

TD Wealth Asset Allocation Committee Overview

- Volatility likely to rise, driven by central bank tightening, a closed output gap, fear of rising inflation and heightened trade frictions
- Central banks transitioning policies from emergency to neutral, but expect lower for longer rate environment to continue
- Neutral rating in equities reflects strong corporate fundamentals offset by stretched valuations in the U.S.
- Preference for international equities driven by attractive valuations and potential for higher growth and inflation to boost earnings
- Cautious on Canadian equities and currency due to elevated household debt, high discounts on Canadian oil and risk of NAFTA failure

The global economy remained fundamentally strong as we entered 2018. Growth in 2017 was at the fastest pace since 2010 and was broad-based with the U.S, Canada, Europe and China all posting strong gross domestic product (GDP) numbers. Just as importantly, this growth has been delivered with low inflation as both wage growth and consumer prices have been subdued. This has proven to be an ideal combination for equity markets as strong economic growth has translated to robust earnings, and subdued inflation has kept interest rates low which helped to support equity valuations. Earnings growth in 2018 is likely to remain strong, supported in part by the recent changes to U.S tax legislation.

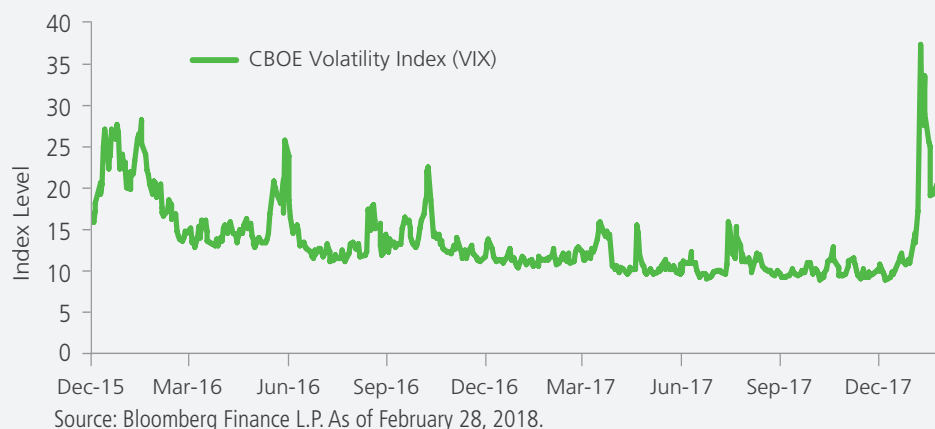
Market volatility spiked globally in February with most equity markets giving up January gains. Market weakness continued throughout the month offering investors very few places to hide from the long anticipated volatility. Over the past few years, volatility has been muted with global markets experiencing 20 straight months without a 5% adjustment, the longest period on record.

The market pullback was not a huge surprise given the increase in bond yields in late 2017 and early 2018, concern over

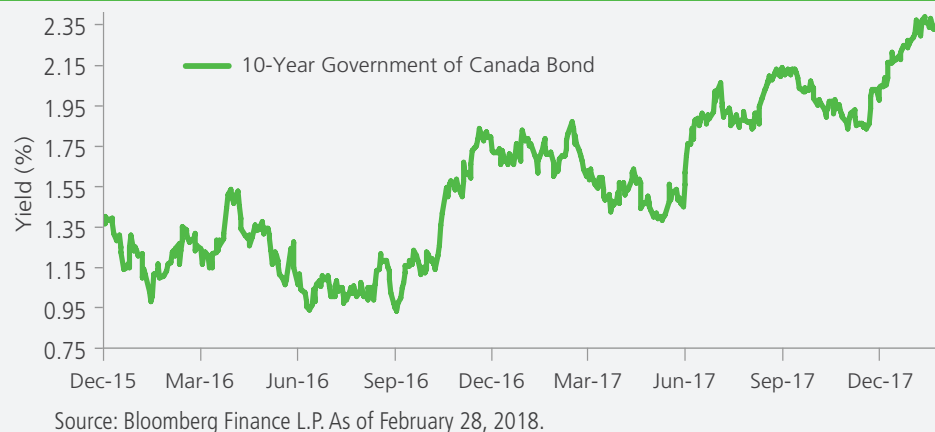
rising inflation and fear that the U.S Federal Reserve (Fed) may raise interest rates more rapidly than previously expected. Higher

interest rates tend to depress equity valuations and this is what unfolded in February.

A Spike in Volatility



Rising 10-year Bond Yield



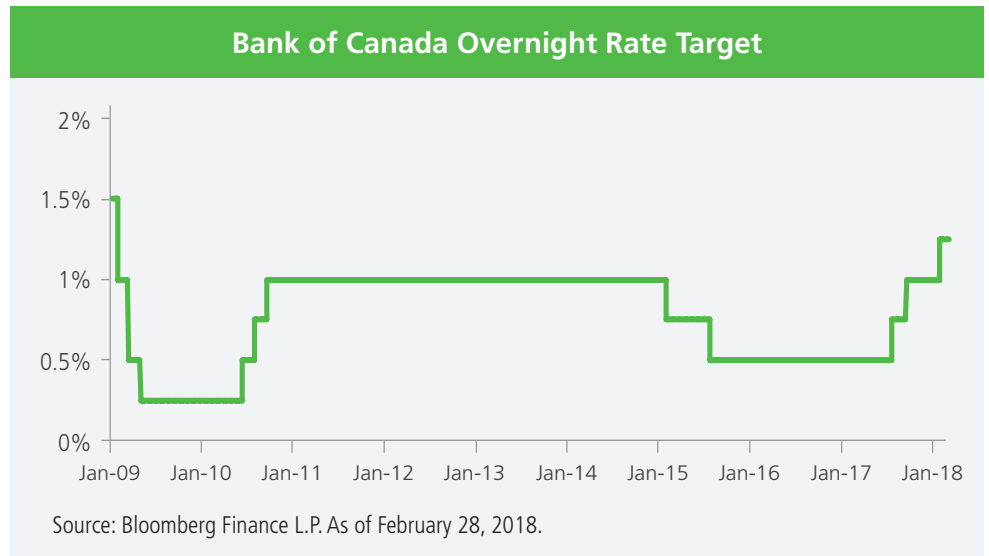
North American central banks continued to pivot from an emergency to neutral stance and the expectation is that both the Fed and the Bank of Canada will raise rates in 2018, so that the overnight rate reaches a real rate of approximately zero after accounting for inflation.

While market data and economic developments remain mostly positive around the globe, we continue to monitor a number of potential risks, particularly trade relationships and central bank policies. A negative turn in global trade relations, such as a revised North American Free Trade Agreement (NAFTA) and growing trade tensions between the U.S. and China, may result in an economic slowdown in many regions and create inflationary pressure. While central banks appear to be moving cautiously, it is possible that they may commit a policy error, particularly given the current unprecedented levels of stimulus. Additionally, central banks may be forced to reduce their accommodation more quickly than anticipated if there is a sudden, unexpected uptick in inflation.

Wealth Asset Allocation Committee (WAAC) Positioning

The recent spike in market volatility reflected investors' fading confidence in the sustainability of the long-lasting bull market. A solid U.S. employment report, which finally saw positive wage growth, induced speculation that the Fed may accelerate its rate-hike schedule with other central banks following suit. We view the current pick-up in volatility as a return to normal and the pullback as a healthy correction bringing equity valuations down to a more reasonable level.

Against this backdrop, we have maintained our positioning at the asset class level, which is neutral across cash, fixed income and equities. However, we have made changes to our positioning within those asset classes, which are highlighted below.



We continue to believe that a balanced approach is warranted and favour a diversified portfolio that includes:

1. High quality equities that have the ability to increase their earnings and dividends in a low growth environment and thereby help protect the real value of investors' savings.
2. An allocation to cash with the aim to provide stability and safety of capital.
3. An allocation to high quality government bonds and investment-grade corporate bonds to provide some income, diversification and stability.

Below is our current positioning within these asset classes.

Equities

- Modest overweight international equities
- Neutral U.S. equities
- Modest overweight emerging market equities
- Modest underweight Canadian equities

We continue to believe that equities will deliver positive mid-single digit returns in 2018 as global growth, corporate

earnings and free cash flow remain strong and supportive. For the past year, we have had a preference for global equities, particularly in Europe and Japan over Canadian equities, and this continues to be the case. International equity valuations are attractive relative to those in North America and European companies stand to benefit from improving economic growth, which lagged meaningfully following the financial crisis.

We are neutral U.S. equities. Free cash flow from U.S. equities is strong and attractive versus fixed income yields. Proposed corporate tax cuts could add significantly to earnings, which do not appear to have been fully priced into the market and the recent pullback has made valuations more reasonable. We have moved to a modest overweight, from a neutral stance, in the emerging markets equity space. Strong global growth and reasonable valuations should be tailwinds for emerging market equities and political risks in Brazil and China have diminished. Commodity prices appear to have stabilized, which also should be positive for emerging market equities. High debt levels continue to remain a concern, as does the potential for a reduction in liquidity.

We are underweight Canadian equities. The possible side effects of high household debt levels remain and we anticipate that recently implemented mortgage rules, higher rates and tighter monetary conditions may have a negative impact on consumer spending. This is concerning as personal consumption has been a key driver of Canadian economic growth. Additionally, uncertainty regarding the outcome of NAFTA negotiations appears to be restraining business investment. If economic growth does decelerate, it could be more difficult for companies to grow their earnings.

Fixed Income

- Neutral cash, domestic government bonds, investment grade corporate bonds and inflation linked bonds
- Maximum underweight high yield and global developed market bonds
- Modest overweight global emerging market bonds

Unlike equity markets, risk assets in the bond markets have behaved in a more balanced manner. Although credit spreads have widened, the lack of risk repricing in both the high yield and investment grade space was a significant event in and of itself. Credit markets did not reprice like equity markets, a sign that recent economic fundamentals remain

solid, with broad based global growth and moderately rising inflation that is still relatively subdued.

Overall, our outlook is for bonds to generate coupon-like returns in the low single digits. Although yields and returns are likely to be low, we still consider fixed income an important portfolio component.

We are neutral domestic government bonds as they can offer diversification, stability and modest income. We are also neutral investment grade corporate bonds. Spreads have narrowed, but they still offer a yield advantage over government bonds and the economic backdrop is supportive for corporate health. The difference between the yield on a nominal fixed-rate bond and the real yield on an inflation-linked bond (break-even rates) have been gradually rising, but are still reasonable from a historical perspective, thus we maintain our neutral rating for inflation-linked bonds.

We are maximum underweight high yield bonds as they are quite expensive and narrow spreads has made the risk/reward dynamic unattractive. Within the global developed bond space, we are currently maximum underweight as low nominal and real yields in Europe and Japan have not been compelling. We have moved to a modest overweight, from maximum underweight, in the global emerging

market bond space where there are some discrete opportunities in emerging markets where real yields are attractive.

Canadian/U.S. currency exposure

- Maximum underweight the Canadian dollar vs. the U.S. dollar
- Neutral the U.S. dollar

While the Canadian dollar was strong in 2017, we believe it is close to the top of its range. We expect it to underperform the U.S. dollar in 2018, driven primarily by differences in central bank policy rates and economic growth prospects. We have moved to neutral the U.S. dollar, from modest overweight, as positive interest rate differentials are being offset by concerns over protectionism.

Gold

- Neutral gold

We believe an allocation to gold can provide insurance in a portfolio against the risk of extreme outcomes. However, we do not currently believe that this insurance is required. ■

TD Wealth Asset Allocation Committee

The TD Wealth Asset Allocation Committee (WAAC) was established to deliver a consistent asset allocation message and be the originating source for active asset allocation advice across TD Wealth. The committee has three prime objectives: articulate broad market themes, provide macro-level asset allocation and identify the major risks on the horizon.

Committee Members:

Chair: Bruce Cooper, CFA
CEO & CIO, TD Asset Management Inc. and SVP, TD Bank Group

Michael Craig, CFA
Vice President & Director, TD Asset Management Inc.

Glenn Davis, CFA
Managing Director, TDAM USA Inc.

Kevin Hebner, PhD
Managing Director, Epoch Investment Partners, Inc.

David McCulla, CFA
Vice President & Director, TD Asset Management Inc.

Robert Pemberton, CFA
Managing Director, TD Asset Management Inc.

Brad Simpson, CIM, FCSI
Chief Wealth Strategist, TD Wealth

David Sykes, CFA
Managing Director, TD Asset Management Inc.

Sid Vaidya, CFA, CAIA
U.S. Wealth Investment Strategist, TD Wealth

Geoff Wilson, CFA
Managing Director, TD Asset Management Inc.



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