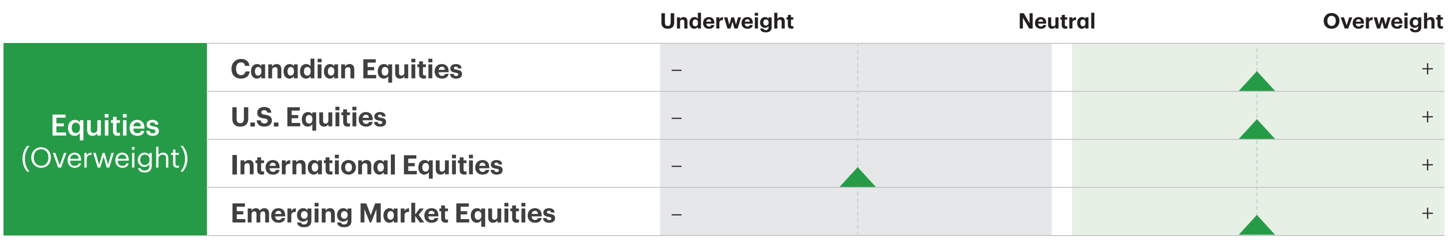
Equity Forecast | 2020

The TD Wealth Asset Allocation Committee (“WAAC,” “we”) maintains an overweight position in equities. Stocks delivered solid returns across most major global markets in 2019. Looking ahead, we believe equities will continue to deliver gains in 2020, but at more subdued levels and we continue to be cognizant of a convergence of macroeconomic factors that may influence the performance of financial markets.



Canadian Equities

(Modest overweight)

- Although Canadian economic growth is expected to lag the U.S., we believe opportunities exist for Canadian equities over the long term
- Canadian stocks trade at a forward Price-to-Earnings discount to U.S. stocks and are relatively inexpensive versus global peers
- Elevated levels of Canadian household debt remain a concern and may weigh on consumption growth

U.S. Equities

(Modest overweight)

- We expect corporate earnings growth to remain broadly positive but at more moderate levels compared to 2019
- Despite higher relative historical valuations, multiple expansion may be driven by the low interest rate environment
- Labour markets are still quite strong and consumer spending healthy

International Equities

(Modest underweight)

- Slow growth and global trade tensions are creating headwinds for international equities
- The European Central Bank has shown a commitment to accommodative monetary policy and keeping bond yields contained through its stimulus measures
- Earnings growth is likely to be modest in 2020 reflecting the sluggish economy

Emerging Market (EM) Equities

(Modest overweight)

- Continued easing and fiscal stimulus by global central banks, and a phase 1 trade deal between the U.S. and China may support stocks in 2020
- Chinese equity valuations are considerably lower than many other global markets
- Uncertainty around ongoing pro-democracy protests in Hong Kong have dampened signs of progress on trade negotiations

Part of the WAAC's mandate is to highlight risks and opportunities on the horizon. Below are some of the factors we will be monitoring in 2020.

↑ Opportunity ↔ Neutral ↓ Risk

What We're Monitoring	Potential Implications
Moderating global economic growth	↓ Economic data across the globe largely disappointed to the downside in 2019. European economies have been particularly tenuous, with some countries on the verge of recession, if not already in recession. The Chinese economy has been relatively stable, but excess leverage remains an ongoing concern. ↑ The U.S. economy, while showing some signs of slowing, continues to be supported by healthy consumer spending, a solid job market and incrementally higher wages. ↔ The Canadian labour market has shown some recent weakness, and elevated household debt is likely to depress consumer spending. However, wage growth at 4% remains solid.
Dovish global central banks	↔ The U.S. Federal Reserve swiftly pivoted from hawkish to dovish and cut interest rates three times in 2019, responding to subdued inflation expectations, slowing global economic growth, and negative repercussions from trade wars. ↔ The Bank of Canada maintained its already low benchmark rate at 1.75% throughout 2019, while cutting its outlook for economic growth in 2020. ↑ As growth has moderated, central banks from around the globe have lowered rates or utilized expansionary monetary policy measures to help manage and support the economy.
Geopolitical concerns	↓ A protracted trade war between the U.S. and China is a continuing risk entering 2020. ↔ The upcoming 2020 U.S. presidential election could deliver a range of possible outcomes, including meaningful changes to policy and contribute to market uncertainty. ↓ Uncertainty around ongoing pro-democracy protests in Hong Kong have dampened signs of progress on trade negotiations.
Valuations	↑ U.S. equity valuations are reasonable considering historically low fixed income yields and strong corporate health. U.S. companies continue to generate substantial free cash flow, while increasing dividends and share buy-backs. Multiple expansion may be driven by the low interest environment. ↑ Canadian economic growth is expected to lag the U.S., but we believe opportunities exist. Canadian stocks continue to trade at a forward Price-to-Earnings discount to U.S. equities and are relatively inexpensive compared to global peers. ↓ International equity valuations are reasonable given the low-growth environment, however, we remain particularly cautious on the eurozone. Valuations will be highly influenced by global economic conditions. ↑ China remains a massive engine of global economic growth and we remain moderately positive on emerging markets valuations entering 2020. Chinese equity valuations remain discounted relative to global counterparts.

Equities

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