TD Wealth

Quarterly Market Review

Portfolio Advice & Investment Research

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Unless otherwise indicated, performance figures are stated on a total return basis.

Q1/18 Quarterly Market Review

Highlights

Canadian & U.S. Fixed Income

- The Canadian government bond index rose during Q1/18, outperforming the U.S. government bond index as the Canadian index returned 0.04% Q/Q, compared to the -1.16% Q/Q return of the Bloomberg U.S. Treasury Bond Index.
- Canadian and U.S. investment grade corporate bond indices registered returns of 0.28% Q/Q and -2.20% Q/Q, respectively in Q1/18. Credit markets continued to hold up well, but investment grade (IG) credit spreads were trending wider during the quarter with the decline in equities.
- High yield credit spreads remained narrow compared to historical levels, supporting a return of -0.91% Q/Q for the sector in the U.S.

Canadian Equities

- The Canadian equity market fell in Q1/18 as the S&P/TSX Composite Index (S&P/TSX) returned -4.52%.
- Nine of the eleven sectors posted a negative return. The information technology and real estate sectors were the only sectors to rise during the quarter.
- Mid-cap Canadian stocks outperformed small- and large-caps, and growth stocks outperformed their value counterparts.

U.S. Equities

- U.S. equities have had a turbulent quarter. The S&P 500 Index (S&P500) returned -0.76% Q/Q, the Dow Jones Industrial Average Index (Dow) fell -1.96% Q/Q and the NASDAQ Composite Index (NASDAQ) rose 2.59% Q/Q.
- Nine of the eleven sectors in the S&P 500 delivered a negative return during the first quarter.
- Large-cap U.S. equities underperformed small-cap and slightly outperformed mid-cap stocks, and U.S. growth stocks outperformed their value counterparts.

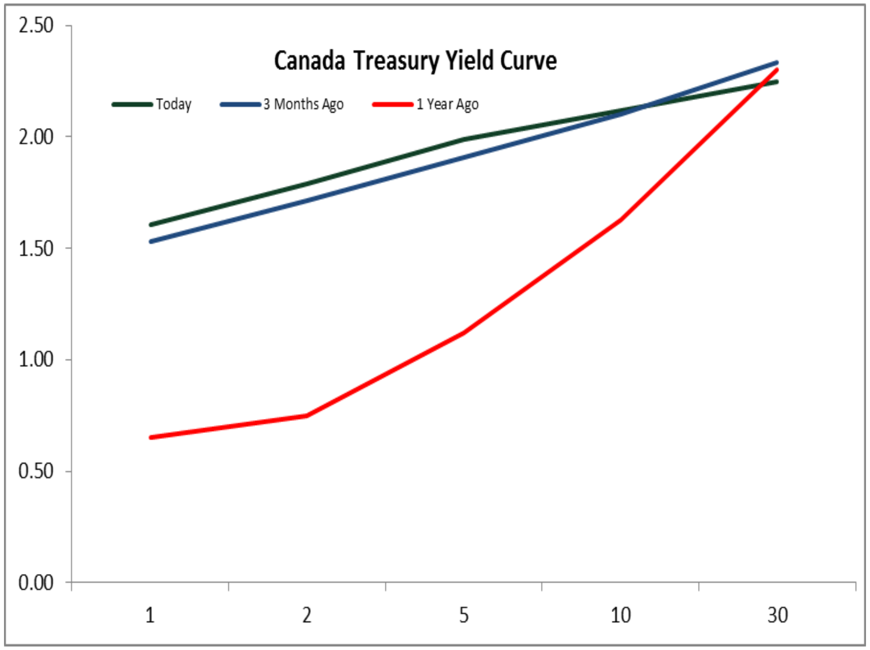
International Equities

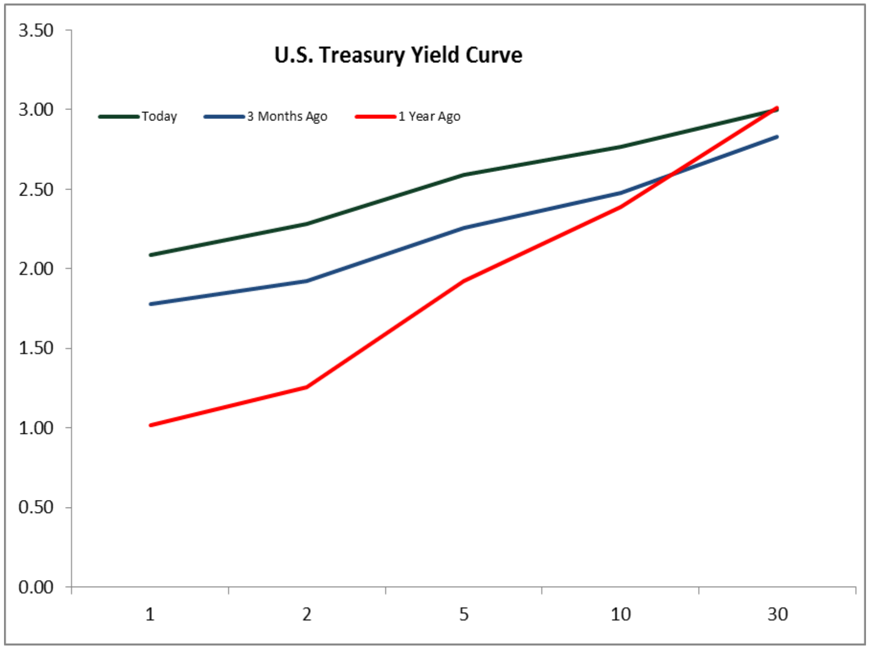
- Most major developed international markets fell in Q1/18. The MSCI Emerging Markets Index gained 0.76% in Q1/18 outperforming most developed markets, despite escalating trade tensions between the U.S. and China, a surge in bond yields, and a sell-off in technology stocks.

Canadian & U.S. Fixed Income

Money Market/Bond Issues and Indices	Q1/18 Return	YTD Return	Canadian Yields	U.S. Yields
91-Day Treasury Bill	--	--	+1.15%	+1.70%
2-Year Government Bonds	--	--	+1.78%	+2.27%
5-Year Government Bonds	--	--	+1.97%	+2.56%
10-Year Government Bonds	--	--	+2.09%	+2.74%
30-Year Government Bonds	--	--	+2.23%	+2.97%
FTSE TMX Canada Universe Bond Index	+0.10%	+0.10%	+2.57%	--
FTSE TMX Canada All Government Bond Index	+0.04%	+0.04%	+2.37%	--
FTSE TMX Canada All Corporate Bond Index	+0.28%	+0.28%	+3.09%	--
FTSE TMX Canada Real Return Bond Index	+1.38%	+1.38%	+0.51%	--
ICE BofAML US High Yield Index – US$	-0.91%	-0.91%	--	+6.30%
ICE BofAML High Yield Canadian Issuers Index - US$	-1.06%	-1.06%		--

Source: Bloomberg Finance L.P. as at March 31, 2018. Index returns are reported on a total return basis.





Source: Bloomberg Finance L.P. as at March 31, 2018.

The Canadian government bond index rose during Q1/18, outperforming the U.S. government bond index as the Canadian index increased 0.04% Q/Q, compared to a 1.16% Q/Q decline for U.S. Treasuries as measured by the Bloomberg U.S. Treasury Bond Index.

Globally, interest rates in developed economies are starting to normalize from extraordinary monetary stimulus and historically low levels, but the process is expected to be measured, as central banks are trying to apply sound judgement to complex trade-offs without inadvertently triggering another economic downturn. The European Central Bank (ECB) has hinted that it may end its quantitative easing policy by September this year, with markets currently discounting the first ECB rate hike possibly in mid-2019. Although the Bank of Japan has made no indications to change monetary policy, the rise in global interest rates has effectively reduced the amount of asset purchases to maintain its target rate of zero percent for the 10-year government bond yield.

The Federal Open Market Committee, on March 21, 2018, raised the target federal funds rate by 25 bps to a range of 1.50% to 1.75%, with a target effective rate of 1.625%. In their March projections, the Fed is still forecasting for three rate hikes in 2018. The median "dot" projection of FOMC members showed three rate increases in 2019 and two more in 2020. The median expectation for the policy rate is 2.125% in 2018 (unchanged from December), 2.875% in 2019 (up from 2.688%), 3.375% in 2020 (up from 3.062%), and 2.938% in the longer run (up from 2.75%). TD Economics is forecasting three rate hikes in 2018, three in 2019 and expects the funds rate to peak in the vicinity of 3% this cycle.

Yield curves in North America continued to flatten in Q1/18. The U.S. Treasury (UST) yield curve bear flattened, with yields on longer dated securities rising less than those at the front end of the curve. The 2-year UST bond yielded 2.27% at the end of March, as 2-year yields rose 39 bps during the quarter. The 10-year UST yielded 2.74% at the end of Q1/18, as yields rose 33 bps during the quarter. The Canadian yield curve flattened by 6 bps in Q1/18, reflecting a relatively contained quarter. The 2-year Government of Canada bond yielded 1.78% at the end of March, up 9 bps from the end of Q4/17. The 10-year Government of Canada bond yielded 2.09% at the end of Q1/18, as its yield declined 4 bps during the quarter.

On March 7, 2018, the Bank of Canada (BoC) maintained its target for the overnight target rate at 1.25%. Correspondingly, the Bank rate was unchanged at 1.50% as was the deposit rate at 1.00%. TD Economics expects the Bank of Canada to hike interest rate policy once more in 2018 (in July), followed by two more hikes in 2019.

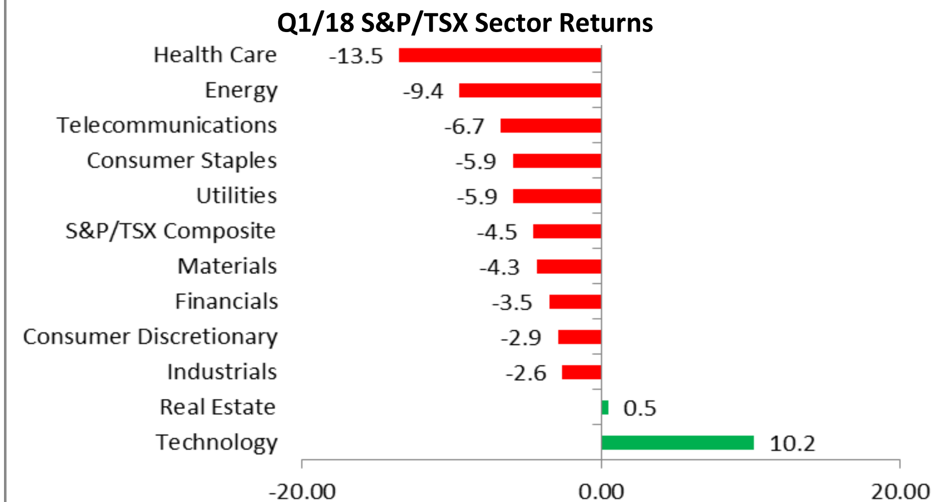
Canadian and U.S. investment grade corporate bond indices registered returns of 0.28% Q/Q and -2.20% Q/Q, respectively in Q1/18. Credit markets continued to hold up well, but investment grade (IG) credit spreads were trending wider during the quarter with the decline in equities. High yield credit spreads remained narrow compared to historical levels, supporting a return of -0.91% Q/Q for the sector in the U.S.

Canadian Equities

Indices	Q1/18 Return	YTD Return
S&P/TSX Composite Index	-4.52%	-4.52%
S&P/TSX 60 Index	-4.61%	-4.61%
S&P/TSX Cdn MidCap Index	-4.24%	-4.24%
S&P/TSX Cdn SmallCap Index	-7.73%	-7.73%
S&P/TSX Preferred Share Index	-1.26%	-1.26%

Source: Bloomberg Finance L.P. as at March 31, 2018. Total index values and returns, except the S&P/TSX Preferred Share Index which is reported on a price return basis.

The Canadian economy expanded at an annual pace of 1.7% in the final months of 2017 as the more rapid growth seen earlier in the year faded further away. Over 2017 as a whole, real GDP expanded by 3.0%, while nominal growth was 5.3% - the strongest pace since 2011. Contributing to the growth was an increase in business investments and household spending. A repeat performance for the economy in 2018 would be challenging according to TD Economics as the economy appears to be already operating at slightly above capacity, and data reinforces that a meaningful downshift was already underway in the second half of last year. As such, TD Economics is currently forecasting Canadian GDP growth for 2018 and 2019 at 2%. Some of the headwinds that argue for this downshift include: already-contentious NAFTA talks and increased U.S. trade protectionism. This is layered on top of a made-in-Canada policy-that caused a slowdown in the housing market. However, trends in hiring and domestic spending point to an underlying resiliency that leaves a sufficient cushion to absorb headwinds.



Source: Bloomberg Finance L.P., as at March 31, 2018. Index Total Returns.

The Canadian equity market fell in Q1/18 as the S&P/TSX returned -4.52% and nine of the eleven sectors posted a negative return. The information technology sector was the best performer during the quarter posting a 10.18% return, led primarily by outsized returns from Shopify Inc, Constellation Software Inc, and CGI Group Inc which advanced by 26.13%, 14.71% and 8.78% respectively. The financials sector, the largest sector in the S&P/TSX, returned -3.49% during Q1 but outperformed the broad market. Energy, the second largest sector, was the worst performer during the quarter as the sector returned -9.44% Q/Q, despite a 7.48% increase in global oil prices which benefited from the positive market sentiment from renewed talks on extended production cuts by OPEC and other major world producers. The price of gold bullion advanced 1.68% Q/Q with the commodity showing resilience amid volatile stock and bond markets, performing in line with expectations.

During the quarter, mid-cap stocks outperformed small-cap and large-cap stocks. The large-cap S&P/TSX 60 Index returned -4.61% Q/Q compared to -4.24% Q/Q for the S&P/TSX Canadian Mid Cap Index and -7.73% Q/Q for the S&P/TSX Canadian Small Cap Index. Canadian growth stocks, as measured by the Morningstar Canada Target Momentum Index, advanced 3.01% Q/Q and outperformed the comparable value benchmark, the Morningstar Canada Target Value

Index, which returned -4.85% Q/Q. The S&P/TSX underperformed the S&P 500 in Canadian dollar terms, which represents the fourth quarter of relative underperformance.

The volatility that roiled equities and bond markets since February spilled over to Canadian preferred shares as credit spreads have widened and pushed prices lower. Canadian preferred shares declined 1.26% during the first quarter of the year, despite a 10 basis points rise in the five-year Government of Canada Bond Yield, which closed at 1.97%. On a year-to-date basis, Canadian preferred shares achieved a total return of -0.15%. The Bank of Canada raised its benchmark rate by 25 basis points in its January meeting and the market is currently assigning a 20.40% probability for another rate hike in April. The issuance of new securities picked up in the first quarter with January accounting for most of the action. Brookfield Asset Management subsidiaries and Banks were the dominant issuers during the quarter.

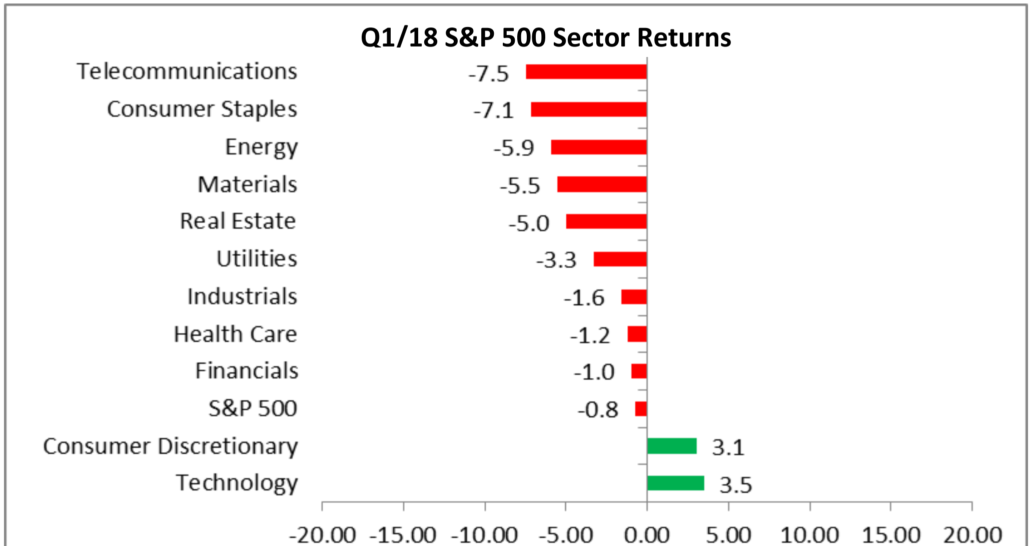
On a segment level, Floaters and Fixed-Floaters closed the quarter 8.50% and 4.46% higher, respectively, while Floating Rate-Resets rose 2.68%. Fixed Rate-Resets declined 1.22% and Perpetuals dropped 1.99% over the same period, despite a 4 basis points decline in the 30-Year Government of Canada Bond Yield, which closed the quarter at 2.23%.

U.S. Equities

Indices	Q1/18 Return	Q1/18 Return (C$)	YTD Return	YTD Return (C$)
Dow Jones Industrial Average Index	-1.96%	+0.97%	-1.96%	+0.97%
S&P 500 Index	-0.76%	+2.21%	-0.76%	+2.21%
S&P 400 Index	-0.77%	+2.20%	-0.77%	+2.20%
NASDAQ Composite Index	+2.59%	+5.66%	+2.59%	+5.66%
Russell 2000 Index	-0.08%	+2.91%	-0.08%	+2.91%

Source: Bloomberg Finance L.P. as at March 31, 2018. Total index values and returns. Index returns calculated in local currency and C$.

U.S. equities have had a turbulent quarter with volatility rising to levels not seen in many months. The S&P 500 returned -0.76% Q/Q, the Dow fell -1.96% Q/Q and the NASDAQ returned 2.59% Q/Q. Nine of the eleven sectors in the S&P 500 delivered a negative return during the quarter, with only the consumer discretionary and technology sectors posting a positive return.



Source: Bloomberg Finance L.P., as at March 31, 2018. Index Total Returns.

After starting the year on a positive note, U.S. stock markets plummeted early February due to fears over a bond market rout, triggered by early signs of inflation as economic growth accelerated and wages appeared to finally be rising after years of stagnation. This was followed by a short-lived recovery period during which markets rebounded as investors poured back into some of the beaten-down sectors. The sell-off renewed in the third week of March with investors worried about a global trade war following President Donald Trump's decision to slap tariffs on Chinese goods. This was coupled with a sudden selloff in the tech stocks amid speculation about a regulatory crackdown related to data privacy and antitrust concerns. Markets were able to pare some of the steep losses and ended the quarter with solid gains on the last day of trading.

The S&P 500, a benchmark for U.S. large-cap equities, fell -0.76% Q/Q and underperformed small-cap U.S. stocks, as measured by the Russell 2000 Index, which returned -0.08% Q/Q. Additionally, the S&P 500 slightly outperformed the S&P 400 Index - a measure of U.S. mid-cap stocks, which fell -0.77% Q/Q. U.S. value stocks, as measured by the Morningstar U.S. Value Index, returned -2.96% Q/Q, and underperformed the comparable growth benchmark, the Morningstar U.S. Growth Index, which registered a total return of 4.01% Q/Q.

International Equities

Indices	Q1/18 Return	Q1/18 Return (C$)	YTD Return	YTD Return (C$)
FTSE 100 Index	-7.21%	-0.95%	-7.21%	-0.95%
DAX Index	-6.35%	-1.39%	-6.35%	-1.39%
CAC 40 Index	-2.51%	+2.65%	-2.51%	+2.65%
MSCI Europe (LC) Index	-4.23%	+0.98%	-4.23%	+0.98%
Nikkei 225 Stock Average	-4.98%	+3.62%	-4.98%	+3.62%
MSCI Emerging Markets Free (LC) Index	+0.76%	+4.35%	+0.76%	+4.35%

Source: Bloomberg Finance L.P. as at March 31, 2018. Total index values and returns. Index returns calculated in local currency and C$.

Most major developed international markets fell in Q1/18. In Europe, the U.K's FTSE 100 Index returned -7.21% following the strengthening of the pound during the quarter which hurt multi-national companies listed on the London Stock Exchange. With just under a year to go to the U.K.'s exit from the European Union, Prime Minister Theresa May has secured the agreement of the rest of the European Union for a transition deal. Under the terms, the UK will be able to negotiate trade deals with other countries during the 21-month transition, which begins when U.K. officially leaves the EU at the end of March 2019. However, the Prime Minister warned that the transition phase may end up being longer than currently planned due to the difficulties in establishing a new customs regime.

Germany's DAX Index returned -6.35% Q/Q and France's CAC 40 Index returned -2.51% Q/Q. At a meeting on March 8, 2018, the European Central Bank's (ECB) Governing Council left interest rates unchanged and said that it continues to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. The Governing Council also confirmed that it will continue to make purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of September 2018, or beyond, if necessary.

Japan's Nikkei 225 Stock Average returned -4.98% in Q1/18. In its March meeting, the Bank of Japan (BoJ) Policy Board voted to retain its quantitative and qualitative monetary easing (QQE) with yield curve control (YCC) program, keeping interest rates unchanged at -0.1%. Similar to the outcome seen in its January meeting, the board voted unanimously to keep annual purchases of exchange traded funds, Japan real estate investment trusts and corporate paper and bonds unchanged at about 6 trillion yen, 90 billion yen and 5.4 trillion respectively. The board's view on the economy remained upbeat stating that it continues to expand moderately thanks to robust exports and capital expenditure.

The MSCI Emerging Markets Index gained 0.76% in Q1/18 outperforming most developed markets, despite escalating trade tensions between the U.S. and China, a surge in bond yields, and a sell-off in technology stocks. The Chinese Shanghai Composite PR Index returned -4.18% Q/Q. The Chinese economy expanded by 6.8% (annualized) in the fourth-quarter of 2017 despite widespread concerns in the last year about financial risks amid a government-led economic restructuring. The Indian Nifty 50 PR Index returned -3.96% in Q1/18 with the country's economy seeing a dip in the first quarter of the year due to demonetisation and disruptions surrounding the initial implementation of GST.

Appendix A – Important Information

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