



Amid Forces

Portfolio Strategy Quarterly | Q2 2026

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Amid Forces

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

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

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

Be well,

A handwritten signature in black ink, appearing to read "Brad Simpson". The signature is stylized and cursive.

Brad Simpson
Chief Wealth Strategist, TD Wealth

Cracking Complexity

Complexity

50 bps > 0

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

CPI + 90 bps

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

Not Just Gasoline

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

Forward P/E = 19.6x

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

No Demand? No Problem

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

Soft on Software

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

Respect EM Debt

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

If War Continues

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

Adaptation

7 Years Bad Luck

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

Foursquare

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

Remember the 10/10/10 Rule

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

High-odds Proposition

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

Calm Before the Storm

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

Tactics on the Margins

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

True Diversification

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

Process Over Prediction

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



PSQ2.2026 | Executive Summary

■ House Views

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

■ Quarter in Review

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

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

■ Economics

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

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

- **No move is the best move ... for now.** Even one Bank of Canada rate hike looks unlikely given weak growth, slack and a supply-driven energy shock. Tightening now would risk damaging demand. Policymakers should look through temporary price effects. In contrast, the U.S. economy remains resilient, energy-independent, and near neutral rates give the Fed flexibility. Inflation expectations are key but remain anchored. TD Economics still expects limited, later Fed cuts. Consensus also favours steady policy through early autumn.
- **Prolonged disruption would keep the Fed on hold for longer.** A prolonged Iran disruption could lift oil to near US\$130, slow U.S. growth, raise inflation, keep the Fed on hold, boost yields and the U.S. dollar, while Canada sees a milder growth hit, higher yields and a weaker loonie recovery.

■ Fixed Income

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

- **Government bonds.** Bond yields turned volatile as Iran-driven oil shocks lifted inflation fears, narrowed Canada-U.S. spreads and left central banks cautious, favouring flexible, risk-managed duration amid growth-slowdown risks and fiscal uncertainty. Aggressive global rate cuts are ending; in 2026 central banks are cautiously seeking neutral rates, with volatility shifting toward longer-end yields amid persistent inflation. Rising deficits have pushed yields higher as investors demand fiscal premiums, favouring shorter sovereign duration, active country-by-country risk selection and fiscally disciplined governments.
- **Corporate credit.** Credit weakened as geopolitics widened IG and HY spreads, then partially reversed. Tight spreads, inflation and rate uncertainty favour defensive positioning: higher quality, shorter dated IG over riskier HY amid refinancing risks ahead globally. Tight spreads and attractive yields also support preference for high-quality IG over HY amid issuance pressures, rising defaults and refinancing challenges. War-driven volatility makes capital preservation paramount, favouring high-quality, short-duration strategies as the easy-money era ends. Sector dispersion accelerated as geopolitics and AI split markets, favouring hyper-scalers, utilities and energy, while lower-quality, cyclical credits weaken, reinforcing the high-quality focus.
- **Emerging markets.** EM fixed income has grown with policies, but geopolitical and energy risks warrant cautious, selective allocations amid wider spreads.
- **Navigating volatility, anchoring in quality.** Q1 challenged the “year of the coupon” as volatility returned; carry and active, high quality, short duration strategies are favoured as central banks pause and refinancing risks rise.

■ Equities

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

- **Growth stocks don't like growth shocks.** The tariff announcement last April sparked a sharp selloff, then recovery as clarity reduced uncertainty over global growth impacts.
- **Bottom-up investing through uncertainty.** Periods of heightened uncertainty often create opportunities for disciplined, long-term investors willing to focus on fundamentals. Recent market shocks — from private-credit concerns to the outbreak of the Iran war — triggered sharp selloffs driven by fear, contagion risks and rising oil prices. Yet in many cases, underlying company fundamentals proved more resilient than market reactions suggested, rewarding investors who remained patient. Semiconductor and AI-related stocks were especially hard hit, with valuations compressing sharply. However, continued countercyclical investment by major technology firms, strong capital expenditure plans, and robust long-term revenue outlooks — particularly in AI infrastructure — indicate the growth cycle remains intact. As uncertainty fades, high-quality growth equities appear attractively valued.
- **Canadian equities: Resources hedge uncertainty.** Canadian equities help offset uncertainty as resource stocks benefit from geopolitical supply shocks. Gold remains a strong diversifier, supported by central-bank demand and robust corporate cash flows. Elevated oil prices continue to support Canadian energy stocks. While commodities are volatile, selective bottom-up investing matters. Canadian banks appear fully valued but may see earnings upside from AI-driven efficiency gains and improving domestic economic conditions.

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

■ Private Markets

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

- **How private credit evolved.** Private credit expanded as banks retreated, offering diverse strategies, underwriting and broader financing access, requiring investors to distinguish risks.
- **Key structural features.** Private credit is structured for resilience through long-duration capital, senior secured lending and diversification across vintages. Recent stress, particularly in software, reflects valuation repricing rather than systemic deterioration. Redemption limits are a protective structural feature, defaults remain low, and equity cushions plus supportive liquidity help contain risk. While ties to banks warrant monitoring, current conditions point to concentrated, manageable stress, not a broader financial crisis.
- **Macroeconomic backdrop remains supportive.** U.S. economic resilience supports credit markets, but persistent inflation, energy risks and sticky services prices may delay rate cuts and prolong elevated interest rates.
- **Manager selection is everything in private credit.** Private credit faces its first repricing test, but structural protections, active management and rising dispersion reinforce its ongoing role in diversified portfolios despite higher defaults and sector-specific pressures.

■ Currencies

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

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

■ Commodities

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

- **Long-term Anchor: Structural demand in a capital-constrained world.** Prolonged underinvestment since 2011 has constrained commodity supply, while demand surged from electrification, AI, defence and geopolitics. Absent reinvestment, scarcity persists, positioning commodities as strategic hedges against inflation and currency debasement.
- **Short-term Accelerator: High-volatility world increases the need for commodities.** Geopolitical conflict has intensified structural commodity pressures, exposing fragile supply chains and embedding persistent volatility. Energy-driven inflation underscores asymmetric risks, while limited policy easing elevates real assets. Low cross-sector correlations and supply-shock sensitivity make commodities effective diversifiers and practical tools for portfolio resilience.

Amid Forces

The world may be shifting toward a “law of the jungle,” but markets remain grounded — relentlessly focused on growth, rates and profits.

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

“I read the news today, oh boy”

— The Beatles

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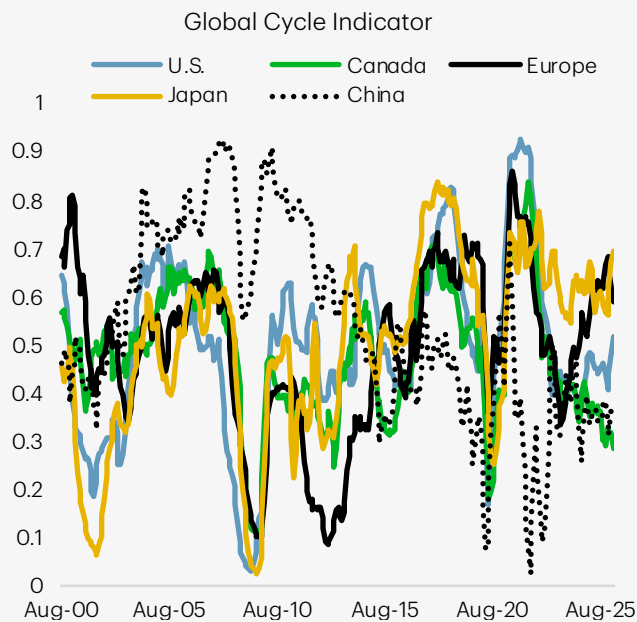
What about oil? Well, it sits at the intersection of all three. It moves inflation and therefore interest rates. It affects growth, influencing recession risk, and it

pressures margins, affecting earnings. In other words, oil is not just a commodity, it is a bridge to all three drivers that markets ultimately price. This is how geopolitical risk becomes investable, when it moves through oil and into growth, rates and earnings. This is why diversification is not an option but a necessity, and why it provides ballast in times of great uncertainty.

The Economy: Oil tests the upswing

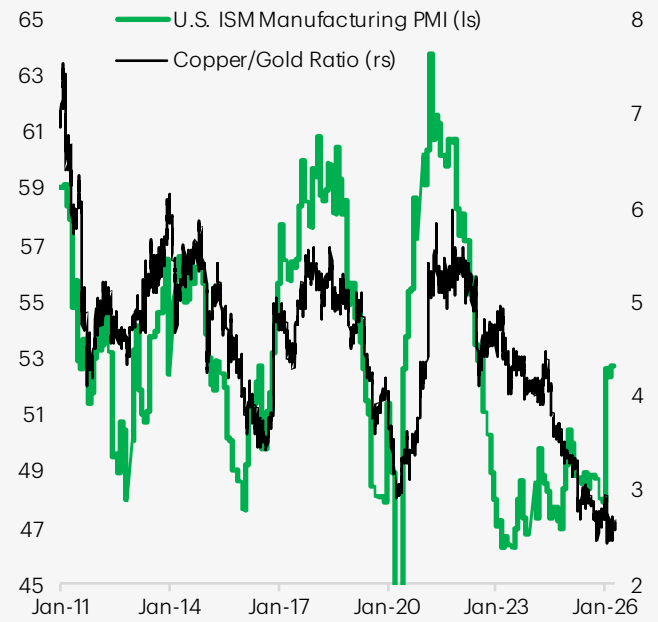
Let’s start with the economy across the United States, Canada and globally. From an investment lens, the question is whether the on-and-off-again conflict in the Middle East will derail the ongoing cyclical upswing across the world (Figure 1). After a three-years slump in manufacturing activity, the outlook for cyclical sectors has improved this year. The ISM manufacturing index has been in expansionary territory for three consecutive months, and there has been sector rotation from asset-light businesses into asset-heavy businesses, which are less susceptible to AI disruption. If the cyclical acceleration continues, it is possible that we will also see rotation in the commodities sector from gold into base metals, including copper (Figure 2).

Figure 1: Business cycle in U.S., Canada may follow developed markets up



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

Figure 2: U.S. Manufacturing PMI now expansionary

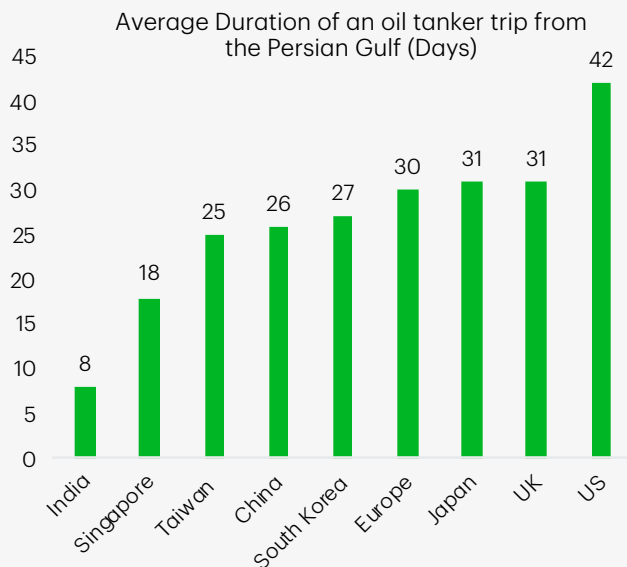


Source: Macrobond, Wealth Investment Office, as of April 10, 2026

Oil spikes can lead to stagflation, where higher prices hit growth even as inflation rises. As Paul Volcker cautioned, it is the most difficult economic condition, striking at both growth and price stability at the same time. A temporary ceasefire has stabilized markets in the near term and reduced this risk, but it is fragile. Figure 3 demonstrates the challenges that energy markets face even if the Strait of Hormuz was opened tomorrow. There are over 800 tankers stranded in the Strait currently with average round trip duration ranging from 40 days to 3 months to deliver existing loads. In addition, almost 10% of the global oil supply currently is shut in which will take anywhere between two to four weeks to kickstart production. It could take longer for natural gas to reach pre conflict production levels given the structural damage to the largest gas facility located at Ras Laffan in Qatar. The International Energy Agency estimates that it will take four years to repair, impacting 15% of expected global supply between 2026 to 2030. If the negotiations between US and Iran do not proceed in a positive and timely fashion, the timeline for oil and gas production to normalize will take longer. For investors, the message is clear: don't anchor on the calm. Oil continues to be the stick that stirs the geopolitical drink, and volatility can return quickly.

This is not a call on ongoing negotiations, it is a reminder that uncertainty, not stability, is the base case. But there are reasons to be cautiously optimistic. First, fiscal policy is a tailwind for the U.S. economy in the first half of this year. Second, there do not appear to be any systemic issues in the financial system — private-equity and -credit issues are unlikely to

Figure 3: An early resolution will not normalize energy prices.

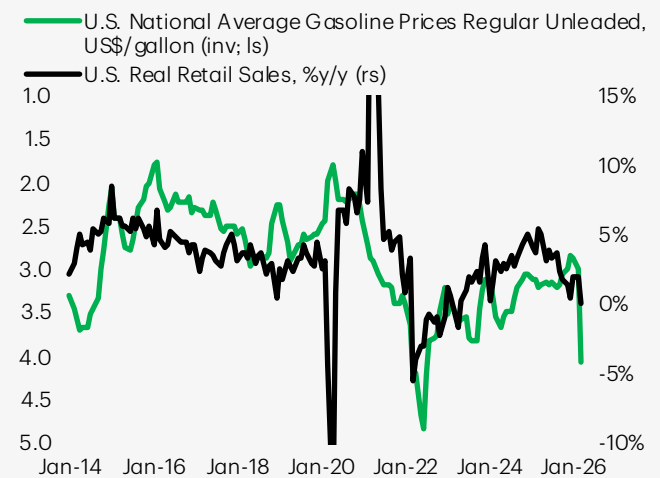
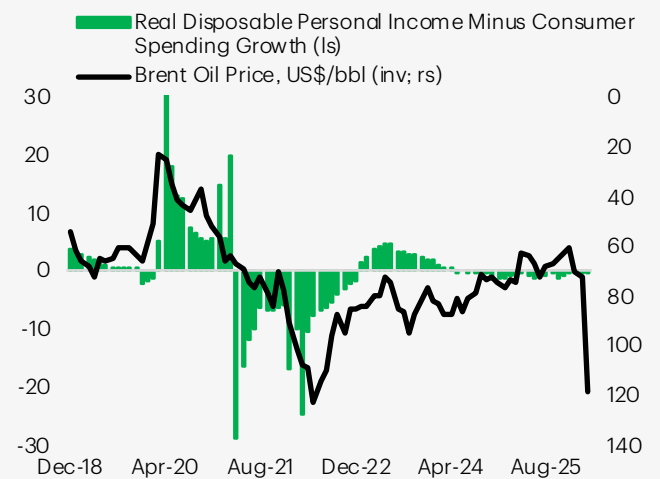


Source: Macrobond, Wealth Investment Office, as of April 10, 2026

translate into material risk for the regulated banking system. Third, the backdrop today is very different from 2022, when the Federal Reserve was hiking rates and the U.S. domestic economy was overheating amid fiscal stimulus and a very strong job market.

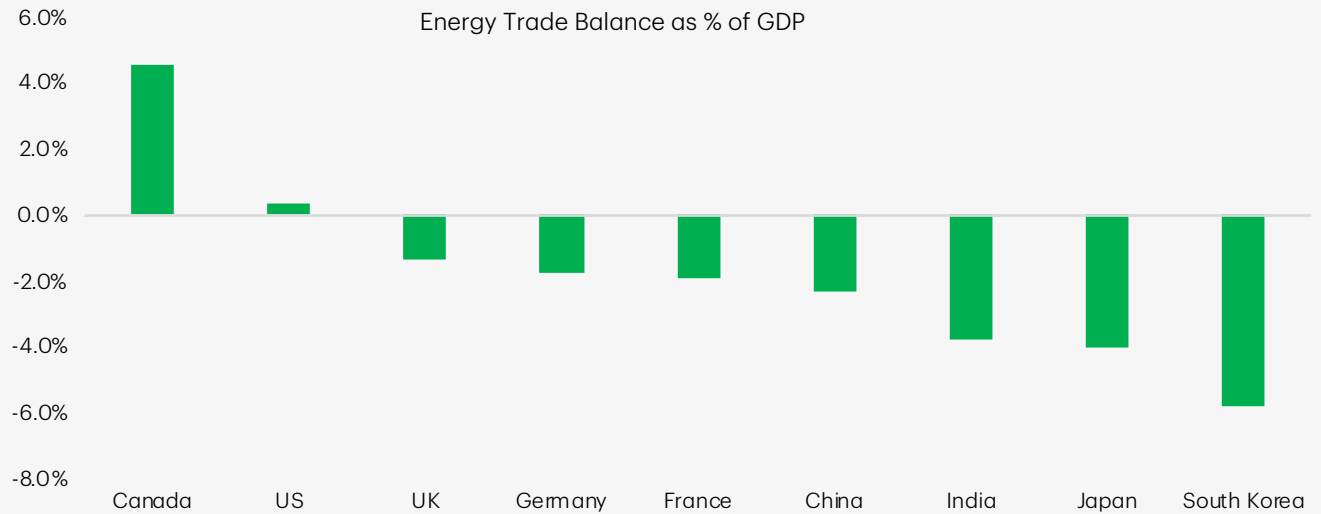
With that said, higher oil prices loom large and can affect the broader economy, creating winners and losers across sectors. Given that disposable personal income growth tends to be stable, spikes in energy prices often force consumers to curtail their discretionary spending. Surveys show that spending on restaurants, travel, clothing and electronics tends to be curtailed first during periods of higher oil prices. Otherwise, consumers have to dip into their savings to sustain their standard of living, which often translates into weaker consumer confidence (Figure 4). Oil-price spikes also feed into the cost of manufactured goods, which raises prices for consumers, who in response buy fewer of them. This is especially true for lower-income households, which spend more of their income on energy.

Figure 4: Higher oil prices to dampen spending



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

Figure 5: Canada, U.S. less vulnerable to energy shock



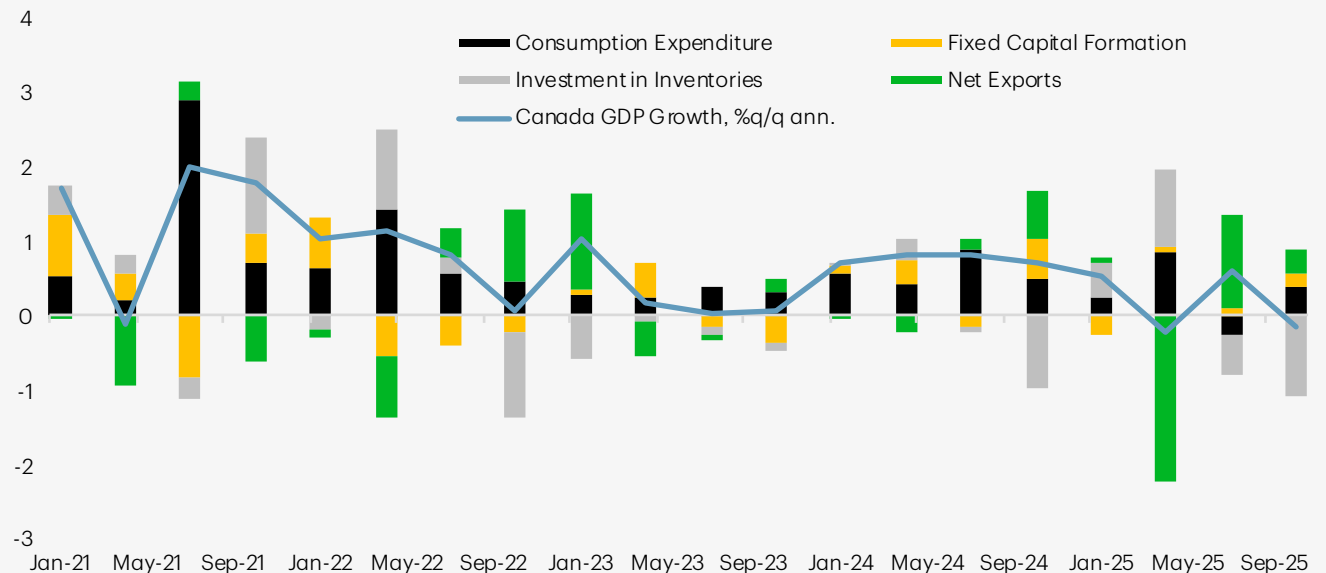
Source: Macrobond, Wealth Investment Office, as of April 10, 2026

The timing isn't great either. Momentum in U.S. consumer spending has been cooling, with growth in real spending just barely positive at 0.1% month-over-month from November to February. Risk in U.S. labour markets is also increasing despite the strong job gains in March — the hiring rate, household survey and the majority of leading employment indicators all point to a softer labour market ahead. The ongoing conflict in the Middle East is weighing on sentiment, and real incomes will be dented in the near term due to strong inflation in March and likely in April. The resilience of consumers around the world is about to be tested in the coming months amid higher energy prices and an increasingly K-shaped economy between higher-income and lower-income households.

Now the good news: as net energy exporters, Canada and the U.S. are less vulnerable to the spike in energy prices. This is in contrast to the majority of Europe, Japan and emerging-market economies, which import most of the energy they require and are in deficit positions with respect to their energy trade balance (Figure 5).

Aside from the windfall for the oil industry, however, the economic outlook for Canada is nuanced. Consumer spending is showing signs of strain, and trade volatility continues to be a headwind (Figure 6). Perhaps most concerning, the real estate market remains soft. Activity has fallen to multi-year lows, while both housing and rental prices are beginning to moderate, reflecting the impact of higher interest rates

Figure 6: Consumer spending in Canada weighed down by trade volatility



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

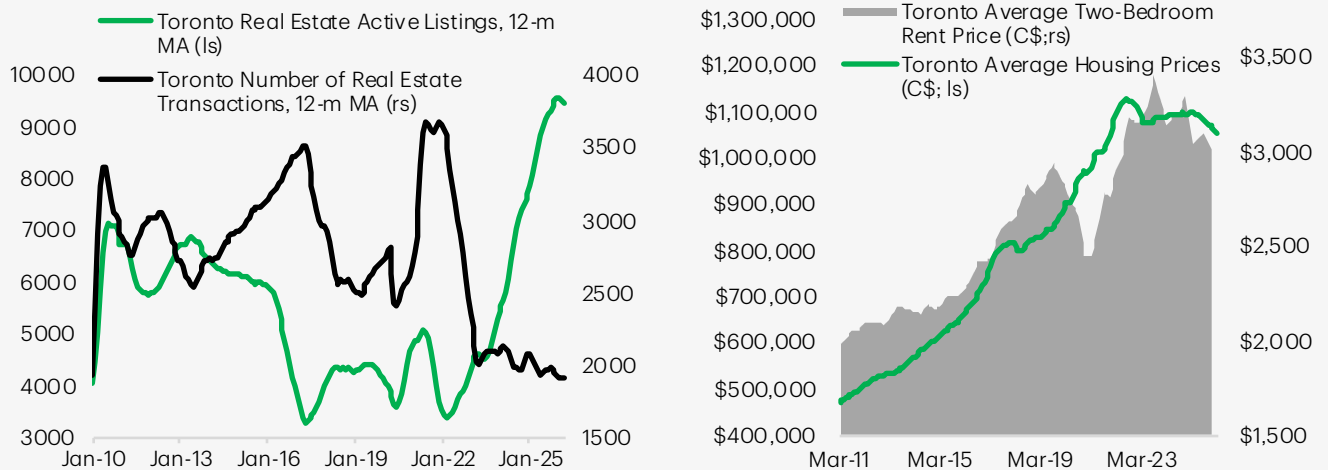
on a highly rate-sensitive sector. This has broader implications for the cyclical parts of the economy, including the housing market, through higher mortgage rates for borrowers and higher financing rates for homebuilders.

In Toronto, for instance, the volume of housing transactions is half of what it was in 2022, whereas the number of active listings is 2.8 times higher — highlighting a buyers’ market (Figure 7). Meanwhile, the rental price for a two-bedroom condo has fallen 11% in nominal terms from the peak in August 2023, which could partially be explained by tighter immigration policy and increased supply of finished condos started in 2021 to 2022. With the policy rate expected to increase this year and the Canadian economy growing below trend, the recovery in the housing market will likely be pushed back and become more gradual.

From a regional perspective, TD Economics expects a moderate but uneven expansion, with global growth around 3%, led by the United States and China (Figure 8). The U.S. remains resilient, though inflation continues to run above target, keeping policy constraints in place.

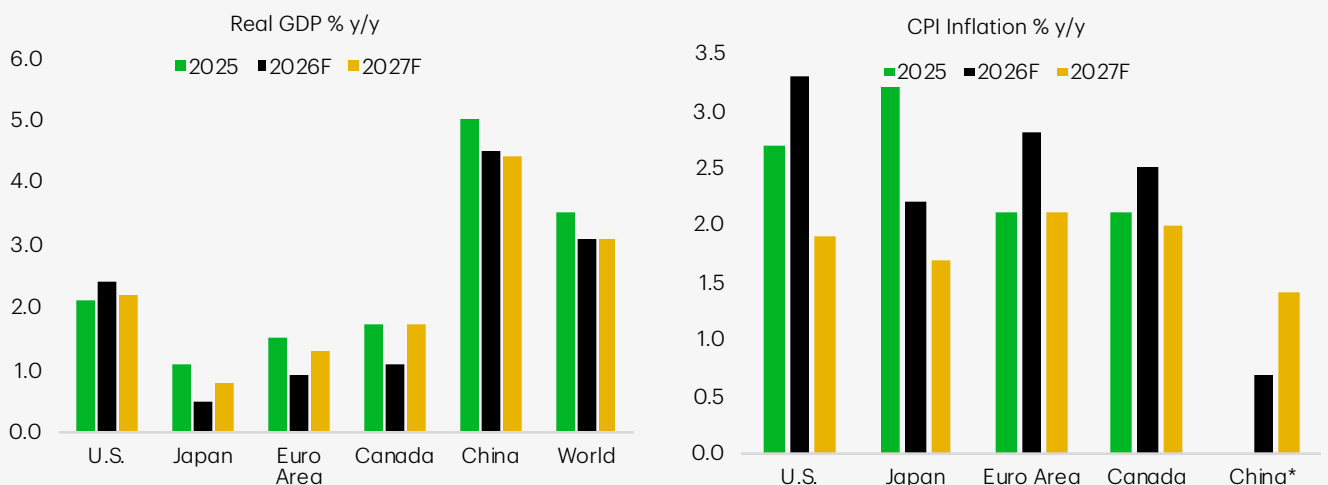
The current inflation shock has begun and will gradually work its way through the economy. Our baseline view is that these pressures should fade over time, potentially opening the door for the Federal Reserve to begin cutting rates in the latter half of the year. That said, the path remains highly dependent on energy prices and the evolution of the conflict. By contrast, Europe is growing more slowly, with inflation easing back toward target, while Japan is experiencing a more persistent shift in inflation dynamics.

Figure 7: Residential real estate remains soft, with prices falling



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

Figure 8: Global growth holds, Inflation diverges



Source: TD Economics, IMF and WIO, as of March 2026 * China CPI data is the IMF forecast

The result is a global backdrop defined by divergence, steady overall growth, uneven momentum and lingering inflation pressures across developed markets. In Canada, the inflation outlook is similarly uncertain. The effects of the energy shock are beginning to feed through the economy, but weaker demand should help offset some of the pass-through. This gives the Bank of Canada room to remain on hold as it assesses how conditions evolve. The environment, while more complex, is not one of systemic stress but rather a transition to a more normalized cycle in which more disciplined capital and greater dispersion shape outcomes. This is an environment we can navigate, but when it comes to inflation we are going to expect the best and plan for the worst.

Interest Rates: Higher oil, tighter policy

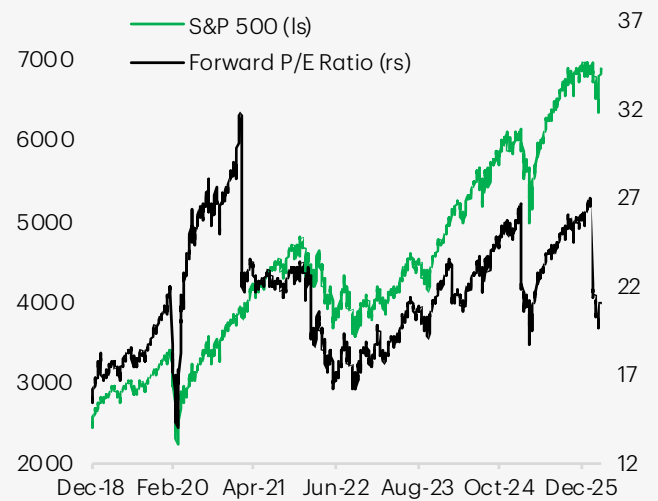
Higher energy prices amid the conflict in the Middle East have decisively shifted the path of monetary policy from easing to tightening globally. Prior to the conflict, the Federal Reserve was expected to cut its policy rate by 50 bps this year, while the Bank of Canada was pricing in a 50% probability of a 25-bp cut. Today, the market is pricing in no cuts by the Federal Reserve and one or two 25-basis-point rate hikes in Canada (Figure 9). Similar trends can be seen in Europe and Britain.

For markets, this matters: the cost of capital is no longer falling, and the cushion that monetary-policy easing was expected to provide is now less certain. This sets the stage for earnings and equity markets, where resilience will increasingly be tested against a higher-for-longer rate backdrop.

Earnings: Fundamentals remain supportive

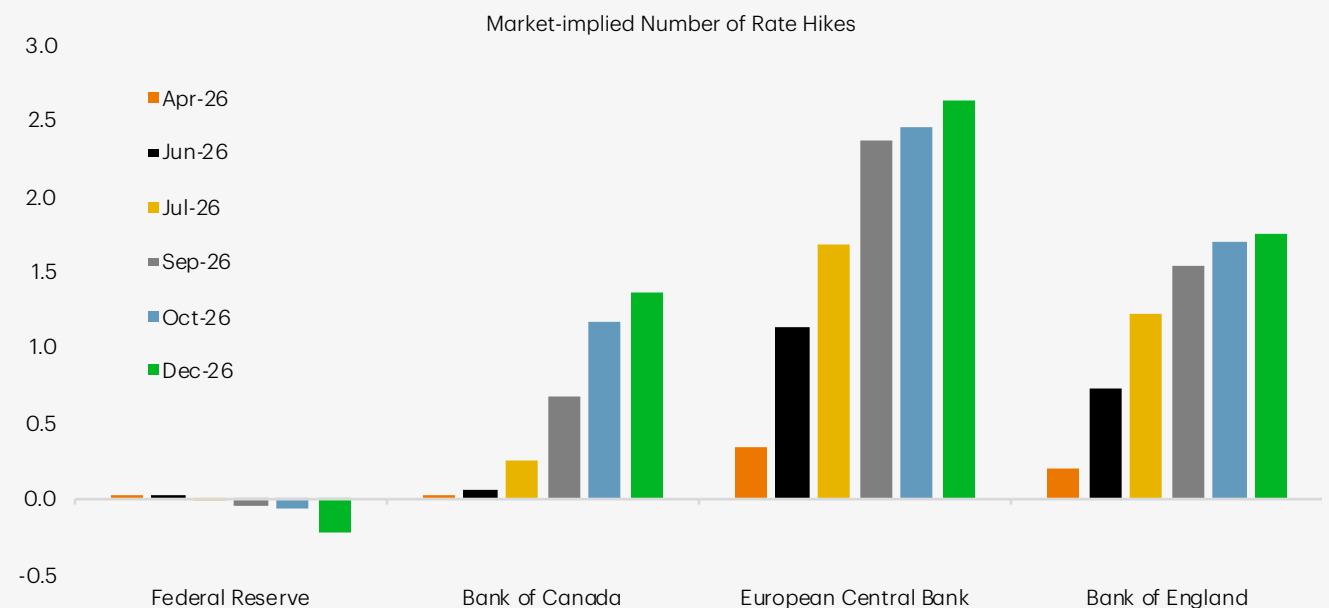
While the impact of the ongoing war in the Middle East can be worrisome for investors, equities remain attractive. Earnings growth has gotten cheaper, and fundamentals across the majority of sectors remain supportive. The U.S. equity market has been very resilient in the face of the geopolitical conflict and oil-price shock, which have historically triggered a knee-jerk selloff in risk assets. Even though the S&P 500 is down only around 9% from the peak, valuations have come down to 19.6 times forward earnings at the trough (Figure 10), thanks to the strong earnings growth.

Figure 10: Strong earnings, weaker sentiment make equities more affordable



Source: FactSet and Wealth Investment Office as of April 10, 2026

Figure 9: Traders now pricing-in rate hikes across G7



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

In fact, fundamentals across the majority of sectors remain robust. Six out of 11 sectors saw positive earnings revisions for 2026, and only three out of 11 sectors saw negative EPS revisions for 2027 and 2028 (Figure 11). That the consumer discretionary sector has experienced the largest downward revision should not be a surprise, moreover, since higher gasoline prices eat away at households' disposable income.

The recent market correction, combined with the very strong earnings revisions for the info-tech sector, has resulted in an attractive valuation relative to the

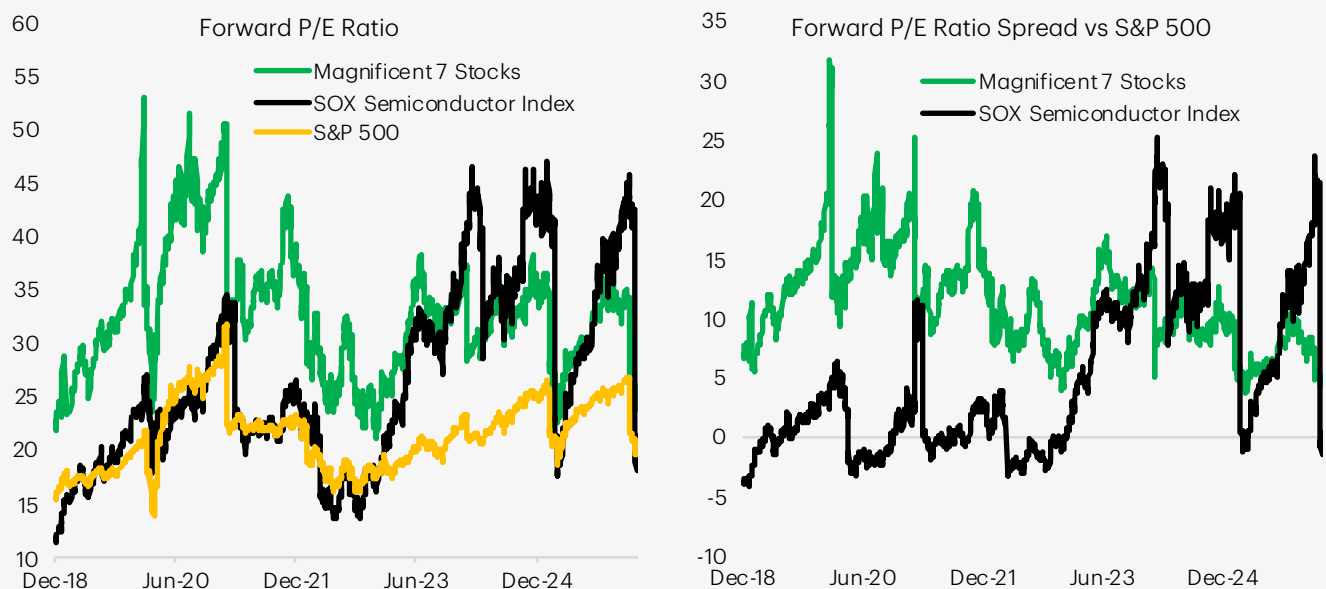
benchmark and relative to the historical average in recent years (Figure 12). In addition, the Magnificent Seven stocks have lagged the overall benchmark this year amid concerns about high capex, the possibility of free cash flow turning negative and the possibility that returns on AI investments could be insufficient. In recent weeks, however, a few companies have started to disclose strong growth in AI-related revenues, which should help alleviate investors' concerns about the monetization of AI capex.

Figure 11: Earnings revisions remain robust YTD

EPS Revision YTD	2026 EPS Estimate	2027 EPS Estimate	2028 EPS Estimate
Info Tech	11.7%	16.9%	17.2%
Materials	6.9%	8.0%	4.0%
S&P 500	4.3%	6.0%	6.9%
Energy	15.8%	4.4%	6.0%
Financials	2.0%	2.8%	3.8%
Communication Services	2.5%	2.6%	6.7%
Utilities	0.1%	0.6%	1.0%
Consumer Staples	-0.1%	0.3%	1.7%
Industrials	-1.4%	0.1%	1.1%
Healthcare	-1.2%	-0.2%	-0.1%
Real Estate	-1.1%	-1.3%	-1.4%
Consumer Discretionary	-1.6%	-1.4%	-1.5%

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

Figure 12: Valuations for tech stocks have narrowed the gap



Source: FactSet and Wealth Investment Office as of April 14, 2026

Meanwhile, current valuations suggest that the market is pricing semiconductor stocks as if they were at the end of the demand cycle, which is contrary to guidance from the rest of the ecosystem: the hyper-scalers and chip manufacturers, including Taiwan Semiconductor Manufacturing Co. (TSMC). TSMC noted strong demand from its customers, tight capacity and visibility extending two to three years.

The recent correction and positive revisions have also made valuations more attractive across regions. By the end of 2025, U.S. and Canadian equities were trading at elevated valuations that limited their potential. Today, they have moved closer to their historical averages (Figure 13). This backdrop — strong earnings growth, continued momentum in AI capex, a rebound in industrial activity and a broadened economic recovery — supports our overweight stance on equities. As it stands, barring prolonged conflict in the Middle East, analysts expect strong earnings growth of 15% to 20% across regions in the next two years, justifying today's seemingly high valuations.

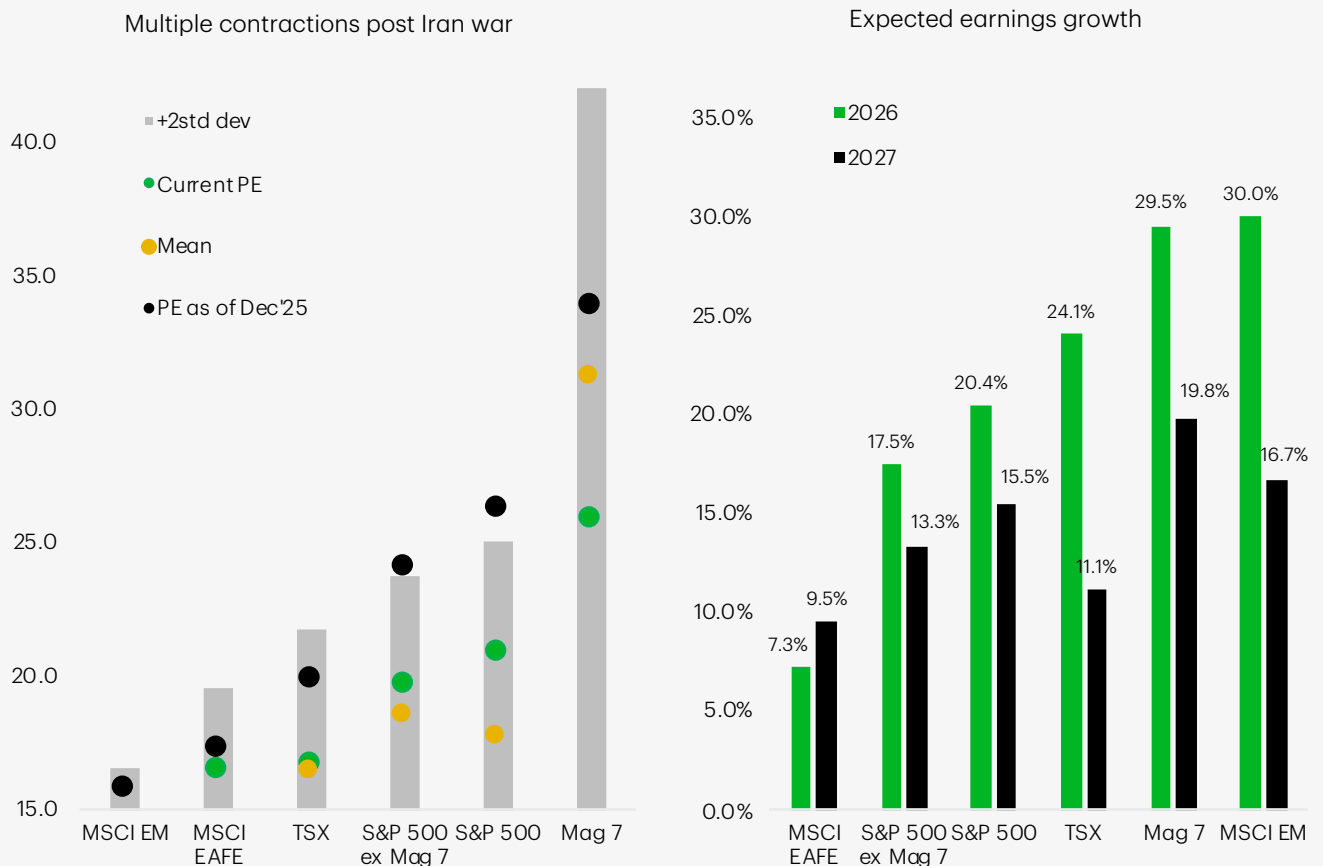
While the earnings outlook remains constructive, the environment in which those earnings are delivered is becoming more complex. That brings us to the question of positioning — how to allocate capital in a world where geopolitics, resources and power dynamics are playing a more central role.

Investing within the “law of the jungle”

U.S. dollar (modest underweight). The concept of a “safe-haven” investment has been increasingly shaped by what we have described as the law of the jungle. Historically, the U.S. dollar has stood at the centre of the global financial system, backed by deep capital markets, institutional strength and the rule of law. In times of stress, capital has consistently moved toward it. However, the question today is whether the U.S. can retain its unchallenged safe-haven status.

There are growing signs that the U.S. dollar is under modest pressure. Rising fiscal deficits and debt levels, the increased use of financial sanctions and gradual diversification of reserves by central banks all point to a shifting backdrop. Things have changed. These are not immediate threats, but they do suggest a slow evolution from unquestioned dominance to relative dominance.

Figure 13: Correction, positive revisions have brought multiples down to earth



Source: FactSet and Wealth Investment Office as of April 14, 2026

While foreign central banks are unlikely to aggressively sell U.S. Treasuries, diversification away from dollar assets is ongoing (Figure 14). Gold has emerged as a key beneficiary, particularly amid concerns about central-bank credibility and fiscal dominance. Cryptocurrencies, by contrast, have behaved less like inflation hedges and more like high-beta risk assets, closely tied to liquidity conditions rather than real purchasing-power preservation (Figure 15).

So, for different reasons, neither gold nor digital assets, such as bitcoin, offers a true substitute for the U.S. dollar. Gold lacks scalability for modern financial systems and digital assets lack stability and institutional depth. Gold is a complement, but it's not a replacement. The U.S. dollar remains the world's primary safe haven, but in a more fragmented, competitive global system, it may no longer provide the same degree of insulation it once did.

Fixed income (modest underweight). Similar dynamics are playing out in fixed income. U.S. Treasuries remain a global haven, but not without qualification. Higher deficits, increased issuance and the re-emergence of a positive term premium suggest investors are demanding greater compensation for lending to the U.S. government. While Treasuries continue to provide diversification when growth concerns dominate, that protection is less reliable in an environment where inflation remains uncertain.

For investors, this reinforces a broader point: in a more fragmented and volatile macro backdrop, safety still exists, but it is no longer singular. The U.S. dollar and U.S. Treasuries remain central to the global financial system, but reliance on any single asset for protection is less effective than in the past. At the same time, the role of fixed income is evolving. With yields now providing a meaningful source of return, income has

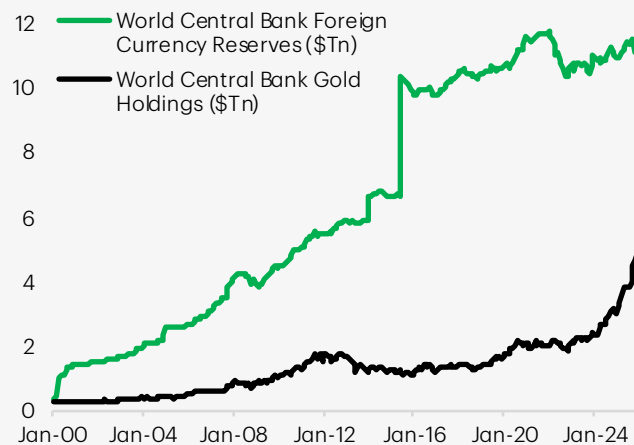
re-emerged as a key driver of performance. However, with term premia rebuilding and inflation risks still present, the risk/reward profile for duration remains more balanced. As a result, we maintain a modest underweight to fixed income overall, while favouring income-oriented segments such as short- to mid-term investment-grade credit, where returns remain attractive relative to volatility.

Equities (modest overweight). We remain constructive on equities, but within a more balanced outlook. Leadership is broadening, earnings growth remains positive but uneven, and higher interest rates are reinforcing the importance of quality and cash flow. The next phase of the cycle will be driven less by multiples expansion and more by earnings delivery.

As discussed, earnings growth remains positive, but increasingly uneven. The market is shifting from rewarding narrative to demanding delivery, as companies move from investing in the future — particularly in artificial intelligence — to demonstrating tangible returns. This is driving greater dispersion across sectors and within them. At the same time, higher interest rates are reducing the role of multiples expansion in driving equity returns, placing greater emphasis on a company's capacity to generate and grow earnings.

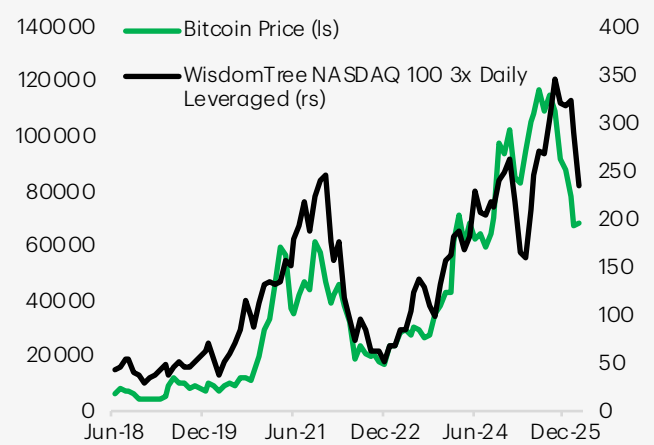
This dynamic is also evident across regions. U.S. equities continue to be supported by the breadth and resilience of earnings across sectors, while Canadian equities remain more tightly linked to commodity cycles, particularly energy. As a result, periods of geopolitical stress and rising oil prices tend to disproportionately benefit Canada, while more stable macro environments shift leadership back toward earnings-driven markets such as the U.S.

Figure 14: Will the U.S. remain a safe haven?



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

Figure 15: Bitcoin highly correlated to market, liquidity conditions

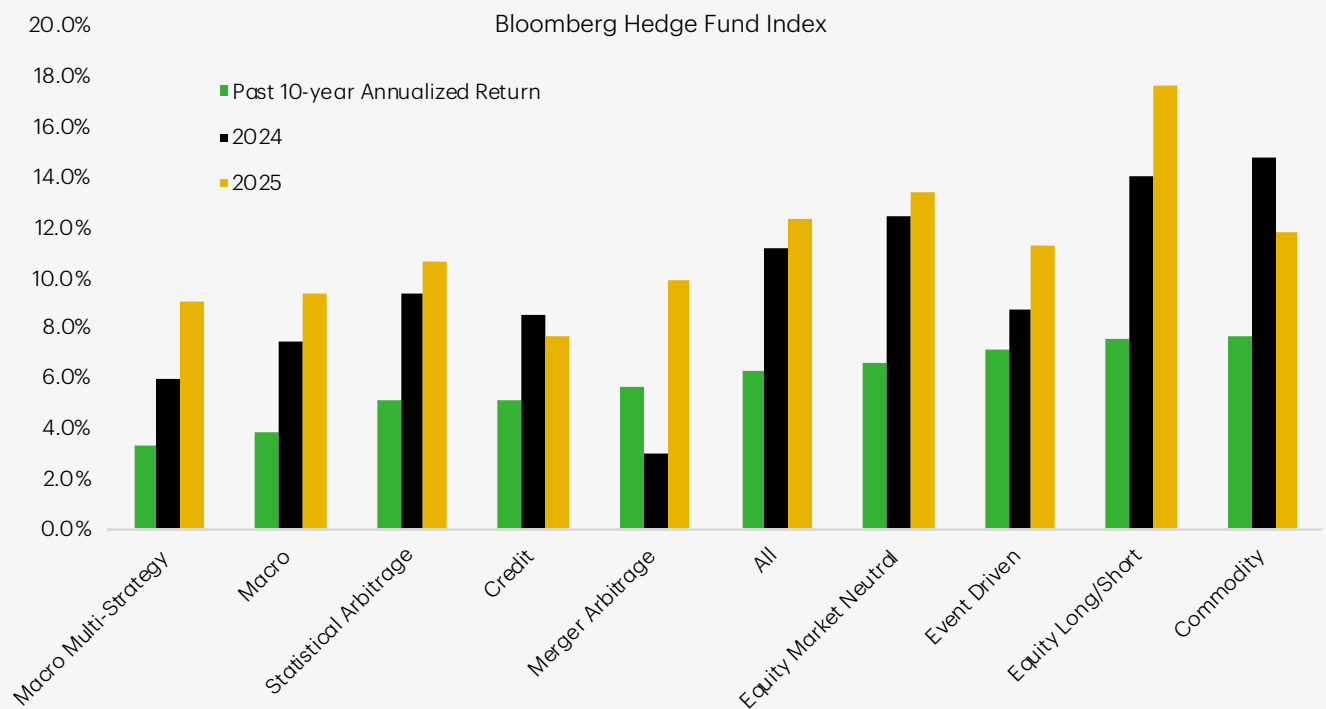


Source: Macrobond, Wealth Investment Office, as of April 10, 2026

Dispersion, in this context, is opportunity. The widening gap between winners and losers, combined with a higher-rate backdrop, is creating a more fertile environment for active and multi-strategy mandates. Strategies that are uncorrelated to the broader market and have the ability to go both long and short are particularly well positioned — benefiting not only from increased dispersion but also from the return on carry in a higher-rate environment (Figure 16). This is a trend that began after the pandemic, and we expect it to continue.

Commodities (modest overweight). Commodities have re-emerged as important components of portfolio construction. Unlike financial assets, commodities are directly tied to the real economy, making them a natural hedge in a world shaped by infrastructure buildout, supply scarcity and geopolitics. One of the most underappreciated shifts in the current environment is that location matters again. In a world of frictionless trade, a ton of copper was a ton of copper. In today's world, where supply routes can be disrupted and sanctions weaponized, physical proximity and political alignment matter.

Figure 16: Hedge funds have performed much better vs. historical averages

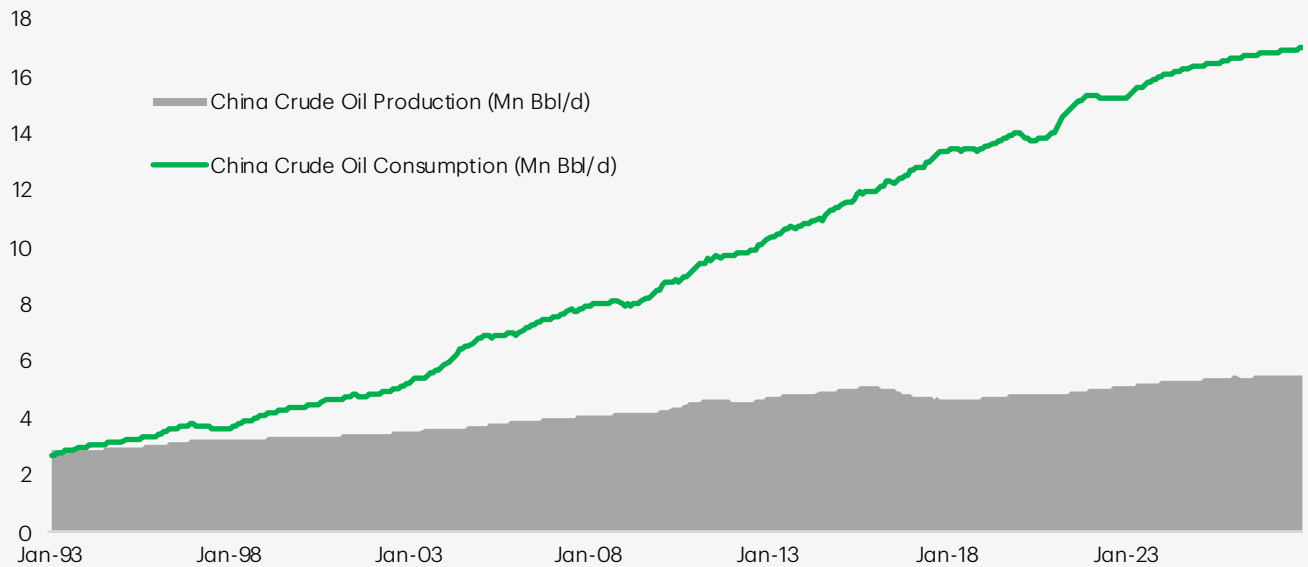


Source: Bloomberg, Wealth Investment Office, as of April 10, 2026

Increasingly, major industrialized countries are stockpiling critical materials, with China offering a striking example. Highly dependent on crude oil imports — particularly from the Middle East — it remains vulnerable to potential blockades in the event of conflict (Figure 17). In response, Beijing has accelerated investment in renewables, nuclear energy and strategic reserves. China's accumulation of base metals is equally notable. Estimates suggest its strategic copper reserves now exceed two million tons, a dramatic increase from negligible levels two decades ago. Given global annual production of roughly 25 million tons, this stockpile is economically significant.

This is where the next layer of demand begins to emerge. As we have written about, the “electrons before algorithms” theme is not just a digital story, it is a physical one. It requires vast amounts of energy, data infrastructure and critical materials. In that sense, the same forces driving geopolitical competition and resource security are also being reinforced by technological demand. AI does not run on code alone. Training and deploying large-scale AI systems require vast quantities of advanced semiconductors and electricity. Producing those chips demands fabrication plants costing tens of billions of dollars. Powering them requires investment in generation, transmission and grid stability. All of this, in turn, depends on raw materials: steel, copper, aluminum, rare earths and specialized chemicals.

Figure 17: China heavily reliant on oil imports, vulnerable to blockade



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

Infrastructure (modest overweight). Investments tied to energy, electrification and digital infrastructure continue to benefit from long-duration, often inflation-linked revenues. In the context of our “electrons before algorithms” theme, infrastructure sits at the centre of both technological and economic transformation. In a higher-rate, more uncertain environment, it offers a combination of stability and growth that remains attractive within diversified portfolios.

Domestic real estate (modest underweight). Higher interest rates, elevated household leverage and softer transaction activity continue to weigh on the sector, with pricing and volumes adjusting to tighter financial conditions. While long-term fundamentals — particularly population growth and supply constraints — remain supportive, we see better opportunities elsewhere in the current environment.

Global real estate (neutral). The asset class continues to adjust to a higher-rate environment, with valuations re-pricing and transaction activity remaining subdued. However, this reset is creating more attractive entry points, particularly in sectors with structural demand, such as logistics and residential. As a result, we see a more balanced risk/reward profile, supporting a neutral allocation with a focus on selectivity and quality.

Final Thoughts: Diversification is the ballast

The forces shaping markets today are powerful. Geopolitics is evolving, technology is accelerating, and policy is becoming more active. At times, it can feel overwhelming, but markets, in the end, are simpler than they seem. They respond to three things: interest

rates, earnings growth and economic growth, or lack thereof. Everything else, no matter how complex or urgent, is ultimately filtered through those lenses.

This perspective matters because it reinforces that investors are not waifs amid forces. They are allocating within them. In a world where the law of the jungle increasingly applies — where power, resources and alignment matter more — uncertainty is not a temporary condition. It is a feature of the system, and that is why portfolio construction is paramount.

Diversification is not about avoiding risk, it is about preparing for it. It means balancing traditional safe havens with real assets, complementing broad market exposure with strategies that can navigate dispersion, and maintaining flexibility in the face of change. Currency exposure remains an important, though often underappreciated, dimension of diversification, particularly in a world where the U.S. dollar remains dominant, but less absolute. Fixed income continues to play a critical role — not just as a source of income, but as a stabilizer, even if its diversification benefits are more nuanced than in the past.

The objective is not to predict a single outcome; it is to build portfolios that can endure many. The primary risk to this outlook would be a more sustained energy shock or a broader escalation in geopolitical conflict, which could challenge both growth and inflation expectations. As always, the effectiveness of this positioning is not measured over weeks or months, but over full market cycles.

Leading Macro Indicators

Further Stagnation or Expansion?

The overall U.S. macro condition has stagnated at a weak level for the past 12 months but, barring an extended crisis in the Middle East, we could move towards an early stage of expansion.

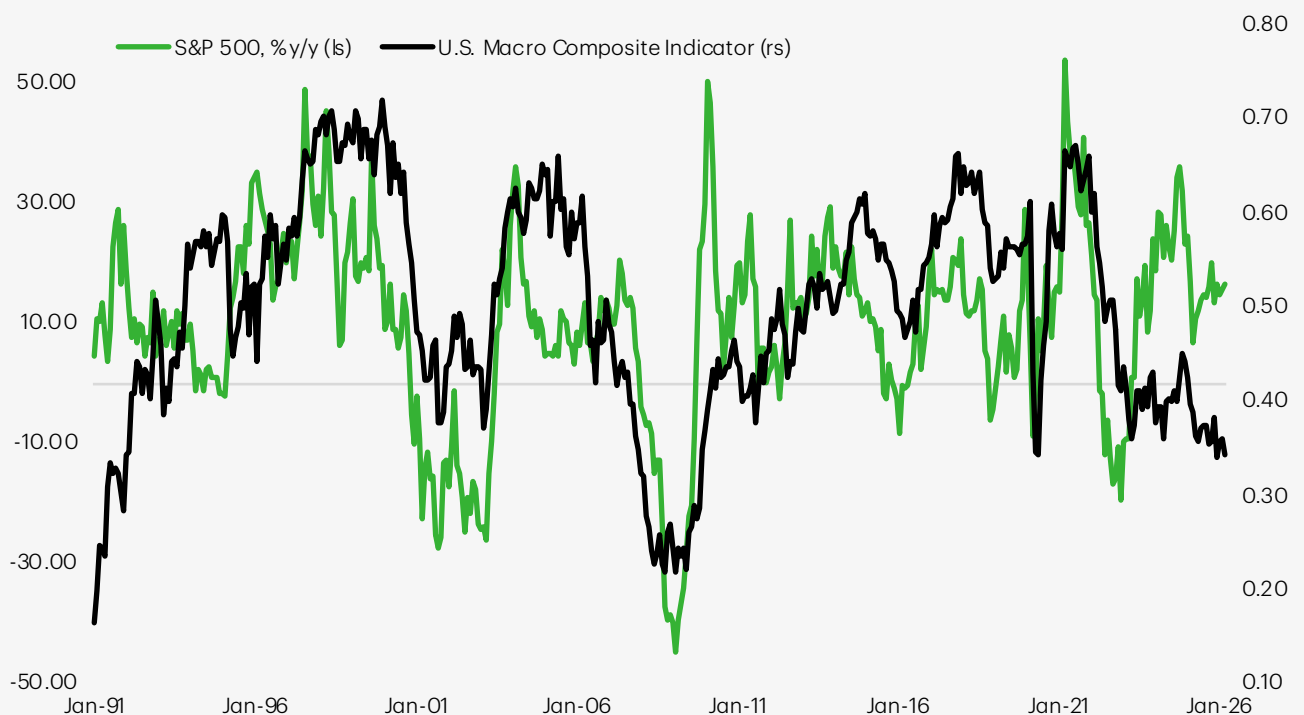
Kevin Yulianto, Quantitative Portfolio Manager, TD Wealth

Based on our enhanced U.S. macro composite indicator, which reflects the overall ebb and flow of the U.S. business cycle, the aggregate score for the U.S. economy has fluctuated between the 30th and 40th percentile over the past year. At the end of the first quarter of 2026, it sat at the 34th percentile (below the normal 40th to 60th percentile range), unchanged compared to the end of the fourth quarter last year.

In the first quarter, U.S. and global equity markets fell, hurt by the conflict in the Middle East and the subsequent spike in oil prices. Investors and policymakers became cautious on the outlook for inflation, which will likely rise in the coming months on the back of higher energy and food prices. Market expectations for Federal Reserve monetary policy shifted from two 25-basis point rate cuts this year to none. This amounts to a tightening in financial conditions and will act as a headwind for risk assets.

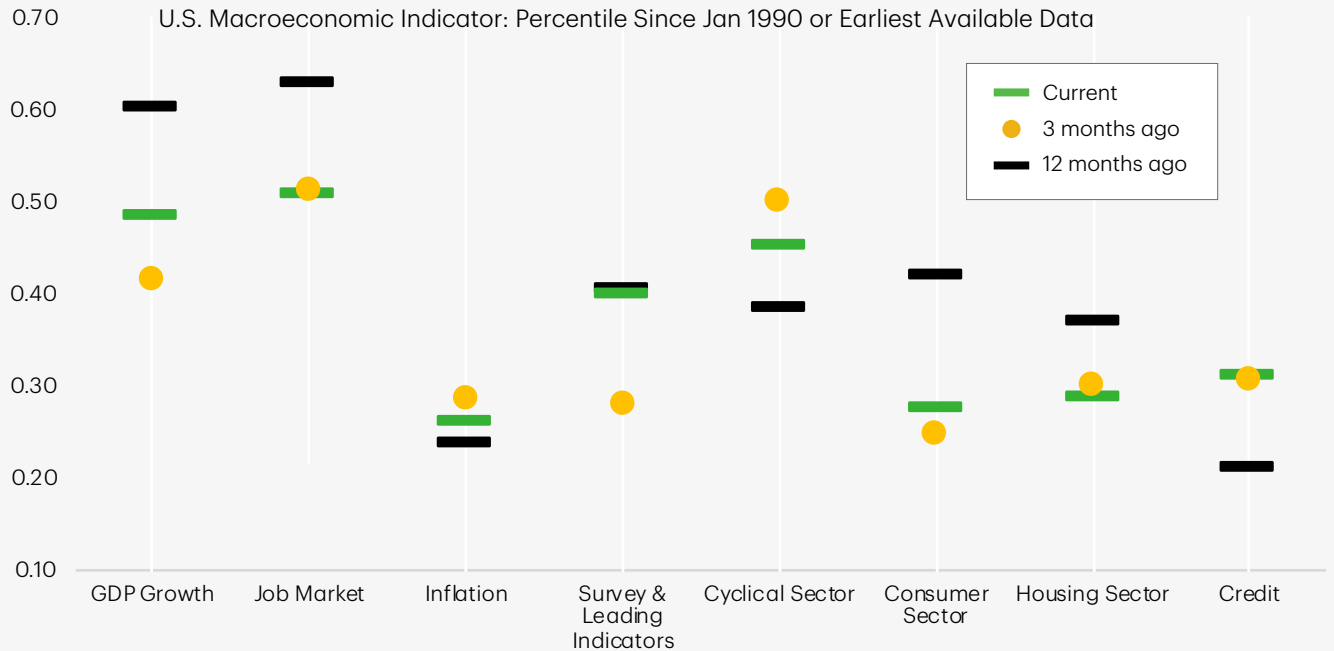
Our macro composite indicator — which works to capture changes in the U.S. business cycle through 120 key economic variables that inform our understanding of the macroeconomic and risk environment — is part of our process-driven approach to investment management. When we compare the annual rate of change of the S&P 500 index with changes to our U.S. macro composite indicator, we see that the two tend to move loosely in the same direction over time and that in recent years the score has been materially below market performance (Figure 1). When we break the overall score down into eight subsectors, we see that five have deteriorated over the previous 12 months (Figure 2).

Figure 1: U.S. macro composite indicator



Source: Macrobond, Wealth Investment Office as of March 31, 2026

Figure 2: Change in market risk regime scores



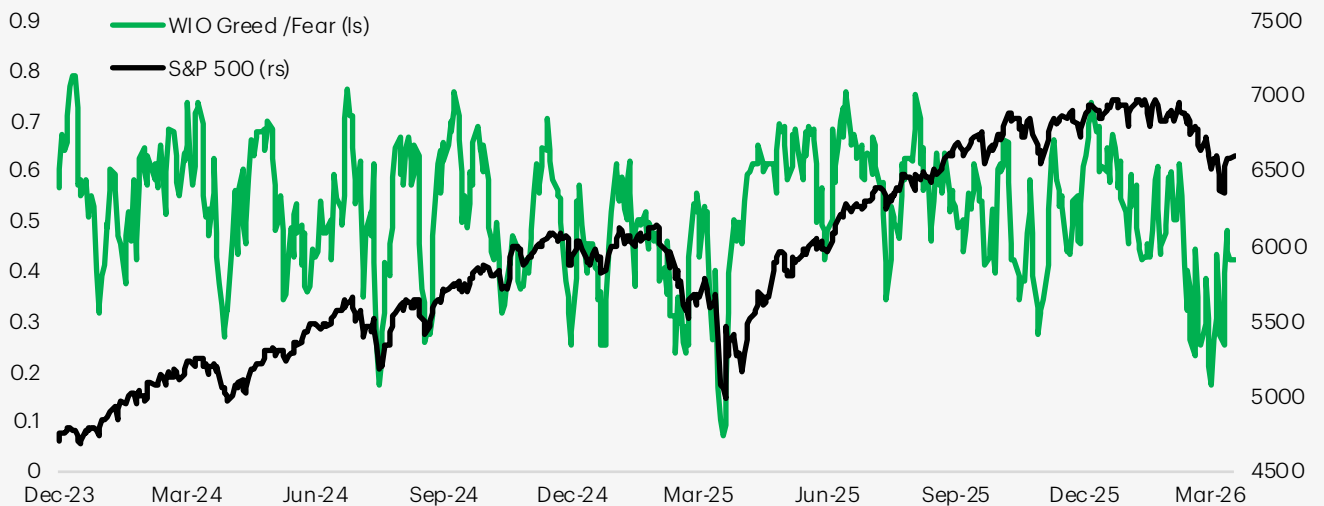
Source: Macrobond, Wealth Investment Office as of March 31, 2026.

For each indicator we calculate current values and compare them to historical data, standardizing each datapoint into a percentile score that makes it easier to read. The percentile score is based on data since January 1990 or the earliest available.

To give investors a better picture of risk sentiment we have built a Greed/Fear index using 37 market-based daily indicators from traditional metrics, such as equity and bond indices, to equity market breadth and momentum, retail sentiment, and

speculative positioning. When we plot the Greed/Fear index against the S&P 500, we see that it rises and falls alongside the U.S. equity market and currently reflects slight pessimism among investors (Figure 3).

Figure 3: Change in market sentiment



Source: Macrobond, Wealth Investment Office as of March 31, 2026

The following are notable developments in Q1 2026:

1. The score for GDP Growth slightly rose to the 49th percentile at the end of Q1 from 42nd percentile previously, driven primarily by the resilient Q1/26 GDP estimate by Atlanta Fed GDPNow. The GDP score is supported by robust consumer spending growth, despite the soft labour market backdrop, and the positive contribution from investment growth driven by AI capex spending. On the flipside, government spending detracted from the headline figure. While the downside risk to the outlook for consumer spending has increased, AI investments will likely support the headline GDP growth number this year.

2. The U.S. Job Market remained stable, with the aggregate score for the category holding in at the 51st percentile at the end of Q1. Job openings and wage growth stabilized but unemployment rose slightly, and quit rates continued to decline – highlighting the low hire, low fire environment. When it comes to employment and personal finance, surveys point to more of the same continued downbeat sentiment, which also skews the risk to U.S. labour market to the downside.

3. The aggregate score for Inflation deteriorated slightly in Q1 to the 26th percentile from the 28th percentile at the end of Q4. Both the actual inflation figure and the price outlook worsened during the quarter. Companies reported higher input costs and ISM Manufacturing and Services surveys have highlighted a significant jump in prices paid amid the spike in the cost of crude oil, all of which will likely translate into further deterioration for the Inflation score in Q2.

4. The score for Survey & Leading Indicators rose to the 40th percentile at the end of Q1 from the 28th in Q4. The ISM Manufacturing surveys had three consecutive months of expansion and new orders were picking up – highlighting robust goods orders in the coming quarters. Moreover, regional business surveys by Federal Reserve banks suggested growing optimism among manufacturers in Q1 despite rising geopolitical uncertainty. The outlook for the service sector also improved during Q1 and ISM Services survey continued to point to expansion of the sector.

5. Cyclical Sector activity fell slightly in Q1, with the score slipping to the 45th percentile from the 50th at the end of Q4. Industrial production growth and capital goods orders stabilized in Q1, but the normalization in durable and capital goods orders weighed on the score for this category. The cyclical sector had been experiencing a recovery and accelerating prior to the disruption caused by the conflict in the Middle East.

6. The Consumer Sector overall ticked up in Q1 to the 28th percentile from the 25th percentile at the end of Q4. Retail sales and real personal spending growth accelerated in the quarter, supporting the score for this category. However, growth in spending outpaced growth in personal income, which means consumers have been reducing their savings rate to sustain spending. Meanwhile, consumer sentiment remained at a depressed level.

7. The Housing Sector indicator, which stood at the 30th percentile at the end of Q4, ticked down to the 29th percentile in Q1. Spending on furniture and home furnishing accelerated slightly, which supported the overall score for the category. However, the score was weighed down by higher mortgage rates, the deceleration in house price growth, and the decline in building permit and home sales. For several quarters now we have been looking for a potential bottom in the housing sector but rising geopolitical uncertainty and still-elevated mortgage rates remain a headwind.

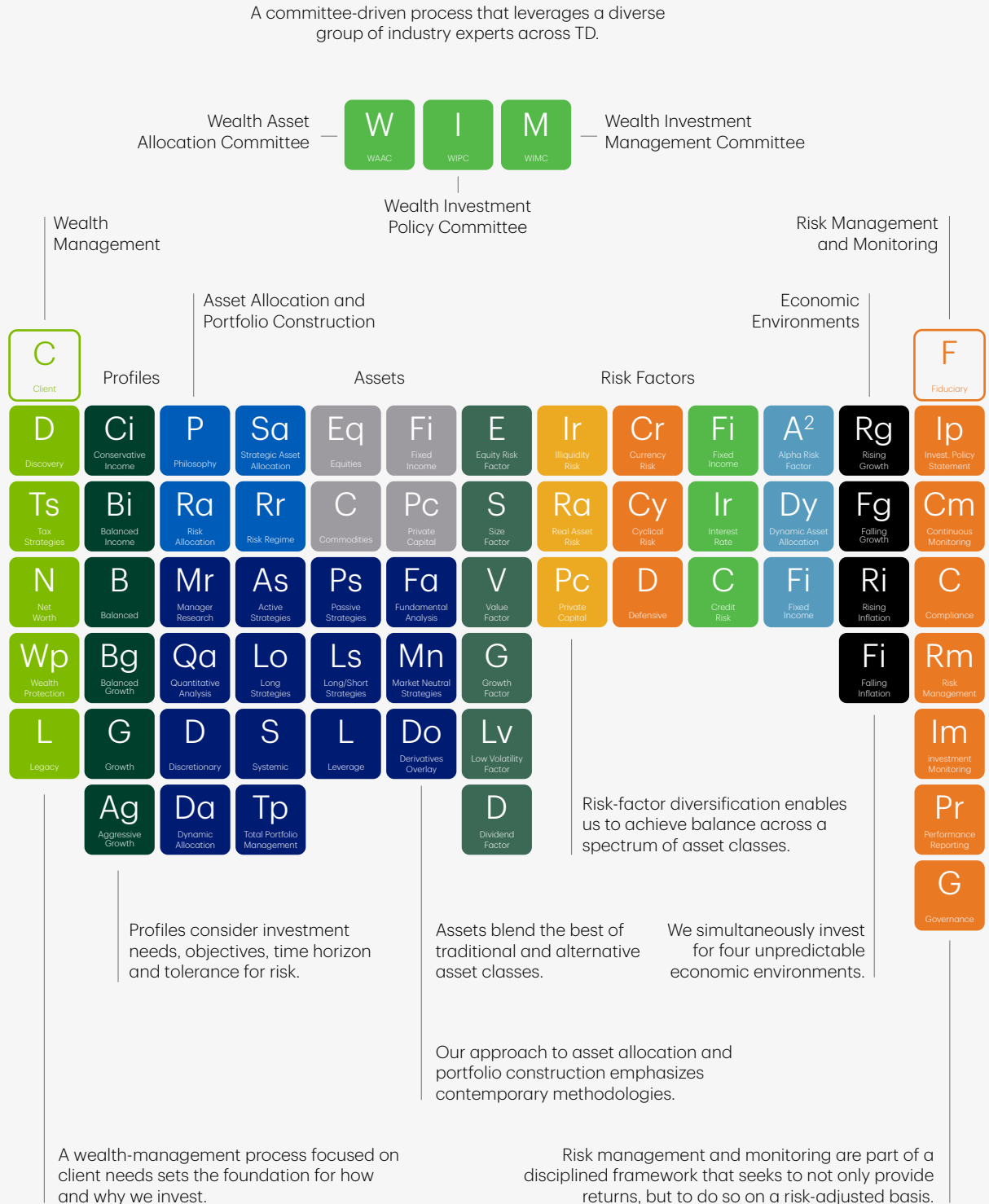
8. Lastly, the score for Credit stayed at the 34th percentile at the end of Q1. Lending standards were eased in the quarter, but commercial and industrial loan growth also slowed. Consumer credit growth was unchanged in Q1.

The U.S. business cycle has stagnated at a weak level over the past twelve months, with the cyclical sector recovering amidst a slowdown in consumer spending. Survey and leading indicators are now improving, which tend to be followed by the recovery in rate-sensitive sectors such as housing and cyclical sectors. Investors remain hopeful that the U.S. business cycle could potentially enter an early stage of expansion in 2026, barring a prolonged conflict in the Middle East. The inflation outlook has deteriorated amid the spike in oil and food prices, and downside risk remains in the U.S. labour market.

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

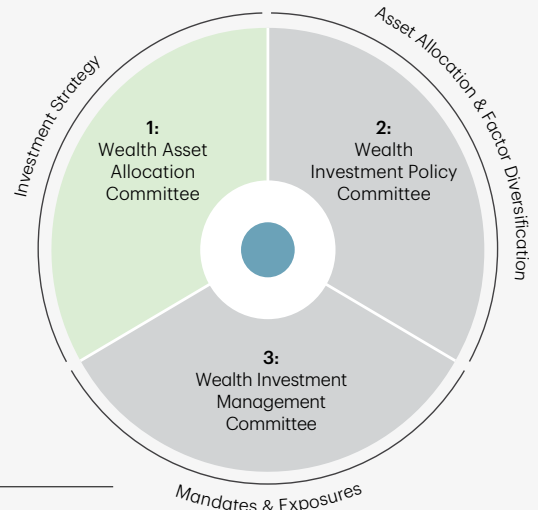


Wealth Asset Allocation Committee

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.
- Jafer Naqvi, CFA Managing Director, Head of Client Portfolio Management, TD Asset Management Inc.

Direction from WAAC

Core Asset Class Allocations

As of April 16, 2026

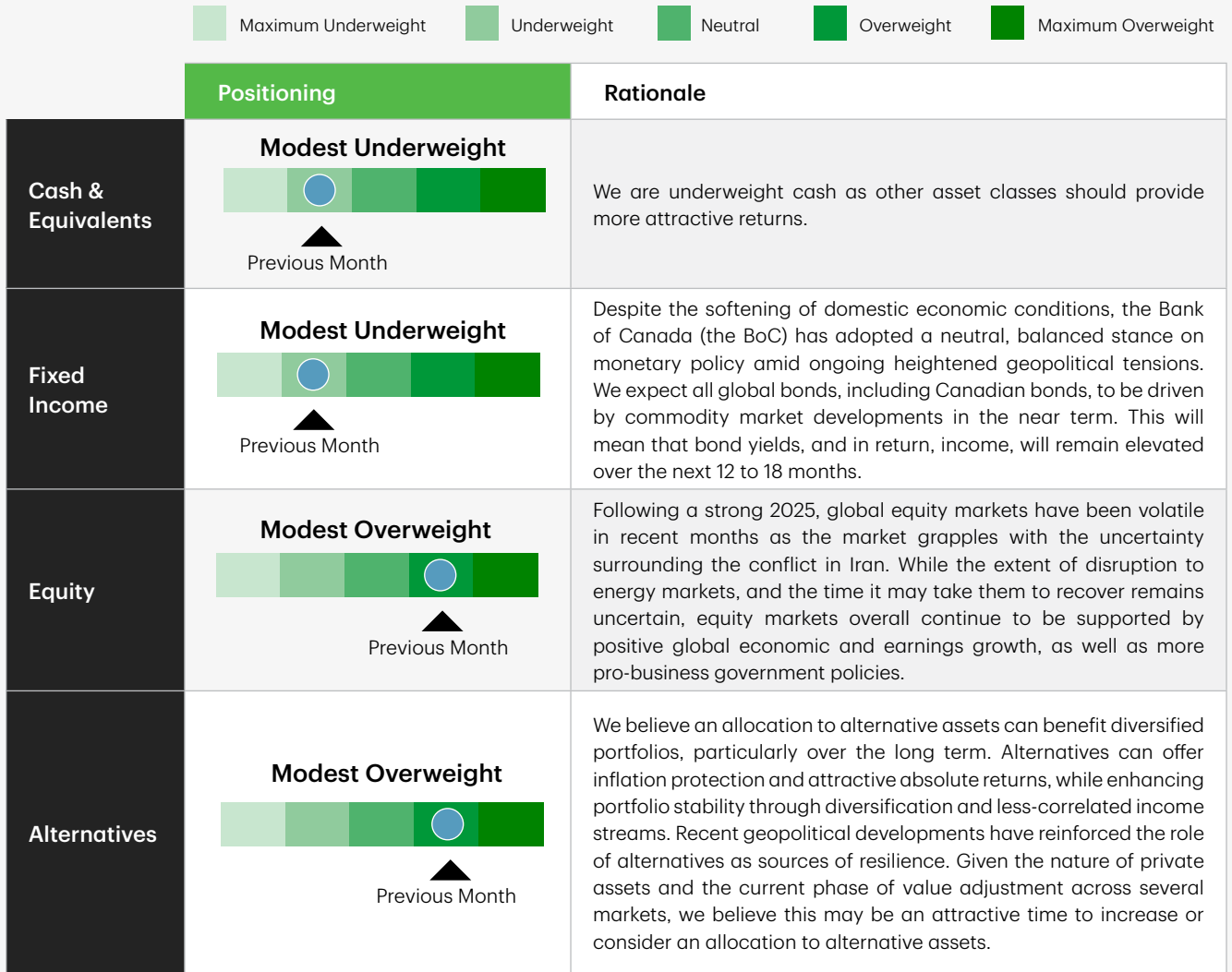


Figure 1: Direction from WAAC: strategic positioning

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

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

Fixed Income - Modest Underweight

	Positioning	Rationale
Domestic Government Bonds	Modest Underweight (From Neutral)	Canadian bond yields are expected to remain elevated as investors assess the duration of the Middle East conflict. While higher yields translate into higher income, government bond price volatility is expected to rise. We therefore see better relative value opportunities in other fixed income asset classes.
Investment Grade Corporate Credit	Modest Overweight	Credit spreads remain tight, supported by strong fundamentals, but rising AI-related spending and mergers and acquisition activity is creating a more challenging supply and demand backdrop. With risk premiums fairly flat across the yield curve, we continue to favour short to mid-term corporate bonds over longer term bonds.
High Yield Credit	Neutral	While earnings growth and fundamentals remain supportive, growing uncertainties around private credit and highly leveraged AI-impacted businesses have potential to tighten lending conditions. Overall, we see the risks as balanced in high yield and remain neutral given tight valuations.
Global Bonds Developed Markets	Modest Underweight	Global bond yields are expected to remain elevated as investors assess the duration of heightened geopolitical tensions and the impact that disruptions to commodity and global trade flows will have on future global economic growth and inflation.
Global Bonds Emerging Markets	Modest Overweight (From Neutral)	Emerging market local currency government bonds offer attractive levels of income relative to developed market bonds; however total return prospects vary by region. We broadly favour short-maturity bonds or currency positions in select Latin American, eastern European and African countries, where inflation-adjusted yields are attractive. In contrast, we are cautious on Asian countries where yields are relatively lower, and dependencies on energy imports could cause volatility to stay elevated.

Equities - Modest Overweight

	Positioning	Rationale
Canadian Equities	Modest Overweight	Canadian economic growth is expected to remain low but positive, as a more pro-investment federal government helps offset uncertainty around U.S. trade negotiations. Key supports for S&P/TSX Composite Index returns include the large Energy sector, which may benefit from tighter oil markets, and the well-capitalized Financials sector, which supports attractive dividend yields and share buybacks.
U.S. Equities	Neutral	U.S. equity returns are supported by earnings growth, tax policies under the "One Big Beautiful Bill Act" and the potential for further deregulation. Key headwinds include concerns around artificial intelligence driven disintermediation in the Information Technology Software & Services sector and ongoing geopolitical uncertainty. However, despite market volatility, S&P 500 Index earnings estimates have improved over the quarter and earnings are expected to grow at a mid-teens pace in 2026.
International Equities	Modest Underweight	International equities may lag as earnings growth, while positive, remains lower than in other markets. International equity valuations are currently above historical averages. European earnings could face additional headwinds from higher energy costs. Japanese equities look attractive on a relative basis with momentum building behind corporate reform, but there may be volatility as the Bank of Japan may look to continue raising rates.
Emerging Market Equities	Neutral	Emerging Markets provide exposure to attractively valued technology companies with strong earnings growth potential. China continues to face challenges in its property sector but has been implementing policies that could help stabilize its economy.

Private Markets - Modest Overweight

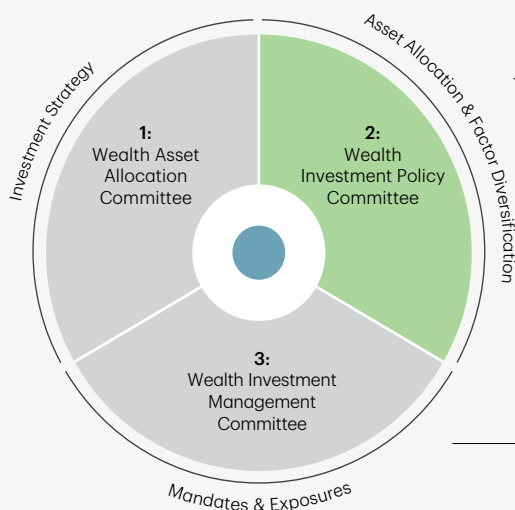
	Positioning	Rationale
Commercial Mortgages	Modest Underweight	Commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.
Private Debt (Universe)	Modest Underweight	High credit quality and global diversification provides an income ballast in an uncertain economic environment. Incremental income and potential capital appreciation from interest rate moderation provide upside.
Domestic Real Estate	Modest Underweight	We believe most value adjustments in Canadian commercial real estate are complete. Office occupancy (especially in Toronto) has begun to improve as large users mandate returns to office. Despite U.S. tariff policy volatility, Canada's industrial market remains healthy. Poor condominium markets and lower immigration have temporarily pressured residential rental rates in Toronto and Vancouver. Long-term multi-unit residential will likely see strong rental growth due to structural supply-demand imbalance.
Global Real Estate	Neutral	Returns are starting to improve globally. U.S. and Asian Pacific markets have seen the capitalization rate stabilizing, while Europe continues to outperform. New capital raising and significant redemption recissions are also early indicators of the improved sentiment for continued recovery.
Infrastructure	Modest Overweight	Infrastructure continues to offer stable returns and lower volatility due to its essential long-term nature. The persistent global infrastructure spending gap remains a key investment driver, reinforcing the need for increased investment. Additionally, accelerating trends such as the electrification of industry and the expansion of digital infrastructure are significantly increasing demand for power generation assets, creating compelling investment opportunities.
Commodities (Gold, Energy, Metals, Agriculture, Carbon)	Modest Overweight	Commodities have strengthened amid supply disruptions, particularly in energy, natural gas, and select industrial inputs. Recent gains appear driven more by curtailed supply than excess demand, reinforcing commodities' role as a portfolio diversifier during periods of geopolitical stress.
Global Private Credit	Modest Overweight	Global Private Credit provides premium income through diversified global origination across corporate, real estate, infrastructure, and specialty finance, including middle-market corporate relationships. TDAM's robust credit risk infrastructure supports strong governance and disciplined access to attractive risk-adjusted return opportunities.

U.S. Dollar

	Positioning	Rationale
U.S. Dollar (USD) vs. Canadian Dollar (CAD)	Modest Underweight	Based on long-term valuation metrics, the U.S. dollar appears overvalued. Recent U.S. policy has increased uncertainty around trade and fiscal deficits, enhancing the appeal of other developed-market currencies as diversification tools. Near-term USD weakness versus the Canadian dollar (CAD), however, may be limited. Canada's softer growth outlook, ongoing trade negotiations, and renewed safe-haven demand tied to geopolitical tensions and supply-chain disruptions could temper CAD strength. While elevated energy prices have offered some support - particularly given CAD's historical resilience during energy supply shocks - the currency is viewed as broadly fair-valued and has benefited less than the U.S. dollar from global risk-off flows.

Wealth Investment Policy Committee

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



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

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

Committee members:

- Brad Simpson, CIM, FCSI** **Chief Wealth Strategist, Wealth Investment Office (WIO), TD Wealth (Chair)**
- Michael Craig, CFA Managing Director, Head of the Asset Allocation & Derivatives, TDAM
- Anna Castro, CFA Managing Director, TDAM
- Jafer Naqvi VP & Director, TDAM
- Christopher Lo, CFA Senior Portfolio Manager, Investment Strategy Management, WIO, TD Wealth
- Fred Wang, CFA Senior Portfolio Manager, Head of Asset Allocation & Managed Investments, WIO, TD Wealth
- Mansi Desai, CFA Portfolio Manager, Equities, WIO, TD Wealth

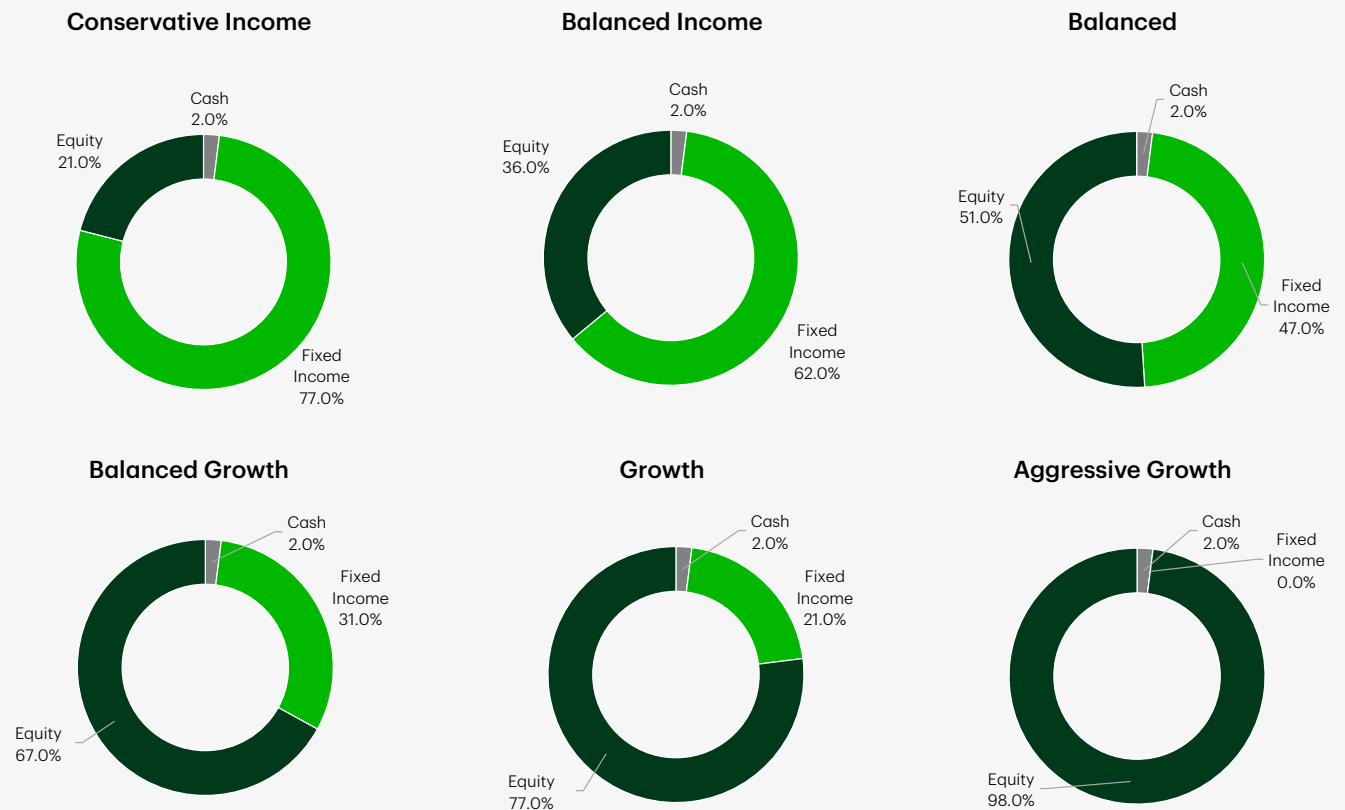
The Wealth Investment Policy Committee has made adjustments to the asset allocation weights within the sub-classes to align with the changes from the Wealth Asset Allocation Committee (WAAC) this month. Overall, the committee continues to have a modest overweight allocation to equities and alternatives 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. WIPC has trimmed 1 pp (percentage point) from developed-market global bonds and has added 1 pp to emerging-market global bonds in all profiles, which aligns with the WAAC changes.

Within equities, the allocation remains modest overweight for Canadian equities. The allocation to U.S. equities has been trimmed by 1 pp in the conservative income to growth investor profiles and by 2 pp in the aggressive growth profile, while the allocation to emerging markets has been increased by 1 pp in the conservative income to growth profiles and by 2 pp in the aggressive growth profile. This brings exposure for U.S. equities and EM equities to neutral positions, as per the WAAC changes. To maintain a slightly higher equity overweight allocation in the balanced growth and growth investor profiles, 1 pp was added to international equities.

The allocations within the alternatives asset class are also unchanged this month and remain neutral in commercial mortgages, real estate, private credit and commodities, and overweight in infrastructure.

Dynamic asset-class weights by investor profile (Condensed)

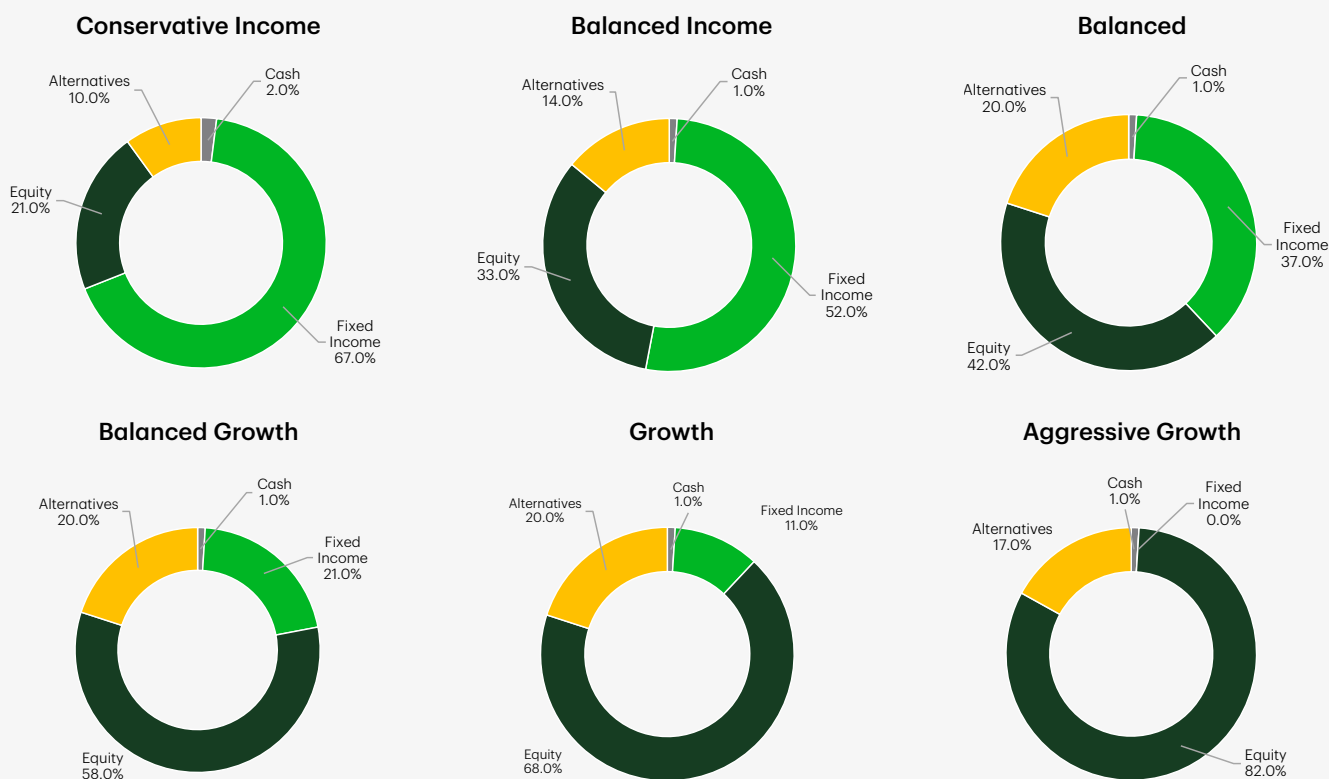


Strategic and dynamic asset-class weights by investor profile (Condensed)

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

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of April 16, 2026.

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%	7.0%	6.0%	5.0%	5.0%	4.0%	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%
Global Bonds - Emerging	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%
Public Equities	20.0%	21.0%	32.0%	33.0%	41.0%	42.0%	56.0%	58.0%	66.0%	68.0%	82.0%	82.0%
Canadian	6.0%	7.0%	10.0%	11.0%	11.0%	12.0%	16.0%	18.0%	19.0%	21.0%	22.0%	24.0%
U.S.	8.0%	9.0%	13.0%	14.0%	17.0%	18.0%	23.0%	24.0%	27.0%	28.0%	35.0%	35.0%
International	4.0%	3.0%	6.0%	5.0%	8.0%	7.0%	11.0%	10.0%	13.0%	12.0%	15.0%	13.0%
China/Emerging Markets	2.0%	2.0%	3.0%	3.0%	5.0%	5.0%	6.0%	6.0%	7.0%	7.0%	10.0%	10.0%
Alternatives	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%
Commercial Mortgages	4.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	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%	4.0%	5.0%	7.0%	5.0%	7.0%	5.0%	7.0%	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	9.0%	10.0%	12.0%	14.0%	18.0%	20.0%	18.0%	20.0%	18.0%	20.0%	16.0%	17.0%

Strat: Strategic, Dyn: Dynamic. Source: Wealth Investment Policy Committee, as of April 16, 2026.

Economic Outlook

Dire Straits

The central-bank calculus of the Iran oil shock.

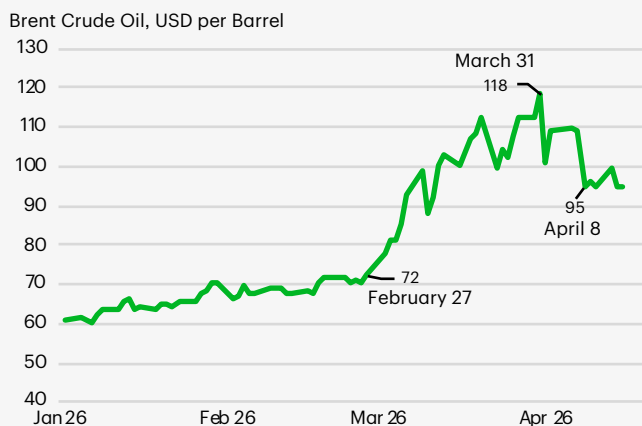
Thomas Feltmate, Director & Senior Economist; Andrew Hencic, Director & Senior Economist | TD Economics

Highlights

- The Iran conflict has triggered a major energy supply shock, pushing oil prices meaningfully higher and extending the inflation impulse beyond what was initially expected.
- Central banks on both sides of the border are likely to look through the supply shock. Provided a longer-term peace deal is reached in the coming weeks, we still see a narrow window for the Fed to deliver on two more rate cuts in Q4.
- Longer-term Treasury yields are expected to drift 20 basis points lower by year-end, dragging Canadian government bond yields down by a similar amount. The greenback is likely to remain under pressure, while the Loonie is expected to reach 74 cents by December.
- A further escalation in the conflict would quickly result in oil prices retesting recent highs, Treasury yields turning higher and a strengthening of the dollar. Under this scenario, the Federal Reserve would likely remain on hold well into next year.

The war in Iran has produced the largest supply disruption to global energy markets in modern history. At its peak, the price of Brent crude – the global benchmark for oil prices – had reached over \$118 per barrel. Prices have fallen sharply following the U.S., Israel, and Iran agreeing to a two-week ceasefire on April 7th, but at \$98 per-barrel, remain considerably above pre-conflict levels (Figure 1). Through all the recent volatility, broader financial conditions have only tightened on the margin. But the situation remains incredibly fluid and could quickly re-escalate should negotiations on a longer-term peace deal fall apart.

Figure 1: Iran Conflict Triggers a Major and Potentially Persistent Energy Supply Shock



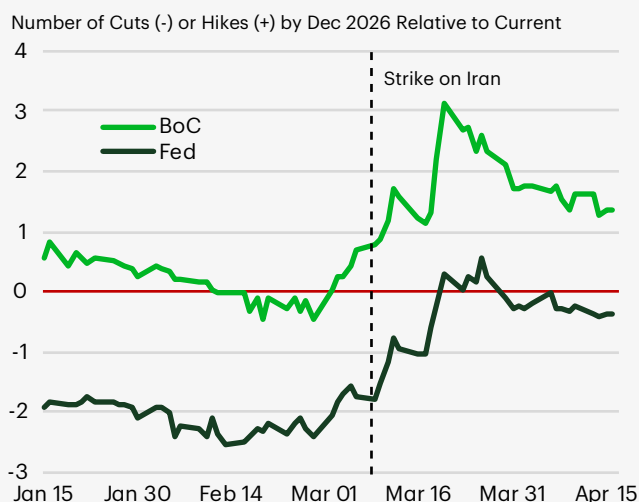
Source: Intercontinental Exchange, TD Economics. Last Observation: April 16, 2026

Our revised oil forecast has WTI averaging \$95 per-barrel through the Q2, with some of the risk premium coming out in H2-2026 under the assumption that a peace agreement is reached over the coming weeks. But this alone will not result in an immediate normalization of oil flows through the Strait of Hormuz. Physical bottlenecks, mine clearing operations, repositioning tankers globally and clearing port backlogs all suggest it'll take months, not weeks, for oil flows to completely normalize.

Central bank expectations have whipsawed

The sharp increase in energy prices is already being felt by households and businesses on both sides of the border, with gasoline and diesel prices up 38% and 43%, respectively, since late-February. With the length of the conflict unclear and the inflationary impulse already rearing its head, expectations for central bank policy actions have whipsawed. At its peak in late-March, futures had priced in nearly three quarter-point hikes from the Bank of Canada, while Fed futures went from pricing in two-cuts to just over a 50% probability of a rate hike! Cooler heads have prevailed following the ceasefire. Pricing now shows a little more than one rate hike from the Bank of Canada and for the Fed to remain on hold (Figure 2).

Figure 2: Markets Reprice Policy Rate Expectations Higher



Source: Bloomberg, TD Economics. Last Observation: April 16, 2026

No move is the best move ... for now

But even one rate hike from the Bank of Canada in the current environment seems unlikely. For starters, the energy shock is hitting the economy from a weak starting point. Growth has been restrained over the past year by several headwinds, including trade uncertainty, a soft housing market and tighter immigration. This has kept the economy below potential, leading to some accumulation of slack even before the onset of the war. Layering on higher energy prices would leave growth lower than our “pre-conflict” forecast, though the extent of which will be dependent on the duration of the supply disruption.

Market participants, however, appear to be more focused on the price impact of the shock. But this is misguided. Because the spike in energy prices is supply driven, there’s little monetary policy can do to offset its impact. Moreover, given its “long and variable lags”, any pre-emptive policy move to get ahead of the energy shock runs the risk of not being felt until after the shock has passed. This could lead to the worst possible outcome of failing to quell inflation, while also hitting domestic demand at a time when the economy has become more vulnerable. For the time being, the best response would be to look through the price impacts and only adjust policy on the other side should conditions warrant such a move.

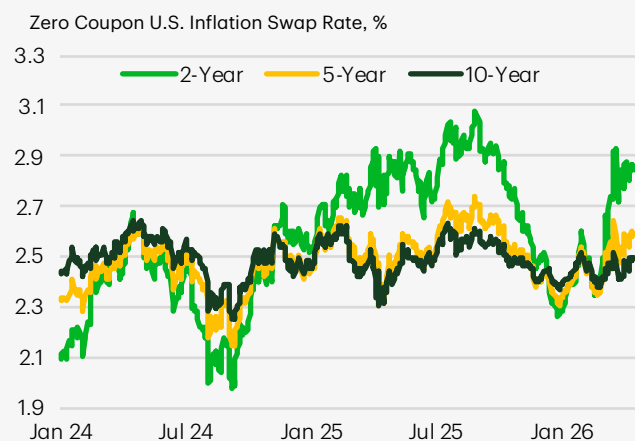
The story is more nuanced in the U.S. The energy shock is hitting the economy from a point of strength. Final sales to private domestic purchasers – the best gauge of underlying demand – expanded by 2.6% in H2-2025, suggesting solid momentum heading into 2026. At the same time, growth is expected to benefit from last year’s interest rate cuts, new household and business tax cuts that came into effect this year

and the ongoing push to ease regulation. An energy shock alone will not materially shift the outlook – even if crude prices were to remain elevated for another several months. This is because the U.S. has become both more energy independent and less energy intensive in recent decades. What could challenge this narrative is if financial conditions were to suddenly and dramatically tighten, which runs the risk of sending a more meaningful confidence shock through the economy. That’s not our base case, but it remains a plausible downside risk, particularly if the temporary ceasefire does not yield a more permanent resolution to end the conflict.

From the Fed’s perspective, there’s no rush to make a policy move. At today’s target range of 3.50%-3.75%, the Fed funds rate is already at the upper end of the FOMC’s median estimate of neutral. And yet, growth is still expected to run slightly above potential, even after accounting for some hit from higher energy prices.

A key metric for policymakers to watch in the months ahead will be inflation expectations. This has been less of a concern in Canada, where core inflation measures have cooled to something that’s broadly consistent with the Bank of Canada’s mandate. But the same can’t be said in the U.S. And the fear for Fed officials is that the longer inflation remains structurally above its target, the greater the risk that inflation expectations become unanchored. Encouragingly, this has not yet occurred. While short-term measures have turned higher, medium-and-longer-term inflation expectations remain consistent with the Fed’s 2% inflation objective (Figure 3). But any signs of upward drift could reshape the FOMC’s thinking and start to stir chatter on whether the next move should be a rate hike.

Figure 3: Longer-Term Inflation Expectations Remain Well Anchored



Source: Bloomberg, TD Economics. Last Observation: April 16, 2026

Our baseline forecast still sees the potential for as many as two more rate cuts this year, with the risks skewed to later and potentially fewer cuts. For now, we see the Fed on hold through September. Even assuming Kevin Warsh is confirmed by the Senate Banking Committee and is in seat as the new Fed Chair by June, he's likely to face an uphill battle convincing a majority of the voting FOMC members to support an immediate policy pivot towards lower rates. Based on the most recent "dot plot", 14 of the 19 FOMC participants expect one or fewer cuts by year-end. Not all participants who submit forecasts are voting FOMC members, but even if all five individuals who support multiple rates cuts were voters, they would still be two votes shy of a majority.

Treasury yields and greenback to head lower

It's this lingering risk of resurgent inflation and the knock-on effects it could have on the Fed's ability to deliver on rate cuts that have kept Treasury yields some 30-40 basis points above pre-crisis levels. But if we're right, and rate cuts do materialize later this year, the inflation premium that's still priced in Treasuries should have come out. That suggests the 10-year Treasury yield will drift back closer to its pre-crisis level of 4.10% by year-end (Figure 4). On balance, a further narrowing of interest rate differentials vis-à-vis other advanced economies should work to put a bit more downward pressure on the dollar, potentially falling by another 2% by year-end. Conversely, the Loonie will be a beneficiary of the dollar's loss. We see it gaining around 1.3 cents by the end of this year, which would bring it to 74 cents – a level not seen since late-2024.

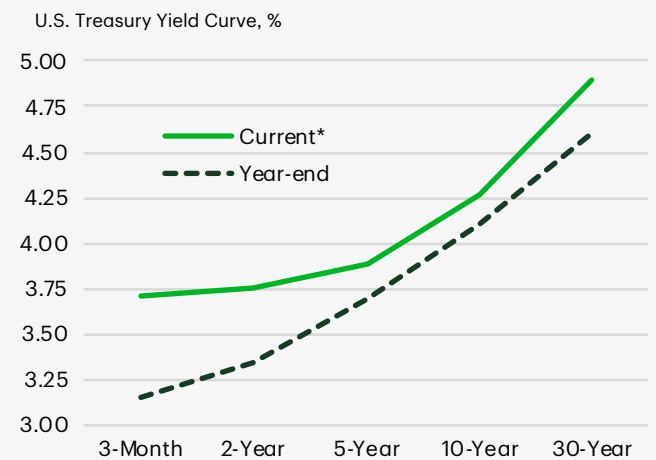
Prolonged disruption would keep fed on hold for longer

Of course, this all assumes everything goes as planned. But what if negotiations for a longer-term peace agreement were to fall apart leading to Iran maintaining strict control of tanker traffic for another few months? Under this scenario, WTI is assumed to average \$128 per barrel in Q2 and drift only modestly lower through H2-2026 as physical shortages maintain a higher risk premium on oil prices through this year and into 2027. Relative to our current baseline, economic growth in the U.S. is lower by about a tenth this year (2.3% vs. 2.4%) and three-tenths next year (1.9% vs. 2.2%). Headline inflation rises by low double digits on a q/q annualized basis in Q2-2026, with secondary effects keeping core measures north of 2.5% (q/q, ann.) through H2-2027. This keeps the Fed on hold through mid-2027. The 10-year Treasury yield moves higher over the near-term – reflecting the higher inflation premium – and reaches a peak of 4.45% in Q2, before edging back to 4.3% by year-end

(Figure 5). The near-term escalation reignites the flight to safety trade, pushing the dollar back up 2% again in Q2, retracing its recent depreciation, though most of this unwound by the end of the year.

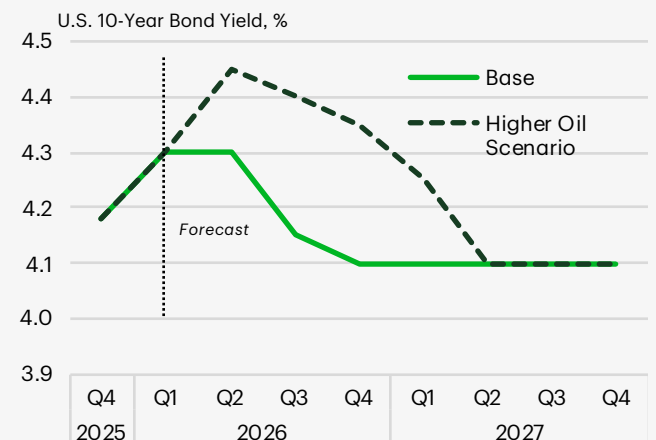
In Canada, the hit to economic growth is expected to be more modest, given its higher exposure to the energy sector. Like the U.S., headline measures of inflation shoot higher over the near-term, leading to some passthrough to core prices. But given the weak economic backdrop, we wouldn't expect the Bank of Canada to come off the sidelines. However, longer-term government bond yields drift higher over the near-term, with the 10-year reaching a peak of 3.6% before drifting back closer to today's level of 3.45% by year-end. The Canadian dollar would again come under pressure, falling to a low of 71 cents in Q2 before firming to 73 cents by the end of the year as the flight to safety fades and higher oil prices support the currency.

Figure 4: Yields to Drift Lower by Year-end



*Current as of close on April 15, 2026. Values are end of period. Source: Federal Reserve Board, TD Economics.

Figure 5: Yields Push Higher Under Prolonged Disruption Scenario



Note: Values are end of period. Source: U.S. Federal Reserve, TD Economics.

Asset Class Analysis

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Pricing the Shock

The shift from a policy-driven soft landing to a shock-driven environment has expanded the range of plausible outcomes across inflation, growth and policy.

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

The first quarter of 2026 marked a decisive shift in the macro narrative—from a broadly accepted soft-landing trajectory toward an environment increasingly shaped by external shocks and a widening range of plausible outcomes across growth, inflation, and policy. After entering the year with cautious optimism, markets were forced to reassess both growth and inflation dynamics following the late-February escalation in the Iran conflict.

Global risk assets struggled to gain traction over the quarter, with U.S. equities declining and volatility jumping, relative to the end-2025 calm, and returns revealing a clear inflection point: investor focus moved away from previously dominant themes such as AI-driven growth, toward a more immediate repricing of geopolitical and energy-related risks.

The joint U.S.-Israel strikes on Iran on February 28 — targeting not only military infrastructure but also senior leadership — introduced a new and highly uncertain geopolitical dimension. The subsequent closure of the Strait of Hormuz amplified the shock. Given that roughly 20% of global oil consumption and a similar share of LNG trade (primarily from Qatar) transit through this chokepoint (with over 80% of crude flows destined for Asia), the disruption carried immediate implications for energy markets and, by extension, global macro conditions.

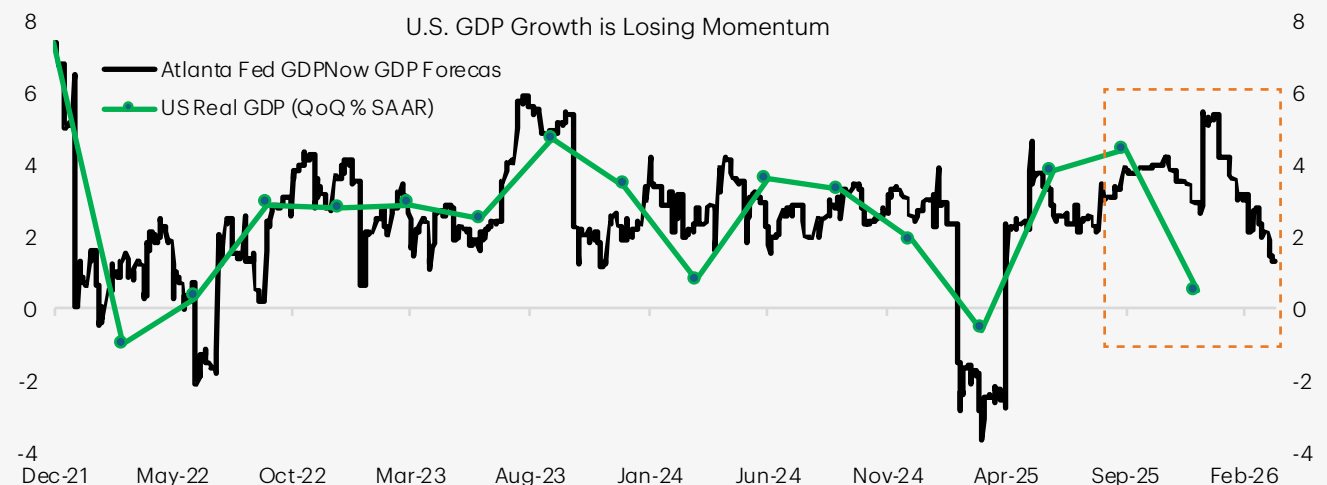
Higher oil and gas prices act as a tax on consumers, eroding real income and dampening discretionary spending, while simultaneously reigniting inflation concerns. This dual impact — slower growth and higher inflation risk — reintroduced a dynamic largely absent from markets in prior quarters.

Importantly, this shock arrived at a moment when underlying growth momentum was already weakening. U.S. GDP expanded by just 0.5% in Q4 2025, and Atlanta Fed's GDPNow projects a modest 1.3% increase for Q1 (Figure 1). In this context, the geopolitical shock did not create fragility — it exposed and amplified it. The result was a transition from a market pricing a relatively narrow set of benign outcomes to one increasingly focused on the distribution of risks.

U.S. Labour Market: Stability masks structural weakness

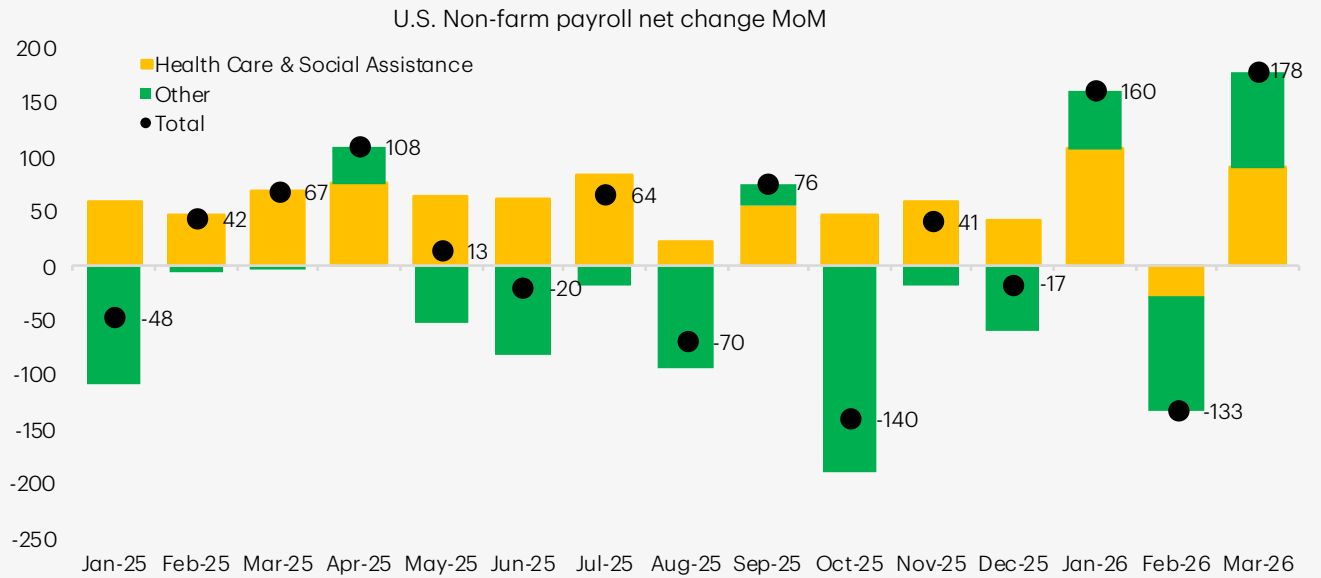
Labour market data in the first quarter presented a superficially reassuring picture, but a deeper examination reveals emerging structural weaknesses. Headline job growth remained resilient, with the March increase in non-farm payrolls (178,000) exceeding expectations. However, the composition of these gains was highly concentrated, with healthcare and social assistance accounting for a disproportionate share of new employment (Figure 2).

Figure 1: U.S. GDP Growth Weakens in Early 2026



Source: FactSet, WIO, as of April 11, 2026

Figure 2: U.S. Non-Farm Payroll Gains Dominated by Healthcare, Social Assistance



Source: FactSet, WIO, as of April 11, 2026

At the same time, the unemployment rate declined to 4.3% from 4.4%. While this development might typically signal continued labour market strength, this particular improvement was driven in large part by a drop in the participation rate rather than a meaningful expansion in employment opportunities. Demographic trends, including the aging population combined with cyclical caution from employers, contributed to this dynamic (Figure 3).

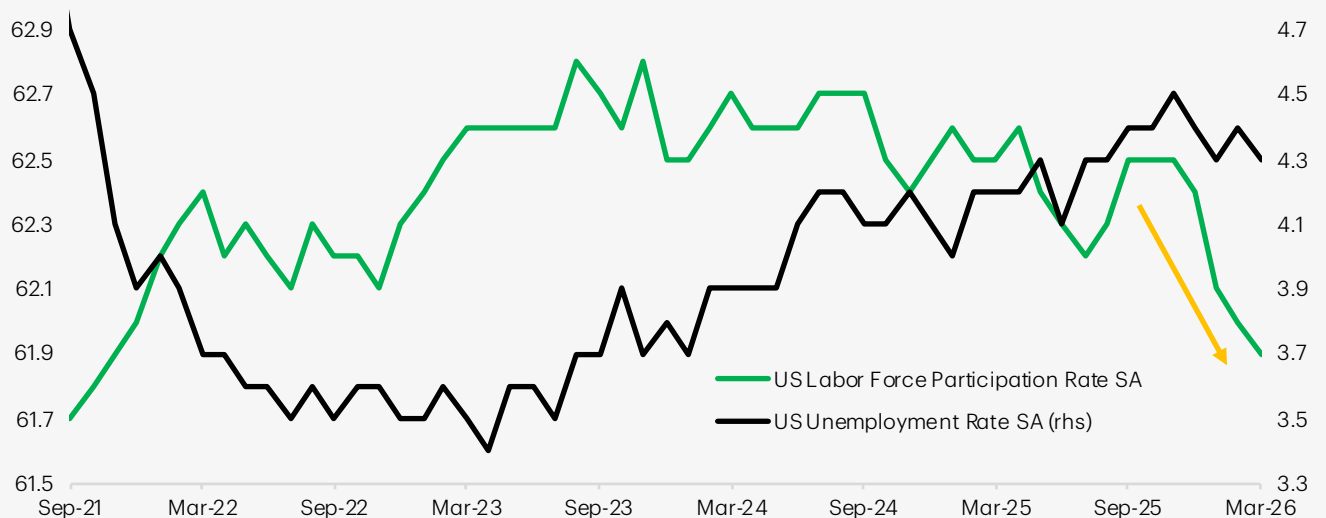
This distinction is critical. A labour market characterized by declining participation and concentrated job growth is fundamentally different from one driven by broad-based hiring and rising mobility. The former implies a gradual erosion of potential output and a more complex

environment for monetary policy, as traditional indicators of slack become less informative.

Looking ahead, elevated energy prices pose an additional risk. Higher input costs for businesses and reduced purchasing power for households could weigh on hiring intentions, slow payroll growth, and exert downward pressure on consumption. The housing market, already sensitive to interest rate dynamics, may also be affected indirectly by affordability and employment.

Taken together, these developments suggest that the apparent stability in labour market indicators may mask a more fragile underlying reality — one shaped by structural shifts as much as by cyclical forces.

Figure 3: Unemployment Rate Reflects Lower Participation Rate



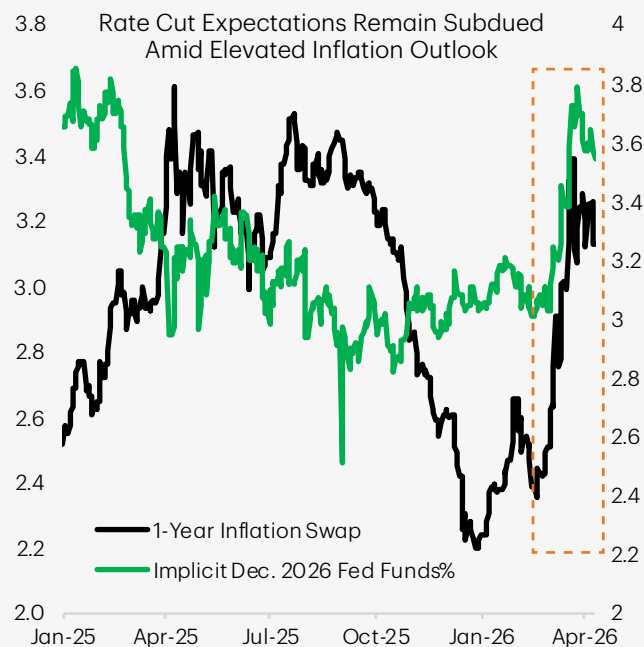
Source: FactSet, WIO, as of April 11, 2026

The Policy Constraint: A fed pivot

The evolving macro backdrop has placed the Federal Reserve (Fed) in an increasingly constrained position. At the start of 2026, markets broadly expected the easing cycle to continue, with two rate cuts by end 2026 priced in as growth moderated and inflation trended toward target. However, the surge in energy prices quickly complicated this outlook.

Market-implied inflation expectations moved sharply higher, with forward measures rising above 3% for the coming year — well above levels seen at the beginning of 2026. In response, expectations for further rate cuts were largely priced out, with futures markets suggesting limited scope for policy easing in the near term (Figure 4).

Figure 4: Rate Cut Expectations Subdued



Source: FactSet, WIO, as of April 11, 2026

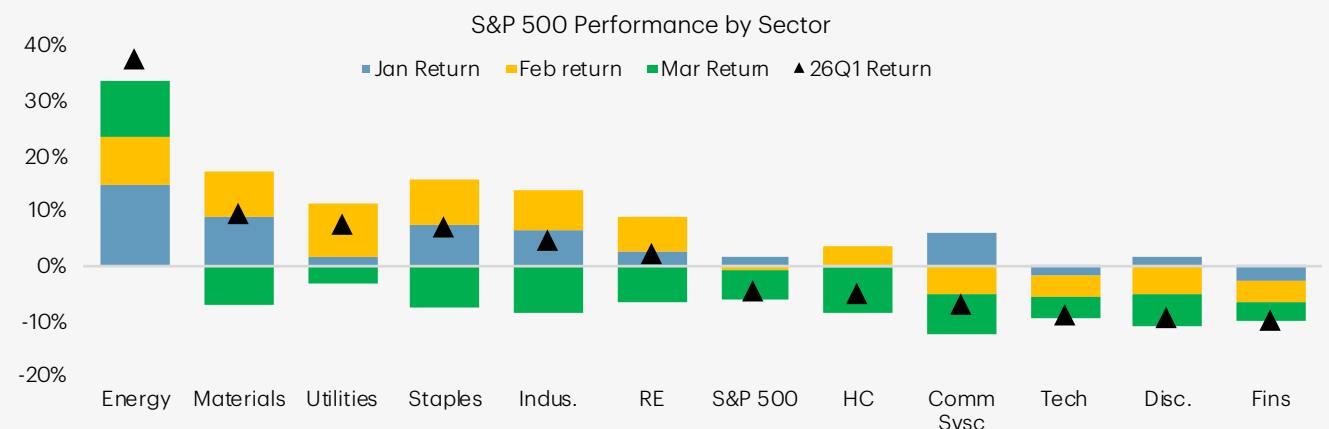
This shift, however, does not represent a straightforward return to a hawkish stance. Rather, it reflects a deeper asymmetry in the policy framework. On one hand, weakening growth and a softening labour market would typically warrant a more accommodating policy. On the other, renewed inflation pressures, particularly those stemming from supply-side shocks, limit the Fed's ability to respond.

When we compare current inflation conditions with the that of 2021-2022, the key distinction lies in the broader macro context. Unlike the previous period, current inflation risks are not supported by strong wage growth, excessive demand, or a low fed fund rate. This creates a scenario in which a sufficiently large energy shock could simultaneously elevate inflation and damage growth prospects. In such an environment, the Fed's reaction function becomes less predictable, not because policy lacks direction, but because the trade-offs themselves have become more acute.

Equity: Earnings resilience meets valuation compression

Equity market performance in Q1 reflected the interplay between resilient earnings fundamentals and rising macro uncertainty. The S&P 500 declined by approximately 4.6% over the quarter, with losses spread across a few sectors. Mag 7 (the seven dominant U.S. mega technology and growth stocks) posted the steepest declines. In contrast, energy delivered strong positive performance (even before the Middle East conflict), offsetting weakness in other sectors (Figure 5). Utilities also performed well as the preferred defensive allocation. Consumer discretionary lagged due to the sector's exposure to higher inflation and the negative read-through for consumer spending. This divergence highlights a key feature of the quarter: performance dispersion was driven by sector-specific exposures to the evolving macro environment.

Figure 5: Energy, Defensives Surge, TMT, Discretionary Lag



Source: FactSet, WIO, as of April 11, 2026

Importantly, the decline in equities was not caused by collapsing earnings expectations as corporate fundamentals remained relatively intact. Rather, the adjustment occurred through valuation compression as increased uncertainty and rising discount rates reduced the present value of future cash flows.

This distinction underscores a broader shift in market dynamics. In prior quarters, declining rates and stable macro conditions supported elevated multiples. In Q1, that support weakened. As policy uncertainty increased and inflation risks resurfaced, the market demanded higher risk premia, leading to a repricing across segments most sensitive to duration.

AI: From expansion to disruption narrative

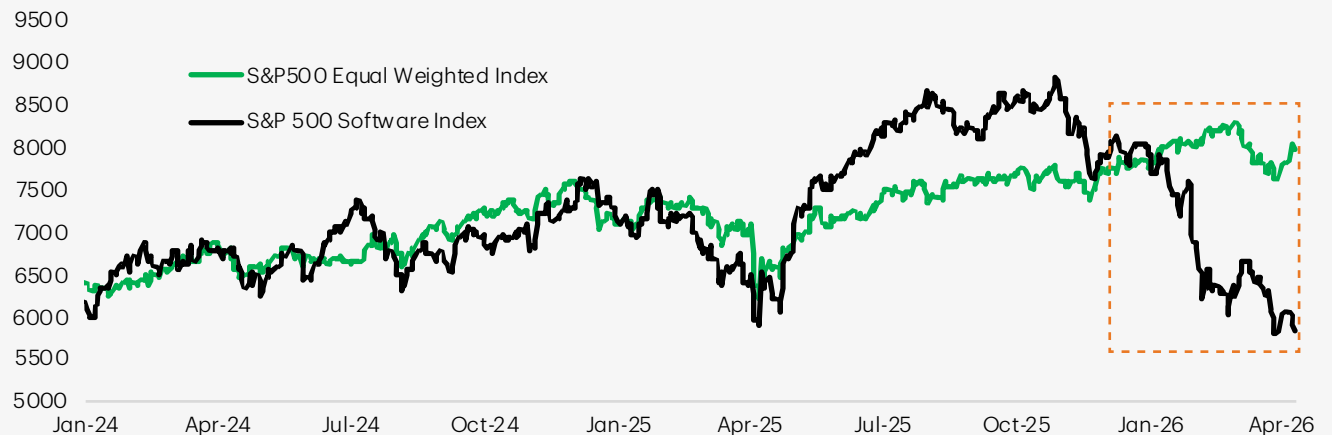
Artificial Intelligence remained a central theme in equity markets, but the narrative evolved significantly over the quarter. Whereas previous periods were characterized by enthusiasm around investment, scalability, and long-term growth potential, Q1 saw a growing focus on the disruptive implications of AI across industries.

Investor concerns shifted from the possibility of overinvestment to the broader impact on existing business models. In particular, software companies faced increased scrutiny, as investors speculated that AI would disrupt legacy software companies (Figure 6).

This shift reflects a deeper transition in how AI is understood within the market. No longer viewed solely as a driver of aggregate growth, AI is increasingly recognized as a force that redistributes value — favouring firms that can integrate and monetize technology while challenging those using models that rely on incremental labour or process-based differentiation.

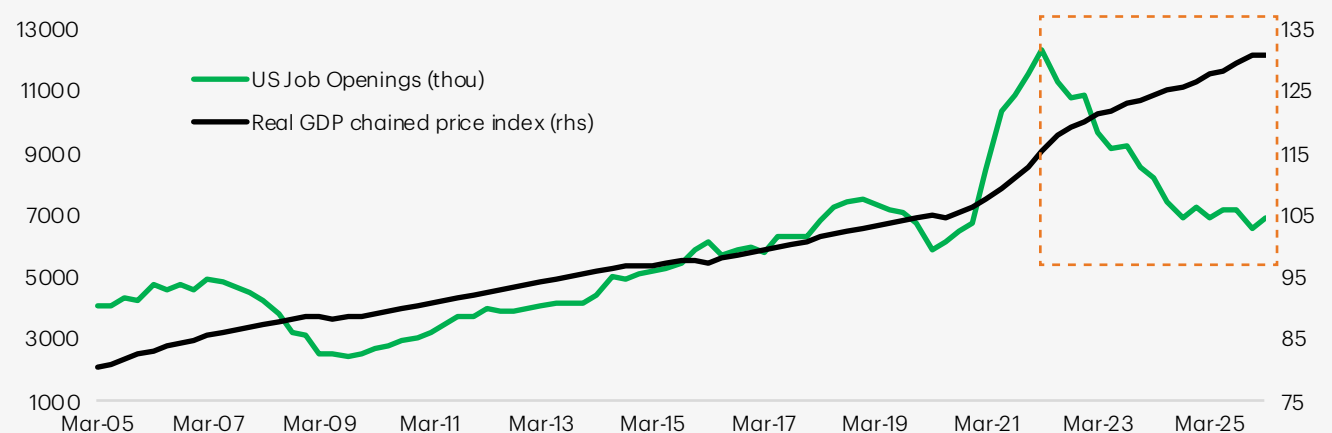
At a macro level, this has sparked renewed discussion around labour displacement and income distribution. As AI enables automation across a wide range of cognitive and routine tasks, it introduces a potential decoupling between output growth and labour demand (Figure 7). This dynamic challenges neoclassical economic assumptions and contributes to the broader theme of structural divergence within the economy.

Figure 6: U.S. Software Index Collapses



Source: FactSet, WIO, as of April 11, 2026

Figure 7: Job Openings Collapse While Output Remains Stable Due to AI



Source: FactSet, WIO, as of April 11, 2026

Style rotation: Value as a function of macro condition

The outperformance of value-oriented equities in Q1 reflects a confluence of macro factors rather than a definitive structural shift in market leadership (Figure 8). Rising energy prices, a steeper yield curve, and headwinds in the tech sector created a favourable backdrop for sectors traditionally associated with value, including energy, utilities and industrials.

Value-oriented sectors benefited directly from the evolving macro environment. Energy and material companies captured the upside from commodity price increases. Additionally, value indices tend to have higher exposure to defensive sectors such as utilities and real estate, which perform relatively well during periods of heightened uncertainty.

However, the concentration of earnings momentum within a narrow subset of sectors — particularly energy and materials — raises questions about the sustainability of this outperformance. At the same time, growth-oriented sectors, especially technology, continue to exhibit strong underlying earnings trends despite near-term valuation pressures.

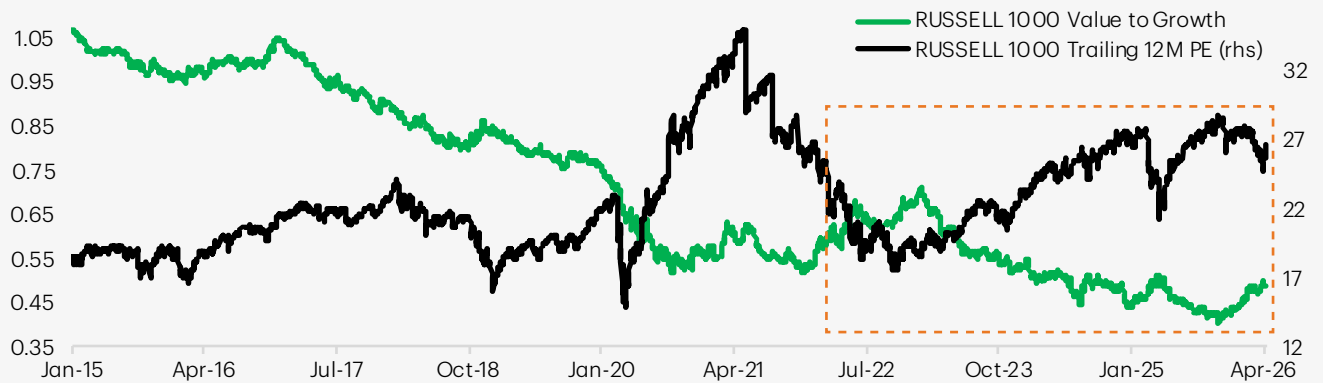
This suggests that style rotation in the current environment is closely tied to macro conditions and may prove sensitive to changes in geopolitical risk, inflation expectations, and policy dynamics. For growth leadership to re-emerge we would likely need to see a stabilization of these factors rather than a fundamental shift in the long-term drivers of earnings.

Dollar dynamics and capital flow resilience

The behaviour of the U.S. dollar in the quarter reflected the interaction between geopolitical risk, policy expectations, and structural factors underpinning global demand for dollar assets. The initial escalation of the conflict in Iran triggered a classic flight-to-safety response, leading to a strengthening of the dollar as investors sought liquidity and stability.

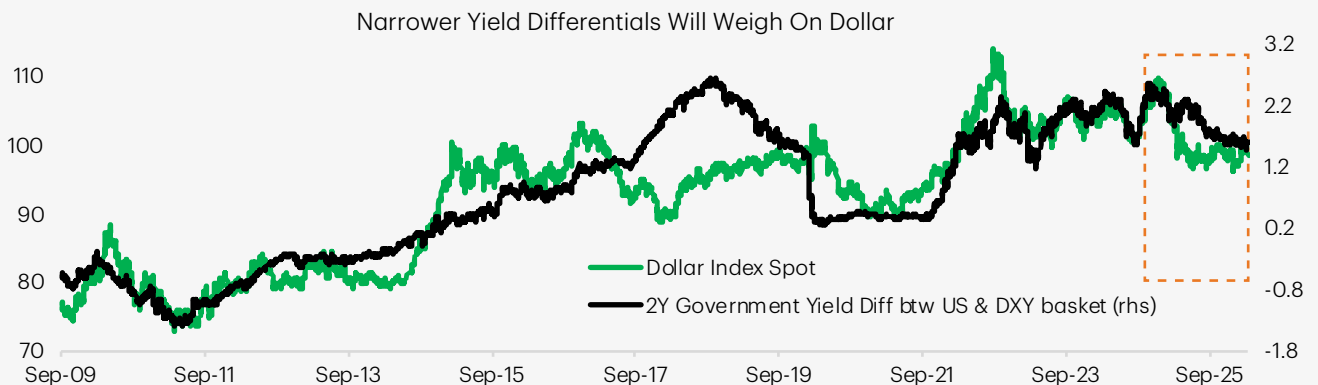
At the same time, the repricing of Fed policy — specifically, the removal of expected rate cuts — further supported the currency. However, the subsequent stabilization of geopolitical conditions and the announcement of a ceasefire led to a partial reversal of these flows, highlighting the sensitivity of the dollar to shifts in both risk sentiment and policy expectations. While short-term moves are often driven by risk sentiment, the dollar's long-term trajectory is anchored by relative yield differentials between the U.S. and other countries (Figure 9).

Figure 8: Persistent Inflation, Valuation Pressure Extends Rotation Toward Value Stocks



Source: FactSet, WIO, as of April 11, 2026

Figure 9: Dollar Index Moves in Tandem with Yield Differentials



Source: FactSet, WIO, as of April 11, 2026

Longer term questions around the role of the dollar in the global system remain relevant but require careful interpretation. While the dollar's share of global foreign exchange reserves has declined since 2000, this trend reflects a gradual diversification rather than an active reduction in dollar holdings. In absolute terms, central bank allocations to U.S. dollar assets have remained stable (Figure 10).

Speculation abounds regarding alternative pricing mechanisms for commodities; talks that Gulf Cooperation Council (GCC) countries could stop pricing their oil in dollars and switch to Chinese yuan (CNY), because China is the largest oil importer, underscores the evolving geopolitical landscape. However, Chinese structural constraints — China lacks the depth, liquidity, and openness of the U.S. financial markets — continue to reinforce the dollar's central role in global trade and finance. About 80% of global trade is invoiced in U.S. dollars.

Conclusion: Market pricing a wider distribution of outcomes

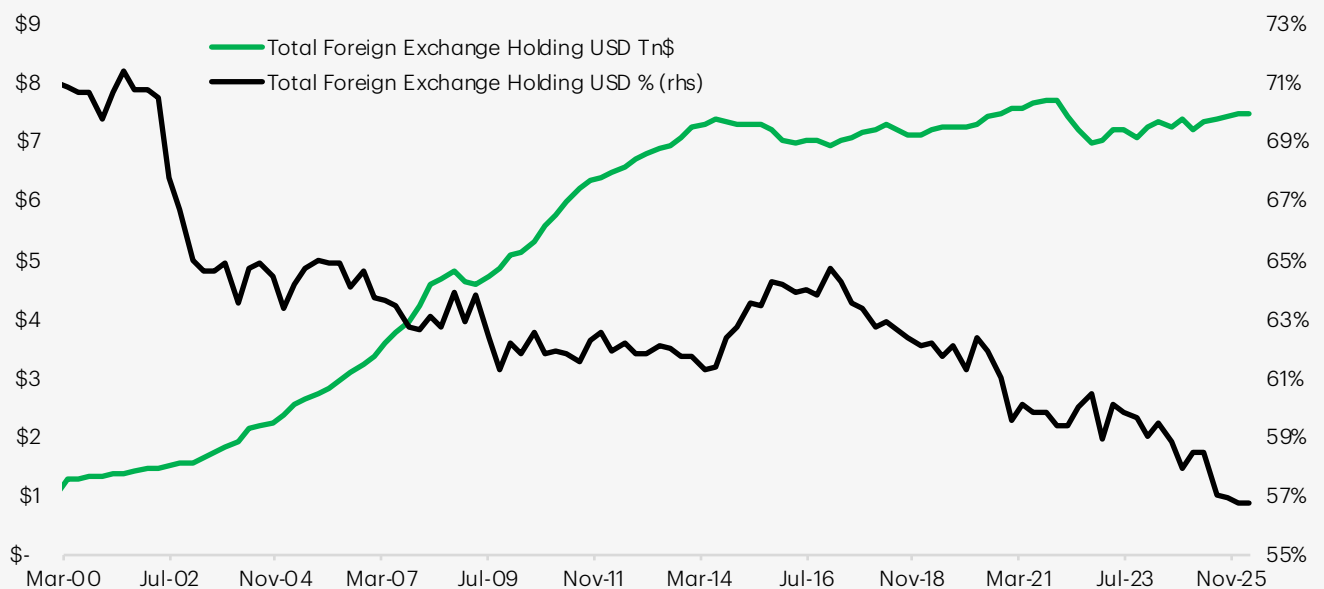
The first quarter of 2026 highlighted a fundamental shift and the transition from a policy-driven soft-landing narrative to a shock-driven environment has expanded the range of plausible outcomes across growth, inflation, and policy.

Geopolitical developments, particularly in energy markets, reintroduced inflation risks at a time when growth was already moderating. At the same time, structural forces — ranging from labour market shifts to technological disruption — continued to reshape the economic landscape in ways that complicate traditional policy responses.

In this context, market behaviour increasingly reflects not a single dominant narrative, but a balancing of competing forces. Periods of stress are followed by rapid reassessments, and pricing adjustments occur not only in response to realized data, but also to changes in the perceived distribution of future outcomes.

As the year progresses, the interaction between these cyclical and structural dynamics will remain central. The experience of recent shocks — whether geopolitical, pandemic-related, or policy-driven — serves as a reminder that markets are inherently forward-looking, often stabilizing ahead of underlying fundamentals. What matters, therefore, is not the full resolution, but the reduction in uncertainty.

Figure 10: Gradual Diversification Cuts U.S. Dollar's Percentage Share of Global Reserves



Source: FactSet, WIO, as of April 11, 2026

Navigating Volatility, Geopolitical Shocks and Shifting Rate Expectations

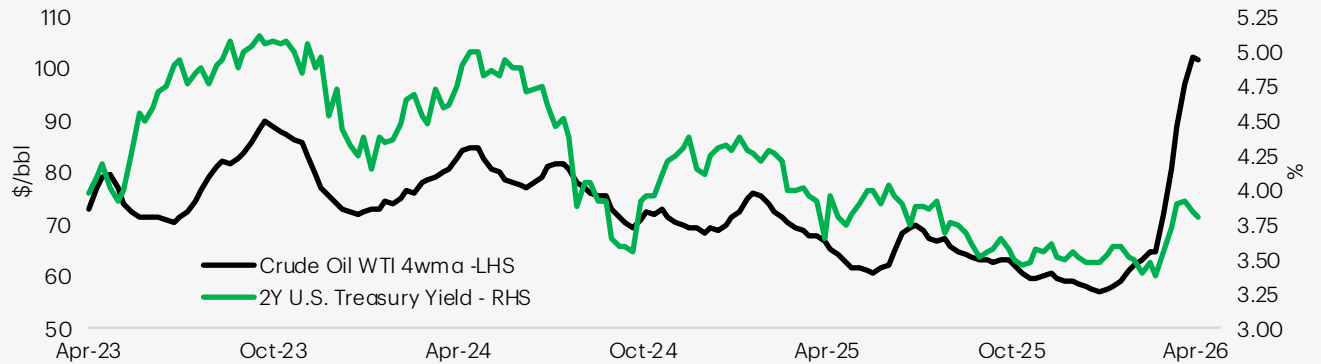
As geopolitical turbulence reshapes market sentiment and central bank policy expectations evolve, fixed income investors face a challenging environment where positioning, credit selection and active management will prove critical to navigating volatility and capturing opportunities across the yield curve.

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

In the first quarter of 2026 total returns (CAD-hedged) in fixed income turned negative across many segments in the U.S., whereas Canadian fixed income posted modest gains (excluding longer dated 10+ year government bonds). Geopolitical events ushered in a dramatic repricing in March as the war in Iran ignited an energy shock that stoked inflation fears and see-sawed investors' expectations for Fed rate-cuts. Treasury markets experienced heightened volatility as investors grappled with conflicting signals on growth, inflation, and monetary policy paths. As we look toward the remainder of 2026, the performance of U.S. and Canadian fixed income markets will likely hinge on several variables, including: i) oil price trajectory; ii) policy responses to the Middle East conflict; and iii) potential AI disruption to – or impact on – corporate earnings.

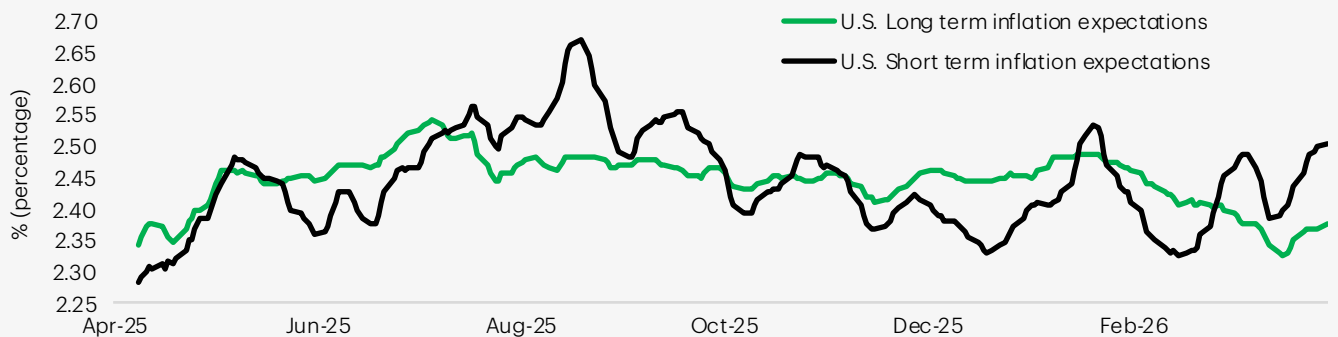
Regardless, we expect the war in Iran to dominate headlines for now. While it is too early to assess the full impact of the oil supply shock, a prolonged conflict would likely increase the risk of an economic downturn. Thus far, the bond market has responded in a manner similar to the start of the Russia-Ukraine war with the U.S. Treasury yield curve shifting upward and flattening. With lingering inflationary pressures and rates increasingly sensitive to oil supply surprises, the Fed's response will be closely monitored. We believe the Fed – given its well-anchored long-term inflation expectations and current restrictive monetary policy amid a slowing economy – has set a high threshold for raising rates in response to inflation (Figure 1 and Figure 2).

Figure 1: Oil Price Impact on Interest Rates



Source: FactSet and Wealth Investment Office (WIO), as of April 10, 2026

Figure 2: Evolution of U.S. Inflation Expectations



Source: FactSet and WIO, as of April 10, 2026

- We maintain our modest underweight view on fixed income overall and expect most global bonds, including Canadian bonds, to be heavily influenced by geopolitical, oil, and energy market developments in the near term. This implies that bond yields and coupon income are likely to remain elevated over the next 12-to-18 months.

- We move from neutral to a modest underweight view on domestic government bonds. At current yields, Canadian government bonds appear slightly less attractive on a relative basis and offer opportunities for modest income generation with reasonable downside protection. Canadian government bond yields are expected to remain elevated as investors assess the duration of the Middle East conflict and the impact that disruptions to commodity and global trade flows will have on global economic growth and inflation.

- We maintain a modest overweight view on investment grade (IG) credit. U.S. and Canadian IG credit spreads remain tight, underpinned by generally strong corporate fundamentals, although rising AI-related spending and M&A activity present a more challenging supply and demand backdrop. With risk premia fairly flat across yield curves, we continue to favour short-to-mid-term corporate bonds over longer term maturities particularly as elevated levels of geopolitical and global economic uncertainty persists. We continue to remain focused on higher quality credits – companies with robust balance sheets, healthy credit metrics and ample liquidity.

- We maintain a neutral view on High Yield (HY) credit. HY bonds tend to be more volatile than IG because HY borrowers generally have higher average corporate leverage levels, weaker balance sheets, and are more susceptible to defaults and refinancing risk particularly as rates have increased from near-zero rate environments post-COVID. While earnings growth and fundamentals generally remain constructive, uncertainties around inflation, pressures on private credit and highly leveraged AI-vulnerable businesses could tighten lending conditions and pressure valuations further. Overall, while risks appear somewhat balanced in HY, tight valuations combined with heightened volatility and geopolitical uncertainty tempers our appetite in this riskier credit segment. As with past cycles, we continue to expect HY spreads to widen out if the economic outlook weakens, potentially presenting more attractive entry points down the road.

- We maintain a modest underweight view on Global Bonds - Developed Markets. We anticipate global bond yields will likely remain elevated as investors

assess the scope and duration of ongoing geopolitical tensions and the impact that disruptions to commodity and global trade flows will have on global economic growth and inflation, with Asia, Europe and U.K. markets feeling more of the impact.

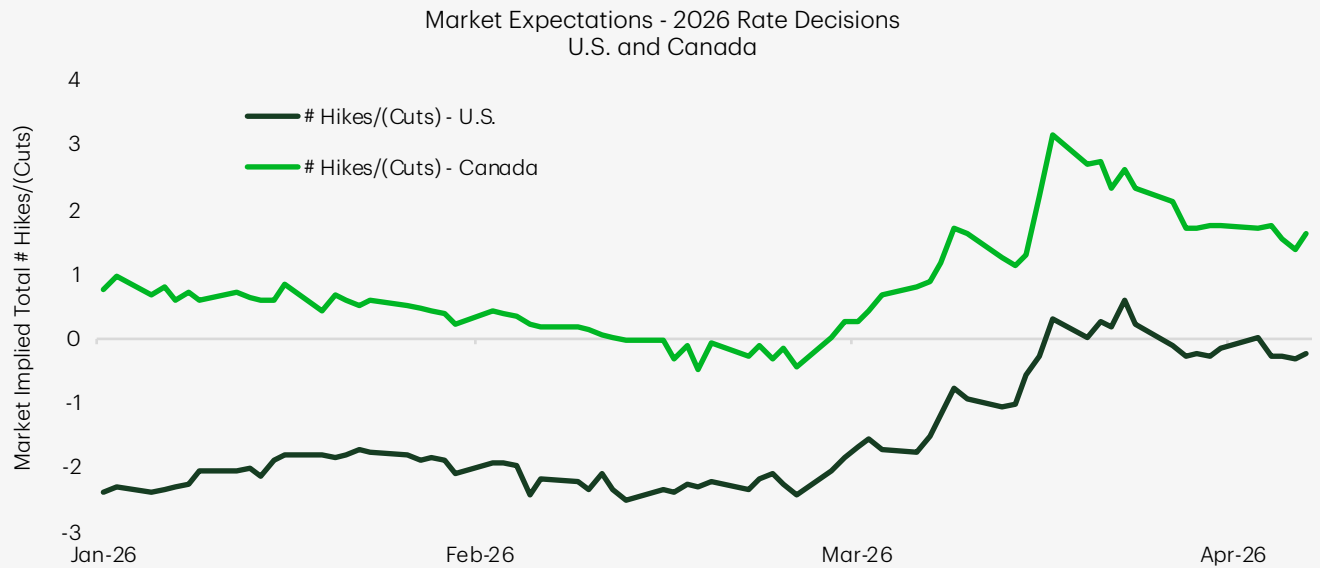
- We move from neutral to a modest overweight view on Global Bonds - Emerging Markets (EM). EM local-currency government bonds have cheapened relative to their developed market counterparts amid broader market volatility. Yields remain attractive on both a nominal and inflation-adjusted basis, but currency movements are likely to influence total returns as geopolitical issues persist. Careful country selection will be essential to avoid markets where inflationary pressures or political risks could disproportionately add to volatility.

Government bonds

Government bond yields were highly volatile at the end of the first quarter, shifting from declines in February to a sharp selloff in March. Rising oil prices (linked to the war in Iran) contributed significantly to late-quarter losses, as inflation fears took centre stage. In fact, market participants have become increasingly worried that a prolonged oil supply shock could reshape the global inflation outlook and keep pressure on yields. While most central banks – including the Federal Reserve (Fed), Bank of Canada (BoC), European Central Bank (ECB), and Bank of England (BoE) – held rates steady in Q1, they adopted a noticeably more cautious tone amid mounting uncertainty. However, monetary policy reactions from central banks could diverge based on differing economic conditions and mandates. Given this, we expect the global economy to face softer growth and higher inflation near term. To address these risks and navigate these challenges, we recommend managing and selectively adjusting duration exposure across government yield curves.

The spread between 10-year Canadian government bond yields and U.S. equivalent yields narrowed year-over-year. We believe this largely reflects a confluence of macroeconomic factors underpinning market expectations (as of early April) for BoC and Fed policy rate compression later in 2026 – although rate projections have swung wildly with recent oil price volatility and shifting inflation forecasts (Figure 3). Our view is that Canadian government bond yields will likely stay rangebound with periodic bouts of volatility but will ultimately remain at the mercy of U.S. Treasury movements. We feel it is still prudent to take a longer-term view on government yields given the risk of economic stagnation, particularly in Canada. On the other hand, resilient economic data and a renewed

Figure 3: Shifting U.S. and Canada Policy Rate Expectations



Source: Factset and WIO, pricing from Jan 1 to Apr 10, 2026

focus on U.S. fiscal expansion could boost term premia, keeping long-dated (20+ year) U.S. Treasury yields anchored higher. Given this tug-of-war, we encourage investors to take a risk-managed, flexible and active approach to duration.

Key themes for government bonds

- **The great normalization to neutral:** We believe the era of major global central banks aggressively cutting rates is behind us. Instead, 2026 is setting up to be a period where major central banks in developed economies cautiously search for neutral rates (policy rates that neither stimulate nor hinder economic growth). In the U.S., a deeply divided Fed is debating if, when, and how much to continue trimming rates as it wrestles with stubborn inflation nearer 3.3% than its 2.0% target and a tepid job market – both of which are set against a fairly robust GDP backdrop. In the Eurozone, as of mid-April, markets were pricing in more than two rate hikes by December, with rates projected to settle in around 2.60% from the current 2.00%-2.15% area as the ECB addresses renewed inflationary pressures. In Canada, after a series of rate cuts in 2025 (to 2.25%), the BoC signalled a more balanced view heading into 2026, emphasising its next move will be highly data dependent.

- Despite recent headline-grabbing events, we maintain the view that we are entering a period characterized by major central banks cautiously seeking more neutral rates even as the bar for additional rate cuts rises. Investors should be mindful that rate volatility may again shift from the front end of the yield curve (driven more by predictions around

monetary policy) to the longer end of the curve (driven more by long-term economic growth projections and inflation expectations).

- **Return of the fiscal premium:** Persistently high – and growing – fiscal deficits have been and continue to accrue on government balance sheets across many large, developed economies including the U.S., France, U.K., and Italy, as just a few stark examples. Specific drivers (such as aging populations/shifting demographics, low economic growth or poor productivity, structural spending pressures like entitlements, increased defence spending, excessive public costs, etc.) may vary but the outcome and effects often tend to be the same: investors demand a higher risk premium (translating into higher bond yields) to buy and hold a country's debt (and corresponding rising interest burdens for governments). Given that rising yields push bond prices lower, we tend to prefer shorter-to-mid duration sovereign bonds over longer maturities; this will help strike a balance between yield and safety and guard against rising fiscal or term premia particularly if bond vigilantism gains traction. We believe it is incumbent upon investors to actively monitor the markets in which they invest, remain selective on duration and consider country-specific risks. It is also important to keep in mind however, that not all governments will manage their fiscal houses the same way and each central bank policy path may differ. Ultimately, we think that countries demonstrating greater fiscal discipline alongside prudent central banks that adhere to clear data-driven decision making will be rewarded by sovereign debt investors.

Credit: Investment-grade (IG) and high yield (HY)

Corporate credit markets faced headwinds in Q1, pressured by increasingly turbulent geopolitics and war-related economic concerns. In response, U.S. and Canada IG and HY credit spreads widened from historically tight levels seen in early 2026, with March posting the weakest monthly performance for IG since late 2024 (Figure 4). However, the first two weeks of April proved more resilient with U.S. and Canada IG and HY spreads tightening back to around levels seen before the conflict in the Middle East. Regardless, the combination of geopolitical uncertainty, stubborn inflation, and reduced expectations for Fed rate cuts has created a more challenging environment for credit investors. Accordingly, we believe it is essential to adopt a more defensive credit strategy that prioritizes high credit quality, shorter duration, careful sector selection and active management to enhance potential returns and strengthen resilience during what may become an extended period of geopolitical uncertainty and heightened market volatility.

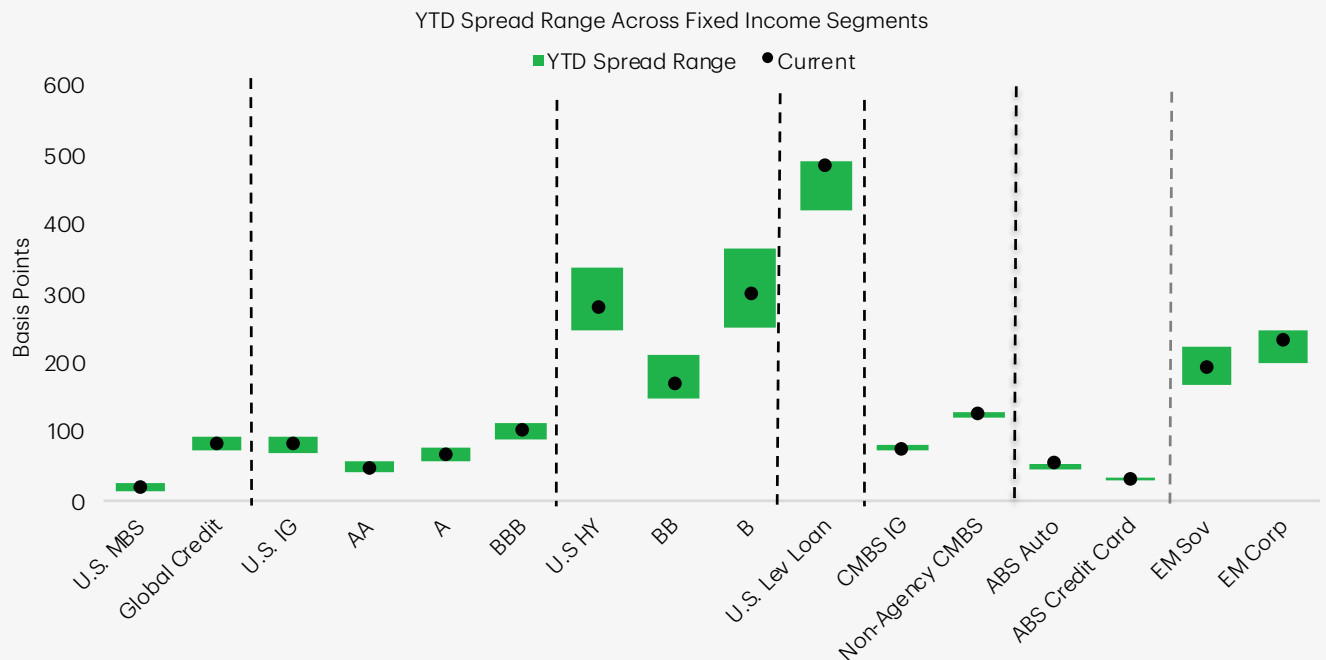
In the broader IG universe, we prefer short-dated higher-quality corporate bonds for defensive positioning given the uncertain rate environment and elevated macro risks. IG credit spreads (which have essentially returned to the tight levels seen prior to the war in Iran) currently offer limited compensation for emerging risks. Therefore, higher-quality shorter-dated bonds may offer better protection and more attractive risk/return potential today compared with the broader IG complex.

Our neutral view of HY credit is predicated on an increasingly challenging backdrop. We continue to see elevated risks for leveraged loans and lower rated credits as corporate interest expenses normalize at higher levels and refinancing pressures mount. In HY, given today's uncertain geopolitical environment and tight spreads, we prefer higher quality (BB rated and above) bonds of borrowers with stronger balance sheets and cashflow metrics, while generally avoiding lower rated credits (CCC and below) that face significant refinancing risk at much higher borrowing costs in the current rate environment. Overall, we prefer IG over HY given its superior balance sheet strength, lower default risk, and better positioning in a market where credit differentiation is becoming increasingly important.

Key themes for corporate bonds

- **Quality carry remains prudent:** Last quarter, we posited that interest income (i.e. carry) in higher quality credits would rule the day (and year) – preferring IG bonds over leveraged loans and HY given what we viewed as an asymmetric risk/return proposition amid near-historically tight spreads across most segments of the credit spectrum (regardless of ratings). Currently, credit spreads remain tight, but all-in yields are still attractive; accordingly, we believe our thesis favouring higher quality IG credit over lower rated HY credit continues to hold merit. During an eventful first quarter, spread widening in March provided tactical trading opportunities and marginally better compensation for

Figure 4: Year-to-Date Credit Spreads by Segment



Source: FactSet, WIO, as of April 13, 2026

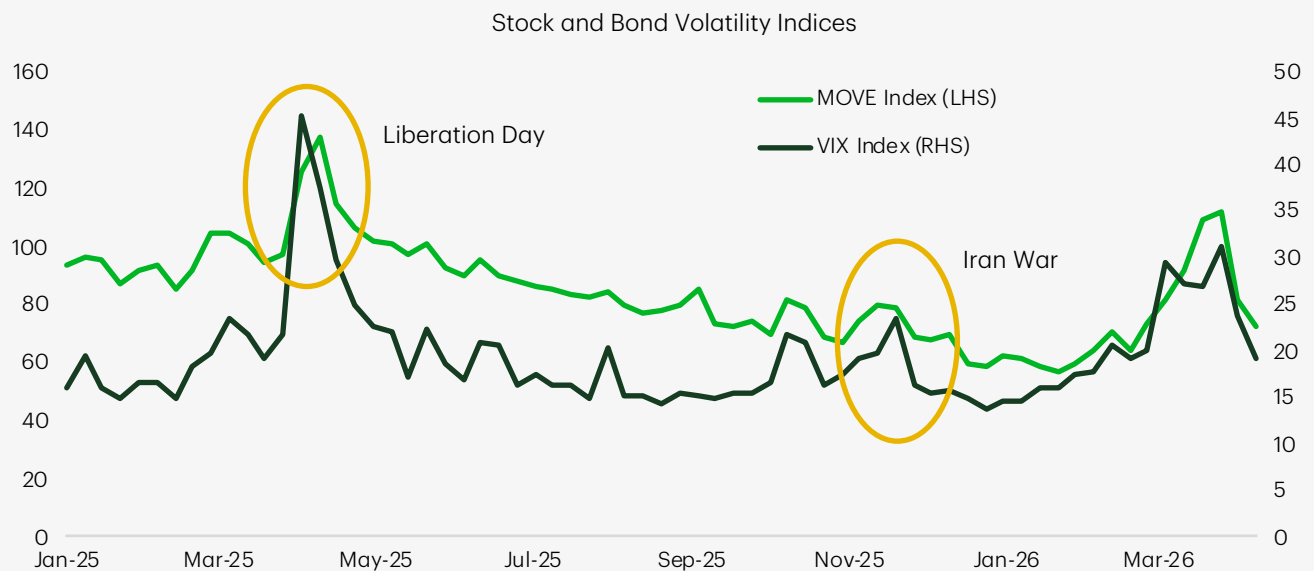
risk (before spreads quickly re-tightened in early April). We believe a high-quality credit tilt should persist given various factors, including but not limited to: i) robust net new issuance (particularly in IG) that could pressure spreads wider (driven in large part by new debt funding tied to the AI hyperscaler capex boom); ii) potentially diverging performance between IG and HY as default risks rise; and iii) headwinds facing highly leveraged HY issuers where refinancing upcoming debt maturities may prove more challenging and come at materially higher costs given prevailing interest rates (vs. COVID-era Zero Interest Rate Policy-like levels).

• **Volatility resurfaces – income still matters but capital preservation is key:** The geopolitical and economic fallout from the conflict in Iran has fundamentally altered the 2026 fixed income landscape. For credit investors, while coupon income remains an important component of total returns, and even though all-in yields remain attractive, capital preservation has become equally – or even more – critical, especially when the inflation backdrop remains a concern. While early 2026 data showed some progress toward the Fed's preferred 2% inflation target, oil-driven pressures and sticky services inflation present risks that could keep rates elevated longer than previously anticipated. Given the resurgence of volatility and economic tail risks relating to the current energy crisis, we feel investors should recalibrate 2026 return expectations to align more to a high-quality, short-duration profile that seeks to minimize price volatility and maximize capital preservation (Figure 5). Indeed, Q1 reinforced our notion that the 2024-2025 period of 'easy money' in fixed income is likely in the rearview mirror.

• **Dispersion and decompression accelerate:**

The sector dispersion and spread decompression anticipated in our Q1 2026 PSQ is materializing faster than expected, driven by late-cycle credit dynamics, geopolitical volatility and AI-induced disruption fears reverberating across both the public and private credit landscapes. Indeed, sector dispersion accelerated in Q1, with tech experiencing the most notable bifurcation. Well-capitalized AI hyperscalers continue to access capital markets on attractive terms and raise new debt to fund ambitious data centre capex plans. Meanwhile, existing software companies (particularly Software as a Service, or SaaS, providers) and lower quality (CCC and below) credits have seen significant repricing as concerns about AI disruption dampened investor sentiment despite generally sound underlying fundamentals (at least for now). Consumer discretionary and cyclical credits are also showing early signs of strain, lending credence to concerns about a K-shaped economy. On the other hand, utilities and energy credits benefitted from defensive rotations and eye-popping forecasts for AI-driven power demand. Net/net, our thesis remains intact, compelling us to reiterate our view that investors maintain a focus on high quality credits with strong free cash flow and clean balance sheets. This may include new issues from AI hyperscalers whose massive capex plans (US\$600+ bln total estimated in 2026) are being funded in part with new debt often offering investor-friendly terms or concessions that tend to be less available in secondary markets.

Figure 5: Volatility Resurfaces



Source: FactSet, WIO, as of April 12, 2026

Emerging markets

Over the last three decades, Emerging Markets (EM) have made substantial progress in macroeconomic policy. Their monetary, fiscal, and debt management practices now more closely match those of developed economies. These improvements have drawn investors to EM fixed income, with the asset class expanding from 2.6% of the total debt market in 2004 to 22.1% in 2024, according to the Securities Industry and Financial Markets Association (SIFMA).

Despite recent progress, EM assets still face significant risks. Geopolitical shocks, such as the Iran conflict, can weaken investor sentiment. Swings in energy prices fuel worries about inflation and growth, with oil-reliant Gulf nations especially at risk from current account and fuel-cost pressures. Prolonged conflict may also increase shipping, fertilizer, and food prices, potentially delaying monetary easing policies. In this environment, a cautious and tactical approach to EM investing is essential. Although tighter U.S. financial conditions have nudged EM credit spreads wider, they are still relatively contained (Figure 6). Carry continues to provide some support, while U.S. Treasury yields and curve positioning will play pivotal roles. Investors who remain selective in EM allocations and can act quickly should be better positioned to manage risk.

Conclusion: Navigating volatility, anchoring in quality

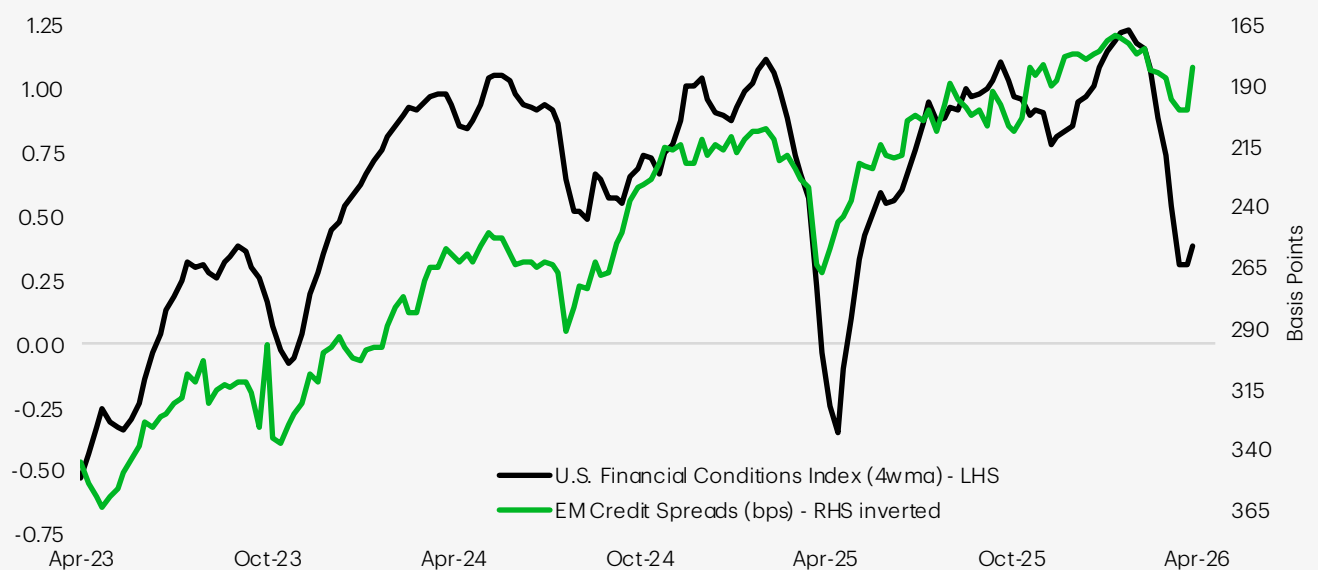
The first quarter of 2026 challenged the "year of the coupon" thesis as geopolitical shocks, persistent inflation, and central bank policy uncertainty drove credit spread widening in March and reintroduced

volatility. Rather than stable income generation from pure coupon clipping and relative price stability, fixed income markets instead experienced some turbulence that tested investor conviction before calming somewhat by early April. However, in this environment, we believe the fundamental case for high-quality, shorter duration credits and active management strategies has only strengthened.

With both the Fed and BoC potentially entering extended 'wait and see' modes, stagflationary risks from elevated oil and energy prices as well as a HY refinancing wall approaching in 2027-2028, we believe credit selection and active risk management are key. Though fixed income's role as portfolio ballast is somewhat muted today due to a recently increasing stock/bond correlation, we feel opportunities will still present themselves in rates and credit for both disciplined investors and active fund managers with proven track records of successfully navigating similar periods of volatility through full economic cycles.

For the remainder of 2026, fixed income returns appear likely to come more from carry and tactical positioning rather than duration gains, with yields potentially remaining elevated until inflation convincingly moderates or the Fed resumes easing. Investors should continue to prioritize IG credits, remain prudent on duration, maintain flexibility to opportunistically capitalize on episodic volatility, and stay vigilant on future refinancing risks particularly in lower rated segments like HY.

Figure 6: EM Credit Spreads vs. U.S. Financial Conditions



The Uncertainty Principle

Today's volatility is obscuring fundamentals, but for patient investors, it may also be opening the door to compelling long-term entry points.

By David Beasley, Senior Quantitative Portfolio Manager; Mansi Desai, Equities Portfolio Manager | TD Wealth

Executive Summary

- The past year has been influenced by heightened policy and geopolitical risk, creating an uncertain environment. Markets hate uncertainty, but that uncertainty also brings opportunity for equity investors to buy quality at a discount.
- Growth stocks, especially within tech, are now trading at below average valuations, while earnings growth remains durable within a capital-expenditure cycle, with visibility through 2028.
- In contrast to U.S. growth stocks that go on sale in times like this, Canadian resource equities can help offset the impacts of heightened uncertainty. The energy and materials sectors make up over 35% of the index, comprising resources stocks tied to commodities that tend to rise with geopolitically driven supply shocks.
- A focus on the underlying fundamentals of individual companies — strong operations and financials combined with attractive valuation — can provide stability in uncertain times.

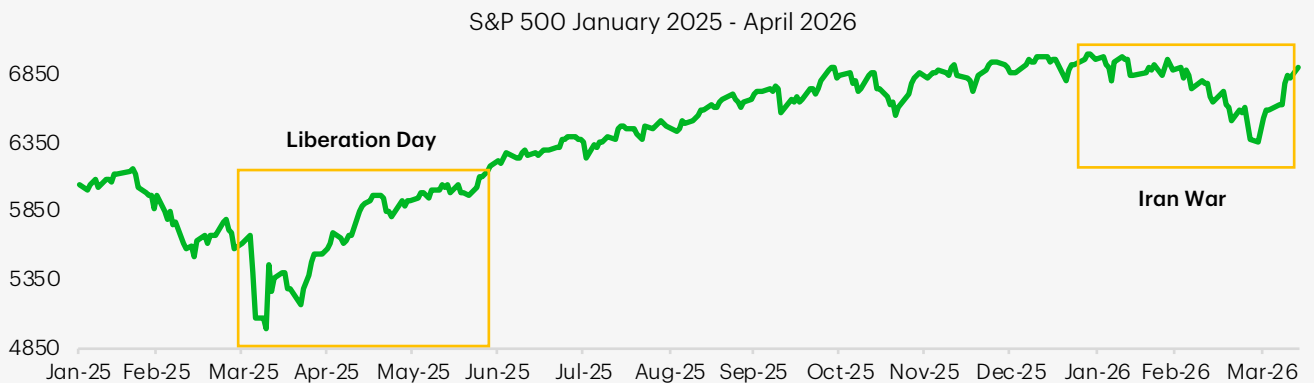
Zeitgeist: Markets hate uncertainty

There's an old saying that has been traveling around investing circles for longer than most of us have been alive: markets hate uncertainty. In times like these, markets tend to excessively discount the price of individual securities relative to their fundamentals. Over the past four quarters, and perhaps for the foreseeable future, policy headlines and geopolitical events have made this expression the zeitgeist for equity investors in 2025, as uncertainty, always present in markets, has taken on elevated weight in our investment decisions.

Growth stocks don't like growth shocks

"Liberation Day" — April 2, 2025, the day the White House announced unilateral tariffs starting at 10% for most countries — is a case in point (Figure 1). The market was left to quantify the uncertain impact of these tariffs on global growth. The likely outcomes of reduced trade, higher consumer costs and potential supply-chain disruptions would hinder GDP growth. This would in turn dampen the earnings that drive equity values.

Figure 1: Two short-lived shocks in just one year



The market reaction was swift. Within just three days, the S&P 500 was down 15% from where it stood before the announcement. The leading growth stocks of the current cycle were down significantly more. However, after further clarity was provided over the following weeks, such as the 90-day pause and rapidly negotiated bilateral agreements, the market was able to discount a more reasonable impact, and the S&P 500 closed the month of April hardly down at all.

Bottom-up investing through uncertainty

There's another old expression, this one from Warren Buffett: "... be greedy when others are fearful."

Although we believe the most robust investing process comprises a combination of fundamental, quantitative and technical analysis, there are times to lean on quantitative and technical analysis (focusing on stock prices and data trends) and times to lean on fundamental analysis (focusing on the financial prospects and valuations of the underlying companies). In times of increased macro uncertainty, when stock prices react while individual company fundamentals remain durable, applying a bottom-up fundamental approach can help investors act opportunistically.

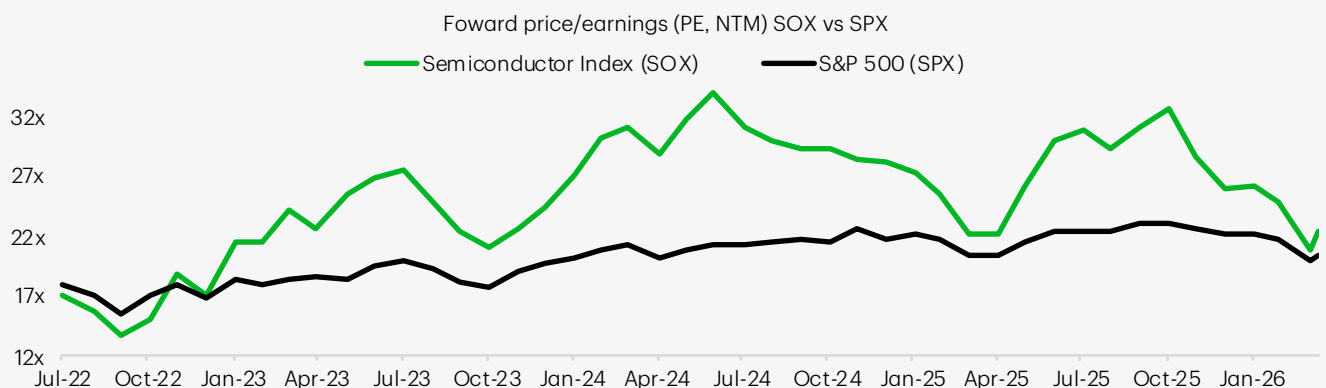
This was demonstrated this past March, when two separate shocks created another major bout of market uncertainty. The first was in the alternative asset class of private credit. Cracks in private-lending portfolios began to show in late 2025 among lesser-known participants, but the market didn't react much until early this year, when the selloff began to bleed into major U.S. money-centre banks because of contagion fears. However, after these banks explained that their exposure was generally minimal and contained, the concerns abated and share prices largely recovered, rewarding those who were "greedy when others were fearful" and held onto or added to positions in U.S. financials before the clouds of contagion fears cleared.

The second shock in the first quarter — and the one with the broader impact on equity markets — was the official start of the Iran war. This sent oil prices up around 80% by early March and drove the S&P 500 down around 8% over the course of the month, its largest drawdown since April 2025, breaking its technically significant 200-day moving average in the process. The selloff was understandable, given the uncertainty around the length of the war and its widespread implications. Following the U.S. attacks on February 28, Iran essentially blocked the Strait of Hormuz, leading the price of oil to surge, given that approximately 20% of daily oil demand flows through the Strait. A sustained oil-price shock would drive higher inflation and potentially weigh on economic activity, and higher unemployment in a stagflation scenario could lead to a recession. The key question was how long the conflict would last and how long the Strait would remain blocked.

The semiconductor sub-sector was down much more — about twice as much as the S&P 500 — along with the infrastructure hyper-scalers that have driven this bull market. There were a variety of reasons for that, such as threats to power sources and supply chains. We are not political analysts and, as equity investment managers, we don't have an edge in predicting when such overhangs will clear. We do, however, focus our analysis on a bottom-up fundamental approach, which is where we can add value, by finding opportunity through the "fog of war," and by positioning our portfolios to benefit when that fog clears and valuations normalize.

As mentioned, the price of semiconductor stocks has retraced much more than the broader market. In price-to-earnings terms, the usual premium that the Nasdaq's semiconductor index (SOX) has traded at relative to the S&P 500 over the course of this bull market has almost completely evaporated, similar to April 2025 (Figure 2).

Figure 2: Relative valuation for semis now its lowest since late 2022



Source: FactSet, Wealth Investment Office as of April 10, 2026

This compression in valuation suggests that the market is pricing in an end to the semiconductor cycle — that is, a decline in demand and earnings growth. It's understandable for markets to be concerned about valuation, given the shifting macro landscape. However, a bottom-up analysis of the companies in the AI domain suggests otherwise. The hyper-scalers, which have been acquiring microchips at a rapid clip, have continued to raise their capex guidance, and they have done so in a countercyclical manner.

In other words, they are spending and building regardless of current demand for AI products. The Big Five — Amazon, Alphabet, Meta Platforms, Microsoft and Oracle — alone are expected to spend nearly \$700 billion this year, up more than 50% from 2025, and close to \$800 billion in 2027 at current consensus forecasts. These forecasts have tended to be conservative and have regularly been upgraded over the course of the current cycle.

Consider semiconductor revenue expectations as well. A bottom-up analysis of the leading chipmaker, Nvidia Corp., reveals anything but a wind-down in the cycle. The company has been making several transactions to secure supply for products that won't be shipping until 2028 to 2029. The company also recently announced that it now sees at least \$1 trillion in revenue from its Blackwell and Vera Rubin systems between 2025 and 2027, a doubling from the \$500 billion in the previous update.

We can point to a plethora of similar data points across the AI infrastructure ecosystem, providing visibility into the cycle as far out as 2030. So while we expect this current cycle to shift to a slower pace at some point, there are no signs of that happening anywhere in the ecosystem over the next few years.

As equity investors, we focus on these signals over the noise of macro uncertainty. When we put everything together and zoom out to a broader equity perspective, we continue to see significant value in high-quality growth equities. We believe these companies' stock prices are being temporarily depressed by geopolitical overhangs (Figure 3).

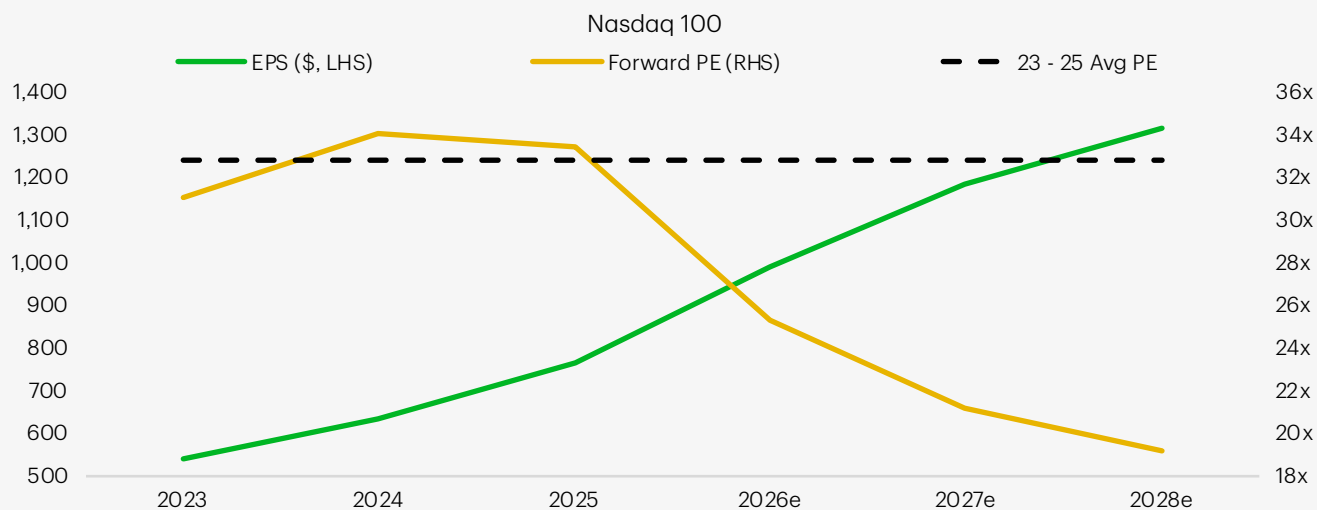
Consider the Nasdaq 100 Index. This benchmark consists of some of the highest-quality global growth stocks in the United States, including those at the leading edge of the AI investment theme. Six of these companies — Nvidia, Microsoft, Amazon, Meta, Alphabet and Broadcom — make up more than one-third of the index. With earnings expected to continue their upward trajectory, the group's valuation looks increasingly attractive.

These earnings forecasts have been durable, but investors will want to watch for meaningful changes in these expectations. That said, the AI-driven investment cycle that has driven equity-market returns since 2023 appears as strong as ever, even as the market prices in the end of the cycle due to uncertainty around the impacts of war. As equity investors focusing on the underlying fundamentals, we see opportunity for patient, long-term positioning by being greedy when others are fearful.

Canadian Equities: Resources hedge uncertainty

In contrast to U.S. growth stocks, which go on sale in times of uncertainty, Canadian resource equities tend to rise, helping to offset the effects of heightened uncertainty. The energy and materials sectors make up more than 35% of the S&P/TSX Composite Index, comprising resource stocks tied to commodities that tend to rise with geopolitically driven supply shocks.

Figure 3: The best companies keep getting cheaper



Source: FactSet, Wealth Investment Office as of April 10, 2026

Gold is the traditional safe-haven investment. Although it has had a historic run — up more than 150% in just two years, while gold-miner equities are up nearly threefold — the yellow metal should still be considered a worthwhile portfolio diversifier. Central banks' buying, as a percentage of total gold demand, rose a step change higher during 2022 and continues to support a higher floor for gold prices. Miners, meanwhile, are generating free cash flow at record levels, with all-in sustaining costs generally under \$2,000 an ounce on average, while gold has been consolidating around \$4,500. This is conservative versus the highs of around \$5,600 an ounce, so margins remain robust, with potential for further upside when the secular uptrend in the metal price resumes.

Canadian energy stocks have obviously benefited from the spike in oil prices owing to the conflict in the Middle East. While current valuations may not be supported if oil prices were to fall back to the \$60s, that level of correction does not appear likely in the near term. There remain infrastructure impediments that will likely hinder supply lines even if the key chokepoint, the Strait of Hormuz, fully reopens, although most strategists contend that is unlikely. Therefore, an oil price that moderates from here but remains higher for longer can continue to support energy stock prices and the capital-allocation strategies that have leaned toward shareholder returns in recent years.

Commodity stocks tend to be volatile, shifting with headlines, so to avoid excess volatility we again apply a bottom-up approach to security selection. In the case of gold miners, consider producers operating below average cost curves in Tier 1 jurisdictions like North America and Australia. In Canadian energy, domestic integrated companies that produce the feedstock for their own refineries in Canada and the United States, and that supply the North American pipeline network, continue to look attractive as yield vehicles.

Canadian banks have traditionally been core investments in Canadian equity portfolios, favoured for their consistent and growing dividends. Over the past 12 months, the group has attracted a steady flow of investment capital, driving the Big Six bank stocks up between 50% and 80%. This has lifted their valuations well above their historical ranges and dragged their dividend yields down to multi-decade lows.

Investors may perceive these levels to be unattractive for new capital. However, while they may not be as opportunistically priced as many of the high-quality U.S. growth stocks discussed above, banks may also benefit from AI in ways that support the investment thesis. Banks run on people and capital. Many of those

people work in operational roles, such as call centres, where AI can significantly improve efficiency and productivity.

If banks are able to improve labour efficiency and reduce costs, given their operating leverage, there is reason to believe that current earnings forecasts by the sell-side community may prove conservative. As a result, current valuations and dividends may be justified if bank earnings-growth rates outperform over time. Canadian banks, in particular, are also closely tied to the outlook for the Canadian economy, which is expected to improve over last year. In addition, recent economic data suggest the economy is performing slightly better than expected.

While markets may dislike uncertainty, patient long-term investors with a focus on quality companies can be opportunistic. We continue to favour a balanced approach to North American equities, and the current uncertainty is providing what we believe are attractive entry points in mispriced U.S. growth equities, along with volatility that can be used to buy Canadian resource equities on short-term selloffs.

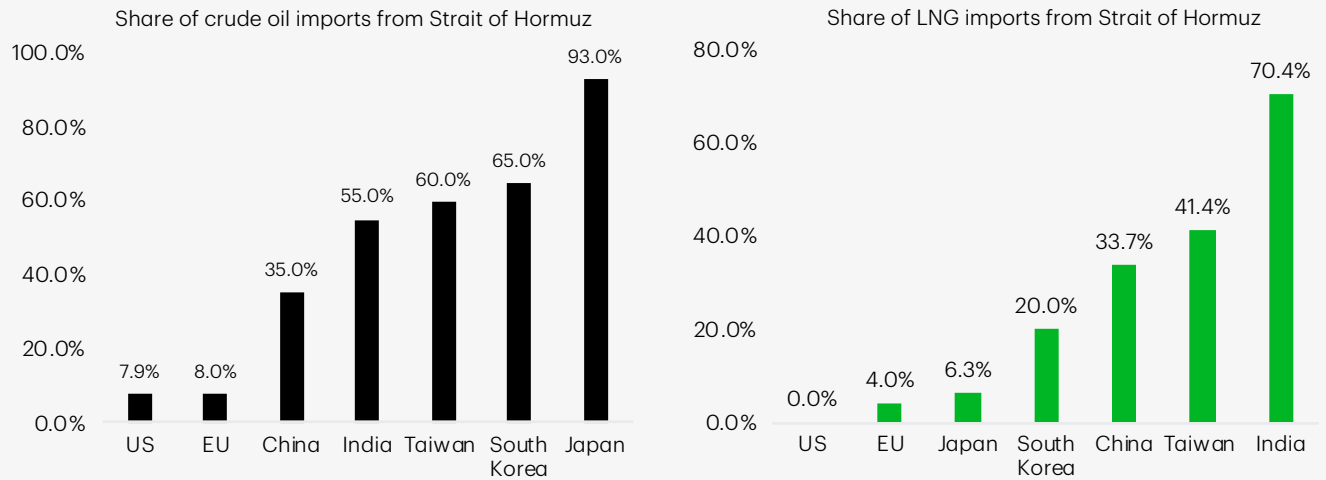
As we move through 2026 and start to look toward early 2027, the bottom-up fundamentals of the leading equities should continue to support this positioning strategy.

International Markets: War tests resilience

International and emerging-market equities outperformed U.S. equities in Q1/26 by four and six percentage points, respectively, albeit in a very different environment from the end of 2025. Both international and emerging-market equities began the year with strong outperformance against a backdrop of higher anticipated earnings growth, a broadening economic recovery and a rebound in manufacturing activity supported by stimulus. The U.S. and Israel's war on Iran, however, has complicated the strong runway for these equities. Let's start by deciphering the immediate risks from the war and its implications for the EU and Asia.

Given the strategic importance of the Strait of Hormuz as a critical pathway for crude oil, refined oil products and essential minerals, the existing price shock has been much greater than the one that followed the Ukraine invasion in 2022. However, the situation is less precarious for the EU, China and Japan compared to emerging-market countries (Figure 4). Europe, for example, is largely dependent on the U.S. and Norway for its oil and natural gas, with the former countries accounting for more than 60% of Europe's total gas imports.

Figure 4: Asia most dependent on Strait of Hormuz for energy



Source: FactSet, Wealth Investment Office as of April 11, 2026.

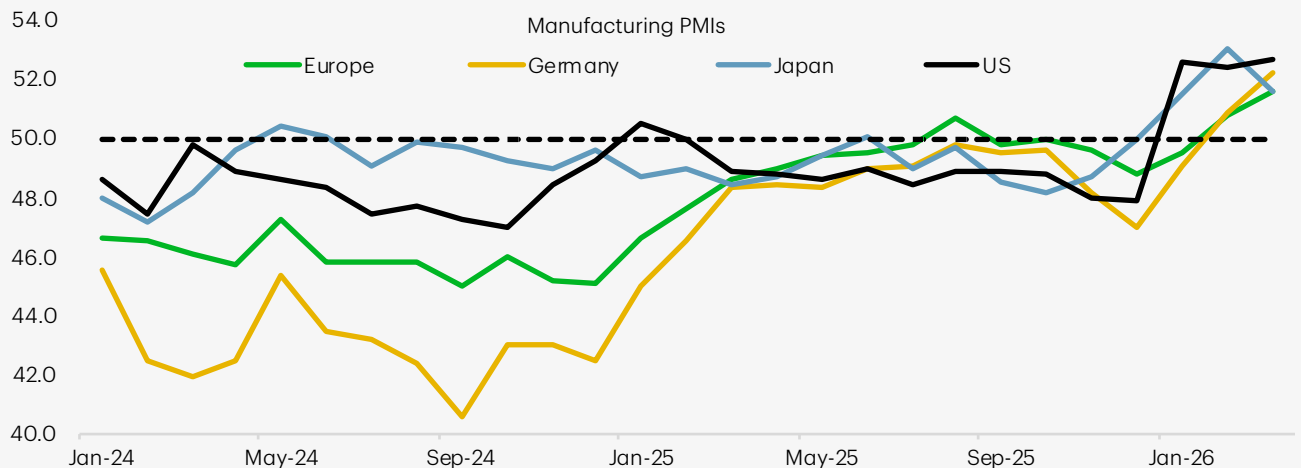
Despite lower dependency on the Strait of Hormuz for its energy needs, Europe and Japan will have to compete with Asian buyers amid restricted supply, pushing up oil and gas prices globally. Japan and Europe, however, have alternatives to fill the energy gap caused by a blockage of the Strait of Hormuz. Japan is estimated to have one of the largest buffers of crude oil, with 470 million barrels stockpiled, which is worth 254 days of domestic demand. Europe, meanwhile, has been significantly diversifying its energy sources amid the Ukraine war by revamping many coal-fired plants.

Although untapped, Europe's coal-fired plants have unused generation potential of 568 TWh, which can adequately replace the natural gas it imports from Gulf Cooperation Council countries. Although it takes weeks to restart production at coal-fired power plants, these alternative sources provide a cushion for these economies against the adverse consequences of an energy-price shock.

In our last article in *PSQ*, we noted the prospects for higher earnings growth in 2026 for international equities after muted earnings growth last year, especially in Europe. This was based on early signs of recovery in manufacturing activity and on stimulus from Germany for defence and infrastructure investment. While the latter will take time to be reflected in bottom-line growth for companies, the rebound in manufacturing activity persists in Europe as well as in Japan (Figure 5).

Valuations for international equities, moreover, are close to their historical mean, limiting the risk from a potential surge in energy costs. A spanner in the works would be a prolonged war in which the U.S. administration successfully convinces its NATO members to safeguard passage through the Strait of Hormuz using military force. So far, Europe has taken a united stance against entering the war. However, it continues to rely on the U.S. for its defence capabilities against Russia, which puts Europe in a

Figure 5: Manufacturing rebounds into expansion



Source: FactSet, Wealth Investment Office as of April 11, 2026.

difficult spot. Except for Germany, major European countries such as Spain, Italy and France are in weak fiscal positions, with public-debt-to-GDP ratios above 100%, limiting their ability to enter a war even if they were willing to do so, especially at a time when Europe might have to subsidize rising energy costs to support economic growth.

Given the import dependency of oil and natural gas on the Strait of Hormuz, along with a lack of alternatives, emerging-market countries are more vulnerable to the war in Iran. South Korea and Taiwan are the most affected, with almost 60% of their oil imports and more than 20% of their natural gas imports coming from the Persian Gulf. In addition, these countries rely heavily on oil and gas for energy consumption, making them more vulnerable than India and China, which are more dependent on coal-fired power plants for energy (Figure 6). Indeed, China is further insulated, given that its energy imports are more regionally diversified. China had an estimated 1.2 billion barrels of crude oil in reserve before the war, covering domestic demand for 120 days, provided that Chinese petroleum-product exports continue to be prohibited.

Given Taiwan's and South Korea's strategic importance in chip fabrication and memory-chip production, one of the key concerns after the war began has been the supply of helium, a byproduct of natural gas, which is extensively used in cooling silicon wafers. Ras Laffan, the largest gas facility in Qatar, which was attacked by Iranian missiles, provides roughly one-third of global supply. The U.S., which is the largest producer of helium, can fill the supply gap. However, this would drive up helium prices in global markets. They've already increased by more than 25% since February 2026. Thankfully, there was an oversupply of helium before the war began, which is expected to last for a few weeks, after which supply constraints are expected to drive prices even higher.

Emerging-market countries that have fewer alternative sources of energy have already announced measures directed toward demand destruction to alleviate price pressures: governments have ordered employees to work from home four days a week, closed universities early, capped price increases for gasoline, and wealthier countries like South Korea and Taiwan have announced energy-voucher programs to shield consumers. Demand destruction might alleviate price pressures for energy products to some extent. However, given the higher share of food items in the consumer price index basket, at 20% to 35%, these economies are highly vulnerable to a rise in fertilizer prices, with the threat of serious consequences from limited urea supply during the spring planting season.

While the above factors highlight the immediate risks for emerging-market equities, we continue to hold an optimistic longer-term view against a backdrop of strong earnings growth and discounted valuations. Over the next two years, emerging-market equities are expected to record attractive earnings growth of more than 23% with a current valuation discount of 8% as of March 31, 2026, thereby supporting our neutral stance on emerging-market equities. While we are mindful of the risks emerging from the war, growth prospects for emerging-market equities remain bright, driven by the oligopolistic supply chain based in Taiwan and South Korea for AI chips, Chinese tech giants' investment in AI chips and infrastructure, secular demand for commodities that benefits many resource-rich Latin American nations and, lastly, strong domestic markets that remain insulated from the tariff war.

Figure 6: India and China rely less on oil and gas

Countries	Oil	Coal	Gas	Renewables
Canada	31.6	2.1	33.6	31.7
Europe	33.1	9.2	31.5	25.5
China	18.5	52.8	9.0	19.7
United States	37.8	8.3	34.2	17.7
South Korea	42.8	22.0	17.7	17.3
Japan	37.4	26.4	19.1	16.9
India	26.9	56.6	6.2	9.9
Taiwan	35.9	31.8	23.7	8.6

Source: FactSet, Wealth Investment Office as of April 11, 2026.

Based on the data highlighted above, we believe the price shocks in energy and the supply constraints in critical minerals can still be contained if the U.S., Israel and Iran are able to come to a resolution in the coming weeks. If the timeline for a resolution extends to months, however, economies around the globe will face one of the largest price shocks across energy, food and critical materials used in commodity and industrial value chains. Hence, diversification combined with allocations to risk-mitigation strategies such as low-volatility, market-neutral and other hedged strategies have become a necessity, not a mere recommendation.

Opportunity through discipline

In a market defined by uncertainty, disciplined investors are reminded that volatility often creates opportunity. While geopolitical risks and macro shocks may obscure the outlook, underlying fundamentals across key sectors remain resilient. By staying focused on long-term drivers and maintaining diversification, investors can navigate turbulence and position portfolios to benefit when clarity returns.

Private Credit: Narrative Versus Reality

Private credit is under scrutiny — but beneath the headlines, fundamentals remain far more stable than equity markets suggest.

By Brad Simpson, Chief Wealth Strategist, Fred Wang, Senior Portfolio Manager, Head of Asset Allocation & Managed Investments | TD Wealth

Executive Summary

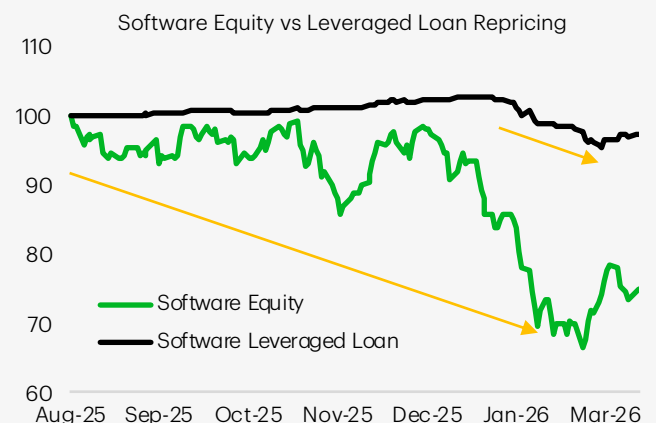
- For many wealth investors, this is the first headwind felt in private credit, following more than a decade of strong growth and relatively benign credit conditions.
- Recent commentary often treats private credit as a single, uniform market, but the asset class encompasses a wide range of strategies with very different risk profiles.
- Redemption limits (“gating”) are a structural feature of private markets, designed to protect long-term investors by preventing forced sales of long-duration assets during periods of market volatility.
- Private-credit default indices continue to suggest that realized default rates in direct lending remain remarkably low by historical standards. If credit markets were truly worried about widespread distress in the software sector, we would see it in the first loans and bonds, not just in equity prices.
- The broader macroeconomic environment also provides an important source of resilience.
- The structure of private credit remains sound; the asset class is likely entering a more challenging phase.
- As the asset class matures, dispersion of returns is likely to increase, making manager selection increasingly important.

Private credit has become an increasingly important component of diversified portfolios in recent years. For many wealth investors, however, the asset class is still new. As a result, the current period — marked by sector-specific repricing, increased scrutiny of software exposure, and the use of redemption limits in some funds — represents the first time many investors have experienced meaningful stress in the asset class. These developments are taking place against a backdrop of broader change in the global economy, as we discussed in our latest Portfolio Strategy Quarterly (“Brand New Renaissance,” [click here to read](#)). Markets are moving through a period of structural transition, with some sectors adjusting to higher interest rates, shifting capital flows, and the new technological dynamics being driven by AI.

We believed 2026 would be the year AI began to have a more direct impact on companies. In many ways, software has been the first shoe to drop. We have written extensively about the repricing of software, which has led to a correction in equity prices in the sector as investors reassess valuation growth expectations and the likely impact of AI on business models across the sector.

Credit markets, however, are telling a different story than equities. Since August 2025, software equity prices have corrected by roughly 35%, while software loans were down only about 7% at their lows, with that drawdown not beginning until January 2026. In other words, credit markets remain far more stable than software equity prices might suggest (Figure 1).

Figure 1: Equity, credit markets telling a different story



Source: Macrobond and Wealth Investment Office, as of March 9, 2026

Some commentary has also raised broader questions about whether stress in private markets could spill into the wider financial system. While these developments deserve attention, the available evidence suggests that the current environment reflects a repricing within parts of the market rather than the beginning of a systemic credit event.

How private credit evolved

Private credit has grown rapidly over the past decade, filling the gap left by banks following the global financial crisis. As regulatory capital requirements increased, banks reduced their exposure to many forms of middle-market lending, and private capital stepped in to finance businesses, infrastructure and other parts of the real economy. In many ways, this shift has been constructive. Private credit often involves closer lender-borrower relationships, more structured underwriting and loans that are typically floating-rate. The growth of the asset class has also broadened access to capital for companies that might otherwise have relied primarily on traditional bank financing.

Private credit is often discussed as a single, uniform asset class, but it encompasses a wide range of lending strategies with very different return drivers. Each segment (see sidebar) has distinct risk characteristics and economic sensitivities. Broad commentary that aggregates these strategies into a single category can lead to conclusions that may not accurately reflect the underlying risks within the market. As a result, investors should be cautious about interpreting generalized headlines about “private-credit risk” without understanding which segments of the market are actually being discussed.

Key Structural Features

To better understand private capital, let’s start with the basics of how it’s structured:

Long-duration capital. Private-credit strategies are intentionally designed around long-duration capital. Investors typically commit funds for multiple years because the underlying loans themselves are long-term assets. Aligning the duration of investor capital with the duration of the loans allows managers to focus on long-term credit fundamentals rather than short-term market volatility.

Senior position in capital structure. Many direct-lending strategies focus on senior secured loans, meaning the debt typically sits near the top of a company’s capital structure and is backed by company assets or cash flows. This positioning provides lenders with stronger contractual protections and higher recovery potential should financial conditions

The 12 Segments of Private Credit

Core Corporate Lending

1. Direct Lending
2. Uni-tranche Loans
3. Second-Lien Lending

Asset-Based Finance

4. Asset-Backed Lending
5. Specialty Finance
6. Trade Finance

Real Asset Lending

7. Real Estate Debt
8. Infrastructure Debt

Higher Risk / Higher Return

9. Venture Debt
10. Distressed Debt
11. Opportunistic Credit

Private Market Financing

12. NAV Lending

deteriorate. Importantly, this structure means that equity valuations can adjust significantly before credit investors experience meaningful losses. Private-credit transactions are also frequently structured with negotiated covenants, collateral packages and other protections that allow lenders to work directly with borrowers if conditions change. This ability to actively engage with borrowers is a key distinction between private credit and broadly syndicated loan markets.

Diversification across vintages. Another layer of resilience comes from “vintage” diversification. Private-credit portfolios typically originate loans across multiple years — 2023, 2024, 2025 and beyond — meaning investments are made under different economic and market conditions. This staggered origination process reduces the risk that an entire portfolio is exposed to a single credit environment.

Concentration, not contagion. Some private-credit portfolios have meaningful exposure to software companies, a sector currently undergoing a valuation reset as investors reassess long-term growth assumptions in the context of artificial intelligence. However, much of the recent stress appears related to changing valuation expectations rather than a broad deterioration in corporate fundamentals. With leverage generally modest and limited direct transmission into the banking system, the risks appear significant but concentrated rather than systemic.

Understanding redemption limits. In recent months, some investors have focused on redemption limits in certain private-credit funds. These provisions are sometimes interpreted as a sign of stress, but they are in fact a core feature of private-market structures. Redemption limits protect investors during periods of market volatility, preventing a forced sell-off of long-term loans at distressed prices. By slowing redemptions, these provisions help protect long-term investors and maintain stability within portfolios. In other words, redemption limits exist not because private markets are fragile, but because the underlying assets are long-duration investments that benefit from patient capital.

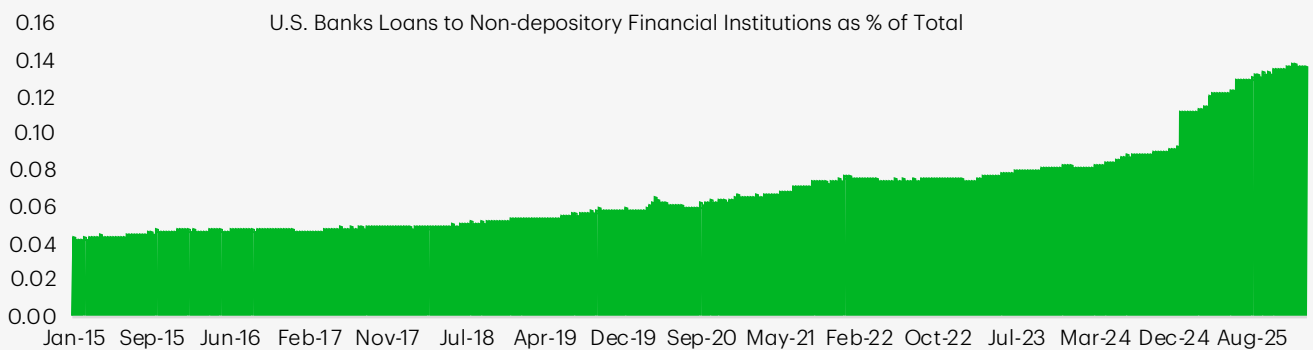
Private credit and banks. Another area of focus for investors is the relationship between private-credit markets and the banking sector. Today, roughly 14% of U.S. commercial bank lending flows to non-depository financial institutions (NDFIs), including the so-called shadow banks that serve as important intermediaries for private credit and other private-market activity (Figure 2). These institutions play a meaningful role in financing private-market transactions and extending leverage through the broader credit system. As a result, a significant rise in defaults across private markets could have ripple effects for parts of the banking sector, particularly through these intermediary lending channels.

Still, it's important to keep that risk in perspective. Despite the noise around private credit and recent signs of stress, private-credit default indices continue to suggest that realized default rates in direct lending remain remarkably low by historical standards.

We also believe that there are a number of factors that suggest this trend is likely to continue. First, private-credit structures typically include meaningful equity cushions beneath the debt, meaning that credit losses would generally be absorbed by equity investors before affecting lenders higher in the capital structure. Second, the broader liquidity backdrop remains supportive. Bank reserve balances remain elevated, and financial conditions have been supported by the Federal Reserve's gradual shift away from quantitative tightening toward a more neutral policy stance.

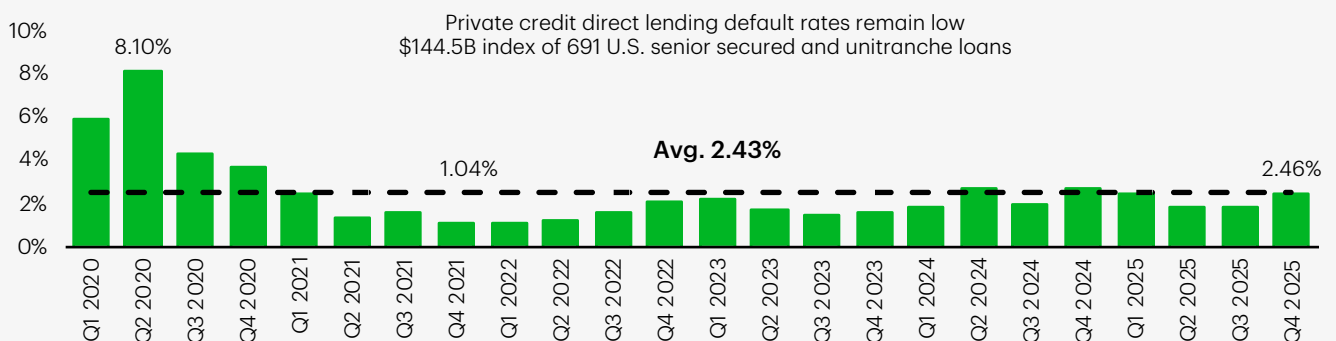
That said, liquidity conditions in financial markets can change quickly, particularly during periods of market stress. Investors should remain mindful of several areas of potential leverage and positioning risk, including stretched yen carry trades, Treasury basis trades, record retail positioning in leveraged exchange-traded funds, and other forms of market leverage that could amplify volatility across asset classes. Taken together, while localized credit stress could create volatility in financial markets, the current environment does not appear consistent with the conditions that typically precede a broader systemic financial event.

Figure 2: NDFIs now account for 14% of U.S. commercial lending



Source: Macrobond, Wealth Investment Office as of March 9, 2026

Figure 3: Direct lending default rates remain low



Source: Macrobond and Wealth Investment Office, Carlyle, Proskauer Rose LLP as of February 25, 2026

Macroeconomic backdrop remains supportive

The broader macroeconomic environment also provides an important source of resilience. The U.S. economy remains in a strong position to absorb a potential credit event. Private-sector balance sheets are healthier than they were in previous cycles, with both household and corporate debt levels having declined relative to the size of the economy since the global financial crisis. Growth expectations remain stable, with U.S. GDP projected to expand around 2% this year. Monetary policy is gradually shifting toward easing as inflation pressures moderate, while fiscal policy is becoming somewhat more supportive.

The more important question for investors is not whether disruptions occur, but how long they last. Prolonged disruptions — particularly those affecting global energy markets or key supply routes such as the Strait of Hormuz — could keep oil prices elevated for longer. If that were to occur, inflation could remain above central-bank targets, increasing the likelihood that interest rates stay higher for longer than markets currently expect.

Recent inflation data already hint at this possibility. U.S. CPI rose 0.3% month-over-month in February, leaving headline inflation at 2.4% year-over-year. Core inflation moderated slightly on the month but remains closer to 3% on a three-month annualized basis, suggesting that progress toward the Fed's inflation target may be slowing. With services inflation proving sticky and new risks emerging from tariffs and higher energy prices, the U.S. central bank may remain cautious about easing policy, unless the labour market begins to weaken more materially.

The next phase is more challenging

While the structure of private credit remains sound, the asset class is likely entering a more demanding phase. After a decade of rapid growth and benign credit conditions, dispersion of returns is likely to increase. As such, manager selection will become increasingly important. In periods of greater dispersion, the quality of underwriting, portfolio construction, and risk management can have a meaningful impact on outcomes. Managers with deep credit experience, strong sourcing networks and the ability to actively manage borrower relationships are generally better positioned to navigate more complex market conditions. For this reason, our private-credit allocations remain focused on established global platforms with long track records across credit cycles.

Bottom Line: Manager selection is everything in private credit

Private credit, like all markets, will periodically go through phases of repricing as economic conditions evolve. For many wealth investors, this is the first meaningful test of the asset class after more than a decade of strong growth. Even so, private credit is not a single, homogeneous market, and several of its structural features — including redemption limits, senior secured lending and vintage diversification — are designed to help manage periods like this.

Further, as we wrote in our Portfolio Strategy Quarterly (Q1-26):

Defaults happen; they're part in parcel with the credit markets. With private credit default rates as low as they are today, it's reasonable to believe they will go up. The focus should be on who minimizes them best and who drives the best recoveries when they happen. This requires human capital to originate, underwrite and execute specific deals in a conservative manner — especially when base rates are seductively near zero, akin to during the decade following the global financial crisis — in addition to being able to zoom out and manage a portfolio holistically. Dedicated workout specialists must also be on hand to assist companies through challenging periods; triggering a default with a term sheet that is flexible by nature can be more art than science. Finally, a value-creation team that often partners with equity holders can identify cost savings and revenue growth opportunities.

Looking ahead, we expect greater dispersion and a wider gap between strong managers and weaker ones. Some sectors, particularly parts of technology, may continue to face near-term pressure. But we do not believe that this changes the fundamental role that private credit can play in a well-diversified portfolio through income, diversification and access to parts of the economy increasingly financed outside traditional banking channels.

Commodities Matter More Now Than Ever

Commodities are responsive to supply-driven shocks and this, combined with their historically low correlation to equities and fixed income, makes them particularly relevant when traditional diversification frameworks come under strain.

Hussein Allidina, Managing Director and Head of Commodities, Humza Hussain, VP and Director, Commodities, Yiwen Yang, Associate, Client Portfolio Management | TD Asset Management

For much of the past decade, commodities occupied the outer edges of portfolio construction. Ample supply, muted inflation, an extremely low interest rate environment, and a prolonged stretch of weak price performance pushed real assets into the background, while financial assets absorbed the bulk of investor capital.

That landscape has shifted.

Today's commodity markets are no longer responding to isolated shocks but repricing a structural tension that has accumulated over years. A sustained period of underinvestment now intersects with a world that is materially more resource-intensive — shaped by electrification, digital infrastructure, renewed defense spending, and an increasingly fragmented geopolitical order. The growing imbalance between supply and demand necessitates a price adjustment to re-establish balance, and we believe we are now entering the early stages of that process.

In this setting, commodities transcend their role as tactical instruments. They reemerge instead as a strategic allocation — one grounded in physical scarcity, long investment cycles, and real economic constraints — warranting a durable place at the core of portfolio construction (Figure 1).

Long-term Anchor: Structural demand in a capital-constrained world

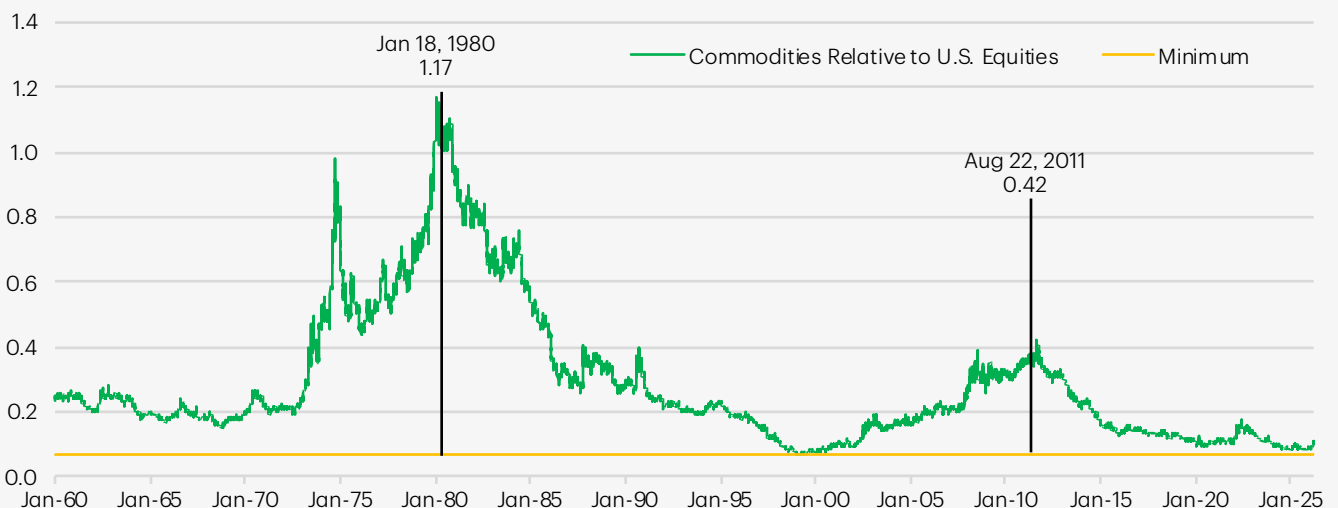
The foundation of the current commodity cycle was laid well before recent geopolitical headlines. Since Q4 2011, the commodity complex has endured a prolonged bear market ("the exploitation phase"). Capital exited the sector, upstream investment slowed materially, and the replacement of aging productive assets was deferred across energy, metals, and agriculture.

That legacy matters. Commodity supply remains fundamentally backward-looking: today's production is the consequence of yesterday's capital allocation. Unlike financial assets, physical output cannot be expanded on demand. In many cases, the interval between an investment decision and incremental supply stretches years even decades (Figure 2).

At the same time, demand has been structurally reinforced.

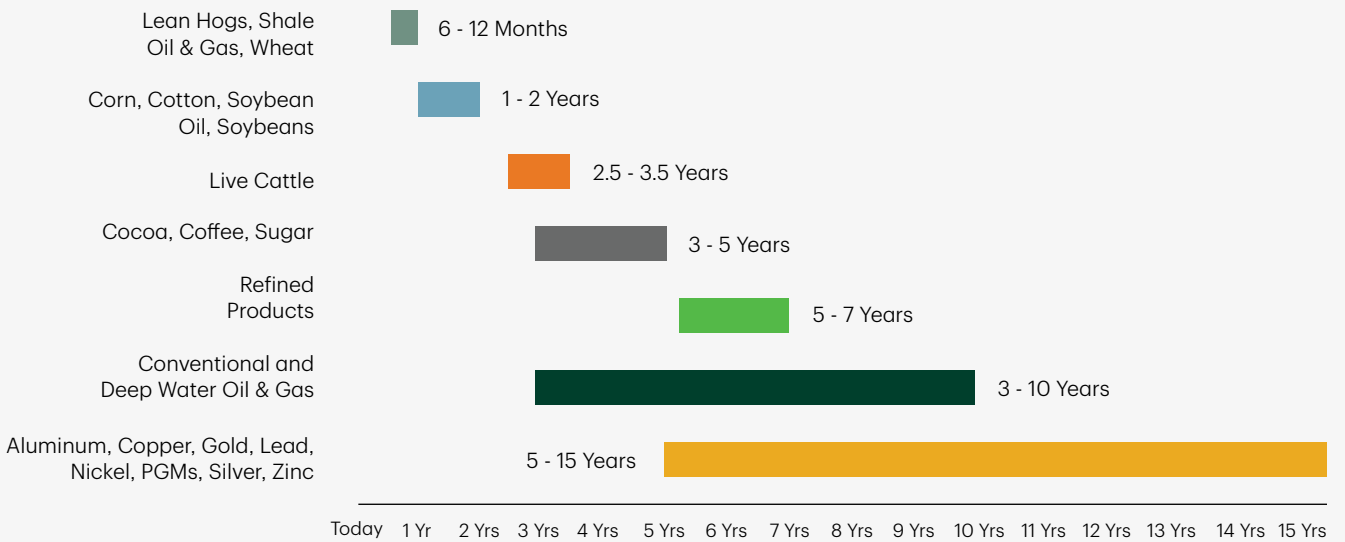
Global investment priorities have shifted decisively toward areas that are unusually commodity-intensive: electrification of energy demand, artificial intelligence infrastructure, defense spending, and supply chain localization.

Figure 1: Commodities Inexpensive vs. S&P 500



Source: TD Asset Management, as of April 14, 2026

Figure 2: Commodity Supply Response Can Take Years



Source: TD Asset Management, as of April 14, 2026

The energy transition, while transformative over the long run, remains heavily dependent on traditional inputs — from copper and aluminum to oil, gas, and refined products.

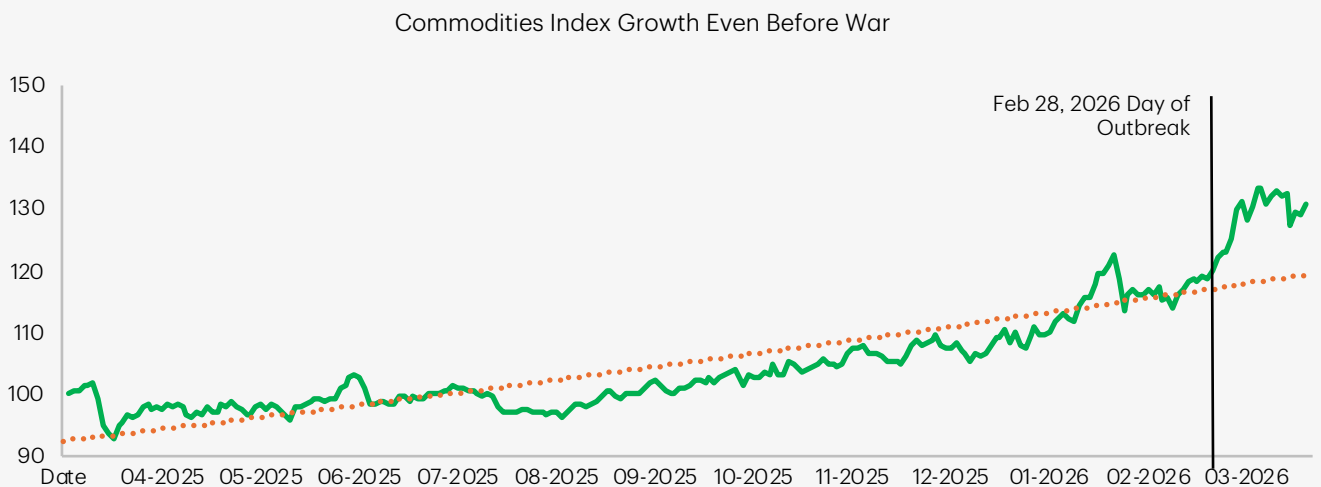
In effect, the world is funding demand for commodities while starving supply of capital.

What is notably absent from this cycle is the familiar late-stage response: a broad-based reinvestment in productive capacity. Rather than accelerating supply growth, producers have largely chosen a different path, emphasizing balance-sheet resilience, shareholder returns, and industry consolidation. While supportive of equity valuations, these choices do little to resolve shortages at the level of the system.

History suggests that commodity cycles rarely end because prices rise alone; they end when capital returns at scale and supply meaningfully expands. That mechanism has yet to assert itself. Until it does, the scarcity embedded within many physical markets remains unresolved.

From a longer horizon perspective, this dynamic places commodities at the center of the second half of the 2020s. As fiscal pressures intensify, global supply chains fragment, and the monetary regime continues to evolve, commodities increasingly serve as a hedge against currency debasement, persistent inflation, and geopolitical realignment. In a world where control over resources increasingly underpins economic and strategic power, real assets are once again becoming systemically important (Figure 3).

Figure 3: Commodity Performance Started Long Before the Iran War



Source: TD Asset Management, as of April 14, 2026

Short-term Accelerator: High-volatility world increases the need for commodities

While structural forces continue to shape the cycle, recent events have acted as a clear accelerant.

The escalation of conflict in the Middle East, triggered by the February 28 outbreak of hostilities between the U.S., Israel and Iran, has once again exposed the fragility of global energy and commodity supply chains. Damage to infrastructure and heightened risk surrounding critical energy corridors have reintroduced supply anxiety into markets that were already finely balanced. These developments are best understood not as the origin of today's pressures, but as stress tests that have exposed vulnerabilities long embedded in the system.

At the same time, volatility itself has taken on a more permanent role. Geopolitical tension, trade fragmentation, and political uncertainty are no longer episodic disruptions; they have become recurring influences on price formation. In such a landscape, assets anchored to the physical economy — operating outside the traditional financial system — take on greater relevance, serving not merely as sources of return, but as functional components of portfolio resilience.

Recent inflation dynamics offer a clear illustration. The speed and magnitude of the inflation pass-through from energy markets to broader prices remains evident. In March 2026, the headline U.S. Consumer Price Index accelerated sharply to 3.3% (from 2.4% in February), with a surge in energy costs accounting for more than three-quarters of the monthly increase. Gasoline prices alone rose 21.2% month-over-month, highlighting the sensitivity of inflation outcomes to energy market disruptions.

Critically, this occurs alongside a labour market and policy backdrop that limits the scope for rapid monetary accommodation. The result is a macro environment in which inflation risks are asymmetric, and where real assets provide a valuable counterbalance.

What is often overlooked is that commodities are not a monolith, but a collection of distinct economic ecosystems. Energy, metals, and agriculture respond differently to separate constraints, cycles, and shocks — a reality evident in their low historical co-movement. As of March 2026, the correlation between energy and metals stood at 0.11, while metals and agriculture registered 0.18, and energy and agriculture 0.24. These modest linkages allow pressures in one corner of the commodity complex to unfold independently of others. In a macro landscape defined less by a single

path forward and more by competing risks, this internal breadth allows commodity exposures to work across scenarios, offering resilience without the necessity of precise foresight.

In this setting, commodities are not merely beneficiaries of volatility -- they are tools for navigating it. Their historically low correlation to both equities and fixed income, combined with their responsiveness to supply-driven shocks, makes them particularly relevant when traditional diversification frameworks are under strain.

Portfolio takeaway

The case for commodities today rests less on near-term price movements and more on regime change. Structural underinvestment, demand amplification, and geopolitical fragmentation form a durable backdrop that extends well beyond any single event.

For investors, this argues for discipline over drama, and for strategic exposure over tactical headline chasing. Commodities may be volatile, but in a volatile world, they have rarely been more relevant.

Outlook on Currencies

A Weaker Path for the Greenback

The U.S. dollar's dominance is fading, but no clear rival has emerged.

By TD Securities, TD Economics and Wealth Investment Office

The current risk-reward favours further U.S. dollar downside, as the era of its effortless strength looks to be over. The price action from mid-April suggests the risk premium associated with the Iran shock was starting to unwind. Notably, the U.S. dollar selloff earlier this year — around headlines tied to Greenland and Japan's monetary interventions — was larger than the U.S. dollar strength observed so far in response to the current conflict. Interestingly, the euro and the Swiss franc have been behaving more like global safe havens, with their correlation to global macro volatility indices rising meaningfully over the past year, whereas the U.S. dollar's safe-haven status has dwindled.

While geopolitical risk triggered a positioning correction, the safe-haven response was lacklustre, and there appears to be limited scope for a 2022-style U.S. dollar surge. In addition, while the U.S. economy is resilient, it is no longer exceptional. Resilience alone is necessary — but not sufficient — for a sustained U.S. dollar rally.

Against the backdrop of recovering global growth, eventually lower U.S. rates and fiscal buffers, the setup favours risky assets and is U.S. dollar negative. In addition, the “Hedge America” trade could intensify, given that the U.S. has become a growing source of uncertainty. Its correlation to equities and rates is also much weaker than it used to be.

We still expect that by Q3/26, the Fed will consider resuming its policy drive toward neutral, as inflation moderates after the energy price surge. TD Securities is looking for two cuts in 2026 (September and December) and another cut in 2027. With this outlook, they believe the U.S. dollar should start to trend weaker over the medium term, in line with how it behaved in the other three oil price shocks of 1990, 2002 and 2007. Concerns over U.S. deficits could resurface into the midterm elections later this year. The U.S. fiscal outlook could also be exacerbated by increased defence spending and decreased reciprocal tariff revenue. The U.S. economy is now in a starkly different place: monetary and fiscal policy are not overly lax; the labour market is no longer extremely tight; there is no pent-up consumer demand fuelled by excess savings; and, globally, supply chains are not under as high a degree of stress.

While the outlook for the U.S. dollar is more cautious in the near term, it is likely that many economies' quests to reduce their reliance on the U.S. dollar will continue in

the coming years. Realistically, it would be challenging to see a significant displacement of the U.S. dollar as the global reserve currency and the central currency in international trade. The world lacks a convincing alternative to the U.S. dollar, given that it remains, by far, the most widely available, freely traded and commonly accepted currency. Going forward, the international financial system is expected to continue to become more multipolar and less dominated by the dollar, as innovations in payments technologies continue, rivals further develop competing architecture to the existing dollar-based systems, and alternatives expand in size. This gradual diversification away from the U.S. dollar globally still leaves the greenback in a leading position for some time.

Canadian Dollar: The long game

The CAD has underperformed against both the U.S. dollar and global currencies year-to-date, and we believe that a weak domestic economy and still-elevated trade uncertainty should continue to weigh on the loonie in the near term. While North American trade agreement negotiations will be a source of volatility, the base case is for no significant changes in the current trading relationship. A deal in place is likely to lift CAD sentiment and positioning more than the lack of a deal. Over the medium to long term, the bullish backdrop for commodities should be a source of support for the Canadian dollar.

Figure 1: Foreign Exchange Forecasts

	2026				
	20-Apr-26	Q1A	Q2F	Q3F	Q4F
USD/JPY	159	159	157	155	152
EUR/USD	1.18	1.16	1.19	1.20	1.22
GBP/USD	1.35	1.32	1.36	1.38	1.39
USD/CHF	0.78	0.80	0.77	0.77	0.76
USD/CAD	1.37	1.39	1.37	1.35	1.34
AUD/USD	0.72	0.69	0.72	0.72	0.73
NZD/USD	0.59	0.57	0.60	0.61	0.61
BBDXY	1194	1215	1183	1172	1158

Source: TD Securities as of April 20, 2026

Market Performance

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Canadian Indices (\$CA) Return		Index	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P/TSX Composite (TR)	139916	-4.32	3.94	3.94	34.83	21.18	15.19	12.59	8.23	
S&P/TSX Composite (PR)	32768	-4.58	3.33	3.33	31.51	17.69	11.87	9.28	5.10	
S&P/TSX 60 (TR)	6663	-3.11	3.08	3.08	30.75	20.12	14.77	12.66	8.40	
S&P/TSX SmallCap (TR)	2517	-8.97	11.39	11.39	65.80	25.85	15.67	12.29	5.98	
S&P/TSX Preferred Share(TR)	2455	-0.92	0.35	0.35	13.50	14.56	6.67	6.95	3.56	
U.S. Indices (\$US) Return										
S&P 500 (TR)	14561	-4.98	-4.33	-4.33	17.80	18.32	12.06	14.16	10.53	
S&P 500 (PR)	6529	-5.09	-4.63	-4.63	16.33	16.69	10.44	12.23	8.43	
Dow Jones Industrial (PR)	46342	-5.38	-3.58	-3.58	10.33	11.67	7.04	10.11	7.40	
NASDAQ Composite (PR)	21591	-4.75	-7.11	-7.11	24.81	20.89	10.26	16.06	11.75	
Russell 2000 (TR)	13725	-5.00	0.89	0.89	25.72	13.05	3.77	9.88	7.54	
U.S. Indices (\$CA) Return										
S&P 500 (TR)	20290	-2.85	-2.84	-2.84	14.19	19.51	14.39	14.98	11.51	
S&P 500 (PR)	9097	-2.97	-3.14	-3.14	12.77	17.86	12.74	13.03	9.39	
Dow Jones Industrial (PR)	64577	-3.27	-2.08	-2.08	6.95	12.80	9.26	10.90	8.36	
NASDAQ Composite (PR)	30087	-2.62	-5.66	-5.66	20.98	22.10	12.55	16.89	12.75	
Russell 2000 (TR)	19126	-2.88	2.46	2.46	21.87	14.18	5.92	10.67	8.50	
MSCI Indices (\$US) Total Return										
World	20367	-6.32	-3.47	-3.47	19.39	17.29	10.77	12.36	8.55	
EAFE (Europe, Australasia, Far East)	14551	-10.19	-1.12	-1.12	21.88	14.19	8.45	8.91	5.54	
EM (Emerging Markets)	3830	-13.03	-0.10	-0.10	30.30	15.41	4.16	8.24	5.76	
MSCI Indices (\$CA) Total Return										
World	28381	-4.22	-1.97	-1.97	15.72	18.47	13.08	13.17	9.51	
EAFE (Europe, Australasia, Far East)	20277	-8.18	0.43	0.43	18.14	15.34	10.71	9.69	6.48	
EM (Emerging Markets)	5337	-11.08	1.46	1.46	26.31	16.57	6.33	9.02	6.71	
Currency										
Canadian Dollar (\$US/\$CA)	1.39	2.02	1.40	1.40	-3.27	0.98	2.07	0.68	0.88	
Regional Indices (Native Currency, PR)										
London FTSE 100 (UK)	10176	-6.73	2.47	2.47	18.57	10.07	8.67	5.12	2.71	
Hang Seng (Hong Kong)	24788	-6.92	-3.29	-3.29	7.22	6.71	-2.67	1.78	2.28	
Nikkei 225 (Japan)	51064	-13.23	1.44	1.44	43.37	22.12	11.84	11.79	5.63	
Benchmark Bond Yields										
		3 Months		5 Yrs		10 Yrs		30 Yrs		
Government of Canada Yields		2.32		3.10		3.47		3.90		
U.S. Treasury Yields		3.68		3.94		4.32		4.91		
Bond Indices (\$CA Hedged) Total Return										
	Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)		
FTSE TMX Canada 91-day Treasury Bill Index	488	0.16	0.51	0.51	2.52	3.95	2.98	1.97		
FTSE TMX Canada Universe Bond Index	1203	-1.97	0.23	0.23	0.84	3.49	0.73	1.77		
FTSE TMX Canada All Government Bond Index	1119	-2.06	0.26	0.26	0.22	2.76	0.21	1.32		
FTSE TMX Canada All Corporate Bond Index	1506	-1.70	0.14	0.14	2.77	5.67	2.25	3.07		
U.S. Corporate High Yield Bond Index	320	-1.35	-0.92	-0.92	5.11	7.25	3.27	5.22		
Global Aggregate Bond Index	265	-1.95	-0.58	-0.58	1.63	2.78	-0.04	1.38		
JPM EMBI Global Core Bond Index	578	-3.75	-2.38	-2.38	7.48	7.40	1.06	2.57		
S&P/TSX Preferred Total Return Index	2455	-0.92	0.35	0.35	13.50	14.56	6.67	6.95		

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

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