TD Asset Management

Timely Premiums

March 2025

2025 MAR

TGED
TUED

Manager Commentary

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Recent market volatility has been a test for investors, driven by two key forces; shifting expectations for growth due to tariff policies and disruptions in the Artificial Intelligence ("AI") driven data center trade. While these factors have pushed the S&P 500 Index ("S&P 500") and Nasdaq Composite Index ("Nasdaq") into corrective territory, the Portfolio Advisor ("we", "our") continues to see strong investment opportunities across global markets.

The secular data center trend—one of the dominant investment themes in recent years—has been disrupted by the market's recognition of Hangzhou DeepSeek Artificial Intelligence Basic Technology Research Co., Ltd. ("DeepSeek") advancement in AI, along with the rise of new competition from emerging and established Chinese firms. DeepSeek's innovations raise questions about the future competitive landscape in AI infrastructure and whether companies will adjust their capital expenditures. In the short-term, any announcements, both positive and negative, are being extrapolated into broader market trends, adding to volatility.

We have consistently highlighted that the data center trade presents both a major opportunity and one of the market's biggest risks. The concern is that the exposure to this theme extends across multiple sectors, often in unexpected ways. This was evident on Monday, January 27, 2025, when DeepSeek's emergence triggered widespread declines of 10% to 30% in stocks across various industries. Anecdotally, we were surprised to see a stock owned by one of the investors down 20%, only to discover upon further research, that it had indirect exposure to the data center trend.

Meanwhile, concerns over economic growth, driven by tariffs and trade wars, have led to increased volatility and a rotation into defensive assets. Previously underperforming areas, such as Chinese equities and sectors like Consumer Staples and Health Care, appeared to bottom out toward the end of 2024. As a result, their year-to-date ("YTD") returns have been striking, with gains of 20% to 40% becoming common.

Inflation has also ticked higher, as reflected in consecutive month-over-month ("MoM") increases in Consumer Price Index ("CPI") readings. This initially led to expectations that the U.S. Federal Reserve (the "Fed") would hold off on rate cuts in 2025, with some even calling for hikes. However, sentiment has since shifted, and markets are now pricing in potentially three rate cuts due to concerns that trade wars could slow economic growth. Some market participants are concerned about the risk of a stock market-induced recession, even after just a high single-digit drawdown from all-time highs. While this shift in expectations has created short-term volatility, lower rates could provide a tailwind for equities in the months ahead.

Despite these near-term challenges, we remain confident that we are in a broad bull market that began in the summer of 2022. The current environment continues to offer compelling investment opportunities, particularly in areas that benefit from secular growth trends, improving fundamentals, and attractive valuations.

Regarding our Funds, we welcome the increase in volatility. We are capitalizing on market dislocations and seeing strong growth in our income enhancement strategies. Furthermore, we remain confident that our ongoing investments in market intelligence and surveillance will help us navigate the noise and position our portfolios for long-term success. We continue to remain disciplined in our approach and focused on delivering strong risk-adjusted returns.

TD Active Global Enhanced Dividend ETF ("TGED") and TD Active U.S. Enhanced Dividend ETF ("TUED")

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	5 Year	Since Inception	Inception Date
TD Active Global Enhanced Dividend ETF ("TGED")	-2.52%	0.11%	10.25%	24.38%	17.61%	17.54%	15.28%	05/03/2019
TD Active U.S. Enhanced Dividend ETF ("TUED")	-2.37%	-0.08%	13.15%	30.31%	19.72%	-	19.85%	05/26/2020

Source: TD Asset Management Inc., as of February 28, 2025. Returns for periods greater than one year are annualized.

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