TD Wealth

The Trump effect

Monthly Perspectives | Portfolio Advice & Investment Research

December 2016

Top 5 insights

1. Markets shift from the visible hand of the U.S. Federal Reserve to the invisible hand of the market
2. Anticipate greater episodes of volatility
3. Environment positive for U.S. growth companies and currency, remain cautious on global bonds
4. Diversification is crucial:
    - High quality dividend paying equities
    - Government and investment grade corporate bonds
    - Prudent use of alternative investments
5. Focus on risk management and risk factor diversification

A new era? Not so fast

Brad Simpson, Chief Wealth Strategist

What a difference a year makes. Twelve months ago, we were living in a world where the benefits of globalization, free trade, and interconnectedness were a given. A world with a global economy driven by monetary policy, where fiscal policy was a nonstarter, growth was slow, inflation low and interest rates were falling. Then the Trump effect came along. And now, as the new story goes, we seem to be living in a world where the sun is setting for globalization, free trade, and interconnectedness. A place where governments no longer sit on their hands as they have in the past and instead are going to implement aggressive fiscal policies. As a result, there is growing consensus that we have moved into a new era of increased growth, higher inflation and rising interest rates.

Only time will tell if this is indeed the case, but as a word of caution: rarely do new eras begin with a flourish of trumpets or ringing of bells. Instead they are usually called years later by academics or journalists endeavoring to frame time while building a narrative with the goal of achieving greater understanding for a time long past. This is not to say that we are not in the middle of a period of change, it is just that we have no idea of the size of its impact nor its longevity. Markets may go risk-on, risk-off, but epochs rarely do.

With this in mind, we will leave the prognostications and pronouncements to others. We believe that a singular focus on the concerns of today can lead to poor outcomes tomorrow. However, process driven, thoughtful decision-making should over time lead to better overall results. Critical to this kind of approach is a disciplined view of the journey ahead. As such, please find the current themes from the TD Wealth Asset Allocation Committee that will guide our thinking as we move into 2017.

Top 5 themes

TD Wealth Asset Allocation Committee

1. Central bank accommodation has peaked and the policy baton is being passed to fiscal stimulus
2. Fiscal stimulus expected to accelerate U.S. growth, however, global growth is still constrained by high debt levels and demographics
3. Returns from fixed income are expected to be low and U.S. fiscal stimulus may push yields modestly higher globally
4. Preference for U.S. equities and currency driven by the potential for lower corporate taxes and accelerating growth
5. Political risk remains high in Europe and a higher U.S. dollar may create stress in emerging markets

In this issue

Economics: A foundation for uncertain times 2

Fixed Income: Trump and interest rates 3

Equities: 180° on a dime 4

Important information 8

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A foundation for uncertain times

Beata Caranci, Vice President and Chief Economist, TD Economics

There is no shortage of possible market-altering events on deck for 2017—from upcoming elections in Europe to Brexit negotiations to China's ongoing reform of its economy…and lest we forget the new kid on the block, U.S. policy under a new administration. The band of uncertainty around possible economic and financial outcomes has widened, but the world has not changed fundamentally. Here are five key macro themes to keep in mind for the new year:

Searching for growth

The post-crisis cyclical slowdown has been supplanted by a structural slowdown reflective of an aging population, slowing labour supply and disappointing productivity trends around the world. In other words, don't expect it to lift anytime soon. Canada has compounded the growth challenge with overheated housing markets and high household debt. Recent regulatory measures and an uptick in mortgage rates should help moderate the housing market. But, this will leave the economy hard-pressed to reach outside of a 1.5-2.0% growth range in real terms on a sustainable basis, for the foreseeable future. These influences anchor the view that the Bank of Canada will be in no rush to raise rates, irrespective of the tactic taken by the U.S. Federal Reserve.

The pivot from monetary to fiscal policy

Central banks were the first line of attack to prop up growth and financial markets around the world, but that baton is increasingly being passed to government authorities. Structural rigidities in an economy require economic reforms to provide a longer-term productivity bump. For the most part, this pivot will continue to occur gradually and highly accommodative monetary policy will remain in place within most countries, including Canada. But, there are exceptions to every rule. The U.S. was already on a path to tighten monetary policy in response to improving economic fundamentals, and there is a risk that the anticipated fiscal boost from the new administration may accelerate this pace. We think this is more likely to be a 2018 story, than 2017. There's no doubt that the incoming president will immediately work with Congress to implement an agenda of tax reform, infrastructure spending and deregulation. However, nothing is a slam dunk and some of this stimulus will necessarily require an offset in order to avoid an explosion in government expenditures. In addition, the pass-through of fiscal policy into economic impacts embeds lags. The implication being that U.S. interest rates will continue to rise at a measured pace. We are skeptical that fiscal policy will be a catalyst for dramatic moves by the U.S. Federal Reserve in 2017, particularly when benchmarked against the persistent potential for global event risk.

Higher yields, but not high yields

The Republican sweep of the U.S. chambers of government saw the 10-year Treasury yield jump from roughly 1.85% to 2.35% in the span of seven trading days. Entrenched market expectations for significant fiscal stimulus and the risk of higher government debt levels galvanize an upward trend that actually took root over the summer months. Investors around the globe were already stepping back from the notion that central banks would pursue additional aggressive monetary policy decisions. A higher global yield environment should persist in 2017, and the Canadian bond market will take its cue from U.S. movements. But, we are cautious in building too much upside to yields in the near term, as this would risk undermining the still-fragile state of the global economy, and Canada is certainly no exception.

U.S. dollar to dominate

Everything is relative, and with the U.S. likely to maintain a comparative advantage with higher yields and stronger economic growth, investor appetite for U.S. assets should remain strong. Even if U.S. 10-year yields stay comfortably below the 3% level recorded during the peak of the taper tantrum in 2013, those yields still offer a hefty premium against similar investments in Europe and Japan. The attractive fundamentals will keep the greenback supported at 13-year highs in 2017. Downside risks remain significant for the Canadian dollar. The loonie could fall to US$0.72 or lower if Canada is hit by the crossfire of a U.S. administration erecting trade barriers or intensifying threats that discourage trade flows. However, it's important to bear in mind that the loonie will also reflect dynamics occurring in the oil market, which offers a counterweight to any downside that materializes on the former. Hopes of supply reduction under the recent OPEC agreement should support oil prices in a US$50-$60 range.

Volatility remains the name of the game

It is a good bet that it will not be smooth sailing throughout 2017. Political event risk will remain at the forefront, particularly if negative U.S. rhetoric on immigration and trade turns into action. Meanwhile, a number of key elections (Germany, France, Norway, Netherlands) will be taking place, and now Italy is back on the table. Outcomes will further test the recent groundswell of populism that could heighten worries around the sustainability of the euro. Outside the political sphere, there are plenty of economic and financial triggers that can occur, including ongoing concern around Italy's banking sector. China's restructuring challenge and elevated debt in emerging markets both have the capacity to trigger volatility through a disorderly unwinding and sharp capital outflows.

Donald Trump and interest rates

Sheldon Dong, CFA, Fixed Income Strategist

Forecasters are not very good at predicting the future. We have learned this about market strategists and now political pollsters—exemplified this year by U.S. President-elect Donald Trump and the U.K. referendum to exit the European Union.

At the time of writing, interest rate markets remain very volatile, making performance measurements prior to the U.S. election obsolete, as a strong surge in bond yields have reversed much of the prior year-to-date gains. Another point to note when it comes to measuring performance is that broad bond indices do not accurately reflect how most individual investors actually invest. For example, more conservative investors using guaranteed investment certificates and shorter maturities will experience lower volatility in the market value of their investments than investors in longer maturity and lower quality securities. The basic reason for the post U.S. election bond market sell-off is that President-elect Trump has promised tax cuts, infrastructure stimulus, and military spending worth a sizeable 5% of U.S. gross domestic product, raising economic growth and inflation expectations, which in turn, pushed interest rates higher to compensate. 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. Canadian and global bond yields have followed U.S. yields higher in order to remain competitive to international investors.

Despite the recent decline in the market value for interest rate sensitive investments, longer-term investors should keep calm and maintain perspective. This year started with the U.S. central bank forecasting four rate increases—it is likely to do just one rate hike of 25 basis points in December, the same as in 2015. The U.S. 10-year yield began the year at 2.31%, dropped to a record low of 1.32% on July 6, and moved back up to 2.40% by December 6, a round trip (figure 1). At the beginning of 2014, the U.S. 10-year yield was 3.05%. In Canada, weaker than expected economic growth resulted in TD Economics adjusting their January forecast for a Bank of Canada interest rate increase by late 2017 to early 2019. Similar to the U.S., Canadian bond yields also made round trip journeys this year. The 10-year Canada yield was at 1.67% on December 4, 2015, fell to a record low 0.91% on February 11, and has climbed back to 1.58% by December 6. If one did not pay attention to the swings during the year, yields are little changed and remain near historical lows.

We really don't know, prepare for the best and worst

Financial markets and central banks no longer operate in a domestic vacuum—making forecasting even more difficult. The reality is that no matter what we do at home, we are highly exposed to the rest of the world's economic strengths and vulnerabilities. Experts warned that stock markets would crash and bond prices would soar if Donald Trump won the U.S. presidential election. They were wrong—the reverse happened. The same experts are now warning that the 35-year secular decline in bond yields is over (again) and that a 'bond market bubble' is finally about to burst. But when people see emergency interest rate measures going on for nearly a decade and that there are still about US$9 trillion of negative-yielding bonds around the world, it undermines their confidence in central bankers and experts. While financial markets reflect much hope that the new U.S. president will rise to the huge challenges he faces, it is still too early to draw any evidenced-based conclusions on how Trump's presidency will play out. Like all forecasts, predicting the direction of interest rates is much harder than it sounds. Even central bankers, who set interest rate policies, have not been able to tell you accurately where interest rates are heading or when they will start moving to get there. Investors must consider the consequences of experts being wrong.

Figure 1: 10-Year U.S. Treasury Yield

Source: Bloomberg Finance L.P. As at December 6, 2016.

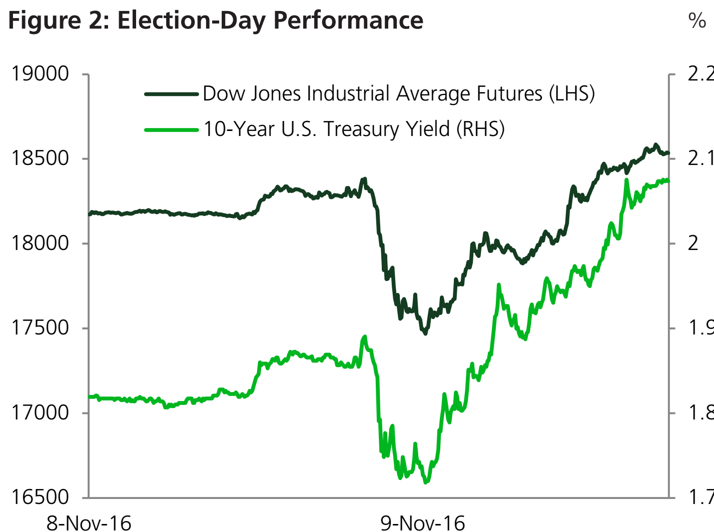
Higher interest rates are still not a foregone conclusion as markets are never that easy. Bond investors will likely see more volatility and short-term losses than they have been used to if interest rates rise. But current near-record low rates are punishing for prudent savers, as they are assured of fairly low long-term returns. The only way bond investors are going to earn higher long-term returns is if rates rise so they can reinvest maturing bonds or new funds at higher yields. If bond investors do not own securities with a maturity date, they will have to experience short-to-intermediate-term principal losses to get there—something many bond investors have been spared for some time now. If higher rates do finally materialize, investors should welcome this development, not fear it. Investors may crave certainty, but what they really need is an honest assessment of the current situation and the prospects for the future. Portfolio management is about risk management and portfolio construction. Risk comes in many shapes and forms. For some people, risk means running out of money before they die. For others, risk means making huge mistakes. Bonds are still likely to remain one of the best diversifiers of equity market risk and will likely provide downside protection to balanced investors over the long term. Your total portfolio matters most, not just the bonds within it. Investors with a longer-term investment horizon should actually be hoping for a rising rate environment as it will likely help them to achieve their longer-term financial goals, at least on the interest rate side.

180° on a dime

North American Equity Team: Chris Blake, CFA; Scott Booth, CFA; Maria Kalbarczyk, CFA; David Montreuil, CFA

On November 9, 2016, most capital markets participants had to shake their heads and pinch themselves twice to ensure they were not in some sleep induced parallel universe of opposites. The night before, as the prospect of Donald J. Trump winning the White House grew, things had been unfolding as the pundits suggested they would. Bond prices soared and the yield on the U.S. government 10-year Treasury bond plummeted as much as 14 basis points from a 1.855% close. Asian equity indices plunged and the S&P 500 Index (S&P 500) futures sold down almost 5%, snuffing out an election day rally built on the prospect of a Hillary Clinton win. Dawn brought a respite from the despair as the S&P 500 futures indicated an opening decline of just about 2%. What followed was one of the most abrupt and dramatic one day sentiment shifts in the history of markets. Bonds sold off, equities rallied and by the end of the day after the election, with Donald Trump declared the president elect, bond yields had backed up 44 basis points from their low to a closing yield of 2.06% and the S&P 500 had rallied 1.1%.

Figure 2: Election-Day Performance



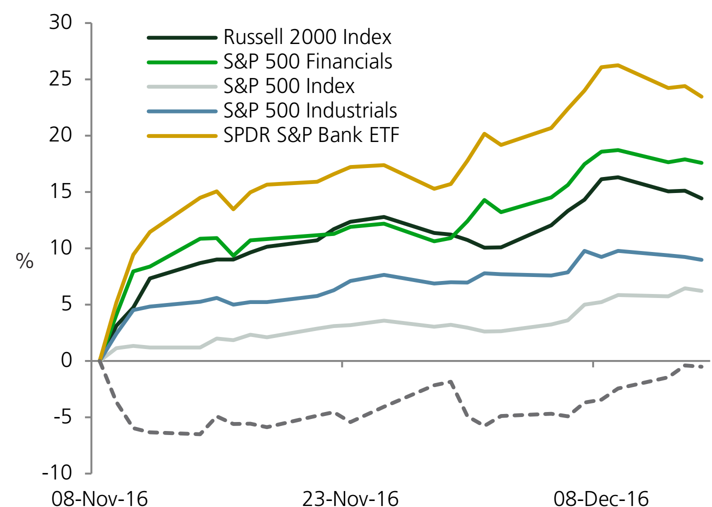
Source: Bloomberg Finance L.P. As at December 14, 2016.

"When the facts change, I change my mind. What do you do, Sir?" This quotation, which is widely attributed to John Maynard Keynes was certainly the governing philosophy on November 9, 2016. The market quickly moved to realize that Trump's campaign promises were fiscally simulative and inflationary—the kind of tonic that might help a central bank concerned about a lack of inflation see that there may be prospects ahead, making interest rate increases more likely. And so, we also had to re-evaluate our outlook on the coming year to incorporate a very different view of the world, one that is by no means certain to come to pass given the internal divisions within the Republican party.

Markets spent the month of November handicapping the measure of Trump's policies. The Mexican peso dropped dramatically and the Canadian dollar eased. Companies and industries that have re-aligned to take full advantage of the North American Free Trade Agreement, such as the auto industry, were punished as the abrogation of the treaty would hurt the flow of goods across those three borders—and there is probably no industry that has parts and finished goods crossing the borders the way the auto industry does.

We feel the market may have over-reached, at least for the near term. As hinted earlier, we are by no means certain that all the campaign rhetoric will come to pass as real policies, and so, the course of events in America is uncertain—biased to a growth dynamic, but uncertain.

Figure 3: Post-Election Performance



Source: Bloomberg Finance L.P. As at December 14, 2016.

As we cast our eyes around the world we see more uncertainty. In early December, an Italian referendum on political reform was turned down by the electorate and Prime Minister Matteo Renzi made good on his promise to step down on that outcome. This may lead to an Italian election in the coming months , adding to a full slate in Europe that starts with The Netherlands in March, followed by France in late April and Germany in the early fall. The political climate in Europe is rife with uncertainty as the populist uprising against ruling political classes that brought us such small earthquakes as Brexit and Donald Trump seems emboldened by their wins.

We cannot even be certain of either Brexit or Trump, as the former faces legal wrangling around the invocation of Article 50—the official mechanism by which exit negotiations are initiated, and the latter faces recounts in three key states. A second quotation of uncertain provenance but claimed to be in the form of a curse comes to mind: "May you live in interesting times."

Interesting times indeed; the following is our outlook for the year ahead. The thoughts represent our sense of the market at the end of November and like a market order, they are good until cancelled.

180° on a dime (cont'd)

North American Equity Team: Chris Blake, CFA; Scott Booth, CFA; Maria Kalbarczyk, CFA: David Montreuil, CFA

Energy

Following the November 30th meeting of the Organization of the Petroleum Exporting Countries (OPEC) which resulted in an announcement that member countries agreed to cut production by 1.2 million (M) barrels per day (BBL/D), with a further agreed cut of 0.6M BBL/D from non-OPEC nations, we are maintaining our positive view of the energy sector. While oil inventories remain at high levels, this agreement between both OPEC and non-OPEC countries should move the market to a deficit that will allow the excessively high global inventories to be drawn down. Most market observers suggest that oil inventories will be down to more normal levels sometime in the middle of 2017, helping to provide a floor under prices. Producers are likely to begin to invest a little more capital in the coming year as sentiment improves with the agreement. Coupled with a low operating cost environment and ongoing productivity improvements, we believe that this should translate into growing cash flow generation, rewarding selective investment.

Materials

The materials sector outperformed all others in 2016, with the gold sub-index leading the way in the first half of the year, and base metals and bulk materials taking the torch in the second half as the gold price softened and gold stocks underperformed. The surprising results of the U.S. election caused a sharp sell-off in fixed income as the president elect's policies were discounted into prices. That steepened the yield curve, strengthened the U.S. dollar and sent gold into a hard retreat. Despite our doubt that a replay of 2016's performance is in the cards, we continue to believe that gold should be a part of a well constructed portfolio, particularly given the potential for negative surprises in the European political environment and the probability of reflationary policies in the U.S.

Base metals and bulk materials moved strongly positive in the second half of 2016 and the potential exists for a minor correction in the near term. Notwithstanding, we believe that the group should continue to perform well over the next twelve months supported by better than anticipated industrial data from China, the continuation of positive supply-demand dynamics that supported key commodities, including zinc and coal, and the expectation of expanded construction and infrastructure spending in the U.S. We maintain a neutral view of the materials sector but would look to add on a pullback.

Industrials

The industrial sector would appear to be a guaranteed winner from the U.S. election, and the likely policies of the new Trump administration. However, the question of whether that can translate through to good sector performance from year-end 2016 through 2017 is one that is more challenging to answer. In early December, we looked at a group of stocks that performed well since the election. In some cases, select defense companies have risen as much as 16%, engineering companies as much as 28%, and major industrials that may benefit from infrastructure spending such as Caterpillar Inc. have risen 12.5%. We are left with a cautious stance after this rally and are neutral on the sector, thinking that it will very much be a stock picker's market in this sector next year.

Consumer

There should be divergent paths for the two consumer sectors next year. On one hand, consumer staples equities are expensive, which we expect will struggle to square historically high valuations with moderate growth in a world of many other attractive opportunities. On the other hand, the consumer discretionary sector should selectively do well as the incoming administration's stimulative fiscal policies are likely to ensure that the economic cycle extends. That cycle extension should increase consumer confidence, and importantly, put more money into the hands of consumers. We continue to feel that the equities of retailers should be approached carefully as there remain demographic headwinds. Additionally, the U.S. has too many stores, leading to inefficient operations that face increasing competition from internet based retailers. Some segments of the consumer discretionary sector have been priced by the market for the end of the economic cycle and not for a cycle that will continue. The auto sector in particular, has been valued for the end of the cycle. We believe there is at least another year ahead in which auto sales will be strong, generating strong cash flows for both the manufacturers and parts suppliers. We maintain a negative view on the consumer staples sector and a positive view on the consumer discretionary sector.

Health care

The U.S. health care sector is of interest as we move into 2017. This sector continues to generate strong earnings and free cash flow, returning a significant amount of capital to shareholders. We believe that health care companies will be beneficiaries of either a repatriation tax holiday or lower corporate tax rates, although companies that have re-domiciled to low tax jurisdictions may not benefit to the same extent. While some smaller merger transactions have been completed this year, other larger transactions have been on hold pending clarity in the U.S. tax legislation. We believe that business combination activity will be re-ignited by what will be seen as a friendlier environment—particularly given the potential for trapped foreign capital to be liberated. To be sure, there remain some risks to the macro environment, most notably the questions around European politics, however, valuations have become reasonable. Our view remains that the health care sector in Canada lacks appeal given a lack of breadth and depth.

Financials

With both the Canadian and U.S. financial sectors trading at discounts to the broader indices, we feel positive about the

180° on a dime (cont'd)

North American Equity Team: Chris Blake, CFA; Scott Booth, CFA; Maria Kalbarczyk, CFA: David Montreuil, CFA

outlook for 2017. This is a sector with leverage to a steepening yield curve which has already begun to take hold, as the new U.S. president elect's policies are pro-growth and inflationary. Many of the banks remain overcapitalized, a situation which should lead to further return of capital either through dividend increases or share buybacks. The financial sector will also benefit from any plan to withdraw or dilute the Dodd-Frank legislation in the U.S. This would likely ease capital constraints and reduce the regulatory burdens that have added to costs. In the near term, the yield curve may flatten as the U.S. Federal Reserve (the" Fed") raises interest rates, moderating some of the performance that insurance equities have experienced without much needed clarity on potential U.S. policy changes.

Real Estate

Our view is that after an expected Fed rate hike in December there will be a muted path of increases in 2017. This leads us to a positive view on real estate over the coming year. We expect that the yield curve will initially flatten as a result of the December rate hike until there is clarity around the scope and scale of Trump administration policy effects. Eventually, as inflation gains a foothold, the yield curve will likely steepen causing the sector to underperform. Valuations in this newly created market sector have come off the peak levels seen in July and now present an asymmetric risk return balance. We like the sector for its strong income generation, solid funds from operations growth and moderate valuations.

Information Technology

The information technology (IT) sector in the U.S. is being pulled in different directions by the mooted tax policies of Donald Trump. On one hand, the reduction of tax on repatriated overseas profits would be immensely positive for this sector as a list of U.S. companies with large offshore cash balances will feature numerous IT companies in the top ten. On the other hand, this is a sector with some of the lowest effective tax rates, and therefore, would have less to gain (relatively) on reduced corporate taxes. We have yet to see any specifics of the tax policies; however, on balance we believe they will be positive for IT companies. We also believe that other policies of the new administration will prove positive for the economic cycle, for business and consumer confidence and for capital expenditures. For example, it would not be surprising to see that tax relief on repatriation of overseas cash would come with some sort of "invest in America" condition. We remain positive on the potential for the technology sector through 2017.

Telecommunications

We remain constructive on the telecom sector in the near term with our continued view of a single Fed rate hike increase in 2016 and muted increases in 2017. We are less constructive for the long term as Trump's fiscal and monetary policies appear to create an inflationary environment that will lead to future rate increases. We do expect a flattening of the yield curve from current levels in the near term as the velocity of the Fed tightening cycle and the ability of a Trump administration to introduce inflationary policies are fully digested. A steepening yield curve could cause the sector to underperform in the long term. We view the Canadian telecom sector far more attractive than the U.S. counterpart as the U.S. players are far more willing to compete on price, which lowers overall industry profitability. In Canada, the industry continues to invest in Fibre-To-The-Home (FTTH) which should drive penetration, product adoption and margins. FTTH also forms a critical component for the next generation (5G); a backbone for increased capacity and bandwidth. Strong profitability and M&A opportunities should also lead to dividend increases and share repurchases. Our preferred companies in telecom include BCE Inc.(BCE-T) and Telus (T-T).

Utilities

With the post-election increase in reflationary expectations and a rate hike from the Fed in the cards for December, bond proxies like utilities have come under pressure. Interest rates are up sharply from mid-year levels but overall, they remain exceptionally low and are essentially flat from a year ago. While the path forward for interest rates will become clearer with time as political rhetoric gets translated into policy, we currently believe that the appetite for yield/income will remain unsated. We continue to see appeal in the utilities sector, particularly for those companies able to put capital to work in order to drive growth that can support dividend increases. Gyrations in interest rate expectations will likely result in volatility for the sector, but we believe quality companies with solid growth trajectories will weather the storm.

Sector Recommendations

Sector	U.S.	Canada	Preference
Consumer Discretionary	Over	Over	U.S.
Consumer Staples	Under	Under	U.S.
Energy	Over	Over	U.S.
Financials	Over	Over	U.S.
Real Estate	Under	Market	Canada
Health Care	Over	Market	U.S.
Industrials	Over	Market	U.S.
Information Technology	Over	Over	U.S.
Materials	Market	Market	U.S.
Telecommunication Services	Under	Market	Canada
Utilities	Market	Market	Canada

Source: Portfolio Advice & Investment Research. As at December 12, 2016.
Over: Overweight; Under: Underweight; Market: Marketweight

Investment ideas for 2017

Table 1: 2017 Canadian Stock Picks

Company	Symbol	Sector	Price	Dividend Yield
Canadian Tire Corp Ltd.	CTC.A	Consumer Discretionary	$142.53	1.82%
Magna International Inc.	MG	Consumer Discretionary	$61.45	2.19%
Alimentation Couche-Tard Inc.	ATD.B	Consumer Staples	$62.02	0.58%
Crescent Point Energy Corp.	CPG	Energy	$18.59	1.94%
Seven Generations Energy Ltd.	VII	Energy	$31.37	--
Suncor Energy Inc.	SU	Energy	$42.77	2.71%
Manulife Financial Corp.	MFC	Financials	$24.31	3.04%
Royal Bank of Canada	RY	Financials	$90.30	3.68%
Canadian National Railway Co.	CNR	Industrials	$89.52	1.68%
Open Text Corp.	OTC	Information Technology	$80.55	1.53%
Teck Resources Ltd.	TECK.B	Materials	$30.14	0.33%
TELUS Corp.	T	Telecommunication Services	$42.59	4.51%
Fortis Inc.	FTS	Utilities	$40.27	3.97%

Source: Portfolio Advice & Investment Research, Bloomberg Finance L.P. As at December 12, 2015.

Table 2: 2017 U.S. Stock Picks

Company	Symbol	Sector	Price	Dividend Yield
Home Depot Inc.	HD	Consumer Discretionary	$134.58	2.05%
Ford Motor Co.	F	Consumer Discretionary	$12.82	4.68%
Walt Disney Co.	DIS	Consumer Discretionary	$104.06	1.50%
CVS Health Corp.	CVS	Consumer Staples	$79.73	2.13%
Chevron Corp.	CVX	Energy	$117.15	3.69%
JPMorgan Chase & Co.	JPM	Financials	$84.73	2.27%
MetLife Inc.	MET	Financials	$56.61	2.83%
Pfizer Inc.	PFE	Health Care	$32.40	3.95%
General Electric Co.	GE	Industrials	$31.86	3.01%
Visa Inc.	V	Information Technology	$78.50	0.84%
Microsoft Corp.	MSFT	Information Technology	$62.17	2.51%
QUALCOMM Inc.	QCOM	Information Technology	$68.47	3.10%

Source: Portfolio Advice & Investment Research, Bloomberg Finance L.P. As at December 12, 2015.

Table 3: 2016 Canadian Stock Picks

Company	Symbol	Sector	Total Return
Canadian Tire Corp Ltd.	CTC.A	Con. Discr.	22.8%
Magna International Inc.	MG	Con. Discr.	12.2%
Alimentation Couche-Tard Inc.	ATD.B	Con. Staples	2.3%
TransCanada Corp.	TRP	Energy	34.5%
PrairieSky Royalty Ltd.	PSK	Energy	57.3%
Manulife Financial Corp.	MFC	Financials	21.9%
Toronto-Dominion Bank	TD	Financials	25.5%
H&R Real Estate Investment Trust	HR.U	Real Estate	17.7%
Canadian National Railway Co.	CNR	Industrials	17.8%
Open Text Corp.	OTC	Info.Tech.	23.3%
Agrium Inc.	AGU	Materials	16.7%
BCE Inc.	BCE	Telecom.	15.3%
Emera Inc.	EMA	Utilities	7.7%

Table 4: 2016 U.S. Stock Picks

Company	Symbol	Sector	Total Return
Home Depot Inc.	HD	Con. Discr.	3.9%
Ford Motor Co.	F	Con. Discr.	-2.7%
Walt Disney Co.	DIS	Con. Discr.	0.5%
EOG Resources Inc.	EOG	Energy	50.8%
JPMorgan Chase & Co.	JPM	Financials	32.1%
MetLife Inc.	MET	Financials	21.8%
Bristol-Myers Squibb Co.	BMY	Health Care	-16.3%
Abbott Laboratories	ABT	Health Care	-10.5%
General Electric Co.	GE	Industrials	4.7%
Intel Corp.	INTC	Info.Tech.	7.9%
Microsoft Corp.	MSFT	Info.Tech.	15.1%
QUALCOMM Inc.	QCOM	Info.Tech.	41.9%

Sources (table 3 & 4): Portfolio Advice & Investment Research, Bloomberg Finance L.P. Total Returns are from December 31, 2015 to December 12, 2015.

Important information

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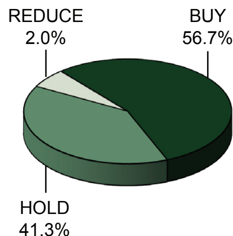
Overall Risk Rating in order of increasing risk: Low (7.3% of coverage universe), Medium (35.2%), High (44.3%), Speculative (13.2%)

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 December 1, 2016.

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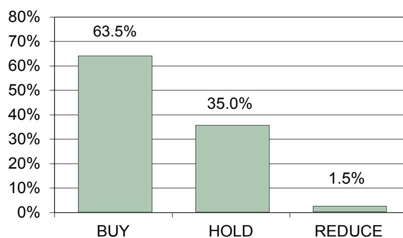

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Action List BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector. BUY: The stock's total return is expected to exceed a minimum of 15%, 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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