

# Q&Eh

## What's the deal with Canada?

Monthly Perspectives // Portfolio Advice & Investment Research

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Embrace human behavior is the second principal of our Risk Priority Management philosophy, which we define as follows:

“Traditional finance assumes that all investors are rational and well-informed and that the economic environment in which they operate has a very mechanical business cycle that, consequently, is very predictable. In practice, human beings learn and adapt as they go along, so the financial environment in which they function changes accordingly. We believe it wiser to consider the investment world as a complex adaptive system and to pursue returns and manage risk based on this idea.”

Human beings, including presidents, often do things that are unpredictable; this makes financial markets dynamic. Going into the recent G7 summit, few would have predicted that President Donald Trump would follow up this meeting of allies tweeting that Prime Minister Justin Trudeau was “weak” and “dishonest”. The same is true for the U.S. trade advisor, Peter Navarro, who suggested that there is a “special place in hell” for our prime minister. We started preparing this month’s Perspectives, “Q and Eh”, about four weeks ago. The objective of this issue is to answer the most topical Canadian investment questions, and then this fell onto our lap just as we had sent the finished product for publication. Stop the press!

We think the following from our commentary last month, “A Requiem for the new era”, provides excellent context:

“Trade negotiations can often be characterized by abrasive rhetoric as participants on all sides try to extract maximum benefits, and what we see unfold in the political arena over the next few months or couple of years may not be that different. While negotiations of this type are by their nature unpredictable, the outcomes need not be extremely positive or negative for one side or the other.”

With this in mind, we will leave this posturing alone and focus on our original goal. To do so, we have tapped into some strong and honest Canadian minds. To review the current state of the Canadian economy, we share the thoughts of Derek Burleton, Deputy Chief Economist, TD Economics. To tackle energy, we have some thought leadership from Maria Bogusz, CFA, Manager, North American Equities, TD Wealth, PAIR. And finally, to review the current environment for Canadian banks, we sat down with Canada’s top ranked bank analyst, Mario Mendonca, Managing Director at TD Securities.

Keep calm and read on.



Q&A // With Derek Burleton, VP and Deputy Chief Economist, TD Economics

## **What are the key challenges to Canadian competitiveness?**

Canadian competitiveness has suffered a number of setbacks in recent months. With tax reform in the U.S., Canada's favourable position in corporate taxation has been effectively wiped out. On the personal side, the U.S. has increased its advantage. The average combined federal-state marginal personal income tax rate fell to around 42.5%, nearly a full 10 percentage points lower than the comparable Canadian rate.

Tax rates are important but are not the only driver of business and personal investment and location decisions. Other factors also loom large, including wages, infrastructure quality, workforce skills and the regulatory environment. In certain areas, such as inflows of skilled migrants, Canada appears to enjoy a growing competitive advantage. But in others, this country's position relative to the U.S. appears to be deteriorating. Uncertainty around NAFTA talks has not been helpful to Canada's export sector, which carries a larger relative weight than that of the U.S. Further, a lack of pipeline capacity is one of the most pressing competitiveness challenges facing Canada's large oil sector.

Despite these headwinds, Canadian business investment trends have been holding up well in recent quarters. The latest data on foreign direct investment (FDI) show that while it has indeed softened as outflows accelerated, this is largely a story of Canadian firms investing abroad rather than any meaningful slippage in inward flows. What's more, the outflow has been largely concentrated in two sectors: finance and transportation. Even manufacturing investment has been generally stable.

The potential for a longer-term 'bleed' of investment from Canada to the U.S. is a legitimate worry that requires a response from Canadian policy makers. One consideration is the sustainability of recent U.S. tax cuts. The revenue loss from the tax reductions will lead to growing U.S. deficits that will ultimately require higher federal taxes (and spending cuts) down the road. Canada's federal fiscal position is much sounder, offering an offsetting longer-term advantage. In the meantime, the lure of investing stateside appears to be powerful. Canada's Federal Finance Minister has vowed to make it a key priority going forward, but only time will tell what actions will be forthcoming, and whether any moves made federally will be complemented or eroded by provincial policies.

## **What factors will keep the Bank of Canada cautious in hiking rates?**

After a disappointing start to 2018, Canada's economy has since been gaining pace. Real economic growth appears to be running at a solid clip of above 2% midway through the year. In the job market, trends in full-time job creation have remained strong, and low unemployment has been pushing

up wage gains. In another sign of economic health, core inflation has returned back up to the central bank's traditional 2% target.

Part of the recent growth rebound reflects the reversal of some transitory factors that had weighed on the economy's performance this past winter. The unexpectedly high trajectory of oil prices since April has provided an added lift to both confidence and spending in Canada.

In light of these developments, one would think that the central bank would have the green light to accelerate its path of rate normalization in the months ahead. Yet, taking their cue from the cautious tone of recent central bank communications, financial markets are well justified in pricing in only about 75 basis points of tightening through the end of next year.

A number of factors are driving this caution. The first is rooted in a positive development. Earlier this year, the Bank of Canada upgraded its view of Canada's estimated sustainable growth rate by almost half a percentage point – to around 1.8% – in part due to the strength in capital investment over the past few years. Higher 'potential' growth implies more room for the economy to expand without stoking inflation pressures.

The second relates to household vulnerabilities. Highly-indebted Canadian households are more sensitive to rising interest rates than in the past. This puts the central bank in a tight spot. Rising borrowing costs will help consumers wean themselves off excessive credit, which is a desirable outcome. But, if the punch bowl is taken away too quickly, it might set in motion a damaging deleveraging cycle. On the positive side, faster wage growth recently provides some added wiggle room for households to absorb these rising costs along, with higher pump prices.

The third factor relates to uncertainty in both housing and the external environment. NAFTA talks could be abandoned or drag out beyond this year, leaving a veil of uncertainty around export-oriented business activity. Within resale housing, the dust has not yet settled on the newly-implemented tighter federal lending guidelines (B-20), which have yielded a marked pullback in activity in the nation's most expensive markets. The most likely outcome is for activity to stabilize at the current lower levels, but it is far from assured.

Lastly, the Bank of Canada has been clear that it views its long-held 2% target as symmetric, which allows some wiggle room for inflation to run a bit hot. For all of these reasons, we expect the Bank of Canada to lag the U.S. Federal Reserve in raising rates over the next year. Government bond yields in Canada are already sitting about 40-70 basis points below their U.S. counterparts. This rate discount is expected to keep the Canadian dollar trading in the lower end of its recent US\$0.77-0.82 range this summer, barring a further significant leg up in oil prices.

Q&A // With Maria Bogusz, CFA, Manager, North American Equities

## **Are energy fundamentals strong enough to support WTI/Brent crude oil at \$70/\$80 at barrel?**

Currently, there are multiple fundamental factors which are supportive of oil prices. We believe that upside surprises will continue to outweigh downside surprises over the next six to twelve months.

In November 2016, the Organization of the Petroleum Exporting Countries (OPEC) and 13 non-OPEC nations agreed to curtail their collective production by 1.8 million barrels per day (mmbld) in order to facilitate the rebalancing of global oil inventories, and subsequently in late 2017 extended the production cuts to the end of 2018.

While market watchers were initially skeptical of the countries' compliance efforts, the market has been surprised by the nations' overall compliance with the agreement, which has surpassed 100% every month since October 2017. As a result, oil inventories for the U.S. as well as the Organization for Economic Cooperation and Development (OECD) countries have descended below their five-year averages. The U.S. Energy Information Administration (EIA) also estimates that global inventories have on average declined by 0.6 mmbld in each quarter since the OPEC agreement announcement.

On the demand side, strong global economic growth continues to sustain rising oil demand. The global economy grew at a rate of 3.8% in 2017 and is expected to grow at the same pace in 2018. In addition, world oil demand grew by 1.7 mmbld in 2017, and the International Energy Agency (IEA) estimates 1.5 mmbld of growth in 2018. Demand growth in recent years has surpassed long-term average growth of about 1 mmbld and has also surprised to the upside, leading the IEA to revise their 2018 demand forecast upward by 0.32 mmbld.

On the supply side, there are many developments which could potentially interrupt global oil supply and lead to inventory tightening. Venezuela is a significant global oil producer, but the country's political and economic instability is causing production to deteriorate rapidly. Nigeria, another major producer, regularly faces production interruptions due to sabotage attacks on pipelines. Geopolitical risks in the Middle East remain and will continue to impact supply. For example, President Trump's decision to leave the Iran nuclear deal and re-impose sanctions on the country could lead to export restrictions for at least a part of Iran's 3.75 mmbld of oil production.

The market has been concerned about the rapid growth of U.S. shale oil and its capacity to flood the market; we believe these concerns are overstated. U.S. crude oil production grew by 0.5 mmbld in 2017 and is expected to grow by 12%, or a further 1.1 mmbld, in 2018. Investors fear that U.S. oil production

will continue to grow at least at the same brisk pace in the foreseeable future. However, the rate of U.S. production growth appears to have peaked. Productivity gains for producers in the prolific Permian basin seem to have flattened. Oil drill rigs are being added at a slower rate, with 97 rigs added in the first 20 weeks of 2018 compared to 195 rigs added last year. U.S. producers are displaying more capital discipline than in years past, with the forecasted 10% increase in 2018 capital spending expected to be well eclipsed by the increase in oil prices. Finally, Permian producers are facing issues with a shortage of pipeline capacity to transport their oil out of the basin. Additional pipeline capacity is not expected to become available until H2/19, which should temper production growth from producers without secured takeaway capacity.

Finally, the initial public offering of a Saudi Arabian state is not expected until late 2018 or 2019. Given the clout Saudi Arabia holds among the OPEC nations, the actions of OPEC are likely to remain supportive of oil prices until at least that time.

## **Why is there a disconnect between crude prices and energy equities?**

Disconnects between crude prices and energy equities exist due to various factors, and the two do not always trade in line. Oil prices are driven by the fundamental outlook for the commodity. In addition to oil prices, energy equities are also influenced by investor sentiment, investor demand and the structure of the oil futures curve.

Recently, the disconnect between the oil and energy equities has been more apparent than usual, given the material underperformance of energy equities compared to crude prices. Since the beginning of 2017, WTI crude oil has increased 32%, while Canadian and U.S. energy producers (E&Ps) have respectively declined 12% and increased 1% during the same time period.

Investors have stayed away from energy equities en masse, preferring to invest in sectors perceived to be more profitable. Argus Research recently noted that the energy sector weighting in the S&P 500 index declined to just 6%, compared to a five-year range of 5% to 12%. Meanwhile, for the S&P/TSX Composite Index, the current 19% energy weighing is light compared to the five-year range of 17% to 27%.

Investors have also been hesitant to invest in energy equities given a lack of conviction regarding the sustainability of higher oil prices, Spot oil prices are trading around US\$65 per barrel, while oil futures are trading at an ever-widening discount to spot prices. This occurrence is known as a backwardated market. Some investors interpret this as a sign that near-term demand for oil exceeds longer-term demand, and that the current level of spot prices is not sustainable in the long-

term. However, a backwardated curve has also been used as a contrarian buy signal by some investors.

Positively, the equity underperformance trend has reversed over the past three months, with Canadian and U.S. equities outperforming crude prices. Sentiment has turned somewhat as investors seek out the leverage to rising oil prices of energy equities.

## Is the Canadian natural gas market structurally broken?

No, the Canadian natural gas market is not broken, though it has recently experienced difficulties as Western Canadian Sedimentary Basin (WCSB) gas production has exceeded takeaway capacity, resulting in low and volatile gas prices. WCSB gas supply has grown rapidly, driven by surging well productivity. WCSB gas production is now around 16 billion cubic feet (Bcf/d), while some parts of Western Canada's gas transportation system are full at 12 to 13 Bcf/d, creating bottlenecks in the system.

The good news is that there are plans for pipeline capacity additions. TransCanada plans to invest \$7.2 billion in its Nova Gas Transmission Ltd. (NGTL) pipeline system, the primary transporter of gas out of the WCSB, through 2021. The investments will add 2.6 Bcf/d of incremental

transportation capacity. However, only 0.38 Bcf/d of the incremental capacity will come online in 2018, and 2018 is expected to be another year of tight takeaway capacity. Longer-term, the outlook is better as additional takeaway capacity comes online, dry gas producers start to curtail production and as Western Canadian gas demand grows. In addition, A positive final investment decision on Shell Canada's liquefied natural gas project later this year could also create 3.7 Bcf/d of incremental gas demand in the WCSB with time.

## How is the best way to approach this?

The market is cyclical, and sometimes the best time to buy equities is when nobody else is buying them. Just because energy equities may be out of favor today does not mean that they will be out of favor tomorrow. We recommend maintaining some exposure to energy equities throughout the full business cycle. We recommend that investors diversify across geographies/basins, products, the energy value chain (i.e. downstream, upstream, midstream) while focusing on high quality companies with clean balance sheets, competitive cost structures and reputable management teams.

# Banks

Q&A // With Mario Mendonca, Managing Director, TD Securities

This article is for distribution to Canadian clients only.

Mario Mendonca is Canada's top ranked bank analyst. We had the opportunity to speak with Mario in late May as the banks were reporting earnings.

**Mario, newspapers and the financial press have, over the last several months, carried numerous articles about a couple of aspects of the Canadian economy. The first flashpoint topic is the high debt levels carried by Canadian consumers; and, the second is our housing market which has continued to rise and never went through the type of correction seen in the United States. So, what do you think, are the banks at risk due to an overheated housing market?**

There are two primary ways to look at the issue. Let's look first at the more severe of the two: Could an overleveraged Canadian consumer ultimately result in material credit losses for the Canadian banks? And, could those credit losses lead to capital pressure for our banks? This is the condition that could cause a permanent deterioration in value for the institution – think of what happened with Citibank in the U.S. housing crisis. They ultimately had to issue so much equity to

survive that, when they came out the other side, the pre-crisis investors never really got their money back, the pre-crisis stock trading levels are not even close to being reached [note: In 2007 Citibank was an equivalent \$500+ stock price. Now, eleven years later, it is trading in the high \$60s].

The second way to think about this is that mortgage growth will slow and consumer lending will slow, materially. From mortgage growth of 6-8% not long ago to I think 3% or even 2%. Then the question is, do the banks have the diversity and the resilience in their business models to offset that slowdown and still generate reasonably good earnings growth so that when we come out the other side of this, and mortgage growth and consumer loan growth sort of return to a more normal level, the banks are whole, and everything functions normally, and valuations return to normal? Because in a period like that, as an investor you can hold the bank stocks right through that slowdown and still generate great returns – particularly if they are growing their book values at a good rate and increasing their dividends.

So with those two as possible scenarios, it is the second that I think is what is playing out.

Let me first address the former. To really have material credit losses in mortgages a couple of things must happen. One would be that the loan to value ratios would have to deteriorate so much that investors start to question the collateral. Think of what would have to happen given where loan to value ratios are right now, and let's acknowledge first that half the banks mortgage books are insured by the Canadian government – the other half have loan to values of 55-60%. Even the new mortgages the banks are putting on right now have loan to value ratios of 68-70%. So we are talking about a tremendous amount of coverage, collateral and security coverage on these mortgages. So, I don't believe that the capital or collateral will erode to the point where there are credit losses. The other condition you need is to have a real spike in unemployment. Unemployment is the other thing you really want to be sensitive to, but even with higher unemployment, banks would not lose a lot on their mortgages. Credit losses are running at about 1 basis point (1/100th of a percentage point), so even if they went to 8 bps that still would not be a big number. What you want to be more sensitive to, in a period of rising unemployment, is what is happening with credit cards and auto lending because that is a segment of lending where exposures are reasonably large and credit losses really can double. For example, credit card losses can jump from 4% to 8% quickly, up 400 bps if unemployment really spikes. But, what I would submit to you is that, even in a period of materially higher unemployment, there would certainly be cause for concern, bank earnings would tumble, but I don't think capital would be a problem. Once you see your way through the recession, because I am now pre-supposing a recession if I am going to assume unemployment moves that high, the bank business model would still be intact. While it would be painful for investors in that period, if you held through that period, you would come out still being very much intact. The bank stocks would recover, and dividend growth would resume. So this is my way of saying that the kind of housing meltdown that we saw in 2008-2009 in the U.S. is not really plausible here in Canada given where our loan to value ratios are, how modest our sub-prime market is and all the other characteristics like recourse that make Canada different from the U.S.

**So, when you think about that kind of spike in unemployment, are you modelling that in the sense of the recession seen in what prior period, the early nineteen nineties, the early 80s...?**

Yes, I am thinking early 90s. I am thinking about how there was pain around that time. But those crises had much more of an effect on the commercial real estate market than they did on the mortgage market. Even back then, you never really

saw periods of rising credit losses in mortgages; you would have seen it in credit cards, autos and other business, but not mortgages. Commercial real estate really took a beating back then. What is interesting though, is that our banks really aren't the sort of commercial lenders they were back then. Commercial loan growth matters to our banks but it is not an enormous part of their portfolios. Our banks used to be 50/50 (commercial/retail), now they are far more retail than they are commercial.

When banks have been hurt in the past, it has come from wholesale lending. Remember the tech and telecom troubles of the early 2000s; oil and gas, which looked like it would cause trouble in 2016 although it didn't really play out that way; and, commercial real estate in the early 90s, which really hurt the life insurance companies and some banks. Those are the periods which caused strain for the banks. On the retail side we don't see it in mortgages, but we could very well see it in credit cards and auto. Let's think about the conditions that would cause that. The conditions that would cause that would likely not be homegrown. I think it would more likely be a recession in the U.S. or a global economic slowdown that would have a pervasive effect on economies like Canada. I don't feel like Canada itself is heading into a recession – the employment trends are still good, and the U.S. economy is functioning well. Love him or hate him, President Trump is fuelling that economy pretty aggressively right now. It is probably still too much debt fuelling that economy right now, as it has been for most of the last 50 years, but with a U.S. economy moving with that kind of momentum, you are unlikely to see Canada fall into recession.

So now, let's look at the second scenario since that first scenario is something I am confident in saying we are not headed toward: A period of credit losses on mortgages just does not seem that plausible to me. The other scenario, which is what I believe we are seeing unfold now, is that regulations are coming into effect that are causing mortgage growth to slow. That is very real. But, let's go to what the CFO from the Royal Bank of Canada said on their conference call a few days ago. He said that despite B-20 [the new mortgage underwriting guidelines] they are still confident that they are going to see mid-single digit mortgage growth in 2018. Now let's assume he means around 4% by that. He carried on to say that even if that mortgage growth was half that level (2%) that would be more than made up by the increase in the margin associated with one Bank of Canada interest rate increase. So what that means is mortgage growth can decrease by half and one Bank of Canada rate increase would be enough to spike margins. This is a point I have made in my research reports in the past: that one of the most important drivers for our banks is what happens to the net interest margin. Moves of five to ten basis points in interest

rate margins can have an enormous effect on earnings and the return on equity for a bank. Part of the reason that this is true is that there is a significant amount of operating leverage associated with net interest income. I can explain it this way: if revenue in other areas of the bank, like wealth management for example, move higher, it would normally be associated with a significant move higher in compensation and other expenses; but, when net interest income moves higher, you do not see a commensurate increase in costs. So a lot of that falls straight to the bottom line.

**So when the Bank of Canada moves, I typically notice that the banks move to adjust loan costs very quickly and move their prime rates, but there is a lag in moving on the deposit side – increasing what they pay customers for deposits. How does that play into this?**

Well, that depends on the nature of the deposit book. I think about three layers of the deposit book. In the first layer, where there are zero interest rate deposits like chequing accounts, you may never see that increase. What you will see is customers do the rational thing and move money to products that carry higher rates and at least earn them something. So that first layer of deposit generally has very little effect.

The next layer of deposits, for example time deposits or term deposits, I would say that for the first 50-100 basis points of movement from the Bank of Canada, you see very little of that kick in. Remember that interest rate margins have declined from 225 basis points on a total bank basis to 185 basis points over the last 15 years. That is a lot of margin that has gone away over the last 15 years. So, I think that in the first 50 -100 basis points of increase we may not see a lot passed on (unless of course, a major round of competition kicks in; in which case you could upset the apple cart).

In the third layer, commercial or wholesale funding provided by investors and pension funds, you get a very quick response. These deposits respond immediately to competition in the market. For that reason, in general, you want to be a little more wary of banks that are more reliant on wholesale funding. Those are the ones that could see their cost of funds rise quickly. The good news is that none of the Canadian banks are really that reliant on wholesale funding.

In an interesting development south of the border, we are starting to see some of the U.S. banks talk about “deposit betas” – how much you increase your deposit rates in response to increases in rates: if the U.S. Federal Reserve boosts rates 25 bps and you give 12.5 bps to the deposit base you have a 50% beta. We are now seeing those betas in the U.S. moving over 50% indicating a lot more pressure to move quickly on rate increases.

So let’s think about this: if mortgage growth is going to slow, say from 7% to 4% to 2% (which is essentially what is in my

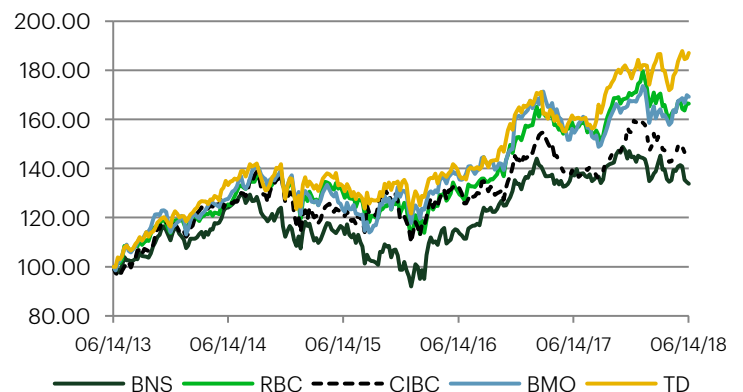
models right now, with mortgage growth going to 2.5% in 2019) what banks need to rely on is the other sources of growth for their earnings. So looking at those, one of the most important of those is margins and that is the driver we are seeing right now. Margins are doing an enormous amount to make up for the slowdown. The other driver is cost savings, and we saw that in the last quarter, where restructuring actions from 2016 and 2017 are really starting to pay off now.

The other thing, besides margins and expenses, is capital. You can think of capital in two ways: the shield or the sword. The shield gainst the real nightmare scenario where capital comes into question as a result of losses, or the sword, where capital can be used for buybacks, for U.S. deals, and to more aggressively grow risk weighted assets to generate better earnings growth.

**In summary, it doesn’t sound like you put too much stock in the fear articles. What is the best way to approach these equities from this point?**

The year started with the banks trading at Price/Earnings multiples of 10.3 to 10.4 times 2019 earnings, levels that I would call reasonable – not stretched in any way. Normally when you have positive momentum in consensus estimates (i.e. analysts are taking their 2018 and 2019 estimates higher – something that is currently happening) the multiple tends to expand to 12 times. My thinking has been that as the year progresses and the momentum in estimates plays out; and, as people become less sensitive to this mortgage issue and begin to appreciate that this whole mortgage issue is just a slowdown in mortgages and not the scenario we saw in the United States in 2008 (where credit losses spiked), multiples will increase toward that 12 times level. This is what we are seeing now; multiples are expanding and are now around 11 times. In the last month or so, the banks have made up some lost ground and I expect that there is more to go in the second half as the estimate momentum continues to play out. So that is the way to play the Canadian Banks, hold on as this earnings momentum plays out.

**Figure 1: Canadian Bank Stock Prices**



Source: FactSet, as at June 14, 2018. Rebased to 100.

# Market review

7

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
<b>Canadian Indices (\$CA) Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
S&P/TSX Composite (TR)	54,137	3.12	4.83	0.25	7.75	5.36	8.05	7.86	3.92	6.35
S&P/TSX Composite (PR)	16,062	2.91	4.01	-0.91	4.64	2.27	4.89	4.71	0.88	3.82
S&P/TSX 60 (TR)	2,592	3.34	4.85	0.22	8.07	5.95	8.74	8.54	3.79	6.44
S&P/TSX SmallCap (TR)	1,021	1.79	5.59	-1.36	6.23	5.12	5.55	3.54	2.16	-
<b>U.S. Indices (\$US) Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
S&P 500 (TR)	5,318	2.41	0.19	2.02	14.38	10.97	12.98	15.08	9.14	6.64
S&P 500 (PR)	2,705	2.16	-0.32	1.18	12.17	8.68	10.65	12.67	6.81	4.65
Dow Jones Industrial (PR)	24,416	1.05	-2.45	-1.23	16.22	10.67	10.07	11.39	6.81	5.18
NASDAQ Composite (PR)	7,442	5.32	2.33	7.80	20.06	13.65	16.58	17.76	11.43	7.42
Russell 2000 (TR)	8,075	6.07	8.37	6.90	20.76	10.98	12.18	14.67	9.64	8.01
<b>U.S. Indices (\$CA) Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
S&P 500 (TR)	6,886	3.31	1.28	5.30	9.71	12.39	18.18	19.50	12.06	6.02
S&P 500 (PR)	3,503	3.06	0.77	4.43	7.58	10.07	15.75	17.00	9.67	4.03
Dow Jones Industrial (PR)	31,614	1.94	-1.39	1.94	11.47	12.08	15.13	15.67	9.67	4.56
NASDAQ Composite (PR)	9,636	6.25	3.44	11.27	15.16	15.10	21.95	22.29	14.41	6.79
Russell 2000 (TR)	10,456	7.00	9.55	10.33	15.83	12.39	17.35	19.07	12.57	7.37
<b>MSCI Indices (\$US) Total Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
World	8,531	0.72	-0.21	0.77	12.18	8.26	10.01	12.20	5.98	5.88
EAFE (Europe, Australasia, Far East)	8,038	-2.11	-1.48	-1.19	8.50	4.83	6.42	9.04	2.57	4.87
EM (Emerging Markets)	2,458	-3.52	-5.69	-2.52	14.43	6.56	4.89	6.04	1.96	8.49
<b>MSCI Indices (\$CA) Total Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
World	11,047	1.61	0.87	4.00	7.60	9.64	15.08	16.51	8.82	5.25
EAFE (Europe, Australasia, Far East)	10,408	-1.25	-0.41	1.99	4.07	6.17	11.32	13.22	5.32	4.25
EM (Emerging Markets)	3,183	-2.67	-4.66	0.61	9.76	7.91	9.72	10.11	4.68	7.85
<b>Currency</b>	<b>Level</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
Canadian Dollar (\$US/\$CA)	77.23	-0.87	-1.08	-3.11	4.26	-1.26	-4.40	-	-2.61	0.59
<b>Regional Indices (Native Currency) Price Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	<b>20 Yrs</b>
London FTSE 100 (UK)	7,678	2.25	6.17	-0.12	2.10	3.21	3.13	4.73	2.41	0.01
Hang Seng (Hong Kong)	30,469	-1.10	-1.22	1.84	18.74	3.57	6.35	8.06	2.19	6.33
Nikkei 225 (Japan)	22,202	-1.18	0.61	-2.47	12.98	2.59	10.02	18.17	4.47	1.76
<b>Benchmark Bond Yields</b>		<b>3 Month</b>		<b>5 Yr</b>		<b>10 Yr</b>		<b>30 Yr</b>		
Government of Canada Yields		1.27		2.12		2.25		2.30		
U.S. Treasury Yields		1.93		2.76		2.92		3.07		
<b>Canadian Bond Indices (\$CA) Total Return</b>	<b>Index</b>	<b>1 Month</b>	<b>3 Months</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>Since 1/1/2012</b>	<b>10 Yrs</b>	
FTSE TMX Canada Universe Bond Index	1,037	0.80	0.70	0.04	-0.98	1.59	2.94	2.91	4.45	
FTSE TMX Canadian Short Term Bond Index (1-5 Yrs)	699	0.15	0.25	0.31	-0.84	0.71	1.58	1.68	2.89	
FTSE TMX Canadian Mid Term Bond Index (5-10 Yrs)	1,115	0.42	0.26	-0.39	-3.02	1.24	2.89	3.10	4.96	
FTSE TMX Long Term Bond Index (10+ Yrs)	1,702	1.96	1.58	-0.08	0.17	2.97	4.81	4.41	6.62	

Sources: TD Securities Inc., Bloomberg Finance L.P. TR: total return, PR: price return. As at May 31, 2018.

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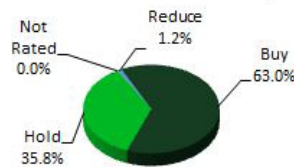
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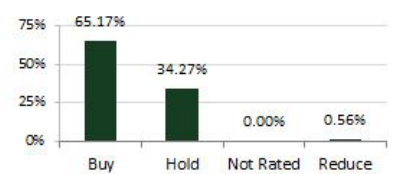
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Distribution of Research Ratings<sup>^</sup>



Investment Services Provided<sup>\*</sup>



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