



Market Perspectives

The New Market Regime: More Paths to Performance

Key Insights

- Markets pulled back over the first quarter. Volatility rose, driven by slower growth, near-term inflation pressures, and geopolitical tensions, but declines were relatively contained
- Inflation pressures appear temporary, largely linked to energy supply disruptions rather than weakening demand, with broader impacts dependent on how long elevated prices persist
- Fundamentals remain supportive, with resilient earnings expectations, improved valuations, and opportunities emerging across equities, fixed income, and alternatives

Global equity markets pulled back over the first quarter of 2026 as volatility increased, marking a shift from the strong, above-trend gains seen in prior periods. This decline reflects a combination of moderating economic growth, renewed near-term inflation concerns, and heightened geopolitical risks. While market conditions have become more unsettled, the equity selloff to date has been relatively modest by historical standards, especially given the scale of geopolitical uncertainty. Importantly, from the TD Wealth Asset Allocation Committee's (the WAAC) perspective, the broader economic backdrop remains constructive, and the weakness appears more consistent with a period of consolidation than a disorderly repricing, as markets give back a portion of earlier gains.

Exhibit 1: Global Equity Market Returns

Returns as of March 31, 2026	1m	3m	1y	3y	5y	10y
S&P 500 Index - C\$	-2.77%	-2.60%	14.23%	19.53%	14.44%	15.03%
S&P/TSX Composite Index - C\$	-4.32%	3.93%	34.83%	21.18%	15.19%	12.59%
MSCI EAFE Index (Europe, Australasia, Far East) - C\$	-8.20%	0.55%	17.59%	14.79%	10.19%	9.21%
MSCI Emerging Markets Index (Emerging Markets) - C\$	-11.01%	1.71%	26.35%	16.60%	6.37%	9.07%

Source: Bloomberg Finance L.P. As at March 31, 2026.

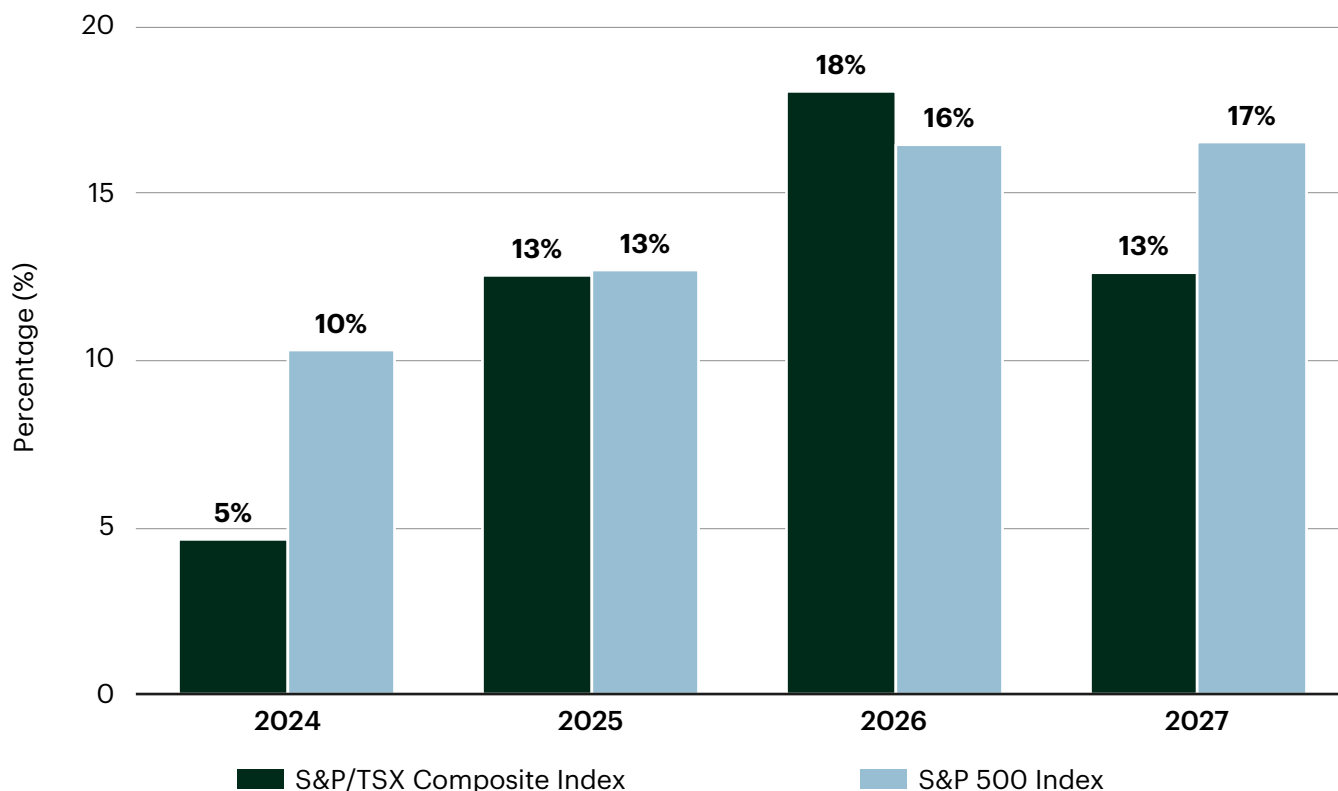
In our view, this year's inflation concerns are best characterized as a near-term shock rather than a lasting structural shift. Renewed price pressures are largely tied to energy related supply disruptions, including higher oil and natural gas prices, with spillover effects into commodities such as fertilizers and metals. These pressures are not the result of overheating demand, but rather temporary supply constraints. That said, if elevated energy prices were to persist for an extended period, particularly beyond six to twelve months, the risk of broader economic impacts would rise, including pressure on corporate earnings, consumer purchasing power, and global growth expectations.

Global growth is slowing, but it is doing so from a position of relative resilience. Labour markets, especially in the U.S., remain firm, corporate balance sheets are generally healthy, and economic activity has yet to show broad signs of strain. Taken together, these metrics support the view that we are seeing a moderation from earlier momentum rather than the onset of a broad based downturn. However, a more protracted geopolitical conflict could test market resilience by tightening financial conditions, increasing uncertainty around supply chains, and weighing on confidence—particularly in regions more exposed to energy imports.

Market Resilience

Overall, financial markets are adjusting to this environment. Bond markets have repriced as expectations for interest rate cuts have been pushed further out, resulting in higher yields and a more challenging backdrop for fixed income. Meanwhile, the pullback in equities over the quarter has helped moderate valuations, bringing earnings-per-share (EPS) multiples closer to long term averages for both the S&P 500 Index and the S&P/TSX Composite Index and enhancing the risk reward tradeoff for investors. Encouragingly, the fundamental growth outlook for stocks remains supportive, with earnings expectations for 2026 holding up well, and consensus still pointing to strong EPS growth for both the S&P 500 Index and Canadian equities overall (**Exhibit 2**).

Exhibit 2: Actual and Expected EPS Growth

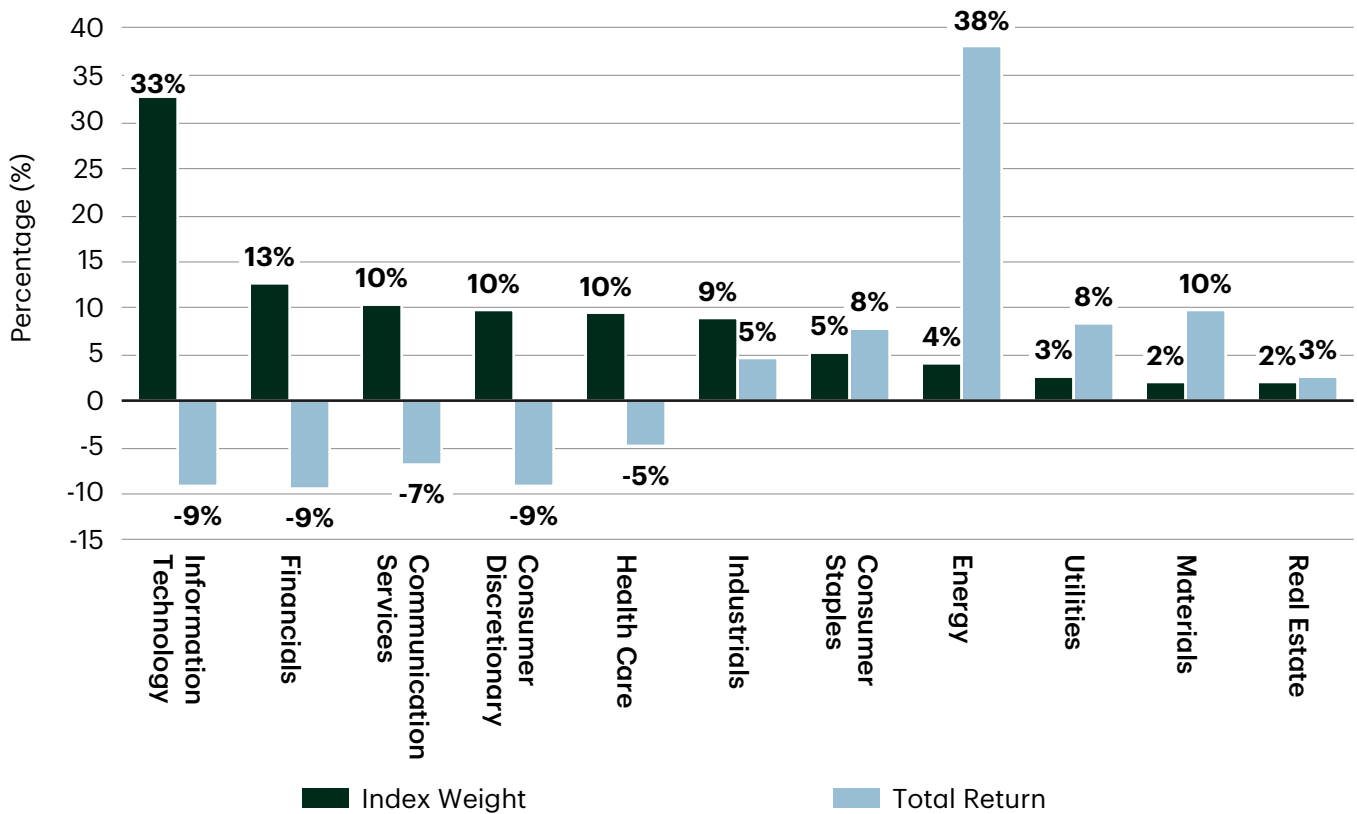


Source: TD Asset Management, FactSet, as at March 25, 2026.

The WAAC maintains a modest overweight to Canadian equities versus a neutral outlook on U.S. stocks, supported by more attractive valuations and greater exposure to Energy and Financials. Earnings expectations for both markets remain strong through 2026–27.

This resilience reflects continued strength in corporate profitability, stable revenue growth, and the fact that current inflation pressures have yet to meaningfully disrupt demand. Leadership within the S&P 500 Index has also begun to broaden in 2026, with a rotation away from a narrow group of dominant names toward a wider range of sectors and industries. This is an important signal as markets adapt to an evolving environment (**Exhibit 3**).

Exhibit 3: S&P 500 Index Sector Weights and YTD Relative Returns



Source: Bloomberg Finance L.P. As of March 31, 2026.

Central banks remain cautious, balancing near term inflation risks against signs of moderating growth, and for investors, this backdrop underscores the importance of discipline and diversification. As markets recalibrate and leadership expands, our current market phase appears less like a turning point and more like a transition toward a more balanced investment landscape.

Opportunities are emerging across asset classes, spanning equities, fixed income, and alternatives,

as relative valuations adjust and return prospects evolve. This broad opportunity set is explored further in the sections that follow, where we outline our outlook across the major asset classes. In summary, while downside risks have increased, should the conflict in the Middle East become more prolonged or broaden regionally, the current base case continues to assume a manageable macroeconomic impact, with longer term inflation expectations remaining relatively well anchored.

Q2 Asset Class Commentary and Outlook

The following section provides a more detailed review of the WAAC’s current positioning and outlook across the primary asset classes, along with key considerations for the next 12–18 months. As of the end of the first quarter of 2026, overall positioning reflected a modest overweight to Equities and Alternatives and a modest underweight to Fixed Income. Below, we outline the rationale behind this positioning and share our outlook for each asset class over this period.

Equities | Modest Overweight Overall

After a strong 2025, global equity markets have experienced increased volatility during the first quarter of 2026 (Q1 2026) amid geopolitical developments and shifting interest rate expectations. Despite this more challenging backdrop, earnings fundamentals have generally remained resilient, which is an important driver of equity market returns over time.

Sub Class	Allocation
Canadian Equities	Modest Overweight
U.S. Equities	Neutral
International Equities	Modest Underweight
Emerging Markets	Neutral

U.S. equities experienced some pressure over Q1 2026, which has led to a more defensive market tilt. Concerns around Artificial Intelligence (AI) disintermediation, the pace of interest rate cuts being pushed out, and uncertainty related to the escalating geopolitical environment have weighed on sentiment. That said, S&P 500 Index earnings expectations have held up well, with continued AI growth and some broadening across other sectors and by market capitalization (i.e. small caps performing better). Valuations have moderated as risks have been priced in.

Canadian equities have demonstrated relative resilience year-to-date as they benefit from the S&P/TSX Composite Index high exposure to Energy. Although gold is an important contributor to index earnings growth, most other sectors are expected to be up year-over-year and Energy estimates could be revised higher if oil prices remain elevated. While domestic economic growth remains modest, Canadian equity valuations remain reasonable.

International developed markets present a more mixed picture. Europe has shown signs of cyclical softening, particularly in manufacturing and industrial activity, while Japan has benefited from improving corporate governance and currency dynamics. Overall, valuations in international markets remain less demanding than in the U.S., though regional economic momentum continues to diverge.

Emerging markets had been showing improving fundamentals earlier in the year, with broadening growth and better market breadth. More recently, geopolitical tensions and U.S. dollar strength have introduced volatility. However, select emerging markets—particularly in Asia—continue to benefit from structural growth drivers in AI and more attractive valuations.

Overall, while near term uncertainty has increased, global equities continue to be supported by resilient earnings, more balanced valuations, and selective opportunities across regions. Active positioning and regional diversification remain key as markets adjust to evolving macro and geopolitical conditions.

Key Opportunities:

- Earnings expectations have remained resilient, despite macroeconomic and geopolitical uncertainty
- Rising dispersion across regions and sectors is creating opportunities for selective equity positioning
- Recent volatility has moderated valuations, improving risk reward profiles for disciplined investors

Fixed Income | Modest Underweight Overall

Fixed income markets have faced renewed volatility as interest rate expectations shifted and geopolitical risks intensified. While bonds have not provided the same level of diversification seen in prior risk-off periods, recent repricing has begun to improve income opportunities across several segments of the market.

Sub Class	Allocation
Domestic Government Bonds	Neutral
Investment Grade Corporate Credit	Modest Overweight
Global Bonds- Developed Markets	Modest Underweight
Global Bonds- Emerging Markets	Neutral
High Yield Credit	Neutral

Government bonds have come under pressure as expectations for near-term rate cuts have been pushed out. Yield curves have flattened, and real yields remain positive, reflecting markets that are still cautious about inflation risks. Importantly, longer term inflation expectations have remained relatively anchored, suggesting that markets view recent price pressures as more temporary or supply driven. As yields have moved higher, government bonds are becoming more attractive from an income and valuation perspective, particularly for investors able to extend duration selectively.

In **investment grade corporate bonds**, spreads have seen some widening, especially in the U.S. market. This revaluation has been driven by increased issuance, uncertainty around private credit markets, and tightening of financial conditions. While near-term price volatility has increased, credit fundamentals remain relatively sound, and higher all-in yields are attracting income oriented investors. Selectivity remains key, with opportunities emerging in higher quality issuers where balance sheets and cash flows are resilient while valuation cheapened.

Global developed market bonds reflect a more divergent picture. In Europe, inflation expectations have risen more sharply due to energy insecurity, while real yields have declined, pointing to concerns about growth. By contrast, North American markets continue to signal more moderate inflation risks. These differences highlight the value of geographic diversification within global fixed income portfolios.

High yield bonds have also seen spread widening given heightened scrutiny around private credit and leveraged structures have contributed to a more cautious tone. While defaults remain contained, investors are increasingly focused on credit quality and liquidity.

Overall, the recent adjustment across fixed income markets has improved prospective returns. As yields reset higher and inflation risk gradually priced in, bonds are regaining their role as a source of income and portfolio stability, with active management essential to navigate evolving risks and opportunities.

Key Opportunities:

- Canadian investment grade credit remains well supported as strong demand and limited new issuance have contained spread widening despite market volatility
- Selective opportunities are emerging in credit markets where recent spread widening reflects technical pressures rather than deteriorating fundamentals
- Longer term inflation expectations remain anchored, supporting fixed income positioning even as near-term inflation risks rise from energy supply disruptions

Alternatives | Modest Overweight Overall

Alternative assets continue to play an important role in portfolios as markets navigate heightened geopolitical uncertainty and shifting interest rate expectations. Across private and real assets, fundamentals remain mixed but broadly supportive, particularly for strategies emphasizing income, diversification, and downside resilience.

Sub Class	Allocation
Commercial Mortgages	Modest Underweight
Private Debt (Universe)	Modest Underweight
Global Private Credit	Modest Overweight
Domestic Real Estate	Modest Underweight
Global Real Estate	Neutral
Infrastructure	Modest Overweight
Commodities	Modest Overweight

Commercial mortgages have seen a modest widening in spreads following an extended period of compression. While this adjustment reflects greater caution, it could also create a more attractive entry point for new capital, with improved risk compensation and a renewed focus on underwriting discipline. Income continues to remain strong.

Within **domestic real estate**, fundamentals have shown improvement in the office space where leasing conditions have improved. This has been offset by a modest softening in multi-family fundamentals, impacted to a degree by the condo market. Retail fundamentals remain strong. Valuation dispersion across property types and regions continues to underscore the importance of manager selectivity.

Global real estate continues to broadly see modest recovery across most U.S. property types as well as select European regions and property types (select UK office for example). While certain regions face cyclical softness (such as some Australian office markets) there is more unevenness globally, reflecting divergent economic and rate environments. Long term demand drivers — such as logistics, residential supply constraints, and demographic trends remain intact.

Infrastructure continues to benefit from significant strength in fundamentals and robust investor interest. Exposure to regulated assets, long duration contracts, and inflation linked revenues provides stability, while ongoing investment in energy transition and essential services supports longer term growth potential.

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.

Finally, **private debt and global private credit** have attracted increased scrutiny but remain structurally sound. While liquidity pressures have emerged in more leveraged segments, diversified, unlevered strategies focused on fundamental credit analysis continue to offer compelling income potential. Importantly, stress in private credit is viewed as selective rather than systemic.

Overall, alternative assets remain well positioned to complement traditional portfolios, offering diversification, income, and resilience in an evolving market environment.

Key Opportunities:

- Selective private credit and alternative strategies are benefiting from dislocations driven by repricing and tighter liquidity, creating potentially attractive entry points for fundamentally disciplined, low leverage managers
- Infrastructure and energy related alternatives are well positioned amid supply constraints, geopolitical risk, and sustained demand for real assets and renewable investment
- Alternatives can provide meaningful diversification as less correlated assets in a volatile macro environment marked by duration risk and public market uncertainty

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 Middle East 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.

Metrics

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