TD Global
Investment Solutions

Sharing of Knowledge Learning Series 2025

The Sharing of Knowledge Learning Series is the annual event of TD Global Investment Solutions dedicated to discussing some of the most important current topics in the world of investing. Held in nine cities across Canada – Vancouver, Calgary, Winnipeg, Regina, Edmonton, Saskatoon, Quebec City, Montreal and Toronto - the 22nd edition of SOKLS was a premier regional event where institutional leaders from TD Asset Management Inc. (TDAM) and Epoch Investment Partners, Inc. (TD Epoch) shared thought-provoking insights and industry trends with current and prospective clients.

This year's SOKLS event focused on three key areas: what the new global economic order means for investors, preserving income stability amid uncertainty by sourcing diverse credit, and the real story behind Canadian real estate valuations.

Embracing a New Global Economic Order and What It Means for Investors

China's rise has broken the old unipolar global order, creating the most uncertain investment environment since at least the end of the Cold War in 1990.

China's industrialization has led to the deindustrialization of the U.S., putting America's productivity growth in negative territory and moving American jobs to China. China has caught up with or surpassed the U.S. in many areas of technology, too – drones, batteries, electric vehicles, AI. China, along with countries such as Russia, has also increased its defense spending, which makes it increasingly untenable for the U.S. to maintain its role as the global policeman.

These changes are ushering in a new bipolar world order dominated by trade wars and tariffs, rather than free trade and hyperglobalization.

The transition to the new order is expected to be highly disruptive. At the same time, digital progress, especially AI, is accelerating, making things even more complex and uncertain. Amid all this, the U.S. is prioritizing national security needs over economic efficiency, something that hasn't happened since at least Ronald Reagan's presidency in the 1980s.

In this volatile environment, Canadian investors should be deliberate about their exposure to the U.S. dollar and diversify beyond it, given that the currency is overvalued nowadays. They should also diversify beyond U.S. equities, particularly beyond the Magnificent 7, while still ensuring that they have exposure to tech because that's where the innovation is happening. Infrastructure, real estate, commodities and credit could provide diversification.

And as always, it's important for investors to emphasize quality in their portfolios, which means looking for opportunities that provide a sustainable free cash flow, attractive return on invested capital and a high degree of transparency.

diversify

Preserving Income Stability: Sourcing Diverse Credit Amidst Uncertainty

As the world transitions to a new bipolar order, generating stable investment income is crucial for counteracting current market volatility. To do this without sacrificing credit quality and encountering excessive volatility, investors should consider complimenting their core Canadian investment-grade fixed income mandates with diverse sources of public and private credit.

Active management is key for constructing a portfolio which takes advantage of opportunities both in the investment-grade universe and across other debt levers. This can be achieved through a thoughtful core plus strategy which takes into account the trade-offs that different fixed income assets bring in terms of income, credit spread stability and liquidity.

On a relative basis, investment-grade corporate debt offers lower income, medium credit spread stability and higher liquidity. High-yield debt provides higher income, lower credit spread stability and medium liquidity. Leveraged loans bring higher income, lower credit spread stability and medium liquidity. Mortgages offer higher income, higher credit spread stability and lower liquidity. Private debt comes with medium income, medium credit spread stability and lower liquidity.

An example of core plus in action would be a fixed income portfolio mostly comprised of core mandates such as Canadian federal bonds, provincial bonds and investment-grade corporate bonds. To enhance incremental yield, about a third of the portfolio can be dedicated to a plus mandate that includes global investment-grade credit (such as global investment-grade corporate bonds, developed market sovereign debt and inflation-linked bonds), global high-yield debt (such as global high-yield bonds, emerging market debt and leveraged loans), and private fixed income real assets (such as universe private debt, long private debt and commercial mortgages).

This fixed income approach has the potential to help institutional investors consistently generate incremental income above the benchmark.

strategy

The Real Story of Canadian Real Estate

In the uncertainty of the current moment, one bright spot is Canadian private commercial real estate. Historically, the long-term expected returns for Canadian real estate were lower than global equity returns, which makes sense, given the lower volatility and risk profile of real estate. However, updated forecasted long-term returns indicate that Canadian real estate is expected to bring higher returns than global equities. This is not normal.

The reason for this historic anomaly is related to the collision between strong fundamentals (tight vacancy rates and income growth) and capital recession (a decline in transactions, falling valuations and rising cap rates).

Generally, vacancy rates for retail, residential and industrial properties are low, leading to elevated income growth. But vacancy rates for offices are reaching peak levels that haven't been seen since the 1990s, as remote and hybrid work have become more common in a post-Covid world.

However, not all office properties are equal, leading to a bifurcated market. Office tenants now have greater choice, so they're opting for quality. As a result, the vacancy rates for Class AAA office buildings peaked last year and are trending lower.

Most importantly for real estate, there's a lack of new supply coming to the North American market. The reason is that valuations have been falling, while the cost to build has been growing, which has disincentivized developers from starting new projects.

So, will the sector's strong fundamentals prevail or will valuations continue to decline? To get a clue about that, investors should continue monitoring valuations for office properties because they have been under the greatest pressure of all the property types. That might provide an answer as to whether real estate has entered a new cycle or whether there's room for valuations to decrease more.

growth

For more detail

To learn more about these topics, please contact your relationship manager.

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