TD Wealth

High Dough

Portfolio Strategy Quarterly | Q2 2025

April 2025

In this issue

High dough.

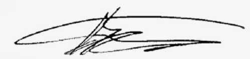
"When you blow at high dough" rings across the Canadian psyche and is probably as recognizable in the Great White North as "we stand on guard for thee." It's a call to avoid acting impulsively or carelessly when you have a lot riding on something, such as your life savings. It suggests a cautionary approach, urging one to be patient and not overstep the bounds of what's appropriate at a given stage, like what to do in the middle of financial-market volatility.

This seems like a great starting point for our Portfolio Strategy Quarterly for Q2/2025. Every hour brings in new tariffs, tweets — and new contradictions. It's like we are all living in a bread mixer and the power switch keeps getting intermittently turned on and off. What an environment we live in.

In a portfolio-management context, "Don't blow at high dough" means that tactical or dynamic shifts should only be made at the margin, in an intentional and risk-controlled manner. Remember, financial-market dynamics are driven by our interactions.

Sometimes it's good, in volatile times, to remind ourselves of how we think. This is evolution at the speed of thought. In times like these, investors need to be able to adapt, and adaptation is what we do.

Be well,



Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

What was old ...

The imposition of massive U.S. tariffs, estimated at 26% on average, may seem unprecedented. It's not. Nearly a century ago, President Hoover enacted tariffs, initially to protect farmers — in a move thought to have exacerbated the Great Depression. Now taxes are being raised to support manufacturers.

Selling America

The 90-day pause on U.S. reciprocal tariffs came after a significant move higher in Treasury yields. In the week following "Liberation Day," daily trading volumes averaged $1.6 trillion, up from $671 billion. The 10-year yield rose around 30 bps. The U.S. dollar index fell 3.6%. And the price of gold rose 3.6% to record highs.

45%

Our base-case scenario (i.e., what we believe is most likely, at 45% probability) anticipates a mild U.S. recession this year, with tariffs settling in between 10% and 25%. We think there's a 40% chance it could be better than this, and a 15% chance it could be worse.

$900 Less

Tariffs could increase the cost of living in the U.S. by $3,600 on average, while even the most ambitious tax-cut proposals would lift income by $2,700 — leaving Americans, on average, with $900 less in their pockets.

7.5%

U.S. inflation is expected to rise from 2.8% to anywhere between 3% and 4% by as early as Q2. If inflation were to hit the upper end of that range and remain there for a full year — that is, if the U.S. administration were to dig in on tariffs — it would lift the inflation rate to 7.5% by next year.

+76K > +1K > -33K

That's the trajectory of the Canadian jobs market of late, as hiring comes to a screeching halt. In January, a blockbuster 76,000 jobs were added. Then, a negligible 1,100 jobs in February. Then a decline of 32,500 jobs in March.

50% Defensive

Why has the S&P/TSX Composite Index performed better than the S&P 500 this year? About 50% of its composition is defensive in nature (financials, pipelines, telecoms, consumer staples, utilities) — making Canada the safe haven for once.

The Big "IF"

Economists agree that an ambitious U.S. tariff agenda could severely impact the global economy, but equity analysts don't yet think it will come to that. (Will the end result be less severe than proposed?) Estimates for 2025 and 2026 earnings growth remain in positive territory.

Adaptation

History, Not Headlines

News fed through a firehose of social media posts have led us to fixate on the latest headline, at the expense of deeper understanding. During times of uncertainty, it pays to broaden your perspective by heeding the words of trustworthy advisors.

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%.

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.

Foursquare

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

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.

Be Compensated

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

Reason over Intuition

Propagandists have long used headlines to influence the populace. Now social media is reinforcing that influence a hundred-fold, and it's interfering with investment decisions. Trust the numbers, not the media.

PSQ2.2025 | Executive Summary

House Views

Fixed Income, modest underweight: The outlook for the Canadian economy remains uncertain as U.S. tariffs weigh on consumers and businesses. However, the Bank of Canada has flexibility to respond to a wide array of outcomes, including a reduction of the policy rate to provide support to the economy. As the monetary-easing cycle progresses, we expect bonds to provide diversification benefits, reduce overall portfolio volatility and preserve capital. **Equities, modest overweight:** Global equity markets have been volatile and under pressure over the past month as investors try to gauge the impact of the tariff situation, which remains fluid. We remain overweight equities because we believe some risks have been priced into the market and are constructive over the medium term. **Alternatives, modest overweight:** We believe that an allocation to alternative assets can benefit diversified portfolios, especially when implemented over the long term. Alternative assets can provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams. Given the nature of private asset classes as well as the present phase of value adjustment in several markets and asset classes, we believe that this may be an attractive time to increase or consider an allocation to alternative assets.

Quarter in Review

As of April 11, 2025, the first quarter was marked by rapid shifts in policy, market sentiment, and economic expectations. Tariff shocks, particularly post-February 1, led to volatility, decoupling between the U.S. and Canada, and fears of stagflation. Markets initially downplayed risks, but volatility surged in April, pushing yields higher and raising concerns about global investor confidence in U.S. assets. **A 'Wait and See' economy.** Leading indicators showed weakening sentiment in both the U.S. and Canada before tariffs hit, prompting cautious behaviour from businesses and consumers. Canadian small businesses reported record-low outlooks while U.S. corporate sentiment declined more modestly. Canada's labour market faces structural challenges tied to immigration and underemployment, though sectoral shifts point to rising productivity. Meanwhile, slowing population growth and proposed housing policies could ease affordability issues and spur investment ahead of elections. **Tariffs invite unprecedented volatility**. Tariffs rattled global markets, reversing optimism about a U.S. productivity boom and pushing the equity risk premium (ERP) sharply higher. U.S. stocks fell 8% YTD, reflecting rising risk aversion. Canada fared better due to higher ERP and dividends. Correlations surged, hurting diversification and active strategies. Defensive equity strategies, like low-volatility factors, offered some protection amid growing uncertainty and shifting asset class relationships.

Economics

The U.S. administration imposed a 90-day pause on reciprocal tariffs, dropping all countries (excluding China) to a flat 10% tariff. This comes in addition to the sectoral tariffs, including steel & aluminum and finished autos & parts. **We estimate the effective tariff rate in the U.S. to be 26%**, the highest level in over a century. However, this is skewed by the outsized 145% tariff on China. **Tariff announcements have been almost a daily occurrence, making it difficult to pin down assumptions** let alone a forecast. In the current state, we estimate the U.S. will expand just 1.2% this year but the bands around the forecast are larger than normal. **High and persistent uncertainty breeds recessions**. While we still feel the U.S. economy can skirt a recession, risks to the outlook are increasingly tilted to the downside the longer it takes for the administration to provide a clear operating policy framework for businesses and households.

Fixed Income

In the first quarter of 2025 the focus shifted away from monetary policy to the risk of slower economic growth and higher inflation. Given the high degree of uncertainty, most forecasts will have an extremely short shelf life. We expect volatility to remain elevated given the unprecedented nature of this environment and uncertainty around potential outcomes and policy responses. **We maintain our modest underweight view on fixed income overall** as we believe returns going forward will largely be in line with average historical levels and mainly composed of the coupon. **We hold a neutral view on domestic government bonds**. Canadian government bonds are attractive at current yields and offer opportunities for income generation and downside protection, but we expect yields to be volatile given the uncertain outlook. Importantly, Canadian government bond yields have remained highly correlated to U.S. government yields. **We remain modest overweight on investment grade (IG) credit**. IG spreads are still tight, and we believe Canadian IG corporate bonds, with their slightly wider spreads, are more attractive than U.S. IG. We expect softening economic conditions to widen spreads (indicating the market is pricing in more risk) but only by a modest amount unless the economic slowdown is more severe than expected. We remain focused on high quality credit—companies with robust balance sheets. **We hold a neutral view on high yield (HY) credit.** HY spreads are still tight post the recent widening, reflecting little premium for increased economic uncertainty. We expect HY spreads to widen further if the growth outlook softens although the improved quality of this universe and lower expected net issuance should keep spreads from returning to previous recessionary levels. We continue to favour the higher quality cohort of the HY credit market and floating rate loans.

Equities

In the wake of Donald Trump's re-election in November 2024, U.S. equity markets surged on expectations of pro-business policies, with the S&P 500 reaching record highs by February 2025. However, optimism quickly faded when Trump announced steep tariffs on Mexico and Canada in March, and broader tariffs in April. The market reacted sharply, with the S&P 500 dropping nearly 15% in three days — an event-driven bear market fueled by uncertainty rather than the tariffs themselves. A temporary reprieve on April 9 sparked a major rally, but volatility persisted, making U.S. markets headline-driven and highly reactive. In contrast, Canadian equities outperformed despite facing similar risks. Exemptions for compliant goods under the CUSMA helped Canada avoid the worst impacts, and the S&P/TSX gained 1.5% in Q1 2025. While Canada faces economic headwinds like weaker consumer demand, higher inflation, and job market shifts, its market remains attractive due to defensive sector exposure, solid dividend yields, and relatively lower volatility. Fiscal stimulus potential and strong institutions support resilience. In this uncertain trade environment, a tactical investment approach — avoiding panic selling and capitalizing on strength — is key for navigating ongoing market swings. **Is it too early to bet on international equities?** International equities outperformed U.S. markets in Q1 2025, driven by Germany's fiscal shift and hopes for broader EU stimulus. However, gains faded in April amid U.S. tariff threats and recession fears. Europe's economic recovery remains fragile, with contracting PMIs and industrial output, and China's slowdown adds pressure. **EM prospects amid the Sino-American tug-of-war.** Emerging-market equities outpaced global peers, led by a tech rally in China after DeepSeek's launch. However, concerns over China's structural slowdown and U.S. tariffs kept emerging markets underweight. April saw escalating tensions, with the U.S. and China imposing steep tariffs. These measures could slash GDP in key EM countries and disrupt global trade. While EM valuations remain near pandemic lows, offering downside protection. Investors are urged to stay selective and patient amid volatility.

Private Markets

Exit activity remains muted amid market uncertainty, favouring secondaries and preferred equity. **Private equity.** Private equity markets face headwinds from rising capital costs, muted exits and stagflation fears, driving demand for liquidity solutions like secondaries. With record-high LP-led sale volumes and rising evergreen retail capital, 2025 secondary transaction volumes may exceed $200 billion. A disciplined focus on middle-market buyouts with value-creation potential, co-investments, and diversified mandates remains key. As portfolio rebalancing pressures mount from market dislocations, preferred equity and innovative liquidity tools are gaining appeal.

Despite short-term challenges, long-term NAV growth, conservative valuations and strong GP performance offer resilience. Investors must align with funds that balance complexity, liquidity, and compounding potential while managing risks linked to illiquidity and market recalibration. **Private Credit.** Private credit stands out for its self-liquidating nature, steady cash flows, and resilience during market dislocations. Direct lenders played a key role in refinancing distressed debt and addressing maturity walls, especially as public lending options dwindled. PIK usage rose but remains manageable when used conservatively. Private credit now supports a growing share of refinancing activity, highlighting its strategic role amid tightening conditions and upcoming debt maturities. **Unlisted Assets.** The $21 trillion U.S. commercial real estate market faces mixed dynamics: office remains weak, industrial has softened, while apartments and retail hold steady. Since June 2022, office and retail prices declined, while industrial and apartments showed modest resilience. Investors favour data centres, industrial, and diverse rental housing over office and retail malls.

Currencies

Liberation Day sparked renewed volatility, threatening U.S. Treasuries, boosting gold and euro appeal, and challenging global risk sentiment and correlations. **The world in a nutshell.** The announcement of reciprocal tariffs unleashed volatility, marking a shift from U.S. exceptionalism. Trust is eroding, correlations are breaking, and global markets are repricing. The U.S. dollar faces downside risk versus G10 currencies amid trade tensions and weakening growth. **The Loonie: BoC saving its powder.** The Bank of Canada's steady stance supports CAD, aided by improving positioning and expectations of a weaker USD.

Commodities

Commodity markets reflect fluctuating expectations around global economic growth, trade tariffs, and inflation, leading to swings in prices. Commodities serve as both barometers of economic health and hedges against inflation, reacting to policy shifts like new tariffs and reshoring efforts that disrupt supply chains. At the same time, fiscal expansions by governments worldwide are bolstering demand for raw materials. In the long run, structural forces—ranging from massive infrastructure projects and AI-driven energy needs to global supply chain reconfiguration—create enduring tailwinds supporting the commodity market outlook.

Don't blow at high dough

Brad Simpson, Chief Wealth Strategist | TD Wealth

“When you blow at high dough” rings across the Canadian psyche and is probably as recognizable in the Great White North as “we stand on guard for thee.” Boiled down, it is a warning about being rash. It’s a call to avoid acting impulsively or carelessly when you have a lot riding on something, such as your life savings. The phrase suggests a cautionary approach, urging one to be patient and not overstep the bounds of what’s appropriate at a given stage, like what to do in the middle of financial-market volatility due to a trade war.

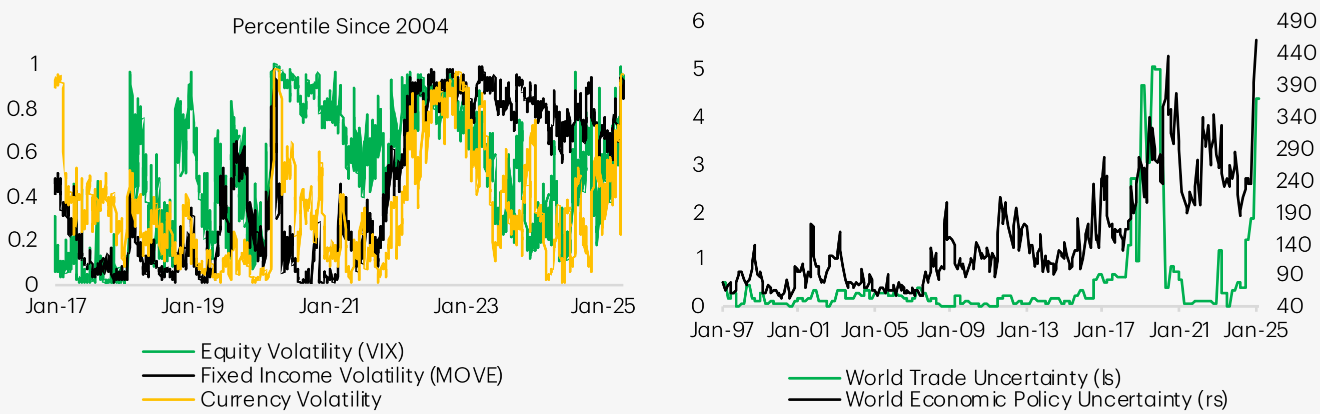
This seems like a great starting point for our *Portfolio Strategy Quarterly* for Q2/2025. What an environment we live in. Every hour brings in new tariffs, tweets — and new contradictions. It’s like we are all living in a bread mixer and the power switch keeps getting intermittently turned on and off.

This is due in no small part to the U.S. government’s constantly changing trade policy. No one wants a trade war, but even worse would be a poorly executed one.

Trade and economic policy uncertainty have spiked (Figure 1), and for once, the market isn’t overreacting; the market’s reaction to U.S. reciprocal tariffs has been commensurate with how extreme they really are. Equity, fixed income and currency volatility has picked up across the board. After being asleep for long periods, the VIX has jumped to 60 in the week following President Trump’s reciprocal tariff announcement and the put/call ratio rose to above one — levels that have historically marked the peak of panic-selling in the market.

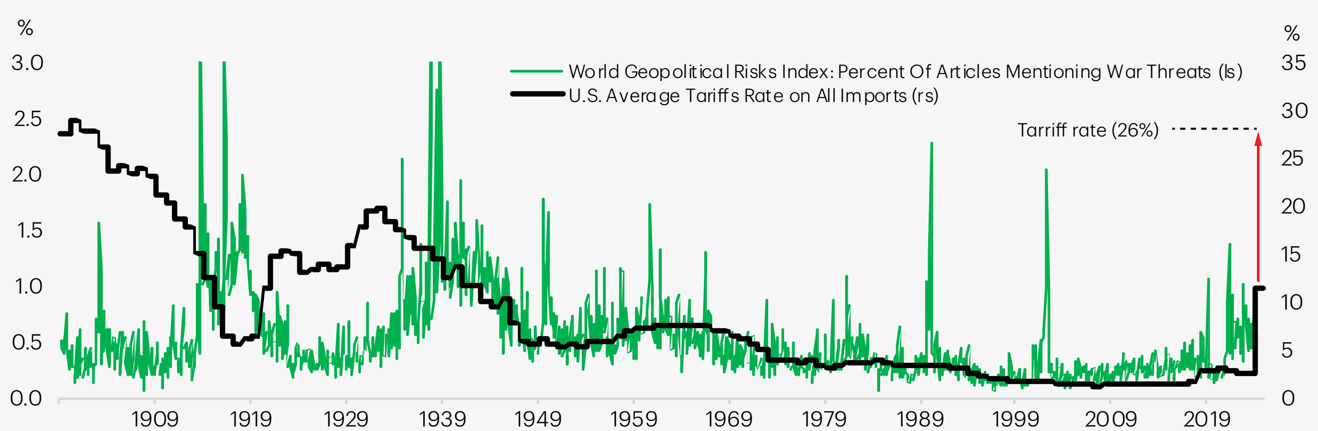
U.S. tariffs are back at levels seen in the 1890s — a century where the confluence of political, economic and intellectual undercurrents led to two World Wars. What we’ve seen in the past month is the largest increase in U.S. tariffs since President Herbert Hoover enacted the Smoot-Hawley Tariff Act in June 1930 (Figure 2), with the initial goal of increasing protection for U.S. farmers who were struggling to compete with imports from Europe, before expanding to other industries.

Figure 1: Poor policy leads to higher volatility



Source: Macrobond, Wealth Investment Office as of April 21, 2025

Figure 2: Welcome back to the 19th Century



Source: Macrobond, TD Economics and Wealth Investment Office as of April 21, 2025

U.S. trading partners around the world retaliated and global trade slumped as much as 66% between 1929 and 1934. And because this happened following the First World War, countries that had relied on exports to fund war reparations were soon enough finding it difficult to meet their obligations. This translated to a deep discontent for many countries, including Germany, which further raised the nationalistic fervour in the years that led to the Second World War.

In the years that followed, the United States more often than not acted as the stabilizer; this time around, the reverse is true. First, financial markets have spoken, with the U.S. equity market taking the brunt of the sell-off in both percentage and dollar terms (Figure 3). The tech-heavy Nasdaq Composite Index has sold off more than S&P 500, and the Mag-7 names have seen a larger correction due to several factors:

1. Crowded positioning alongside the impact of leveraged ETFs that focus on these names (more buying when prices move higher and more selling when prices move lower — amplifying the daily price movement).

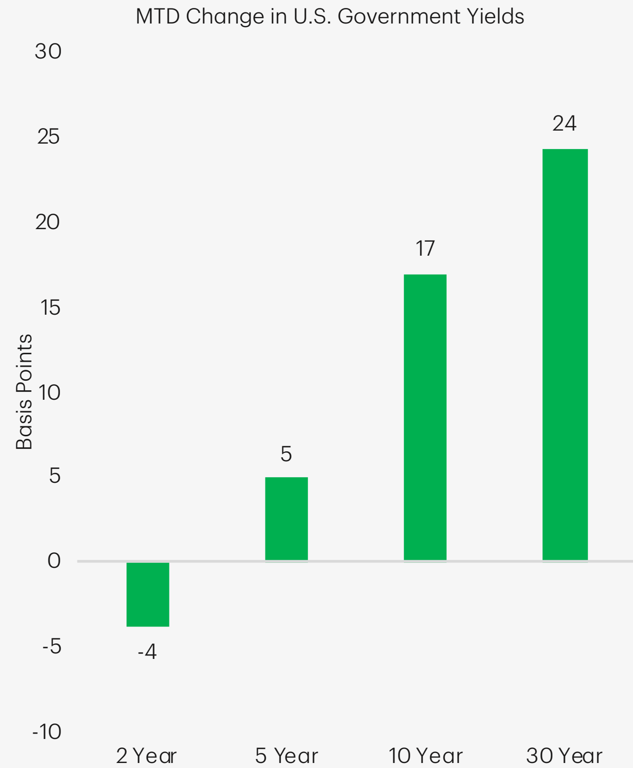
2. Expensive valuation premiums prior to the selloff.

3. Declining confidence in the AI tailwind, with various parts of the AI supply chain impacted by higher prices from tariffs.

Valuation premiums for the Mag-7 stocks haven't been this low since the AI investment theme started to accelerate in 2023. The aggregate Mag-7 currently trade at 25.5x forward earnings versus 20.1x for the S&P 500.

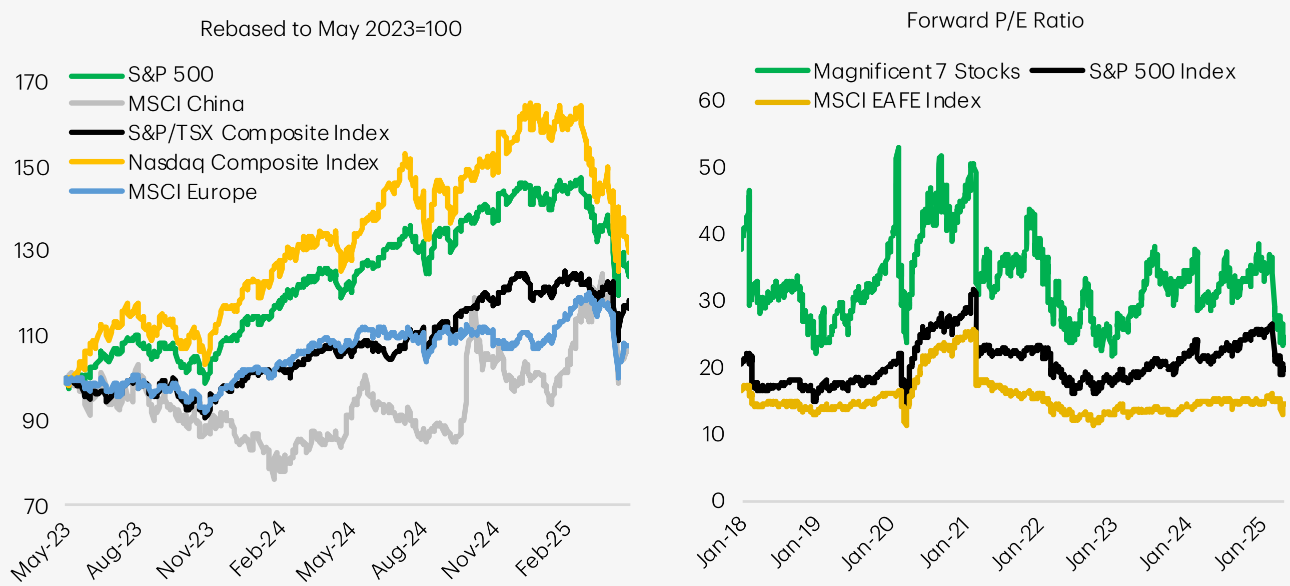
Second, and perhaps most worrisome, is the fact that we saw Treasuries being sold off by global investors in a risk-off environment, undermining their status as a "safe haven" (Figure 4). Even as stocks sold off, bond yields rose (bond prices declined) — reminiscent of the pandemic-induced collapse in 2022.

Figure 4: The 'sell America' trade



Source: FactSet, Wealth Investment Office, as of April 10, 2025

Figure 3: Tech and U.S. markets leading declines



Source: Macrobond, FactSet, Wealth Investment Office as of April 21, 2025

That's not how we expect the equity and bond markets to correlate in the longer run, especially considering the fact that inflation has continued to trend lower. It seems like an understatement, but when it comes to correlations and gyrations in the financial markets, very little of the past month has been normal.

Several factors help to explain why the bond market correlated positively to the equity market during the peak of the trade war escalation:

1. **The technical explanation:**

   Widespread deleveraging apparently sparked by the unwinding of a common hedge-fund strategy known as the "basis trade" and by dealers cutting off financing for this strategy.

2. **The geopolitical explanation:**

   Global central banks selling off their Treasury holdings in retaliation to U.S. tariff policy.

3. **The macroeconomic explanation**:

   Muted demand at Treasury auctions, and market trepidation about fiscal deficits and inflation.

Perhaps it's a bit of all three. The most prominent near-term worry is likely around the removal of "structural demand" for Treasuries, while the longer-term concern is around the unwinding of commonly used trading tactics like the "basis trade," which could lead to persistent forced selling. This is happening as liquidity declines, meaning moves in either direction could be larger than normal, with significant bounces and sensitivity to even relatively innocuous news events.

Third, we have seen the greenback depreciate meaningfully alongside weaker equities and Treasuries (Figure 5). This sort of volatility usually prompts investors to rush for the greenback, given their perception of the world's reserve currency as a safe haven. In fact, the clamour has all been to sell. The greenback's value had already been falling for months relative to a basket of its rich-world peers. With the U.S. becoming a less reliable partner, it is likely that, going forward, the rest of the world will aim to build a trading and financial network that is less U.S.-centric.

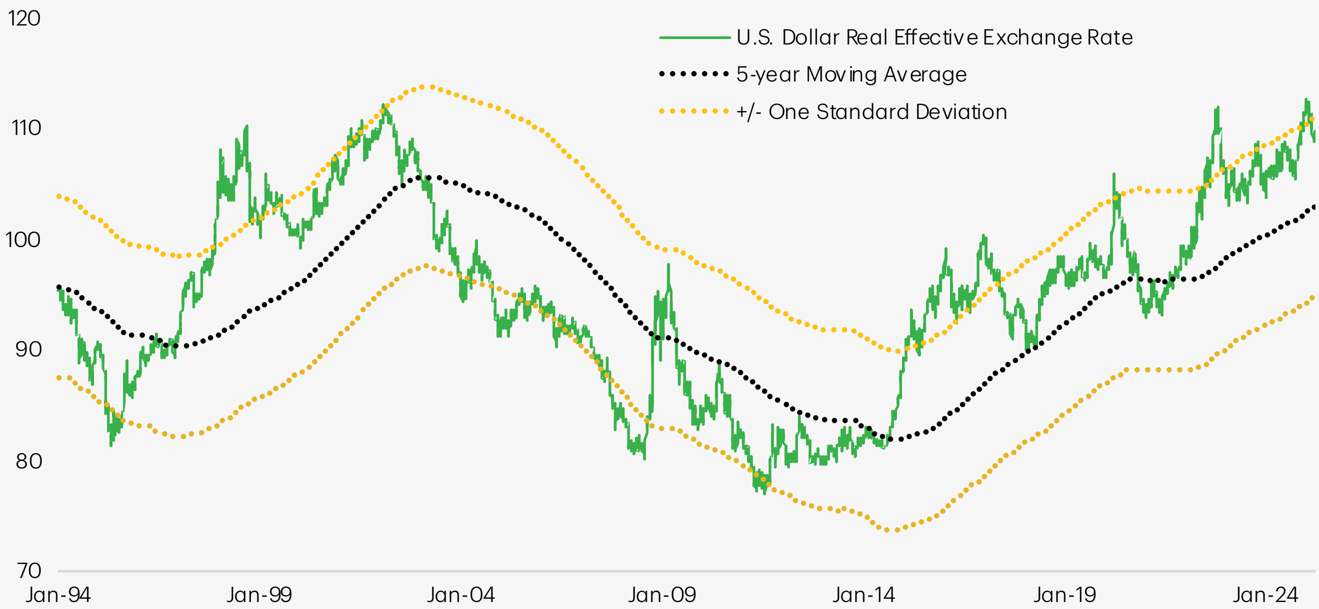
There are also few structural reasons for U.S. dollar weakness in the coming years:

First, the dollar is expensive and overvalued relative to its trading partners, even after adjusting for inflation.

Second, lower trust in the predictability of the U.S. financial system and rule of law will likely see central banks around the world diversify their reserves outside U.S. Treasuries and assets. Gone are the day when central banks pile into Treasuries as their only reserve currency. This could make it more expensive for the U.S. government to borrow and spend and reduce the share of the greenback in global trade invoicing.

Third, the dominance of the U.S. stock market in global equity markets over the past two decades may mark the peak of perceived exceptionalism for U.S. stocks. Long-term investors, including pension funds and sovereign wealth funds, will look to diversify further, which could bode well for international and emerging-market stocks as capital from the U.S. flows to previously overlooked assets.

Figure 5: No one is clamouring for USD



Source FactSet, Wealth Investment Office as of April 21, 2025

All this has been a nerve-rattling experience for even the most composed individuals. So here we are, caught between the chaos that is the now and the longer term, which seems a long period away and provides little comfort in a world where trade between two of the largest global economies has been greatly disrupted and diplomatic ties are stretched to their limits. Volatility is back to crisis levels, and U.S. Treasuries and the dollar are under pressure. Don't forget, tariffs could return in full force in 90 days, and business forecasting is all but impossible. Relief rallies are a sugar high and feel good in the moment, but they don't change fundamentals.

Despite all the chaos and noise, however, we can start to make sense of the U.S. and global economy and create a base case for tariffs, the U.S. economy, the S&P 500 and the equal-weighted S&P 500.

Let's Start with the U.S. Economy

It's clear that the negative impacts of tariffs could upend the U.S. and global economy, which was on the cusp of a business-cycle upturn prior to the U.S. tariff announcement in February. Since then, we have seen businesses pause capital expenditures in anticipation of higher costs and tariffs, and amid elevated uncertainty on future demand. Meanwhile, consumers are pulling back on spending and boosting their savings as the outlook for their income growth and employment deteriorates.

The good news is that U.S. private-sector layoffs have remained relatively muted despite the uncertain demand outlook. This can be seen in the initial and continuing jobless claims, which are still below pre-pandemic averages. Most of the recent layoff announcements in the U.S. have been dominated by the federal government amid DOGE efforts to reduce government spending.

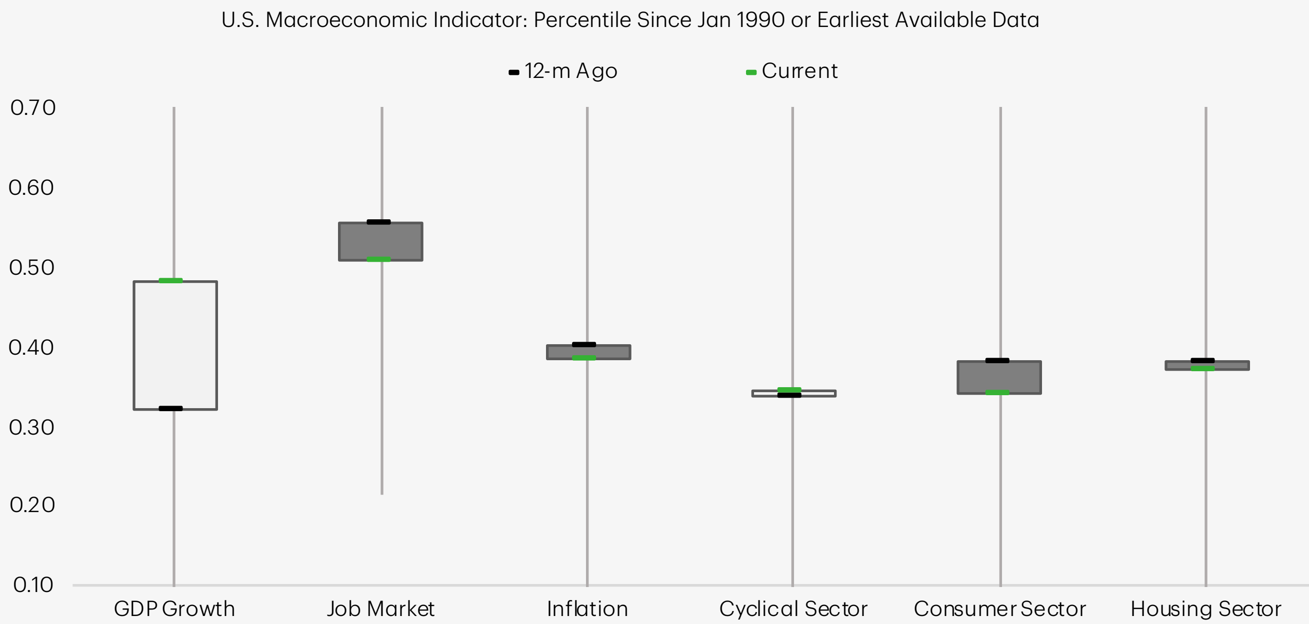
We look at all available U.S. economic and survey data to assess the strength of the U.S. economy today (Figure 6). Real GDP growth, for instance, is still holding up despite the clear risk. The Dallas Fed Weekly Economic Indicator estimates 2.49% growth for the first quarter, higher than the near-zero growth estimate by the Atlanta Fed's GDPNow forecast, which has been distorted by surging gold imports during the quarter.

The U.S. labour market remains in decent health, although it continues to soften. Currently, the aggregate data point to a balanced labour market. Inflation has made decent progress, with March CPI surprising to the downside. The forecasts for inflation are rising on the impact of tariffs, but this could be seen as a one-off price jump (depending on whether it then spurs wage inflation).

Our cyclical sectors indicator had been rebounding prior to the tariffs announcement and is currently unchanged from one year ago. Consumers are pulling back amid deteriorating consumer confidence. Lastly, the housing-sector outlook remains mixed amid high mortgage rates and slowing growth.

That may sound like a hodgepodge of information, but the bottom line is that the U.S. economy was in good health going into all this volatility.

Figure 6: Hard data remain resilient, survey data not so much



Source: Macrobond, Wealth Investment Office as of April 21, 2025

The worry today is that deteriorating global growth will lead companies to start laying off their workers (Figure 7). Given the already normalized U.S. consumer spending and labour market, further softening on either front will not be welcome by the Fed, much less risk assets, because it implies that real GDP growth will run below potential. The Atlanta Fed wage growth tracker, which tracks the benefit of moving to a new job, has largely diminished, reinforcing the view that workers today have less bargaining power.

In addition, the recovery in the U.S. manufacturing sector has been jeopardized by the elevated uncertainty. And fiscal policy through lower government spending could also trigger a domino effect for the private sector, further tipping the balance for U.S. growth into a recession.

Now the Global Economy

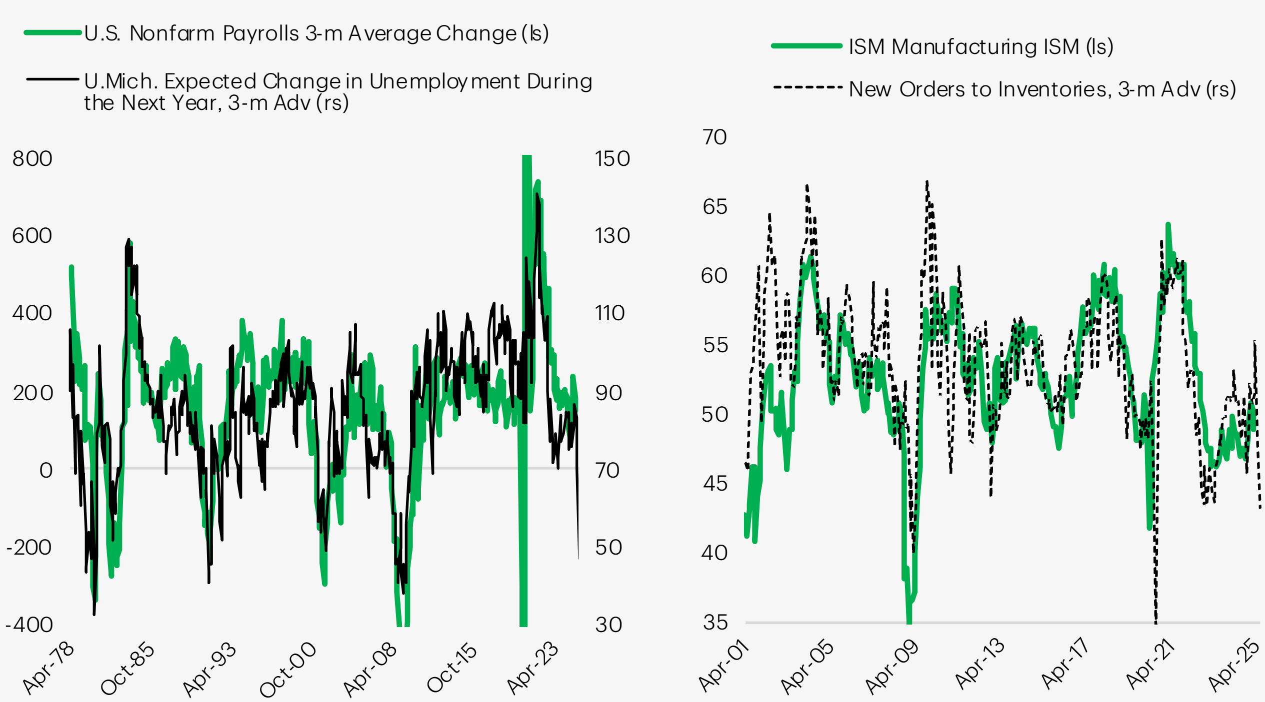
Looking at our global macro indicator, it's a mixed bag. The European and Japanese economies are in better shape, with industrial production accelerating and the labour market staying strong — note the dominance of green and yellow in the international section in Figure 8. This is not the case for Canada, where the broad economic data has been trending weaker. The stronger retail sales and industrial production figures seen over the past three months have a high chance of reverting to weakness now that the impact of the GST break has ended and the effect of tariff front-running has begun to diminish.

Lastly, China's economy has most likely bottomed out. It was already on the path to recovery prior to this trade war, which is expected to cut Chinese real GDP growth by around 2%. Chinese policymakers could be announcing fiscal support for the economy in the coming months if U.S. tariffs are indeed implemented without any significant climbdown in either the breadth of goods covered or the tariff rate itself.

One thing we know is that a protectionist response bodes ill for global growth, and will further fracture the global economic order, which has allowed developing countries to grow faster by orienting their industries to cater to demand from rich, developed ones. This system has allowed countries such as China and India to become emerging economic superpowers, growing at a rapid pace over the past two and a half decades. The current environment also bodes ill for countries trying to become rich through trade, which includes many in Southeast Asia, Africa and Latin America.

With the impact of tariffs expected to hit growth across the world, and monetary policy reaching its limit, fiscal policy will increasingly matter for determining the trajectory of each country's growth outlook. Germany last month announced an enormous injection of stimulus — projected at €1 trillion over 10 years — which is expected to be a structural tailwind for the euro area in the coming decade.

Figure 7: Labour market, manufacturing vulnerable amid tariff uncertainty



Source: Macrobond, Wealth Investment Office as of April 21, 2025

Figure 8: Canadian data deteriorating, Europe and Japan hanging tough

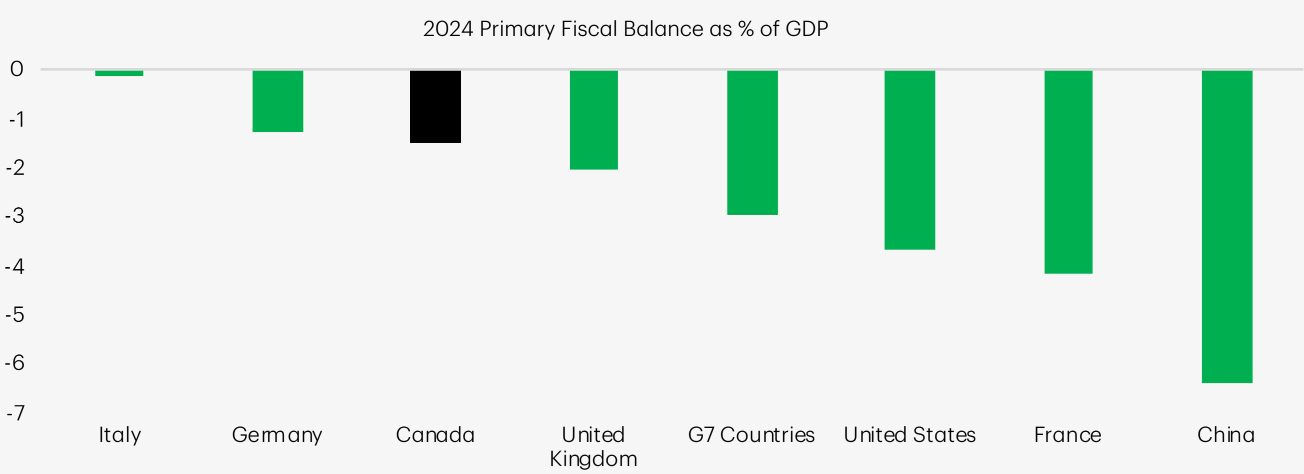
		Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	1-year Change	3-month Change
U.S.	Manufacturing PMI	0.30	0.24	0.19	0.17	0.10	0.12	0.13	0.11	0.16	0.24	0.34	0.30	0.21	↓ -0.09	↓ -0.03
	Non-manufacturing PMI	0.16	0.09	0.35	0.07	0.16	0.17	0.42	0.56	0.22	0.38	0.26	0.32	0.15	↓ -0.02	↓ -0.23
	Industrial Production, %y/y	0.30	0.26	0.34	0.38	0.28	0.31	0.27	0.29	0.26	0.35	0.51	0.44	0.44	↑ 0.14	↑ 0.09
	Retail Sales, %y/y	0.40	0.26	0.23	0.15	0.28	0.15	0.15	0.31	0.47	0.56	0.46	0.33	0.33	↓ -0.07	↓ -0.23
	Unemployment Rate	0.89	0.85	0.82	0.79	0.75	0.77	0.79	0.79	0.77	0.79	0.82	0.79	0.77	↓ -0.12	↓ -0.01
	Job Vacancies, %y/y	0.16	0.08	0.15	0.18	0.19	0.13	0.10	0.20	0.23	0.15	0.21	0.17	0.22	↑ 0.06	↑ 0.07
Canada	Manufacturing PMI	0.42	0.32	0.28	0.28	0.06	0.34	0.47	0.48	0.49	0.50	0.49	0.06	0.01	↓ -0.41	↓ -0.49
	Economic Mood Index	0.27	0.19	0.15	0.32	0.30	0.27	0.41	0.51	0.42	0.11	0.12	0.09	0.08	↓ -0.19	↓ -0.03
	Industrial Production, %y/y	0.59	0.31	0.66	0.12	0.36	0.17	0.45	0.46	0.58	0.14	0.29	0.33	0.57	↓ -0.02	↑ 0.43
	Retail Sales, %y/y	0.12	0.11	0.08	0.07	0.09	0.11	0.09	0.13	0.18	0.37	0.42	0.42	0.42	↑ 0.30	↑ 0.05
	Unemployment Rate	0.87	0.87	0.87	0.74	0.74	0.74	0.65	0.65	0.65	0.59	0.59	0.59	0.63	↓ -0.24	↑ 0.04
	Job Vacancies, %y/y	0.08	0.04	0.05	0.08	0.12	0.13	0.18	0.18	0.16	0.18	0.13	0.16	0.14	↑ 0.06	↓ -0.04
Europe	Manufacturing PMI	0.26	0.16	0.36	0.18	0.18	0.18	0.14	0.25	0.15	0.15	0.32	0.41	0.47	↑ 0.21	↑ 0.32
	Non-manufacturing PMI	0.53	0.71	0.69	0.61	0.55	0.63	0.52	0.53	0.33	0.53	0.52	0.44	0.48	↓ -0.05	↓ -0.05
	Industrial Production, %y/y	0.25	0.13	0.12	0.09	0.18	0.35	0.18	0.25	0.21	0.18	0.36	0.36	0.36	↑ 0.11	↑ 0.18
	Retail Sales, %y/y	0.39	0.40	0.37	0.20	0.32	0.77	0.91	0.70	0.56	0.64	0.62	0.75	0.75	↑ 0.36	↑ 0.11
	Unemployment Rate	0.91	0.91	0.91	0.94	0.94	0.94	0.99	0.99	0.99	1.00	1.00	1.00	1.00	↑ 0.09	→ 0.00
	Job Vacancies Rate	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	→ 0.00	→ 0.00
Japan	Manufacturing PMI	0.16	0.40	0.56	0.52	0.34	0.46	0.45	0.36	0.30	0.40	0.22	0.30	0.19	↑ 0.03	↓ -0.21
	Non-manufacturing PMI	0.90	0.92	0.78	0.35	0.75	0.75	0.71	0.42	0.46	0.52	0.69	0.75	0.42	↓ -0.48	↓ -0.09
	Industrial Production, %y/y	0.22	0.19	0.48	0.16	0.42	0.21	0.28	0.43	0.27	0.22	0.63	0.80	0.80	↑ 0.59	↑ 0.59
	Retail Sales, %y/y	0.37	0.86	0.93	0.66	0.97	0.66	0.55	0.86	0.82	0.84	0.94	0.59	0.59	↑ 0.22	↓ -0.24
	Unemployment Rate	0.83	0.78	0.78	0.87	0.82	0.91	0.91	0.96	0.96	1.00	0.99	0.96	0.96	↑ 0.13	↓ -0.04
	Jobs to Applicants Ratio	0.76	0.74	0.72	0.71	0.72	0.71	0.72	0.74	0.74	0.74	0.74	0.72	0.72	↓ -0.04	↓ -0.01
China	Manufacturing PMI	0.68	0.74	0.80	0.84	0.28	0.38	0.19	0.36	0.76	0.44	0.35	0.54	0.70	↑ 0.02	↑ 0.26
	Non-manufacturing PMI	0.45	0.41	0.61	0.24	0.37	0.31	0.20	0.35	0.27	0.40	0.23	0.25	0.34	↓ -0.11	↓ -0.05
	Industrial Production, %y/y	0.09	0.33	0.15	0.13	0.13	0.09	0.14	0.13	0.14	0.27	0.27	0.27	0.27	↑ 0.18	→ 0.00
	Retail Sales, %y/y	0.09	0.06	0.10	0.06	0.08	0.06	0.09	0.13	0.09	0.10	0.10	0.10	0.10	↑ 0.01	→ 0.00
	Unemployment Rate	0.53	0.90	0.90	0.90	0.53	0.32	0.68	0.90	0.90	0.68	0.68	0.21	0.21	↓ -0.32	↓ -0.47

Source Macrobond, FactSet, Wealth Investment Office as of April 21, 2025

This is one of the reasons, along with Europe's improving economic outlook, that capital flows to European assets has been rising this year. Canada will likely announce similar measures following the election later this month (Figure 9).

For the U.S., the fiscal outlook depends on whether President Trump is able to bring forward the tax cuts he has envisioned for the second half of this year, offsetting growth headwinds generated by his tariff strategy.

Figure 9: Fiscal stimulus set to increase outside the U.S.



Source: Macrobond, Wealth Investment Office as of April 21, 2025

Now Let's Tackle the Three Big Questions:

1. What will happen with the tariffs?
2. Will there be a U.S. recession?
3. What is the outlook for the S&P 500?

Scenario Breakdown for Tariffs		
Bull Case (40% probability)	**Base Case** (45% probability)	**Bear Case** (15% probability)
Less than 10% in U.S. tariffs imposed on average This was our original base case: on average a 10% across-the-board U.S. tariff rate, with some variation across countries and likely higher tariffs on Chinese goods. It would represent a significant climbdown from the tariffs announced so far, which is possible if efforts at diplomacy and negotiation lead to reduced "reciprocal tariffs" and exemptions for goods categorized as critical for the U.S. economy.	**10% to 25% in U.S. tariffs imposed on average** This scenario would still mark a significant increase in the average U.S. tariff rate, from around 3% previously. Chinese goods imports saw a much larger tariff rate than the rest of the world given the strategic competition between the U.S. and China, and efforts by the U.S. administration to decouple the world's largest and second-largest economies. So far, exemptions for China have been narrower in scope and negotiations have yielded limited results in lowering the tariff rate.	**Greater than 25% in U.S. tariffs imposed on average** President Trump's administration maintains its announced tariffs rate for all countries following the 90-day pause of reciprocal tariffs, with limited exemptions. Negotiations break down as many countries refuse to yield to U.S. demands and the trade war escalates.

Scenario Breakdown for U.S. Recession		
Bull Case (40% probability)	**Base Case** (45% probability)	**Bear Case** (15% probability)
U.S. economic slowdown but no recession The U.S. economy grows below its 2% trend as businesses and consumers pull back on investment and spending, but the labour market stays firm and the economy muddles through for the rest of the year.	**Mild U.S. recession** U.S. real GDP growth turns negative on a q/q basis as the impact of higher tariffs hit corporate profit and real disposable income growth. The labour market weakens, and unemployment rises above 5%, forcing the Federal Reserve to cut rates faster than currently expected.	**Typical U.S. recession** U.S. real GDP growth turns negative for several quarters in a row as uncertainty reigns. The unemployment rate rises above 7%. Both businesses and consumers drastically slow their investment and spending amid uncertain U.S. and global economic outlooks.

Scenario Breakdown for the S&P 500		
Bull Case (40% probability)	**Base Case** (45% probability)	**Bear Case** (15% probability)
Elevated uncertainty and tariffs have negative but limited impact on S&P 500 earnings as companies rejig their supply chains and benefit from tariff exemptions. EPS grows 3% to 13%, while valuations remain between 18x and 20x. This translates to an S&P 500 range between 4,950 and 6,035.	U.S. companies see a moderate increase in their input costs as tariffs raise the cost of imported goods, dragging profit margins lower. Meanwhile, the slowdown in U.S. and global economies weighs on revenue growth. EPS could fall as much as 7%, while valuations decline to their historical average between 16x and 18x. This translates to an S&P 500 range between 4,000 and 4,950.	U.S. recession and chaos in global supply chains lead to significant compression in profit margins and a slowdown in top-line growth. EPS declines 20% and valuations also fall to between 14x and 16x, translating to an S&P 500 range between 3,100 and 4,000.

Scenario Breakdown for the Equal-Weighted S&P 500		
Bull Case (40% probability)	**Base Case** (45% probability)	**Bear Case** (15% probability)
Elevated uncertainty and tariffs have negative but limited impact on S&P 500 earnings as companies rejig their supply-chain and benefit from tariff exemptions. EPS grows 2% to 12%, while valuations remain between 18x and 19x. This translates to an equal-weighted S&P 500 range between 7,550 and 8,750.	U.S. companies see a moderate increase in their input costs as tariffs raise the cost of imported goods, dragging profit margins lower. Meanwhile, the slowdown in the U.S. and global economies weighs on revenue growth. EPS could fall as much as 8%, while valuations decline to their historical average between 16x and 18x. This translates to an equal-weighted S&P 500 range between 6,050 and 7,550.	U.S. recession and chaos in global supply chains lead to significant compression in profit margins and a slowdown in top-line growth. EPS declines 20% and valuations also fall to between 14x and 16x, translating to an equal-weighted S&P 500 range between 4,720 and 6,050.

For clarity, these scenarios are simply here to provide a foundation in an environment where there is a lot of noise. The outcomes are numerous as are the ranges. We have low conviction on whether the announced tariffs will be here to stay. Countries that are hit hard by the tariffs will likely be among the first ones to reach out to the U.S. government to negotiate, as we have seen with Vietnam and Cambodia. Meanwhile, governments all around the world will try to cushion their economies and domestic exporters by providing fiscal stimulus.

The situation is highly fluid, with President Trump opening the room for bilateral negotiations, and many countries now incentivized to reduce their trade deficit with the U.S. by buying more from U.S. producers. During President Trump's first administration, China agreed to buy $200 billion of U.S. goods over two years, although this was disrupted by the pandemic and never fulfilled. European countries could also promise to buy more U.S. natural gas. On the flip side, the EU could use a stick and impose levies on U.S. digital companies if negotiations with Donald Trump fail, expanding the transatlantic trade war to services. This could include a tax on digital advertising revenues that would hit tech groups such as Meta, Google and Facebook.

TD Economics has reduced its U.S. GDP forecast for 2025 from 1.9% to 1.2%, thus avoiding a recession forecast but pointing out that "high and persistent uncertainty breeds recessions." Further, economists at TD rightly note that "point estimates in the current environment need to be taken with a massive grain of salt. The tariff landscape is shifting under our feet on an almost daily basis, with meaningful implications for both the growth and inflation outlook."

We think markets will err on the safe side, and so we have made mild recession our base case. Our base case for the S&P 500 is lower than where we are today, but we have made no secret about our belief in allocating capital towards the equal-weighted index, which is more attractive. This view combined with stock-picking still creates many opportunities in this tumultuous environment.

Lastly, we continue to be modest overweight Canada, which, year-to-date, has been a good decision as the S&P/TSX Composite has outperformed the S&P 500, NASDAQ, and the MSCI Global Indices (Figure 10).

Now, for clarity, as a Canadian, and a Canadian investor, there is much to be concerned about. As one of the most interest-sensitive developed countries – with high household debt and large proportion of cyclical sectors in the economy – Canada has recorded disappointing growth for a long time. Our open economy and dependence on energy exports put Canada in a fragile state compared to consumer-heavy economies such as the U.S. Moreover, Canada is facing a wide range of domestic issues from housing affordability to intra-provincial trade barriers that hamper growth and chronically low producity. Despite these concerns, we believe there are many more reasons to maintain a modest overweight investment thesis for Canada.

Canadian Economy: Recession is not inevitable; inflation higher, but anchored; labour market is under pressure, but resilient as the is the consumer, monetary policy and fiscal policy will have a positive impact.

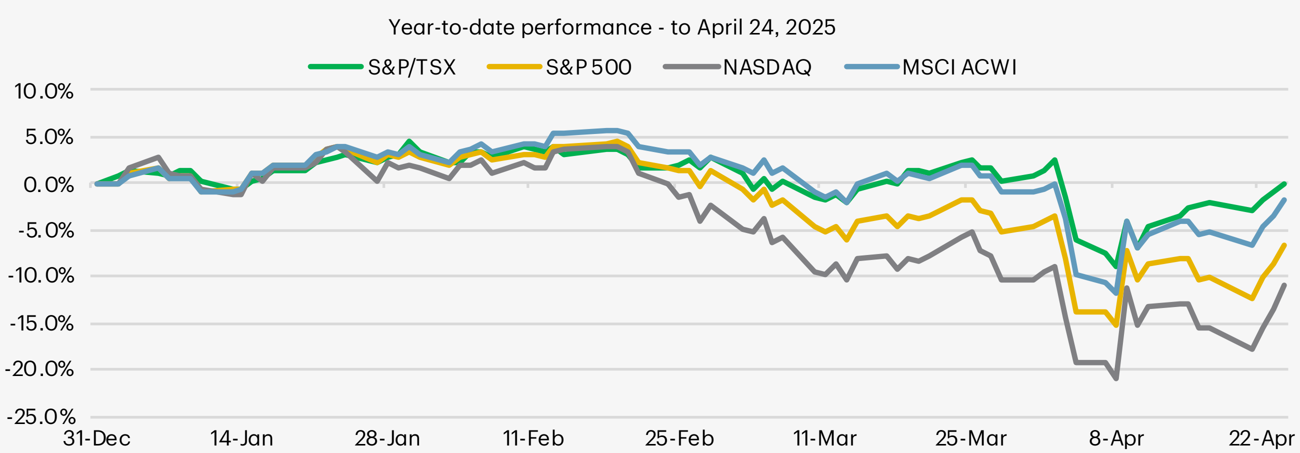
Safe Haven: Canada is a stable, transparent, and low-risk political and regulatory environment

Fixed Income: Canada holds a AAA credit rating. All-in yields remain attractive, potential capital gains with two BoC cuts and policy rates to end the cycle at around 2.25%

Equities: Earnings growth for 2025 remains attractive, currently around 9%, which is on par with earnings growth expectations for the S&P 500, but with the TSX trading at a much lower valuation. More than 50% of the TSX's weight is in defensive, lower-beta (generally less volatile), income generating sectors like financials, pipelines, telecoms, consumer staples, and utilities.

Infrastructure: Decades of underinvestment in Canada means today's scenario offers a meaningful opportunity.

Figure 10: S&P/TSX Composite Outperforms



Source: FactSet, Wealth Investment Office as of April 24, 2025

To Summarize:

U.S. hard data remains relatively resilient, in contrast to soft survey data. Fiscal stimulus will increase for the rest of world.

We will continue to see sustained volatility in government yield markets while the shifting world trade scenarios play out.

The most likely scenarios for tariffs are: (1) 10% to 25% on average – a significant increase in the average U.S. tariff rate, from around 3% previously; (2) They remain in place, and a recession happens; and (3) They remain in place in some volatile form while businesses and households continue to invest and spend, so the economy muddles through.

We expect that we may continue to see questions about the safe-haven status of U.S. Treasuries, in spite of the diversification benefits that they will undoubtedly continue to provide.

The fear of a global trade war has led market participants to think with their amygdala instead of their frontal cortex. Remember, over a 10-year period, it is almost impossible to lose money.

We would classify this is as an event-driven bear market. Don't sell into panic; the market provides repositioning opportunities. An environment well suited for long/short and hedging strategies.

Diversification into commodities is paying off.

Things are changing fast, and the volume is high, but over the long run, diversification wins.

Adaptive Thoughts

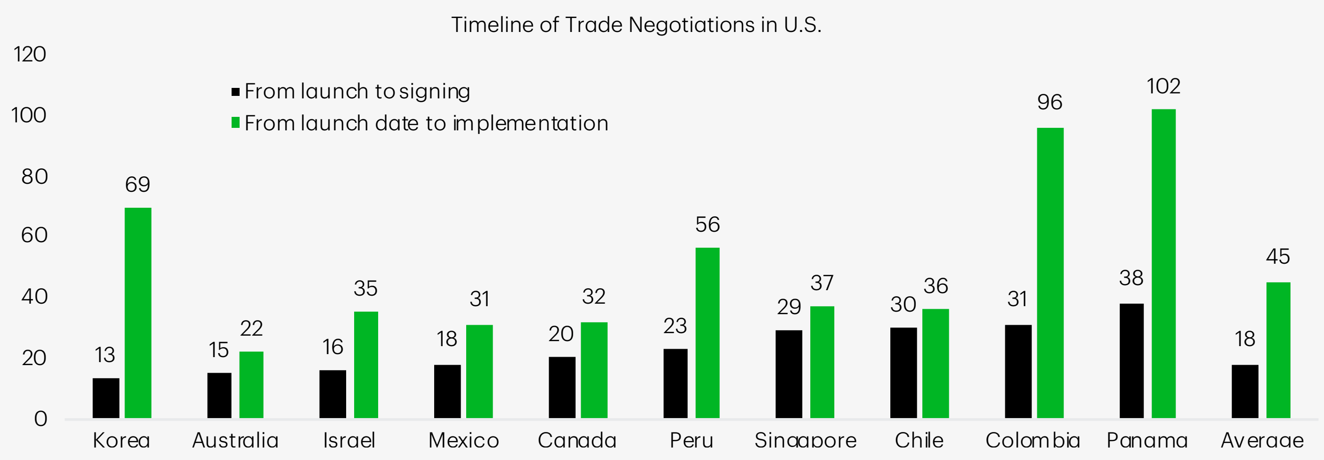
Tariffs, and the trade war at its heart, has led to heightened uncertainty for Canadians, who are understandably on edge. Figure 11 would suggest that Canadian investors need to be in this for the long-haul. A look at the negotiation period for 20 U.S. trade agreements reveals interesting details about the actual process. On average it takes one and a half years to negotiate a trade agreement with the United States but over three and a half years to reach the implementation stage, though there is a lot of variation.

Concern isn't limited to tariffs, either. Inflation is resurfacing once again worldwide — reflected both in CPI readings and rising expectations amid uncertain trade conditions. Further, trust in the predictability of the U.S. financial system and rule of law has come into question, something that was near unthinkable not so long ago. As we wrote last quarter: Things have changed.

Investors are often prone to tunnel vision. We only see what's in front of us, and that's particularly true when those things happen to be trade war, inflation and a destabilized geopolitical environment.

In a portfolio-management context, "Don't blow at high dough" means that tactical or dynamic shifts should only be made at the margin, in an intentional and risk-controlled manner. Remember, financial-market dynamics are driven by our interactions as we learn to adapt to each other, as well as to the social, cultural, political, economic and natural environments we live in. Investors need to be able to adapt in times like this, and adaptation is what we do. 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. I'm confident that we will profitably navigate this environment together as well.

Figure 11: Trade agreements take time



Source: Peterson Institute of International Economics (published in a paper in July 2016), Wealth Investment Office as of April 25, 2025

Our Positioning

Cash – Modest Underweight. While we continue to maintain a modest underweight position on cash, we acknowledge that tactical cash may be slightly higher than previously in order to take advantage of tactical opportunities in markets given the high level of volatility.

Fixed Income - Modest Underweight. While we continue to maintain a modest underweight view of Fixed Income overall, we continue to believe that bonds will provide diversification benefits, reduce overall portfolio volatility and preserve capital during this time of heightened uncertainty. We continue to prefer Canadian fixed income investments as the Bank of Canada has the flexibility to respond to a wide array of possible developments, including additional rate cuts to support the Canadian economy. Overall, we believe returns will be in–line with the current yields, in the mid-single digit range, which are reasonably attractive when compared to historical levels. At the same time, it's important to note that we expect bond markets will remain relatively volatile given the current environment.

Equities - Modest Overweight. The performance of global equity markets in 2025 has been quite mixed, with U.S. equities declining into bear market territory, which follows exceptionally strong performance in 2023 and 2024. While the risk of slower economic growth is weighing on the outlook for equities, we continue to maintain a modest overweight view as we continue to expect positive earnings growth as the U.S. administration shifts from the negative influence of the trade war to pro-growth policy such as tax cuts and deregulation. With the recent pullback in North American equity markets, valuation levels have also become reasonable. At the same time, we have also seen various policy actions in a number of global regions that will also provide support to global equity markets.

Alternatives - Modest Overweight. In times like this, when the outlook is uncertain and volatility is high, an allocation to alternative assets will provide enhanced diversification benefits to portfolios. While we always highlight the importance of proper diversification and the attractive attributes of various alternative assets such as private assets, long-short strategies, infrastructure, etc, it is even more important in today's environment. Alternative assets can provide attractive absolute returns at a time when financial markets are volatile.

- Private Equity: Given that expectations for policy deregulation and looser financial conditions have evaporated for the near-term, liquidity is even more top-of-mind for private equity investors. This continues to bode well for secondaries and curated preferred-equity structures that provide an off ramp for LPs and GPs.

- Private Credit: As we are dealing with heightened geopolitical risk, unsustainable deficits, and stickier inflation, investors should investigate whether annual distributions in the high-single digits are conservative. Look for healthy leverage, senior secured positions, low non-accruals, and payment in kind (PIK) for the right reasons, such as annual recurring loans to fast growing software companies or opportunistic credit.

- Real Assets: This category is very nuanced and based on specific assets and markets. We like portfolios that are focused on assets with structural tailwinds and constructive contracting.

Commodities - Modest Overweight. A changing world order also provides an opportune environment for commodities. Not only will reorganization of supply chains and military expansion necessitate significant infrastructure investments, resulting in increased demand for energy and industrial metals, but doing so by running large fiscal deficits further pushes the world down the path of continued monetary debasement. In addition, the lack of investment over the past decade across the commodity space, growing power demands from AI and the energy transition, and ageing infrastructure across the develped worls are all tailwinds for commodities.

Leading Macro Indicators

Overall Risk Regime Scores Deteriorate in Q1

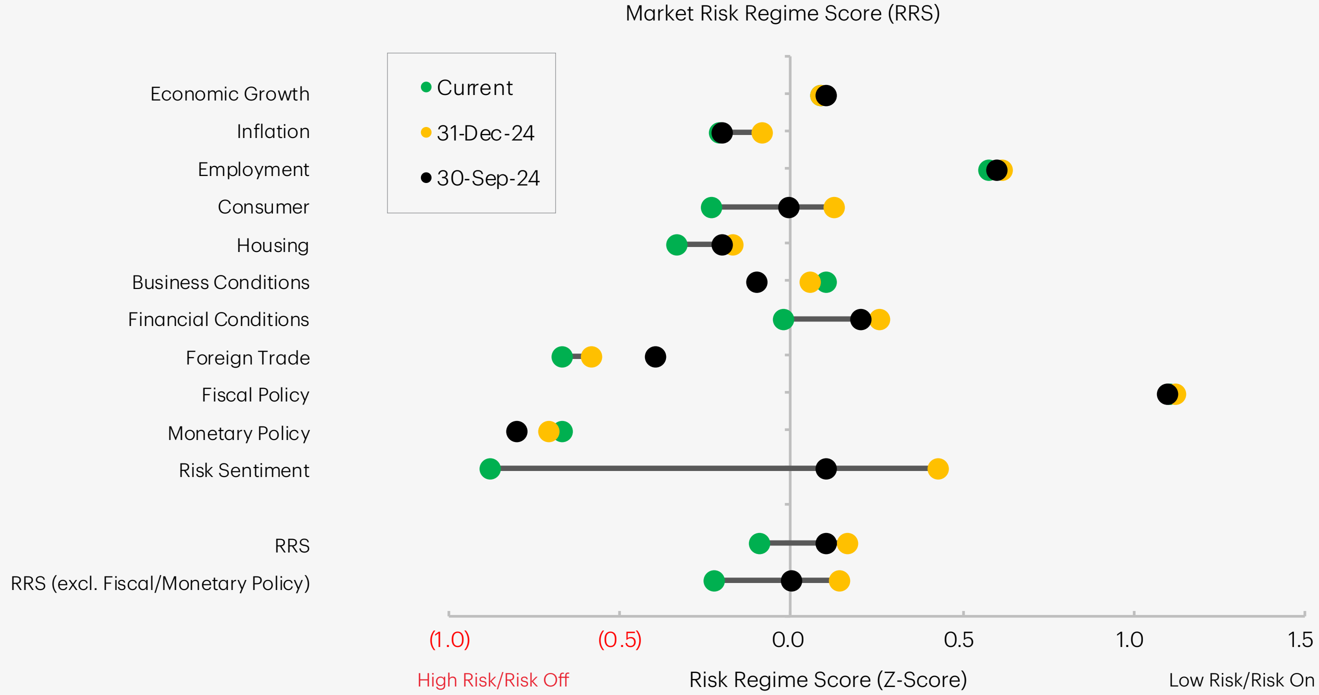
As part of our process-driven approach to investment management, we monitor key U.S. variables that inform our understanding of the risk and macroeconomic environment. For each indicator we calculate current values and compare them against recent trends and long-term data using a standardized approach that makes it possible to form an aggregate score. Figures 1 and 2 summarize the overall condition and aggregate score of the indicators.

Figure 1: Market risk regime scores

Indicator	Overall Condition	Current	Dec-24	Sep-24	Jun-24
Economic Growth	Neutral	0.1	0.1	0.1	0.1
Inflation	Neutral	(0.2)	(0.1)	(0.2)	(0.2)
Employment	Strong	0.6	0.6	0.6	0.6
Consumer	Neutral	(0.2)	0.1	0.0	(0.1)
Housing	Weak	(0.3)	(0.2)	(0.2)	(0.1)
Business Conditions	Neutral	0.1	0.1	(0.1)	0.0
Financial Conditions	Neutral	0.0	0.3	0.2	0.2
Foreign Trade	Weak	(0.7)	(0.6)	(0.4)	(0.5)
Fiscal Policy	Strong	1.1	1.1	1.1	1.1
Monetary Policy	Weak	(0.7)	(0.7)	(0.8)	(0.9)
Risk Sentiment	Weak	(0.9)	0.4	0.1	0.4
Risk Regime Score (RRS)	**Neutral**	**(0.1)**	**0.2**	**0.1**	**0.1**
RRS (excl. Fiscal/Monetary Policy)	**Neutral**	**(0.2)**	**0.1**	**0.0**	**0.1**

Source: FactSet, Wealth Investment Office as of March 31, 2025

Figure 2: Change in market risk regime scores



Scores represent number of standard deviations away from long-term average.
Source: FactSet, Wealth Investment Office as of March 31, 2025

At the end of Q1 the overall Market Risk Regime Score deteriorated amid a sharp decline in risk sentiment. During the quarter, the U.S. and global equity markets sold off amid concerns surrounding the potential impacts of U.S. tariffs and the worsening consumer outlook while investors rotated into safe-haven assets and looked to purchase bonds, which tightened financial conditions. The scores for fiscal policy and employment stayed strong while foreign trade and monetary policy remained weak.

The following are notable changes for Q1 compared to Q4 2024:

- Risk sentiment, which slumped from +0.4 to -0.9, exerted the biggest drag on the overall risk score in Q1. Volatility for equities and bonds rose throughout Q1 while investor sentiment deteriorated as stock prices fell. Concerns surrounding the U.S. tariffs have soured the appetite for risk assets, many which were trading at elevated valuations at the start of Q1.

- Monetary policy, foreign trade, and housing remained weak in Q1. The Fed paused its policy rate cutting cycle and broad money supply continued grow, albeit at a rate slower than the historical average. At the end of Q1, the score for monetary policy sat unchanged at -0.7. The score for foreign trade fell slightly from -0.6 to -0.7 at the end of Q1 amid the front running of tariffs that increased the U.S. current account deficit. The elevated policy rate and potentially lower economic growth weighed on sentiment for the housing market, with the overall condition for housing slipping from -0.2 to -0.3 at the end of Q1.

- Scores for employment and fiscal policy remained in positive territory. The labour market has normalized and the unemployment rate ticked higher while still remaining at a relatively low level. The hiring and quits rate slipped below the pre-pandemic level, however, despite the volatility in the markets there is little sign that companies are actively laying off workers. The score for employment was unchanged at +0.6 in Q1. Our fiscal policy score also sat unchanged at +1.1 at the end of Q1; U.S. government spending continues to support economic growth and the government fiscal deficit is forecast to stay elevated under President Trump administration.

- Consumer and financial conditions worsened in Q1. The score for consumer fell from +0.1 in Q4 to -0.2 at the end of Q1 as consumer sentiment surveys deteriorated and spending was pulled back. Volatility across various asset classes rose while corporate bond spreads also widened as investors demanded a higher risk premium for holding risk assets. The score for financial conditions declined from +0.3 at the end Q4 to 0.0 in Q1.

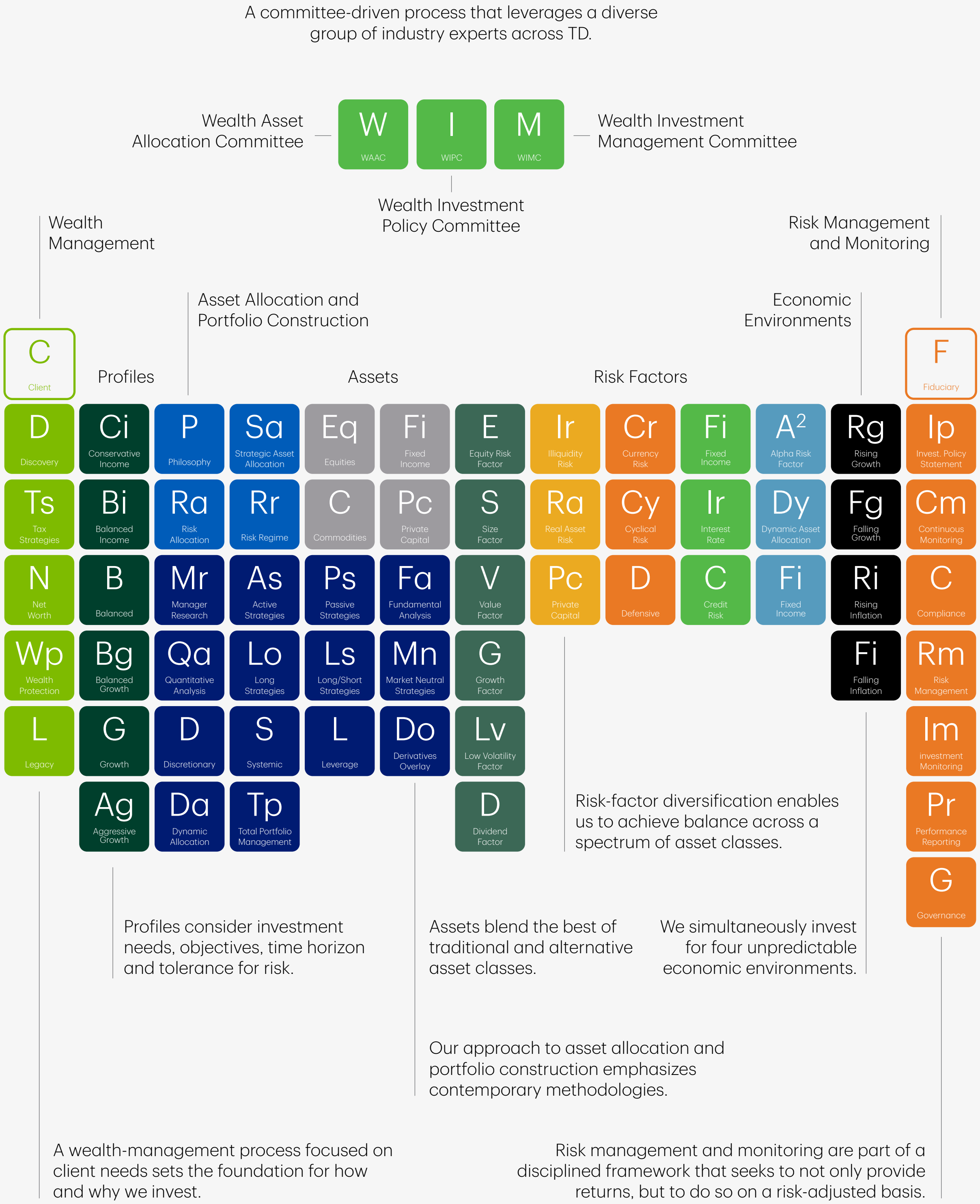
- Economic growth, inflation, and business conditions were all relatively unchanged and remained at a neutral condition overall in Q1. The score for economic growth remained at +0.1, but economists have highlighted that U.S. tariffs will increase the downside risk to GDP growth estimates. The score for inflation fell from -0.1 to -0.2 in Q1, as rising concerns about the larger than expected impact of U.S. tariffs on imported goods overshadowed the progress made to curb inflation. Business conditions remain around trend—unchanged at +0.1 at the end of Q1—with negative developments in private investment growth offset by rising industrial production.

Broad conditions for risk assets deteriorated in Q1, driven by the sharp decrease in risk sentiment and the decline in scores for consumer and financial conditions. Scores for employment and fiscal policy are expected to move lower as the U.S. economy enters a period of slower growth in the coming quarters and President Trump's administration aims to reduce federal government spending. Although the macroeconomic outlook currently sits around neutral, further deterioration is likely if the trade war escalates and U.S. import tariffs are implemented over a prolonged period.

Elements of Wealth Management

Investors are often left to make decisions without any formal process. Our solution? Follow an investment philosophy — a guiding set of principles designed to work in a world that's constantly changing, often with dramatic impact on financial markets. At TD Wealth, we call that philosophy "Risk Priority Management," and it provides the foundation for our decision-making process. That process is then broken down into its most basic components, similar to a periodic table of elements, as illustrated below, with groupings and weights. These components comprise our entire process, from wealth management to risk management to monitoring. All in all, there are 72 "elements" that fall into eight categories.

Figure 1: Elements



Wealth Asset Allocation Committee

The TD Wealth Asset Allocation Committee (WAAC) is composed of a diverse group of TD investment professionals. WAAC's mandate is to consider the financial-market environment and provide direction and themes for equities, fixed income, real assets and sub-classes for the next six to 18 months.

Considers the financial-market environment and provides direction and themes

Utilizing risk factors to manage exposures, we build and manage portfolios that blend the best of traditional and alternative asset classes.

Committee members:

David Sykes, CFA .... Chief Investment Officer, TD Asset Management Inc (Chair)

Michael Craig, CFA ....Managing Director & Head of Asset Allocation & Derivatives, TD Asset Management Inc.

Anna Castro .... Managing Director, TD Asset Management Inc.

Justin Flowerday, CFA ....Head of Public Equities, TD Asset Management Inc.

Jennifer Nowski, CFA .... Vice President & Director, TD Asset Management Inc.

Michael Augustine CFA............................ Managing Director & Head of Fixed Income, TD Asset Management Inc.

Alex Gorewicz...Vice President and Director, TD Asset Management Inc.

Colin Lynch ....Managing Director and Head of Global Real Estate, TD Asset Management Inc.

Bruce MacKinnon .. Managing Director, Head of Private Debt Research & Origination, TD Asset Management Inc.

Kevin Hebner, Ph.D. .... Managing Director, Epoch Investment Partners, Inc.

William Booth, CFA. .... Managing Director, Epoch Investment Partners, Inc.

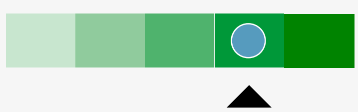
Brad Simpson, CIM, FCSI... Chief Wealth Strategist, Wealth Investment Office, TDW

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

Bryan Lee, CFA .... Vice President & Director, TD Asset Management Inc.

Direction from WAAC

Core Asset Class Allocations

	Positioning	Rationale
Cash & Equivalents	**Modest Underweight**  Previous Month	We are underweight Cash as in a declining rate environment the other asset classes should provide more attractive returns.
Fixed Income	**Modest Underweight**  Previous Month	The outlook for the Canadian economy remains uncertain as U.S. tariffs weigh on consumers and businesses. However, the Bank of Canada (BoC) has flexibility to respond to a wide array of outcomes, including lowering the policy rate to provide support to the economy. As the monetary easing cycle progresses, we expect bonds to provide diversification benefits, reduce overall portfolio volatility and preserve capital.
Equity	**Modest Overweight**  Previous Month	Global equity markets have been volatile and under pressure over the past month as investors try to gauge the impact of the tariff announcements, which remains a fluid situation. We remain overweight equities as we believe some risks have been priced into the market and are constructive over the medium term.
Alternatives	**Modest Overweight**  Previous Month	We believe that an allocation to alternative assets can benefit diversified portfolios especially when implemented over the long-term. Alternative assets can provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams. Given the nature of private asset classes as well as the present phase of value adjustment in several markets and asset classes, we believe that this may be an attractive time to increase or consider an allocation to alternative assets.

Maximum Underweight | Underweight | Neutral | Overweight | Maximum Overweight

Fixed Income - Modest Underweight

	Positioning	Rationale
Domestic Government Bonds	**Neutral**	The Canadian economy continues to face headwinds due to U.S. trade policy. The BoC can remain patient in the near term but has the flexibility to quickly lower its policy rate to provide support to the economy. This would result in a steepening of the yield curve as shorter rates would likely fall faster than longer rates.
Investment Grade Corporate Credit	**Modest Overweight**	Investment grade spreads remain tight overall and reflect a modest softening of the global economic backdrop. We see Canadian investment grade corporate bonds as more attractive than U.S. investment grade corporates as spreads in Canada continue to be meaningfully wider.
High Yield Credit	**Neutral**	All in yields remain attractive although spreads are near historically tight levels and provide little protection from a broader deterioration in credit conditions, weakening consumers or higher Treasury yields. While this is a concern, we see limited scope for these negative drivers to materialize meaningfully in the near-term. As a result, we remain neutral on high yield bonds and continue to find value in the mid to higher quality cohort of the market as well as leveraged loans which can provide incremental yields over high yield bonds.
Global Bonds Developed Markets	**Neutral**	Global bond markets are struggling to find direction as investors grapple with the impact of U.S. tariffs on inflation, fiscal deficits, global trade, and currency dynamics. We expect opportunities across developed market bonds to vary over the next 12 to 18 months.
Global Bonds Emerging Markets	**Modest Underweight**	The recent strengthening of the U.S. Dollar ("USD") has led to a challenging environment for emerging markets, particularly those with large U.S. denominated liabilities. Furthermore, the threat of tariffs along with sluggish economic growth outside of the U.S. will cause uncertainty to remain elevated.

Equities - Modest Overweight

	Positioning	Rationale
Canadian Equities	**Modest Overweight**	The positive impact of BoC rate cuts and potential shift in fiscal and business policy pending the outcome of the Canadian federal election, could provide some economic offset to the uncertainty of trade negotiations with the U.S. The S&P TSX Composite Index (TSX) potential returns are supported by the strong financial position of the Financials and Resource sectors, reasonable valuation, and expected 2025 earnings growth.
U.S. Equities	**Modest Overweight**	The U.S. equity market valuation has contracted this year on concerns about the impact of U.S. trade policy uncertainty and some skepticism on the long-term development trajectory of AI and datacenters. This, combined with some broadening out of returns, can create opportunities. The U.S. market continues to generate positive earnings growth overall.
International Equities	**Modest Underweight**	International equities have rallied YTD as multiples rebounded from low levels and Germany announced a major fiscal stimulus plan. However, this will take time to implement, earnings growth is low, and tariff risks remain. Japanese equities look attractive on a relative basis with momentum building behind corporate reform but there may be volatility as the Bank of Japan looks to continue raising rates.
Emerging Market Equities	**Modest Underweight**	Emerging Markets (EM) central banks, Mexico, South Korea, and Chile, have been cutting rates. EMs might face challenges from potential changes to U.S. trade and tariff policies. China continues to struggle with challenges in its property sector, and now U.S tariffs, but has announced monetary stimulus that could provide some stabilization for its economy.

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Private Markets - Modest Overweight

	Positioning	Rationale
Commercial Mortgages	**Modest Overweight**	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Private Debt (Universe)	**Modest Underweight**	High credit quality and global diversification provides an income ballast in an uncertain economic environment. Incremental income and potential capital appreciation from interest rate moderation provide upside.
Domestic Real Estate	**Neutral**	We believe a significant portion of the value adjustments in the Canadian commercial real estate space have been taken. Occupancy levels continue to improve, absent Class B & C office, due to recent extreme population growth and limited new supply. Immigration changes will impact market rents, but supply shortfall of the past, particularly in multi-family, is providing continued predictable income growth.
Global Real Estate	**Modest Underweight**	We believe the majority of the value adjustments have occurred in the U.S., UK and Nordic countries, while other regions, such as Australia, are in the midst of value adjustments.
Infrastructure	**Modest Overweight**	Moderating risk-free rates have been partly clouded by credit and equity risk premium volatility from trade concerns, producing lower discount rates which has led to strong valuations for infrastructure assets. Investors appreciate a focus on essential, core infrastructure assets that can be augmented by de-risked, adjacent development opportunities that produce greater growth and higher return potential from their infrastructure allocations.

Asset Sub-Classes

	Positioning	Rationale
U.S. Dollar	**Neutral** **(From Neutral)**	The USD has declined YTD, and based on our long-term valuation metrics, remains overvalued. Current U.S. policy has led to U.S. assets being less attractive due to the uncertainty around trade policy. We expect that the outcome will be some degree of tariffs being applied to U.S. imports, which will act as a tax on U.S. consumers, leading to weaker consumption growth.
Commodities (Gold, Energy, Metals, Agriculture, Carbon)	**Modest Overweight**	Gold continues to benefit from demand from central banks and investors as they seek a safe-haven in uncertain times. Despite the economic uncertainty, metals prices have held-in YTD as markets are currently balanced. Oil has weakened as OPEC+ looks to slowly return supply, but also to manage member commitments and might adjust as market conditions warrant.

Figure 1: Direction from WAAC: strategic positioning

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

Source: Wealth Asset Allocation Committee, as of April 24, 2025.

Wealth Investment Policy Committee

The Wealth Investment Policy Committee is composed of a diverse group of TD investment professionals. WIPC's mandate is to interpret WAAC views and set general asset-class weights for each investor profile.

Interprets WAAC views and sets general investor profile asset-class weights

Utilizing risk factors to manage exposures, we build and manage portfolios that blend the best of traditional and alternative asset classes.

Committee members:

Brad Simpson, CIM, FCSI ....Chief Wealth Strategist, Wealth Investment Office (WIO), TD Wealth (Chair)

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

Anna Castro, CFA .... Managing Director, TDAM

Jafer Naqvi .... VP & Director, TDAM

Christopher Lo, CFA ....Senior Portfolio Manager, Head of Managed Investments, WIO, TD Wealth

Fred Wang, CFA ....Senior Portfolio Manager, WIO, TD Wealth

Aurav Ghai, CFA .... Senior Fixed Income Analyst & Portfolio Manager, WIO, TD Wealth

Mansi Desai, CFA .... Senior Equity Analyst & Portfolio Manager, WIO, TD Wealth

The asset allocation weights from the Wealth Investment Policy Committee are unchanged this month and remain aligned with the Wealth Asset Allocation Committee's (WAAC). The committee continues to have a modest overweight allocation to Equities and Alternatives, a neutral exposure to Commodities, and a modest underweight allocation to Cash and Fixed Income.

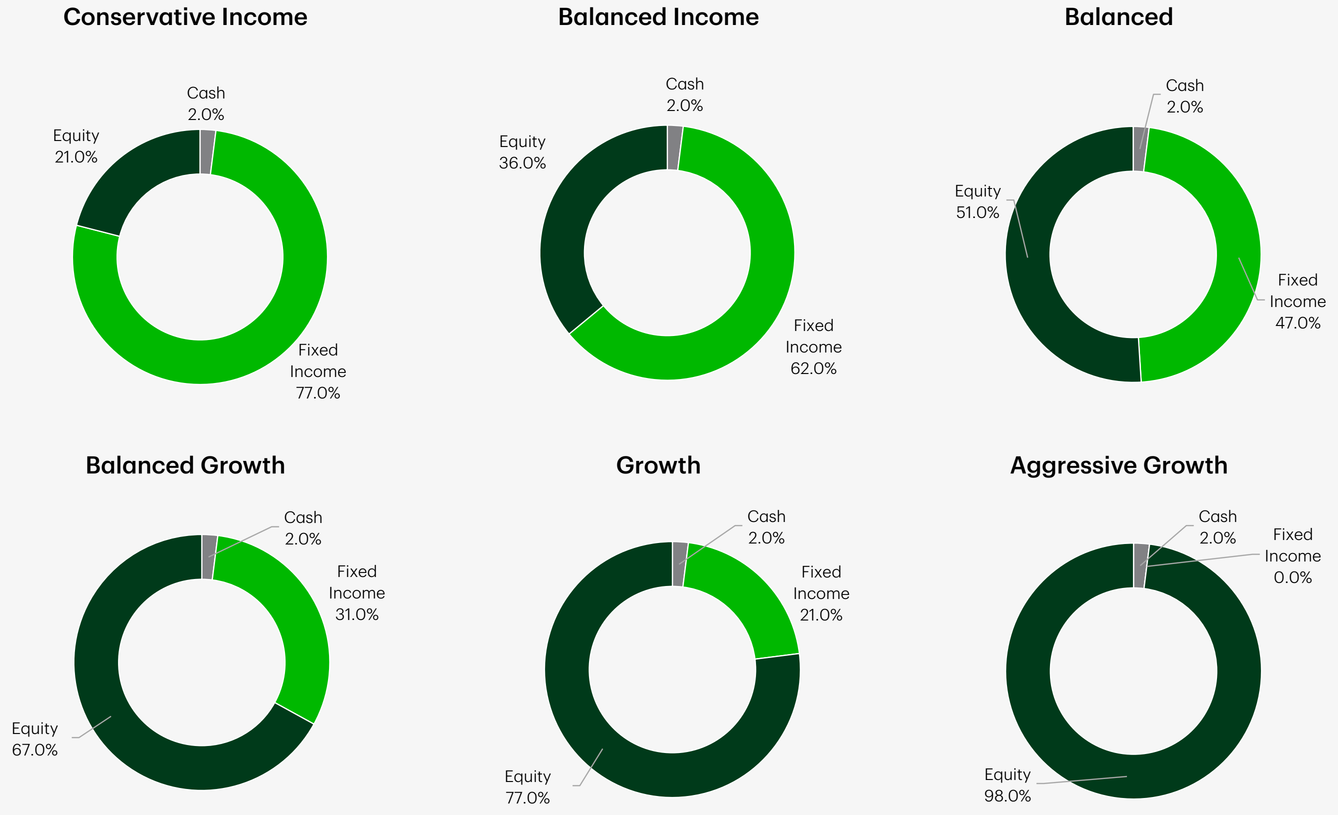
Within Fixed Income, the allocation to Domestic Government bonds remains unchanged at a modest underweight position across all the profiles. The allocation to Investment Grade Corporate Bonds is unchanged at a neutral to modest overweight position, and High Yield remains at a neutral weight across all profiles. Global Bonds -Developing Countries remains neutral in all profiles and Global Bonds – Emerging Markets remains underweight in all profiles.

Within Equities, the allocations are unchanged and remain modest overweight Canadian and U.S. equities and modest underweight International and Emerging Markets, in all profiles.

Within the Alternatives asset class, the committee maintains a neutral position in Real Estate and Private Credit, and a modest overweight to Mortgages and Infrastructure across all the investor profiles.

The allocation to Commodities remains at a Neutral position across the profiles.

Dynamic asset-class weights by investor profile (Condensed)

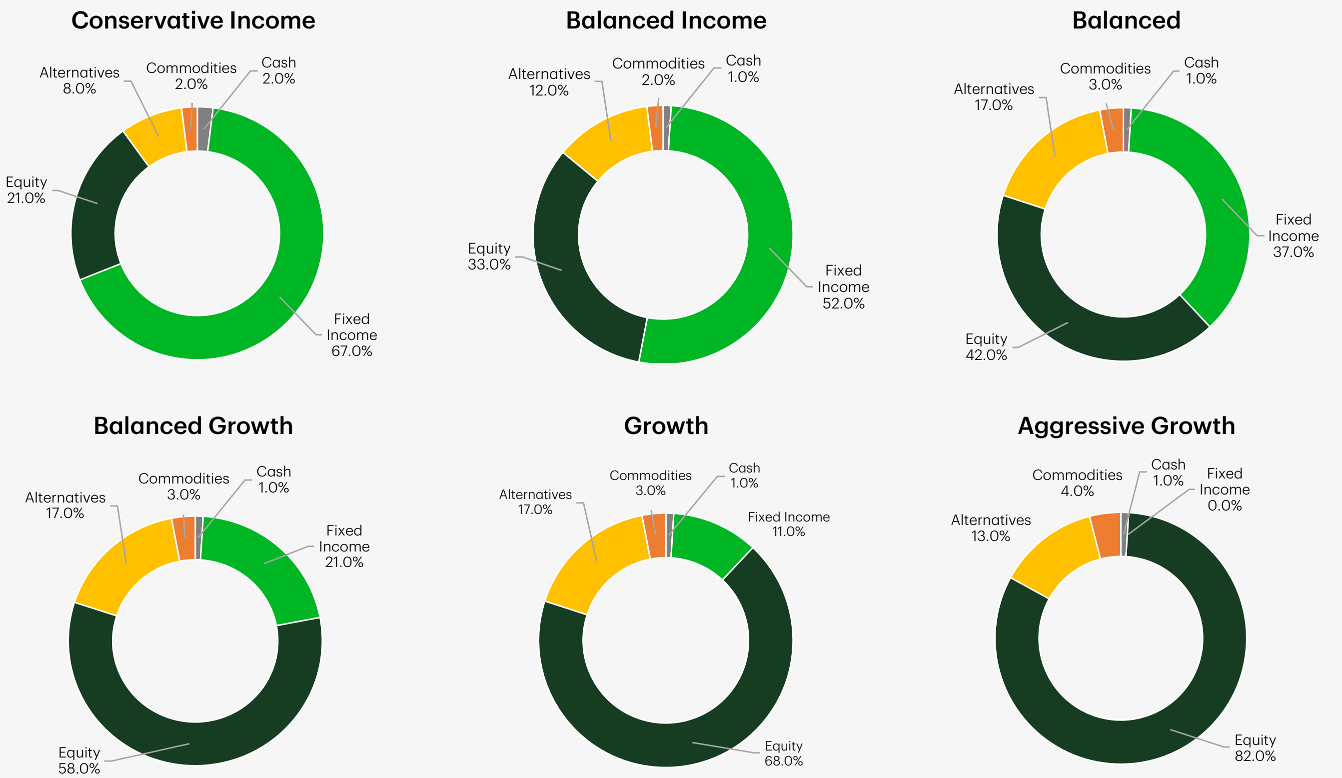


Strategic and dynamic asset-class weights by investor profile (Condensed)

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.
Cash	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Public Fixed Income	78.0%	77.0%	63.0%	62.0%	48.0%	47.0%	33.0%	31.0%	23.0%	21.0%	0.0%	0.0%
Government	39.0%	37.0%	32.0%	30.0%	24.0%	22.0%	17.0%	15.0%	11.0%	10.0%	0.0%	0.0%
Corporate	39.0%	40.0%	31.0%	32.0%	24.0%	25.0%	16.0%	16.0%	12.0%	11.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	35.0%	36.0%	50.0%	51.0%	65.0%	67.0%	75.0%	77.0%	98.0%	98.0%
Canadian	6.0%	7.0%	11.0%	12.0%	15.0%	16.0%	20.0%	22.0%	23.0%	25.0%	29.0%	31.0%
U.S.	8.0%	10.0%	14.0%	16.0%	20.0%	22.0%	26.0%	29.0%	30.0%	33.0%	40.0%	42.0%
International	4.0%	3.0%	7.0%	6.0%	10.0%	9.0%	13.0%	11.0%	15.0%	13.0%	19.0%	17.0%
China/ Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of April 24, 2025.

Dynamic asset-class weights by investor profile (Expanded)



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

Asset Class	Conservative Income		Balanced Income		Balanced		Balanced Growth		Growth		Aggressive Growth	
	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.	Strat.	Dyn.
Cash	2.0%	2.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%	2.0%	1.0%
Public Fixed Income	69.0%	67.0%	54.0%	52.0%	39.0%	37.0%	24.0%	21.0%	14.0%	11.0%	0.0%	0.0%
Domestic Government Bonds	28.0%	26.0%	22.0%	20.0%	15.0%	13.0%	9.0%	7.0%	5.0%	3.0%	0.0%	0.0%
Invest. Grade Corp Bonds	24.0%	25.0%	19.0%	20.0%	14.0%	15.0%	9.0%	9.0%	5.0%	5.0%	0.0%	0.0%
High Yield Bonds	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%	0.0%
Global Bonds - Developed	8.0%	8.0%	6.0%	6.0%	5.0%	5.0%	3.0%	3.0%	2.0%	2.0%	0.0%	0.0%
Global Bonds - Emerging	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Canadian	6.0%	7.0%	10.0%	11.0%	11.0%	12.0%	16.0%	18.0%	19.0%	21.0%	22.0%	24.0%
U.S.	8.0%	10.0%	13.0%	15.0%	17.0%	19.0%	23.0%	26.0%	27.0%	30.0%	35.0%	37.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	9.0%	13.0%	11.0%	15.0%	13.0%
China/Emerging Markets	2.0%	1.0%	3.0%	2.0%	5.0%	4.0%	6.0%	5.0%	7.0%	6.0%	10.0%	8.0%
Alternatives	7.0%	8.0%	10.0%	12.0%	15.0%	17.0%	15.0%	17.0%	15.0%	17.0%	12.0%	13.0%
Commercial Mortgages	4.0%	5.0%	4.0%	5.0%	4.0%	5.0%	4.0%	5.0%	4.0%	5.0%	0.0%	0.0%
Private Debt	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	1.0%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	0.0%	2.0%	3.0%	5.0%	6.0%	5.0%	6.0%	5.0%	6.0%	9.0%	10.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%
Fixed Income	71.0%	69.0%	56.0%	53.0%	41.0%	38.0%	26.0%	22.0%	16.0%	12.0%	2.0%	1.0%
Equity	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Alternatives	7.0%	8.0%	10.0%	12.0%	15.0%	17.0%	15.0%	17.0%	15.0%	17.0%	12.0%	13.0%
Commodities	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of as of April 24, 2025.

Economic Outlook

Tariff policy and whiplash weaken U.S. growth outlook

Beata Caranci, SVP & Chief Economist; Thomas Feltmate, Director & Senior Economist | TD Economics

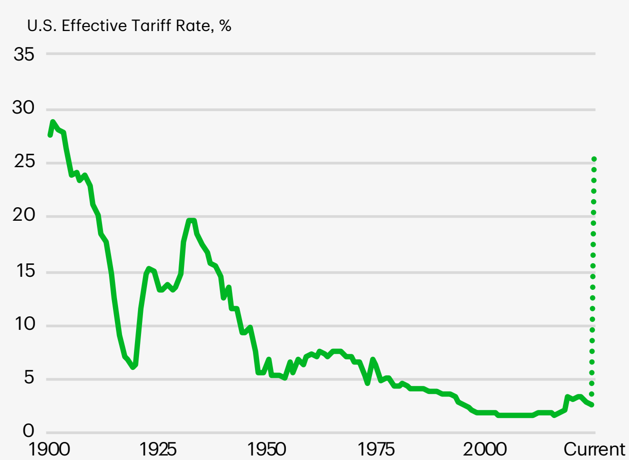
Highlights

- The U.S. administration imposed a 90-day pause on reciprocal tariffs, dropping all countries (excluding China) to a flat 10% tariff. This comes in addition to the sectoral tariffs, including steel & aluminum and finished autos & parts.
- We estimate the effective tariff rate in the U.S. to be 26%, the highest level in over a century. However, this is skewed by the outsized 145% tariff on China.
- Tariff announcements have been almost a daily occurrence, making it difficult to pin down assumptions let alone a forecast. In the current state, we estimate the U.S. will expand just 1.2% this year but the bands around the forecast are larger than normal.
- High and persistent uncertainty breeds recessions. While we still feel the U.S. economy can skirt a recession, risks to the outlook are increasingly tilted to the downside the longer it takes for the administration to provide a clear operating policy framework for businesses and households.

On April 9th, President Trump imposed a 90-day pause on the reciprocal tariffs announced on April 2nd. For the 85+ countries who were supposed to face punitive reciprocal tariffs effective at midnight on April 9th, the administration instead imposed a much smaller 10% universal tariff. This would come in addition to the sectoral tariffs (including the 25% steel & aluminum and 25% on finished foreign vehicles and parts) as well as the International Emergency Economic Powers Act (IEEPA) tariffs imposed on China, Mexico, and Canada. The one exception to the tariff reprieve was China, whose effective tariff rate was raised to 145% after a tit-for-tat spat with China's retaliation response. In another U-turn, the administration announced some electronics imported from China, including smartphones, computers, and semiconductors, would be exempt from the 145% tariff, and instead face only the 20% IEEPA tariff. But the exemption is likely to prove only temporary, as a broader review under Section 232 for semiconductor tariffs is finalized in the coming months.

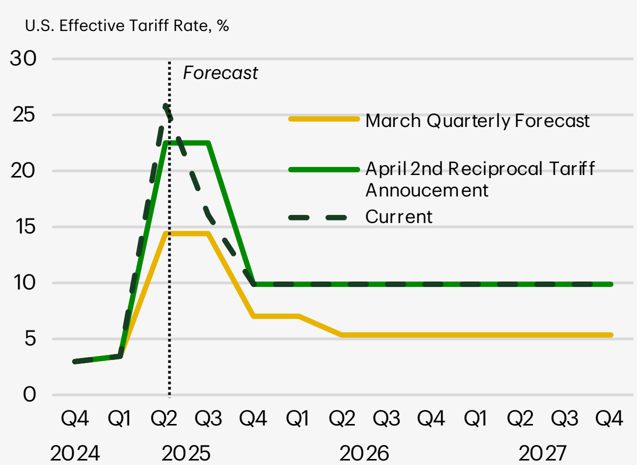
Based on 2024 trade flows, the announced tariffs to date imply an effective U.S. tariff rate of about 26%, or the highest level since 1903 (figure 1). This is considerably above what was assumed in our March forecast, and even higher than the implied effective tariff rate following the April 2nd reciprocal tariff announcement (figure 2). However, China's outsized tariff is overwhelmingly skewing the effective rate higher, as it alone accounts for two-thirds of the weighted average, despite only accounting for roughly 13% of U.S. imports.

Figure 1: Effective Tariff Rate Rises to Highest Level In Over a Century



Source: Bureau of Economic Analysis, TD Economics.

Figure 2: Tariff Assumptions Have Been Revised Higher



Source: TD Economics.

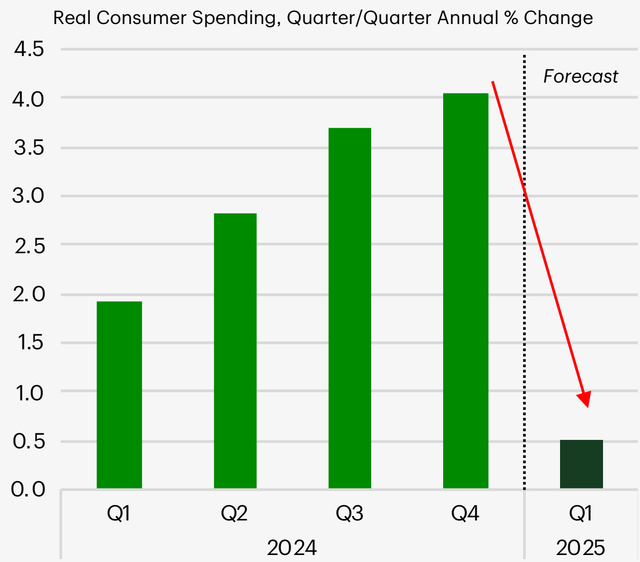
The escalation in trade tensions and the rising likelihood of an all-out U.S.-China trade war places the U.S. economy on a more precarious footing that would track about 1.2% real GDP growth this year, down from our prior forecast of 1.9%. However, point estimates in the current environment need to be taken with a massive grain of salt. The tariff landscape is shifting under our feet on an almost daily basis, with meaningful implications for both the growth and inflation outlook. While we still feel the U.S. economy can skirt a recession, the cushion of 'white space' between expansionary and contractionary territory is thinning.

Our revised forecast assumes some reprieve in today's tariffs through the second half of this year. For China, some easing in tariffs could come even sooner should officials move quickly to de-escalate the situation. But even in the event that the administration 'cuts deals' with individual countries over the coming days/ months, there needs to be convincing creditability behind the agreements. If tariffs continue to be the primary tool used to address all matters unfavorable to the U.S., it creates a challenging landscape for businesses to make long-term investment decisions – casting a much larger shadow over the outlook.

Tariff effects on the economy

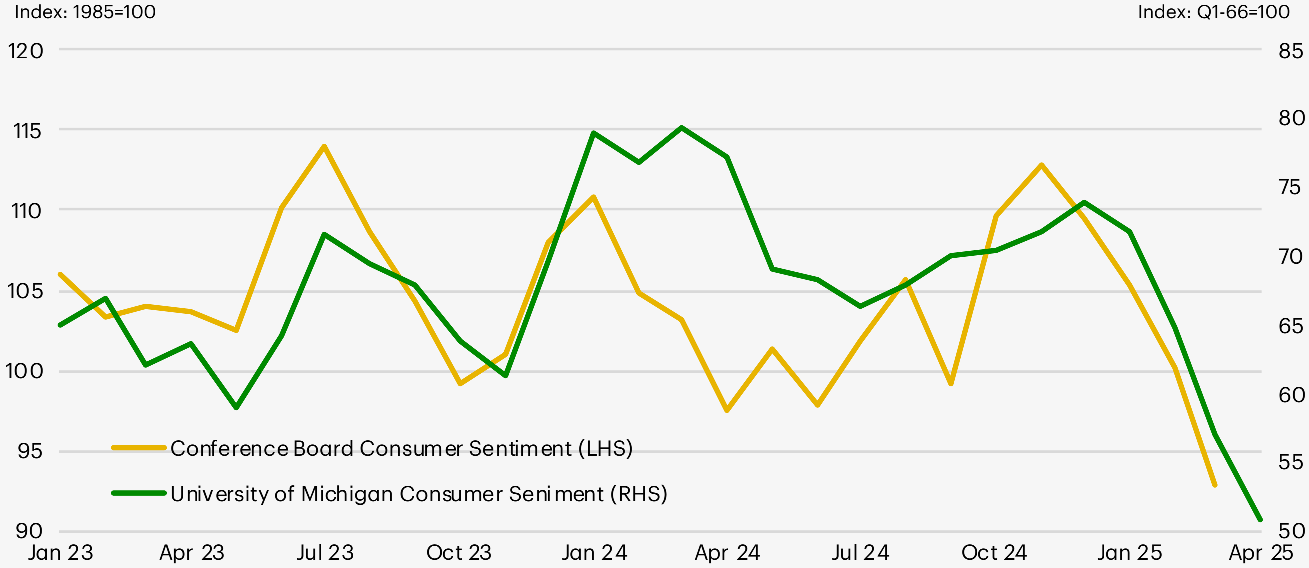
Tariffs will weigh on the economy through a few channels. The first is related to elevated uncertainty. Since the tariff talk heated-up in mid-February, U.S. equity indices are down 10-15%, the VIX briefly reached levels not seen since the pandemic, while corporate spreads have widened to multiyear highs. At the same time, measures of consumer sentiment have nosedived (figure 3), with households becoming increasingly pessimistic on the future state of the economy as well as employment prospects. Expectations for future inflation have also shot higher. Heightened uncertainty tends to go hand-in-hand with belt tightening. Early reads of the hard economic data have shown that the uncertainty and recent losses in household net worth have already resulted in consumers tapping the breaks. Through the three months ending in February, inflation adjusted consumer spending has flatlined, after expanding by a robust 3.6% through H2-2024 – suggesting Q1 spending will slow sharply (figure 4).

Figure 4: Consumer Spending to Slow Sharply in Q1



Source: Bureau of Economic Analysis, TD Economics.

Figure 3: Consumer Sentiment Has Nosedived in Recent Months



Source: University of Michigan, Conference Board, TD Economics.

Beyond the uncertainty channel, the implementation of the tariffs will also result in a significant erosion in household purchasing power. Based on the rates announced to date, we estimate that the average household could see their cost-of-living increase by approximately $3,600. This is meaningful, particularly coming atop already elevated price levels. And unlike the post-pandemic bout of inflation, we suspect that the labor market will be on a much softer footing this time around – with modest job losses expected in Q2/Q3. This means that wage gains are likely to be far more subdued, limiting households' ability to absorb the price shock.

Further tax cuts – beyond extending the 2017 Tax Cuts & Jobs Act – could help to cushion the blow. But even if we were to see a full implementation of President Trump's promised tax cuts (including exempting social security payments, overtime pay, and tips from taxation), we estimate that it would lift household's income by around $2,700. This is $900 short of offsetting the tax hike from tariffs, leaving the average household worse off.

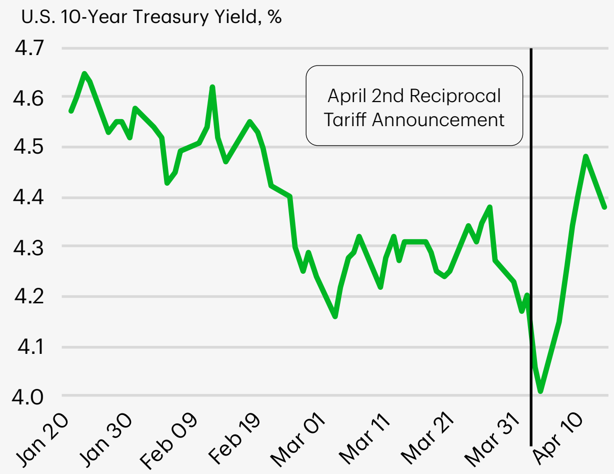
Lastly, there's the impact from tighter financial conditions. Treasury yields have been on wild ride since the April 2nd reciprocal tariff announcement. After having briefly dipped below 4% intraday on April 4th, the 10-year Treasury has since recoiled to 4.3%, or roughly 10 bps above its April 2nd level (figure 5). More importantly is what's happening with corporate spreads – the premium corporations pay to borrow. Both investment and non-investment grade spreads have widened to levels not seen since the regional banking crisis in 2023. Higher borrowing costs plus the heightened uncertainty mean that many investment projects are likely to be sidelined over the near-term.

And even with mortgage spreads at their lowest level since mid-2022, the level of 30-year fixed mortgage rates is at an elevated 7.0%. With the labor market expected to weaken, lumber tariffs likely to pressure new home prices higher and elevated rates to keep a lid on listings, hope for a rebound in the housing sector this year is dimming.

Tariffs are already muddying the water...

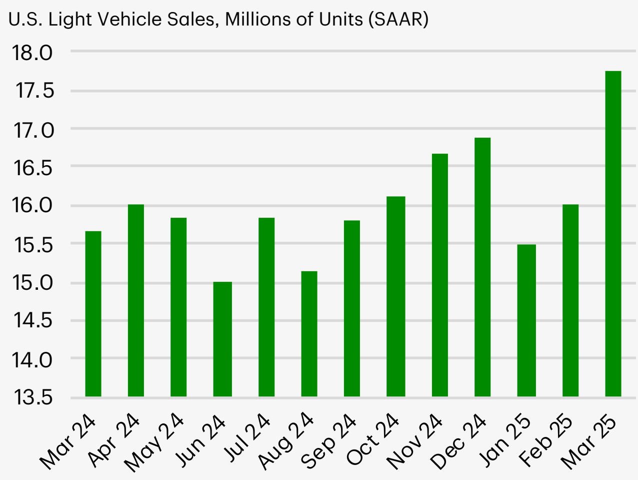
As it currently stands, first quarter GDP (released on April 30th) is likely to come with plenty of tariff distortions. Trade data released through February has already shown that companies have been front running the tariffs, leading to a surge in imports. Exports have also picked up, but not to same degree, suggesting net trade could shave nearly 3 percentage points from Q1 GDP. Some of those imports will show up in inventories, providing some offset. At the same time, consumers and businesses pulled forward vehicle purchases into March to get ahead of the auto levies (figure 6). President Trump first started talking about tariffing foreign autos in mid-March but didn't sign the executive order until March 27th (effective April 3rd, 2025). Anecdotally, dealerships appear to be pricing existing inventory at "pre-tariff" prices – suggesting March's pull through in sales could persist for as long as the remaining inventory lasts. But given the slim margins that manufacturers are facing, it's likely that most of the tariff costs on new inventory will be quickly passed onto the consumer – potentially adding anywhere from $5,000-$10,000 to the purchase price, depending on the make and model. Should foreign manufacturers shift more production to the U.S. over the medium term, it's likely that they'll prioritize only the more profitable models, ultimately narrowing consumer selection.

Figure 5: Treasury Yields Slightly Above Pre-Reciprocal Tariff Levels



Source: Federal Reserve Board, TD Economics.

Figure 6: Vehicle Sales Surge in March



Source: Bureau of Economic Analysis, TD Economics.

All told, we expect GDP to stall through the first half this year before turning modestly higher in H2-2025, but still averaging a below trend pace of just 1.0% annualized (figure 7). While our forecast assumes the U.S. economy skirts a recession, we acknowledge that the risks are becoming increasingly skewed to the downside. But even if the economy does slip into a recession, we remain of the view that it's likely to be shallow. Even with the recent dive in stock valuations, household balance sheets remain in a decent position as does the debt-to-income ratio. Moreover, because of increased labor scarcity, employers are likely to retain a higher percentage of its workforce relative to prior downturns – helping to limit job losses and allowing households to weather the storm.

... and will lead to higher inflation

Under our updated forecast, the twelve-month change on core PCE inflation is expected to rise from its current pace of 2.8% to somewhere in the 3-4% range by as early as the Q2. If inflation were to hit the upper end of that range, it would imply a quarterly increase of 7.5% (annualized!) in Q2. The single largest quarterly gain post-pandemic was in Q1-2022, when core PCE inflation increased 6.1%. In order to get there, we'd likely need to see all the announced tariff policies to date remain in effect through the remainder of this quarter and a swift passthrough of the tariffs to the end consumer. Should we see further exemptions, or countries move more quickly to negotiate trades deals, there's potential for a more subdued inflation shock towards the lower end of the estimated range.

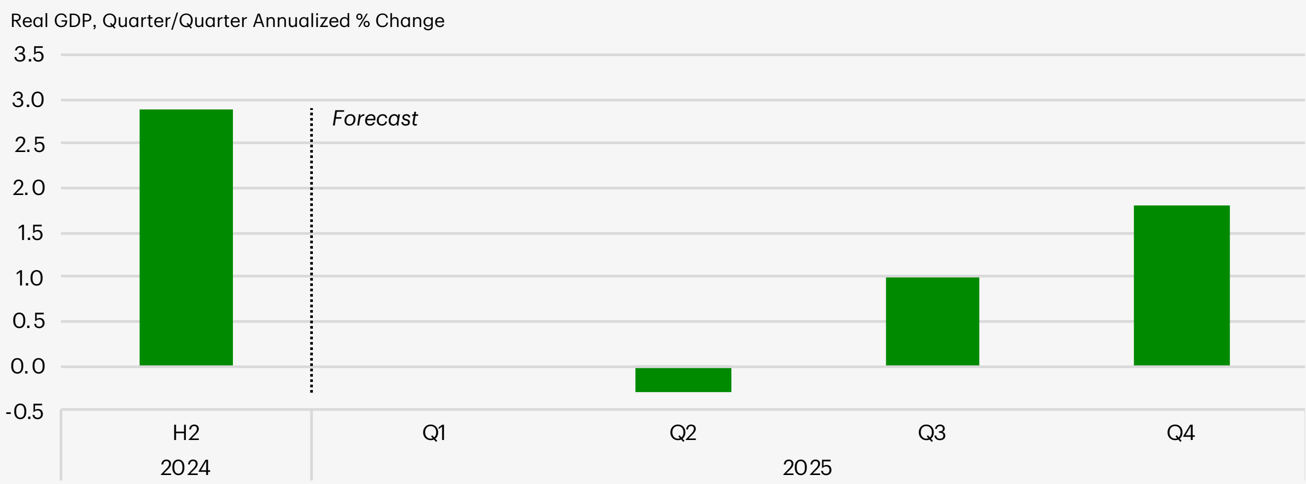
But the one thing macroeconomic models can't reliably capture is the impact of supply chain disruptions and the associated passthrough they can have on inflation. Both China and Europe have been kicking the tires on alternative retaliatory measures beyond imposing tariffs on U.S. imports. One such proposal from China has been to impose export controls on vital raw inputs used by U.S. firms. While these types of retaliatory measures are not currently captured in the baseline forecast, they offer an additional source of risk to the inflation outlook.

Fed stuck between a rock and a hard place

No matter which way you slice it, the global scope and magnitude of tariffs lead to a marking up of inflation forecasts, but it's the persistence of the shock that ultimately matters for the Fed's reaction function. Recent communication from Fed officials suggests that the sharp increase in inflation expectations and larger-than-expected tariffs have the FOMC more concerned about lasting impacts to inflation. In March, Chair Powell characterized the inflation shock as a one-time price increase and he largely discounted the uptick in inflation expectations. But since then, Powell's tone has become more hawkish, noting the continued increase in inflation expectations as "becoming a concern". We surmise that the Fed may be willing to tolerate some softening in the economy to ensure the current policy rate remains sufficiently restrictive to combat the expected increase in inflation.

Should some of the announced tariffs start to come off in the third quarter under bilateral deals between countries, the quarterly profile on inflation should slow sharply. This will likely be met by a modest increase in the unemployment rate, which supports a September rate cut. But with Fed officials characterizing today's policy rate as only "somewhat" restrictive, and with considerable uncertainty on the neutral rate, there won't be any rush to quickly normalize the policy rate in the absence of a collapse in inflationary pressures. Policymakers are likely to follow a more gradual approach into year-end.

Figure 7: U.S. Economy Expected to Stall in H1-2025



Source: Bueau of Economic Analysis, TD Economics.

Asset Class Analysis

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Quarter in Review

As of April 11th

Fred Wang, Senior Portfolio Manager, Asset Allocation | TD Wealth

As I finally sat down to work on my piece reviewing the first quarter of 2025 — nine days after "Liberation Day" — I realized something important: I need to start time-stamping everything I write in this extremely fluid regime, where narratives, policies, expectations and prices can all reverse course at lightning speed. That's why I want to be clear that all commentary here is current as of April 11. Many long-held heuristics grounded in economic theory or empirical research were both reinforced and then challenged this year. It's hard to take any belief for granted. Independent thinking and constant reassessment of evolving realities is the only way to make sense of and navigate this complex environment.

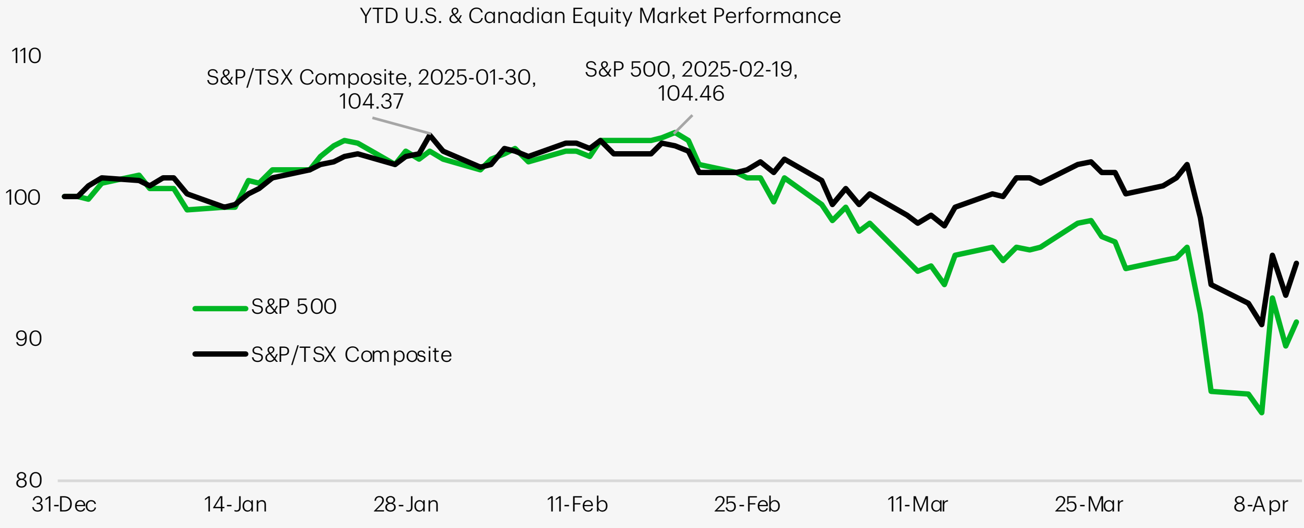
We entered the new year with high hopes — tax cuts, deregulation, a stronger economy and a revival in merger and acquisition activity. Tariffs were always a known risk, but they were conveniently buried beneath other opportunistic buzzwords associated with Trump's second term. That changed on February 1, when tariffs began dominating headlines. The White House announced new tariffs on Canada and Mexico. After a brief bout of market volatility, U.S. equities quickly shook off the risk, and the S&P 500 hit an all-time high of 6,144.15 on February 19 (Figure 1).

For Canada, however, the February developments left a more permanent scar. As both a major U.S. trading partner and a strategic ally, the shift was significant. A psychological and economic decoupling began to take shape: cross-border travel declined, Canadian consumers began avoiding U.S. goods, and the TSX never reclaimed its January 30 peak (Figure 1). The tariffs also briefly pushed the USD/CAD exchange rate to 1.48. Sell-side analysts had warned the Canadian dollar could fall to that level, although markets had only priced in a 20% probability just days before the February tariff announcement.

The broader market was jolted again between April 2 and April 9, when the White House announced a larger-than-expected reciprocal tariff. This triggered the worst market selloff since Covid, though some losses were recovered after a 90-day implementation pause was announced.

The inconsistent tariff policy created heightened volatility globally. As we approached the April 2 Liberation Day announcement, the impact on the economy unfolded gradually. Anticipating tariffs, U.S. importers front-loaded purchases. Then, more subtly but steadily, consumer and business sentiment began to waver. Both households and corporations adopted a wait-and-see stance in their consumption and investment decisions — an approach that may not cause an immediate economic shock but does start a slowly deteriorating trend. The longer this policy uncertainty lingers, the more prolonged the drag on the economy.

Figure 1: S&P 500 vs. S&P/TSX YTD Performance



Source: Macrobond, Wealth Investment Office as of April 11, 2025

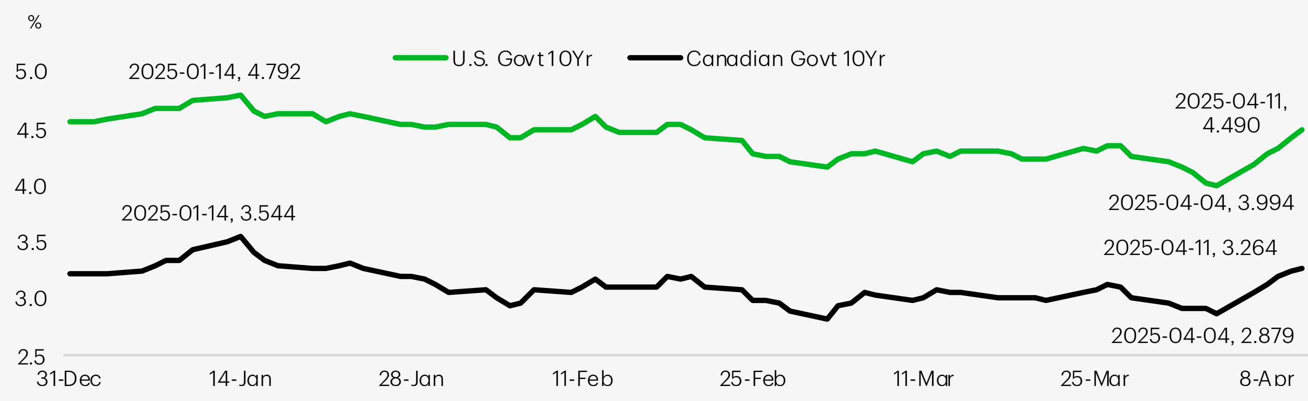
Inflation expectations also rose, pressuring the Federal Reserve and the Bank of Canada to hold policy rates steady. In short, the prevailing narrative and market reactions were pricing in the risk of stagflation. Interestingly, until April 4, long-term yields in both the U.S. and Canada trended lower, suggesting markets were more concerned about stagflation than inflation. However, from April 4 to 11, yields surged. The benchmark 10-year U.S. Treasury yield jumped nearly 50 bps (Figure 2), sparking concerns that major trading partners were offloading U.S. Treasuries or that hedge funds were unwinding their leveraged basis trades.

A 'Wait and See' Economy

To forecast the path of global growth, economists often rely on leading indicators — many of which capture how consumers, corporate leaders and purchasing managers feel about the future. We refer to these as soft data. Even before the tariff announcement hit the news cycle, soft data began to reflect growing concerns. This shift in sentiment produced a "wait and see" economy: businesses slowed hiring and investment, while consumers opted to save rather than spend. This dynamic was observed in both Canada and the U.S.

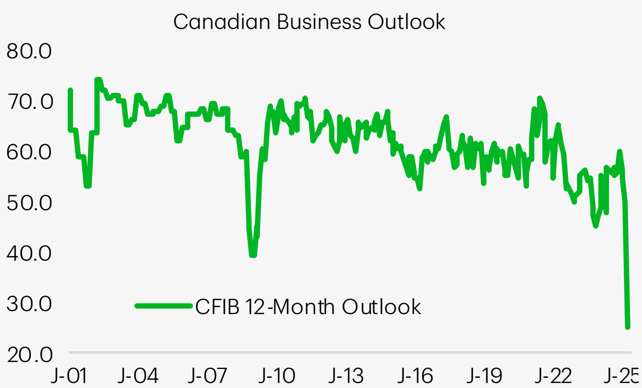
Figure 3 shows the 12-month business outlook survey conducted by the Canadian Federation of Independent Business. While this survey tends to reflect the views of smaller businesses, which often have fewer resources to weather policy shocks, the results were stark. The outlook fell to its lowest level since the survey began in 2000. Hospitality, manufacturing and transportation were hit hardest. Respondents cited weak demand as the primary concern. Another takeaway from the survey is that on one hand, the price hike is likely to be passed through to consumers, on the other hand wage growth is expected to trend lower. It suggests Canadian consumers could face tremendous headwinds. Figure 4 looks at the Duke CFO Survey's business optimism reading for large U.S. corporations. While the Q1 2025 results also showed a drop, the decline wasn't as severe comparing to the CFIB survey. The 12-month GDP growth expectation fell to 1.9% — still close to the long-term average. The two surveys suggest that smaller businesses are likely to bear the brunt of tariff-related uncertainty.

Figure 2: U.S. vs. Canada 10-Year Government Yield



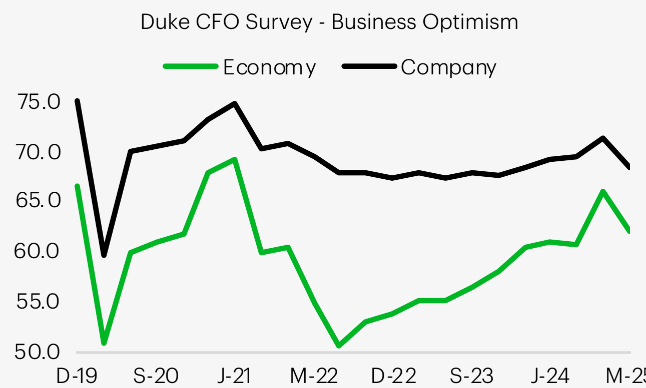
Source: Macrobond, Wealth Investment Office as of April 11, 2025

Figure 3: CFIB 12-Month Business Outlook



Source: Macrobond, Wealth Investment Office as of March 31, 2025

Figure 4: Duke CFO Survey – Business Optimism



Source: Macrobond, Wealth Investment Office as of March 31, 2025

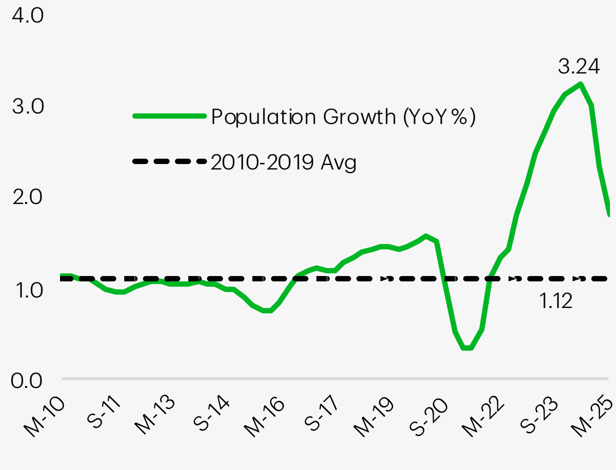
The softening sentiment in these surveys may translate into weaker hard data in coming quarters, posing a risk to economic growth. Canada's outlook, however, may be more nuanced, given the potential for a federal election to address some of the economy's structural pain points.

The Canadian labour market could see significant shifts due to tighter immigration policy. TD Economics has noted that a surge in temporary residents has pushed the underemployment rate higher, as many newcomers struggle to integrate into the job market. Figure 5 shows that post-Covid, Canada's population growth peaked at three times the pre-Covid average in Q2 2024. While this helped keep headline GDP growth positive, it masked a per-capita recession. The labour oversupply also challenged productivity, as many newcomers found themselves in low-productivity roles for extended periods.

Since late 2024, immigration quotas have been lowered, and population growth has begun to normalize. This could help bring the labour market into better balance and may ease Canada's persistent housing affordability crisis. With annual housing completions around 250,000 — far below the expected supply for a population growing by over a million per year — a slowdown in population growth could alleviate some pressure.

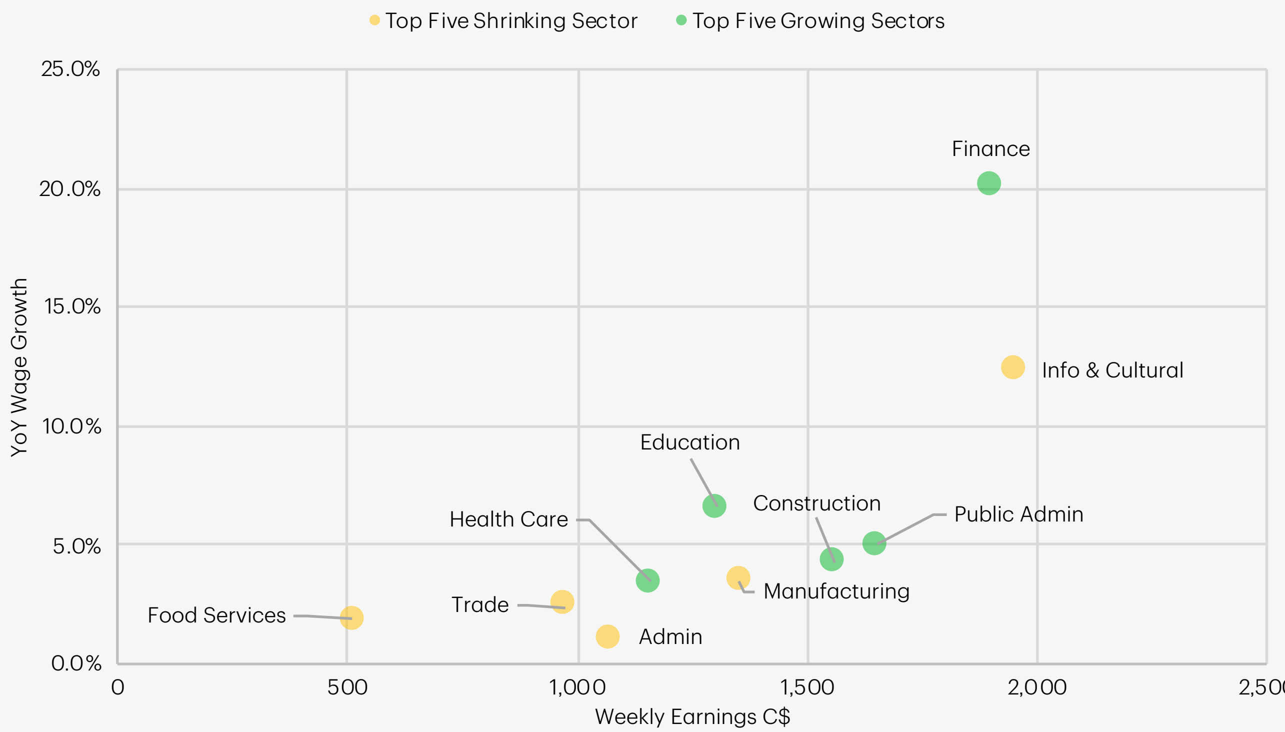
Looking deeper into the job market, there are encouraging signs. Figure 6 highlights the top and bottom employment sectors in Canada, alongside weekly earnings and y/y wage growth. Sectors with declining employment, such as accommodation & food services, retail and administration, tend to be lower-skilled and lower-paying. Growth sectors like finance, construction, education and health care, meanwhile, offer higher wages and productivity. This shift bodes well for improving labour productivity and supporting sustainable income growth.

Figure 5: Canadian Population Growth (y/y)



Source: Macrobond, Wealth Investment Office as of March 31, 2025

Figure 6: Top Employment Sectors in Canada



Source: Macrobond, Wealth Investment Office as of March 31, 2025

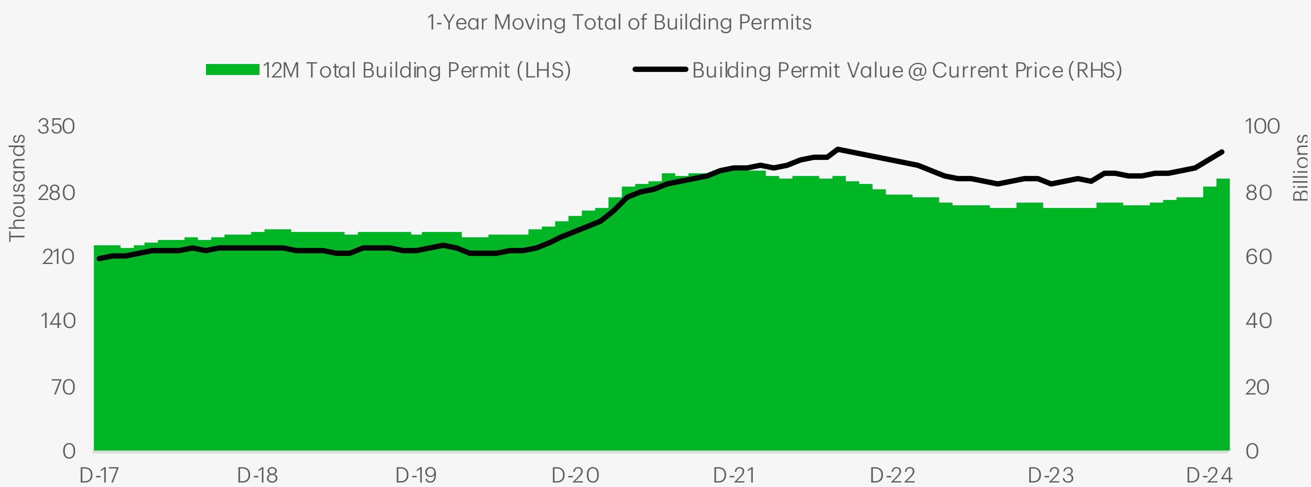
Housing remains a major topic. Figure 7 shows 12-month building permits by unit count and project value. As the federal election nears, both major parties have proposed large-scale homebuilding initiatives to address housing affordability. If enacted, this could drive tens of billions in new housing investment — comparable to the current federal budget — and reduce reliance on federal spending as an economic lever.

Tariffs Invite Unprecedented Volatility

Tariffs didn't just disrupt global trade — they also roiled global markets across asset classes. At the end of 2024, we noted the U.S. equity risk premium (ERP) had shrunk to just eight basis points. While history shows that the ERP can remain negative for extended periods (especially during productivity booms) this wasn't our base case. Still, optimism around a tech-driven renaissance in U.S. productivity can keep sentiment buoyant.

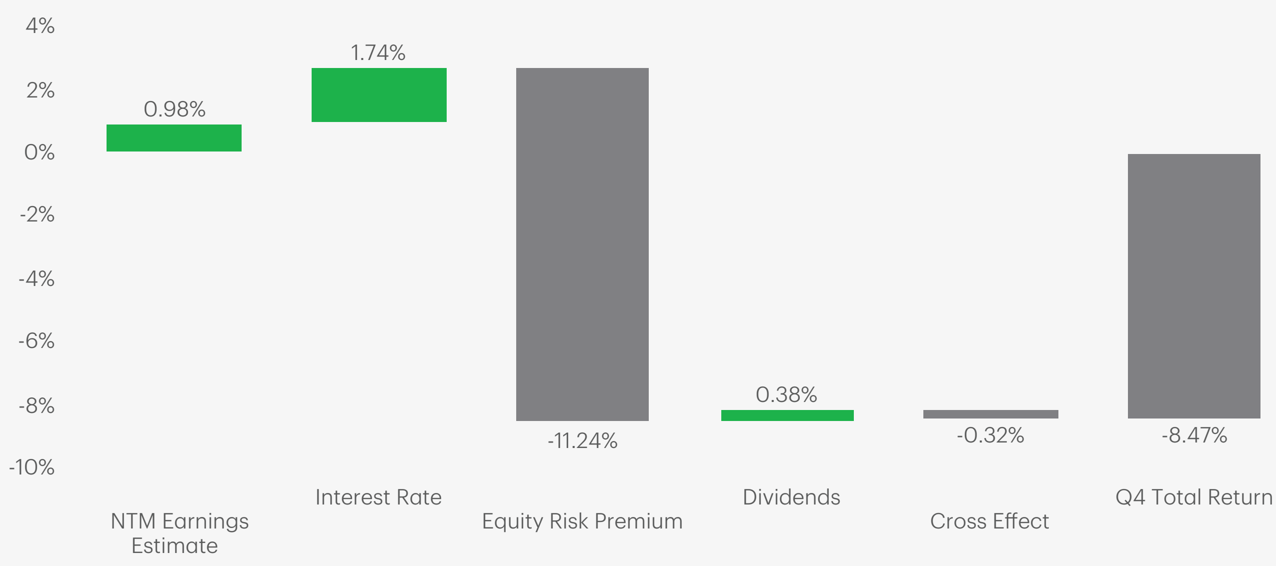
That optimism faded quickly as tariff risks escalated. Figure 8 shows the YTD return breakdown for the S&P 500, and you can see how the ERP reversed sharply, rising to 66 bps by April 11. Despite nominal downward revisions, consensus EPS growth for 2025 and 2026 remains in the low teens — suggesting that analysts haven't yet fully priced in the impact of tariffs, or perhaps viewing them as temporary negotiating tactics. Either way, the higher ERP reflects heightened risk aversion: the index's 8% loss year-to-date signals a demand for higher equity risk compensation.

Figure 7: Canadian Building Permits – Number and Value



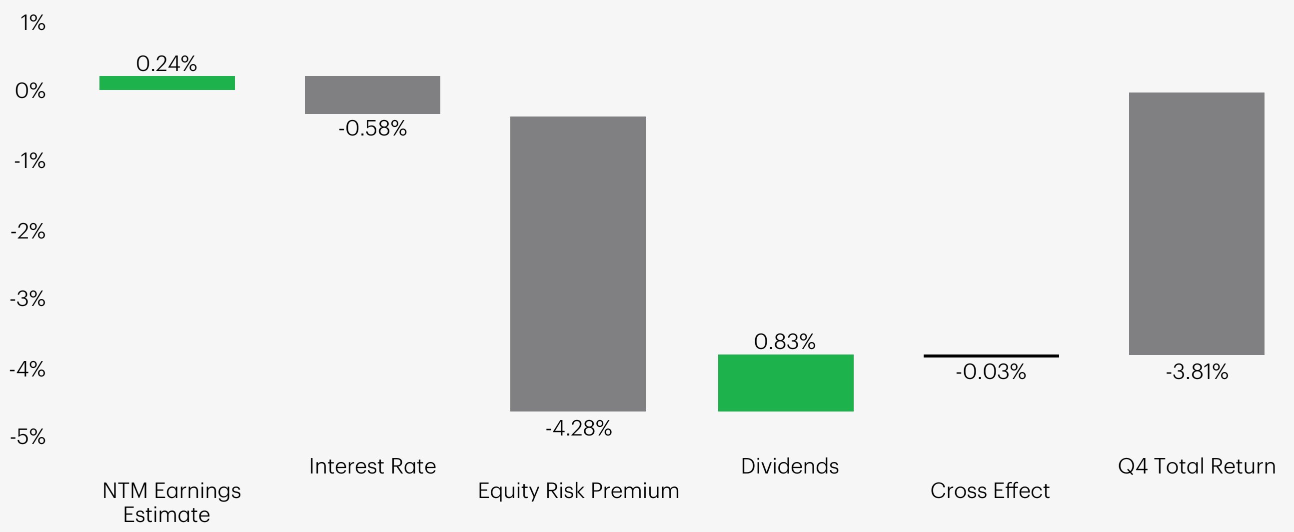
Source: Macrobond, Wealth Investment Office as of December 31, 2024

Figure 8: S&P 500 YTD Total Return Breakdown



Source: Macrobond, Wealth Investment Office as of April 11, 2025

Figure 9: S&P/TSX YTD Total Return Breakdown



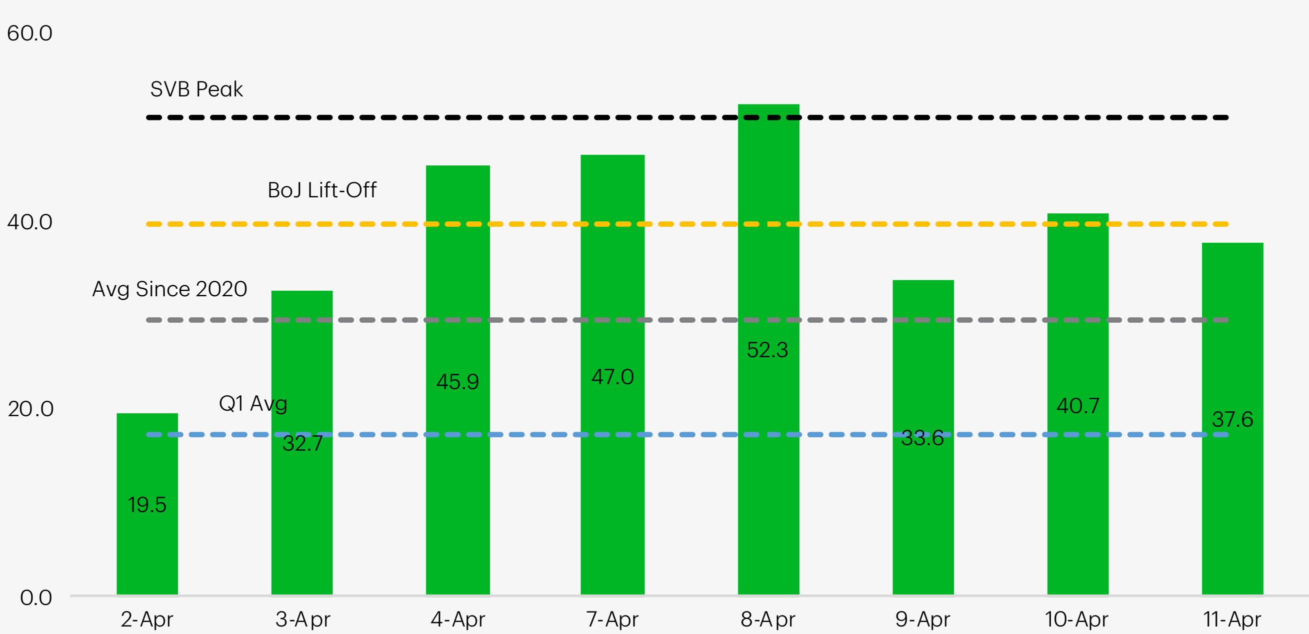
Source: Macrobond, Wealth Investment Office as of April 11, 2025

By contrast, Canadian equities offered a healthier ERP at the end of 2024 — 348 bps — alongside similar EPS growth expectations and a more attractive dividend yield. Figure 9 shows the YTD return breakdown for Canada, where lower priced-to-perfection risk helped cushion the blow from global uncertainty.

Tariffs are a seismic shock that may alter how asset classes interact. Rising correlations across and within asset classes weaken diversification. Figure 10 tracks the CBOE one-month implied correlation index, measuring how closely the top 50 S&P 500 stocks move together. When correlations rise, winners are more likely to move in the same direction with losers. Profitable strategies lose efficacy — bad news for active managers and hedge funds. Since April 2, the index has spiked, surpassing levels seen during the Japanese equity selloff (August 2024) and the Silicon Valley Bank crisis (March 2023).

To make matters worse, markets were whipsawed by fake news regarding a tariff pause, followed by the

Figure 10: CBOE 1-Month Implied Correlation Index



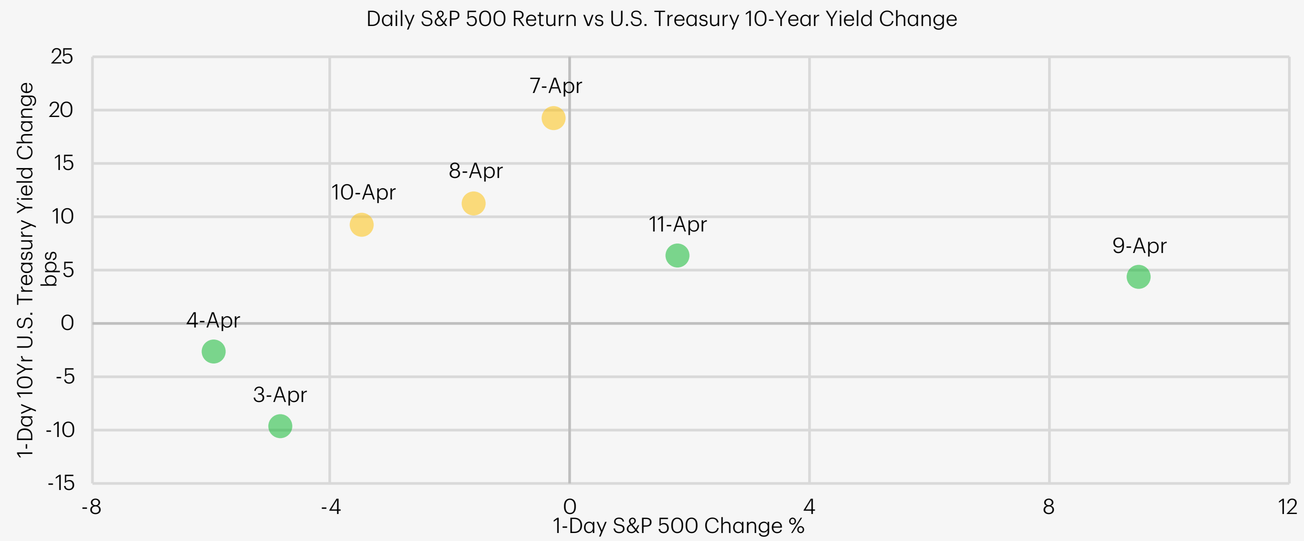
Source: Macrobond, Wealth Investment Office as of April 11, 2025

actual 90-day deferral. Portfolio construction became far more difficult, as both equities and fixed income saw simultaneous drawdowns. Figure 11 illustrates this instability: of the seven trading days following Liberation Day, only four showed the expected positive correlation between 10-year yields and equity returns. The remaining three (orange dots) puzzled market observers, with theories ranging from China selling U.S. Treasuries to hedge funds unwinding basis trades.

From April 3 to 11, Treasury bond trading volumes surged, averaging $1.6 trillion daily — up from $671 billion since the series began in February 2023. On April 9, the day of the closely watched 2035 note auction, volume hit a record $2.16 trillion (Figure 12), driven primarily by on-the-run Treasuries.

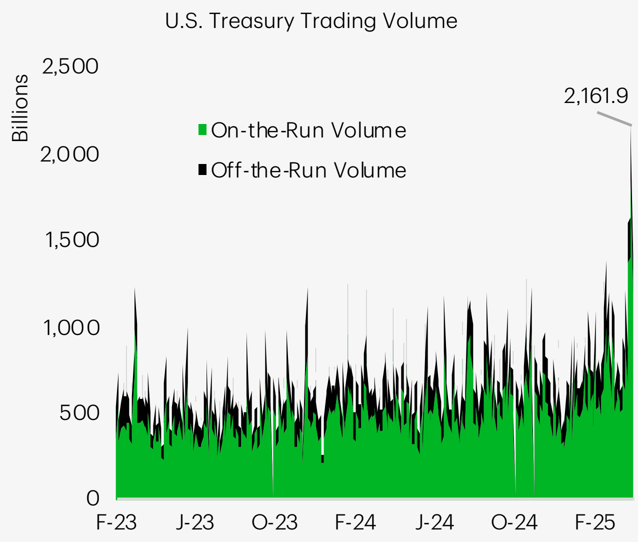
With the bond-equity correlation shifting — possibly becoming less negative or even positive — portfolio construction may need new tools. One is defensive equity factors like low-volatility. These strategies aim to provide positive excess returns during sell-offs. Figure 13 shows the daily performance of the S&P 500 alongside the excess return of the S&P 500 Low Volatility Index. There is only one day the low volatility factor did not perform as expected. It confirmed low volatility equity being a more reliable downside protecting allocation during this episode of market volatility.

Figure 11: Daily Equity Return vs. Bond Yield Change



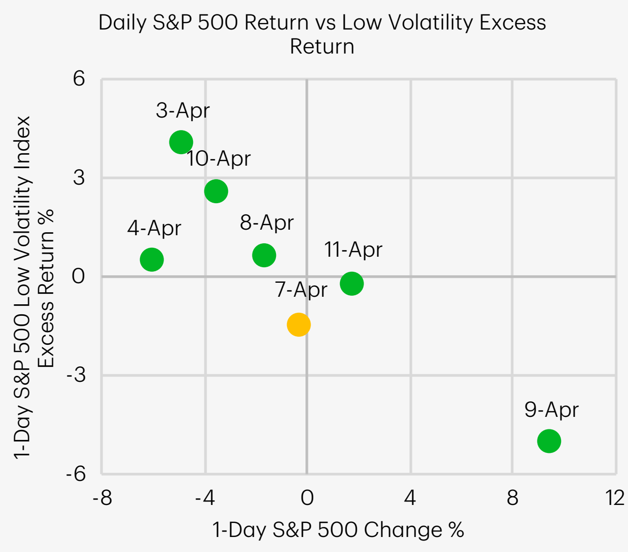
Source: Macrobond, Wealth Investment Office as of April 11, 2025

Figure 12: Daily Treasury Trading Volume



Source: Macrobond, Wealth Investment Office as of April 11, 2025

Figure 13: Daily S&P 500 Return vs. Low-Volatility Excess Return



Source: Macrobond, Wealth Investment Office as of April 11, 2025

Outlook on Fixed Income

Modest Underweight

Stable, attractive income remains on offer

Aurav Ghai, Senior Fixed Income Analyst | TD Wealth

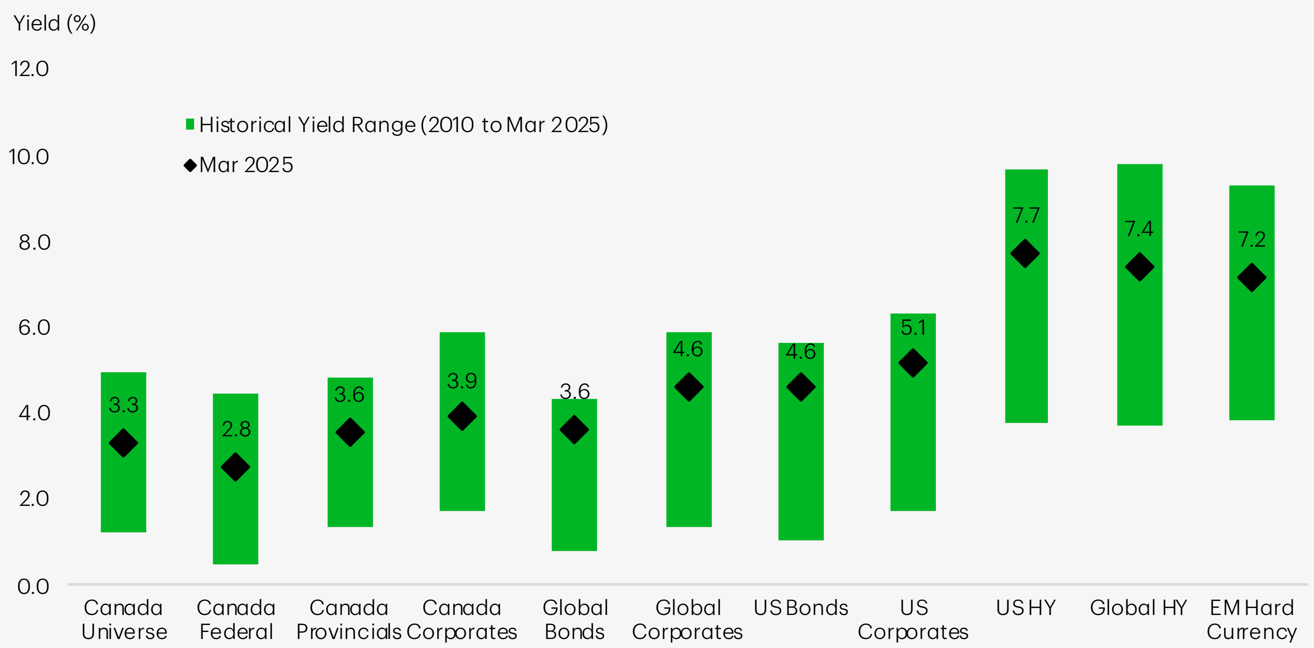
Given the ongoing financial turmoil, we are, as always, trying to think ahead rather than worry about where the markets might close today. Nobody knows when this crisis will end, but we do know it will end. Therefore, in this quarterly document we will zoom out and focus on broader structural themes while still acknowledging the potential impacts of U.S. tariffs. It is reasonable to expect prolonged market volatility and, as such, prepare our fixed income investments for it.

Government bond yields have been volatile over the last few months, as markets tried to price in the ever-evolving narratives around the impact of tariffs on economies worldwide. In the first quarter of 2025 the focus has shifted away from monetary policy to the risk of slower economic growth and higher inflation. Given the high degree of uncertainty, most forecasts will have an extremely short shelf life. We expect volatility to remain elevated given the unprecedented nature of this environment and uncertainty around potential outcomes and policy responses.

Overall, we believe central banks have room to lower policy rates, reducing short-term government yields as they move towards a modest accommodative stance, but the path could be bumpy. Monetary policy paths will also be different for every region as central bankers evaluate their unique circumstances. We may still be in a rate-cutting cycle but recent sharp moves in government bond yields reminds us that we need to be prepared for anything. As we have written many times before, no easing cycles are alike and, given that central banks are facing greater uncertainties, policy rate forecasts might as well be written in sand. Central banks globally have a lot to monitor; the impact of tariffs and trade wars, geopolitical risks, the slowing labour market, the end of disinflation, and very weak consumer and business sentiment. We expect volatility to continue and caution to set the tone for the coming quarters. The good news is that there will be ample opportunities for fixed income portfolios to reap the rewards of active management.

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

Figure 1: Yields Still Attractive



Source: FactSet, Wealth Investment Office, as of March 31, 2025. Global HY: Bloomberg Global High Yield Hedged to CAD. EM Hard Currency: JP Morgan EMBI Global Core Hedged to CAD.

• We maintain our modest underweight view on fixed income overall as we believe returns going forward will largely be in line with average historical levels and mainly composed of the coupon.

• We hold a neutral view on domestic government bonds. Canadian government bonds are attractive at current yields and offer opportunities for income generation and downside protection, but we expect yields to be volatile given the uncertain outlook. Importantly, Canadian government bond yields have remained highly correlated to U.S. government and global bond yields which are affected by circumstances that don't tend to impact Canadian bonds at all.

• We remain modest overweight on investment grade (IG) credit. IG spreads are still tight, and we believe Canadian IG corporate bonds, with their slightly wider spreads, are more attractive than U.S. IG. We expect softening economic conditions to widen spreads (indicating the market is pricing in more risk) but only by a modest amount unless the economic slowdown is more severe than expected. We remain focused on high quality credit—companies with robust balance sheets—and we expect technicals to remain supportive and healthy yields to mitigate losses from price volatility.

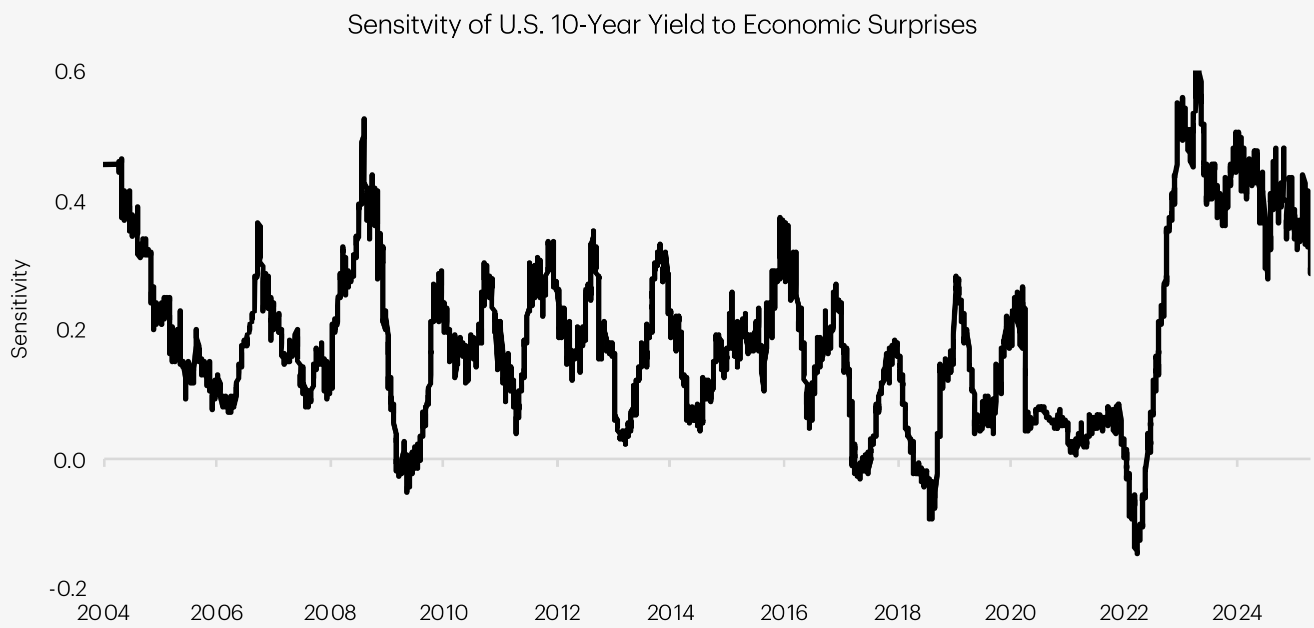
• We hold a neutral view on high yield (HY) credit. HY spreads are still tight post the recent widening, reflecting their rich corporate valuations and little premium for increased economic uncertainty. We expect HY spreads to widen further if the growth outlook softens although the improved quality of this universe and lower expected net issuance should keep spreads from returning to previous recessionary levels. We continue to favour the higher quality cohort of the HY credit market and floating rate loans (also known as bank loans or leveraged loans) offer better relative value than traditional fixed coupon HY bonds.

Government Bonds

The macroeconomic backdrop will be a tricky one for investors to navigate this year: ongoing questions about the scale and impact of U.S. tariffs will likely keep markets guessing about the outcome.

As always, one of the most important factors in the global government bond universe is the U.S. Federal Reserve (Fed). After lowering policy rates by 100 basis points (bps) in 2024, the Federal Open market committee (FOMC) maintained the federal funds rate at 4.25%-4.50% in the first quarter. However, heightened uncertainty around inflation has turned forward guidance unexpectedly hawkish. Based on current data, our expectations are in line with the Fed's March projections, or the dot plot, which suggests a long pause in the cutting cycle, likely until later in 2025. Bear in mind that the Fed's position is based on the latest economic data, sticky core inflation, and policy uncertainty particularly around tariffs, and any new data could upend current projections. We believe U.S. government yields will remain volatile as they react to economic and political surprises. (Figure 2).

Figure 2: Government Yields Still Reacting to Economic Surprises



Source: FactSet, Wealth Investment Office, U.S. Citigroup Economic Surprise Index as of March 31, 2025.

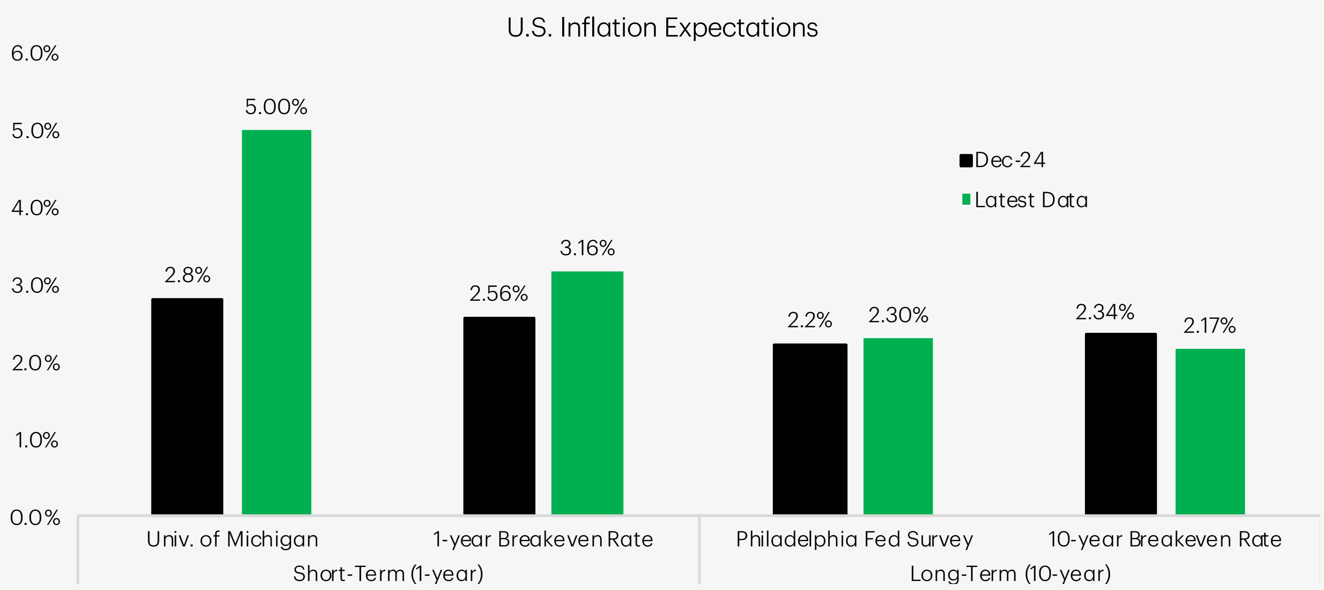
The Bank of Canada (BoC) cut the overnight rate by 50 bps in the first quarter and by 225 bps since it started easing in June 2024, taking the policy rate to 2.75%. Now that the BoC is in the middle of its estimated neutral range, it can slow the pace of easing and assess future adjustments. Risks due to the trade war will likely continue to affect the near-term outlook for the policy rate, but domestic inflation is not an issue, so the BoC is well positioned to cut aggressively if needed.

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

Key Themes for Government Bonds:

- **U.S. Government Policies Impact Bonds.** President Trump's trade policies have entered a new phase with the implementation of significant tariff increases against most countries. Though Trump announced a 90-day pause to retaliatory tariffs on April 9, the broader 10% tariff seems to be the new base level for nearly all U.S. trading partners. While there will be opportunities for negotiations, the scale and scope of these new tariffs have uncertain long-term implications for the global economy. Trump has said that the tariffs provide a source of revenue that will reduce the overall fiscal deficit, but the bond market voiced its reservations during the week of April 7 and sustained higher treasury issuance will push prices down and justify higher term premiums and higher government bond yields. Tariffs may also heighten consumer concerns about more persistent inflationary pressures. The latest comments from the Fed also indicated that businesses are experiencing rising cost pressures and expect to pass those costs on to consumers. Moreover, many surveys already reflect an increase in short-term inflation expectations, and bond investors are already pricing higher inflation over the next 12 months (Figure 3). Overall, U.S. government policies and the recent on-again/off-again statements on tariffs are increasing government yield volatility. We expect this volatility to continue until we get a clearer picture of how U.S. policies will affect the world economy.

Figure 3: Short-Term Inflation Expectations Increase



Source: FactSet, Surveys of Consumers by the University of Michigan, Federal Reserve of Philadelphia, Wealth Investment Office. As of April 10, 2025.

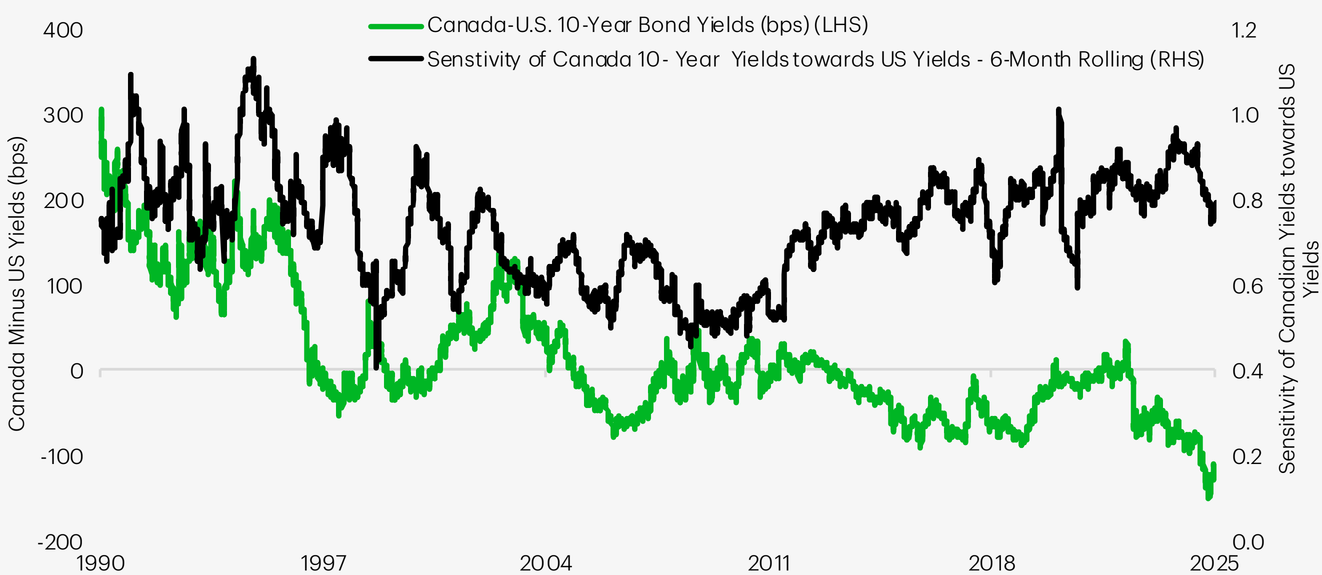
• **Forecasts Written in Sand.** The policy shift under President Trump's administration has increased uncertainty around U.S. monetary policy. Expectations for rising inflation could reduce rate cuts this year, and the intensified trade conflict is poised to hurt growth in the U.S. and the world. Needless to say, the Fed's policy rate path has become more uncertain, and the risk of stagflation is increasing, which means we may see a wider margin of errors for policy rate forecasts. As a result, it's crucial to adopt a tactical approach when investing in government bonds, especially during periods of monetary policy shifts.

• **Canadian Bond Yields Move in Tandem.** Relative to the U.S., Canadian long-term government bond yields have been turned on their head. Before 1995, Canadian long-term bond yields were one percentage point or more above their U.S. counterparts, but in the late 1990s, Canadian fiscal policy changed, and inflation dropped below U.S. inflation trends. From then to mid-2022, spreads (Canadian yields minus U.S. yields) toggled around the zero line or were slightly positive (Figure 4). At the start of 2025, those spreads went to new extremes, dropping to roughly -150 bps for 10-year bonds before returning to -110 bps on April 8, 2025. The wider spreads and higher U.S. yields reflect factors in both economies. 1) U.S. yields have been pushed higher by renewed inflation concerns, nagging fiscal worries, uncertainty around tariffs and ambitious tax cuts. 2) We believe Canadian yields are likely to outperform U.S. yields and at the same time will remain sensitive to U.S. yields. If U.S. yields are pushed higher for domestic reasons, Canadian yields will also rise, but less so. If U.S. yields fall due to recessionary fears, Canadian yields will most likely fall less. The BoC's easier monetary stance and lower terminal rate will not prevent Canadian yields from rising and it also means the BoC might have less room than the Fed to move aggressively if outsized cuts are required.

Credit: Investment Grade and Sub-Investment Grade

Attempts to forecast the markets are foolhardy. We are writing at a time of heightened volatility with unpredictable policy announcements and misleading or short-lived media headlines. Though the path of least resistance is weaker credit performance, we still believe that the current environment remains supportive from a credit-investor perspective. Tariff impacts aside, so far companies have proven resilient to higher interest rates, driven by a private sector that has been reducing leverage since the Global Financial Crisis (GFC). IG corporate earnings growth remains stable, labour markets are slowing but still tight, and consumer retail data continues to show signs of strength although normalizing. Until March, corporate bond valuations were elevated on a spread basis, and they have since widened in the post 'liberation day' sell-off, while yields have remained attractive. (Spreads are a way of measuring risk premium over a government bond of similar maturity: a wider spread means the market is pricing in more risk, narrower spreads, less risk.) Historically attractive yields have enticed a resurgence of yield-motivated buyers to the market, providing strong technical support for the asset class.

Figure 4: Performance, Sensitivity of Canadian Government Yields vs. U.S Yields



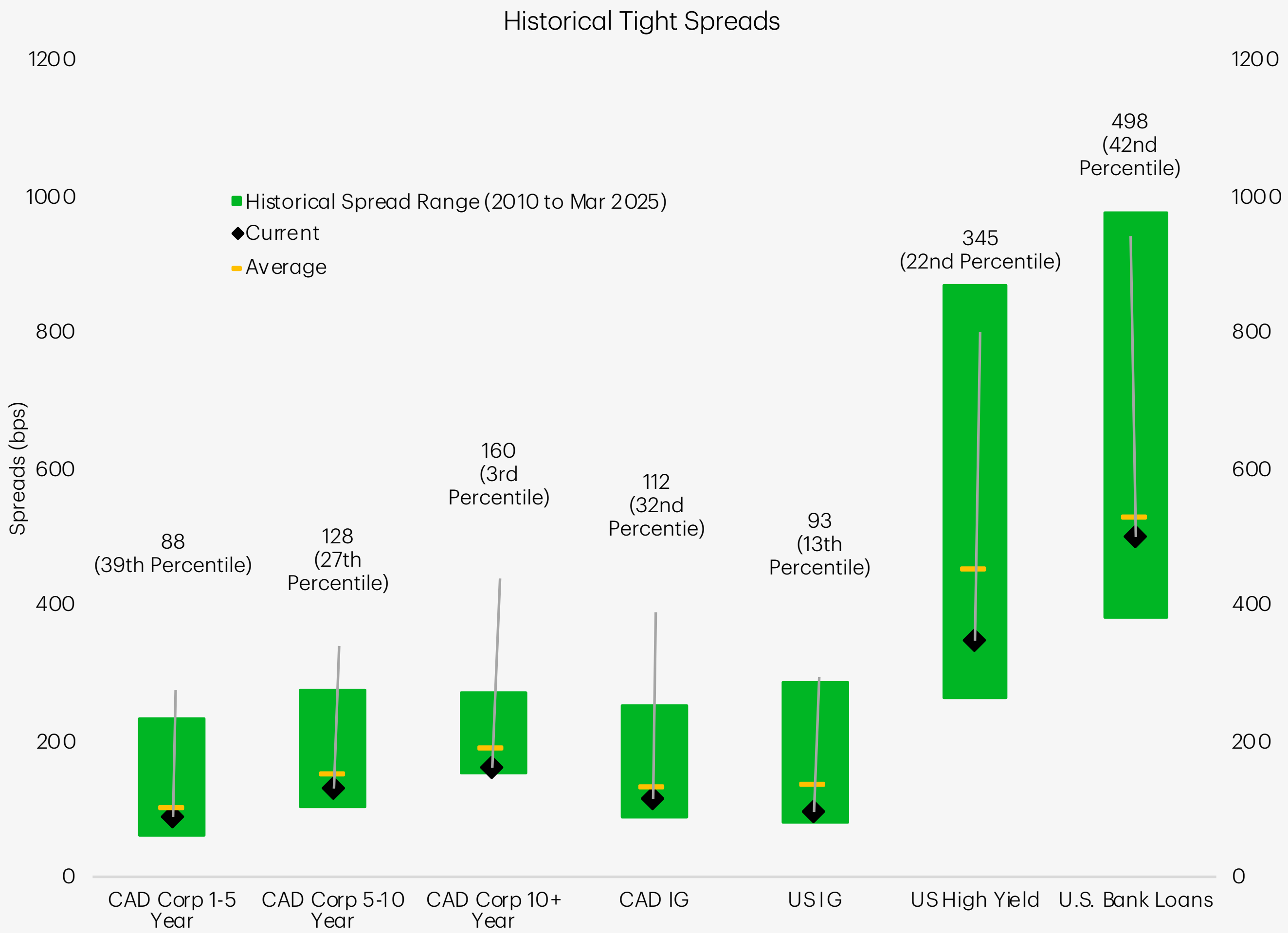
Source: FactSet, Wealth Investment Office, as of March 31, 2025.

Our long-standing view of modestly wider spreads has started to materialize (as of April 11) and there is still room for spreads to widen further to compensate for the heightened uncertainty, but we are not discouraged and maintain our view. We are cautiously optimistic and focused on finding pockets of opportunities through actively managed credit allocations.

We maintain our modest overweight view on IG credit and our neutral stance on High Yield (HY) credit. Spreads have started to embed policy uncertainty risk: they aren't at the tightest levels but are tighter than the historical average (Figure 5). Within the broader IG complex, we prefer short-dated Canadian IG bonds as a total return investment because they continue to offer very attractive all-in yields with lower interest rate sensitivity and are expected to keep offering better forward excess returns than longer maturity corporates. As of the end of March, spreads for the shortest Canadian IG credit with 1-5 year maturity are trading at the 39th percentile whereas spreads for long maturities are trading at tighter levels. Higher yields provide more protection if spreads widen (risk premium increases) and, importantly, higher quality shorter maturity credit will widen less than the broad IG index.

In the previous *Portfolio Strategy Quarterly* (Q1 2025), we wrote that the U.S. HY credit spread, which was trading at the fourth percentile and very close to the tightest levels historically, did not offer any premium for assuming the credit risk. We have witnessed the risk premium returning in the HY space and we expect U.S. HY spreads to widen more relative to IG if fundamentals deteriorate and the probability of defaults increases. Based on current valuations, and within the broad HY universe, U.S. bank loans, with floating coupons based on the short-term rate, are trading with a higher spread cushion, or premium, at the 42nd percentile. Therefore, within HY credit we prefer U.S. bank loans over the traditional fixed coupon HY credit bonds. Broadly we're more comfortable owning IG, with its better outlook and balance sheet strength, over HY. Given the wide range of views on the economic outlook, credit investors should rely on active management and sectoral trends.

Figure 5: Current Spreads Closing in on the Long-Term Average



Source: FactSet, Wealth Investment Office, as of March 31, 2025. Using historical month-end spreads since January 2010.

Key Themes for Credit or Corporate Bonds:

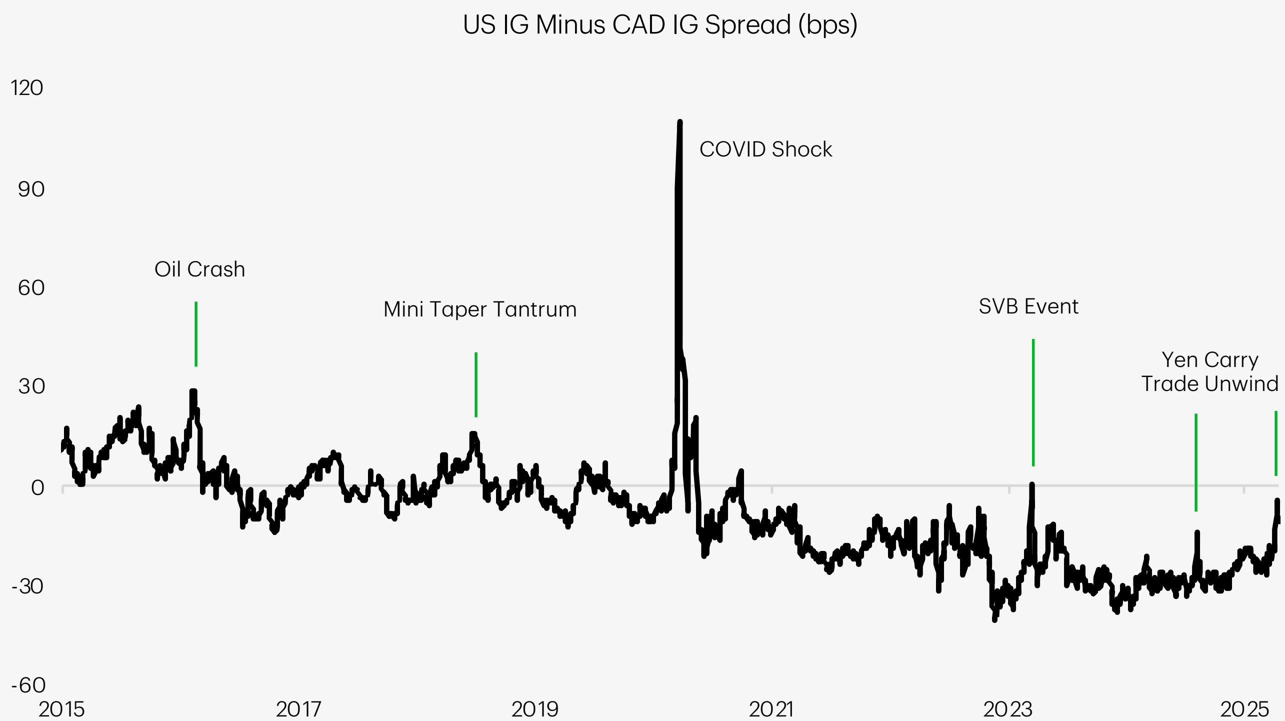
• **Favour Canadian IG over U.S. IG.** We expect Canadian IG to fare better than U.S. IG on a relative basis. Even if tariffs caused an uptick in the sensitivity of Canadian IG spreads to their U.S. counterparts, Canadian IG remains a lower beta alternative. As of now the issuers most at risk are concentrated in the automotive sector (offshore issuers/guarantors), or in HY. Therefore, the Canadian IG space should prove a relative safe haven and should perform reasonably well through this period of turbulence (Figure 6). Importantly, Q1 earnings season will provide some clarity as management teams get a chance to opine on the impact of trade developments.

• **Demand and Supply.** Strong fund flows, combined with historically high coupon payments, drove demand for credit and supported credit spreads. The weighted average coupon rate for Canadian IG index is 4.2%, which is 24% higher than the rate two years ago. While we expect coupons on newer bonds will be lower, it could take a couple of years before the average coupon drops back to the mid-3% from two years ago. Broadly, we expect demand/supply balance in the credit markets to remain stable in coming quarters.

• **HY Market Remains Susceptible.** Historically, periods of tight credit spreads have often been followed by significant and sharp widening. These selloffs typically align with recessions, like the 2007-08 GFC. While predicting these movements is near impossible, understanding their underlying factors gives us a picture of how credit spreads could change. Uncertainty about future fiscal policies, stubborn inflation, or sluggish economic growth can all influence credit spreads (Figure 7). This is exactly what happened after the 'liberation day' tariff announcements: we saw a risk selloff and spreads widened. As we have written in previous editions of *Portfolio Strategy Quarterly,* HY credit spreads have been too tight (with not enough risk premium) for the economic uncertainty. HY credit spreads are about 419 bps (as of April 11) and still susceptible to further widening if economic weakness materializes.

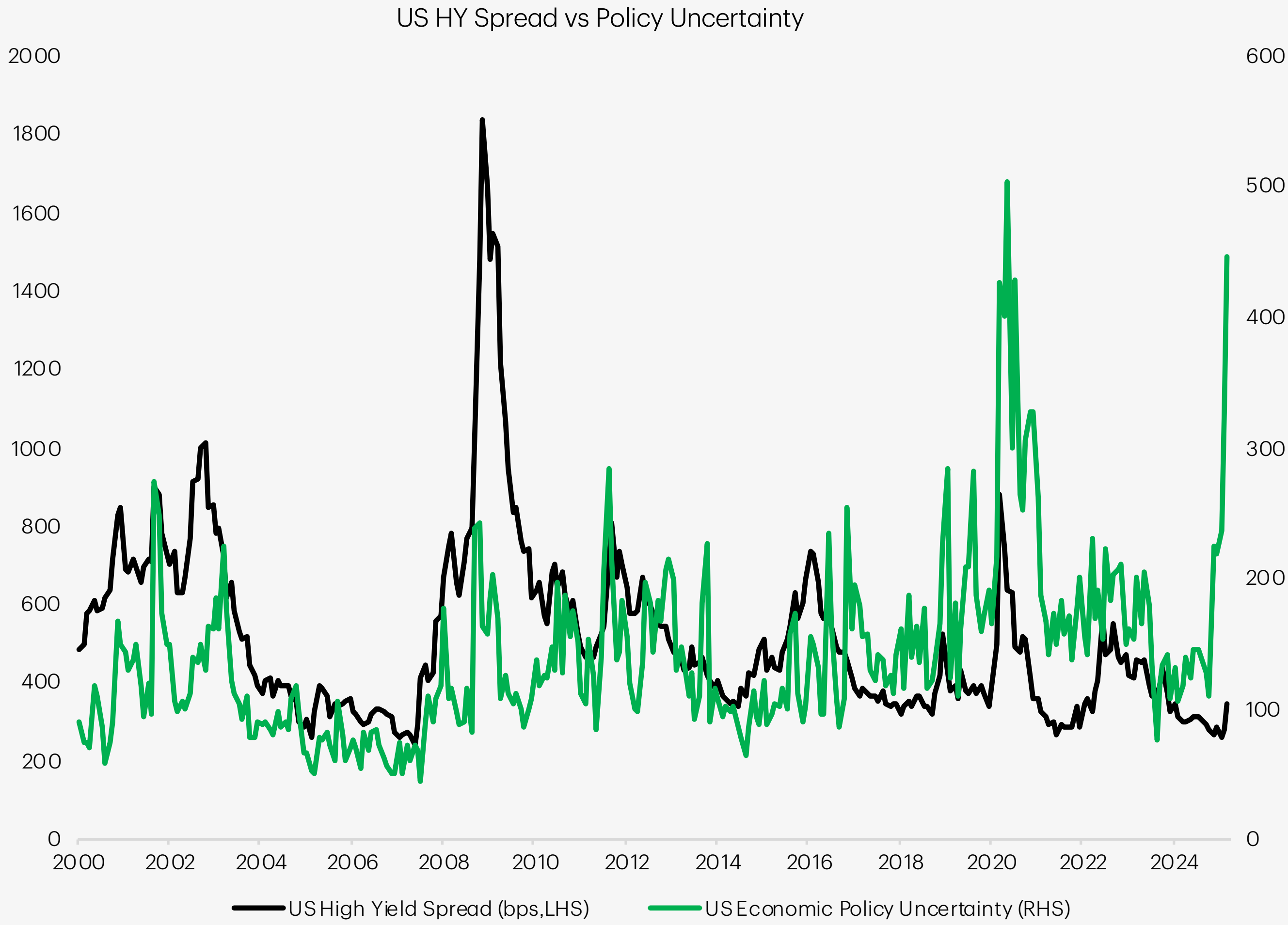
• **Active Management Offers More When Markets Offer Less.** Credit entered 2025 underpinned by fundamental and technical support, but as we have seen in the first week or so of April, we can't take anything for granted. Valuations are still a challenge in the IG credit space and HY credit remains highly susceptible to economic cycles. Therefore, in the coming quarters, caution and prudence will be the priority. Active managers are well equipped to navigate the market during this turbulent time when correctly evaluating credit, curve positions, sectors, and initiating or trimming credit risk hedges, matters most.

Figure 6: Historically, Canadian IG Spreads Widen Less Than U.S. IG Credit Spreads in Times of Stress



Source: FactSet, Wealth Investment Office, as of April 7, 2025

Figure 7: Historically, Spreads Widen in the 12 Months after Tight Levels



Source: FactSet, Economic Policy Uncertainty Index, Wealth Investment Office, as of March 31, 2025.

Higher Yields and Diversification

We urge investors to hold a balanced and diversified portfolio in any given environment, but importantly so in current times. We maintain a modest underweight view on fixed income overall and expect returns for Canadian fixed income over the next 12 months will be closer to the current yield. We expect the bond market will likely return to more conventional behaviour, after trade conflicts settle down and, if the economic slowdown is more pronounced than currently expected, bonds could offer returns better than our base case. The diversification benefits of bonds might be confusing on certain days, as seen in the week of April 4, but over longer intervals bonds retain their risk diversification capabilities. Current yields remain at attractive levels, providing a buffer against volatility, offering diversification and adding the income back into the fixed income mix. Starting yields have been a strong indicator of long-term fixed income performance and based on current high yields and market conditions, we believe there is compelling value in high quality, liquid public fixed income. Active management that balances duration and credit exposure and makes tactical adjustments will help investors sort through the wide range of yields and capture strong returns.

Outlook on Equities

Modest Overweight

Welcome to the New Normal

Chris Blake, Senior Portfolio Manager; David Beasley, Senior Quantitative Portfolio Manager; Mansi Desai, Senior Equity Analyst | TD Wealth

On November 6, 2024, U.S. equity markets opened with a gap-up of 1.4% from the prior day's close and finished the day up 2.5% on optimism that the re-election of Donald Trump would usher in a business-friendly administration, lowering taxes and reducing regulation. The market continued its bullish tone into the first quarter of 2025, driving the S&P 500 to a fresh all-time high on February 19, 2025.

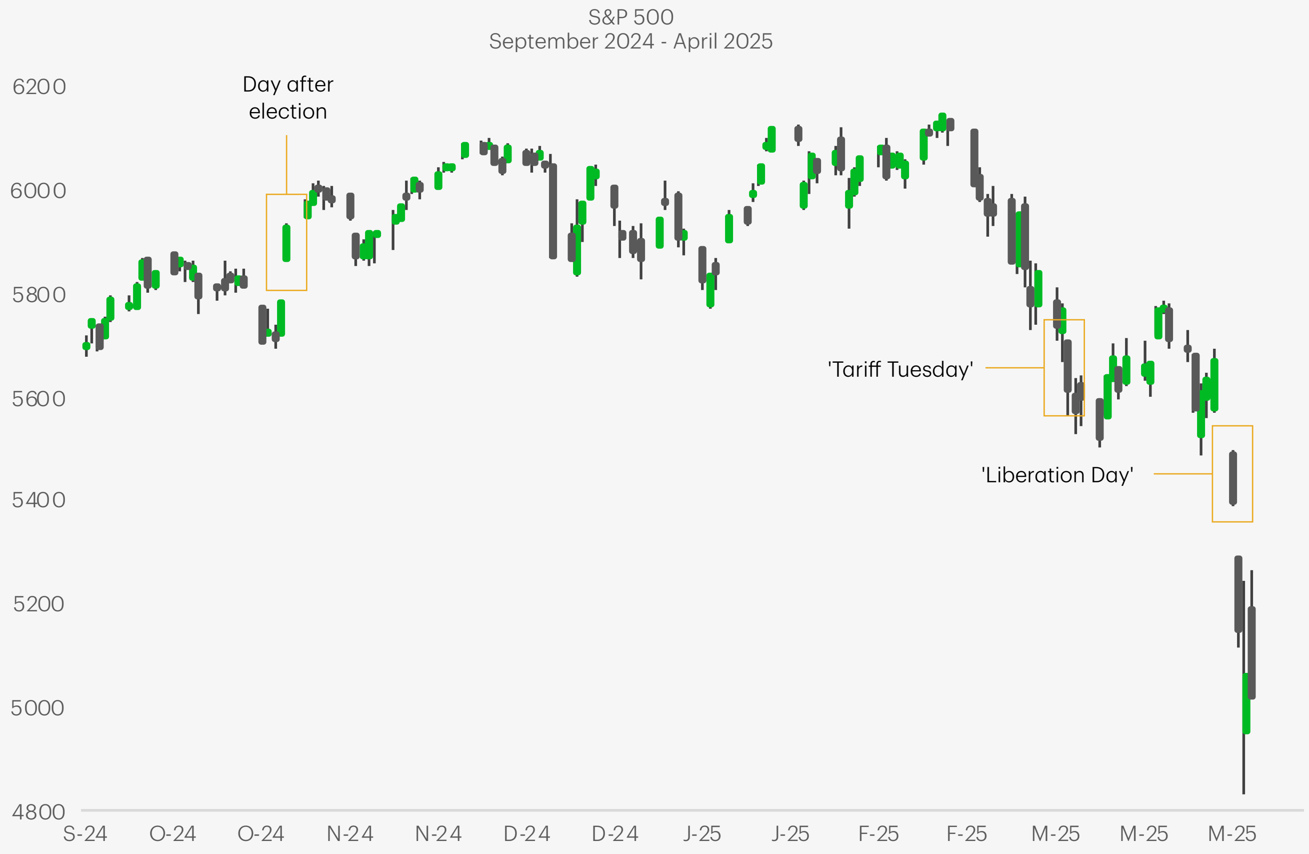
Then trade tariff headlines started circulating. President Trump announced 25% tariffs on goods from Mexico and Canada beginning March 3, 2025 — dubbed "Tariff Tuesday" in the media. The S&P 500 closed that day below the pre-Trump election level and began to trade lower, although in a relatively orderly fashion typical of a common market correction.

That orderly price behaviour ended following "Liberation Day" on April 2, when President Trump announced baseline tariffs on trading partners across the board. This came after market hours, and when the market opened the next day, prices gapped down — and then again the next day, and the day after that.

From the pre-announcement closing price to the lows of the third day, the S&P 500 dropped nearly 15%. This level of volatility had not been seen since 2020, when Covid-19 shut down the world. The reason for the sell-off was not so much the tariffs themselves but, rather, the uncertainty that they brought to global trade and consumption: How big would they be? How long would they last? Would they spark a global recession? The market appeared to price in the worst-case scenario for all these questions.

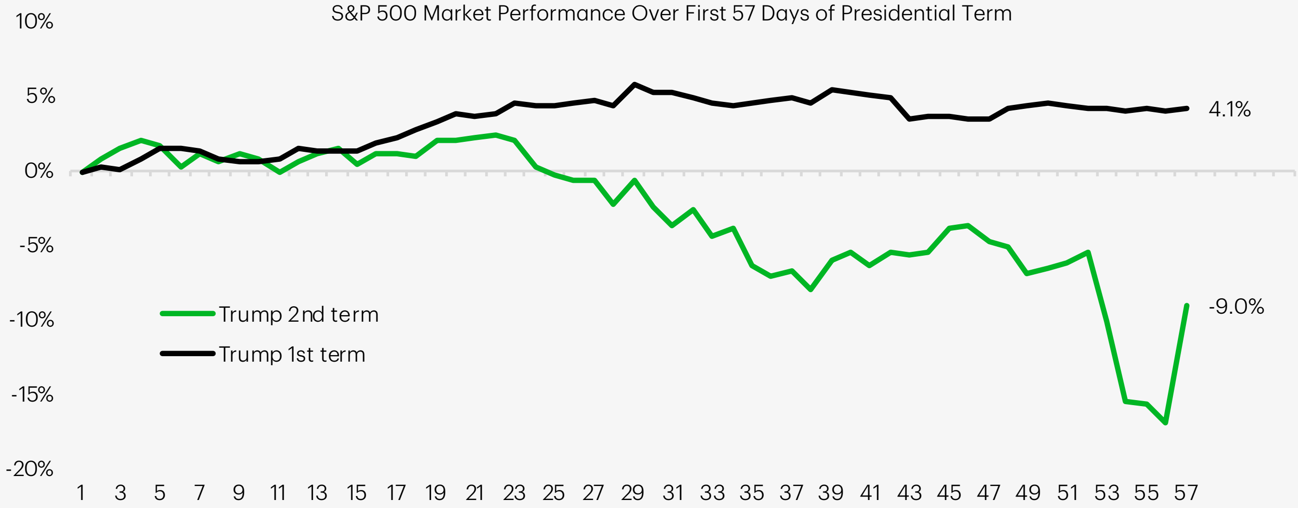
On April 9, President Trump announced a temporary reprieve for most trading partners, and the market turned rapidly to the upside, with the S&P 500 gaining 9.5% that day, while the tech-heavy Nasdaq was up over 12% — the third- and second-biggest gain for each index respectively since the technology bubble burst in 2000.

Figure 1: Market optimism turned to despair



Source: FactSet, Wealth Investment Office as of April 10, 2025

Figure 2: A tale of two markets in Trump 2.0



Source: FactSet, Wealth Investment Office as of April 10, 2025

And there we have it. The U.S. equity market has become a "tariff-headline-driven" market — a very different start to President Trump's first term with respect to the stock market. In that term, the market rose steadily for the first three years. In this term, the market crashed in the first three months (Figure 2). The bull market of the first term was resilient, recovering from corrections and trending higher — until the pandemic. Covid hit toward the end of the four-year term and brought on a short but severe bear market in which the S&P fell nearly 35% in less than two months. This type of bear market is referred to as an "event-driven" bear market. In this, the second term, tariff headlines have created an event-driven bear market of their own, but in this case, it is occurring near the beginning of the four-year term.

Equity investors can only hope the last three years of the second term mirror the first three years of the first. The question is, are these tariffs going to be put in place and maintained, or is this all just a bargaining ploy to have other countries drop their existing tariffs? The latter scenario is the bull case. If we see countries agree to more open trade and lower tariffs, we would expect global trade to reaccelerate and consumer spending to rebound — driving economic growth and a renewed equity bull cycle.

But we don't know which is true. There remains a high degree of uncertainty among market participants about how all this plays out, and the market abhors uncertainty. Professional investment managers look forward to earnings growth, based on revenue and profit-margin forecasts, to monitor how companies compound capital so their equity can grow in value. This forms the basis of the investment decision-making process. However, with tariffs acting as an overhang, companies — let alone investment analysts — have very little certainty about how financial results will take shape over the next year or more.

Again, the market abhors uncertainty, so we expect volatility to remain above average. We are likely to continue to see outsized sell-offs when headlines create increased uncertainty, and outsized rallies when headlines appear that provide more clarity — perhaps not with the same speed and magnitude as we saw during April 2025, but likely abnormal either way.

So what's the key consideration for investment managers in all of this? Adopt a more tactical investing strategy throughout this period. This means avoiding selling into weakness, while taking advantage of market strength when making changes to manage portfolio volatility and risk — at least until we have more certainty in how these tariff headlines will resolve in the end.

Given the U.S. outlook above, it should come as no surprise that we struggle with an outlook for Canadian equities. Perhaps our biggest surprise of the first quarter was the relative outperformance of Canada, with the S&P/TSX Composite Index posting a total return of +1.5% compared to the S&P 500 total return of -4.3%. Intuition would have suggested that, given the rhetoric on trade coming from the U.S. administration, Canada would underperform. However, on March 7, an executive order from the President provided an exemption to the U.S. tariffs for any Canadian good compliant with the Canada/U.S./Mexico Agreement — except for steel and aluminum. So Canada was spared some of the worst of the tariff actions from the administration for now.

Stepping back from the daily market circus, we can see that many qualities make Canadian equities a reasonable haven in a volatile and uncertain world. While the Canadian economy is facing headwinds, a recession is not a foregone conclusion. After solid economic data in Canada in Q4 and leading into 2025, recent metrics are showing signs of weakness — with anemic consumer activity, higher inflation and slower housing sales. While the BoC is likely to provide further rate cuts as a buffer, it's important to note that the growth outlook for 2025 for most major economies has declined while the inflation forecast has increased, according to revised estimates from TD Economics (Figure 3). And, unfortunately, most countries will feel the impact.

The data show that Canada is not alone in seeing reduced growth expectations. That matters, because when it comes to investing, capital allocation is based on an assessment of the relevant alternatives. Comparable markets around the world are in a similar boat, so on a relative basis, Canada is still in pretty good shape and continues to look reasonably attractive.

A cursory look at Canadian inflation data may elicit concern, with the headline consumer price index (CPI) jumping from 1.9% y/y to 2.6% in February. However, this upswing was primarily driven by the unwinding of the tax holiday and the rise in travel services inflation during the month — both of which are expected to be temporary effects.

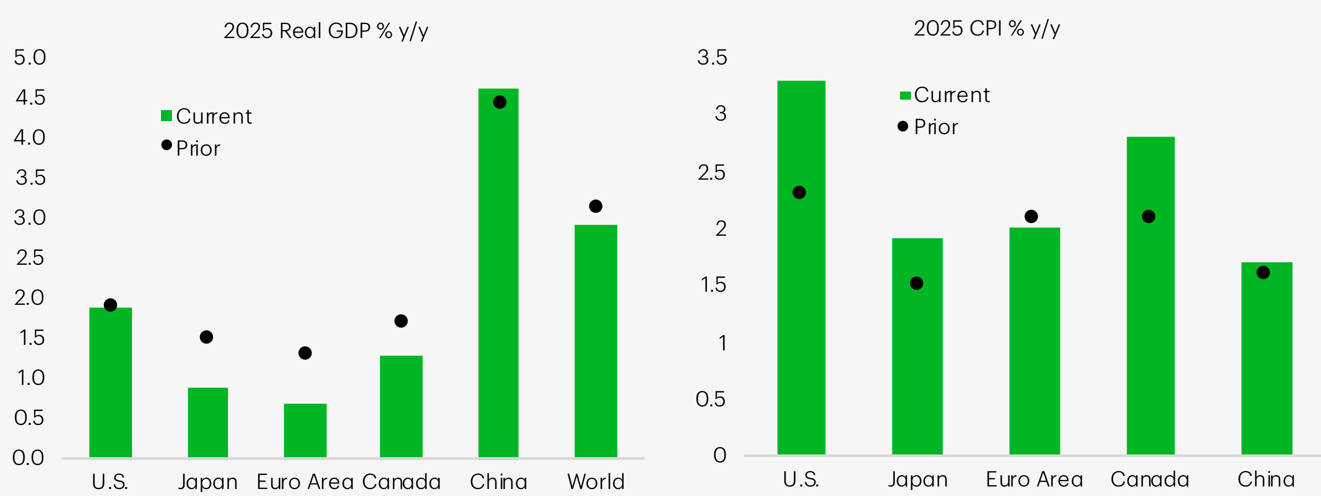
Canada's CPI inflation data will remain distorted over the near term, with the elimination of the consumer carbon tax in April offsetting the inflationary impact of tariffs. Eliminating the carbon tax is expected to reduce the CPI by about 0.5% y/y, while TD Economics estimates that tariffs will boost CPI by 0.3% to 0.4% y/y. Both shocks should be viewed as one-offs, and both are set to take effect at the start of April. The good news is that inflation expectations in Canada remain anchored, and wage expectations are also trending lower.

The Canadian labour market entered the current tariff crisis from a position of strength, with job gains accelerating in the fourth quarter of 2024 and into January, when the economy added 76,000 jobs. In February, job gains were weaker with just 1,100 net positions added, and in March the data showed a reduction of 32,500 net jobs. In both February and March, part-time employment grew at the expense of full-time employment. As uncertainties mount, companies are opting for part-time workers rather than full-time. Overall, while the Canadian labour market is still on solid footing, it continues to navigate sector-specific challenges and the broader economic factors impacting employment across the country.

Canada So Not Over

Canadian GDP growth was rebounding prior to the U.S. tariff threats, although it was still running below potential according to the Bank of Canada. The most recent estimates from the Bank indicated a gap of about 0.9% in the second quarter of 2024 (most recent data point). At that time, the economy was growing 1.9% y/y. There are several ways the economy could close this output gap, such as loosening monetary policy, stimulating consumption or boosting public-sector spending. Over the past year, the BoC has cut rates to ease monetary policy. The good news, from a government perspective, is that, with a federal election on April 28, both leading candidates are eager to implement fiscal-policy stimulation.

Figure 3: Growth outlook deteriorates, while inflation rises



Source: TD Economics, Wealth Investment Office as of March 30, 2025. *China CPI is IMF forecast

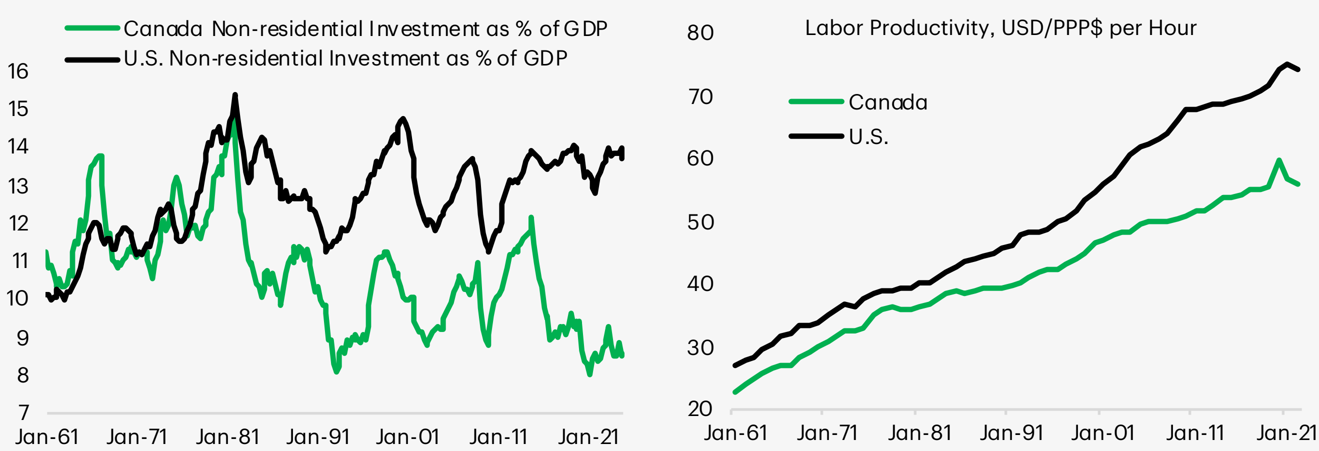
The even better news is that there are plenty of ways to generate fiscal stimulus. Canada could use a better inter-provincial trade regime — a move that could enlarge the internal market and reduce costs. The country would also do well to develop stronger trade ties outside the U.S. Canada has lagged in productivity growth for many years. Addressing that gap would be welcome. In doing this, the government could reverse the path that our economy has been on for a long time. Indeed, capital spending in Canada has structurally declined over the past 40 years, diverging from the U.S. (Figure 4). It won't be easy, but the federal government has the tools and the capacity to cushion the domestic economy from external threats, including U.S. tariffs on Canadian goods.

To come full circle, tariff concerns have not changed our modest overweight view on Canadian equities. We get the risks out there. For instance, we expect that U.S. tariffs on the auto sector announced in March will weigh on economic growth. And we, like you, are waiting for the next announcement.

But let's base our decisions on fact, not what might happen. So far in 2025, Canadian equities have outperformed the Dow Jones Industrial Average, the Nasdaq and the S&P 500 — mainly because investors are de-risking their equity portfolios. The S&P/TSX carries a more attractive valuation with comparable earnings growth and a higher dividend yield. Plus, it has greater exposure to the more defensive characteristics that investors are looking for in the current uncertain environment (Figure 5). Remember, 50% of the S&P/TSX's weight is in sectors like financials, pipelines, telecoms, consumer staples and utilities. This tilts a portfolio towards income-generating stocks with lower beta (generally less volatility than the broader market).

This more defensive sectoral mix will help Canadian equities retain some stability during the trade war. And long-term investors will benefit from this built-in ballast: even if tariffs dent industrial or export-oriented companies, the large banks and utilities keep churning out profits and dividends. On a side note, the U.S. is

Figure 4: Low investment leads to low productivity



Source: FactSet, Wealth Investment Office, as of March 27, 2025

Figure 5: Canadian equities benefit from defensive sectors

Value/income allocation of diversified style portfolio strategy

U.S. Equities (S&P 500)	Canadian Equities (S&P/TSX)
Valuation (2025e): **20.9x**	Valuation (2025e): **15.4x**
EPS growth (2025e): **10.1%**	EPS growth (2025e): **9.2%**
Dividend yield: **1.4%**	Dividend Yield: **3.0%**
Average market cap: **US$99.2B**	Average market cap: **$18.4B**

Style: **Large Cap Growth** ⟷ Style: **Mid/Large Cap Value/Income**

Source: S&P Global as of March 31, 2025, FactSet, Wealth Investment Office as of April 28, 2025 still expected to deliver one of the highest earnings growth rates in the world and remains among the top 10 equity markets globally — even with all the uncertainty facing U.S. companies.

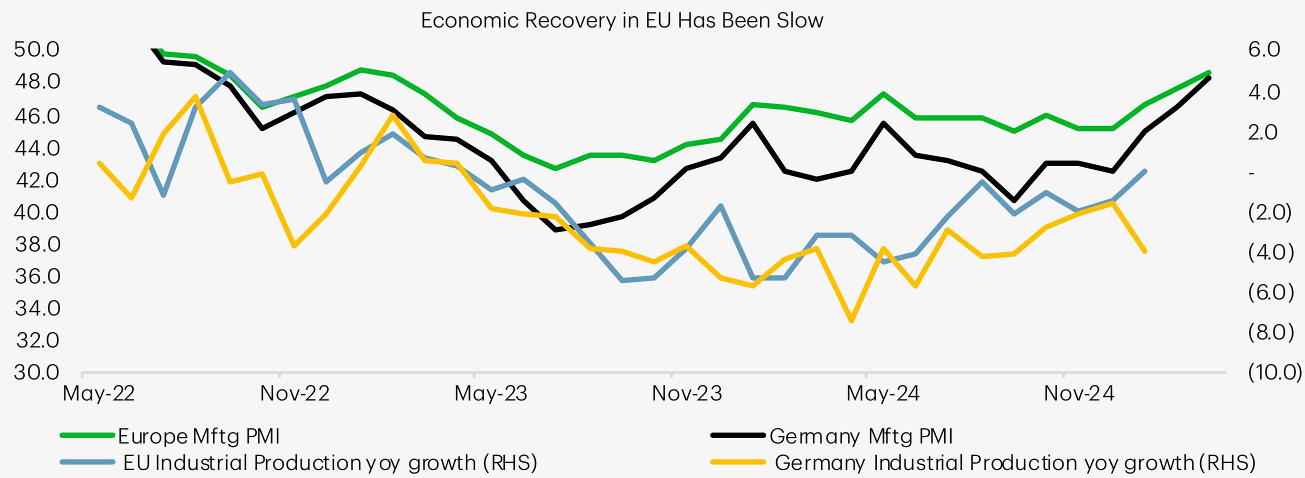
Is it too early to add international equities?

International equities recorded stellar performance at the beginning of this year, outperforming U.S. equities by 6.8 percentage points (pp) in Q1. This rally was fuelled by optimism over Germany's shift to a relaxed fiscal deficit budget to fund defence spending (after 20 years of maintaining tight fiscal policy), combined with hopes that other EU countries would soon follow. However, the rally dissipated in April following the announcement of 20% reciprocal import tariffs on Europe, combined with fears of a U.S. recession and its potential impact on international equities.

While European equities have performed well, we continue to remain cautious given the slow recovery in Europe, as noted in our last edition. Although PMI levels have continued to improve since December 2024, metrics for manufacturing PMI and industrial production both remain in contraction. For Europe and Germany, the manufacturing PMI stood at 48.0 at the end of Q1, and industrial production stood at 0.0% and -4.0%, respectively, as of January 31 (Figure 6).

In addition, the threat of 20% reciprocal tariffs from the U.S., Europe's largest export trading partner, could translate into a 2.1% loss in GDP (Figure 7). China, Europe's third-largest export partner, is also experiencing an economic slowdown, contributing to stagnation in Europe, particularly Germany. While there have been some positive developments, we believe these challenges may take longer to work through, though we are monitoring the data closely.

Figure 6: Manufacturing activity in EU still in negative territory



Source: FactSet; Wealth Investment Office as of March 31, 2025

Figure 7: Economic vulnerability to tariff threat from the U.S.

Countries	% of Exports to GDP	% of Exports to US	Reciprocal tariffs announced on April 2nd	Economic Impact to GDP (Assuming tariffs announced as of April 2nd)	Economic Impact to GDP (Assuming baseline 10% tariffs)
Canada*	33.4%	76.4%	25%, except 10% on energy and potash	3.1%	1.5%
Europe	50.5%	20.6%	20%	2.1%	1.0%
Germany	43.4%	10.4%		0.9%	0.5%
France	34.3%	8.5%		0.6%	0.3%
Italy	33.7%	11.7%		0.8%	0.4%
United Kingdom	31.7%	15.5%	10%	0.5%	0.5%
Japan	21.8%	20.0%	24.0%	1.0%	0.4%
China*	19.7%	15.0%	145.0%	3.2%	0.3%
Mexico*	36.0%	83.0%	25.0%	3.7%	1.5%
Taiwan	70.0%	23.5%	32.0%	2.6%	0.8%
South Korea	44.0%	18.6%	25.0%	2.0%	0.8%
India	21.8%	17.4%	26.0%	1.0%	0.4%

Source: FactSet; Wealth Investment Office as of March 31, 2025. Note: *For Mexico, ~50% of goods exported to US are USMCA compliant which are exempt from import tariffs. Economic impact is excluding ~50% of exports to US.

Even though markets rallied after Germany's announcement that it would expand its fiscal deficit by 2.0% to fund defence and infrastructure, we note a couple of points that keep us on the sidelines for now: (1) Around 60% of military-equipment imports in the EU are sourced from the U.S. Hence, even if Germany spends 2% of GDP on defence in the initial years, much of this spending will flow into imports, benefitting U.S. defence companies. Although the EU has expressed an intent to boost domestic defence manufacturing, this will take time; (2) Despite Germany's commitment to public infrastructure investment after 20 years, the timelines for completing infrastructure projects in the EU are notoriously slow, often bogged down by regulation, environmental assessments and extensive stakeholder consultations.

Since 2023, the rally in European equities has been concentrated in financials and technology. As mentioned above, it's difficult to determine when the risks will be resolved. But once the dust settles on U.S. import tariffs, China's economy stabilizes and rate cuts in the EU begin to support economic recovery, we expect equity returns in Europe to broaden beyond the concentrated rally in financials and technology. That would lead to a long-awaited and healthier rally in European equities.

Japanese equities underperformed the MSCI EAFE Index by over 6.0 pp in Q1. This was driven by concerns over the BoJ raising rates amid consistent inflation above 2.5% since October 2024. Rising rates tend to strengthen the yen, which can hurt Japanese equities given their reliance on export revenue. Further, when U.S. long-term Treasuries declined amid fears of political instability, investors flocked to safe-haven assets, including the yen, which further appreciated.

Although we don't anticipate a repeat of the yen carry trade unwinding seen in August 2024, we remain cautious of the build-up in net short-term foreign assets in Japanese banks, indicating that funds remain parked there to fund the carry trade. In terms of import tariff threats from the U.S., the administration has not, so far, been as hostile toward Japan as it has been toward China, Canada and Mexico. Hence, we are hopeful that Japan will be able to negotiate trade terms with the U.S. in the coming months, mitigating the impact on exports — which account for 4.4% of GDP.

The UK economy is more services-oriented than those of its neighbors. Exports of goods form 32% of GDP compared to 51% for Europe. The FTSE All-Share Index tends to perform relatively well during global downturns due to its high exposure to defensive sectors, such as health care, utilities and consumer staples. As a result, it outperformed global equities by 6 pp in Q1. Given that the U.S. has levied the lowest 10% tariff rate on the UK, its vulnerability to tariff shocks remains lower than Europe.

EM prospects amid the Sino-American tug-of-war

Emerging-market equities outperformed global equities by over 3.0%, primarily driven by Chinese tech equities following the launch of DeepSeek in December 2024. Despite the strong rally in Chinese equities, we maintained our underweight stance on emerging markets due to challenges stemming from a structural slowdown in China and the potential impact of U.S. import tariffs on key EM countries, such as China, Mexico, South Korea, Taiwan and India — all of which are integral to U.S. supply chains.

Unfortunately, our concerns were validated. In April, the U.S. took a more hostile stance toward China by announcing nearly 145% import tariffs, while implementing a 90-day pause on all reciprocal tariffs. In response, China imposed 125% tariffs on U.S. exports (as of April 13). While most countries initiated trade negotiations with the U.S., President Xi Jinping made it clear that China would not back down unless the U.S. adopted a more pragmatic approach to trade talks.

The major EM countries mentioned above, along with Vietnam, account for over 40% of U.S. imports. Not surprisingly, they are among the nations facing the highest tariff rates (Figure 7). Should reciprocal tariffs be fully implemented, global trade could grind to a halt — hurting emerging markets most severely.

The economic impact of such high tariffs on China, Mexico and Taiwan could exceed 4.0% of GDP. In China alone, job losses could total 20 million. Moreover, any slowdown in Chinese exports would ripple across economies like Mexico, Vietnam and parts of Latin America, where China has heavily invested in backward integration of its supply chain. In the short term, central banks in emerging markets — especially China — have room to cut rates to mitigate the economic drag from import tariffs. However, in the long run, such high tariffs would distort the growth models that have propelled many EM countries over the past two decades.

In China, recent transaction data for secondary homes look positive, but the broader growth trajectory in the real estate sector remains sluggish. Construction of new residential and commercial properties is still in negative territory, and credit uptake remains weak.

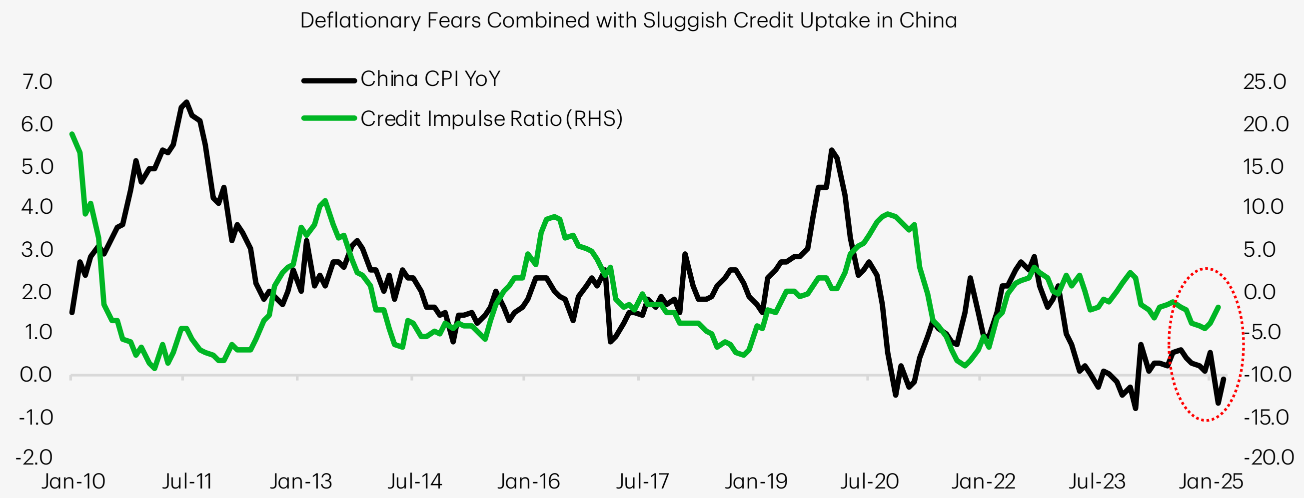
To boost consumer spending, the government's ¥170-billion "trade-in program" is expected to generate an additional ¥300 billion in retail sales. However, the continued downward trend in inflation is a concern (Figure 8), requiring government support to be sustained or possibly even increased in 2025.

A weak-on-ground recovery was also reflected in the performance of Chinese equities in Q1 where the rally was concentrated in the technology and consumer discretionary sectors. While the performance in April has broadened out in Chinese equities (Figure 9), it is early days.

Taiwanese equities were hit hardest, underperforming the MSCI EM Index by over 12 pp due to tariff concerns. Indian equities recorded flat growth, weighed down by disappointing corporate earnings and persistent weakness in consumer spending.

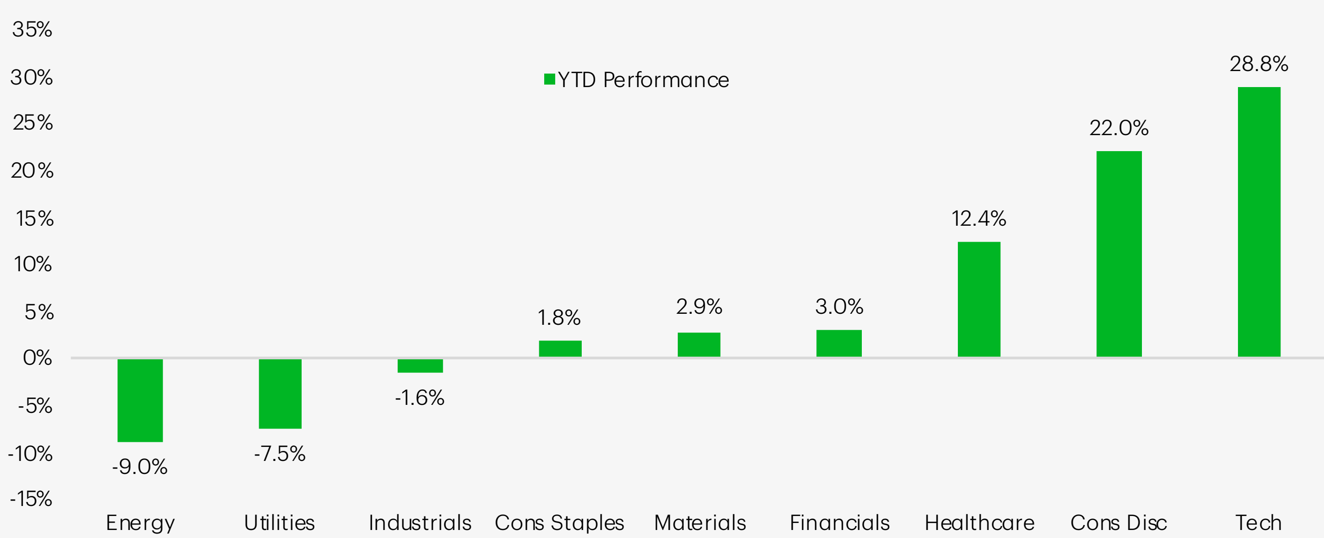
The way forward for emerging markets remains highly uncertain and volatile, given their critical role in global supply chains for U.S. companies. There is still hope that the steep U.S. tariffs are simply a negotiation tactic being used to reduce its trade deficit and to encourage other nations to lower their own tariffs. Investors are optimistic that the trade war will not last long enough to trigger a full-blown U.S. recession — especially considering the administration's back-and-forth stance on tariffs. For instance, on April 12, the U.S. exempted smartphones, computers and other electronics (including processors and memory chips) from the 125% tariffs on China, as well as from the baseline 10% tariffs on all imports. And on April 2, when reciprocal tariffs were announced, Canada and Mexico were not hit with additional tariffs beyond 25%, indicating that the U.S. may have reached its tariff peak with those countries and that a deal may be in the works.

Figure 8: Structural slowdown in China persists



Source: FactSet; Wealth Investment Office as of March 31, 2025

Figure 9: Rally in Chinese equities broadened out in April



Source: FactSet; Wealth Investment Office as of April 23 , 2025

Amid all this uncertainty, the silver lining for both international and emerging-market equities lies in their discounted valuations. These valuations have failed to expand since 2021 — first due to rate-hike fears (given that these economies are more rate-sensitive), and then due to a concentrated rally in U.S. tech equities. In 2024, the "Magnificent Seven" stocks contributed 48% to the MSCI World Total Return, highlighting just how much the rest of the market lagged behind.

This has created a margin of safety for international and EM equities, whose valuations are now trading near pandemic-era lows — approximately 14x for the MSCI EAFE and 13.5x for MSCI EM. Even with headwinds to the earnings outlook, we believe the current valuation levels will provide some downside support. However, given the high level of uncertainty, we expect EM equities to remain volatile, but overall rangebound.

At this point, it is difficult to predict the exact path ahead. As prudent investors, we can only act on what we know and take calculated risks within equities by targeting sectors and regions where the reward-to-risk ratio is compelling. While we are maintaining our underweight stance on international and emerging-market equities due to the outlined risks, our active managers are identifying attractive opportunities. It's during these volatile periods that rational and patient investors can exploit market fears to their advantage — and generate significant long-term returns. Continuing to invest through volatility is essential to enhancing equity performance over longer horizons.

Figure 10: Scenario Analysis for MSCI EAFE and MSCI EM Index

MSCI EAFE	**Earnings Growth**						
	12m Fwd Estimated Total Return	**-15%**	**-10%**	**-5%**	**0%**	**5%**	**10.0%**
Fwd PE Multiple	11	-27.7%	-22.7%	-17.7%	-12.7%	-7.7%	-2.7%
	12	-20.1%	-15.1%	-10.1%	-5.1%	-0.1%	4.9%
	13	-12.5%	-7.5%	-2.5%	2.5%	7.5%	12.5%
	14	-4.9%	0.1%	5.1%	10.1%	15.1%	20.1%
	15	2.7%	7.7%	12.7%	17.7%	22.7%	27.7%
	16	10.3%	15.3%	20.3%	25.3%	30.3%	35.3%

MSCI EM	**Earnings Growth**						
	12m Fwd Estimated Total Return	**-15%**	**-10%**	**-5%**	**0%**	**5%**	**12.5%**
Fwd PE Multiple	9	-31.7%	-26.7%	-21.7%	-16.7%	-11.7%	-4.2%
	10	-22.8%	-17.8%	-12.8%	-7.8%	-2.8%	4.7%
	11	-13.9%	-8.9%	-3.9%	1.1%	6.1%	13.6%
	12	-5.0%	0.0%	5.0%	10.0%	15.0%	22.5%
	13	3.9%	8.9%	13.9%	18.9%	23.9%	31.4%
	14	12.8%	17.8%	22.8%	27.8%	32.8%	40.3%

Source: FactSet; Wealth Investment Office as of March 31, 2025.

Note: 12m Fwd Total Return is the sum of valuation expansion/contraction, dividend yield and earnings growth. Total Return in the table above is calculated by adding estimated 12m dividend yield, expansion/contraction to the range of fwd PE multiples from the current valuation levels and the expected range of earnings growth.

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Outlook on Private Markets

Modest Overweight

Liquidity providers, sophisticated creditors and AI 'picks and shovels' to shine

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

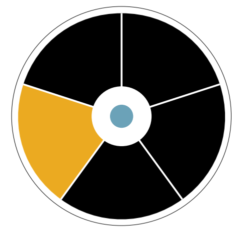
Exit transaction activity, as measured by M&A and IPO volumes, is expected to further stall as choppy markets work through a tariff and tax paradigm shift in search of price discovery and operating stability. Given that expectations for policy deregulation and looser financial conditions have evaporated, liquidity is even more top-of-mind for private equity investors. This continues to bode well for secondaries and curated preferred-equity structures that provide an off ramp for LPs and GPs.

As higher default probabilities are priced into spreads across the public-private credit spectrum, the most defensive positions continue to be non-amortizing first-lien senior secured loans, directly originated to sponsor-backed companies in the upper middle market with conservative capital structures. In the real assets space, despite the evolution of lighter-weight large language models (LLMs) from global AI companies earlier this year, we believe the data-centre and power-infrastructure "pick and shovels" investment thesis remains intact — the caveat being that this applies strictly in cases where capital expenditures are deployed in response to demand curves that are underpinned by AI compute (i.e., processing and memory capacity), as opposed to enterprise cloud alone, and reinforced by long-term contracts.

Private Equity

In the last edition of *PSQ*, we dipped our toes into the psychology of private market participants during periods of rapidly tightening monetary conditions; in particular, we highlighted the liquidity opportunity presented by private equity secondaries, due to muted volumes in M&A and IPO transactions over the past three years. This situation, prompted by a higher cost of capital — after a decades-long tailwind from falling and ultra-low interest rates — has extended the holding period for portfolio companies, and is expected to get worse as the U.S. recalibrates its fiscal and trade deficits through tariff and tax policy.

The uncertain operating environment and renewed talk of stagflation has made price discovery even more challenging. As a result, limited partners (LPs) may have to wait longer for distributions, potentially adding to record-high LP-led sale volumes of seasoned stakes in closed-end funds. Recall that pushing out evenly distributed cash flows into the future reduces



Why consider adding alternatives to your portfolio?

Investors with a long-term horizon could benefit from including exposure to alternative investments in their portfolios, namely private equity, private credit, unlisted real assets – such as real estate and infrastructure – and hedge funds. Alternative investments can enhance portfolio risk-adjusted returns through cash flows and valuation drivers that are different in nature to those found in companies that issue publicly traded equity and fixed income securities. Additionally, unlisted real assets in particular provide investors with income streams that rise with inflation, unlike the nominal dividends and interest payments that are typically received from stocks and bonds.

Privately held assets in general help to reduce portfolio volatility due to relatively muted drawdowns across market cycles because they're less influenced by the noise that sometimes causes dislocations in public markets. Beyond exposure to a wider cross-section of systematic risk factors, private markets provide opportunities to capture additional skill-based risk premiums and generate attractive absolute returns. This is by virtue of lower information efficiency that rewards specialized origination capabilities, active ownership that enables operational intervention and capital structure optimization, and trading illiquidity that provides for disciplined compounding of capital over the long-term.

TD Wealth maintains a modest overweight on alternatives.

returns, as measured by the internal rate of return (IRR), especially when compared to hurdle rates that are informed by public market equivalents. In addition, general partners (GPs) may continue to seek out continuation vehicles, preferred-equity liquidity solutions, or net asset value (NAV) loans in order to hang on to their best assets and crystallize unrealized multiples on capital already reported to investors.

After a record-breaking year in 2024, where $162 billion worth of fund units (all USD) changed hands in the secondary market — a 45% year-over-year increase, surpassing the previous record of $132 billion in 2021 — it's not irrational to expect transaction volumes to exceed $200 billion in 2025. For context, this compares to approximately $1 trillion in buyout-specific dry powder.

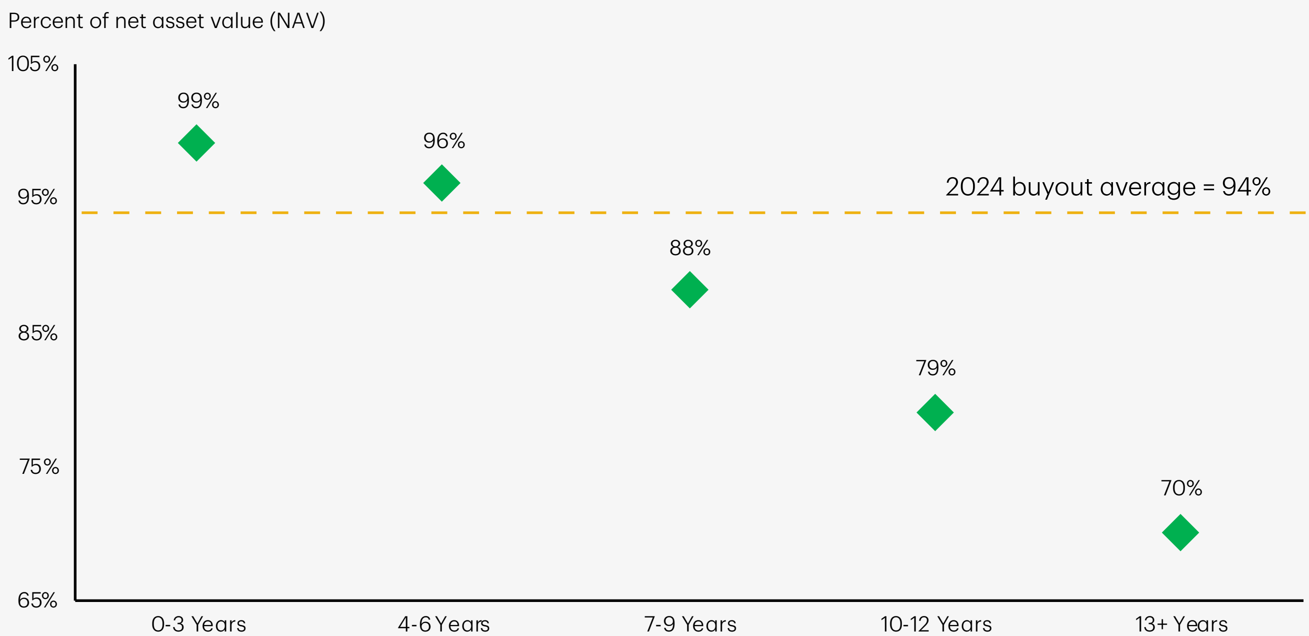
To add some texture to this now established marketplace, in 2024 there were 27 LP-led and 24 GP-led deals over $1 billion in value, and 29% of total volume was sold by pension plans and sovereign wealth funds. Dedicated available buy-side capital rose to an all-time high of $288 billion, driven by aggressive fundraising from traditional secondary funds and a surge of new evergreen retail capital, where AUM grew to $24 billion or over 50% y/y. Last year, 31% of LP-led volume came from funds that were less than five years old.

Figure 1 shows average buyout pricing by age of fund as a percentage of NAV. We can see that there is a balancing act between sourcing attractive discounts and receiving distributions. One interpretation is that funds close to the end of their legal termination dates, but desperately unable to exit underlying portfolio companies, may sell at steeper discounts as compensation for lower IRR due to back-ended cash flows. A corollary here would be that funds with terms of five to eight years may offer modest discounts to redress pushing out distributions into the future.

At this juncture, both LPs and GPs have come to terms with disappointing distributed to paid-in capital (DPI) metrics for pandemic-era vintages and may react accordingly. Furthermore, the buyer's market in the private equity secondaries space may be amplified by yet another denominator effect, this time a capitulation of public equity beta, along with repricing at the long end of the yield curve due to higher sovereign risk, and spread-widening in the credit markets due to volatile trade negotiations by the current U.S. administration.

Specifically, as the value of such assets decline and securitized products trade at discounts to their underlying securities, investors may find themselves inherently over-allocated to private markets and subsequently seek to rebalance at the total portfolio level. With this unfolding in real time, private wealth managers need to be cognizant of asset location given the proliferation of evergreen funds designed specifically for high-net-worth individuals. GPs may manoeuvre to use these fresh capital pools to provide liquidity to prevailing institutional LPs in traditional drawdown funds, leaving retail clients holding the bag.

Figure 1: Average buyout pricing by age of fund



Source: Wealth Investment Office, Hamilton Lane as of December 31, 2024

For fund managers, it's crucial to ensure that the private wealth channel maintains investments alongside institutions dollar for dollar as part of a given LP base; alternatively, and at the very least, closed-end funds and perpetual capital funds must own distinctly separate assets of fungible quality.

Turning to the primary market, U.S. private equity exit activity recovered substantially in 2024, ending a two-year decline. This was punctuated by a 49% year-over-year (y/y) increase in exit value in the fourth quarter, driven by M&A activity. That being said, there's an estimated backlog of eight years' worth of companies waiting to be liquidated, either as a sale to strategic buyers or through the issuance of stock in the public markets. Not to insist on our views from last quarter, but as long as underlying portfolio companies continue to perform, funds will accrue NAV over time and opportunistically sell their holdings. This is a luxury of largely exiting above the mark, a result of GPs not being forced sellers and only offloading holdings that can achieve strong valuations.

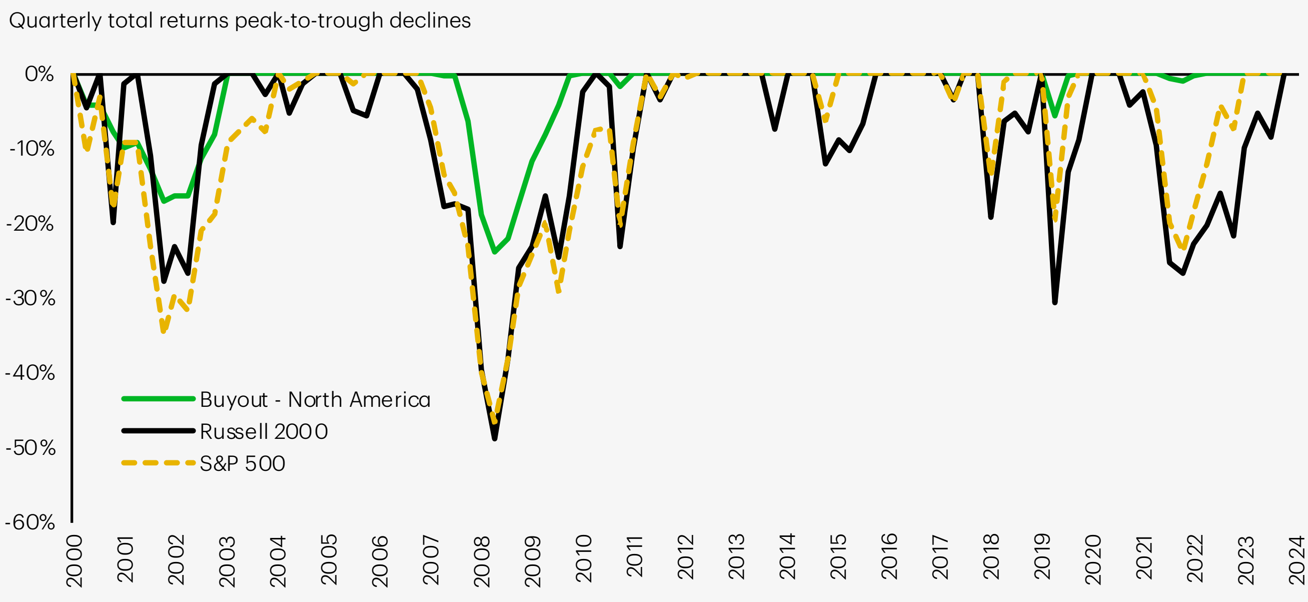
It may be helpful to recall that, beyond the significant alpha generated historically by pure-play buyout strategies, drawdowns of private equity, closed-end funds have been relatively muted compared to public stock indices during times of market stress, as shown in Figure 2.

In corporate buyouts, we will always prefer GPs with a strong track record of value creation through operational intervention and capital-structure optimization with long holding periods. The main focus is securing attractive relative entry value for businesses that enjoy durable competitive advantages — growing revenue and profit, generating robust free cash flow, and exiting under opportune conditions. With this traditional value investing approach in mind, and while appreciating the currently stifled dealmaking backdrop, we believe that a "complexity premium" exists, which is typical during periods of market dislocations.

With fairness opinions changing by the week, this will be difficult to capture, even by sophisticated GPs that have the chops to successfully execute carve-outs, spin-offs and divestitures. We can't stress enough that private equity is appropriate for clients with the willingness and ability to take risk in the form of illiquidity, complexity and operational skill. This must be coupled with the long time horizon necessary to enable these premiums to be captured.

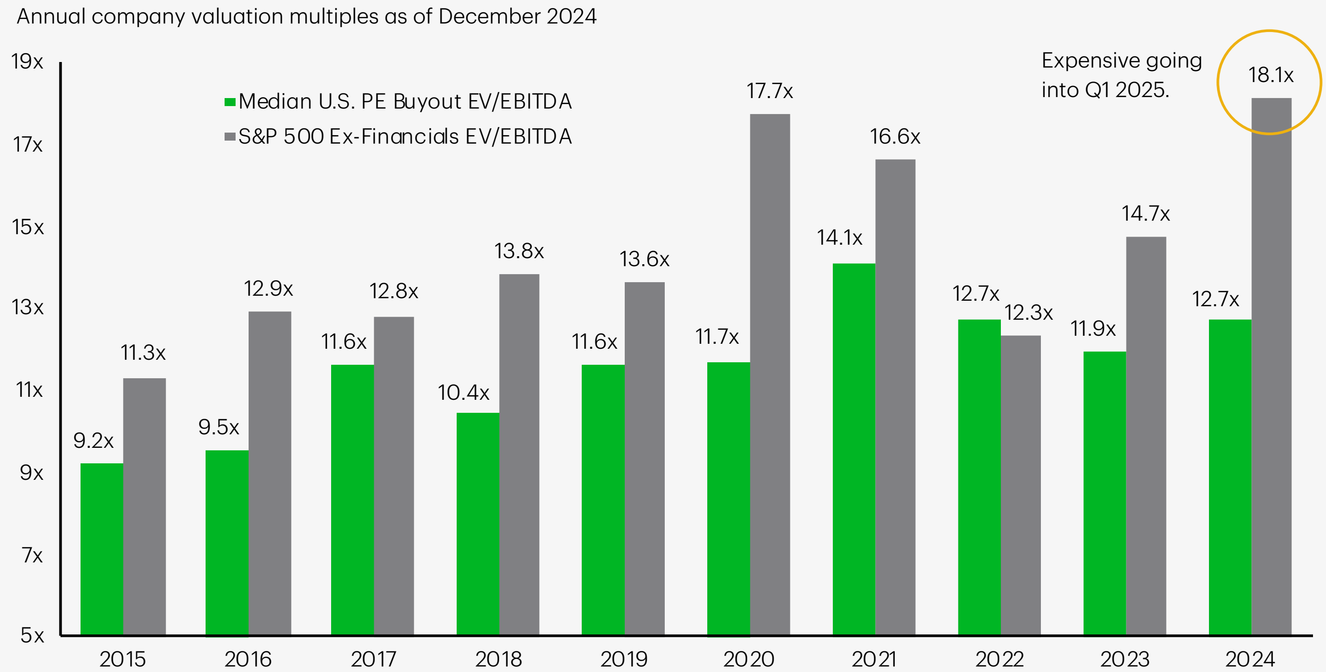
Figure 3 suggests that, relative to non-financial companies in the S&P 500, companies typically targeted by GPs are conservatively priced. This may serve as a ballast to traditional public stock allocations, especially when considering that, out of all companies with more than $100 million in revenue, only 7% are public with revenue exceeding $1 billion. These include the so-called "Magnificent 7" that have been riding a rollercoaster of late. By comparison, 64% are private, falling typically within a range of $100 million to $500 million in revenue. These core, middle-market companies form the backbone of the economy.

Figure 2: Drawdowns of private equity vs. passive publicly traded stocks



Source: Wealth Investment Office, Preqin as of April 9, 2025. *Latest data September 31, 2024

Figure 3: U.S. private equity offers relatively conservative pricing



Source: Wealth Investment Office, iCapital, Preqin, FactSet as of December 31, 2024. EV = enterprise value (equity plus net debt), EBITDA = a proxy for cash operating profit

To conclude, we suggest sticking to funds that focus on core, middle-market buyouts with some sprinkles of growth equity across a mix of direct equity co-investments and both LP- and GP-led secondaries. Such mandates typically enjoy broad diversification across GP, vintage year, geography and sector.

Additionally, we can tolerate primary allocations embedded within such funds, so long as compelling staple co-investments with discounted marks are thrown in to mitigate blind pools and J-curves. Although acquiring secondaries at a discount is hard to resist, it's important to find deals underwritten to enhance IRR, composed of back-ended cash flows as opposed to sole reliance on initial mark-to-market bumps.

As a complement, we also like funds that offer direct access to deals across single GP flagship platforms with proven generation of net returns across decades. These typically have long-term compounding of capital in mind and offer concentrated exposure across various buckets, including large- and middle-market buyouts, tactical opportunities, life-sciences, growth equity and secondaries. Lastly, we also like innovative portfolio-finance solutions that offer an alternative to secondaries or pledging entire portfolios as collateral for debt financing; namely, preferred equity with terms underwritten for specific return floors, potential for upside sharing, and an obsession with tax-advantaged distributions.

Notable Events in Q1 2025

Blackstone's secondaries platform, Strategic Partners, which closed its largest-ever fund with over $22 billion of commitments in 2023, was the sole buyer of a portfolio of fund stakes worth more than $5.5 billion from New York City's pension system. While LP-led secondary transactions exceeding $1 billion in NAV are becoming commonplace, this transaction stands apart as among the largest of all time and is also notable given Strategic Partners' scale to take down the entire deal independently. The deal included more than 100 interests in mostly buyout funds. The NYC Pension Plans, composed of five pension funds, had an investment portfolio of $280 billion in NAV as of December 31, 2024, of which approximately 10% was allocated to private equity.

Rogers Communications struck a definitive agreement to sell a 49.9% minority stake in its wireless backhaul network infrastructure for C$7 billion to a consortium that includes Blackstone and four of Canada's largest pension plans, namely CPP Investments, CDPQ, PSP Investments and BCI. The Blackstone consortium will hold a 20% voting interest in the new subsidiary and is expected to receive distributions close to C$400 million annually over the first five years. Rogers reserves the right to repurchase the equity interest at any time between the 8th and 12th anniversaries of the deal's closing. Rogers will maintain full operating control of its network and will see net leverage (net debt-to-EBITDA) reduced by 0.7x.

Brookfield Asset Management is finalizing a deal to acquire the Colonial Pipeline, the largest U.S. fuel transportation system, for more than $9 billion including debt. The 5,500-mile network is a critical piece of U.S. energy infrastructure, transporting more than 100 million gallons of fuel daily from Houston to New York Harbour. This is a significant liquidity event for the current private equity and pension-fund shareholders, many of whom have held positions in the business for over a decade. Koch Industries (28.1%) has been an investor since 2003. CDPQ acquired its 16.6% stake in 2012 for $850 million from ConocoPhillips. KKR (23.4%) and IFM Investors (15.8%) bought in 2007 and 2010 respectively. And Shell consolidated its ownership into a single 16.1% interest in 2019.

CoreWeave, an AI infrastructure company that rents out access to Nvidia's GPUs to other technology companies, completed a scaled-back, downsized and down-priced IPO in late March, raising $1.5 billion — from an initial $4-billion target — at a $23-billion valuation, marking the biggest technology IPO since 2021 and the first major debut after a prolonged IPO drought. With just three investors holding 50% of the newly issued shares, the deal required a last-minute $250-million anchor order from Nvidia, a pre-existing 6% shareholder, supplier and customer. During the roadshow, institutional investors raised a few issues with company management and the syndicate of investment banks, in particular: CoreWeave's massive, near-term debt maturities funded largely through private direct lending; cash burn on the back of aggressive growth expectations; extreme customer concentration; and accounting adjustments.

Ardian raised $30 billion for the 9th vintage of its secondaries platform, the largest secondaries fund raise globally to date and a significant increase over the $19-billion raise for the 8th vintage that closed in 2020. This brings the investment house's AUM dedicated to primaries and secondaries to $97 billion. The LP base is composed of 465 investors from 44 countries across Europe, the Americas, the Middle East and Asia, including major pension funds, insurance companies, sovereign wealth funds, financial institutions and high-net-worth individuals. Private wealth clients accounted for 22% of total equity raised, compared to 11% in the prior vintage.

A sponsor-backed consortium led by STG Partners has struck a $6.1-billion deal to acquire the Boston Celtics. This is the largest private equity takeover of a sports franchise and sets a new record for NBA team valuations. The deal surpasses the $4-billion purchase of the Phoenix Suns (NBA) in 2022 and the $6-billion sale of the Washington Commanders (NFL) in 2023. Sixth Street committed over $1 billion, following its recent acquisition of a 10% stake in the San Francisco Giants (MLB) aimed at infrastructure and community development. Control of the Celtics will be transitioned at the end of the 2027-28 season. The former ownership group originally purchased the team for $360 million in 2002 and has benefited from an exponential rise in sports franchise valuations.

State Street Global Advisors and Apollo Global Management launched a public-private credit ETF (ticker PRIV), the first such product offering retail investors direct access to a diversified portfolio of investment-grade private credit assets originated by Apollo. Typically, the SEC limits the amount of illiquid assets that any fund can hold at 15%, but PRIV may hold up to 35% of assets in private credit instruments due to a firm bid liquidity back-stop agreement with Apollo. The ETF is managed by State Street's active fixed income team. The ETF joins public BDCs as yet another option for mass-market access to private credit.

Private Credit

Unlike private equity, private credit instruments are self-liquidating in nature in that they typically generate regular cash interest payments and return principal at maturity, creating natural distribution events independent of market conditions. Furthermore, when liquidity dries up in the public bond and loan markets due to sharp dislocations and economic uncertainty, direct lenders can be opportunistic in refinancing maturity walls and engaging with lenders out of court to navigate distressed debt stacks.

The Cliffwater Direct Lending Index (CDLI) returned 11.3% in 2024 and has delivered 9.5% annualized over the past 20 years. Private credit returns, as measured by the CDLI, exceeded public fixed income returns, as measured by the Morningstar LSTA U.S. Leveraged Loan Index, by more than 400 basis points (bps) over the past five, 10 and 20 years. Unlevered and net of fees, this figure is closer to 250 bps annually, which we view as a compelling illiquidity risk premium. CDLI private loan assets grew 34% in 2024, to $425 billion at year-end, representing one-third of the $1.3-trillion private debt market. Current yields in the private direct-lending space ended 2024 close to 11% despite lower floating reference rates (namely the Secured Overnight Financing Rate, SOFR) and credit-spread tightening. Over 10 percentage points (pp) of this robust 11% current yield was cash-paying, with less than 1 pp representing payment-in-kind or non-cash interest. Credit losses in 2024 fell well below their 1.01% historical average and below those reported for broadly syndicated loans; furthermore, loans on non-accrual (delinquent beyond 90 days) remain at half of historical levels.

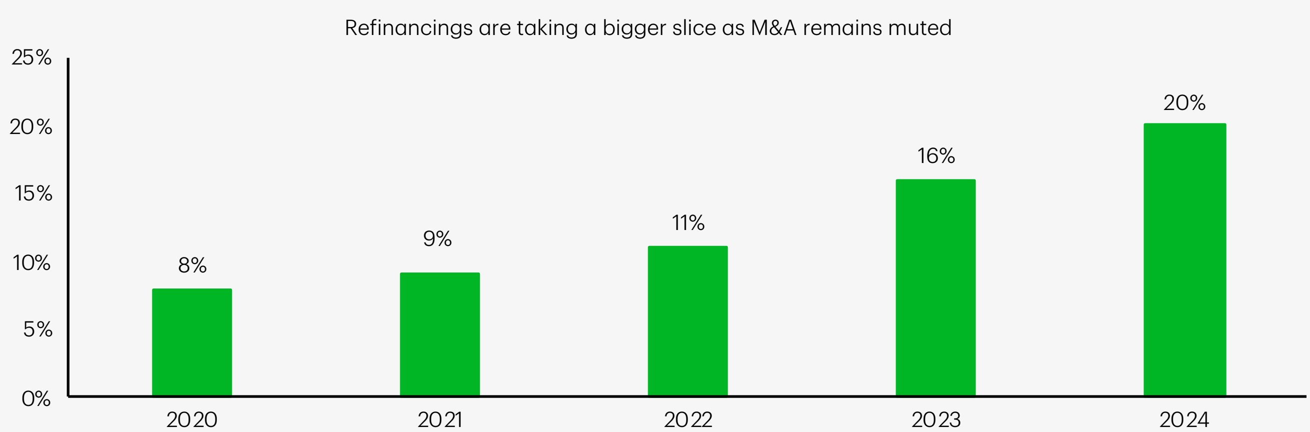
Last quarter, we highlighted that spread levels across the public credit spectrum were at historically tight levels and priced for perfection due to the U.S. exceptionalism trade coming into the year. Piling on to our comments from Q1, manager selection shines during times when markets dislocate in response to stress in the real economy. If we truly undergoing a regime change — driven by heightened geopolitics, unsustainable deficits, a convoluted energy transition and sticky inflation — investors should investigate whether annual distributions in the high-single digits are justified by conservative fund leverage (less than 1.0x debt-to-equity), first-lien senior secured positions, low non-accruals (less than 50 bps), thick equity cushions (loan-to-value close to 40%), strong covenants and payment-in-kind (PIK or non-cash interest) for the right reasons.

PIK at origination has risen from approximately 15% of deals in 2020 to nearly half of transactions at close today but remains stable at close to 7.5% of total income over the past five years. This less risky PIK can make sense in the context of annual recurring revenue (ARR) loans made to fast-growing, high-margin software companies or in special situations where transition capital may be required opportunistically. PIK becomes worrisome when it can be toggled at an issuer discretion; when it is "synthetic" (in that cash interest is paid in-kind with another form of debt); or when it's offered on amendment, which effectively amounts to a restructuring due to distress in a borrower. PIK is typically tacked on to face value for a fee and therefore accentuates repayment risk at maturity. One silver lining in the muted environment for M&A transactions is that 20% of private credit deal volumes were consumed by refinancings in 2024, up from 8% in 2020 as seen in Figure 4. Additionally, Preqin data shows $225 billion of dry powder sitting on the sidelines across senior, uni-tranche, junior/subordinated and opportunistic lending categories. As public lending windows seize up, we take comfort that private credit market participants are available to work through any looming maturity walls.

According to Apollo Global Management, at the end of 2022 close to $700 billion of debt was set to mature prior to 2025 across the U.S. high-yield bond and leveraged-loan markets. At the beginning of the year, that figure sat below $100 billion after most issuers successfully rolled their near-dated maturities. This narrative is all too familiar in the credit universe; characteristically, market participants will ruminate over an upcoming maturity wall supposedly lurking over the horizon, only to see it addressed by refinancing activity in the capital markets. When spreads gap out violently over short time horizons and liquidity dries up, as we have witnessed recently, the credit markets are bolstered by direct lenders.

Up next will be the 2026/27 maturity wall, which consists of $620 billion of high-yield bonds and leveraged loans. This is a direct result of unprecedented private equity deployment during and following the pandemic, fuelled by ultra-low interest rates, which hit $1.2 trillion and $915 billion in 2021 and 2022 respectively — twice the average annual pace set over the prior five years. Consequently, public sub-investment-grade issuance in 2021 rose to $1.1 trillion, the most on record, where close to half of public and private deals combined were sponsor-backed.

Figure 4: Drivers of private credit deal volumes (% share of market)



Source: Wealth Investment Office, UBS Asset Management as of December 31, 2024

According to Oaktree Capital Management, there were some nuances in the way the 2024/25 cohort of maturities was digested that may hint at a growing opportunity looking forward. Unlike previous episodes, where debt towers were rolled forward, over the past two years companies have looked beyond the syndicated markets for refinancing alternatives.

Private credit investors, sometimes employing complex and innovative structures, such as out-of-court liability-management exercises (LMEs), have played a key role in addressing these maturities for more levered issuers unable to access the bank balance sheets. For instance, since 2022, $40 billion of broadly syndicated loans have been refinanced with private credit solutions. Undoubtedly, a sizable portion of this activity has targeted bullet payments due in 2025. Consistent with this theme, it makes sense that distressed debt exchange activity set a new annual record in 2024 at $44 billion, exceeding the $36 billion level in 2008 (Figure 5).

Unlisted Real Assets

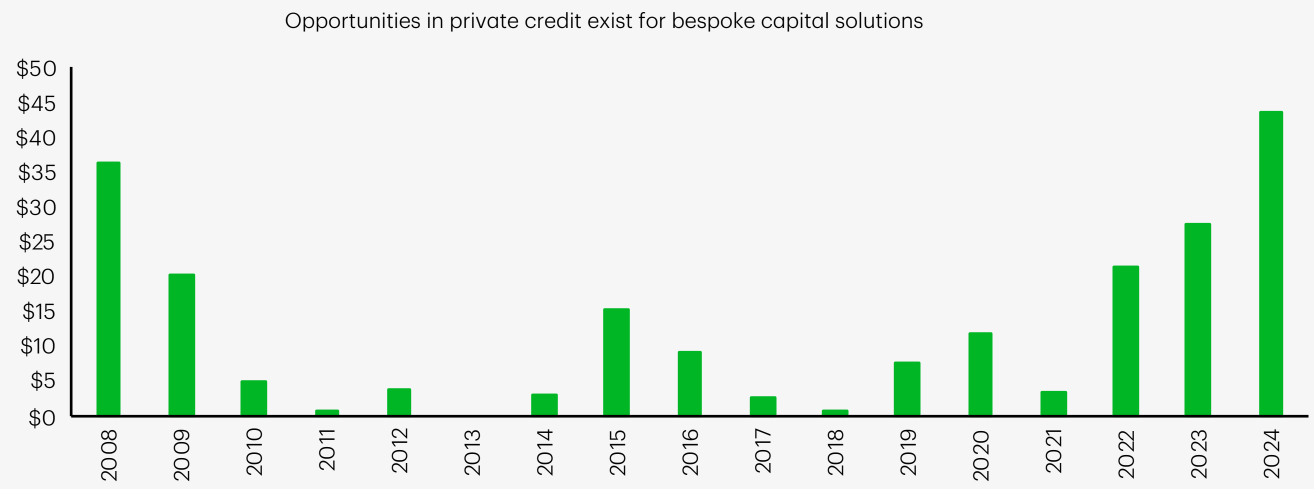
According to Nareit, the U.S. commercial real estate market is estimated to be $21 trillion in size, comprising multi-family residential ($3.8 trillion), office ($3.2 trillion), retail ($2.9 trillion), industrial ($2.4 trillion) and data centres ($200 billion). In our prior note we showcased occupancy rates across these major food groups, whereby office remained in a deep trough, industrial was stable but rolling over slightly, and apartments/retail were robust.

iCapital data show that since June 2022, the normalized change in property prices as of December 2024 was -24.1%, +5.7%, -19.2% and -5.5% for office, industrial, apartments and retail respectively. Although pundits may be calling for the bottom in the office landscape due to capitalization rates far exceeding long-term interest rates, perhaps one approach would be to avoid this property type altogether if conviction regarding the demand curve cannot be attained by the rational investor. On the other hand, lower prices and solid occupancy rates for multi-family residential properties in core markets that enjoy tailwinds from strong population, job and wage growth may be compelling.

We like portfolios that avoid for-sale housing, commodity office and retail malls, and are instead meaningfully allocated to data centres, industrial warehouses and diversified rental housing across the multi-family, single-family, student and affordable segments. We can lean into properties where in-place rents are below market. Such property types express specific thematic views, namely AI-driven generational demand for data storage, continued growth in e-commerce, supply-chain realignment (such as onshoring) and a chronic undersupply of housing coupled with a surge in mortgage costs.

Speaking of data centres and related power infrastructure, we believe the “picks and shovels” investment thesis remains intact. Recall that DeepSeek, a Chinese AI company that develops large language models (LLMs), released an open-source reasoning chatbot alongside its DeepSeek-R1 model in January 2025. The LLM gained significant attention for its performance and lower cost compared to other contemporary LLMs, such as OpenAI’s GPT-4 and Meta’s Llama 3.1. According to the KKR infrastructure team, DeepSeek and future lighter-weight models are a natural evolution as opposed to a paradigm shift; specifically, LLM and non-language generative AI (GenAI) models have been getting more efficient and less costly and will likely continue to do so.

Figure 5: Distressed exchange activity in 2024 is at a record (US$ billion)



Source: Wealth Investment Office, Apollo Global Management as of December 31, 2024

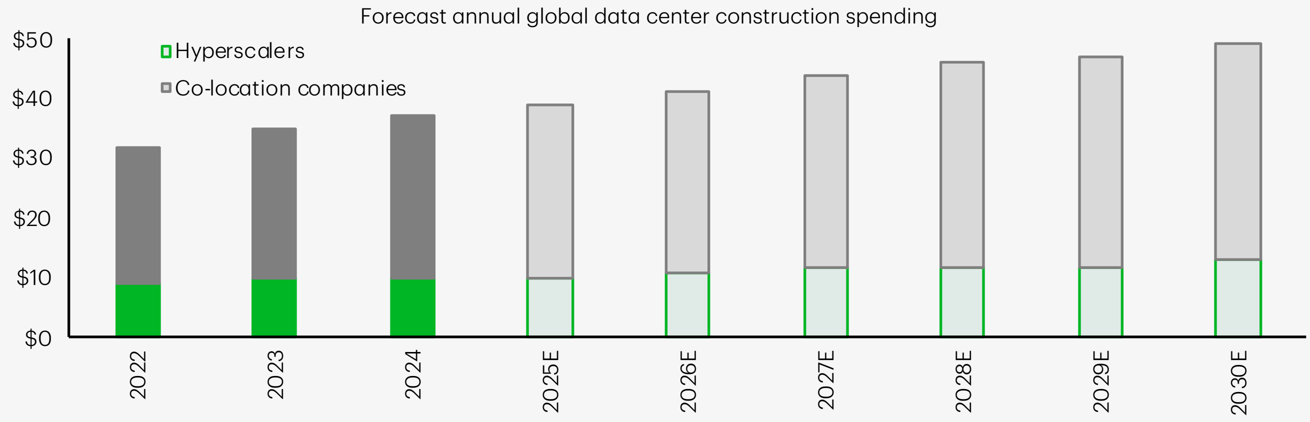
The amount of data generated each year has been increasing for decades, and along with it, the need for compute, storage and networking capabilities, all of which are housed in power-hungry data centres. This is in line with the Jevons Paradox, which states that increased efficiency in a resource's use can paradoxically lead to an overall increase in its consumption because lower costs stimulate demand that outweighs the initial efficiency yield.

Blackstone emphasizes that more data has been created in the past three years than in all of history combined. To be precise, across social media and cloud adoption, streaming and content creation, and artificial intelligence, there has been 100x growth from two zettabytes in 2010 to 202 zettabytes today. GenAI requires vast amounts of computing power for training models and inferencing — fancy jargon for responding to prompts.

That being said, KKR believes that it's important to focus on cloud regions, or locations with clusters of data centres, where demand is rising quickly. These regions are close to population centres and therefore offer low latency and proximity to key customer networks and existing collections of data, with high barriers to entry due to a scarcity of available land and power.

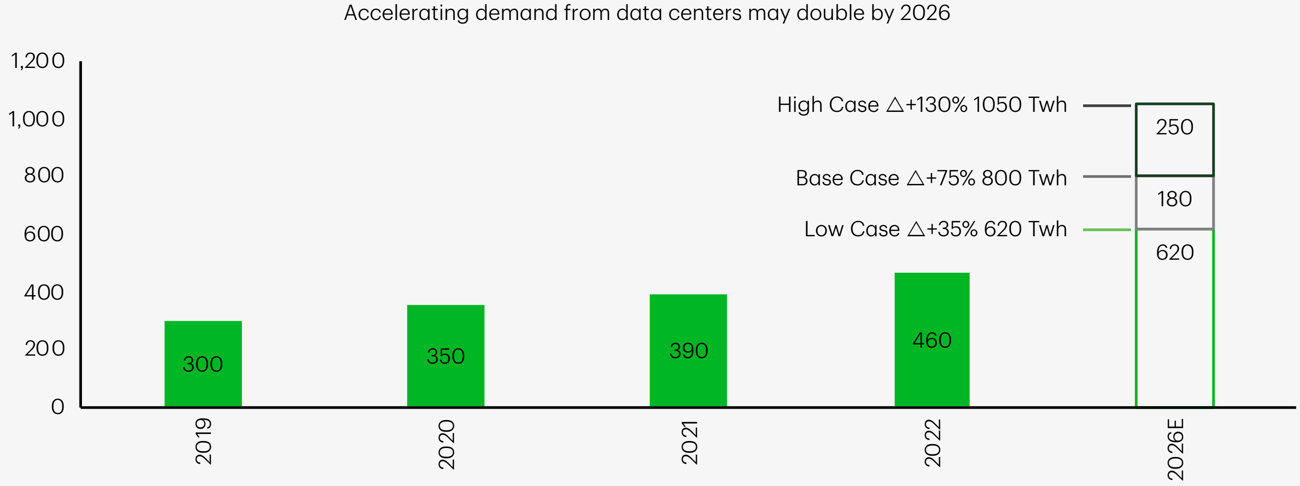
While DeepSeek's model surprised much of the market — and given that the cost and power required for GenAI was expected to decline over time — aggregate demand for compute, storage and networking has outpaced efficiency gains. That being said, demand projections can be overly optimistic; as such, it's crucial to deploy capital investments strictly where constructive revenue frameworks are in place, often through long-term power-purchase agreements (PPAs) with creditworthy counterparties. Figure 6 and Figure 7 display the accelerating growth opportunity that adds an attractive return driver to private real estate portfolios that lean into it.

Figure 6: Spending on construction of data centres (US$ billion)



Source: Wealth Investment Office, iCapital as of January 31, 2025

Figure 7: Global electricity demand from AI compute (terawatt-hours)



Source: Wealth Investment Office, iCapital, International Energy Agency as of January 31, 2025

Outlook on Commodities

Modest Overweight

Tariff risk could lift commodity prices

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

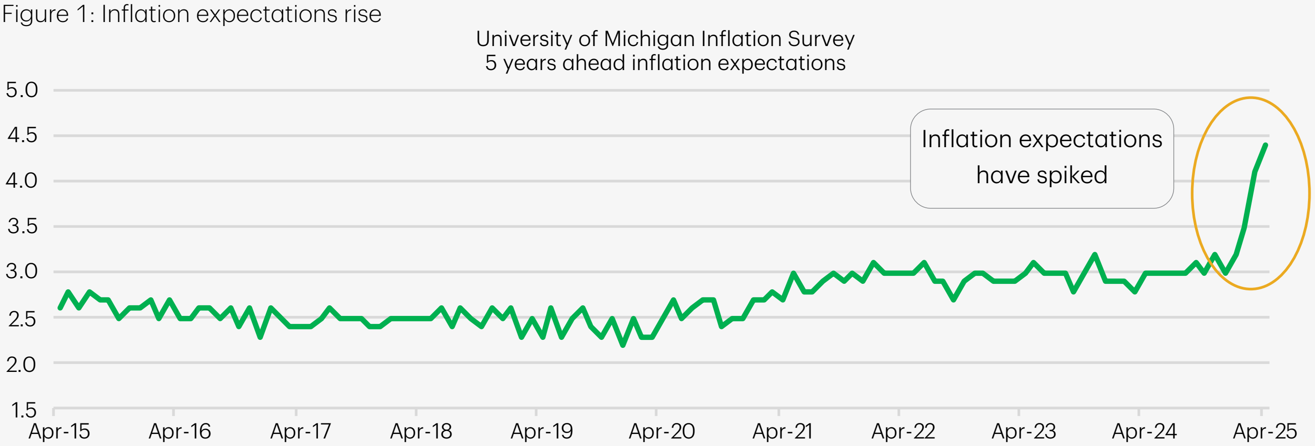
Markets have traded on varying expectations around growth, tariffs and inflation over the past few months, and commodities have been a good barometer for all three. Following U.S. President Donald Trump's victory, the primary narrative being priced was that his proposed tariffs would create a drag on growth. Commodity prices quickly reflected this concern, with the Bloomberg Commodities Index (BCOM) dropping 3.5% within days of the election.

By mid-December, the market's focus had transitioned towards the inflationary nature of Trump's policies (tariffs/immigration/reshoring). With inflation expectations rising, the market reached for commodities as an inflation hedge, and at the time, still heavily discounted the idea of a full implementation of tariffs. Over the last few weeks, however, we have seen markets aggressively price the impact that tariffs could have on growth and inflation (Figure 1).

On tariffs (in terms of their size and probability), we have been monitoring the difference between the U.S. domestic price of copper (COMEX) and the world price (LME). Despite the 90-day reprieve announced on April 9, COMEX continues to command a premium of around 14% to LME, underscoring the market's concern about trade being disrupted (Figure 2).

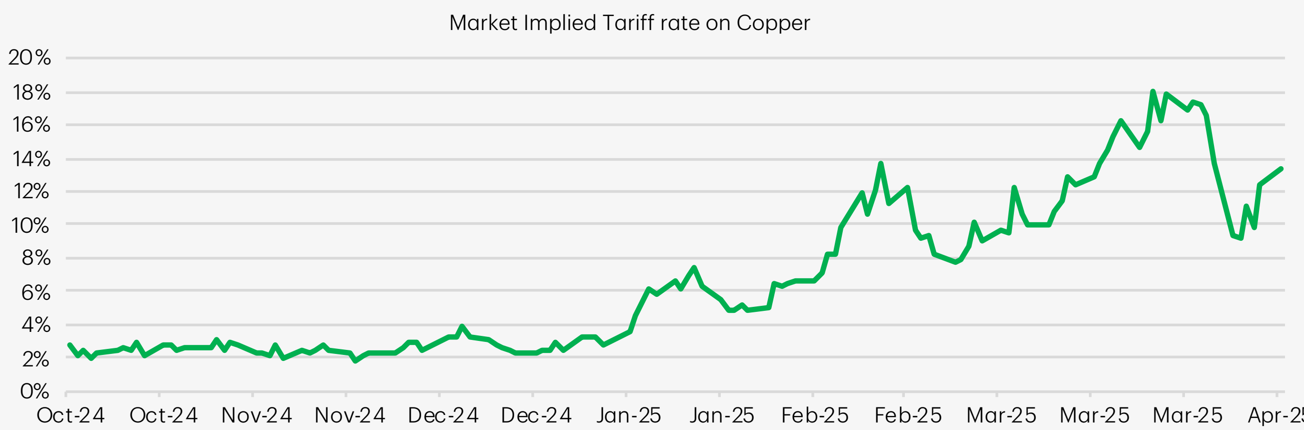
On the growth front, we remain more optimistic than what's being priced across most commodities today. We continue to monitor real-time fundamentals closely. Although growth is likely to slow, conditions today remain tight, as evidenced in inventories, in cash markets and across many forward curves. Oil prices, for instance, have weakened far more meaningfully than oil structure, which remains backwardated (Figure 3), underscoring the fact that refiners are willing to pay a premium for barrels today.

Figure 1: Inflation expectations rise



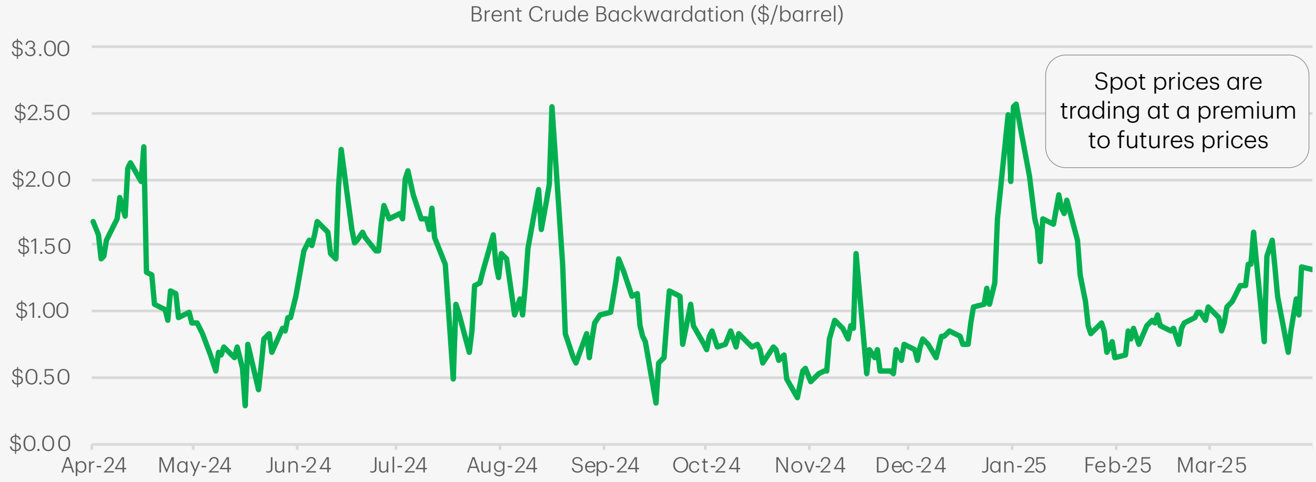
Source: TD Asset Management as of April 14, 2025

Figure 2: U.S. copper premium signals concern



Source: TD Asset Management as of April 14, 2025

Figure 3: Future oil prices below current (backwardation)



Source: TD Asset Management as of April 14, 2025

In the short to medium term, tariffs should negatively impact demand to varying degrees across commodities, with the larger risk being that all the uncertainty could result in a contraction of business activity, resulting in a slowdown of global growth and even a potential recession. A deep recession would be a challenging environment for most asset classes, including commodities.

Stagflation risks also rise, given that tariffs are a tax and will invariably raise the cost of many products. In the medium to long term, the tariff war just reinforces a trend that was already in place — that of a global supply chain being remapped. The trend of the last few years has been that supply chains are no longer driven solely by economics, but now must also be driven by issues of security, redundancy, politics and ideology. This shifting of supply chains and parallelization is all resource-intensive.

Another consequence of the recently imposed tariffs is the global realization that trade is becoming less free — that you may not be able to rely on old trading partners or allies, which is in turn forcing countries to look inward and be less reliant on those trade partners and allies. Whatever the buzzword — "reshoring," "near-shoring," "friend-shoring" — these are all attempts to be more independent, whether it be from a security perspective or economic perspective. To accomplish this, governments are embarking on a fiscal expansion that we haven't seen in a generation.

The EU recently announced an US$800-billion plan to "rearm" Europe. Even Germany, a stalwart fiscal conservative for decades, recently announced a historic US$500-billion fund and an overhaul of debt rules to invest in the military and the economy. China is also running a 4% fiscal deficit this year, one of its highest ever. Also, despite efforts by the U.S. Department of Government Efficiency (DOGE), the U.S. also finds itself running a 7% annual deficit into the foreseeable future.

How does this all impact commodities? The changing world order provides an opportune environment for commodities. Not only will the reorganization of supply chains and military expansion necessitate significant infrastructure investments, resulting in increased demand for energy and industrial metals, but doing so by running large fiscal deficits further pushes the world down the path of continued monetary debasement. We believe this is one of the factors that took the central banks of the world from net sellers of gold from 1990 to 2010, to net buyers of gold today — with that buying having accelerated of late. We see no end in sight to the fiscal largesse by the world economy, and hence see no reason why precious metals should not continue to rally over the long term.

Tariffs have introduced a high level of uncertainty in the short to medium term, and the impacts to growth are unknown. This has stoked volatility, with markets trying to price the impact of tariff uncertainty ever since "Liberation Day." Over the long term, the world will adjust and continue to grow, and the secular and cyclical forces — forces that are broadly supportive for commodities — will re-assert themselves.

In addition to what we've discussed above, the lack of investment across the commodity space in the prior decade — even as power demands grow from AI and the energy transition; and infrastructure across the developed world continues to age — represents a tailwind for commodities. We think all the ingredients are in place for commodities to perform exceptionally well over the next decade, rewarding those with an allocation to their portfolios.

Outlook on Currencies

Where were they going without ever knowing the way?

TD Securities, Global Rates, FX & Commodites Strategy

This year is already action packed with market stories and events that would have been the biggest stories of the year in a quieter environment. Germany's fiscal shift and the associated move in bunds is one example. But the pace of new narratives is accelerating. There are countless other developments worth noting, but one thing is clear – "Liberation Day" released a fresh wave of uncertainty, not less.

The wrinkle, as we expected, was that it would finally unleash volatility. This dynamic cuts both ways, and a modest U.S. equity drawdown is evolving into something more ominous – a potential US Treasury meltdown. Steeper curves are a feature not a bug, but highlight the rising risk premium. Active fiscal policy, trade wars, and a weaker U.S. dollar don't bode well for inflation.

U.S. policies are now undermining confidence in all U.S. assets, drawing attention to Gold and the euro. Yet, the U.S. dollar has rallied against nearly half the pairs we track since Liberation Day. While old correlations are still largely intact, one of the strongest views remains: higher vol would undermine EM carry, risk-on sentiment, and on-U.S. equity performance – resulting in less one-way U.S. dollar traffic in the short run.

The World in a Nutshell

It's that time when decades appear to shift in hours. The old system is broken. While we don't know what the new one will look like, the transition is upon us. We still don't know the winners and losers of Liberation Day, but one thing is clear – it has liberated volatility. No one wins a trade war, especially as game theory logic points to a suboptimal outcome when trust is eroded. Everyone will be worse off, and the world is choosing national interests over global ones.

For now, the first order effect continues to point to further unwind of U.S. exceptionalism, with a worrying sign of stress, and lack of confidence, in U.S. assets. Historical correlations are breaking down – the U.S. curve is steeper, the U.S. dollar is down, and equities are tanking. That's normally a playbook associated with emerging markets, underscoring the risking risk premium in U.S. assets. There is nuance in currency markets now.

So what's the circuit breaker for the U.S. dollar here, even though bearish sentiment is fully entrenched? We think part of it will come down to data. Consensus growth expectations for the year ahead show a full convergence between the U.S. and Rest of World (ROW) and our tracking of high frequency growth indicators show a stable China, a downgrade to the U.S. and a modest upgrade to the Eurozone. While inflation remains a first order effect of the trade war, likely exasperated by the U.S. dollar selloff, the latest inflation print provided the Fed some cover. Either way, the Fed has a very tricky balancing act ahead and the surge in the U.S. effective tariff will also land a blow to ROW growth expectations, at least in the short term.

That leaves the balance of risks towards a softer U.S. dollar versus the G10 reserve currencies in the short-term, but we're less sanguine on the rest of the FX world, including high beta G10, Latam, and EM Asia. What's clear is that even though the market seems to have learned Trump's pain threshold, the damage has been done. Trust has been broken and the world is looking for a way to decouple from the U.S. For now, things are in flux.

The Loonie: BoC Saving its Powder

At it's latest meeting the Bank of Canada held rates steady, as expected, with emphasis on the need to be less forward-looking and prioritizing data in hand. This is helping the Canadian dollar as markets were expecting some chance of a cut after the latest CPI report. In the absence of the trade spat between Canada and the U.S. worsening and U.S. policy diverting attention to China, we can expect to see better price action in the Canadian dollar and positioning there has been consistently improving. In addition, our view of a weaker U.S. dollar should also benefit the Loonie over the medium term. Having said that, we are mindful of being too bearish on the U.S. dollar in the near term as the recent weakness looks a bit stretched and one-sided positioning is in FX.

Figure 1: Foreign Exchange Forecasts for G10 Currencies

	2025			
	April 14, 2025	**Q2 F**	**Q3 F**	**Q4 F**
USD/JPY	143	150	145	143
EUR/USD	1.14	1.06	1.10	1.13
GBP/USD	1.32	1.28	1.31	1.34
USD/CHF	0.82	0.90	0.87	0.86
USD/CAD	1.39	1.46	1.41	1.38
AUD/USD	0.63	0.62	0.65	0.67
NZD/USD	0.59	0.57	0.59	0.61
BBDXY	1232	1294	1251	1223

Source: TD Securities as of April 14, 2025

Market Performance

Canadian Indices ($CA) Return	Index	1 Month (%)	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	20 Years (%)
S&P/TSX Composite (TR)	103,771	-1.51	1.51	1.51	15.81	7.77	16.76	8.54	7.97
S&P/TSX Composite (PR)	24,918	-1.87	0.77	0.77	12.41	4.41	13.24	5.27	4.88
S&P/TSX 60 (TR)	5,096	-1.95	1.74	1.74	15.82	7.73	16.49	8.99	8.38
S&P/TSX SmallCap (TR)	1,518	2.56	0.88	0.88	11.08	1.68	20.11	6.13	4.16
S&P/TSX Preferred Share(TR)	2,163	-0.12	2.59	2.59	16.70	4.42	12.74	3.83	3.15
U.S. Indices ($US) Return									
S&P 500 (TR)	12360	-5.63	-4.27	-4.27	8.25	9.06	18.59	12.50	10.23
S&P 500 (PR)	5612	-5.75	-4.59	-4.59	6.80	7.40	16.77	10.50	8.11
Dow Jones Industrial (PR)	42002	-4.20	-1.28	-1.28	5.51	6.59	13.89	8.98	7.18
NASDAQ Composite (PR)	17299	-8.21	-10.42	-10.42	5.62	6.75	17.57	13.44	11.39
Russell 2000 (TR)	10917	-6.81	-9.48	-9.48	-4.01	0.52	13.27	6.30	7.55
U.S. Indices ($CA) Return									
S&P 500 (TR)	17769	-6.05	-4.37	-4.37	14.96	14.32	18.91	13.93	11.19
S&P 500 (PR)	8068	-6.17	-4.68	-4.68	13.42	12.57	17.08	11.90	9.04
Dow Jones Industrial (PR)	60382	-4.62	-1.37	-1.37	12.05	11.73	14.20	10.36	8.10
NASDAQ Composite (PR)	24869	-8.62	-10.50	-10.50	12.16	11.90	17.89	14.88	12.36
Russell 2000 (TR)	15694	-7.22	-9.57	-9.57	1.94	5.37	13.57	7.64	8.48
MSCI Indices ($US) Total Return									
World	17060	-4.40	-1.68	-1.68	7.50	8.10	16.67	10.07	8.51
EAFE (Europe, Australasia, Far East)	11939	-0.29	7.01	7.01	5.41	6.60	12.31	5.91	5.67
EM (Emerging Markets)	2939	0.67	3.01	3.01	8.65	1.91	8.38	4.11	6.44
MSCI Indices ($CA) Total Return									
World	24525	-4.82	-1.78	-1.78	14.13	13.31	16.99	11.46	9.45
EAFE (Europe, Australasia, Far East)	17164	-0.73	6.90	6.90	11.90	11.74	12.61	7.25	6.59
EM (Emerging Markets)	4225	0.22	2.91	2.91	15.34	6.82	8.67	5.43	7.36

Currency									
Canadian Dollar ($US/$CA)	1.44	-0.51	0.02	0.02	6.26	4.78	0.46	1.27	0.87
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	8583	-2.58	5.01	5.01	7.92	4.53	8.64	2.40	2.85
Hang Seng (Hong Kong)	23120	0.78	15.25	15.25	39.77	1.67	-0.41	-0.74	2.72
Nikkei 225 (Japan)	35618	-4.14	-10.72	-10.72	-11.77	8.58	13.49	6.37	5.74

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	2.64	2.61	2.97	3.23
U.S. Treasury Yields	4.30	3.95	4.21	4.57

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	476	0.27	0.83	0.83	4.49	4.04	2.51	1.77
FTSE TMX Canada Universe Bond Index	1193	-0.28	2.02	2.02	7.65	2.50	0.88	1.77
FTSE TMX Canada All Government Bond Index	1117	-0.36	2.09	2.09	7.25	1.86	0.07	1.38
FTSE TMX Canada All Corporate Bond Index	1466	-0.05	1.81	1.81	8.84	4.38	3.19	2.86
U.S. Corporate High Yield Bond Index	305	-1.15	0.65	0.65	6.47	4.03	6.59	4.26
Global Aggregate Bond Index	261	-0.54	0.81	0.81	3.37	0.72	-0.10	1.49
JPM EMBI Global Core Bond Index	538	-0.92	1.70	1.70	5.14	1.78	2.53	2.20
S&P/TSX Preferred Total Return Index	2163	-0.12	2.59	2.59	16.70	4.42	12.74	3.83

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