



TD Global Technology Leaders Index ETF (TEC)



Analyst Commentary

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TEC Celebrates its Five-Year Anniversary!

In May 2019, TD Asset Management Inc., ("TDAM", "we", "our") launched the TD Global Technology Leaders Index ETF ("TEC"). Since then, with the help of our unitholders, we have been able to grow TEC into one of the largest technology ETFs in Canada. Five years ago, we observed that the market for technology companies was far broader than what was typically defined as technology. This broader definition gave us the ability to own global outperformers, even if they may not traditionally be considered technology businesses. Companies such as Visa Inc., Tesla, Inc., ASML Holding N.V. are all examples of this. Since inception, TEC has been up 138.97% and with strong momentum YTD. Year-to-date ("YTD"), TEC is up 10.56% ahead of the S&P 500 Index, which was up 10.44%, and significantly ahead of the Nasdaq-100 Index, trailing behind at 8.22%.

April Saw a Correction to the Markets.

After strong positive returns in January, February, and March, April saw a correction not just for technology markets, but also for broader markets. Evidence of sticky inflation, rising interest rates, and markets repricing the timing of rate cuts by the U.S. Federal Reserve (the "Fed"), all acted to sour investor sentiment. TEC was down 3.06% for the month of April, in-line with the Nasdaq-100 Index, which was down 2.89%, and the S&P 500 Index, which was down 2.54%. However, we continue to observe strong fundamentals within the sector and will be watching the markets closely to see if April showers bring May flowers, and continued outperformance, to the technology space.

Big Technology ("Big Tech") Earnings Recap.

Big Tech continues to impress us with strong growth momentum and disciplined operations. Companies such as Microsoft Corporation, Apple Inc., Alphabet Inc. ("Alphabet"), Meta Platforms, Inc. ("Meta") and Amazon.com, Inc., grew revenue about 13.6%, which was in-line with the previous quarter and at twice the rate of the S&P 500 Index.

Operating discipline, which was key to earnings growth in 2023, remained intact, with the average operating profit up approximately 31.60% as margins expanded. Individual company expectations and investor positioning sent stocks screaming in every direction, from Meta's -10.56% decline to Alphabet's 9.96% jump. Recent volatility in the market has made for captivating headlines, however, in reality, these companies continue to demonstrate strong top-line results along with financial discipline as they also invest to capture opportunities.

All Roads Lead to the Foundries.

Perhaps the most significant development has been the doubling down of technology companies on their AI commitments through capital expenditure ("CapEx") spending. For 2024, we now expect approximately \$240 billion (US\$) in total capital spending compared to the \$157 billion (US\$) spent in 2023. The major beneficiaries are the semiconductor companies, the hearts and brains of modern electronics. Many will be familiar with the recent rise of NVIDIA Corporation, however, this earnings season we also observed robust demand trends being signaled by the likes of Taiwan Semiconductor Manufacturing Company Limited, Qualcomm Incorporated and Broadcom Inc., among others. Semiconductor stocks have been a major outperformer YTD, up 14.9% compared to the S&P 500 Index, which was up 8.2%. Overall, we expect semiconductor spending to remain very strong for the remainder of 2024.

Software and Information Technology Services Waiting Their Turn.

While semiconductor stocks have performed well, buoyed not only by sentiment but incoming data center orders, software and information technology ("IT") Services companies have yet to see a recovery in spending after a muted 2023. Modern software companies tend to have recurring revenue streams with limited variability, resulting in solid double-digit revenue growth and expanding margins across the major providers. However, notably absent was the enthusiasm that was visible for semiconductor companies as this industry was unable to show a significant revenue acceleration. Although many companies discussed benefitting from generative AI, few are showing any tangible tailwinds as of April 2024. IT Services trailed behind in the last earnings season, with Accenture Inc., the bell weather for IT spending, actually reducing its annual guidance. Overall, we expect software companies to be the next beneficiary of AI after the semiconductor and hardware sectors as they use it to improve internal productivity and monetize new revenue streams with customers.

All Eyes on AI CapEx: What We're Watching from May to December.

We have seen heightened volatility in the market in recent years, and our most important takeaway has been that we cannot time the market, instead we look to capitalize on time in the market. We are, however, wary of factors that might act to impair or slow the innovation and growth of the Technology sector. So far, it is focused on CapEx spending to support experimentation and early use cases in AI. As we head into the summer months and look ahead to the remainder of 2024, we find the Technology sector all-in on AI. As consumers, we are excited about the prospects of new technology, but as investors, we are fearful that companies will make unproductive investments that don't yield sufficiently high returns and dilutive to margins. So far, we are not seeing this but monitoring closely. Looking out over the long run, we believe that the Technology sector will continue to benefit from many attractive attributes and combined with attractive valuations when compared to the broader market, we believe the Technology sector remains well positioned to outperform over a multi-year horizon.

Standard Performance – TD Global Technology Leaders Index ETF

| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years | Since Inception | Inception Date |
|--|---------|----------|----------|--------|---------|-----------------|----------------|
| TD Global Technology Leaders Index ETF | -3.08% | 6.14% | 23.69% | 37.42% | 10.94% | 18.69% | 05/09/2019 |

Source: TD Asset Management Inc. ("TDAM"), as of April 30, 2024. Returns of periods greater than one year are annualized.

For more information,
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