TD Wealth

Q3 23 Investment Strategy Quarterly

TD Wealth Chief Investment Office

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September 11, 2023

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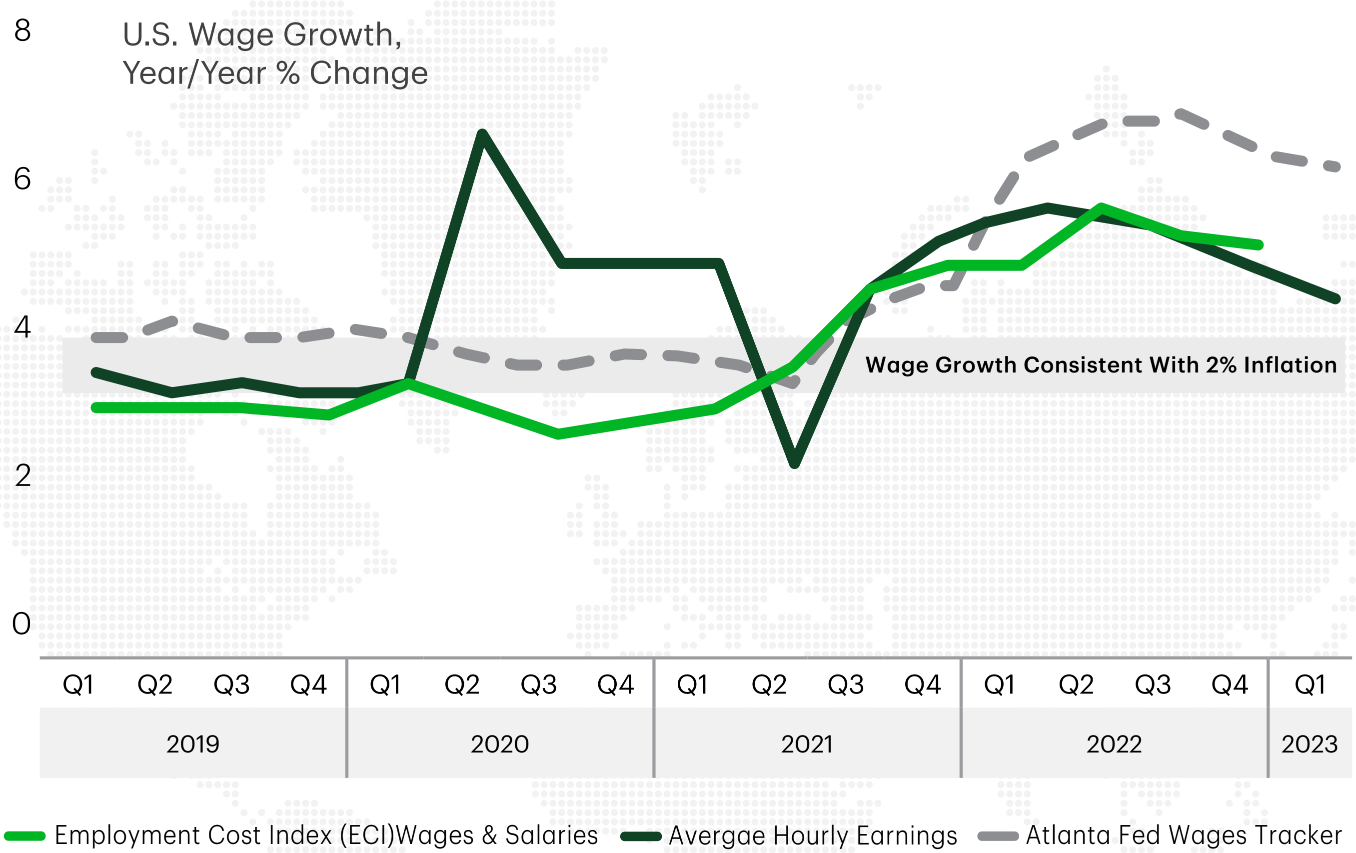
Macro Monitor

Wages Still On A High

Wage growth remains well above what is consistent with 2% inflation



Bottom line:

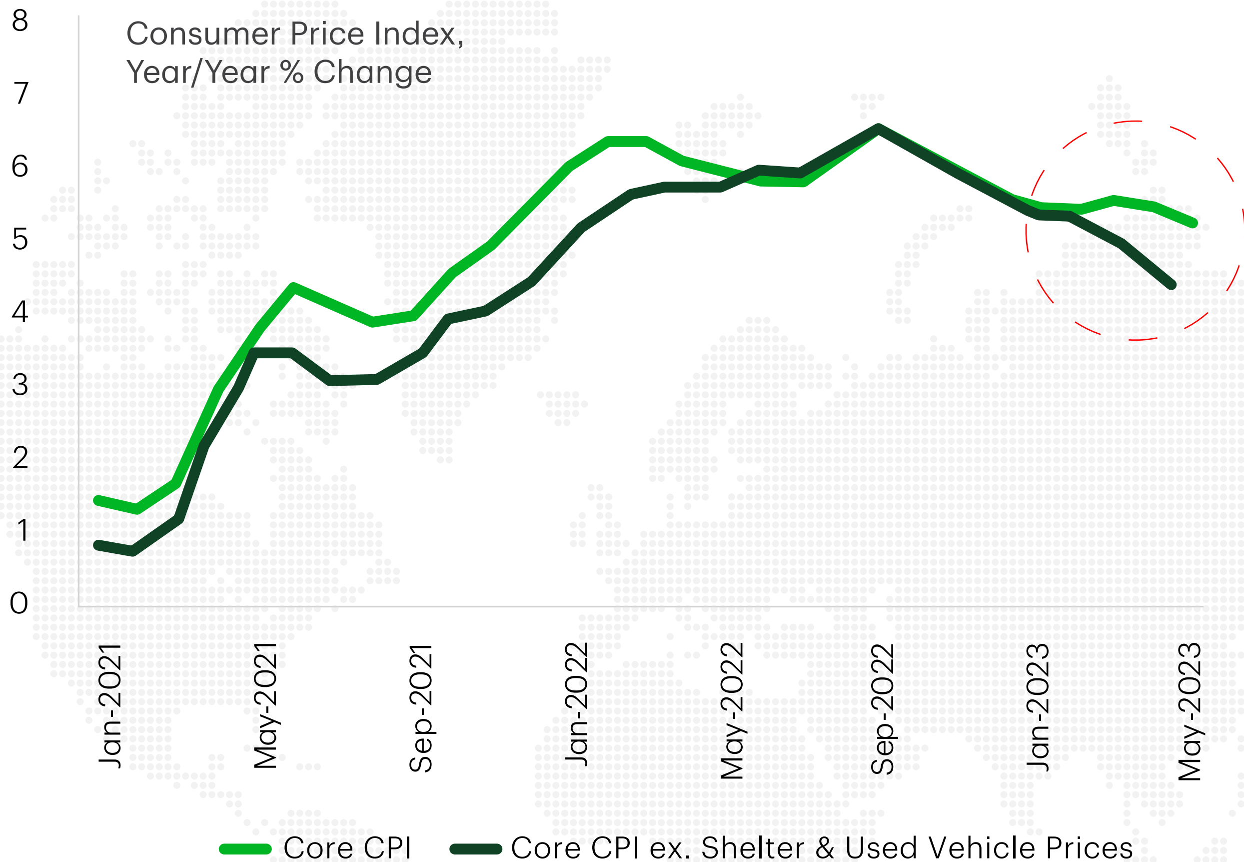
A strong labor market has driven up wages and in turn has given inflation staying power. Elevated wage growth has more than offset the loss of purchasing power. This is ultimately why economists believe the labor market needs to cool down for inflation to slow. But even as that happens, it can take anywhere from 9-12 months to see wage growth decelerate – which is where the Fed's patience comes in.

Source: Bureau of Labor Statistics, Atlanta Federal Reserve, TD Wealth Chief Investment Office, TD Economics (May 17, 2023).

Macro Monitor

Running On Fumes?

Shelter & used vehicle prices are holding core inflation higher



Bottom line:

Sizeable contributions from both used vehicle prices and shelter were responsible for much of the recent gains in core inflation. Excluding these two items shows a more subdued pace of price growth. We believe both gauges have the potential to move lower in the coming months and that getting inflation down to 3% over the next year is very feasible. It's the last leg lower (from 3% to 2%) that will be the biggest challenge for the Fed, hence the need for policymakers to 'keep at it' for the time being.

Source: Bureau of Labor Statistics, TD Wealth Chief Investment Office, TD Economics (June 16, 2023).

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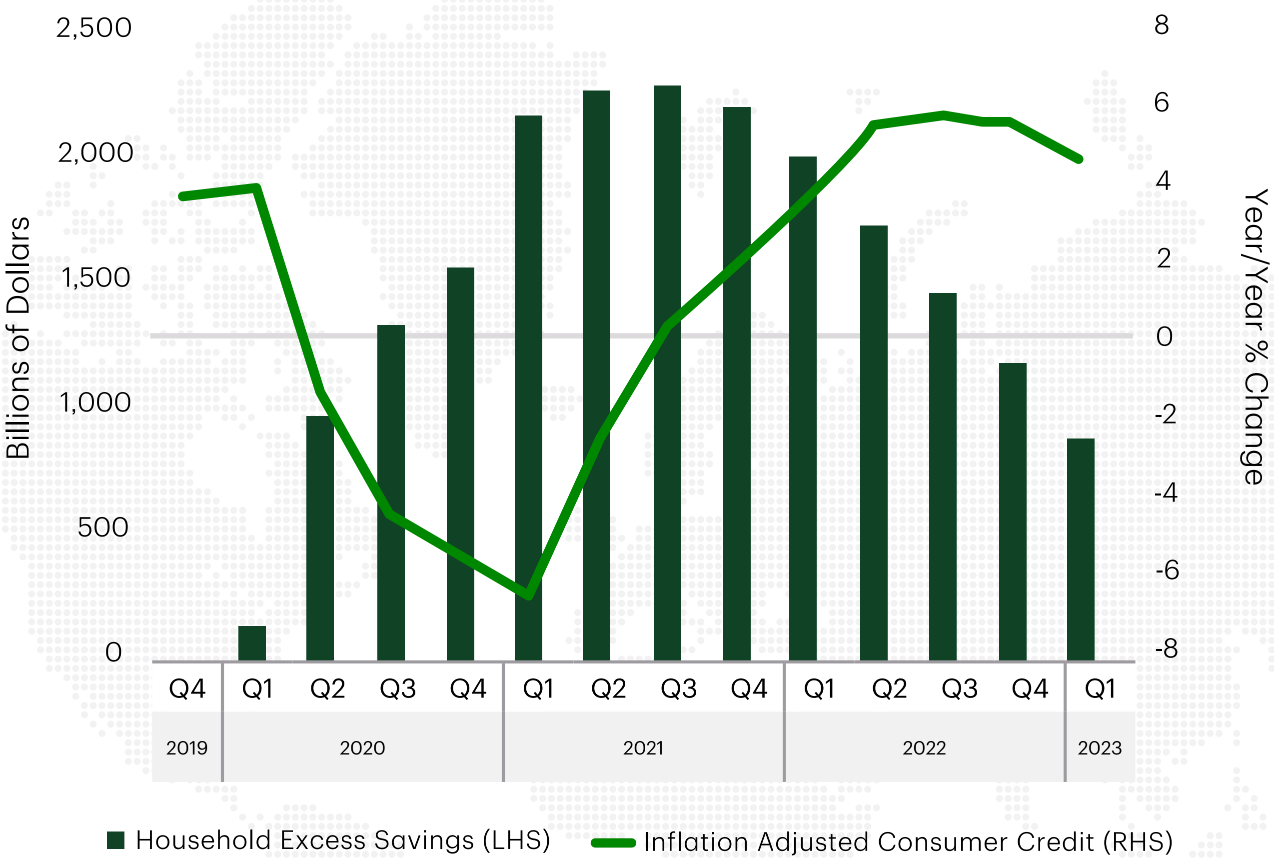
Macro Monitor

Consumers Propped Up By Credit

U.S. households increasingly relied on excess savings & credit



Bottom line:

Consumers appear to have taken higher inflation and tighter financial conditions in stride given persistent job demand and relatively higher savings and wealth. Time may continue to chip away at these conditions. The data shows that households continue to draw down on excess savings and increasingly rely on credit to fuel spending which we believe is not sustainable over the long-term.

Source: Federal Reserve, Bureau of Economic Analysis, TD Wealth Chief Investment Office, TD Economics (May 17, 2023).

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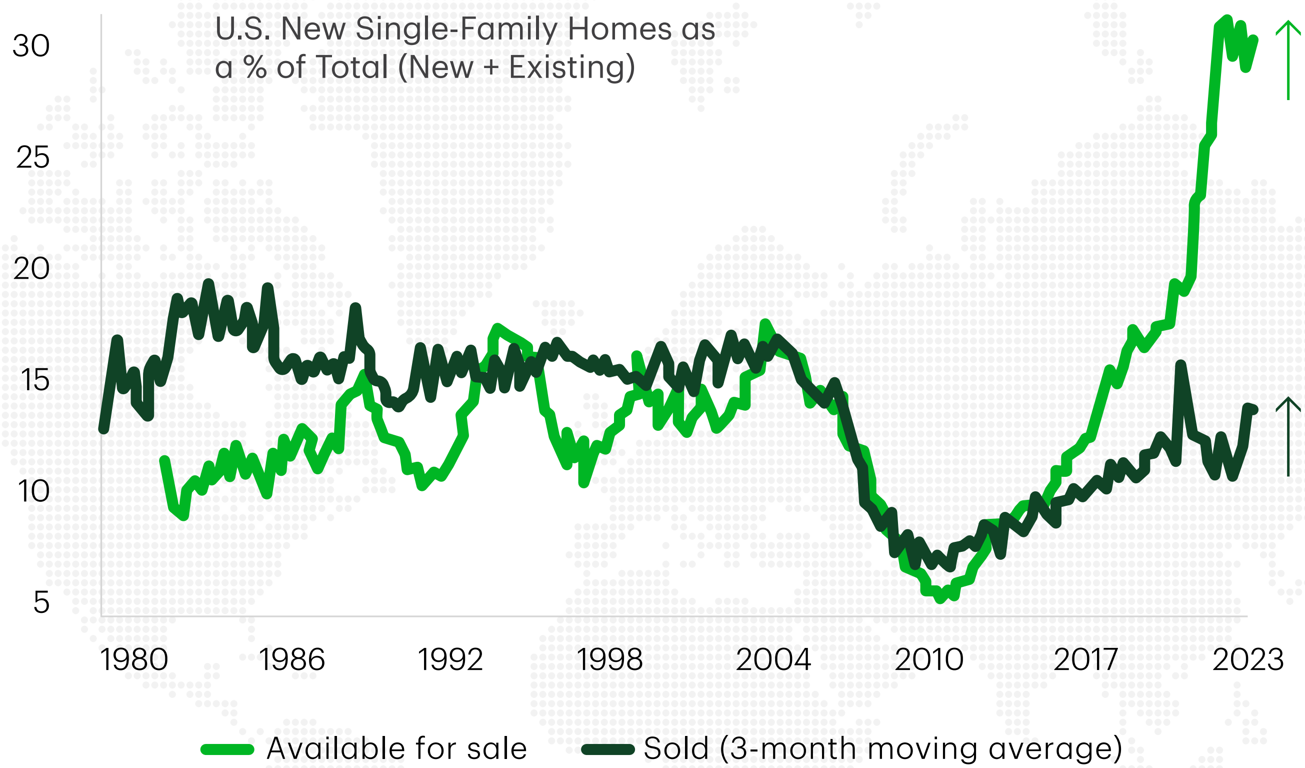
Macro Monitor

Raising The Roof

U.S. new home market grabbing a bigger share of the pie



Bottom line:
New single-family homes account for ~30% of total single-family homes currently available for sale – an historical high.

Tighter lending standards and a deteriorating labor market, however, could weigh on the positive home price growth trend.

Source: Census Bureau, National Association of Realtors, TD Wealth Chief Investment Office, TD Economics (May 29, 2023).

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TDE Economic Forecasts: Stronger, Faster, Higher

Interest Rate Outlook

Interest Rates	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.00
2-yr Govt. Bond Yield	2.28	2.92	4.22	4.41	4.06	4.87	4.90	4.50	4.10	3.70	3.30	3.00
10-yr Govt. Bond Yield	2.32	2.98	3.83	3.88	3.48	3.81	4.00	3.80	3.55	3.35	3.20	3.05
10-yr-2-yr Govt Spread	0.04	0.06	-0.39	-0.53	-0.58	-1.06	-0.90	-0.70	-0.55	-0.35	-0.10	0.05

U.S. Economic Outlook (Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated)

Economic Indicators	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	-1.60	-0.60	3.20	2.60	1.30	1.40	0.50	0.10	0.40	1.10	1.60	1.80
Unemployment Rate (%)	3.80	3.60	3.50	3.60	3.50	3.60	3.60	3.80	4.00	4.30	4.50	4.70
Cons. Price Index (y/y)	8.00	8.60	8.30	7.10	5.80	4.10	3.70	3.60	3.20	3.00	2.60	2.10

Bottom line:

Stronger economic growth and faster inflation across much of the globe is leading to higher interest rates than we expected a quarter ago.

F: Forecast by TD Economics as of June 2023. All forecasts are end-of-period.
Source: Bloomberg, Federal Reserve, Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics, TD Wealth Chief Investment Office.

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Market Review

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Market Review – Asset Class Returns (%)

Performance as of Aug 31, 2023

U.S. Fixed Income	3 Month	YTD	1 Year	3 Year	5 Year
U.S. Treasuries	-1.61	0.70	-2.07	-5.08	0.19
U.S. Aggregate Bonds	-1.06	1.37	-1.19	-4.41	0.49
U.S. Corporate Bonds	-0.02	2.76	0.90	-4.17	1.41
Treasury Inflation Protected Securities	-1.10	1.09	-3.68	-1.49	2.29
Municipal Bonds	-0.06	1.59	1.70	-1.32	1.52
Mortgage-Backed Securitites	-1.21	1.08	-1.86	-3.92	-0.19
U.S. High Yield Bonds	3.39	7.24	7.03	1.86	3.14
U.S. Equities	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
U.S. Large Cap Equities (S&P 500)	8.28	18.73	15.94	10.52	11.12
U.S. Large Cap Equities (Russell 1000)	8.49	18.58	15.40	9.93	10.77
U.S. Large Cap Growth Equities	9.45	32.17	21.94	8.25	13.81
U.S. Large Cap Value Equities	7.41	5.88	8.59	11.59	7.11
U.S. Small Cap Equities	9.00	8.96	4.65	8.12	3.14
International Equities	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
International Equities	3.80	10.87	17.92	6.05	4.14
Emerging Market Equities	3.47	4.55	1.25	-1.39	0.98
Balanced Portfolio	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
60% Equities/40% Fixed Income	4.55	11.60	8.90	4.53	7.27

Source: Morningstar Direct. Indices used include the Bloomberg US Treasury TR Index, Bloomberg US Aggregate Bond TR Index, Bloomberg US Corp Bond TR Index, Bloomberg US Treasury US TIPS TR Index, Bloomberg Municipal TR Index, Bloomberg US MBS Float Adjusted TR Index, ICE BofA US High Yield Constrained TR Index, S&P 500 TR Index, Russell 1000 TR Index, Russell 1000 Growth TR Index, Russell 1000 Value TR Index, Russell 2000 TR Index, MSCI EAFE NR Index, and the MSCI EM NR Index. The blended benchmark consists of 60% of the S&P 500 TR Index and 40% of the Bloomberg US Aggregate Bond Index. Periods greater than 1 year are annualized. All performance is in U.S. dollars. Past performance is not indicative of future results. The indices are a tool to compare the performance of one or more indices. The volatility and performance of the indices may be greater than or less than the volatility and performance of actual investments. Indices reflect the reinvestment of dividends and income. Indices do not have fees, expenses or taxes, which would lower performance. **Indices are unmanaged and not available for direct investment.**

Market Observations

#1 – Big Tech, Narrow Market

The Top 7 Stocks in the S&P 500 contributed to most of its return

	Weight	Contribution to S&P 500 TR
S&P 500 Index	100%	
S&P 500 Index Total Return (YTD)		15.76%
Top 7 stocks	24%	11.84%
Apple	6.91%	2.58%
Microsoft	6.08%	2.42%
NVIDIA	1.87%	2.17%
Amazon.com	2.68%	1.15%
Tesla	1.41%	1.15%
Meta Platforms	1.31%	1.12%
Alphabet	3.42%	1.24%
Others	76%	3.92%

The top 7 stocks made up only about 24% of the weight of the S&P 500, however contributed over 75% of the Index's total return year to date.

Bottom line:

We remain skeptical of this narrow rally broadening out meaningfully to other sectors given our expectations for slowing economic growth and further pressure on corporate profits through the end of this year.

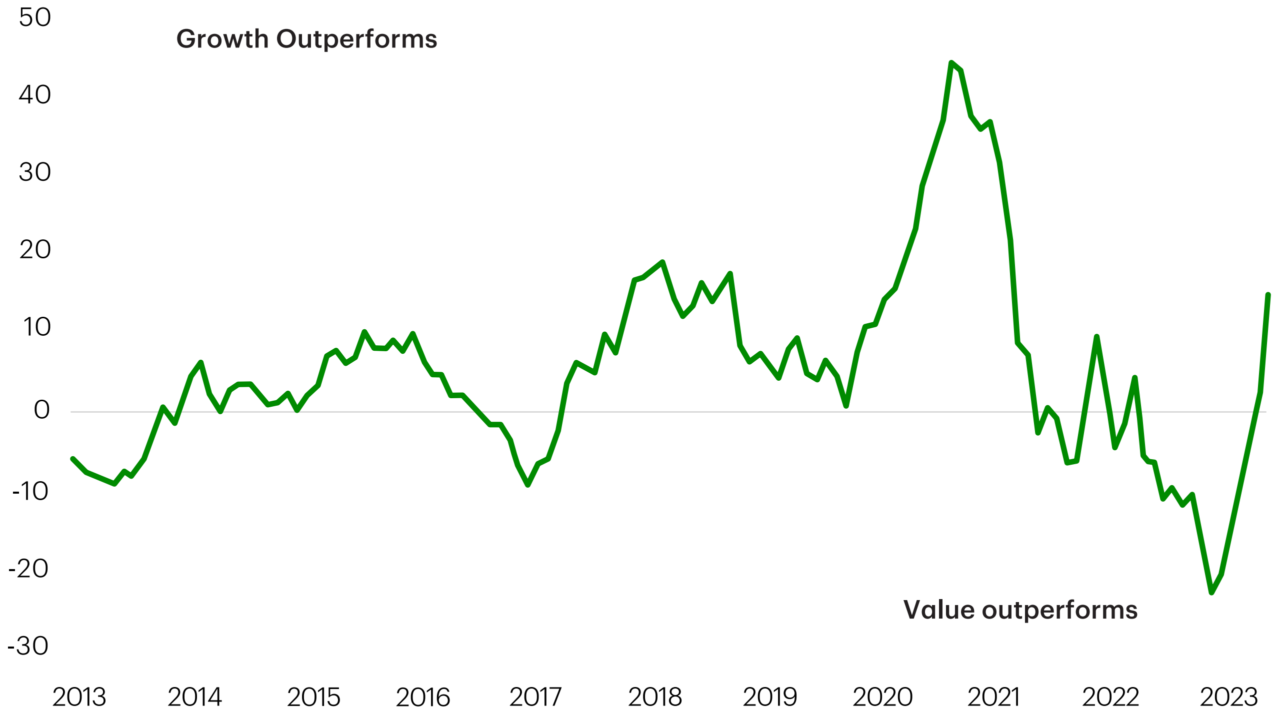
Source: Morningstar as of June 16, 2023. Past performance is not indicative of future results. The indices are a tool to compare the performance of one or more indices. The volatility and performance of the indices may be greater than or less than the volatility and performance of actual investments. Indices reflect the reinvestment of dividends and income. Indices do not have fees, expenses or taxes, which would lower performance. **Indices are unmanaged and not available for direct investment.** See Important Information about TD Wealth ® Investment Strategies.

Market Observations

#2 – Growth Makes a Comeback

Growth Rebound Continues in 2023

Russell 1000 Growth PR - Russell 1000 Value PR – Rolling 1-Year Returns



Bottom line:

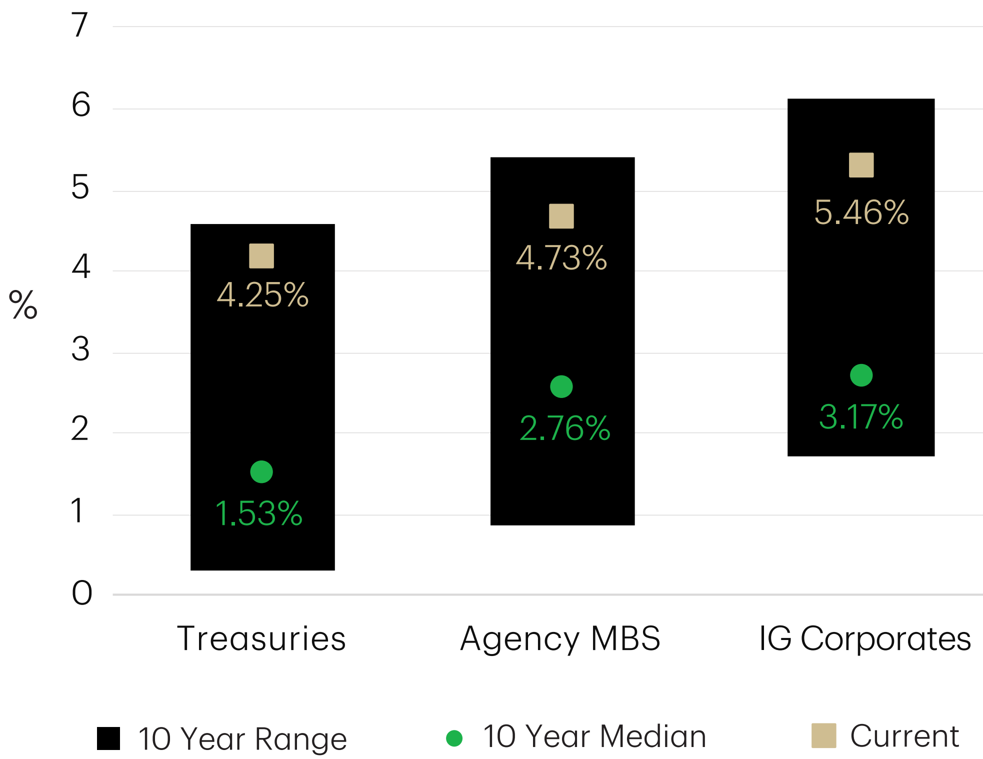
Tech optimism and expectations of near peak rates benefited growth companies. Growth appears to be viewed as more of a safety play – focusing on companies with strong balance sheets and potential resilience in economic uncertainty. Quality characteristics can exist in both growth and value investment styles, and we believe investors should remain diversified with portfolio exposure to both.

Source: FactSet as of May 31, 2023. Indices used include the Russell 1000 Growth PR Index and the Russell 1000 Value PR Index. Past performance is not indicative of future results. The indices are a tool to compare the performance of one or more indices. The volatility and performance of the indices may be greater than or less than the volatility and performance of actual investments. Indices do not have fees, expenses or taxes, which would lower performance. **Indices are unmanaged and not available for direct investment.**

Market Observations

#3 – Higher Yields From Higher Quality

High Quality Bond Yields Have Risen to Attractive Levels



Bottom line:

Following the height of regional banking stress, high quality bond yields have risen once again to levels that we think are attractive for long-term investors to consider locking-in.

Source: FactSet as of June 16, 2023. Past performance is not a guarantee or a reliable indicator of future results. Yields reflected are yield to worst. The yield to worst is the yield resulting from the most adverse set of circumstances from the investor's point of view. Indices used include Bloomberg Global Aggregate US Treasury Float Adjusted, Bloomberg Global Aggregate US MBS Float Adjusted, and Bloomberg Global Aggregate US Corporate Float Adjusted. The indices are a tool to compare the performance of one or more indices. The volatility and performance of the indices may be greater than or less than the volatility and performance of actual investments. Indices reflect the reinvestment of dividends and income. Indices do not have fees, expenses or taxes, which would lower performance. **Indices are unmanaged and not available for direct investment.**

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Market Outlook & Asset Allocation Positioning

Macro

Baseline Expectation

- Global growth to slow this year—most notably in Europe and Central/South America; partially offset from Emerging Asia
- Resilient U.S. economic growth to decelerate and give way to a sub-trend pace in 2023 and 2024
- U.S. inflation to decline but remain above target through the end of 2024
- Weaker growth to put upward pressure on U.S. unemployment rate
- Fed funds rate to peak and remain at that level through the end of 2023

- **Portfolio Preference:**
  - » High-quality segments across asset classes
  - » Tilt favoring bonds over stocks
  - » Active management to capitalize on opportunities and for risk mitigation

Source: TD Wealth Asset Allocation Committee, TD Wealth Chief Investment Office, TD Economics

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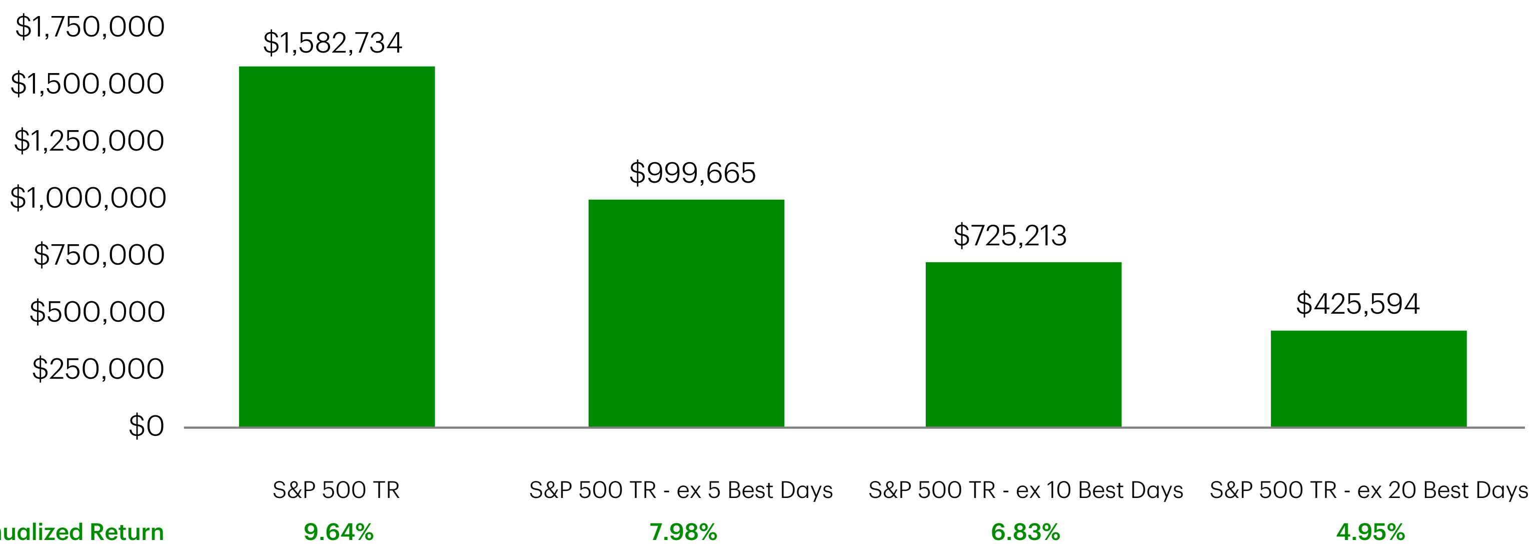
Time In The Market, Not Timing The Market

Historically, investors who have focused on a long-term plan have achieved greater outcomes.

Growth of $100,000 (30 Years)



This chart shows that $100,000 invested in the S&P 500 Total Return Index would have grown to over $1.5 million over the 30-year period ending December 2022. If the 5, 10 and 20 best days were removed over that period, the initial investment would have grown to just under $1 million, just over $725,000 and less than half a million, respectively. The annualized return of the portfolio in each scenario was 9.64%, 7.98%, 6.83% and 4.95% respectively.

Source: FactSet as of December 31, 2022.
Past performance is not indicative of future results. The indices are a tool to compare the performance of one or more indices. The volatility and performance of the indices may be greater than or less than the volatility and performance of actual investments. Indices reflect the reinvestment of dividends and income. Indices do not have fees, expenses or taxes, which would lower performance. **Indices are unmanaged and not available for direct investment.**

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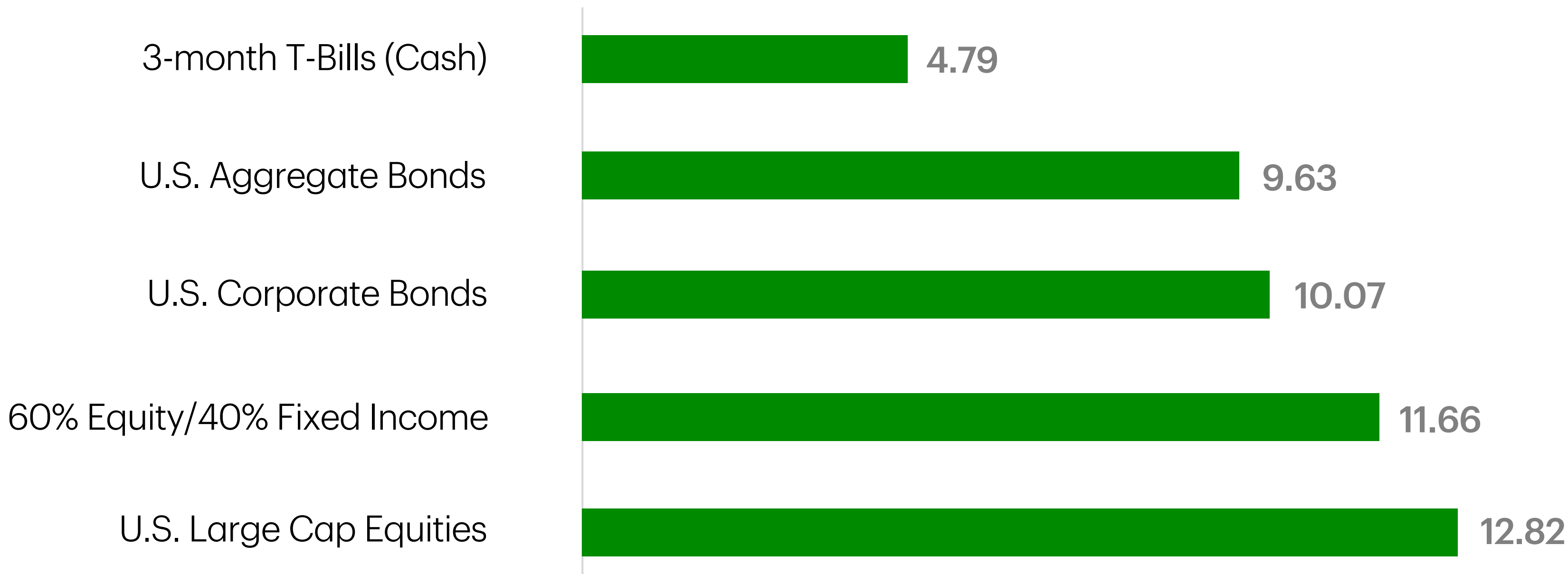
Reinvestment Risk: The Cash Trap

Over the past five cycles, cash has underperformed most bonds and equities in the 2 years following the Fed's last rate hike.

Average 2 Year Cumulative Return Following the Fed's Last Rate Hike (%)



Source: Morningstar Direct. Indices used include the FTSE Treasury Bill 3 Mon USD, Bloomberg US Aggregate Bond TR Index, Bloomberg US Corp Bond TR Index, S&P 500 TR Index. The blended benchmark consists of 60% of the S&P 500 TR Index and 40% of the Bloomberg US Aggregate Bond Index. All performance is in U.S. dollars. Past performance is not indicative of future results. **See Important Information about TD Wealth ® Investment Strategies.** The indices are a tool to compare the performance of one or more indices. The volatility and performance of the indices may be greater than or less than the volatility and performance of actual investments. Indices reflect the reinvestment of dividends and income. Indices do not have fees, expenses or taxes, which would lower performance. **Indices are unmanaged and not available for direct investment.** Federal reserve rate hiking periods are defined as full federal funds rate hiking cycles. Data Includes five interest rate hiking cycles ending in: 1989, 1995, 2000, 2006 and 2018.

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Equities may decline in value due to both real and perceived general market, economic industry conditions, and individual issuer factors.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk, prepayment risk, and inflation risk. Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. High yield, lower-rated securities are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Interest on municipal bonds is generally exempt from federal tax. However, some bonds may be subject to the alternative minimum tax and/or state or local taxes.

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