TD Wealth

Huge change

Monthly Perspectives | Portfolio Advice & Investment Research

February 2017

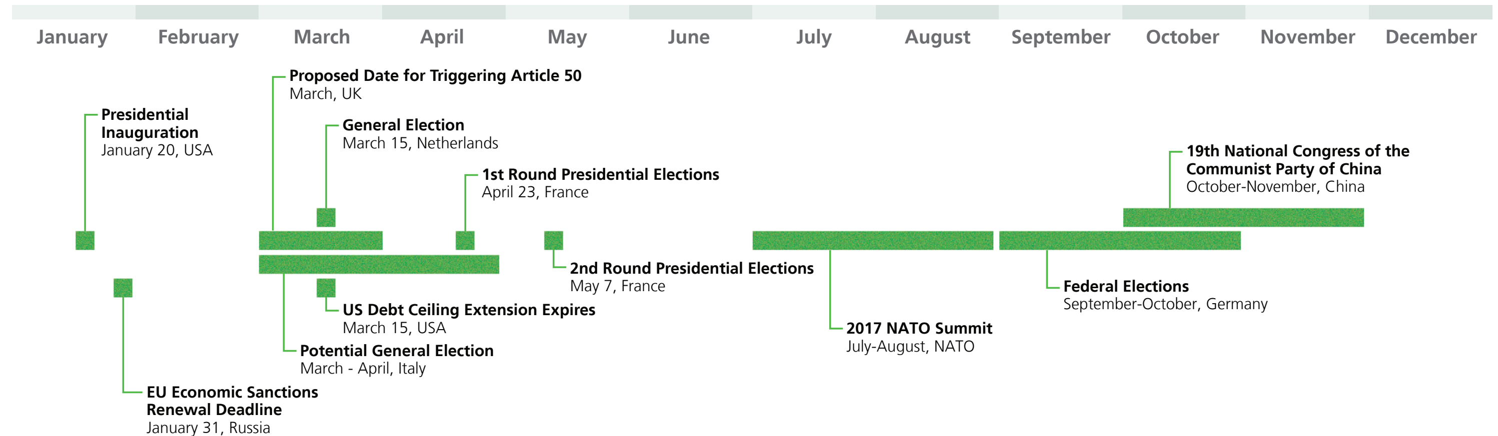

Figure 1: A year of political uncertainties

Source: TD Wealth Portfolio Advice and Investment Research

Brad Simpson, Chief Wealth Strategist

While we are loath to make predictions, it would seem that it is a pretty safe bet that "huge" change, be it in the form of rising interest rates, valuations, volatility or political risk, will be an ever evolving theme in 2017. This is important because asset markets and its participants tend to struggle when coming to terms with change, which often leads to elevated volatility. We are coming up to nearly nine years since the very existence of the capitalist system was brought into question as the global economy, and the banking system that makes it turn, came to a standstill during the Great Financial Crisis (GFC). This tumultuous event heralded a new era of risk that we are still living with today, but the curtain does seem to be falling. Prior to the GFC, financial markets worried mostly about the economy, corporate profits and political stability. The GFC changed this to a world that almost singularly considered, fretted and was calmed by, monetary policy. We think this era is likely coming to a close, replaced by a financial world that once again places a great deal of importance on the economy (local and global), profits (particularly those that are growing) and political stability (and of course, instability). Welcome to huge change.

In the years before the GFC, life was simple for central bankers. Their mandate was pretty straight-forward: minimize booms and busts to check inflation while supervising, controlling and regulating the activities of commercial banks and other financial institutions. To accomplish this mandate the central banker deftly used interest rates, adjusting short-term interest rates up to discourage borrowing and consequently check inflation; or, down to provide easier access to credit, thus promoting growth. This approach was so successful that participants in the global economy began to believe that the booms and busts of the past were a relic to be wondered at. Prognosticators and economists declared that we lived in an era of the "Great Moderation." Unfortunately, as it often happens, the zeal for our ability to somehow transcend the forces of economic nature was short lived. The GFC reminded us all of our limitations and undermined not only the central bankers' record and our faith, but also the method they relied on to deliver growth. Monetary policy has been in a state of upheaval ever since.

The need for central banks to take extreme monetary action, largely by pumping very large sums of money into the economy using quantitative easing, resulted in a world where investors breathlessly waited for the next words to be uttered by a central bank governor. Gone were the days when an investor parsed through quarterly reports to discern the earnings growth of a public company,

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Huge change (cont'd)

Brad Simpson, Chief Wealth Strategist

considered last month's trade figures between nations or perused an issue of Foreign Affairs to gauge areas of political unrest. Yes, company, economic and political data was still important but the only real risk was that a central bank wouldn't ride to the rescue if something went wrong. In a November 2016 Monthly Perspectives article titled "Newtonian Wisdom" we discussed the concept that we operate in a complex adaptive system where participants (human investors) learn and make adjustments. In a system like this, measures such as monetary policy, lose their effectiveness over time as market participants learn and begin to both expect, and rely on, the external stimulus. Nine years in, with nearly $10 trillion dollars in negative-yielding global bonds and the lowest interest rates the world has seen in centuries, this tool has run its course. If monetary policy is the lone ranger, we now live in a financial environment where all market participants are riding white horses, wearing baby blue outfits and creepy black masks. The net result: Today we interact in a financial environment where assets are priced at all-time highs, while global economies are mired in low growth, high debts, onerous regulations and an enormous headwind in form of demographics. Throw into the mix that there is a growing number of people globally, as witnessed by the Brexit vote and the election victory by President Trump, who feel that they did not benefit from almost a decades' worth of central bank monetary policy and you have all the makings for a mulligan stew of political discontent. Since November 2016, markets have behaved like all these problems will be solved enthralled by the potential new direction provided by the new Trump administration, ignoring the fact that even if this is the case, these are considerable issues that are going to take some bumps and bruises to fix. Figure 2 highlights the fact that markets have yet to come to terms with this. Volatility in markets is at all-time lows while global economic policy uncertainty is at all-time highs. The likelihood that this continues diminishes rapidly when you consider Figure 1, which highlights the myriad of political events to take place in 2017. These are just the known ones! There are any number of policy surprises coming, which could cause volatility. For instance, as of writing this article on January 23, 2017, President Trump met with a group of CEOs and announced he was going to cut "regulations by 75% or more" and impose a "very major border tax." Meanwhile, on the same day, a lawsuit was filed by the Citizens for Responsibility and Ethics in Washington, for President Trump allegedly violating the Emoluments Clause of the Constitution. I think we can all agree that this is considerable uncertainty produced on the first Monday in office for the new American President. Perhaps the only certainty going forward is that there will be uncertainty.

Because investors are often impacted by how they feel and think, it is imperative that they are comforted and steeled by two hard facts. First, that their portfolio is aligned with their comfort level and attitude towards risk. Volatility can be a real positive for investments,

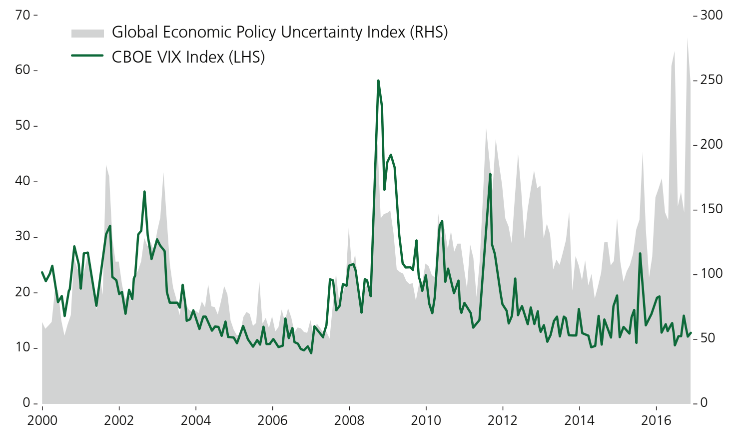


FIgure 2: Markets too certain in a time of great uncertainty

Source: Bloomberg Finance L.P. As at December 31, 2016. VIX is the ticker symbol for the Chicago Board Options Exchange Volatility Index which shows the market's expectation of 30 day volatility. The Global Economic Uncertainty Index is a measure policy-related economic uncertainty based on t an index from three types of underlying components. One component quantifies newspaper coverage of policy-related economic uncertainty. A second component reflects the number of federal tax code provisions set to expire in future years. The third component uses disagreement among economic forecasters as a proxy for uncertainty.

as it shakes capital from poor investments (driving prices down) and moves money to good assets (driving prices up). The short-term volatility that often accompanies this transfer can be somewhat painful. One of the key determinants of investment success is being able to gauge an investor's comfort level with coping with periods like this. Having a long-term time horizon is important, having the emotional and psychological ability to sit tight during volatile times may be even more important. At TD Wealth, we have gone to great lengths to ensure that we have the investment advisors steeped with the knowledge, and empathy, to be able to incorporate behavioural economics as key ingredient into a client`s overall wealth plan. By understanding how investors and markets behave, we believe it is possible to construct better risk aware portfolios. Second, it is imperative that investors' portfolios are suitably tailored to reflect the environmental changes that happen over the passage of time. Times change and so should your portfolio. We are currently in a world of considerable change, irrespective of the new nameplate on the White House mailbox. The baton pass from monetary policy to the economy, profits and political stability as the engine of financial markets is a game changer. This has greatly increased the range of potential outcomes for volatility and returns. The key from here may be for you to sit down with your advisor and get clarity around your attitudes towards risk to ensure that your portfolio is structured to meet your comfort level. This would also provide ample opportunity to ensure that all your investments are structured to meet the numerous future opportunities that this new environment presents, while making sure they are built with the most appropriate asset allocation and risk diversification strategies possible.

Rising rates: shorter term discomfort for longer terms gains

Sheldon Dong, CFA, Fixed Income Strategist

The downward direction for interest rates has been going on so long that investors may not remember the basic rule of bonds: When rates fall, bond prices rise, and when rates rise, bond prices fall. Changes in interest rates may increase or reduce the market value of a bond you hold. Whenever investors buy securities that offer a fixed rate of return, they are exposing themselves to interest rate (or market) risk, which increases the longer they are held. With a promise to return principal to investors at a specific time in the future, market risk can be avoided if investors simply hold onto their bonds until they mature. As bonds pay a fixed rate of interest, they are less attractive to investors when current interest rates are rising; thus their prices go down. However, interest rates have been in a long 36-year secular decline, making earlier bonds more attractive than newer bonds, with the long period of price appreciation lulling investors into complacency. Bond fund managers face the same risks as individual bondholders. When interest rates rise – especially when they go up sharply in a short period of time – the value of the fund's existing bonds drops, which has recently caused some discomfort for investors.

All investments carry some degree of risk. Even conservative, insured investments, such as guaranteed investment certificates (GICs) issued by a bank, come with inflation risk – they may not earn enough over time to keep pace with the increasing cost of living. Inflation risk is particularly relevant if you own cash or debt investments like bonds. Keeping the bulk of your wealth in a savings account, where interest rates are currently below 1%, practically guarantees you will lose purchasing power over the long term. Risk is any uncertainty with respect to your investments that has the potential to negatively affect your financial welfare. The level of risk associated with a particular investment or asset class typically correlates with the level of return the investment might achieve. The rationale behind this relationship is that investors willing to take on riskier investments should be rewarded for their risk.

While bond prices initially decline when interest rates increase, a rising-rate environment means a healthy economy (positive for corporate bonds) and higher income opportunities, both of which are good for long-term investors. Income reinvested at higher yields not only helps to recover short-term bond losses, but can also compound into a significant portion of long-term total return. In a declining interest rate environment, bondholders who have bonds coming due face the difficult task of investing the proceeds in bond issues with equal or greater interest rates than the redeemed bonds. As a result, they are often forced to purchase securities that do not provide the same level of income, unless they take on more credit risk by buying bonds with lower credit ratings. This situation is known as reinvestment risk. Many investors fear a rising rate environment that results in short-term periods of declining bond prices, but long-term returns are actually enhanced due to the ability to reinvest at higher rates.

You cannot eliminate investment risk, but you can manage it through diversification or a multi-strategy approach. Investors with multiple investment goals should have a separate plan for each employing the most optimal solutions. Fixed income investors typically have three basic goals: short-term liquidity, capital preservation and income generation. In the current interest rate environment, a high interest savings account typically provides the best solution for near term liquidity. For capital preservation, a shorter maturity laddered GIC portfolio eliminates market risk, while providing a slightly higher return. The laddered strategy can benefit in a rising interest rate environment through reinvesting the consistent stream of maturing investments at higher rates. However, GICs are illiquid, shorter term yields are low and may not rise significantly in the years ahead to outpace inflation (5-year GICs issued by major Canadian banks currently yield less than the Bank of Canada's annual inflation target of 2% over the medium term). Longer term income generation is best achieved through participation in higher risk investments, which requires good professional management, as well as a longer investment time horizon. Even in a rising interest rate environment, managers with broad mandates can generate positive returns by taking advantage of (1) movements in the yield curve (bond values across maturities typically do not move in unison), (2) country selection (moving from a rising rate environment to a declining rate environment), (3) currency (which can be a significant part of returns in foreign securities) and (4) credit (corporate bonds provide higher returns, but must be closely monitored for individual default risk). Blending imperfectly correlated assets across maturities, countries and credit helps to dampen volatility. Bond funds on our Analysts' Choice Funds List with such broad mandates include the TD Canadian Core Plus Bond Fund, the PIMCO Monthly Income Fund and the Manulife Strategic Income Fund.

In investing we can look at risk as a deviation from expected investment returns, which can be either positive or negative. The probability and magnitude of a downward deviation is what an investor is most concerned about. There are many factors that can affect risk and there are portfolio management tools to manage different risks and optimize outcomes. Even if bonds experience temporary losses as interest rates rise, diversification benefits

Figure 3: Government of Canada Long Bond Yield

Source: TD Wealth; Bank of Canada, Bloomberg Finance L.P. (as of January 20, 2017)

Rising rates: shorter term discomfort for longer terms gains (cont'd)

Sheldon Dong, CFA, Fixed Income Strategist

remain as a bond allocation helps to decrease the volatility of your investment portfolio. The discomfort that bond investors have had recently is mostly due to their experience of having had few occasions of seeing market value declines. However, if yields stay at their current near-record low levels, investors are merely assured of nothing more than little or no returns going forward. Investors are reminded to regularly review their investment goals with their advisors as they relate to investment horizons. Longer term goals require longer term investment horizons, with active management playing a larger role to help keep things on track.

Corporate earnings: Fuel of the market

Christopher Blake CFA, Senior Portfolio Manager North American Equities

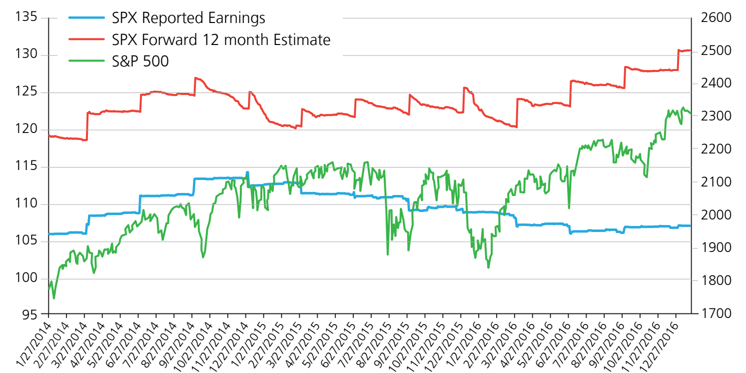
Stock markets can rise for only a couple of reasons: an increase in corporate earnings or an expansion in the multiple being accorded those earnings. Moves in the market come first from the expectation that earnings will rise in the future. It is this characteristic that makes the market a forward discounting mechanism. Over time many observers will view the market as "too rich" based on trailing or reported earnings multiples. But that is not always the best way to look at the stock market since at all times it is a forward discounting machine – it looks to the future and tries to divine the future path of corporate earnings.

Looking to figure 4, we can clearly see the S&P 500 struggled from the second half of 2014 until the first quarter of 2016 when the forward earnings estimates of the index were flat to declining. In fact, the market bottom in the early days of 2016 was just ahead of when the forward estimates turning positive – a clear illustration of the forward discounting mechanism of the stock market – it sensed the bottom of analysts' numbers and moved forward ahead of the changes in the numbers.

So what is being discounted at the moment?

Estimates for earnings of S&P 500 companies on a forward twelve month basis had clearly been increasing through last year and as each quarter changed we saw a meaningful jump up in the forward 12 month measure of earnings. It is probable that as we reached the end of September the market started to look forward to the year-end which would mark the end of easy comparisons in earnings that resulted from the downdraft in the price of oil and commodities that began in 2014. There was a mathematical "given" that lower earnings growth lay ahead. It is clear that Trump changed the mindset of the market. As we detailed in the December edition of Monthly Perspectives, the markets turned 180 degrees on a dime, from expecting that Trump would be disastrous for the economy as many pundits forecast, to a realization that many of the policies would be highly stimulative and would in fact add to corporate earnings. Trump's proposed corporate tax cuts alone could increase earnings by more than 10% if we assume the average realized tax rate is 30% and it moves to an average rate of 20%. What is clear is also a focus on reducing the regulatory burden on American businesses. The most obvious and clearly targeted body of regulations is the 2,300 pages of Dodd-Frank legislation that was targeted at the banking sector, which imposed significant costs in compliance, has radically altered the complexion of the industry, and significantly reduced profitability. Analysts have not yet incorporated any of these mooted policy changes into their models of company earnings; however it seems clear that the market is incorporating at least some of these proposed policy actions. To be sure, it is not irrational given that the Republican party has control of both the House and Senate.

Figure 4: Earnings and the S&P



Source: Bloomberg Finance L.P. as at January 20, 2017

What are the risks?

As with many things the devil will be in the details. While I have outlined some evidence that shows that equity markets have incorporated some of the more positive aspects of Trump policy, there has been a fairly consistent positive tone to the markets that would suggest that some of the risks inherent in the policy proposals may not be fully discounted and may cause an increase in volatility on the way to nirvana. The mid-January meeting of the World Economic Forum in Davos this year provided a fertile ground for debate about the coming four years and the impact that Donald Trump may have. The clearest thing that came from Davos was a sense of the uncertainty of the uncertainty (in effect uncertainty squared). It is difficult to imagine that a world that is used to a gradual progression in disclosure of presidential thought will transition easily to an America that sees policy created by whim in the twitter-verse. If the days between the election and the inauguration are any guide, it seems the tweet agenda could change at any time and be directed in highly specific ways. It will take some time to get comfortable with this unprecedented approach. We can expect that in these times of uncertainty^2 volatility will increase.

Valuations in the era of Trump

Brian Galley CFA, Senior Manager, Managed Investment Consulting

As we begin 2017, the seemingly eternal questions around equity market valuations and the sustainability of current levels continues to be a favorite topic of conversation amongst analysts. And as in previous years there is no shortage of opinion and conjecture.

A quick review of the major large cap indices shows that over the past five years P/E multiples have grown substantially. The S&P 500 P/E multiple has risen approximately 50%, while the P/E multiples of the German and UK large cap indices have risen 91% and 209% respectively. In Canada, the TSX is just a few hundred points off its all-time high of 15,657 achieved in September of 2014. The S&P/TSX valuations have risen by almost 70% over the past five years, driven primarily by the search for predictable cash flows, dividends and distributions in a very low interest rate environment. Today's elevated valuations mean that, going forward, any move higher in equity markets will more than likely have to come from increased earnings growth driven by the underlying economy versus multiple expansion.

Table 1:

Price/Earnings (P/E) Multiplier				
	12/30/2011	5-Year Average	12/30/2016	Increase
S&P Index	14.0	17.2	21.0	49.8%
S&P/TSX Index	13.6	19.3	23.1	68.9%
DAX Index	9.4	17.8	18.0	91.5%
UKX Index	10.4	24.5	32.2	209.7%
NKY Index	16.5	21.5	24.6	49.2%

Source: Bloomberg Finance L.P. as at December 30, 2016.

In 2017, maintaining and expanding current valuations will be a difficult feat but there is one quickly developing tailwind – the Trump administration. Although short on specifics, the President has signaled that he plans to cut corporate and personal taxes, accelerate deregulation and raise infrastructure spending by $1 trillion over five years. With Republican control of all three executive branches of the US government, there should be fewer obstacles to enact their primary agenda items in contrast with the previous administration.

However, at the same time, President Trump has also indicated that he is ready to re-negotiate or even tear up, any trade agreement that does not pass his "sniff test". Specifically, Trump has singled out Mexico and China as primary targets. Additionally, we must factor in other potential challenges such as immigration and an even stronger US dollar supported by additional interest rate hikes by the US Federal Reserve. Also, the US Federal Debt Limit is an issue destined to land soon on a front page near you. This limit, which was suspended by Congress and the president in November 2015, is set to be reinstated on March 16, 2017, just weeks into the new Trump administration. The government's outstanding debt will immediately bump up against the newly reinstated debt limit of about $20 trillion, the debate that raged in 2015 will likely be re-ignited and the government will be forced to act or run out of money. Analysts to date, in their case for continued valuation expansion in 2017, have not necessarily factored in potential spending restraints that may be an outcome of any debt limit negotiations.

Internationally there are several events this year that will impact markets to some degree. Key national elections are set for the Netherlands, France and Germany. Together these three countries represent over 50% of the Eurozone economy and to say there is some general distress amongst the electorate would be an understatement. There will also be further developments and political fall-out from the continuing Brexit negotiations. Any surprises would certainly increase volatility but to what extent, and for how long, would be pure conjecture. As we witnessed last summer, despite the unexpected results of the Brexit vote, the UK economy remained unexpectedly buoyant and resilient.

As we start the new year it is difficult to find a prognosticator who is not calling for a continuation of the bull market, albeit with the familiar caveat that there will be increased volatility and at least one good period of consolidation. Valuations may continue to rise beyond their current levels and fears of a repeat of the 2008/09 crisis will continue to be at the forefront of investors' minds. There are, however, three significant differences from the great financial crisis: we are not seeing the same euphoria that gripped the markets back then, yields on 10 year US Treasuries are over 200 basis points lower and a lot of cash remains on the sidelines ready to deploy at any sign of a correction. The general consensus is the Trump effect will continue to be a positive one for the markets, at least in the short-term. Although there is ample evidence to support both sides of the argument on the immediate future of market valuations, focusing less on short-term predictions and taking a long-term view of the market continues to be the cornerstone of a sound investment strategy. ■

U.S. debt ceiling: under the radar but gaining altitude

Andrew Vuk, CFA, Senior Analyst, Managed Investment Consulting

The turbulence in global markets over the past 24 months has made phrases such as "Advanced Quantitative Easing", "Crude Awakening", "Brexit" and, more recently, "Bondageddon" common place. It seems so long ago that the trend setting "U.S. Fiscal Cliff" caused unease in the markets. However, the New Year usually sees many people dusting off long forgotten items and the U.S. debt ceiling will be one such item. For that reason, the first true test of the newly formed Trump and Republican government may not revolve around border walls, health care repeal or financial reform but the reinstatement of the now US$20.1 trillion debt ceiling on March 16, 2017.

Rewinding back to December 2012, there was a plethora of fresh events weighing on the world. The global population was polarized by the re-election of President Obama, the Sandy Hook shooting and the end of the Mayan calendar. Nevertheless, front and center was the possibility of the United States, de-facto economic superpower, defaulting on its then US$16.6 trillion of debt. Markets were on edge hoping the U.S. would come to a bipartisan agreement to suspend the debt ceiling and avoid another market rattling U.S. credit downgrade as was the case in August 2011. And so, the economic and financial world wedged its way into conversation at the household dinner table, immortalizing the term "U.S. Fiscal Cliff".

Markets will hopefully be able to breathe a sigh of relief as history is in their favour. U.S. Congress has never allowed an actual default on the country's debt, acting 78 times to raise, suspend, or revise the definition of the debt limit. Since the U.S. was downgraded in 2011, market returns have been mixed before and after debt ceiling decisions. However, a commonality has been an accompanied spike in volatility, which occurred 75% of the time a debt decision was made. Figure X shows that the S&P 500 (USD) percentage change over the 20 trading days encompassing the debt ceiling announcements ranged from -9.9% to 4.3% while the CBOE VIX displays a much wider range from -17.9% to 72.1%. While investors may be in for some ups and downs, their overall long term focus should not be lost.

Moving forward, markets should brace for additional volatility as March 16th approaches and the debt ceiling dilemma returns to the crosshairs. Of concern is that the debt ceiling was last suspended in March 2015, and an additional US$2 trillion of debt has been accumulated. If left unchecked, the current ceiling of US$20.1 trillion will be breached leaving the U.S. government in a position of defaulting on its debt. The U.S. Treasury, as it has done in the past, can implement short term extraordinary measures to keep the government running through the spring. As a result, it is widely expected that increasing or suspending the debt ceiling within the first half of 2017 will be the first indication of how, or if, President Trump can work effectively with House Speaker Paul Ryan and Senate Majority Leader Mitch McConnell on major issues.

To be successful and provide capital markets with confidence, the Trump White House must find a sensible, common ground with the Republican led Congress. Discussions will likely focus on finding pragmatic spending cuts while also agreeing to a worthwhile increase in the debt ceiling, thus allowing Trump to deliver on the campaign promise of further stimulus to "Make America Great Again". However, a combination of the outspoken President Trump, who promised increased spending and economic stimulus, locking horns with a Republican Congress that is historically in favour of reigning in control of national debt, will have the markets on edge once again. The possibility even exists of the Republican Congress pushing through its own policy if it cannot agree on the best course of action with the President, effectively trumping Trump. Only time will tell if camaradarie will prevail or fireworks are in store.

Table 2: Performance of the S&P 500 and CBOE VIX 10 trading days prior and after debt ceiling annoucements:

		10 trading days prior		10 trading days after		Entire 20-day period	
Event	Date	S&P 500 TR (USD)	CBOE VIX	S&P 500 TR (USD)	CBOE VIX	S&P 500 TR (USD)	CBOE VIX
Debt Ceiling Increased to US $16.39 trillion	August 2, 2011	-5.4%	29.9%	-5.3%	40.5%	-9.9%	72.1%
Extraordinary Short-term Treasury Action Taken	December 31, 2012	-0.2%	10.3%	0.7%	-7.7%	3.1%	-17.1%
Debt Ceiling Suspended until May 19, 2013	February 4, 2013	0.3%	18.0%	1.4%	-10.3%	2.8%	-1.0%
Debt Ceiling Increased to US $16.69 trillion & Extraordinary Short-term Treasury Action Taken	May 20, 2013	2.6%	1.5%	-2.2%	21.7%	0.6%	26.8%
Debt Ceiling Suspended until February 7, 2014	October 17, 2013	2.6%	-19.5%	0.7%	5.4%	4.0%	-17.9%
Debt Ceiling Suspended until March 15, 2015	February 11, 2014	2.7%	-16.4%	1.5%	0.3%	4.3%	-17.3%
Debt Ceiling Increased to US $18.11 trillion & Extraordinary Short-term Treasury Action Taken	March 15, 2015	-2.9%	22.7%	-0.9%	-3.5%	-2.5%	15.6%
Debt Ceiling Suspended until March 15, 2017	October 30, 2015	2.3%	0.6%	-3.7%	41.9%	-0.3%	34.0%

Source: Bloomberg Finance L.P. As at January 18, 2017

Monthly market review

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Canadian Indices ($CA) Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P/TSX Composite (TR)	49,921	0.85	4.78	0.85	23.55	7.08	7.51	4.69	7.19
S&P/TSX Composite (PR)	15,386	0.64	4.05	0.64	20.00	3.96	4.32	1.67	4.73
S&P/TSX 60 (TR)	2,385	1.23	5.43	1.23	24.08	8.17	8.33	4.91	7.67
S&P/TSX SmallCap (TR)	1,013	0.53	6.48	0.53	45.15	5.04	2.64	2.11	-
U.S. Indices ($US) Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P 500 (TR)	4,360	1.90	7.76	1.90	20.04	10.85	14.09	6.99	7.46
S&P 500 (PR)	2,279	1.79	7.18	1.79	17.45	8.53	11.67	4.71	5.47
Dow Jones Industrial (PR)	19,864	0.51	9.49	0.51	20.63	8.16	9.47	4.64	5.50
NASDAQ Composite (PR)	5,615	4.30	8.20	4.30	21.69	11.01	14.82	8.59	7.27
Russell 2000 (TR)	6,615	0.39	14.72	0.39	33.53	7.89	13.00	6.93	8.16
U.S. Indices ($CA) Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P 500 (TR)	5,681	-1.12	4.75	-1.12	11.08	16.87	20.16	8.06	7.28
S&P 500 (PR)	2,969	-1.22	4.19	-1.22	8.68	14.42	17.61	5.76	5.29
Dow Jones Industrial (PR)	25,882	-2.46	6.44	-2.46	11.63	14.03	15.30	5.69	5.32
NASDAQ Composite (PR)	7,316	1.22	5.19	1.22	12.61	17.04	20.93	9.67	7.09
Russell 2000 (TR)	8,619	-2.57	11.52	-2.57	23.56	13.75	19.01	8.00	7.98
MSCI Indices ($US) Total Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
World	7,047	2.44	6.49	2.44	17.81	6.55	10.48	4.54	6.30
EAFE (Europe, Australasia, Far East)	6,664	2.91	4.34	2.91	12.59	1.17	6.52	1.44	4.92
EM (Emerging Markets)	1,931	5.48	0.92	5.48	25.88	1.81	0.55	2.83	5.66
MSCI Indices ($CA) Total Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
World	9,181	-0.59	3.52	-0.59	9.01	12.33	16.37	5.59	6.12
EAFE (Europe, Australasia, Far East)	8,683	-0.14	1.43	-0.14	4.19	6.66	12.19	2.46	4.75
EM (Emerging Markets)	2,516	2.36	-1.89	2.36	16.48	7.34	5.90	3.86	5.48
Currency	Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Canadian Dollar ($US/$CA)	76.75	3.05	2.87	3.05	8.07	-5.15	-5.06	-0.99	0.17
Regional Indices (Native Currency) Price Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
London FTSE 100 (UK)	7,099	-0.61	2.08	-0.61	16.69	2.93	4.56	1.36	0.03
Hang Seng (Hong Kong)	23,361	6.18	1.86	6.18	18.68	1.97	2.76	1.51	2.85
Nikkei 225 (Japan)	19,041	-0.38	9.28	-0.38	8.69	8.48	16.69	0.92	0.19
Benchmark Bond Yields		3 Month		5 Year		10 Year		30 Year	
Government of Canada Yields		0.45		1.12		1.76		2.41	
U.S. Treasury Yields		0.51		1.92		2.46		3.07	

Canadian Bond Indices ($CA) Total Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
FTSE TMX Canada Universe Bond Index	1010.16	-0.12	-2.67	-0.12	1.14	3.68	3.10	4.78
FTSE TMX Canadian Short Term Bond Index (1-5 Years)	697.88	0.21	-0.32	0.21	1.00	1.96	2.07	3.57
FTSE TMX Canadian Mid Term Bond Index (5-10)	1111.19	0.19	-2.26	0.19	1.20	4.21	3.73	5.60
FTSE TMX Long Term Bond Index (10+ Years)	1578.70	-0.83	-6.14	-0.83	1.15	5.67	4.01	6.23

Sources: TD Securities Inc., Bloomberg Finance L.P. TR: total return, PR: price return. As at January 31, 2017.

Important information

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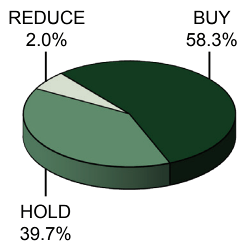
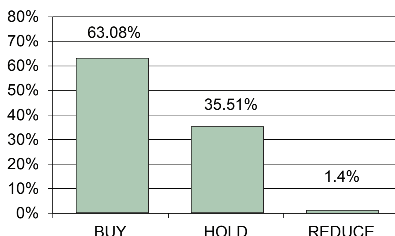
Distribution of Research Ratings



Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).
As at February 1, 2017.

Investment Services Provided



Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.
As at February 1, 2017.

Action List BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector. BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months. SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss. HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months. TENDER: Investors are advised to tender their shares to a specific offer for the company's securities. REDUCE: The stock's total return is expected to be negative over the next 12 months.

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