings growth broadening across sectors and small-caps. Tax policies under the "One Big Beautiful Bill Act" and the potential for further deregulation offer additional tailwinds. Key sources of volatility include shifts in AI sentiment, headwinds from higher interest rates, and ongoing geopolitical uncertainty.
International Equities	Modest Underweight	International equities earnings growth, while positive, remains lower than in other markets. European earnings could face additional headwinds if energy costs remain above pre-conflict levels. The Japanese market has rallied on the back of corporate reform, a more pro-growth government, and benefits from AI spending, but there may be volatility as the Bank of Japan has raised rates.
Emerging Market Equities	Neutral	Emerging Markets provide exposure to technology companies with strong earnings growth potential driven by AI spending. China continues to face challenges with weak domestic activity and its property market, but its export oriented sectors have been robust.

Private Markets and Alternatives - Neutral

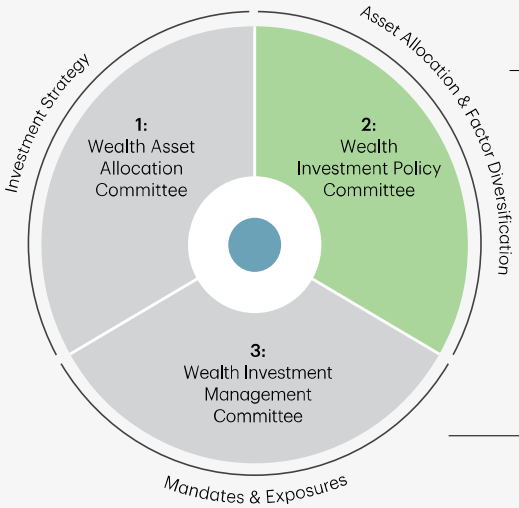
	Positioning	Rationale
Commercial Mortgages	**Modest Underweight**	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Investment Grade Private Debt (Universe)	**Modest Underweight**	High credit quality along with sectoral and global diversification can provide a resilient income ballast in a volatile market environment. A robust illiquidity premium can potentially provide an income boost in an environment of narrow credit spreads. Incremental income and potential capital appreciation from interest rate moderation may provide upside. However, tight credit spreads and further increases in longer-term interest rates could constrain returns, supporting a somewhat cautious stance despite attractive income opportunities.
Domestic Real Estate	**Modest Underweight**	We believe most value adjustments in Canadian commercial real estate are complete. Office occupancy (especially in Toronto) has begun to improve as large users mandate returns to office. Despite U.S. tariff policy volatility, Canada's industrial market remains healthy. Poor condominium markets and lower immigration have temporarily pressured residential rental rates in Toronto and Vancouver. Long-term multi-unit residentials will likely see strong rental growth due to structural supply-demand imbalance.
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. In Japan, strong office, residential, retail, and hotel fundamentals continue to support rental growth despite rising rates. In Korea, healthy office, industrial, and hotel markets should support stable returns, though higher financing costs are making performance increasingly income-driven.
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, energy storage and supporting infrastructure, creating compelling investment opportunities.
Commodities (Gold, Energy, Metals, Agriculture, Carbon)	**Modest Overweight**	Commodities have strengthened amid supply disruptions, particularly in energy, natural gas, and select industrial inputs. Recent gains appear driven more by curtailed supply than excess demand, reinforcing commodities' role as a portfolio diversifier during periods of geopolitical stress.
Global Private Credit	**Modest Overweight**	Global Private Credit provides premium income through diversified global origination across corporate, real estate, infrastructure, and specialty finance, including middle-market corporate relationships. TDAM's robust credit risk infrastructure supports strong governance and disciplined access to attractive risk-adjusted return opportunities.

U.S. Dollar

	Positioning	Rationale
U.S. Dollar (USD) vs. Canadian Dollar (CAD)	**Modest Underweight**	Longer-term valuation metrics suggest the USD remains overvalued, supporting a modest underweight positioning. While the USD continues to benefit from safe-haven demand amid ongoing geopolitical uncertainty, upside versus the CAD may be more limited from current levels. Canada's softer growth outlook and sensitivity to global trade dynamics continue to act as near-term headwinds for the CAD, partially offset by support from elevated energy prices.

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

Fred Wang, CFA .....Senior Portfolio Manager, Head of Asset Allocation & Managed Investments, WIO, TD Wealth

Mansi Desai, CFA .....Portfolio Manager, Equities, WIO, TD Wealth

The Wealth Investment Policy Committee (WIPC) has adjusted the asset allocation weights to align with the Wealth Asset Allocation Committee's (WAAC) changes this month. Overall, the allocations to fixed income have been increased across Conservative Income through Growth profiles and the allocations to alternatives have been reduced through the same profiles. There are no changes to the Aggressive Growth profile.

The allocations to equities remain modest overweight and a modest underweight allocation to cash. With these changes the allocations to fixed income is neutral in the Conservative Income through Balanced profiles and a very modest underweight in the Balanced Growth and Growth profiles while alternatives is now at a neutral weight across Conservative Income through Growth and very modest overweight in the Aggressive Growth profile

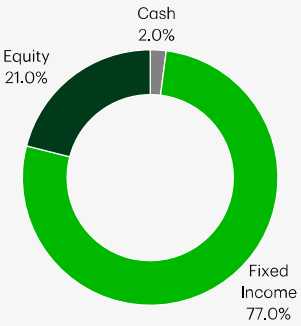
Within fixed income, the allocation to domestic government bonds and global bonds – emerging markets have been increased in Conservative Income through Balanced investor profiles. For Balanced Growth and Growth profiles the increase in fixed income is reflected solely in domestic government bonds. Overall, the allocations within fixed income are; domestic government bonds remains at a modest underweight position, investment-grade corporate bonds is a neutral to modest overweight position, high-yield remains at a neutral weight, developed-market global bonds is at a neutral position and emerging-market global bonds is at a neutral to modest underweight position.

Within equities, the allocations remain unchanged; modest overweight for Canadian equities, neutral to modest overweight for U.S. equities, neutral to Emerging Markets and modest underweight to International Equities.

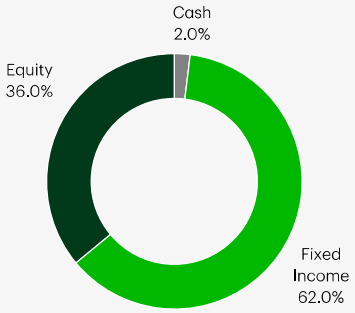
Within the alternatives asset class, the allocations to private credit have been reduced bringing it to a modest underweight in all profiles. The allocation to infrastructure has also been reduced in the Balanced through Growth profiles, which leaves the allocation still at a modest overweight. Elsewhere within the alternatives asset class, the allocations remain neutral to modest underweight in commercial mortgages and real estate, and modest overweight in commodities.

Dynamic asset-class weights by investor profile (Condensed)

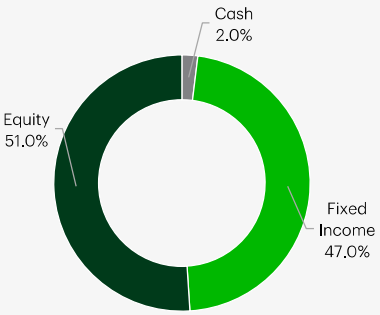
Conservative Income



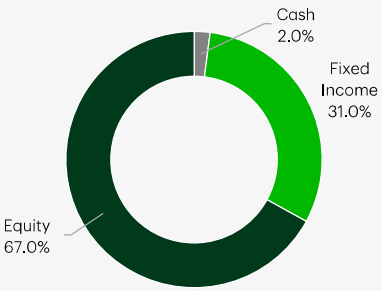
Balanced Income



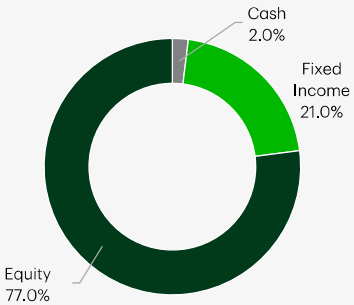
Balanced



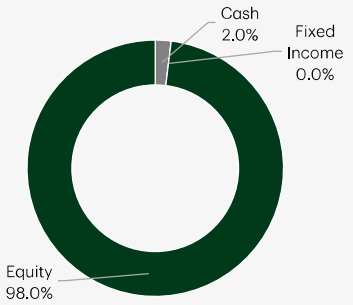
Balanced Growth



Growth



Aggressive Growth



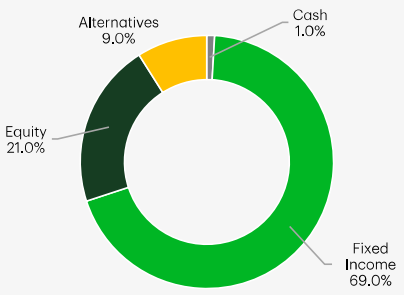
Strategic and dynamic asset-class weights by investor profile (Condensed)

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%	38.0%	32.0%	31.0%	24.0%	23.0%	17.0%	15.0%	11.0%	9.0%	0.0%	0.0%
Corporate	39.0%	39.0%	31.0%	31.0%	24.0%	24.0%	16.0%	16.0%	12.0%	12.0%	0.0%	0.0%
Public Equities	**20.0%**	**21.0%**	**35.0%**	**36.0%**	**50.0%**	**51.0%**	**65.0%**	**67.0%**	**75.0%**	**77.0%**	**98.0%**	**98.0%**
Canadian	6.0%	8.0%	11.0%	13.0%	15.0%	17.0%	20.0%	22.0%	23.0%	25.0%	29.0%	31.0%
U.S.	8.0%	8.0%	14.0%	14.0%	20.0%	20.0%	26.0%	27.0%	30.0%	31.0%	40.0%	40.0%
International	4.0%	3.0%	7.0%	6.0%	10.0%	9.0%	13.0%	12.0%	15.0%	14.0%	19.0%	17.0%
China/ Emerging Markets	2.0%	2.0%	3.0%	3.0%	5.0%	5.0%	6.0%	6.0%	7.0%	7.0%	10.0%	10.0%

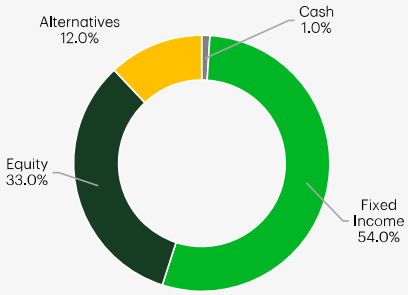
Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of October 21, 2026.

Dynamic asset-class weights by investor profile (Expanded)

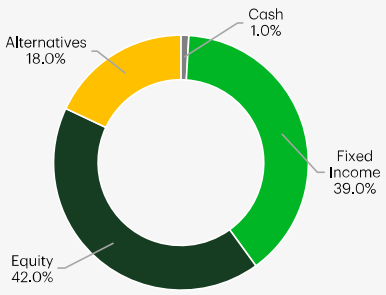
Conservative Income



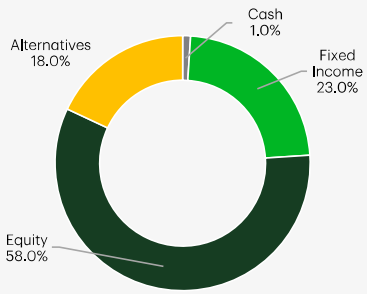
Balanced Income



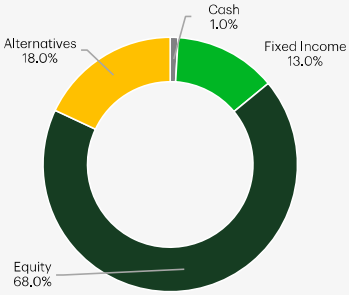
Balanced



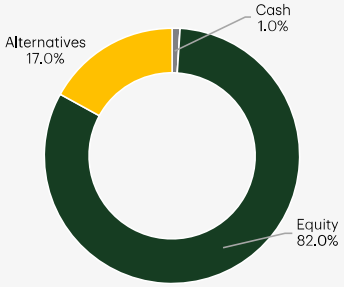
Balanced Growth



Growth



Aggressive Growth



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%**	**1.0%**	**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%**	**69.0%**	**54.0%**	**54.0%**	**39.0%**	**39.0%**	**24.0%**	**23.0%**	**14.0%**	**13.0%**	**0.0%**	**0.0%**
Domestic Government Bonds	28.0%	27.0%	22.0%	21.0%	15.0%	14.0%	9.0%	8.0%	5.0%	4.0%	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%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%
Public Equities	**20.0%**	**21.0%**	**32.0%**	**33.0%**	**41.0%**	**42.0%**	**56.0%**	**58.0%**	**66.0%**	**68.0%**	**82.0%**	**82.0%**
Canadian	6.0%	7.0%	10.0%	11.0%	11.0%	12.0%	16.0%	18.0%	19.0%	21.0%	22.0%	24.0%
U.S.	8.0%	9.0%	13.0%	14.0%	17.0%	18.0%	23.0%	24.0%	27.0%	28.0%	35.0%	35.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	10.0%	13.0%	12.0%	15.0%	13.0%
China/Emerging Markets	2.0%	2.0%	3.0%	3.0%	5.0%	5.0%	6.0%	6.0%	7.0%	7.0%	10.0%	10.0%
Alternatives	**9.0%**	**9.0%**	**12.0%**	**12.0%**	**18.0%**	**18.0%**	**18.0%**	**18.0%**	**18.0%**	**18.0%**	**16.0%**	**17.0%**
Commercial Mortgages	4.0%	4.0%	4.0%	3.0%	4.0%	3.0%	4.0%	3.0%	4.0%	3.0%	0.0%	0.0%
Private Debt	3.0%	2.0%	3.0%	2.0%	3.0%	2.0%	3.0%	2.0%	3.0%	2.0%	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%	2.0%
Infrastructure	0.0%	0.0%	2.0%	3.0%	5.0%	6.0%	5.0%	6.0%	5.0%	6.0%	9.0%	10.0%
Commodities	2.0%	3.0%	2.0%	3.0%	3.0%	4.0%	3.0%	4.0%	3.0%	4.0%	4.0%	5.0%
Fixed Income	71.0%	70.0%	56.0%	55.0%	41.0%	40.0%	26.0%	24.0%	16.0%	14.0%	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%	9.0%	12.0%	12.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	16.0%	17.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of October 21, 2026.

Economic Outlook

Generative Artificial Intelligence, Productivity, and the Future of Work

Why AI is more likely to change jobs than eliminate them

By Rannella Billy-Ochieng', Senior Economist and Thomas Feltmate, Director & Senior Economist | TD Economics

Highlights:

- Rapid advances in generative artificial intelligence (AI) have intensified concerns that automation could replace many workers. However, a large-scale displacement requires AI to perform tasks reliably, operate at a cost that is economically attractive, and be rapidly adopted across firms.
- Those conditions remain a high hurdle. Research suggests that AI's ability to operate autonomously remains limited and there are many things that challenge economic feasibility and transparency. These barriers will temper the intensity of adoption as businesses consider the benefits of reorienting workflows.
- If the high bar is met, a doomsday AI Job Apocalypse could potentially raise the unemployment rate by as much as 0.7 – 1.4 percentage points by the early 2030s. The impact would be greater should it coincide with a broader economic downturn, when demand and hiring are already weak.
- However, there is little evidence of AI disruption in aggregate employment. The most visible sign of this adjustment is found in occupations mostly exposed to AI. Still, employment growth across these sectors has softened largely through the hiring channel rather than outright layoffs.

Conversations around how generative artificial intelligence (AI) will reshape the future of work have emerged as a common discussion point in both academia and corporate boardrooms. This interest was born from the fact that AI is becoming increasingly capable of completing a wider range of tasks. As these technologies become more capable, worries about the risk of widespread job displacement are also increasing. These concerns merit attention, but they often blur the distinction between capability and labour market outcomes. The ability of AI to perform a task does not necessarily mean it can perform that task autonomously, nor does it imply that firms will choose to automate it. The ultimate impact of AI on employment will depend primarily on three primary factors: technical capability, economic feasibility, and the pace of adoption within firms.

A large-scale AI-driven "job apocalypse" requires several conditions to align simultaneously, and current evidence suggests those conditions have yet to materialize. Research has shown that fully autonomous performance remains limited despite the broad reach of AI's capabilities. Similarly, while many tasks are technically feasible to automate, far fewer currently appear economically viable once implementation costs, oversight requirements, and operational hurdles are considered. The pace of adoption also matters. Although AI use continues to expand, deployment across firms remains gradual and uneven. The current evidence collectively suggests that AI is more likely to reshape how work is performed rather than eliminate a large numbers of jobs outright. Therefore, the AI job apocalypse remains a risk scenario, not the base case.

This gradual adjustment to workplace dynamics affords us the currency of time to digest and adapt to this changing environment. Businesses will have time to retrain staff and create a strong pipeline of future ready talent. Policymakers will have time to think about safeguards that are needed to support full employment and workers can also be intentional about honing their skills to participate in an AI-enabled world.

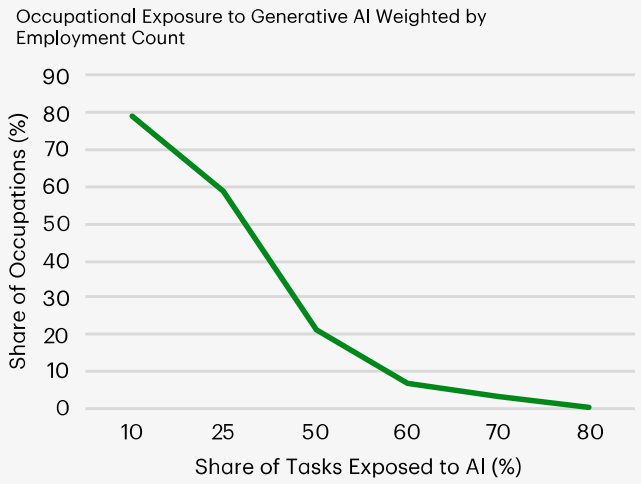
Current Exposure of Jobs to AI Technologies

Artificial intelligence has the potential to transform a substantial share of workplace tasks, but task exposure should not be confused with outright job losses. Jobs are collections of tasks that require different skills, levels of judgment, and forms of expertise. Examining work through a task-based lens provides a clearer picture of where AI is most likely to influence work.

Research examining more than 18,000 workplace tasks suggests AI already has the potential to affect a meaningful share of day-to-day activities. Across the United States, roughly half of all jobs have at least a quarter of their tasks exposed to AI technologies. (Figure 1).

While this finding underscores the breadth of AI's reach, exposure is not the same as automation. Exposure indicates that AI may assist, augment, or perform certain tasks. However, it does not imply those tasks will be fully automated, nor that the jobs containing them will disappear. In many cases, AI is more likely to change how work is performed than to replace workers.

Figure 1: Over half of occupations have 25% or more tasks exposed to AI



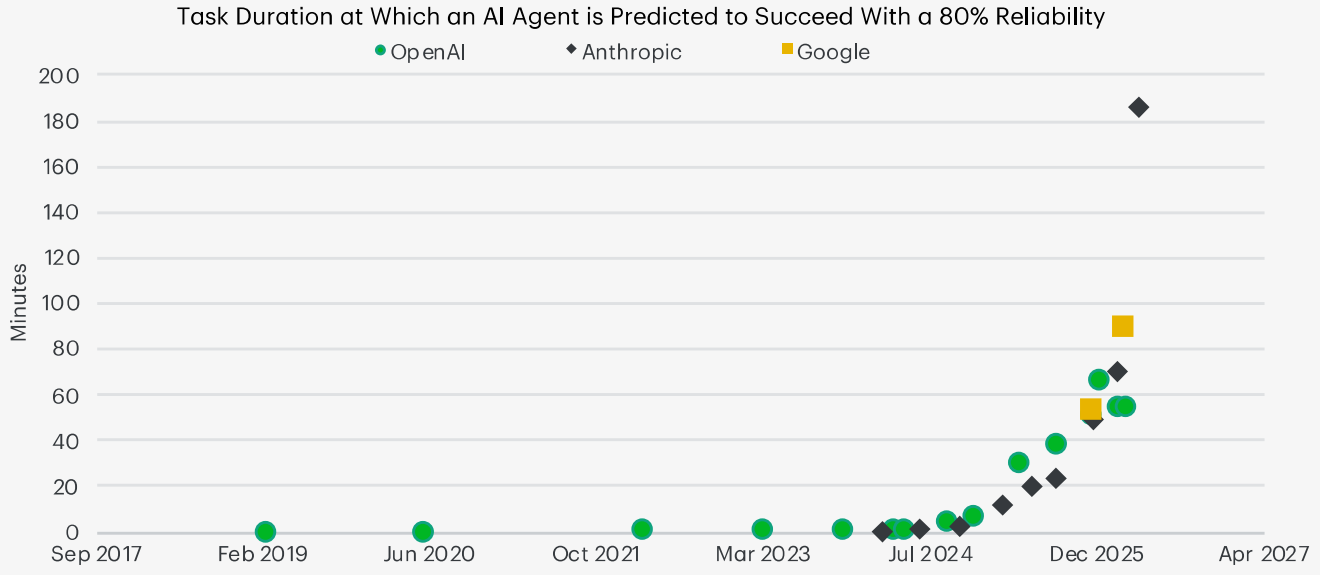
Source: U.S. Bureau of Labor Statistics, Eloundou et al. (2024), TD Economics.

The First Condition: Capability and Reliability

AI must demonstrate a high degree of capability and reliability for widespread worker displacement to occur. To replace humans on a largescale, AI must be able to perform tasks accurately, consistently and with minimal oversight. Data from the Model Evaluation and Threat Research (METR) project shows that leading AI models are becoming increasingly effective at solving software engineering problems that require prolonged reasoning (Figure 2). Progress has been especially pronounced in software development because outputs can be evaluated objectively and the feedback cycles are rapid. However, success in coding does not necessarily fully translate across the broader economy. Many workplace activities involve tacit knowledge, complex judgment, interpersonal interaction, and environments where performance is difficult to measure.

A broader examination of workplace tasks therefore paints a more measured picture. The key question is not whether AI can assist with a task, but whether it can complete that task autonomously and reliably. Existing research suggests fully autonomous performance remains uncommon. One study estimates that less than 2% of jobs contain more than half of their tasks that could be fully automated using AI combined with existing software tools. The distinction between exposure and automation remains important. While AI may influence a large share of workplace activities, the share of jobs currently susceptible to extensive automation appears much smaller. As a result, AI's near-term impact is more likely to reshape work than eliminate large numbers of jobs.

Figure 2: : LLM's enhance capability on sofware tasks

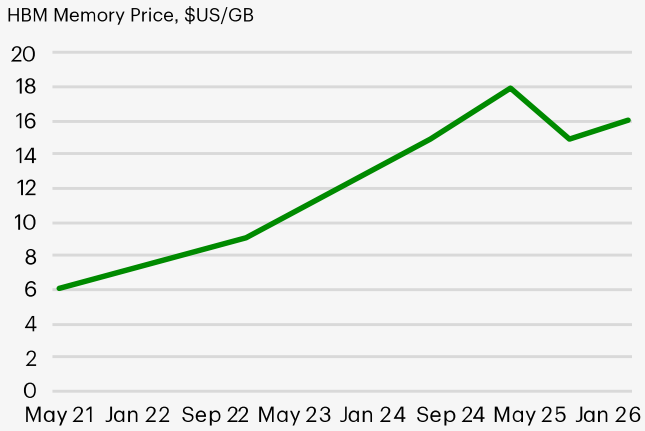


Source: METR, TD Economics

The Second Condition: Full AI Deployment Requires Strong Economic Feasibility

Technical capability alone is insufficient to drive widespread AI induced job loss. Economic competitiveness and transparency are essential for large-scale labour replacement by AI. Studies show that only a small share of occupational tasks appear profitable to automate once implementation costs, oversight requirements, and operational risks are considered. Researchers from MIT compared the cost of deploying AI with the cost of human labour for tasks that could potentially be performed using computer vision systems. While 36% of occupations contained at least one technically exposed task, only 8% contained a task that appeared economically viable to automate at scale. These findings suggest that technical feasibility does not automatically translate to economic feasibility.

Figure 3: High bandwidth memory costs have become more expensive

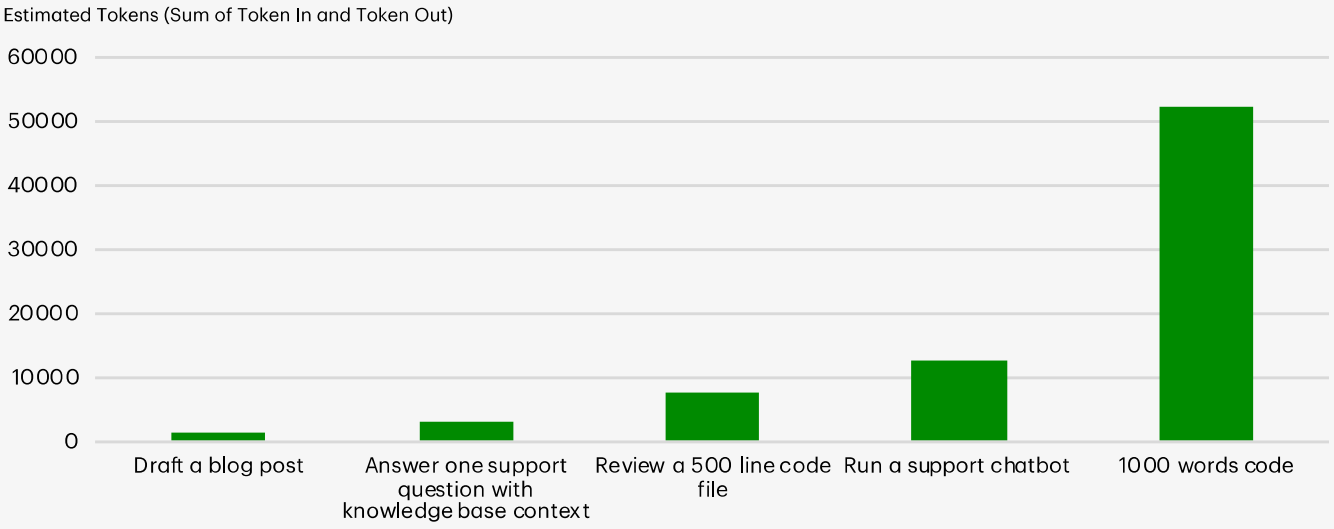


Source: Stanford DAM project, EPOCH AI, TD Economics

Migrating into a world where AI replaces workers also requires firms to redesign workflows, invest in deployment, and realize meaningful cost savings. Current evidence suggests those conditions are far from universal. From a business perspective, deployment costs extend beyond access to the model itself. Firms also face implementation expenses related to compliance, privacy, cybersecurity, legal requirements, and change management. Among the overall costs, usage (token) costs are especially important because they determine the economics of operating AI at scale. Usage costs vary significantly by task complexity. AI is often cost-effective for routine activities such as summarizing documents, drafting emails, or extracting information, but costs rise materially for tasks requiring extended reasoning, planning, or complex problem solving (Figure 3). As businesses lean on technologies more heavily for complex tasks, this has the potential to introduce an economic wild card that lacks transparency and one that may be difficult to forecast.

The prices paid by business users are ultimately influenced by the costs incurred by AI providers themselves. These costs are multifaceted and continue to evolve. They include computing infrastructure, data-transfer expenses, model-training costs, and the hardware required to support inference at scale. While some components of this cost structure have declined over time, others have moved in the opposite direction. The costs associated with training models and transporting data have generally fallen, supporting wider adoption. At the same time, rising costs for high-bandwidth memory and certain categories of advanced semiconductor components have created new pressures within the AI value chain (Figure 4). These

Figure 4: Token usage varies signficantly based on task



Source: Calperch.com, TD Economics.

trends suggest the future cost trajectory of AI remains uncertain. Competitive pressures and efficiency gains continue to lower usage costs, while infrastructure constraints may limit the pace of decline. For now, the economic case for widespread labour replacement remains considerably narrower than the technical case for broader AI adoption.

The Third Condition: The Pace of Adoption Will Shape the Impact

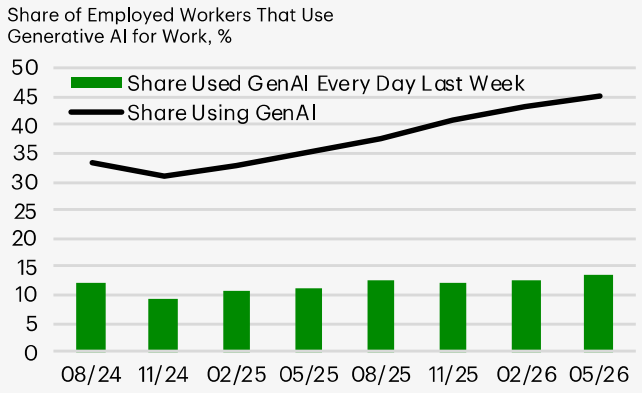
The speed at which AI technologies are deployed at work will shape the labour market outcomes for workers. Rapid AI deployment has the potential to derail workers' prospects if it occurs at a pace that overwhelms workers' ability to pivot and adapt. While consumer adoption has progressed rapidly, AI diffusion within firms has progressed at a moderate pace. According to the Business Trends and Outlook Survey (BTOS), around one-fifth of businesses recently reported using AI technologies. And adoption also remains uneven across industries and firm sizes with larger organizations leading deployment efforts.

Worker-level evidence paints a similar picture of growing adoption. Surveys indicate that nearly half of workers have used AI at least once. However, only 13% report using AI daily (Figure 5). This distinction is important. Broad awareness and experimentation signal growing interest in AI, but the intensity of usage remains uneven. As a result, AI appears to be supplementing existing workflows rather than serving as a deeply embedded component of day-to-day work across much of the economy.

Current adoption trends point toward a more gradual adjustment process. While AI usage continues to expand, deployment remains uneven and far from universal. Economic constraints, implementation challenges, and differences across industries are likely to influence the speed of adoption. The evidence argues that AI is more likely to be integrated progressively into existing workflows rather than being introduced abruptly as a wholesale replacement for workers.

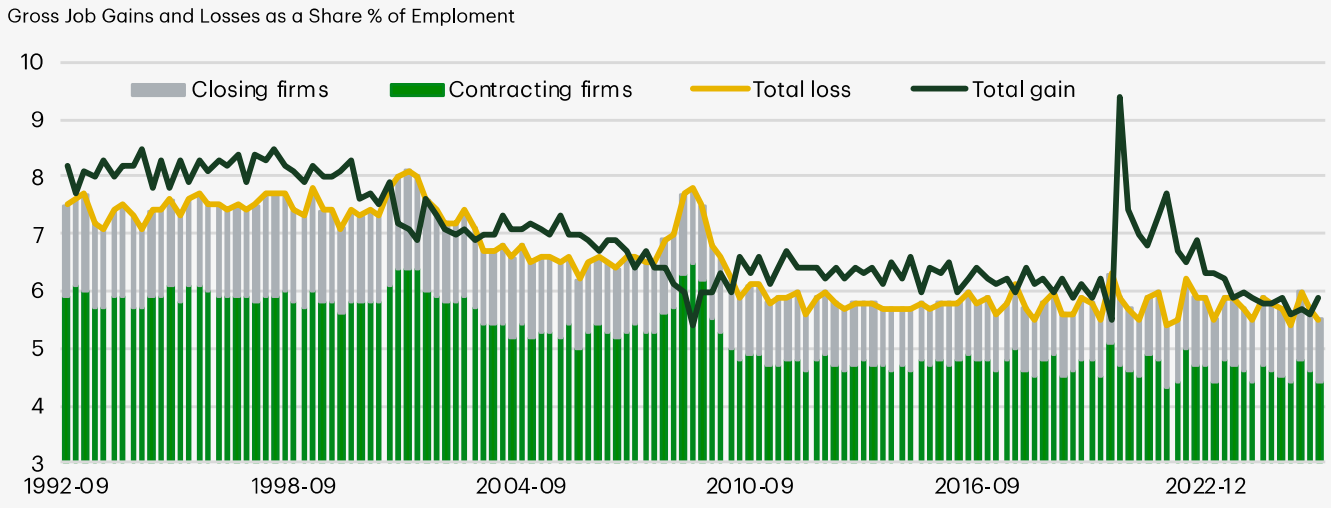
Understanding how the pace of AI adoption orients with typical labour market churns is also important. Labour markets are constantly evolving. Millions of jobs are created and destroyed each year as firms expand, contract, and adopt new technologies. For AI-driven job displacement to emerge on a large scale, adoption would need to occur fast enough to outpace these normal adjustment mechanisms. Historically, labour market disruptions have been associated with major economic shocks or transformational shifts that spread rapidly through the economy. Currently, gross job gains and losses are stable (Figure 6). Keeping a

Figure 5: AI use is widespread, but daily adoption remains limited



Source: GenAI Adoption Tracker: Harvard Project on Workforce, TD Economics.

Figure 6: Gross job losses are stable



Source: Bureau of Labor Statistics, TD Economics. Excludes the covid period of Q2 2020. The rates measure gross job gains and job losses as a percentage of the average of the previous and current quarter.

watchful eye on these developments is critical. Since the United States is a frontier country in the global AI adoption, its labour market outcomes will help to reveal what lies around the corner for countries with lower adoption rate. In the United States, figures reported by Challenger, Christmas & Gray show that over 20% of planned layoffs have been attributed to AI in 2026. While layoffs are an important barometer of change, it is also important to recognize that AI is also spurring job creation, especially in areas that support the AI infrastructure data center build out. These gains more than offset the reported job losses, muting the impact on aggregate employment.

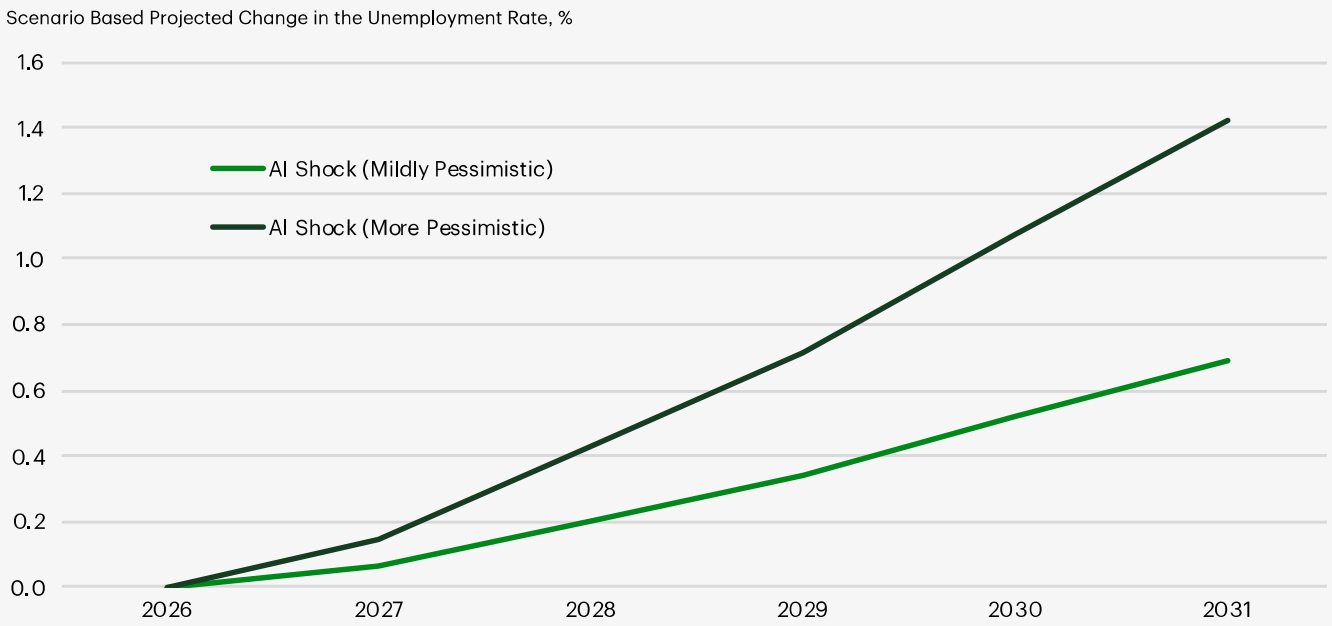
Painting a Picture of an AI Driven Job Apocalypse

Severe AI-driven job displacement would require the technology to reliably perform workers' tasks on a large scale, offer firms a compelling economic case for adoption, and diffuse rapidly and broadly across industries. However, even if those conditions are met, the outcome remains highly uncertain. There remains considerable uncertainty around the magnitude of the productivity gains AI could ultimately deliver. Rather than anchor our analysis to a single outcome, we use a range of productivity assumptions to put some guardrails around that uncertainty. The scenarios are informed by productivity estimates from the Federal Reserve that characterized the historical experience of the 1990s IT boom, when technological diffusion produced a meaningful acceleration in productivity growth.

In our moderate disruption scenario, adoption accelerates faster than the baseline and diffuses broadly across the economy, lifting annual productivity by 0.5 percentage points by 2031. In some functions firms can produce more with fewer workers, creating displacement where skills are no longer aligned with demand. Under the more severe scenario, adoption and diffusion occur even faster, raising annual productivity by a full percentage point above our baseline by 2031. The faster transition also creates greater scope for labour displacement as workers struggle to find new employment. Where skills are poorly matched with emerging opportunities, job searches become more prolonged which leads to longer-lasting labour-market scarring. Across these scenarios, the unemployment rate rises by 0.7 and 1.4 percentage points respectively above our basecase by the early 2030s (Figure 7).

The aggregate numbers only tell part of the story. The disruption is unlikely to be evenly distributed across industries. Sectors with a high concentration of AI-exposed occupations, particularly the data processing and information processing industries, could sit closer to the frontier of adoption and experience greater displacement. Other industries may prove more resilient, particularly where AI complements workers rather than replaces their tasks. And job destruction does not happen in isolation. Technological change can also create jobs as productivity gains flow through to incomes and

Figure 7: Job apocalypse could push unemployment higher if workers remain stranded



Note: AI shock assumes rapid adoption that lifts labour productivity by 0.5ppt for the least pessimistic scenario and 1ppt for the most pessimistic scenario. The scenario assumes that redundant workers face layoffs and these displaced workers struggle to find new jobs.
Source: Bureau of Labor Statistics, TD Economics

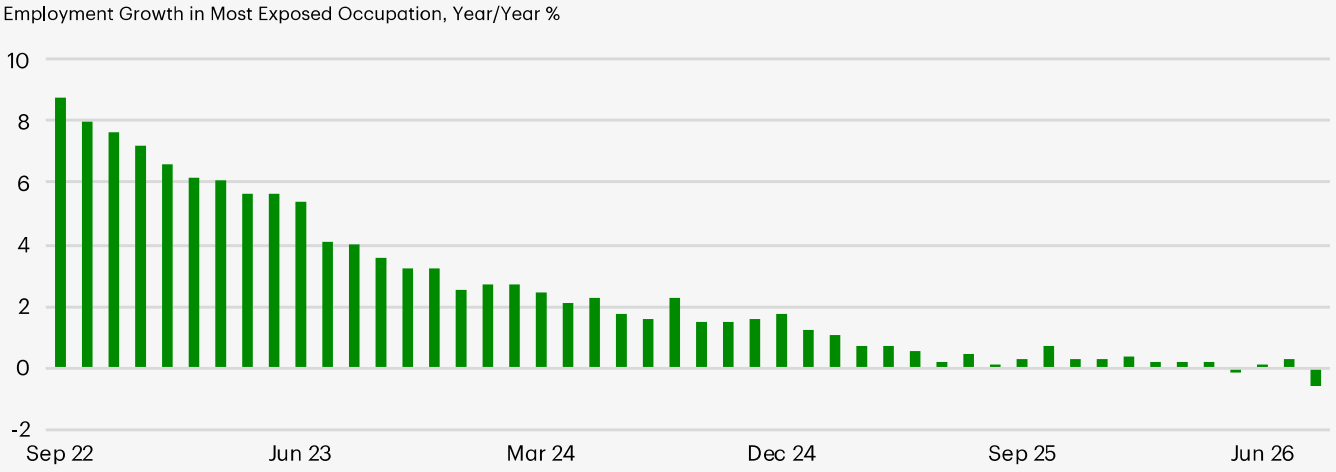
demand. Workers who remain employed may become more productive and command higher wages, which ultimately translates into greater spending on goods and services. This creates an important offset. While industries with a high concentration of exposed roles may require fewer workers, other parts of the economy can benefit from stronger demand and the new opportunities created by AI adoption. The ultimate employment impact therefore depends not just on the jobs displaced, but also on the economy's ability to create and absorb workers into new ones.

There are also important risks sitting outside our estimates. These scenarios isolate the AI shock rather than layer on a traditional economic downturn. A recession occurring alongside rapid AI adoption could intensify the adjustment as confidence and demand weaken, producing greater employment losses than under the standalone scenarios. Conversely, adjustments in labour force participation could temper the increase in the unemployment rate. That leaves an unusually wide range of outcomes and reinforces why an AI-driven "job apocalypse" is better understood as a risk scenario than a foregone conclusion.

What We Are Seeing in Employment Today

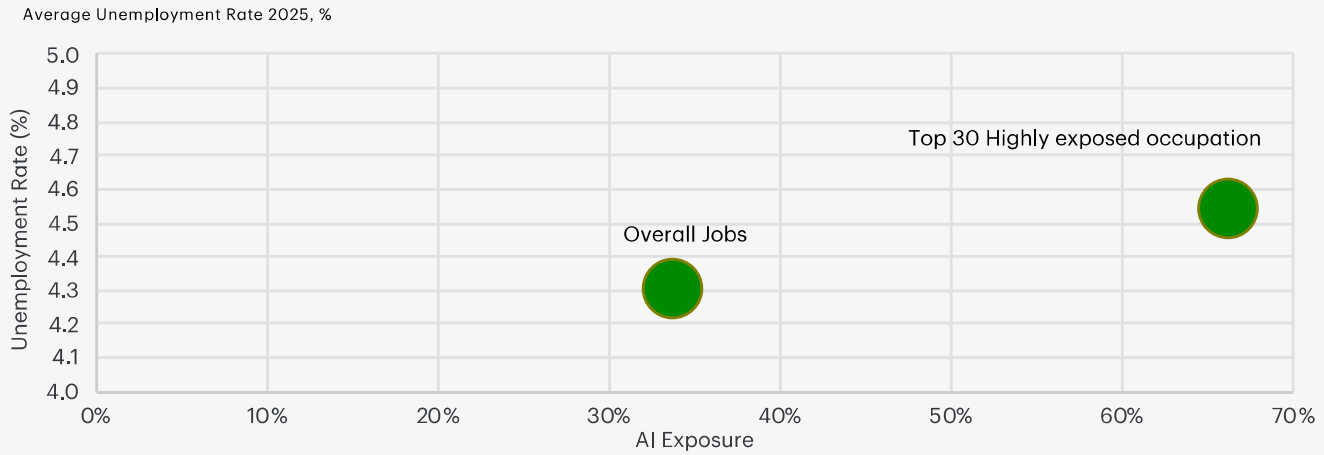
An AI job apocalypse requires a few conditions to simultaneously hold, and since none of these happen, we continue to believe a orderly adjustment to occur alongside broader AI adoption. While this adjustment hasn't meaningfully altered the aggregate employment dynamic, AI's early adoption has already had some visible impact on jobs most susceptible to direct substitution. Employment growth in these roles has trended materially lower in recent years (Figure 8). And this is an experience that is more pronounced among younger workers. Similarly, the unemployment rate among the topmost highly exposed workers is marginally higher than overall (Figure 9). Despite these trends, aggregate data for layoffs continues to be well contained.

Figure 8: Most exposed occupations employment growth declining for years



Source: Stanford Digital Economy Lab and ADP Research. AI Economic Indicators, TD Economics.

Figure 9: Unemployment rate vs. AI exposure



Source: U.S. Bureau of Labour Statistics, Eloundou et al. (2024), TD Economics

Employers are making adjustment through hiring. Indeed hiring lab data shows that occupations with a larger share of skills that generative AI can transform have shown the most pronounced deceleration in hiring (Figure 10). Therefore, dislocations are showing up through weaker labour demand, rather than outright job losses. This explains why the softness disproportionately affects younger workers entering the labour market. Importantly, taking a closer look at business's reaction function, many are using this opportunity to retrain workers, rather than outright firing (Figure 11).

The AI-led transformation will take a long time to soak into the fabric of everyday work. Yet, because it is happening gradually, it has the potential to fall under the radar for years. Current evidence suggests that AI-related displacement remains small relative to the ongoing churn that characterizes a healthy labour market.

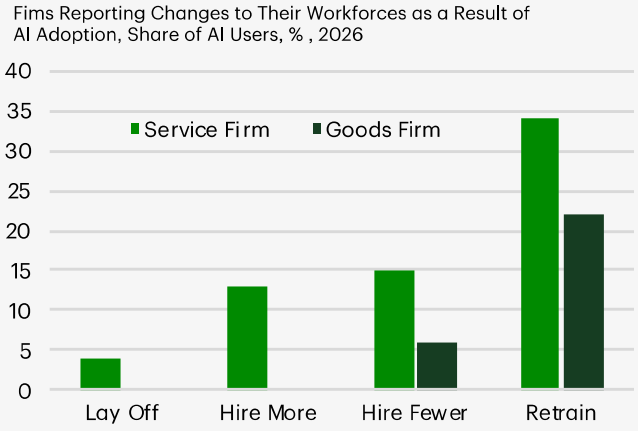
A gradual pace of adoption buys time for those who are in the crosshair of change. Policymakers can use this time to develop policy guardrails that would support full participation. Similarly, workers can use this time to get socialized with the changes and bolster their skills for an AI powered workforce.

The Bottom Line

Fears around AI's potential reach into the labour market will linger until more is known about what the future of work will look like. The very extreme job apocalypse outcome requires three critical things to be true. First, AI technologies need to be capable of executing across a broad range of tasks autonomously. Second, that capability needs to be offered in a financially feasible and transparent way to incentivize businesses to redesign workflows. And third, the speed of diffusion needs to occur fast enough to move quicker than an economy's natural tendency to adapt.

Since we do not see these forces aligning, the AI job-apocalypse thesis remains a risk scenario, not the base case. The future of work will remain one that mirrors a gradual change, rather than a rapid and significant disruption. This gives policymakers and workers the gift of time. Time to prepare policy tool kits and jobs readiness for what's ahead.

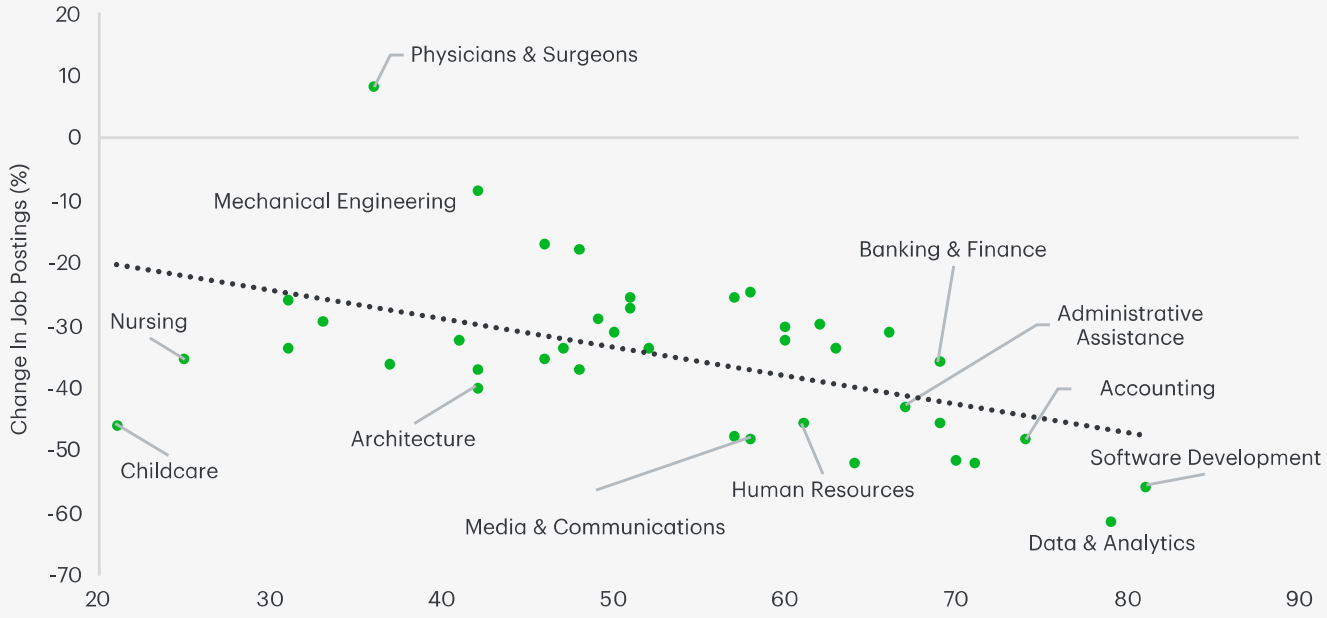
Figure 11: Most firms plan to retrain workers



Source: Federal Reserve Bank of New York, Regional Business Surveys, August 2026, TD Economics.

www.economics.td.com

Figure 10: Share of an occupation's skills genai could substantially transform



Source: TD Economics, Indeed, Hiring Lab.

Asset Class Analysis

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Quarter in Review

Resilient Headlines, More Demanding Market

The resilient performance of U.S. stock indices masked the narrowing market leadership and the rising cost of capital.

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

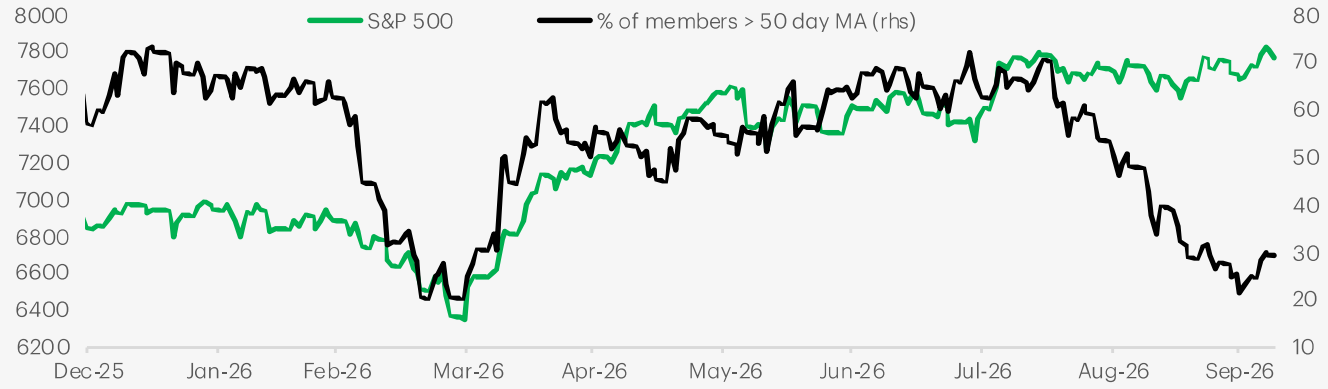
While the third quarter of 2026 delivered positive returns for many investors, the climb was more arduous than most headline numbers suggested. Major U.S. equity indices held up well, corporate earnings remained supportive, and the economy once again proved sturdier than investors had feared. However, beneath the surface Q3 looks very different. Many stocks trailed the index, small caps logged a difficult quarter, and chip stocks retraced part of earlier gains.

Put simply, index performance captured only part of the investing experience. The S&P 500 finished the quarter near record highs, yet a mere 21% of its members were trading above their 50-day moving average at end September, down from about 62% at the end of June (Figure 1).

We noticed the same pattern when comparing the capitalization weighted index with its equal weight counterpart. The S&P 500 gained about 2% over the quarter in price terms, while the S&P 500 Equal Weight index slipped 6.5% from its August high ending Q3 down 2.3% (Figure 2).

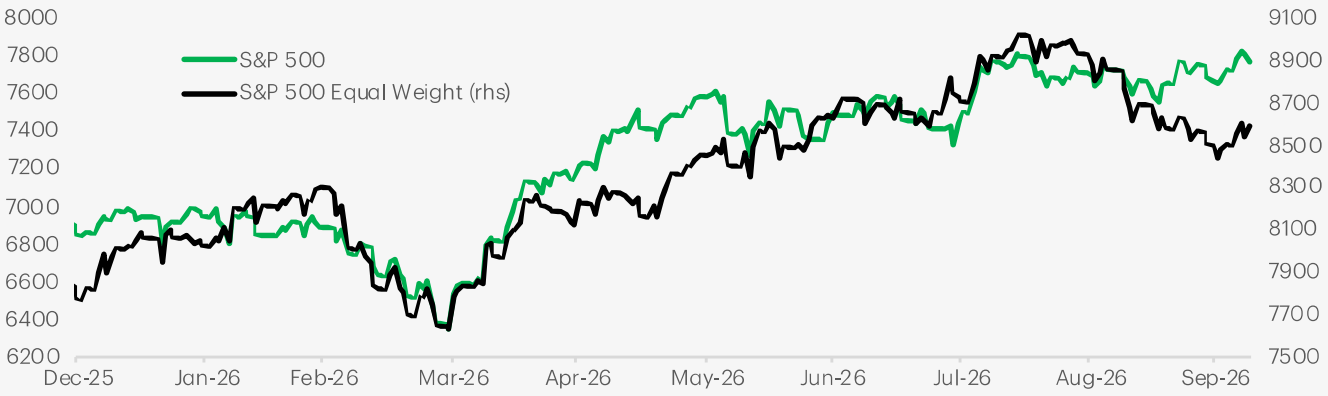
Index investors clearly had a comfortable quarter while those with a broader mix of assets found it more demanding. However, this disparity was not caused by a simple case of irrational market concentration. The largest companies led for identifiable reasons: consumers kept spending, profits held up well, and AI related investment kept growing. The companies driving index returns were also the companies delivering the strongest earnings and cash flows.

Figure 1: Market Breadth Weaker Despite Higher Index Levels



Source: FactSet, Wealth Investment Office, as of October 8, 2026

Figure 2: Headline strength, narrower market leadership



Source: FactSet, Wealth Investment Office, as of October 8, 2026

Figure 13: Growth dominates tech exposure: value captures infrastructure buildout

None of this implies that
from risk assets or try to
investors should keep the
the outlook is construc
investments regularly,
underpinned by fundam
with strong balance shee
of return.

The third quarter provide
continued confidence. B
not letting the best bette
quietly set the allocation f
comes from clarity rather
about which risks are bo
conditions required for
and knowing why each
place.

AI investment remained unstoppable, and major
equity indices ended the quarter in good shape.
The quarter, however, also revealed a darker side.
Higher real yields weighed on several asset classes
at once, a strong index hid a thinning market, good
returns quietly concentrated indexed portfolios and
rapid technological progress sparked real uncertainty
about which companies, and which investors, will
capture the returns from AI.

In all, earnings were supportive,

Outlook on Fixed Income ● Neutral

More Renovations at the Fed?

The Fed's new chief architect is opening load-bearing walls and inspecting the foundation of core monetary policy operations. Investors should take note.

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

Renovation appears to be the Federal Reserve's (Fed) word of the day, both inside and out. While construction crews have been busy gutting and updating the Fed's historic buildings in Washington D.C., new Fed chair Kevin Warsh has kicked off a kind of remodeling project of his own.

Two old Fed buildings have been sitting behind scaffolding while teams remove lead and asbestos and replace antiquated mechanical, electrical and plumbing systems that are not up to current standards and may no longer be suitable for modern living.

This may sound familiar to fixed income investors. Since Warsh became chair, he's also been wondering if the internal workings of the Fed's monetary system itself are still up to code.

Investors have, over time, become as intimately familiar with the inner plumbing and safety features of the U.S. monetary system as with its layout and design. For many years, carefully crafted forward guidance and well-telegraphed dot plots lit the way for investors, and the Fed's immense balance sheet often offered structural support when markets quaked. The future was never predictable, but market participants became conditioned to believe the monetary house the Fed built was robust enough to withstand even the most severe storms.

Then the climate changed. Inflation ran hot for years. Artificial intelligence began reshaping capital investment and the outlook for employment and productive capacity. At the same time, the mechanics behind monetary policy implementation had become increasingly complex. Some policymakers began questioning if traditional economic data still adequately captured critical elements of this evolving economy.

To reinforce the foundation of the Fed's core functions, Warsh called in structural engineers to form five independent task forces to evaluate whether the systems designed for yesterday's market can keep up with the economy of today and the growing demands of tomorrow.

Warsh didn't pull these economists, business leaders and former central bank practitioners onto the Fed's renovation project to start demolishing the monetary policy system. Rather, they will act more like home inspectors who will be, over the remainder of 2026, poking and prodding and peeking behind the panelling that houses five systems central to the Fed's operations: communications, balance sheet policy, data, productivity and jobs, and, finally, inflation frameworks.

Each task force has been asked to start from first principles and to remain open-minded as they examine current practices, consider better alternatives and propose next steps for policymakers. The task forces will be able to draw up plans and recommend which walls to move, systems to recalibrate or structural supports to reconsider, but nothing will happen until Fed policymakers decide whether, when and how renovations proceed, if at all.

Warsh has described "getting monetary policy right" as the Fed's "North Star," with its price-stability and maximum-employment objectives guiding the Federal Open Market Committee's (FOMC) work. He has also acknowledged that inflation has remained above the Fed's 2% target for more than five years and described the FOMC as "unambiguous and unanimous" in its commitment to deliver price stability.

Importantly, Warsh also stressed that the Fed's monetary-policy dual mandate remains unchanged. It will continue to operate under its congressionally assigned objectives of maximum employment and price stability. So, while the House of Warsh could undergo some major renovations, the integrity of its structure should remain intact.

Communications Task Force

Over time, Fed policy statements, economic projections, press conferences and forward guidance created an elaborate communications network, offering investors a highly choreographed and finely tuned glimpse into potential future policy.

At the June meeting, the FOMC simplified its statement and omitted forward guidance, which Warsh said was not well suited to the current policy conjuncture. Chair Warsh encouraged his colleagues to keep submitting their Summary of Economic Projections (SEP) but declined to provide his own projections citing his long-held concerns about the SEP's current structure.

The Communications Task Force will build on earlier FOMC discussions about the form, function and transparency of Fed communications and Warsh has instructed its members to stay open-minded as they evaluate the SEP, dot plot, press conferences, meeting practices, minutes, transcripts and more.

The goal is to improve how the Fed communicates its policy deliberations and decisions amid uncertainty. But Warsh's broader philosophy also points to a better flow of information; in his view, markets function best when they analyse economic developments and express independent conclusions through prices. If markets merely echo Fed guidance, policymakers lose that key source of information.

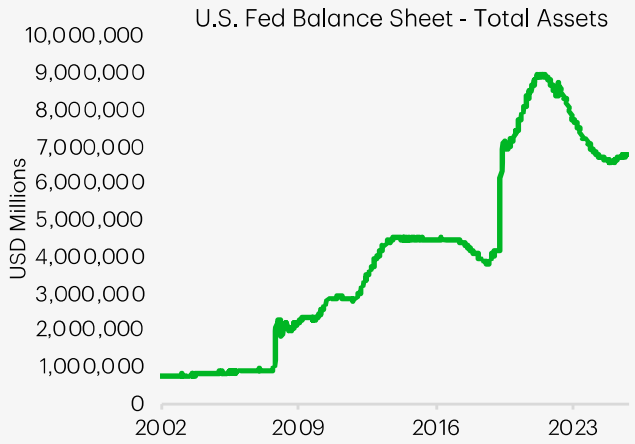
For fixed income investors, less prescriptive Fed communication about the likely path of future policy could create more volatility or uncertainty around rate expectations and increase the value of flexible duration management, independent economic analysis and portfolios tested against various policy scenarios rather than one presumed route (Figure 1).

Balance Sheet Policy Task Force

The FOMC reaffirmed its policy of maintaining ample reserves in June, so it appears the existing framework will remain in place for now. However, the Balance Sheet Policy Task Force will review the benefits and risks of the current regime, examine the composition of the Fed's balance sheet and assess potential alternative frameworks for conducting and implementing monetary policy.

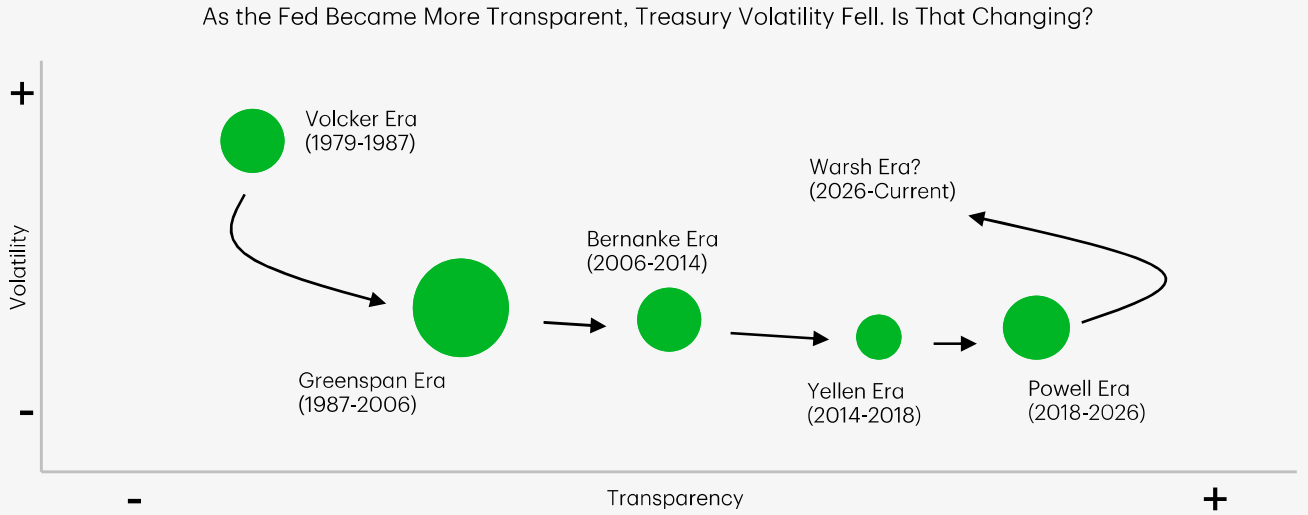
This mandate is broader than simply asking whether the Fed should use quantitative easing or tightening (Figure 2). The task force will assess how changes in reserves, asset holdings and the Fed's balance sheet affect and ripple through the real economy and financial markets. This is often described as 'transmission' and in June, Warsh said monetary policy transmission was "uneven," with greater restraint evident in housing than across financial markets more broadly. By September, he said he would be hard-pressed to describe broad financial conditions as restrictive, underscoring the need for the task force to focus on how policies for interest rates and the balance sheet ripple through different parts of the economy.

Figure 2: Fed balance sheet rose gradually until surges in 2008 and 2020



Source: Federal Reserve Bank of St. Louis, WIO as of October 13, 2026

Figure 1: Fed communications – historical transparency vs. Volatility



Source: FactSet, WIO estimates as of October 13, 2026; the relationship shown is descriptive for illustrative purposes only and does not necessarily imply causation.

For fixed income investors, possible outcomes include changes to the Fed's balance sheet size, composition or deployment, or to elements of the operating framework, potentially impacting bond-market liquidity and term premiums. This doesn't mean there will necessarily be a complete overhaul, but some design features of balance-sheet policy may change. In our view, until greater clarity emerges, investors should avoid presuming specific outcomes or that the Fed will emerge with a totally new balance sheet policy direction; instead, they should continue to focus on high-quality bonds with good liquidity and sufficient compensation for both inflation and duration risk.

Data Task Force

The FOMC must make decisions in real time often using dated, incomplete, or noisy economic data that is subject to material revisions. Warsh has cautioned against relying too heavily on any single data set and has emphasized the importance of understanding broader trends by separating the real signal from the noise.

The Data Task Force will evaluate new and alternative information sources as well as methodological improvements that could provide policymakers with more accurate, relevant, timely and actionable information. Warsh has also said the task force will re-evaluate both private and public data used in policymaking. The objective is not to discard official data or statistics altogether, but to determine if policymakers can draw on alternative data for enhanced real-time signals to better assess the economy.

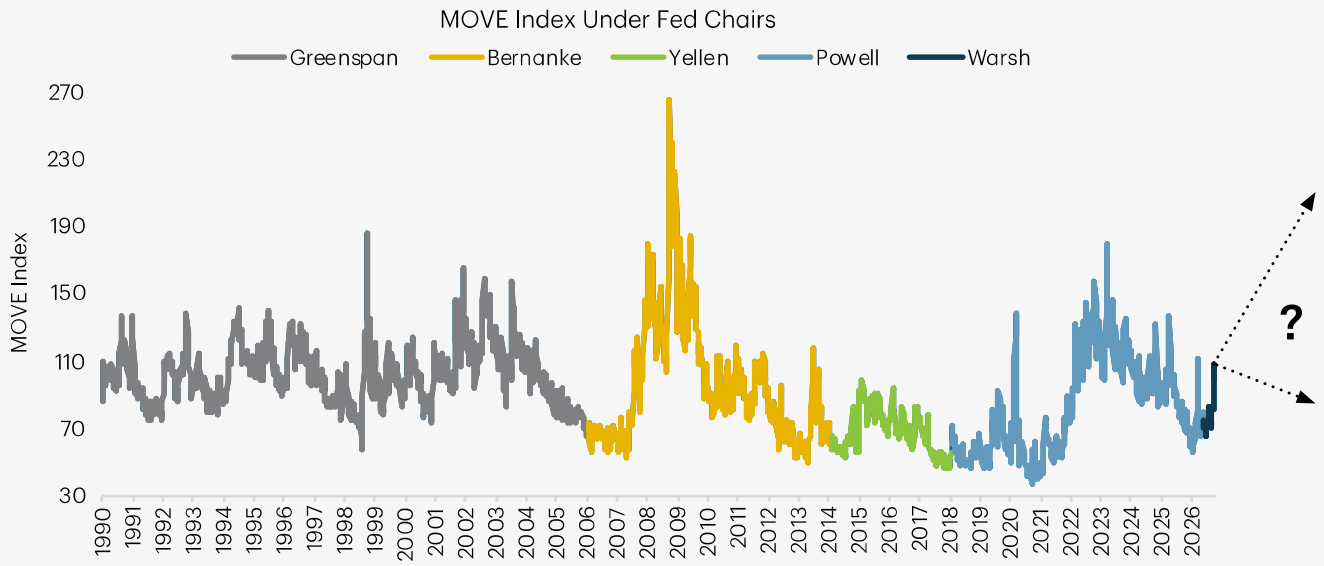
For bond market participants, reliable alternative data sources could cause policy expectations to shift faster, more frequently or more accurately than with traditional releases. Yet speed and accuracy are not interchangeable. The financial edge will likely belong to investors who can successfully navigate rate volatility by identifying, deciphering and capitalizing on this broader, richer and more dynamic set of key timely alternative data without treating each new signal as a five-alarm fire for the Fed to douse (Figure 3).

Productivity and Jobs Task Force

The Productivity and Jobs Task Force will study the pace, reach and economic consequences of AI and other new general-purpose technologies and assess their economic effects and implications for the Fed's employment and price-stability objectives. Warsh has treated AI as a potentially consequential new technology whose impacts on investment, productive capacity, employment and inflation remain uncertain.

The policy question in focus with this task force is a textbook race between supply and demand. AI-related data centres and infrastructure are materially adding to investment and economic activity, while the timing and scale of the resulting expansion in productive capacity are far harder to gauge. There is considerable debate over whether AI-related investment will prove inflationary in the near term, disinflationary over time or ultimately create productivity gains or conditions consistent with lower interest rates. This task force will examine the pace, reach and economic impact of AI and other general-purpose technologies, including their implications for employment and inflation in alignment with the Fed's dual mandate.

Figure 3: MOVE index by fed chair era



Source: FactSet, WIO as of October 13, 2026

We believe fixed income investors should view AI as much an opportunity as a key risk and a macroeconomic variable which needs to be considered carefully. Related investments in infrastructure, power/energy and hyperscalers themselves could well benefit from the AI buildout, but just like a builder should base their actions on stamped and approved plans, credit investors should also base their decisions on corporate fundamentals (like leverage, profitability, cash flows, debt financing needs, other risk factors, etc.) rather than assuming future AI productivity gains will guarantee an easier path for monetary policy or accrue to the benefit of all companies or sectors equally.

Inflation Frameworks Task Force

The Inflation Frameworks Task Force will revisit how the Fed understands and responds to the drivers of inflation, examining the issue from first principles and weighing a broad range of ideas for delivering price stability in a changing economy.

For the moment, revisiting the Fed's 2% inflation target does not appear to be a focus of the task force, given Warsh sees no reason to revisit the target until the Fed has re-established its commitment and ability to deliver on it. Instead, this task force is inspecting the Fed's inflation-fighting toolkit from the foundations up: revisiting what drives inflation and how monetary policy should respond to deliver price stability in a changing economy.

For bond investors, we think the key is to maintain inflation resilience and avoid constructing portfolios that depend on inflation returning quickly or smoothly to 2% levels. Real yields (i.e. nominal rates minus inflation), breakeven inflation indicators, and flexible duration management can inform or support responsible risk management when inflation remains uncertain, and the Fed's broader framework is under review.

Time for Investors to do a Little Inspecting of Their Own?

While these task forces may look like they're taking on five separate renovation projects, they actually tell one larger story. The Fed is asking whether the foundation, load-bearing walls and key pillars of monetary policy remain fit for an economy that is evolving faster than are many of the models, datasets and institutional practices used to understand it. Or, whether, like the Fed's Washington offices, it needs some kind of fix.

At this point, it is key to remember that any renovation plans put forward by the task forces have not yet been approved. The Fed has not committed to eliminating the dot plot, shrinking its balance sheet, replacing official statistics or redesigning its inflation objective. The task forces are producing recommendations for consideration only, and Warsh has stressed that the FOMC will not be outsourcing its decisions. Each proposal will be debated around the policy table before anyone picks up a screwdriver or a jackhammer.

Something to consider though is that any potential changes to the Fed's core monetary policy frameworks may travel far beyond the U.S. If task force reviews ultimately end up reshaping how the Fed communicates, uses its balance sheet or interprets economic data, other major developed-market central banks are likely to take note. This could prompt a broader reassessment of monetary-policy frameworks globally. After all, nobody wants to be living in the worst house on the street with the least curb appeal.

For fixed income investors, uncertainty or pending change is no reason to stand outside shivering in the cold. Rather, it suggests now is the time to inspect the foundations of their own portfolios.

A less prescriptive Fed communications strategy may reward more flexible duration management. Changes to the Fed's balance sheet framework could make liquidity and term premiums even more consequential. Richer, more frequent, timelier and higher-quality alternative data could accelerate or sharpen market reactions. Ultimately, AI may boost growth, augment productivity, and impact borrowing and inflation in dynamic ways that could prove difficult to navigate using outdated floorplans.

We believe investors should keep duration flexible, favour high-quality carry, preserve liquidity, remain attentive to inflation trends, assess AI-related credit opportunities fundamentally on a case-by-case basis and avoid assuming potential AI productivity gains will automatically translate into lower interest rates or benefit all borrowers equally.

Currently, the Fed's dual mandate remains intact. The inner workings of the monetary system have not been condemned, and its structure will not imminently be razed. But after years of emergency repairs, technological advancements and changing economic forces, the new chief architect has decided that a fresh coat of paint may no longer suffice. The walls are now being opened right down to the studs, and investors would be wise to pay attention to what the final renovation plans ultimately reveal.

As with most major projects, there is usually a lot of waiting and anticipation involved. However, we're hoping any final renovations stemming from Warsh's

task forces will ultimately go a lot more smoothly and quickly than the rebuild of the Fed's Washington offices – and with far less controversy.

Government Bonds

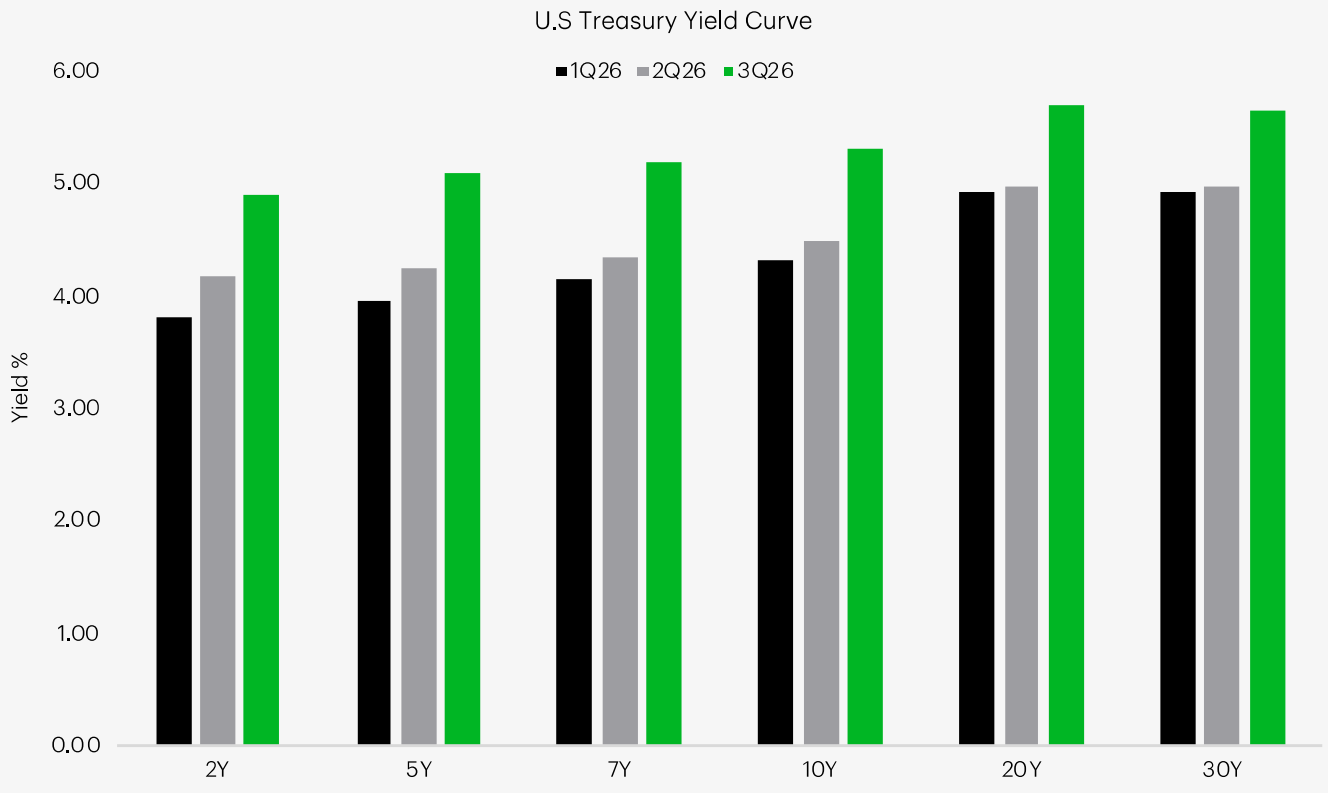
Government bond markets came under renewed pressure in the third quarter as yields rose across most developed markets and many major central banks adopted or signalled a more hawkish stance. The increase in yields reflected resilient economic growth, persistent inflation, widening fiscal deficits, and concern about the volume of government debt that will need to be financed. U.S. Treasury yields rose across the curve, with several maturities reaching multi-year highs. In September, the Fed raised rates by 25 basis points for the first time since July 2023, reinforcing its commitment to price stability. Canadian government bond yields also increased, although weaker domestic growth and a soft consumer backdrop limited the rise in short-term yields relative to the U.S.

The quarter reinforced our view that fixed income markets are entering a new regime in which fiscal policy, government borrowing needs, and inflation expectations may influence bond yields as much as monetary policy. Inflation remains the key variable. Persistent price pressures are pushing several developed-market central banks toward a more hawkish bias, increasing the likelihood that policy rates remain higher for longer and that further tightening may be needed. The ongoing Iran conflict has contributed to higher and more volatile energy prices, increasing transportation and other input costs and adding to inflationary pressure (Figure 4).

Current yield levels continue to offer attractive income and government bonds remain an important source of portfolio diversification. This income could cushion returns if yields rise further. However, in a more volatile environment with higher rates, investors should be selective when extending duration and retain the flexibility to take advantage of market dislocations.

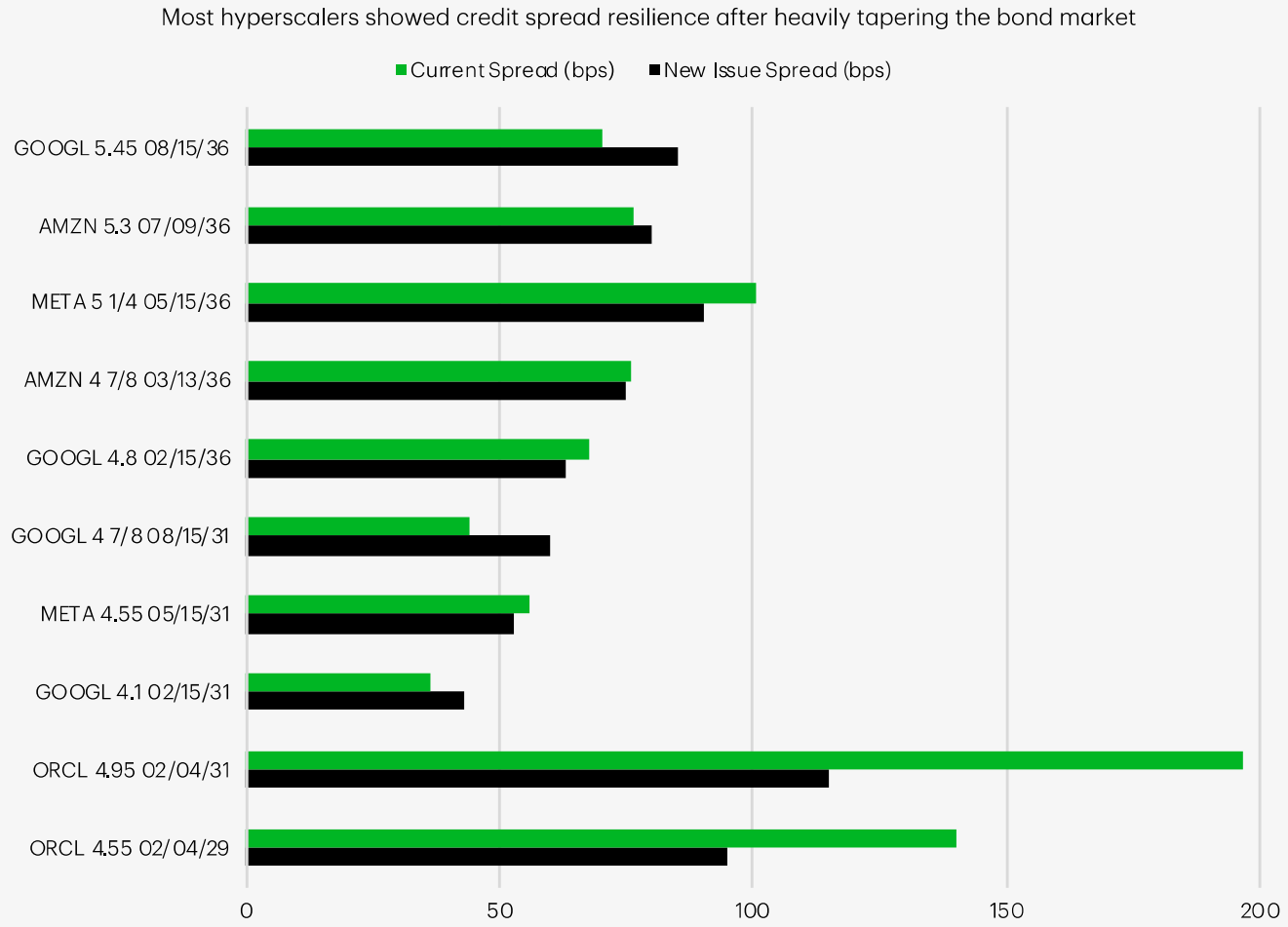
Looking ahead, government bond volatility is likely to remain elevated. Slower growth could support longer-term bonds, but persistent deficits, heavy issuance and elevated term premiums may keep long-term yields higher even if central banks ease policy. In the near term, the November U.S. midterm elections heighten the uncertainty around fiscal policy, deficits and government borrowing and could keep upward pressure on yields. In this environment, returns will likely depend more on income and active duration management than on broad capital gains from falling rates.

Figure 4: U.S. treasury yield curve surges in Q3



Source: FactSet, WIO as of September 30, 2026

Figure 5: Hyperscaler bonds – new issue vs. current spreads



Source: FactSet, WIO as of October 13, 2026; selected bonds issued by hyperscalers in 2026.

Credit

Credit markets remained resilient in the third quarter despite higher government bond yields and uncertainty around fiscal deficits and interest rates. Investment-grade and high-yield spreads hovered near cycle tights, supported by solid corporate fundamentals and stronger economic conditions than expected. Demand was briefly tested by heavy investment-grade issuance from hyperscalers, much of which is linked to financing AI-related capital spending. Although demand became more selective, the market absorbed the supply without a sustained widening in spreads (Figure 5).

Fundamentals remain supportive, but valuations appear stretched. With spreads offering limited compensation for downside risk, future returns are more likely to come from coupon income than further spread compression. At similarly tight levels, excess returns over government bonds have historically been more muted.

We continue to favour investment-grade credit over high yield. Higher-quality issuers are better positioned to manage elevated financing costs, moderating growth and upcoming refinancing needs. With government bond yields now substantially higher than they were several years ago, investors can achieve attractive all-in yields without significant additional credit risk.

The tension between strong fundamentals and rich valuations will define the outlook. Credit could continue to deliver attractive income if growth holds and defaults remain contained, but tight spreads leave little room for disappointment. In this environment, we favour quality, disciplined security selection and active management, with an emphasis on income generation and capital preservation.

Outlook on Equities ● Modest Overweight

Lessons from Q3

Tech fortunes reversed, resources rallied and rates bit harder. Beneath modest market gains, a reminder of what diversification is for.

By Ashish Chaturvedi, Senior Manager; David Beasley, Senior Quantitative Portfolio Manager; Chadi Richa, Senior Equities Analyst; and Mansi Desai, Portfolio Manager | TD Wealth

A quiet index can conceal a turbulent market. Across U.S., Canadian and international equities, third-quarter returns revealed sharp differences beneath the surface — and a common lesson about the importance of portfolio discipline.

In the U.S., a modest headline gain masked a reversal between software and semiconductors, concentrated market leadership and renewed pressure from higher interest rates. In Canada, resource stocks carried the market, while elevated bank valuations and a shift toward commercial lending warranted caution. Internationally, an industrial recovery supported by AI investment, defence expenditure and infrastructure spending competed with higher energy costs, bond yields and uneven demand.

Together, these developments highlight how apparently different holdings can depend on the same economic conditions or investment theme. The challenge isn't simply to identify the next winner. It's to maintain portfolios with distinct sources of growth, income and diversification — and the discipline to restore that balance when strong markets pull them off course.

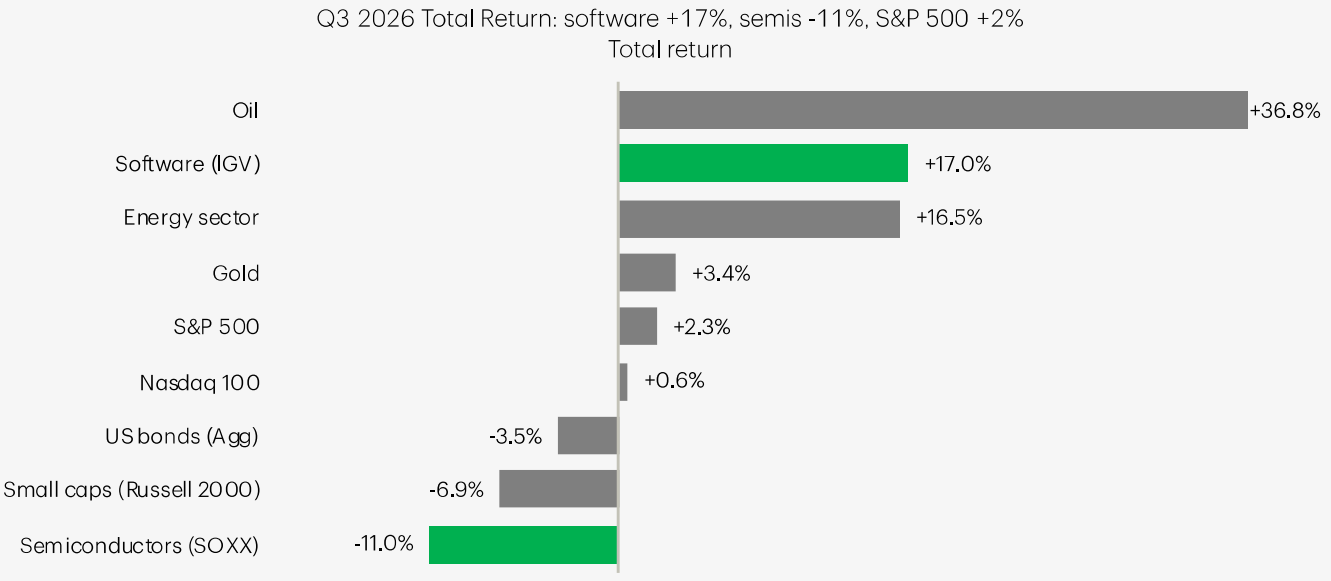
United States: Modest gains, hidden strains

If you only checked the scoreboard, the third quarter was a nap for U.S. equity markets. The S&P 500 gained about 2%, the Nasdaq 100 barely moved and most clients opened their statements to find a small number with a polite plus sign in front of it.

Underneath, it was a different quarter entirely. Software — a sector the market had spent the better part of two years eulogizing — rallied 17%. Semiconductors, the undisputed champions of the AI build-out, fell 11%. Oil jumped by more than a third, the Federal Reserve (Fed) raised rates, bond yields climbed to highs not seen in decades and small-caps slid about 7%. The index was calm because its parts were busy cancelling each other out.

Nothing broke in Q3, but in three months the market ran a compact demonstration of the idea behind this article: good markets are where bad decisions get made, and quiet quarters are where they start to show. The gap between the best and worst bars in the accompanying chart (Figure 1) is nearly 50 percentage points, in a quarter when the headline index moved 2%. That gap, not the headline, is where portfolio outcomes were decided.

Figure 1: Small overall change masks wide dispersion



Source: FactSet; *Approximate total returns, software and semis via the IGV and SOXX ETFs

Software attends its own funeral

Through late 2025 and the first half of 2026, the case against software was simple and widely held. AI coding agents would commoditize the code, compress the margins and turn yesterday's subscription businesses into tomorrow's business-school case studies. Capital poured into the companies selling picks and shovels for the AI gold rush (chips, memory, power, cooling, fibre) and out of the companies expected to be dug up by it. But in Q3 the market changed its mind. Enterprise software companies showed that AI could be a product to sell rather than a threat to survive, and the stocks responded with some enthusiasm.

The rebound got an extra push from leverage. A prominent hedge fund that had bet heavily against software was reportedly hit with margin calls from its prime brokers, forcing it to buy back its short positions into a rising market. Semiconductors, meanwhile, had a quarter that only looks bad in isolation. After surging roughly 95% in Q2, the group gave back about 11% in Q3 and was still up nearly 90% for the year. That was less a crash than a long exhale. But for portfolios that had let chip exposure ride, it was the first reminder in a while that the escalator also goes down.

Great companies, high prices

None of this means the chip companies are bad businesses. Most of them are excellent ones, and that's precisely the trap. Strong fundamentals attract capital, capital lifts the multiple, and eventually the price assumes years of flawless execution. At that point the business can keep delivering and the stock can still disappoint.

We've seen this film before, and the ending doesn't improve on re-watching. In fiscal 2000, Cisco grew revenue about 55% and sat at the very centre of the internet build-out. Investors who bought at the peak, at more than 100 times earnings, still lost nearly 90% over the next two years. Microsoft grew sales and profits through the entire 2000s, yet its share price didn't regain its December 1999 high until 2016. The companies were fine. The prices were not.

Q3's software rally is the same lesson in reverse. The market had priced many of these businesses for decline, so it took only modest evidence of resilience to send them sharply higher. Valuation is what ties both halves of the quarter together: being expensive and beloved leaves no room for disappointment, while being cheap and despised leaves room for surprise. Neither is a guarantee, which is why the answer is process and discipline rather than a better prediction.

The quarter's other story: Higher rates

The rotation got the headlines, but the other significant story may matter more for portfolios. In September the Fed, under Chair Kevin Warsh, raised the policy rate by a quarter of a percentage point to 4.00%, with inflation still running above target. The 10-year Treasury yield pushed above 5%, its highest in roughly a quarter of a century.

That tested an old principle: strategies that need cheap money, ample liquidity and confident sentiment all at once are fragile. Q3 leaned on all three. Rates went up, oil spiked when the U.S.–Iran ceasefire unravelled and consumer confidence fell to a 12-year low. The rate-sensitive areas of the market (utilities, homebuilders, real estate investment trusts, small-caps) took the brunt. The hedge fund squeezed out of its software short is the same lesson under a magnifying glass: leverage turns a bad quarter into a forced decision.

It's also worth remembering that the risks behind those moves were not hidden. Persistent deficits, sticky inflation and a fragile Middle East had been on every outlook slide for years. Markets ignored them because they hadn't yet broken anything, which is roughly what markets said about sub-prime mortgages in 2005. Unseen risk isn't absent risk; it's risk that hasn't sent its invoice yet.

What diversification is actually for

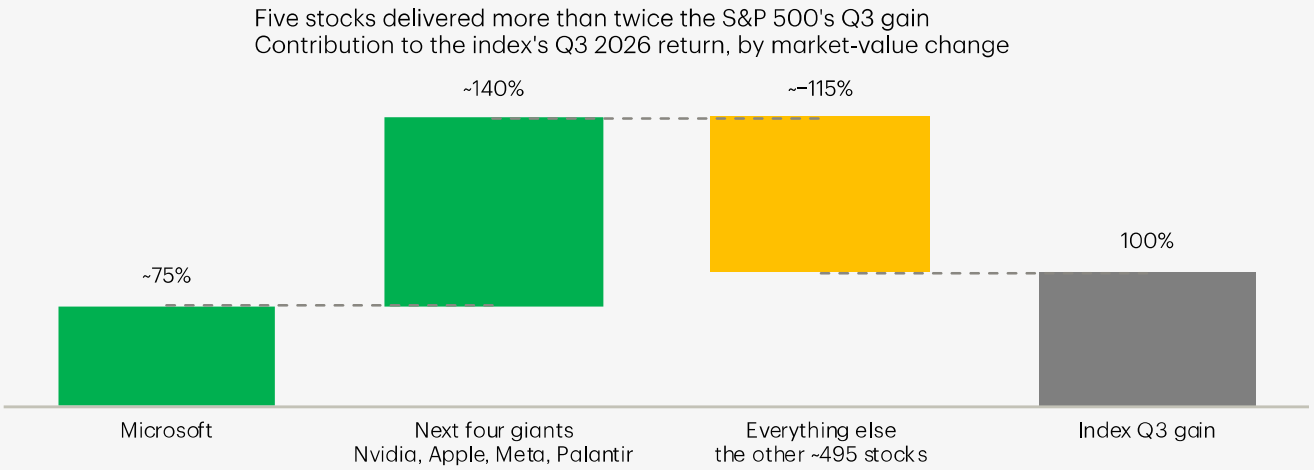
Consider how many portfolios built their AI exposure — a chipmaker here, a utility there, some data-centre real estate, a fibre company, an industrial supplier. On paper, five sectors; in practice, however, all are exposed to the same build-out. In Q3 they largely fell together, with utilities, the traditional safe harbour, down about 12%. Different labels didn't mean different risks.

The traditional cushion, moreover, was of little help. In 2022, and again in Q3, bonds didn't offset equity weakness because the problem was rising rates, which hurt both. What did hold up were commodities: oil rose about 30%, energy stocks about 16%, and gold edged higher. The point is that these assets responded to a different set of risks, which is the whole job of diversification.

One more number from the quarter deserves mention. Measured by market-value change, five companies accounted for roughly 200% of the S&P 500's Q3 gain. Microsoft alone delivered roughly three-quarters of it.

The math only works because the rest of the index, taken together, went backwards; the equal-weighted S&P 500 fell about 1.5%. The other 495 companies mostly supervised.

Figure 2: Five stocks make up for losses elsewhere



Source: FactSet. *Figures rounded, for illustrative purposes only

That matters for client conversations, because "the market is up" increasingly means "a handful of very large companies are up." Technology is now around 40% of the S&P 500, so an index fund is far less diversified than its name suggests. That's not a reason to abandon it. It's a reason to know what you own.

It also connects to the final lesson of the quarter. "Software is dead" was, in the end, a forecast: a confident, consensus view of the future that a great deal of capital was positioned around. Consensus forecasts have a patchy record. In late 2022, widely cited models put the odds of a 2023 U.S. recession at close to 100%. Investors who moved to cash then watched the S&P 500 return about 26%. The lesson isn't that forecasters are always wrong; it's that a portfolio shouldn't need them to be right.

What durability looks like

The answer to all of this isn't a smarter forecast. It's structure. We think of a durable portfolio as a set of sleeves with distinct jobs: (1) a growth engine to capture long-term expansion; (2) an income sleeve for cash flow and liquidity; and (3) a sleeve of genuine diversifiers chosen to hold up when growth stalls or when inflation and rates are the problem. A 60/20/20 split is one way to express that.

Engineers learned this long before investors did. A structure with no give is strong right up until it isn't: it carries every load it was designed for, then fails all at once when it meets one it wasn't designed for. That's why bridges have expansion joints, towers are built to sway and aircraft wings flex visibly in turbulence. The flex isn't a flaw in the design, *it is the design.* A portfolio concentrated in one theme and dependent on one set of conditions is the rigid beam. Sleeves with different jobs are the joints, letting the whole thing move under stress without cracking.

Q3 made a decent case for keeping those jobs separate. The growth sleeve did its job in aggregate, if narrowly. The income sleeve did what it was expected to yields jumped, which is to lose ground. The diversifiers carried the quarter. A portfolio with only the first two sleeves would have had nothing pulling the other way.

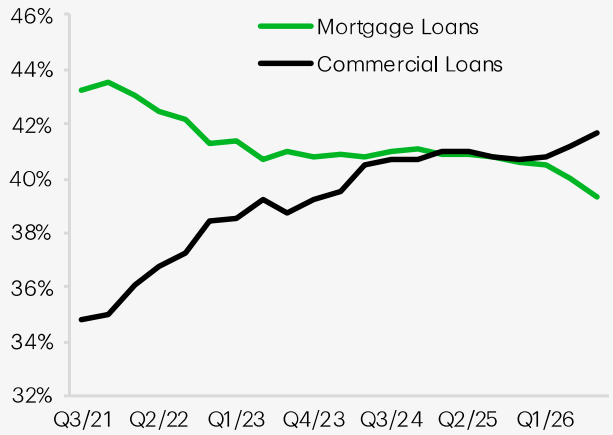
Canada: Resources carry the quarter

In our last *Portfolio Strategy Quarterly,* we discussed the challenge of having realistic expectations for equity returns after the exceptionally strong performance of the S&P/TSX Composite Index over the past four years. Specifically, we noted that the index could face headwinds from the largest-weighted industry group, Canadian banks at 25%. The Big Six Canadian banks were trading at elevated valuations, with yields and price/earnings multiples at multi-decade, if not all-time, extremes.

Fast forward to today: the diversified equal-weight bank index reached a high in July and then fell approximately 10% through to early October. This much-needed correction has helped bring valuations to more reasonable levels, although they remain somewhat elevated. Furthermore, although we're not predicting an economic contraction in Canada, we're wary of further risk to the banks in the event of an economic slowdown.

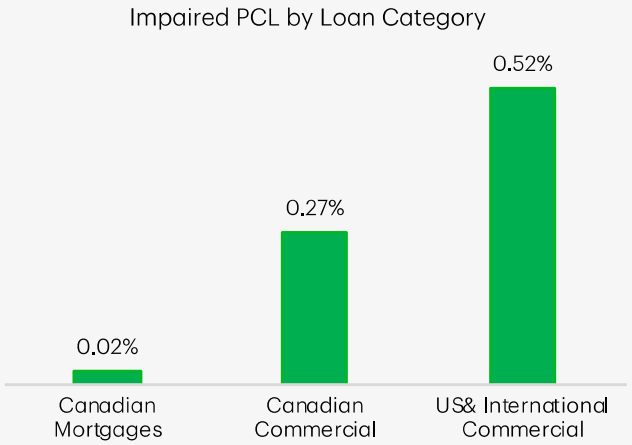
One of the risks that could present a headwind to bank earnings in the event of an economic slowdown is a shift in the loan mix toward commercial lending versus less volatile residential mortgages. Mortgages represented approximately 43% of loans in the third quarter of 2021 versus 39% most recently, while commercial loans increased from 35% to 42%. Commercial lending has therefore overtaken mortgages as the larger of the two categories, reversing their relative positions from five years ago.

Figure 3: The loan mix has been shifting towards commercial



Source: Company reports, Wealth Investment Office as of July 31, 2026

Figure 4: Commercial loans riskier than mortgages



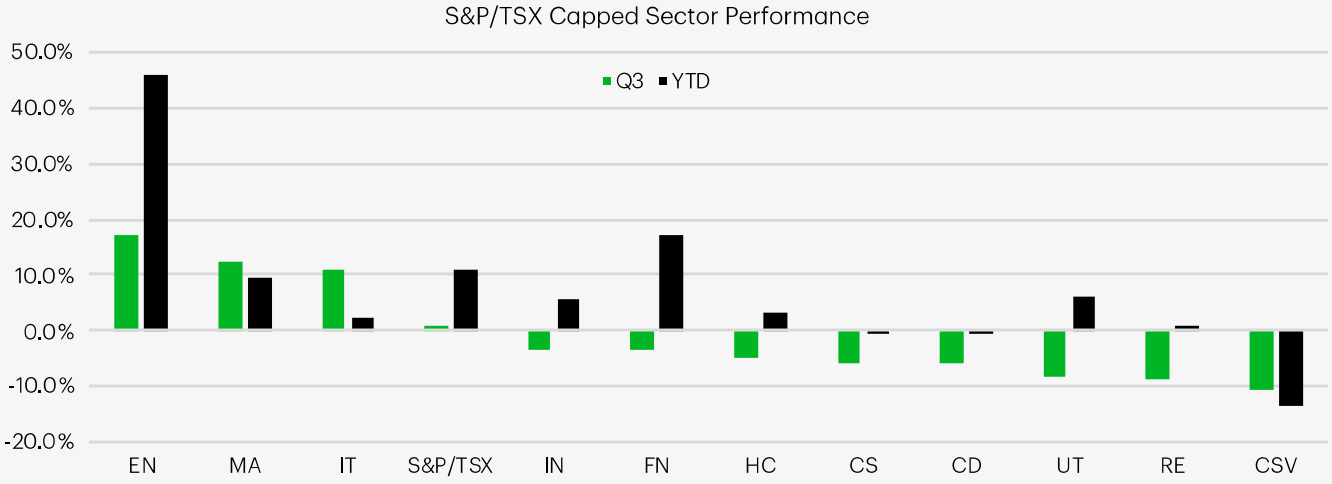
Source: Company reports, Wealth Investment Office as of July 31, 2026

This matters because commercial credit has historically generated much higher losses than Canadian residential mortgages. For example, –the ratio of impaired provisions for credit losses for Canadian commercial loans averaged 27 basis points (bps) during the first three fiscal quarters of 2026, and for U.S. and international commercial loans it averaged 52 bps. This compared with just 2 bps for Canadian mortgages. As a result, a larger share of the banks' balance sheets is now exposed to loan categories where losses can increase much more significantly if economic conditions deteriorate.

On the other hand, we remain optimistic about the materials sector, which represents nearly 18% of the S&P/TSX Composite. The index generated a total return of approximately 1.6% in Q3, with the TSX's modest gain during the quarter driven disproportionately by its resource exposure. Materials stocks rose sharply, up 12.7%, because precious- and base-metal prices strengthened. At the same time, energy companies benefited from a substantial increase in crude oil prices amid renewed disruption in the Middle East, driving gains of 17.4% for the quarter and 45.8% year-to-date for the sector. Information technology also contributed, up 10.7%, led by a strong quarter from Shopify. By contrast, eight of the market's major sectors declined, including communication services, utilities and consumer-related groups.

This concentration matters. Materials contributed more than the overall market's advance, meaning the index would have declined without the sector's support. In other words, the quarter rewarded portfolios with meaningful exposure to miners and select growth companies, while many dividend, low-volatility and domestically oriented strategies lagged. The pattern also highlights the importance of looking beyond the index: the Canadian market was resilient, but beneath the surface there was a wide range of performance.

Figure 5: Energy, materials dominated in Q3



Source: FactSet and Wealth Investment Office as of October 15, 2026. *Data is for capped sector figures

The outlook for Canadian equities remains constructive, although the path to further gains may be more volatile. Canadian equities enter Q4 with positive momentum, but less room for error. The market's resource-heavy composition remains an advantage in an environment defined by geopolitical uncertainty, infrastructure investment and constrained commodity supply. However, financials may continue to find a harder path to add to the market's performance until valuations normalize further through corrections in price or over time with positive earnings results.

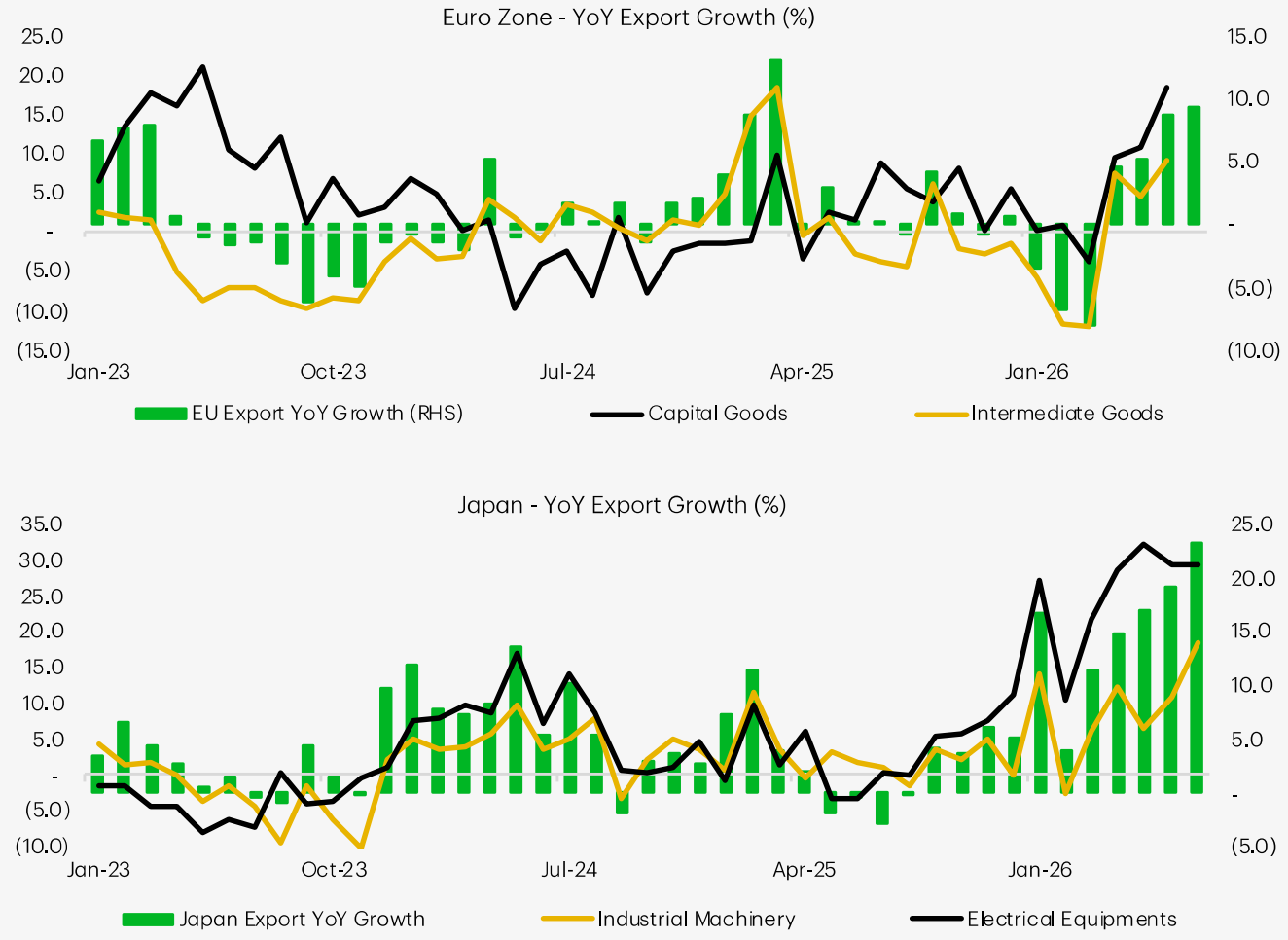
International equities: Between boom and gloom

The outlook for international equities is increasingly defined by a "boom and gloom" dynamic. On the positive side, the global manufacturing downturn appears to be giving way to a broader industrial recovery. The euro zone manufacturing PMI rose to 52.9 in September, its highest since May 2022, with output and new orders recording their strongest growth rates since early 2022. Importantly, the improvement is no longer confined to a handful of economies: all eight euro-area countries covered by the survey were in expansionary territory.

What differentiates this recovery from a conventional inventory rebound is its composition. Capital goods, particularly AI- and defence-related equipment, are leading the improvement, while consumer goods demand remains considerably softer. At the same time, higher European defence expenditure and Germany's infrastructure push provide an additional domestic source of industrial demand. According to Germany's 2027 federal budget, planned defence spending will rise significantly to €109.7 billion, and the overall investment ratio in the core budget will remain above 10% throughout the entire fiscal planning period up to 2030.

Exports are increasingly confirming the manufacturing expansion signal. Euro-area foreign orders have returned to expansion, while the accompanying figure's data (Figure 6) show a pronounced rebound in headline exports accompanied by an improvement in capital- and intermediate-goods growth.

Figure 6: Rebound in exports alludes to sustained economic recovery



Source: FactSet, Wealth Investment Office as of September 30, 2026

On the other hand, Europe's traditional industrial model continues to face pressure from higher production costs and intensifying Chinese competition, while weaker areas of global consumption remain a drag. In addition, stronger economic activity is arriving alongside renewed energy-driven inflation, rising sovereign issuance and fiscal concerns, pushing bond yields higher and challenging equity valuations for European equities. France has become the epicentre of these concerns, with its 10-year yield reaching its highest since 2002.

The equity correction in recent days doesn't invalidate the improving industrial cycle; rather, it highlights the tension between better nominal growth and a higher cost of capital. For European equities, the next leg therefore depends increasingly on whether earnings growth from the industrial recovery can outrun the valuation and margin pressure created by higher yields and input costs.

Japan shows a similar pattern. The accompanying graph (Figure 6) indicates particularly strong growth in electrical equipment and industrial machinery, consistent with Japan's critical position in semiconductor equipment, automation and advanced industrial supply chains. Currency appreciation, however, is arguably the key risk to the Japanese equity story. A stronger yen reduces the competitiveness of Japan-produced exports.

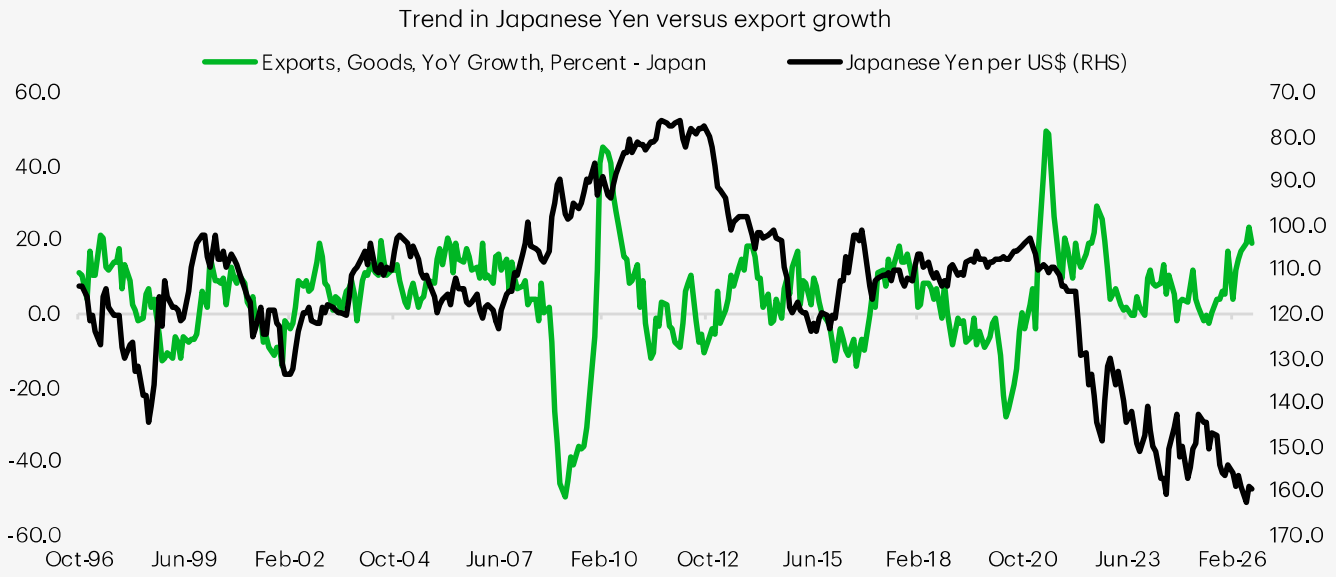
Yet history provides an important counterpoint. During parts of the late 1990s and early 2000s, Japanese exports continued to grow despite periods of yen appreciation, because strong Asian demand, particularly China's industrialization, pulled Japanese machinery, components and capital goods into expanding regional supply chains (Figure 7). AI and data-centre capital expenditure could play a similar role for select Japanese industries today. This doesn't make the yen irrelevant, but it suggests global demand can overwhelm the textbook currency relationship.

Finally, emerging-market equities, following an exceptionally strong first half, lost momentum in Q3/26, with the MSCI Emerging Markets Index declining 3.6% because geopolitical risks, higher energy prices and crowded positioning challenged the narrow AI-led rally.

Concentration risk became particularly visible in July, when the Philadelphia Semiconductor Index fell 11.2% and the Korean information-tech sector declined 25% on concerns about elevated leverage, AI capital spending and returns on investment. Importantly, however, semiconductor fundamentals remained resilient, supported by continued AI demand, cloud backlogs and positive earnings revisions, suggesting that the correction reflected positioning and valuation concerns more than a breakdown in the underlying investment cycle (Figure 8).

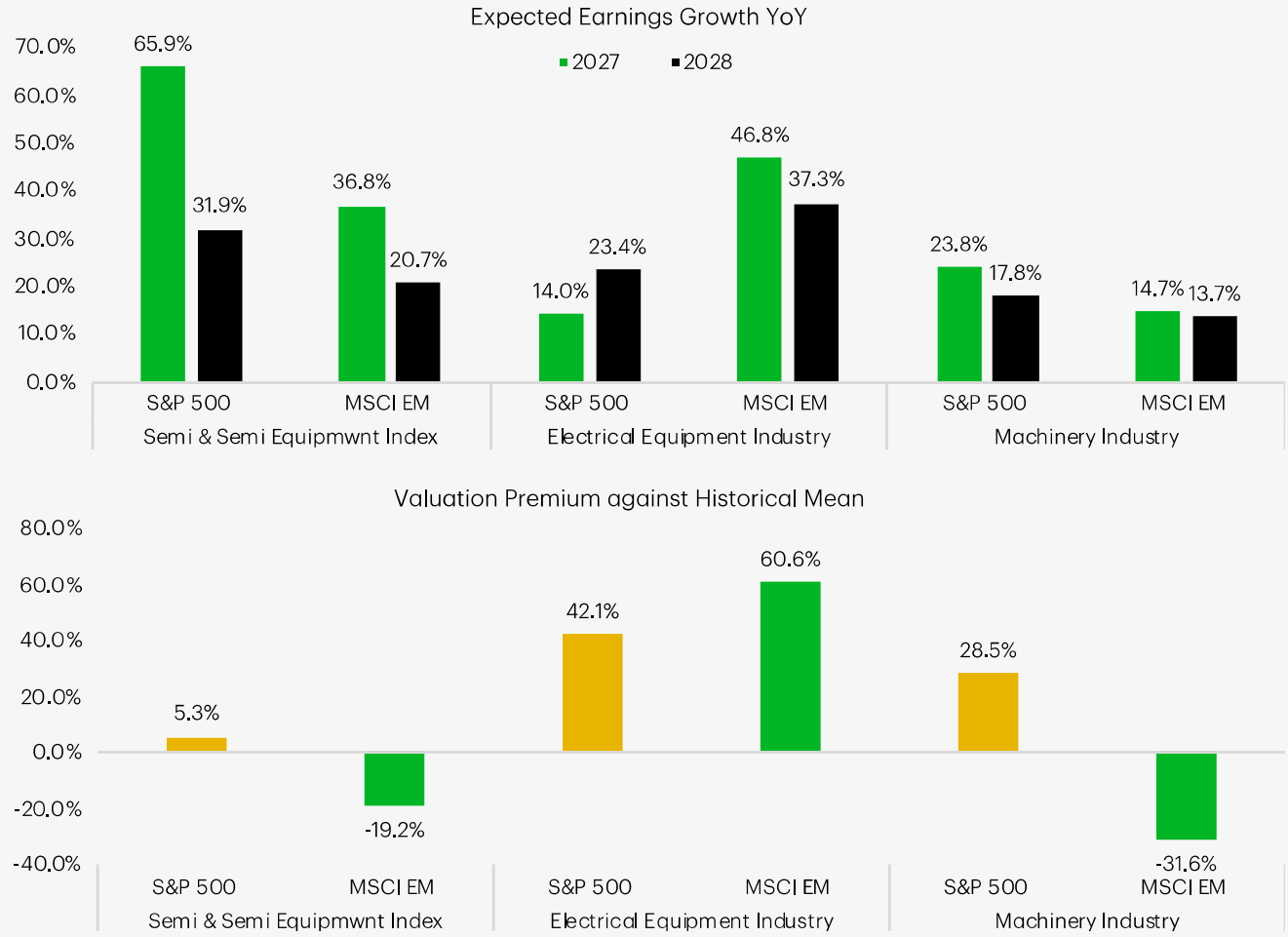
Higher energy prices also created significant dispersion across emerging markets. Renewed Middle East tensions pushed Brent crude above US$100 per barrel during the quarter, while the Bloomberg Commodity Index rose 15%. India, which is particularly sensitive to higher imported energy costs, declined 4.9%, while commodity-sensitive Brazil gained 8.3%, supported by rising commodity prices, monetary easing and an improving perception of the fiscal outlook ahead of the October election.

Figure 7: Demand can sustain export growth, despite strength in yen



Source: FactSet, Wealth Investment Office as of September 30, 2026

Figure 8: Fundamentals remain resilient while valuations reflect investor's concerns



Source: FactSet, Wealth Investment Office as of September 30, 2026

China gained 3.8%, but its recovery remained bifurcated: energy, healthcare and financials performed well, while technology and industrials remained weak and the property and domestic-demand backdrop remained challenging. While year-over-year growth in Chinese industrial profits for the year to date stood at 15.7% as of August 2026, the improvement was unusually concentrated in technology and electronics, while traditional industrials such as machinery, construction-related equipment, materials and other cyclical industrial businesses remained weak.

Emerging-market equities also remain caught between powerful structural growth themes and an increasingly uneven fundamental backdrop. The boom continues to be driven by AI investment across Taiwan and South Korea, China's strength in technology manufacturing and exports, and improving opportunities in markets such as Brazil. Yet beneath this strength, market leadership remains narrow.

With increasingly large portions of global equity benchmarks exposed to common AI-related earnings drivers, diversification should be viewed as a necessity rather than simply a recommendation. Portfolios diversified not only across regions and equity sectors, but also across commodities, infrastructure and lower-correlated return drivers, should be better positioned to navigate a market where the long-term growth story remains compelling, but the path of returns is becoming increasingly volatile.

Stay invested, Stay disciplined

Strong markets can make concentration feel like conviction, and expensive assets look reassuringly safe. This quarter offered a reminder that neither company quality nor a familiar sector label guarantees portfolio resilience. The enduring wisdom is to know what drives your holdings, recognize when different investments share the same vulnerabilities and restore balance before circumstances force your hand.

So the work this quarter is unglamorous. Check where portfolios have drifted. Trim what has outgrown its role. Refill the sleeves that cushion different kinds of trouble. And have the conversation before the market has it for us. Remember, bad decisions are made in good markets, *but they're paid for in bad ones.*

Outlook on Alternatives & Private Markets ● Neutral

Private Assets: Worth the Wait?

Continuation vehicles can buy more time. The question is whether they can turn that time into value.

By Kaan Sapanatan, Senior Private Markets Analyst | TD Wealth

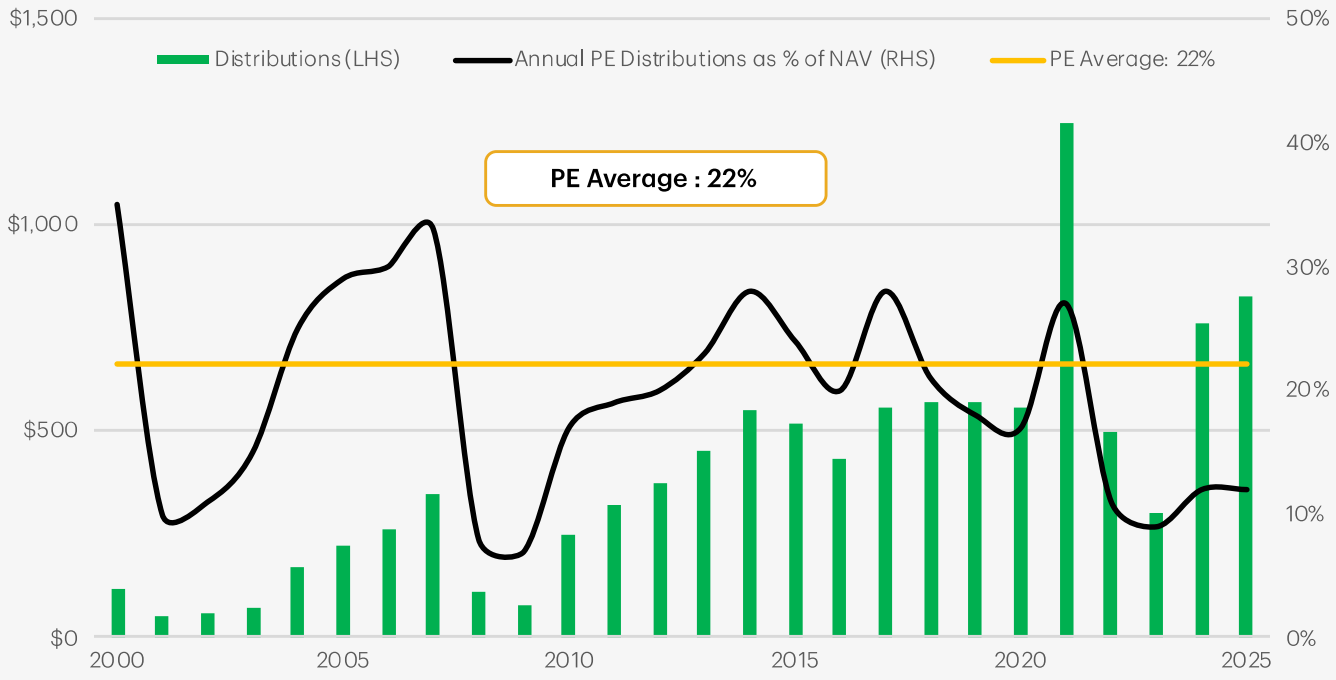
One of the most familiar stories in private equity has been the growing backlog of companies waiting for an exit. There is no shortage of skeptics who see that backlog as evidence of overstated valuations and returns that look better on paper than they do in investors' bank accounts. The more optimistic view is that, as conditions improve, more businesses will be sold to strategic buyers, acquired by other funds or brought to public markets, returning capital to investors. There is some comfort in that narrative: the companies are there, the value has been built, and the market simply needs to reopen. But it leaves an important question unanswered. What happens when investors need their capital back before a company is ready, or able, to be sold at an acceptable price?

Continuation vehicles (CV) have become an increasingly important response to this mismatch. They allow a manager to transfer a company into a new fund, typically offering existing investors a choice of receiving cash or rolling their investment into the continuation vehicle, subject to the transactions terms. For investors, the question is whether that additional time supports a credible next chapter of growth, at a price, and on terms, that justify a renewed commitment. Our view is that continuation vehicles can unlock further value in good businesses, provided the price, plan and alignment of interests justify a fresh commitment of capital.

The immediate challenge is turning portfolio value into cash investors can use. A valuation estimate may be informative, but it cannot fund a capital call or meet an investor's liquidity needs. When cash returns slow, the question isn't only how a legacy limited partner (LP) can create liquidity, but also what a rolling LP or incoming buyer is being asked to underwrite instead.

Annual private equity distributions as a percentage of NAV remain below the long-term average shown in Figure 1, while annual cash distributions have moderated from the 2021 peak. The chart reinforces the distinction between reported portfolio value and cash returned to investors. It signals a prolonged liquidity constraint, but does not, by itself, determine whether underlying portfolio economics are impaired.

Figure 1: Slower annual pace of private equity distributions



Source: Wealth Investment Office, Hamilton Lane. Data as of February 2026.

The portfolio consequences are clear. McKinsey estimates that more than 16,000 buyout-backed companies, or 52% of inventory, had been held over four years as of 2025. Its ratio of distributions to private-equity AUM was 6% in the 12 months ended June 2025, compared with a 16% average from 2015 to 2019. The denominator differs, but both measures point to reduced cash returns and a more consequential exit calendar. Where a conventional control sale is delayed, a continuation vehicle can offer liquidity to electing LPs while the company remains under general partner (GP) sponsorship. That mechanism doesn't, however, explain why a particular company should remain with the same GP.

In its single-asset form, a GP-led continuation vehicle transfers one company from a legacy fund into a new vehicle. The purchase can be funded by new or lead investor commitments, rollover equity from legacy LPs and, in some cases, GP capital. Existing LPs may take cash, roll or use a combination of the two, subject to the transaction terms. The GP commonly continues to sponsor the investment. The cash election is real, but a rolling LP or new buyer is purchasing a new claim at a new price.

GP-led secondary transaction volume increased from $9 billion in 2016 to $115 billion in 2025, representing a 33% compound annual growth rate. Continuation vehicles also rose from 5% of total private equity exit volume in 2020 to 14% in 2025 (Figure 2).

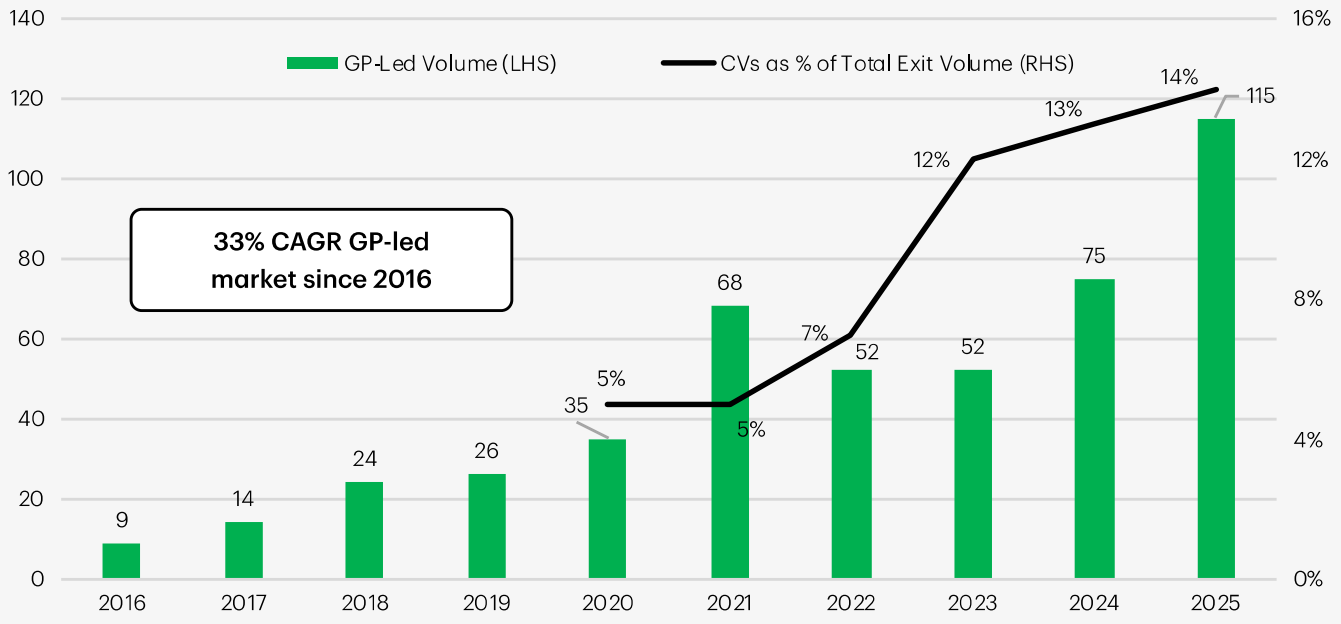
The growth confirms that GP-led continuation transactions have become a meaningful part of the exit market; it does not determine whether a particular transfer is well priced.

At the transaction level, this is closer to concentrated continuation underwriting than to a diversified LP-led secondary purchase. A secondary fund may diversify across several investments at the fund level, but the decision to lead or join a single-asset CV remains a company-specific one. It resembles a co-investment in its concentration and bottom-up diligence, but it remains a GP-led transfer with a legacy LP election, incumbent-sponsor conflict and new vehicle economics.

Selectivity shouldn't be confused with a buyer's market. A high-quality company can attract competing capital, and a price close to NAV can reflect the reference date, the quality of the mark, the process and the remaining plan. The buyer's advantage isn't an ability to dictate price. It's the ability to decline an asset whose forward case doesn't meet its return requirements.

The commercial logic reconciles different time horizons. An LP may prefer cash, while a GP may see an unfinished operating plan and a buyer may fund liquidity in exchange for an identified asset. For a selling LP, the transfer can realize all or part of a legacy interest, subject to the transfer price and any deferred consideration; for a rolling LP or incoming buyer, it begins a new ownership period. The interests can align, but the transfer price must both recognize value for selling LPs and leave the new buyer adequate prospective return.

Figure 2: GP-Led Secondary Transactions are way up



Source: Wealth Investment Office, Hamilton Lane. Data as of February 2026.

The selected company may be a trophy asset: a legacy fund's strongest holding, with an established operating record and substantial prior return. The features that make it easier to abide by due diligence standards also create an exacting question. Prior success does not amount to a new investment case. The buyer must decide whether enough value remains, after the new price, fees, leverage and extended holding period, to compensate a new owner.

The GP's continued involvement can preserve operating continuity and institutional knowledge. It also creates a potential conflict because the GP manages the legacy fund and will manage the continuation vehicle. The relevant questions are what remains unfinished, why a new vehicle is preferable to a conventional exit and why the current GP is appropriate to execute the next phase. Selling and rolling LPs need enough information and time to decide. A sound process makes the investment case possible to judge, but doesn't establish it.

Three resets demand fresh underwriting

A cash election can resolve a legacy LP's liquidity decision. For a rolling LP or incoming buyer, the question is whether a concentrated continuation investment in a known company deserves new capital. The buyer's advantage is visibility, not certainty. It must make a fresh underwriting decision across three resets: (1) the business case; (2) the price and process; and (3) the terms and alignment.

First, reset the business case. The question is whether a discrete value-creation plan remains. Revenue growth, margin improvement, add-on acquisitions, deleveraging, capacity expansion or access to a broader buyer universe can qualify only if linked to required capital, a timetable and an observable milestone. The buyer should explain what changes in the next ownership period and what would disprove the plan.

The historic outcome needs decomposition. Greater visibility makes the history easier to examine, not easier to extrapolate. A legacy return can combine revenue or margin improvement, deleveraging, acquisition execution, a rising valuation multiple or a favourable financing market. Those drivers don't have the same chance of recurring or the same dependence on the GP. The new underwriting should identify which have already been captured, which remain controllable and what fresh capital actually supports.

A plan to integrate an add-on or build capacity may be tested through milestones and expected cash flow. A case that depends mainly on a better financing market, a higher exit multiple or a later buyer's willingness to pay is more exposed because its key driver is external. The relevant question isn't whether the company was successful, but whether the next ownership period has incremental sources of value that can plausibly compensate for price, duration and concentration.

Second, reset the price and process. Continuation transactions may be completed at a discount to, at, or above reference NAV. That range can reflect the quality of the asset, the reference date, subsequent performance, the competitiveness of the process and the value still expected to be created. The price is a market-clearing outcome, not an appraisal conclusion or a realized return.

The price test isn't whether the transaction clears at a discount or premium to NAV. It's whether the value still to be created, after leverage or re-financing, follow-on capital, fees, transaction costs and an additional holding period, supports the return required by the next owner. A percentage of reference NAV should be read alongside the full transaction economics, not as the complete cost of the new investment. A competitive process can test a market price; it can't remove the assumptions in that forward case.

The reference NAV is therefore a starting point, not an endpoint. Between the valuation date and closing, trading conditions, operating performance, debt capacity and the remaining plan may all change. The buyer should reconcile the reference mark with current information and then test a base, downside and exit case. Near-NAV pricing can be consistent with disciplined underwriting; it can't substitute for it.

Third, reset the terms and alignment. Carried interest is a central alignment test. A transfer may crystallize carry accrued in the legacy fund, but the critical question is how much of that value remains invested in the continuation vehicle. When the GP rolls a meaningful portion of its carry proceeds and adds capital to the new vehicle, its economics remain tied to the same future value creation and exit as the incoming and rolling LPs. If the GP substantially cashes out its legacy economics, the buyer should require a clear explanation of the new alignment package rather than assume that continued sponsorship alone is sufficient.

Carry rollover is only one part of the new economic arrangement. The investor must also evaluate GP commitment, future carried-interest terms, management fees, transaction expenses, governance rights and the capacity for follow-on capital. Together, these terms determine how the remaining value is shared, how much capital remains at risk and whether the GP's incentives are directed toward future value

creation rather than simply completing the transfer. Continued GP ownership and meaningful GP capital can strengthen alignment, but neither substitutes for a credible operating case or a defensible price.

A continuation vehicle should therefore be judged as a fresh, concentrated underwriting decision, not merely as a liquidity solution. The plan must be incremental, the price must reflect the value still to be created and the terms must preserve meaningful GP exposure to the next ownership period.

When the company's clock differs from the fund's

More time can be rational when the legacy fund's liquidity timetable and a company's value-creation path diverge. A fund may need to return capital before the company reaches an operating, financing or strategic milestone. Time adds duration and, absent offsetting value, can erode the internal rate of return. Financing and re-financing risks also matter. The case rests on incremental value from the next ownership period, not on how long the old fund has waited.

Time is earned when the remaining milestone has an accountable owner, adequate capital and a timetable that can be monitored. A company may need to complete an integration, reduce leverage or execute a defined add-on strategy. The projected exit route should follow from operating progress, cash generation and a credible buyer universe; it shouldn't be the sole source of expected return. A plan that relies mainly on a better financing market, a higher market multiple or an unspecified future buyer is resolving the fund's timetable rather than demonstrating a company opportunity.

An incoming investor can assess a known asset and plan with more information than was available at the original entry. That visibility doesn't reduce concentration, but it can make a longer holding period acceptable to an investor with the appropriate mandate and portfolio capacity. The relevant comparison isn't the original buyer's cost basis or realized gain, but the return available from the current transfer price after fees, leverage, follow-on capital and time. A meaningful sell-or-roll election requires enough information and time for each LP to assess the new exposure; neither a sale nor a rollover is inherently superior.

Ultimately, each transfer demands a fresh investment case

Slower exits and distributions have made single-asset, GP-led continuation vehicles more relevant. They can provide electing LPs with liquidity while giving specialist secondary buyers a way to underwrite a known company rather than a broad portfolio of fund interests. That selectivity can make the buyer's work more informed, but it also concentrates the risk in one asset, one GP and one remaining value-creation plan.

The old fund's need for liquidity shouldn't supply the new vehicle's investment case. A transaction earns a new ownership period only when the buyer can identify value not already captured, pay a price that leaves an adequate net return after the new vehicle's economics and show that the requested time is attached to a funded, observable plan. That judgment should be re-visited if the operating milestone is missed, debt capacity changes materially or the expected exit route weakens. If those tests are met, more time may be rational. If they aren't, patience is merely being extended.

There is plenty of noise around private equity, with much of the negative commentary focused on slower exits and delayed cash distributions. Those concerns deserve scrutiny, but they do not diminish our view that compelling opportunities remain. The ability to invest in businesses beyond public markets, influence their direction and support their development over time remains valuable. Realizing that potential requires careful manager selection, disciplined pricing and a clear understanding of how and when capital may be returned. Our conviction rests on the value these businesses can create, with continuation vehicles providing one way to support that process where the investment case warrants more time.

Outlook on Commodities ● Modest Overweight

Shock Absorbers

War and scarce supply have propelled commodities higher, underscoring their value when traditional portfolio defences come under pressure.

By Alex Novikov, Portfolio Research Manager | TD Asset Management

The third quarter of 2026 highlighted the energy supply crisis, its transmission to the global economy and economic resilience to the price shock. Year-to-date and during the quarter, commodities again confirmed their strategic importance in a diversified portfolio.

Supply shocks reinforce the case for commodities

Broad commodities rose 33% year-to-date through September, given that major wars in the Gulf and between Russia and Ukraine exposed the thinness of global energy buffers. Three observations stand out:

1. Stable demand. Despite regional variation, demand remained stable. Modern diversified economies spend a smaller share on energy and can absorb rapidly escalating costs — even when disrupted supply makes higher prices unavoidable.

2. Fragility of chokepoints. The previously globalized supply system is fragile at chokepoints, leading the marginal barrel of crude or refined product to experience a price squeeze. A disruption affecting half of internationally traded crude is only part of the equation; decades of underinvestment have also constrained refining capacity.

3. Bull cycle. Over three years, commodities returned about 15% annually, consistent with a long bull cycle. This performance was driven mainly by supply disruptions — even as China, the largest consumer, remained in a domestic real estate correction and the long-promised re-industrialization of Western economies had yet to begin.

Geopolitics, sustained demand growth and the capacity of economies to absorb higher energy prices create potential for higher commodity prices as well as risks of elevated inflation. After the rally, the case for a strategic commodities allocation is stronger — not weaker. An allocation to commodities is required in balanced portfolios built for the years ahead. This approach doesn't time market regimes but rather protects total wealth through volatility and changes in world markets and the world order.

Commodities demonstrate their diversification role

For most of the pre-Covid decade — more precisely, since 2008 — commodities were an asset class many investors could have safely ignored. A generation of investors hadn't experienced, or had forgotten, major Middle East conflicts, supply disruptions, government intervention in commodity markets and trade dislocation. Muted inflation and low or negative correlation between equities and fixed income created an impression of diversification that's often illusory in today's environment.

Commodities have since demonstrated that they complement portfolios and tend to work best when traditional assets underperform. Even after spectacular trailing 12-month performances, commodities maintained negative correlation with major asset classes — the defining characteristic of a true portfolio diversifier (Figure 1).

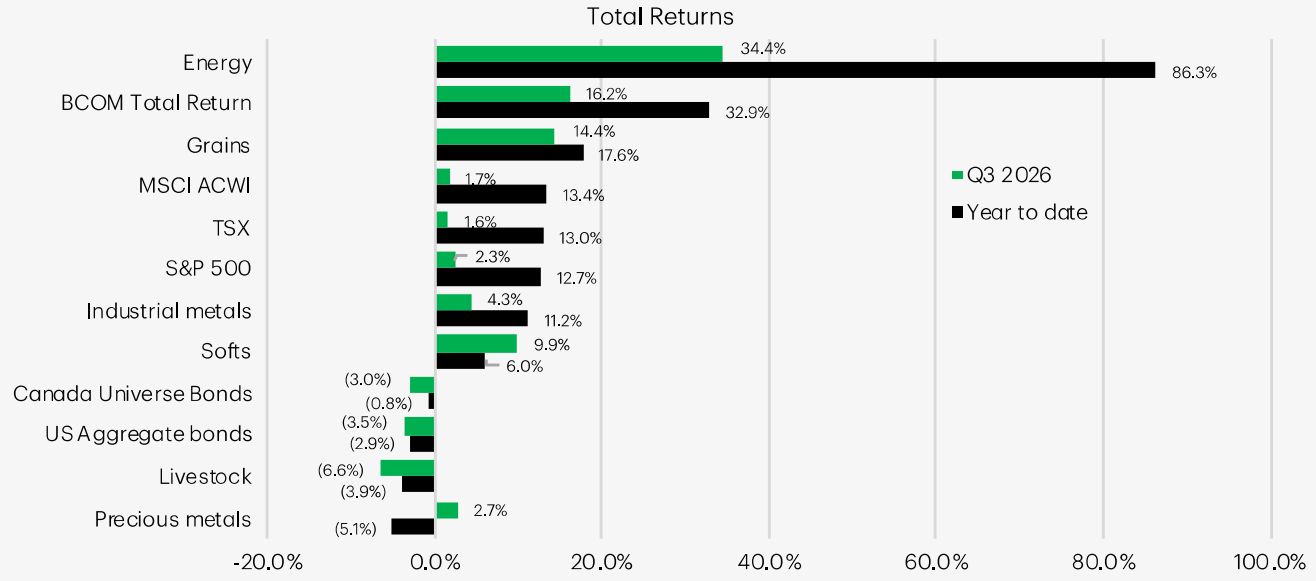
The Bloomberg Commodity Index Total Return gained 16.2% in Q3 and approximately 33% in the first nine months of 2026. Over the same period, the S&P 500 returned 13%, while the U.S. Aggregate Bond Index lost 3%, including a 3.5% Q3 decline, as 10-year Treasury yields reached their highest since 2002.

Demand destruction? More adjustment than collapse

A widely held thesis is that the rise in energy costs — crude plus refining margins — will destroy consumer demand. That pressure is visible in regions with weaker energy security and balances, particularly some parts of Asia. Yet high-frequency consumption data and long-term comparisons show little aggregate demand destruction so far. Instead, demand has been sustained partly through inventory releases.

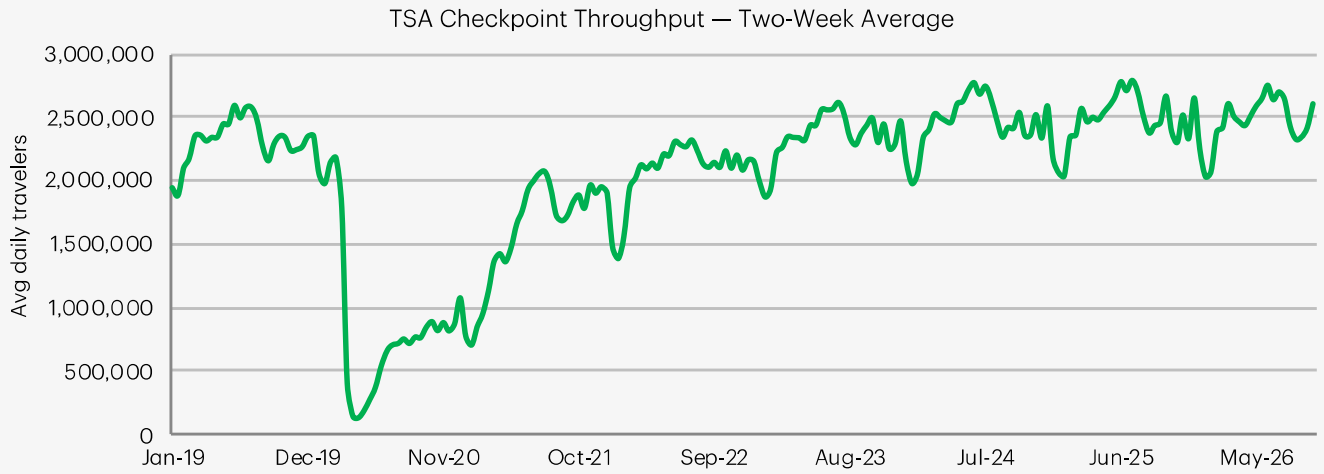
The clearest indicator is average daily passenger traffic measured by U.S. Transportation Security Administration checkpoint volumes (Figure 2). Despite record energy and jet-fuel prices (Figure 3), traveller volumes in the latest two weeks of October 2026 were only 2% below the same period in 2025. Year-to-date, traffic was down just 0.4% from 2025 and approximately 6% above pre-Covid 2019 volumes.

Figure 1: Commodities have outperformed this year



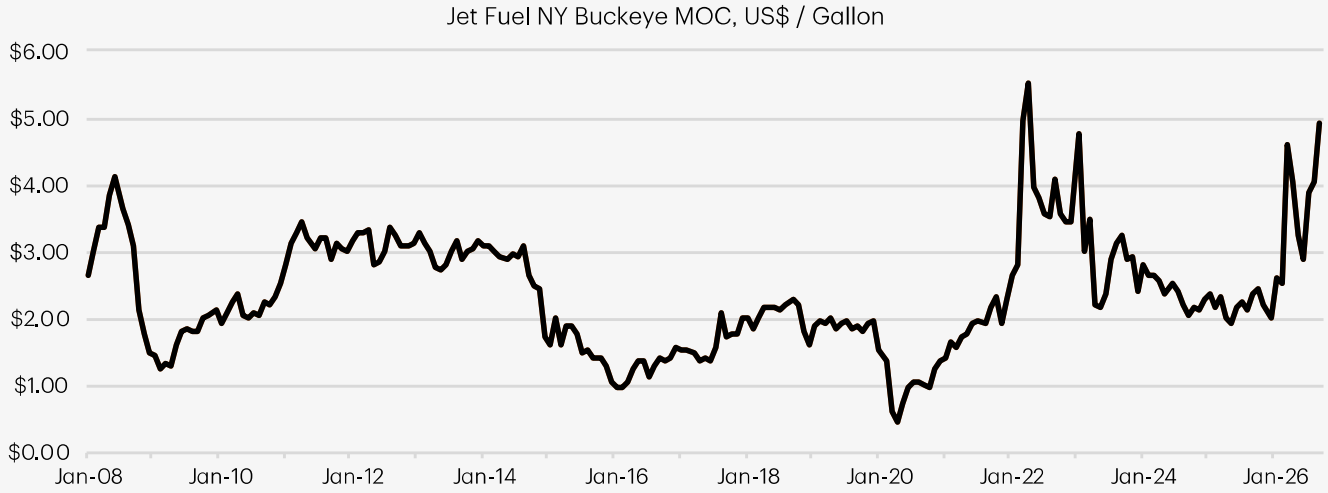
Source Bloomberg Finances L.P. as of September 30, 2026

Figure 2: Travellers continue to shoulder the burden



Source: U.S. Transportation Security Administration

Figure 3: ... despite higher fuel and ticket prices



Source Bloomberg Finances L.P. as of September 30, 2026

A second consensus concern is that crude plus refining margins recently implied approximately $190 per barrel, above the 2008 peak of $147 for crude plus $20 to $30 of refining margin. A better long-term test is indexed retail diesel cost relative to nominal gross domestic product (Figure 4). Diesel is the workhorse of the global economy: gasoline moves passengers, while diesel moves goods, freight and equipment. On this measure, current pressure resembles the reopening after Covid, the pre-shale era and the period before the 2008 crisis, not a historical breaking point.

Illustratively, rail volumes reinforce the signal of continued diesel demand. In the week ending in October 2026, U.S. carload and intermodal traffic was 7.2% above the comparable 2025 week. Total North American rail traffic, including Canada and Mexico, was up 3.1% year-to-date. That's far from demand destruction.

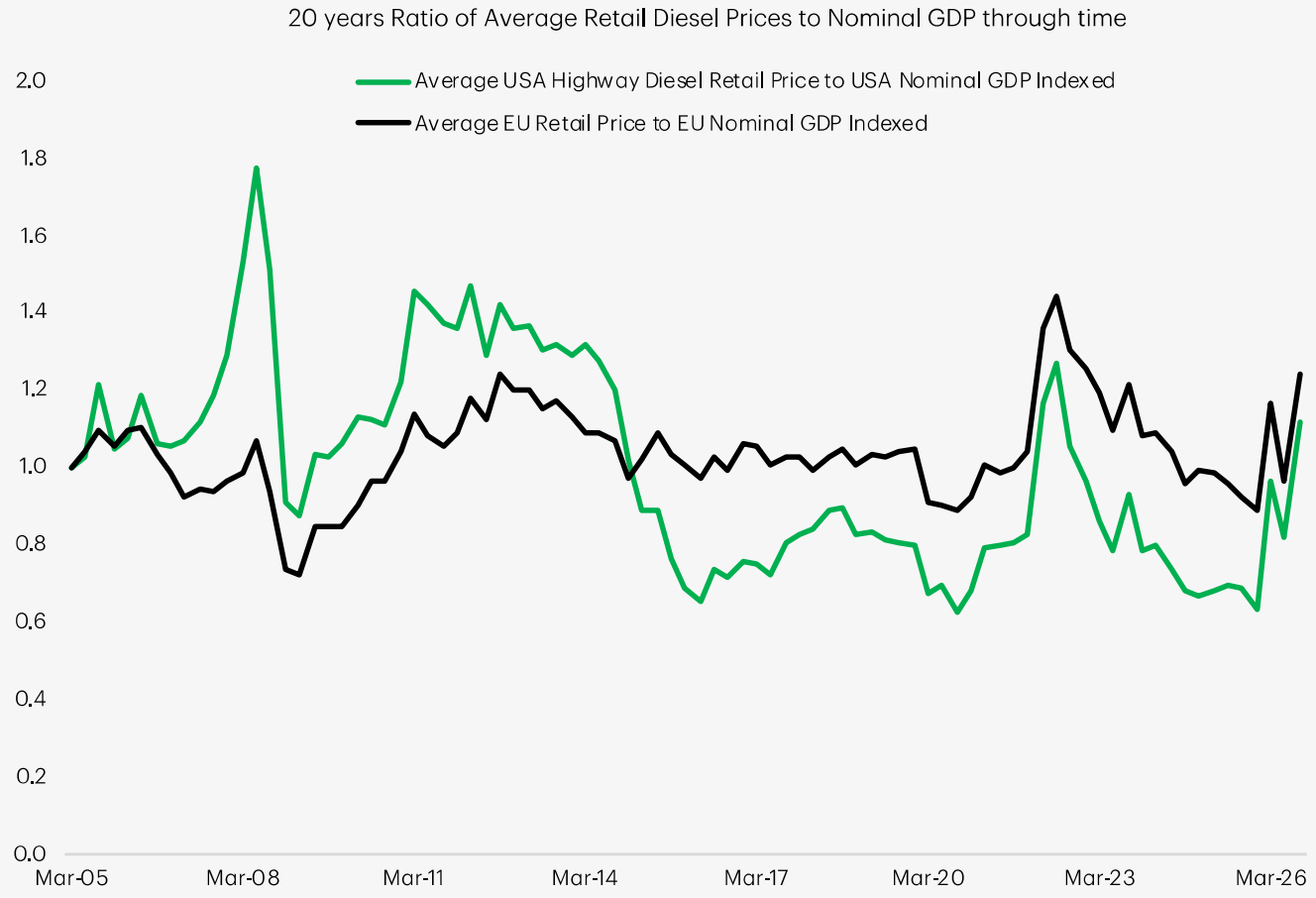
Inventory drawdowns sustain consumption

Prices tell only half the story. U.S. strategic petroleum reserves are at a 40-year low; U.S. distillate stocks are 12% below their five-year average; and Europe enters winter with gas storage near 74%, versus a normal 89%, marking a 14-year low. Spare production capacity is limited as the high-demand season approaches. If demand remains stable, inventories will move toward critical levels and prices may need to rise materially to protect remaining inventories and incentivize supply.

Governments are likely to deploy further short-term interventions to suppress prices in imbalanced markets. Even if a geopolitical agreement reopens Hormuz and freezes the Russia-Ukraine conflict, supply won't normalize immediately. Mines, insurers and damaged infrastructure mean flows recover over quarters, not days, and strategic reserves must also be replenished.

This year demonstrated that commodities can respond quickly when traditional portfolio construction is under pressure. Inflation and interest rates are difficult to forecast, and geopolitical shocks are even harder. The objective shouldn't be to predict when the Strait of Hormuz reopens; it should be to build portfolios whose resilience doesn't depend on it.

Figure 4: GDP rising alongside diesel prices



Source: TD Asset Management as of September 30, 2026

Outlook on Currencies

Peak Dollar?

The greenback's rally looks stretched, but a retreat may have to wait. For the Canadian dollar, meanwhile, patience remains the watchword.

By TD Securities and Wealth Investment Office | TD Wealth

The U.S. dollar seems to have found its peak in early October, with a strong rally from mid-September through the first week of October. However, despite stronger-than-expected inflation data, U.S. yields and the U.S. dollar have now begun to consolidate lower, as the positioning appears to have become too stretched. The price action is in line with the TD Securities core view on the U.S. dollar — that it's unlikely to see a sustained uptrend during this Fed rate-hiking cycle, unlike in 2022 when rate differentials were at extremes, given that the Fed materially outpaced its global peers.

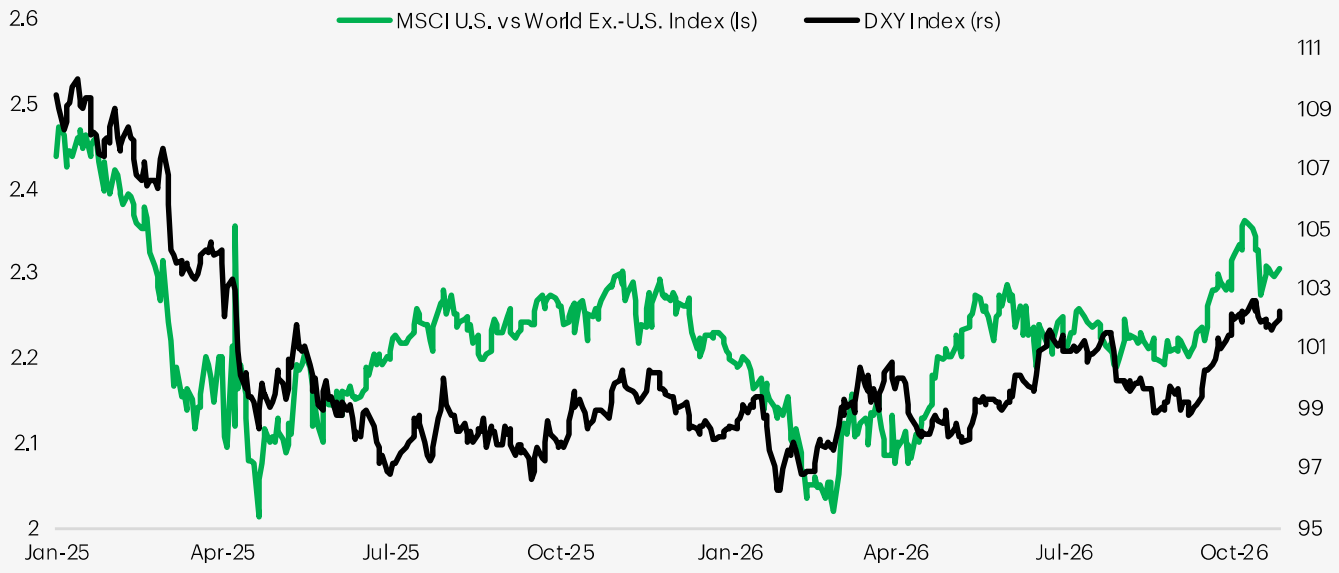
While the U.S. dollar has likely reached a top, TD Securities also notes that it doesn't see sufficient catalysts for an immediate sell-off either. The recent USD rally has coincided with a rise in the equity index ratio tracking U.S. equity relative to RoW (rest of the world). A U.S. dollar sell-off would likely require either the U.S. equity market to underperform the rest of the world or clarity around an end to the Fed rate hikes. A relief sell-off after the U.S. mid-term elections is possible, coinciding with bearish year-end U.S. seasonality and the current stance in currency options markets. As a result, the U.S. dollar is expected to remain somewhat volatile but overall range-bound.

Canadian dollar: Patience is required

Markets have quickly pulled Bank of Canada tightening expectations forward, following Governor Macklem's hawkish comments in an interview in mid-October, but the data still argue for patience. Broad economic momentum in Canada is below the Group of 10 (G10) average and weakening — specifically, employment fell by around 110,000 over August and September; the tariff drag has likely yet to fully feed through to activity and sentiment data; September's consumer price index showed inflation breadth narrowing rather than broadening; and upside core inflation momentum remains muted in Canada versus in the U.S.

A BoC hold, in line with the TD Securities view, could disappoint market expectations and weigh on the Canadian dollar. Even if the Bank were to hike at the October 28 meeting, the Canadian dollar rate curve is pricing in four BoC rate hikes over the course of a year, which is still too aggressive and has room to adjust in the dovish direction.

Figure 1: USD rally coincided with U.S. equity outperformance



Source: Macrobond, TD Securities, Wealth Investment Office as of October 26, 2026

With rate differentials the key driver of the USD/CAD exchange rate, TD Securities expects the relative rate backdrop to remain supportive of the U.S. dollar in the near term, before turning more Canada-friendly in Q1/27, when BoC tightening gets properly underway and the Canadian economic recovery gains traction. While the exchange rate has re-traced from $1.43 due to hawkish BoC guidance amid stretched short Canadian-dollar positioning, it's likely to stay supported above $1.40 in the near term.

At the same time, the Canadian dollar should remain an attractive G10 funding currency, given that carry stays in vogue against a backdrop of elevated oil prices and higher-for-longer global rates. Sustained declines in USD/CAD require both a more compelling BoC hiking story and the return of a broadly bearish U.S. dollar regime. TD Securities believes that the latter is more likely after the U.S. mid-terms, keeping it tactically bullish on the U.S. dollar until then. Thereafter, renewed bearish U.S. dollar impulses should help pull USD/CAD toward the $1.38 year-end target.

Figure 2: Foreign exchange forecasts

		Q2 2026 - Q1 2027			
`	**Oct 26 '26**	**Q2A**	**Q3A**	**Q4F**	**Q1F**
USD/JPY	157	163	157	153	150
EUR/USD	1.12	1.14	1.13	1.18	1.15
GBP/USD	1.33	1.33	1.33	1.36	1.36
USD/CHF	0.83	0.81	0.84	0.80	0.80
USD/CAD	1.40	1.42	1.42	1.38	1.37
AUD/USD	0.70	0.69	0.69	0.72	0.70
NZD/USD	0.57	0.57	0.56	0.60	0.58
BBDXY	1223	1222	1220	1175	1188

Source: TD Securities as of October 26, 2026

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	152,068	-2.62	1.62	12.97	20.02	25.06	15.18	12.37	8.78
S&P/TSX Composite (PR)	35,236	-2.85	1.09	11.11	17.36	21.71	11.91	9.12	5.64
S&P/TSX 60 (TR)	7,328	-2.45	1.60	13.36	19.84	24.42	14.92	12.63	8.94
S&P/TSX SmallCap (TR)	2731	-1.79	2.41	20.84	33.17	31.71	16.13	10.82	6.71
S&P/TSX Preferred Share(TR)	2554	-2.53	0.03	4.42	8.32	17.47	5.90	6.59	3.67
U.S. Indices ($US) Return									
S&P 500 (TR)	17,160	-0.35	2.30	12.75	15.74	22.89	13.79	15.33	11.21
S&P 500 (PR)	7,652	-0.45	2.03	11.77	14.40	21.29	12.18	13.44	9.12
Dow Jones Industrial (PR)	50,906	-4.29	-2.70	5.91	9.72	14.96	8.51	10.77	7.64
NASDAQ Composite (PR)	26,861	1.86	2.47	15.57	18.54	26.66	13.20	17.59	13.18
Russell 2000 (TR)	15,470	-5.25	-7.23	13.71	16.20	17.72	6.34	9.84	8.45
U.S. Indices ($CA) Return									
S&P 500 (TR)	24,395	2.21	2.36	16.81	18.18	24.89	16.41	16.26	12.56
S&P 500 (PR)	10,877	2.11	2.09	15.81	16.81	23.26	14.76	14.36	10.44
Dow Jones Industrial (PR)	72,368	-1.83	-2.65	9.74	12.03	16.83	11.00	11.66	8.95
NASDAQ Composite (PR)	38,186	4.48	2.53	19.74	21.04	28.72	15.81	18.54	14.55
Russell 2000 (TR)	21,992	-2.82	-7.18	17.81	18.65	19.63	8.78	10.72	9.76
MSCI Indices ($US) Total Return									
World	23,651	-1.15	1.96	12.09	15.68	21.91	12.39	13.37	9.13
EAFE (Europe, Australasia, Far East)	16,306	-3.01	0.88	10.81	16.24	18.99	9.87	9.60	5.89
EM (Emerging Markets)	4,743	-0.50	-0.24	23.73	29.65	24.69	9.44	9.53	6.87
MSCI Indices ($CA) Total Return									
World	33,623	1.38	2.01	16.14	18.12	23.89	14.98	14.28	10.46
EAFE (Europe, Australasia, Far East)	23,180	-0.52	0.94	14.80	18.70	20.92	12.40	10.49	7.17
EM (Emerging Markets)	6,743	2.05	-0.18	28.19	32.38	26.72	11.96	10.42	8.17
Currency									
Canadian Dollar ($US/$CA)	1.42	2.73	0.25	3.70	2.24	1.58	2.34	0.81	1.21
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	10,606	-2.02	1.04	6.79	13.43	11.71	8.40	4.39	2.92
Hang Seng (Hong Kong)	24,613	-3.73	7.57	-3.97	-8.35	11.39	0.03	0.55	1.71
Nikkei 225 (Japan)	66,754	0.67	-4.72	32.61	48.56	27.96	17.78	15.04	7.36

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	2.28	3.34	3.74	4.14
U.S. Treasury Yields	3.84	4.50	4.75	5.24

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	494	0.17	0.57	1.69	2.33	3.58	3.20	2.06
FTSE TMX Canada Universe Bond Index	1,190	-1.22	-2.97	-0.78	-1.10	4.75	0.28	1.29
FTSE TMX Canada All Government Bond Index	1,104	-1.36	-3.25	-1.06	-1.59	4.21	-0.30	0.81
FTSE TMX Canada All Corporate Bond Index	1,505	-0.81	-2.14	0.05	0.38	6.37	1.98	2.65
U.S. Corporate High Yield Bond Index	319	-2.63	-2.11	-1.12	-0.30	6.52	2.49	4.08
Global Aggregate Bond Index	260	-1.81	-3.17	-2.63	-2.33	2.78	-0.67	0.87
JPM EMBI Global Core Bond Index	575	-3.52	-4.59	-2.96	-0.56	7.66	0.23	1.61

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

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