

Surviving the trade war

Monthly Perspectives // Portfolio Advice & Investment Research

July 2018



In this issue

Trade ripples.....	2
Multiple headwinds for bonds.....	3
Nowhere to run, nowhere to hide.....	4
Market performance.....	7
Important information.....	8



Trade ripples

Brad Simpson, Chief Wealth Strategist and Head of Portfolio Advice & Investment Research, TD Wealth

Investors demonstrated remarkable composure as the trade rhetoric heated up earlier this year. In May, developed markets largely shrugged off the threat of tariffs, sanctions and the general breakdown of the global economic order. Then, in June, as testy words between China and the U.S. escalated into a real trade battle, with real dollars at stake, investors seemed to finally blink. Equities stalled in North America, fell across Europe, and they were particularly hard hit in emerging markets, where the news struck a little closer to home. Alas, this could be just the beginning of volatility, as economic cruise ships — powered by strong corporate earnings — sail into choppier waters.

So far, what we've seen amounts to a tit-for-tat dispute. Most measures still point to global expansion, and the economic impact of trade disputes will not be immediate, but conflicts like this tend to be corrosive. If this dispute spirals into a full-scale trade war, long-term repercussions are hard to predict, but are worrisome to say the least.

Economic forces, however, rarely turn on a dime, which has led us into a kind neutral zone as financial markets search to find direction. The central banks have certainly done their part to help steady the waters, by signalling a gradual approach to monetary tightening. While the U.S. Federal Reserve (Fed) has been more aggressive in its rate hikes — prompting the TD Wealth Asset Allocation Committee (WAAC) to upgrade their outlook on the U.S. dollar to neutral — it made clear that its approach would be slow and steady.

Ironies abound in this age of political trade discord. While the U.S. administration agitates for change, even as its economy outperforms, its largest trading partner, Canada, has seen its energy sector benefit from the agitation as threats of U.S. sanctions on Iran have propelled oil prices skyward. This twist

of fate has lifted Canadian energy producers. WAAC's outlook on Canadian equities has also risen to neutral.

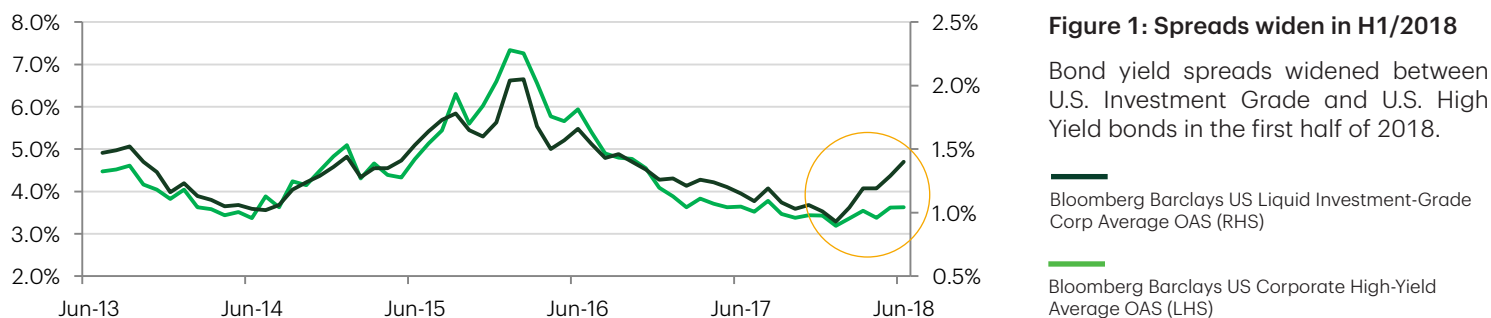
Prospects for international and emerging equities, meanwhile, have dimmed slightly. The European Union is dealing with its own political concerns, as growing pockets of nationalism, particularly in Italy, sap investor confidence, leading WAAC to downgrade their outlook for international equities to neutral. They are also downgrading to neutral their outlook for emerging markets, for both equities and bonds. On the equity side, trade wars and high debt levels are the concern; on the bond side, attractive yields for emerging markets should be offset by weakening currencies and, again, trade concerns.

Overall, WAAC continues to favour a diversified portfolio that includes: high-quality equities that have the ability to increase their earnings and dividends in a low-growth environment and thereby protect the real value of investors' savings; an allocation to cash to provide stability and safety of capital; and an allocation to high-quality domestic government bonds and investment-grade corporate bonds to provide some income, diversification and stability.

Nothing is carved in stone and there is a broad range of potential outcomes, which is why we believe that it is crucial for investors to retain a long-term perspective and maximize diversification benefits within their portfolios. This starts with having a deeply ingrained investment philosophy that governs all decisions during times like this. At TD Wealth we call this Risk Priority Management and it provides the foundation for what we do. These are indeed unsettling times, but it is always wise to remember that a singular focus on the concerns of today can lead to poor outcomes tomorrow. However, process-driven, thoughtful decision-making will over time lead to better overall results.

Multiple headwinds for bonds

Fixed income



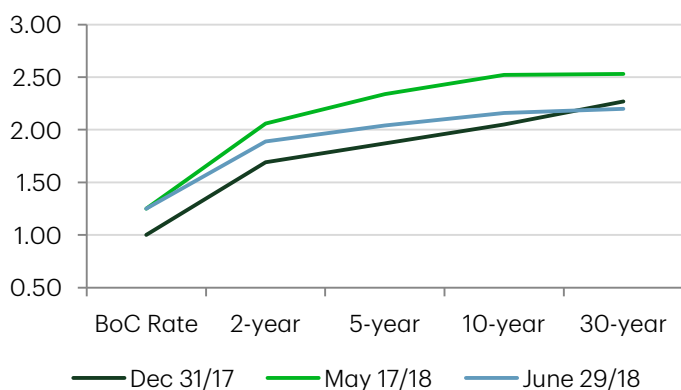
Source: Bloomberg Finance L.P. as at June 29, 2018

Fixed-income investors faced a confluence of headwinds in the first half of the year, which has led to disappointing returns relative to prior years. There are encouraging signs, however, that those headwinds are now beginning to calm.

The first headwind comes in the form of rising interest rates, which make existing bonds less attractive. When new bonds are issued with higher yields, older bonds will drop in price so that yields will go up to match them. Conversely, falling interest rates will cause the price of existing bonds to go up in price. This price movement is even more pronounced for longer-maturity bonds.

The total return of a bond is made up of two components: (1) the coupon interest earned; and (2) the change in market price. If interest rates rise gradually, the drop in the market price may not be that noticeable, as it is offset by the interest earned annually. That, however, has not been the case this year, as yields jumped in anticipation of rapid rate hikes by central banks. The good news is that longer-term yields may have moved too much, having peaked in mid-May before moving back lower.

Figure 2: Canada Government Yield Curve



Source: Bloomberg Finance L.P. as at June 29, 2018

The U.S. Federal Reserve (Fed) has been raising interest rates back up to normal levels, after an emergency response to the 2008 financial crisis sent rates to historical lows. The Fed has already raised its rate policy twice this year, and it recently indicated that there are likely to be two more hikes this year, three more in 2019 and one more in 2020. The Bank of Canada, by comparison, has raised rates twice this year (including once in July). Beyond that, TD Economics is forecasting two gradual rate hikes in 2019. So while the market may have been anticipating a faster pace of rate hikes, central banks are signaling a gradual approach.

Interest rates do not necessarily all move by the same amount or in the same direction. Central banks have the most influence on shorter-term rates, while inflation expectations and technical factors such as supply-demand dynamics have a bigger influence on longer-term rates. This year, longer-term rates have moved up less than shorter-term rates, due in part to the global nature of interest rate markets. While the current 10-year government bond yield of 2.85% in the U.S. and 2.16% in Canada may seem low to us, they are attractive to overseas investors whose 10-year government yields are much lower: for example, just 0.32% in Germany and 0.04% in Japan.

What's preventing many overseas investors from buying even more North American bonds is the high cost of hedging against currency risk — another headwind. Because many investment portfolios are internationally diversified, currency may heavily impact returns. But forecasting currency movements has been made more difficult early this year by the volatile nature of geopolitics.

A third headwind so far this year has been the puzzling underperformance of U.S. investment-grade corporate bonds, which have fallen approximately 3.3% this year — worse than even higher-risk junk-rated bonds. This is mainly due to an adjustment period for supply-demand imbalances caused by U.S. tax changes and not due to deterioration in credit quality. In the past, many companies would choose to

Multiple headwinds for bonds

Continued from previous page

leave foreign earnings overseas and avoid the additional tax liability. The Tax Cuts and Jobs Act of 2017, however, shifted the tax code to a territorial tax system in which the U.S. will no longer attempt to tax earnings of foreign subsidiaries, thus prompting a massive repatriation of foreign earnings.

But overseas cash is technically not held overseas, and it's technically not sitting in cash. In fact, most of the foreign cash to be repatriated had previously been invested in a variety of U.S.-dollar-denominated fixed-income securities with maturities of five years or less. Corporate bonds and U.S. government bonds represented a substantial portion of those cash-related holdings, and so the move to repatriate foreign cash has shifted the supply-demand dynamics.

Companies like Apple, Microsoft and Alphabet — which have been large buyers of corporate bonds — are no longer making new purchases and they're unwinding some of their sizable corporate bond holdings. Many companies are still determining their capital allocation plan as a result of repatriated earnings, but those plans expected to be phased in over time, with reductions in bond portfolios more likely resulting from maturities as opposed to outright sales.

A "perfect storm" of headwinds has led to disappointing fixed-income returns in the first half of 2018, but has provided opportunity for longer-term investors. Despite shorter-term underperformance, investors should embrace higher interest rates, as they will eventually lead to higher returns.

Nowhere to run, nowhere to hide

North American equities

"Trade wars are good, and easy to win."

- President Donald J. Trump, March 2, 2018.

Perhaps trade wars are easy to win — if the other side knuckles under to the bullying.

As we gather our thoughts on the year in equities so far, the opening shot and retaliatory shot have both been fired in what China has characterized as the "largest trade war in economic history." Trade historian Douglas Irwin of Dartmouth College claims that this is "the biggest application of tariffs by the U.S. and affecting U.S. trade since Smoot-Hawley," and we know that the application of those tariffs in June of 1930 helped transform the recession that began in 1929 into the Great Depression.

The good news is that the economy of today is much stronger than it was back then. The bad news is that we're far more reliant on trade than we were back then. Whereas international trade made up only 9% of global output in 1929, the World Bank puts that figure at 56% in 2016. Much more is at stake.

At its core, this is a dispute rooted in politics, and political analysis is a dangerous game. So, without trying to analyze the personalities or principles underlying the conflict, we have to navigate what are becoming some very choppy waters. Market volatility is on average 50% higher year-to-date than it was last year, and it seems likely, at this stage of the rhetoric, that it's going to get worse before it gets any better.

The right strategy might, at first glance, seem simple. Just exit and avoid the areas directly impacted by tariffs. But second and third derivative effects will expose us where we lay hiding, and the second and further rounds of the war will likely get us as well. And let's say cooler heads prevail and the trade war abruptly ends — we would find ourselves short on rapidly appreciating equities.

There are no winners in war of any kind. Here are our thoughts on the equity market this year:

Table 1: Canadian and U.S. Sector Preferences

Sector	U.S.	Canada	Preference
Cons. Discr.	Market	Market	Canada
Cons. Staples	Under	Under	U.S.
Energy	Over	Over	Canada
Financials	Over	Over	Canada
Real Estate	Over	Over	Canada
Health Care	Over	Under	U.S.
Industrials	Market	Market	Canada
Info. Tech.	Under	Market	U.S.
Materials	Market	Market	Canada
Telecom.	Market	Market	U.S.
Utilities	Market	Market	Canada

Source: Portfolio Advice & Investment Research. As at June 30, 2018. Over:Overweight; Under:Underweight; Market:Marketweight.

Nowhere to run, nowhere to hide

Continued from previous page

// Consumer Staples

We are reiterating an underweight view for consumer staples. The S&P 500 sector in the U.S. (down 8.6%) and the S&P/TSX capped index in Canada (down 2.6%) have underperformed the broader markets (S&P 500 Index up 2.7%, S&P/TSX Composite Index up 2.0%) in the first half of the year, and are trading below historical levels. Consumer staples have been plagued by negative sentiment as input costs rise (wages, freight, commodities) and top-line growth remains slow (due to tepid market demand and a heated competitive environment). We believe, however, that the green shoots of recovery may be starting to emerge, particularly for U.S. staples, given material underperformance in the first half of the year. There is potential for the sector to surprise, if fears of trade war spur a flight to safety.

// Consumer Discretionary

On the other hand, we have a marketweight view for consumer discretionary. Stocks in the sector have performed strongly, especially in the U.S., where they've been propelled by tax cuts and burgeoning consumer confidence. The sector in the U.S. (up 11.5%) and Canada (up 3.5%) has outperformed the broader markets, trading above historical levels in the U.S., and in line with historical levels in Canada. Earnings in the sector are expected to grow faster, at about 19%, than in previous years, although trade tensions could disrupt some of the more economically sensitive, and best-performing, subsectors: autos and auto components; hotels, restaurants and leisure; and household durables. Tensions could also weigh on high-growth stocks that enjoy higher multiples in the sector.

// Energy

We are reiterating an overweight view for the energy sector, which in the U.S. and Canada returned 4.8% and 6.8%, respectively, in the first half of 2018. Coordinated production cuts by OPEC and other major oil exporters in recent years have shrunk OECD inventories to below five-year averages. These supply curbs, along with strengthening demand, have lifted energy prices. The International Energy Agency now estimates demand growth of 1.5 million barrels per day in 2018, compared to long-term average growth of 1 million barrels per day. Meanwhile, a shortage of pipeline capacity has compromised production in North America's Permian Basin, and looming geopolitical risks — U.S. sanctions on Iran, escalating trade battles, and turmoil in Venezuela — are expected to tighten the market further. The price of West Texas Intermediate has jumped 22.6% year-to-date, whereas the shares of Canadian and U.S. energy producers have only managed to inch up 1% and 5%, respectively. But continued

coordination among major oil exporters and further inventory draws should give energy investors more confidence in the coming months, helping to close the gap between commodity and equity prices.

// Financials

The financial sector — having fallen 4.1% in the U.S. and down 1.5% in Canada midway through the year — is currently trading at discount valuations. With central banks raising rates, net interest margins should widen, driving improved profitability in the short to medium term. In Canada, continued expense control is expected to remain a positive driver of growth in earnings per share (EPS). Longer term, banks should continue to lower capital ratios and return excess capital to shareholders through dividend increases and share buybacks. Acquisitions are also a possibility. In the United States, banks have benefited from lower corporate tax rates and financial deregulation. Continued financial reform should reduce capital requirements and allow financials to return more capital to shareholders. Some incremental capital should also be freed by a positive assessment by the Comprehensive Capital Analysis and Review process. EPS growth is expected to remain in the mid to high single-digit range over the next 12 months. Ongoing international trade disputes remain a secondary issue for the banks.

// Real Estate

The measured pace of interest rate hikes, due to inflationary pressures, remains a positive tailwind for the sector. In the U.S., the sector has underperformed the S&P 500, returning 0.8% midway through the year. In Canada, real estate has outperformed most sectors, rising 5.3%. Valuations remain bifurcated, however, with the apartment and office subsector enjoying valuations at or near recent highs, whereas retail is only starting to recover from near-term lows. Balance sheets are firming, as Canadian companies focus on tier 1 assets in major urban centres, where lower vacancy rates and increasing rents have driven both greenfield and brownfield expansions. That being said, trade-averse legislation may yet present a risk, if it leads to a slower economy or even a “stagflation” scenario — with higher rates, decelerating income and lower employment levels.

// Health Care

Heightened sensitivity around drug pricing and other legislative issues could remain a headwind for the U.S. health-care sector, which has returned 1.8% year-to-date. While established therapies may feel pressure around cost and pricing, those providing breakthrough therapies should continue to benefit from strong demand and a favourable pricing environment.

Nowhere to run, nowhere to hide

Continued from previous page

The aging population should also partially offset cost and pricing pressures. Companies with international operations may face uncertainty in the near term due to the tense trade environment, but over the mid to long term, growing wealth in emerging markets should become a bigger driver of earnings growth.

// Industrials

The industrials sector in Canada was up 6.6% midway through the year, outperforming the essentially flat composite index, while the U.S. sector posted a 4.7% decline that underperformed the S&P 500. Outperformance in Canada was led by railroads; trucking; diversified support services; and construction and engineering. Underperformance in the U.S. was largely driven by airlines; industrial machinery; electrical equipment; building products; and construction machinery and heavy trucks. We are maintaining our marketweight stance on the sector, given historically high valuations both in Canada and the U.S. However, we remain constructive on the railroads. The subsector enjoys competitive advantages and strong demand, which should increase freight volumes and bolster pricing. We also remain positive on the construction and engineering subsector, given strong backlogs, robust global economic growth and a general push towards increasing infrastructure spending globally.

// Information Technology

IT continues to put up solid growth numbers, with the U.S. sector rising 10.9% in the first half of the year. First-quarter earnings growth came in at 25.8% year-over-year. Second-quarter earnings growth is expected to be 21.4%, but given the usual earnings surprise, it should come in at similar levels to the first quarter. Dominant themes in technology continue to revolve around the transition to the cloud, social networking, video streaming and services. Semiconductor companies have fared particularly well at this late stage of the economic cycle, as capacity tightens and pricing firms. Trade wars, however, are likely to present a new threat. U.S. companies occupy globally dominant positions in software, services and hardware, so for countries looking to retaliate against unilateral trade action by the U.S., technology may provide an easy target.

// Materials

The materials sector in Canada posted a modest 3.3% gain through the first half of the year, while the sector realized a 3.1% loss in the U.S. The forestry subsector outperformed, while companies in the container and packaging subsector

underperformed, and results in the metals and chemicals subsector were mixed. We remain marketweight overall on the sector, with a bullish bias on metals for the second half of 2018, given attractive valuations and favourable fundamentals. Within metals, our preference in the near to medium term remains copper and zinc, where positive fundamentals have been driven by tight supply and growing demand. Precious metals, on the other hand, are expected to be range-bound, as elevated geopolitical risks are countered by a rising interest rate environment.

// Telecommunications Services

The telecom sector has suffered one of the worst performances since the start of the year. In Canada, the sector fell 5.0%, compared to a decline of 8.4% for the U.S. sector. Rising interest rates have led to a decline in the stock price of telecoms, which are capital-intensive businesses with bond-like cash flows. The Canadian wireless market showed some strength in 2017 and the trend is expected to continue in 2018, despite the introduction of Freedom Mobile as a new competitor in the market. It's difficult to see where growth in the U.S. market will come from, but valuations south of the border look more attractive. We maintain a neutral stance on the sector, given that it introduces an element of stability to the portfolio and it offers high dividend yields. On the other hand, the growth potential seems limited and there is some uncertainty as to how 5G technology will be monetized and what its impact will be on future growth.

// Utilities

Rising interest rates caused utilities, which behave like bonds to some extent, to underperform on a year-to-date basis, both in the U.S. and Canada. The weakness has been more evident in Canada, where the sector achieved a total return of -6.2% since the beginning of the year, whereas the utilities sector in the U.S. was up 0.3% over the same period. The industry is facing challenges as it adapts to changes in technology, regulation and customer preferences. This could also, however, create opportunities for growth and commercialization of new technologies. Valuations in the U.S. have been driven up by M&A activity over the past few years. We continue to favour Canadian utilities that own a highly regulated asset base and are focused on organic growth. Overall, we're neutral on the sector, given its stable and defensive cash flows, but we don't see any potential for above-average returns in the foreseeable future.

Market performance

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Canadian Indices (\$CA) Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
S&P/TSX Composite (TR)	55,053	1.69	6.77	1.95	10.41	6.96	9.24	8.04	4.24	6.59
S&P/TSX Composite (PR)	16,278	1.35	5.92	0.42	7.22	3.80	6.06	4.86	1.19	4.04
S&P/TSX 60 (TR)	2,642	1.93	7.09	2.15	11.45	7.65	10.02	8.75	4.15	6.70
S&P/TSX SmallCap (TR)	1,018	-0.30	6.58	-1.66	5.39	6.28	6.45	3.45	2.26	-
U.S. Indices (\$US) Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
S&P 500 (TR)	5,351	0.62	3.43	2.65	14.37	11.93	13.42	14.99	10.17	6.46
S&P 500 (PR)	2,718	0.48	2.93	1.67	12.17	9.63	11.10	12.59	7.82	4.47
Dow Jones Industrial (PR)	24,271	-0.59	0.70	-1.81	13.69	11.27	10.24	11.14	7.90	5.11
NASDAQ Composite (PR)	7,510	0.92	6.33	8.79	22.31	14.62	17.15	17.69	12.60	7.13
Russell 2000 (TR)	8,133	0.72	7.75	7.66	17.57	10.96	12.46	14.60	10.60	8.03
U.S. Indices (\$CA) Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
S&P 500 (TR)	7,046	2.32	5.64	7.74	16.06	13.97	18.65	19.66	13.03	5.87
S&P 500 (PR)	3,580	2.19	5.13	6.72	13.83	11.63	16.22	17.17	10.63	3.89
Dow Jones Industrial (PR)	31,961	1.10	2.85	3.06	15.36	13.30	15.32	15.66	10.70	4.53
NASDAQ Composite (PR)	9,890	2.63	8.59	14.19	24.11	16.71	22.55	22.48	15.53	6.53
Russell 2000 (TR)	10,710	2.43	10.05	13.01	19.30	12.99	17.64	19.26	13.48	7.43
MSCI Indices (\$US) Total Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
World	8,530	-0.01	1.93	0.76	11.70	9.10	10.55	12.04	6.86	5.75
EAFE (Europe, Australasia, Far East)	7,942	-1.19	-0.97	-2.37	7.37	5.41	6.93	8.72	3.33	4.77
EM (Emerging Markets)	2,358	-4.09	-7.86	-6.51	8.59	5.98	5.39	5.28	2.60	8.86
MSCI Indices (\$CA) Total Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
World	11,233	1.69	4.10	5.76	13.34	11.09	15.65	16.59	9.64	5.17
EAFE (Europe, Australasia, Far East)	10,459	0.49	1.15	2.48	8.95	7.33	11.86	13.14	6.01	4.19
EM (Emerging Markets)	3,105	-2.46	-5.89	-1.86	10.19	7.91	10.25	9.56	5.27	8.26
Currency	Level	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
Canadian Dollar (\$US/\$CA)	75.94	-1.67	-2.09	-4.73	-1.45	-1.79	-4.41	-	-2.53	0.56
Regional Indices (Native Currency) Price Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	20 Yrs
London FTSE 100 (UK)	7,637	-0.54	8.22	-0.66	4.43	5.41	4.21	4.73	3.10	0.01
Hang Seng (Hong Kong)	28,955	-4.97	-3.78	-3.22	12.38	3.32	6.84	8.06	2.74	6.29
Nikkei 225 (Japan)	22,305	0.46	3.96	-2.02	11.34	3.30	10.28	18.17	5.16	1.73
Benchmark Bond Yields		3 Month		5 Yr		10 Yr		30 Yr		
Government of Canada Yields		1.42		2.09		2.17		2.22		
U.S. Treasury Yields		1.95		2.75		2.86		2.96		
Canadian Bond Indices (\$CA) Total Return	Index	1 Month	3 Months	YTD	1 Yr	3 Yrs	5 Yrs	Since 1/1/2012	10 Yrs	
FTSE TMX Canada Universe Bond Index	1,037	0.80	0.70	0.04	-0.98	1.59	2.94	2.96	2.96	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	1.70	1.70	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	3.16	3.16	4.96
FTSE TMX Long Term Bond Index (10+ Yrs)	1,702	1.96	1.58	-0.08	0.17	2.97	4.81	4.52	4.52	6.62

Sources: TD Securities Inc., Bloomberg Finance L.P. TR: total return, PR: price return. As at June 29, 2018.

Important information

This report is for informational purposes only and is not an offer or solicitation with respect to the purchase or sale of any investment fund, security or other product. Particular investment, trading, or tax strategies should be evaluated relative to each individual's objectives. [Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance.] This document does not provide individual financial, legal, investment or tax advice. Please consult your own legal, investment and/or tax advisor.

TD Waterhouse Canada Inc. and/or its affiliated persons or companies may hold a position in the securities mentioned, including options, futures and other derivative instruments thereon, and may, as principal or agent, buy or sell such securities. Affiliated persons or companies may also make a market in and participate in an underwriting of such securities.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

Full disclosures for all companies covered by TD Securities Inc. can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action>

Company	Ticker	Disclosures
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

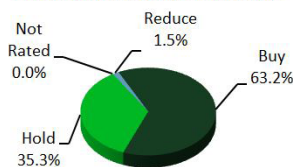
Research Ratings

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.

Distribution of Research Ratings[^]



Investment Services Provided^{*}



Overall Risk Rating in order of increasing risk: Low (6.6% of coverage universe), Medium (38.8%), High (45.1%), Speculative (9.6%)

[^] Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY, and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings).

^{*} 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.

Current as of: July 4, 2018.

TD Waterhouse Canada Inc. makes its research products available in electronic format. These research products are posted to our proprietary websites for all eligible clients to access by password and we distribute the information to our sales personnel who then may distribute it to their retail clients under the appropriate circumstances either by email, fax or regular mail. No recipient may pass on to any other person, or reproduce by any means, the information contained in this report without our prior written consent.

The Portfolio Advice and Investment Research analyst(s) responsible for this report hereby certify that (i) the recommendations and technical opinions expressed in the research report accurately reflect the personal views of the analyst(s) about any and all of the securities or issuers discussed herein, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

The Portfolio Advice & Investment Research analyst(s) responsible for this report may own securities of the issuer(s) discussed in this report. As with most other employees, the analyst(s) who prepared this report are compensated based upon (among other factors) the overall profitability of TD Waterhouse Canada Inc. and its affiliates, which includes the overall profitability of investment banking services, however TD Waterhouse Canada Inc. does not compensate its analysts based on specific investment banking transactions.

TD Wealth represents the products and services offered by TD Waterhouse Canada Inc. (Member – Canadian Investor Protection Fund), TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company).

The Portfolio Advice and Investment Research team is part of TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank.

FTSE TMX Global Debt Capital Markets Inc. 2018 "FTSE®" is a trade mark of FTSE International Ltd and is used under licence. "TMX" is a trade mark of TSX Inc. and is used under licence. All rights in the FTSE TMX Global Debt Capital Markets Inc.'s indices and / or FTSE TMX Global Debt Capital Markets Inc.'s ratings vest in FTSE TMX Global Debt Capital Markets Inc. and / or its licensors. Neither FTSE TMX Global Debt Capital Markets Inc. nor its licensors accept any liability for any errors or omissions in such indices and / or ratings or underlying data. No further distribution of FTSE TMX Global Debt Capital Markets Inc.'s data is permitted without FTSE TMX Global Debt Capital Markets Inc.'s express written consent.

Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. All rights reserved.

"TD Securities" is the trade name which TD Securities Inc. and TD Securities (USA) LLC jointly use to market their institutional equity services.

TD Securities is a trade-mark of The Toronto-Dominion Bank representing TD Securities Inc., TD Securities (USA) LLC, TD Securities Limited and certain corporate and investment banking activities of The Toronto-Dominion Bank.

All trademarks are the property of their respective owners.

© The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.