



**Melinda Burgess, B.Comm.**  
Investment Advisor  
TD Wealth  
Private Investment Advice  
33 Collier Street East, 3rd Floor  
Barrie, ON  
705 726-3447  
melinda.burgess@td.com

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**Joanne Parkinson**  
Client Service Associate  
705 726-3390

### **Other TD Specialists**

**Graeme Gordon**  
Estate Planning Advisor  
TD Waterhouse Insurance  
Services Inc.

Capital markets were unsettled in the first quarter of 2016, with stocks exhibiting heightened volatility and selling off through January and February before recovering in March. While markets were initially affected by the familiar themes of slow global growth, low commodity prices and uncertainty over monetary policy, investors appeared to gain confidence as the quarter progressed.

Here at home, Canada's S&P/TSX Composite Index offered a bright spot among global markets. The index gained 4.5% including dividends, as oil rallied strongly into the end of the quarter after dipping to multi-year lows in mid-February. The S&P 500 Index in the U.S. posted a modest gain of 1.4%, which translated to a loss of 5.0% in Canadian dollars as the loonie appreciated 6.7% in value relative to its U.S. counterpart.

The MSCI World Index finished the quarter nearly flat with a return of -0.2% in U.S. dollars (or -6.5% in Canadian dollars), with results for local markets varying widely. Stock markets in Europe, Japan and China, for example, were mostly down for the quarter despite central banks' efforts to boost liquidity and keep borrowing rates low, while others including Taiwan and South Korea made small gains. Stock markets in Latin American countries such as Brazil, among the worst performers in 2015, rallied from their lows to post strong increases.

Bond markets, meanwhile, finished the first quarter with mainly positive results. In the U.S., economic data remained encouraging, with strong employment numbers, moderate inflation and a rebounding housing sector. But after announcing its first interest rate increase in nearly a decade in December, the U.S. Federal Reserve sounded a cautious note and left rates unchanged in the first quarter, citing risks including sluggish global growth. Overseas, several other central banks introduced measures to stimulate their economies during the quarter, including negative interest rates by the Bank of Japan, key rate cuts by the European Central Bank and policies to encourage lending in China. These actions, along with muted inflation, helped to drive yields for longer-maturity government bonds lower throughout the period.

The Bank of Canada also left rates unchanged in the first quarter as the Canadian economy defied expectations to post a broad-based 0.6% GDP increase in January, its best month since mid-2013. The FTSE TMX Canada Universe Bond Index, a measure of Canadian government and investment-grade corporate bonds, returned 1.4% for the three-month period.

Overall, global capital markets have exhibited a higher level of volatility over the past several quarters, and this may continue to be the case during 2016. Nevertheless, conditions that support the expansion of the global economy and individual businesses, including low inflation and low interest rates, persist. Although it may be tempting to try to limit losses by exiting the markets during more turbulent periods, history also tells us that keeping an eye on the long-term horizon and staying true to a sound, diversified financial plan is the best course of action.



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Sources: *CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, National Post, Bloomberg, Yahoo Canada Finance, and Trading Economics.* Index information was provided by TD Newcrest and PC Bond, and all quoted equity index returns are on a total return basis (including dividends) except for the Shanghai Composite.

The information contained herein is current as at April 18, 2016.

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