

Market News

1st Quarter 2014



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

Derek Samson
Administrative Assistant
705 726 3390

Graeme Gordon
Estate Planning Advisor
TD Waterhouse Insurance
Services Inc.

Equity markets around the world posted mixed results in the first quarter of 2014. Despite some volatility early in the period, the global economy's moderate growth, low interest rates and controlled inflation gradually supported investor confidence and resulted in increases for many markets by quarter-end. Fixed-income securities were also higher for the quarter, with prices for 10-year government bonds in Canada and the U.S. rising slightly, pushing yields down, while demand for corporate bonds remained strong.

The crisis in Ukraine, instability in emerging markets and slower growth in China created headwinds for global equity markets in the first two months of the year. By the end of the quarter, however, the S&P/TSX Composite Index in Canada had benefited from higher prices for commodities – particularly precious metals – to gain 6.1%, including dividends. The index was broadly positive, with the strongest results coming from the energy and materials sectors, while industrials and financials had smaller increases.

Performance among foreign markets was more muted, but Canadian investors in global securities benefited as the Canadian dollar weakened against several major currencies, including the U.S. dollar and the euro. After posting stellar results in 2013, for example, the S&P 500 Index added a modest 1.8%, which translated to nearly 6% in Canadian dollar terms. Early declines for the U.S. market were ultimately reversed by improving economic data and the market's increasing comfort with the new Chair of the U.S. Federal Reserve, Janet Yellen, and its resolve to "taper" its economic stimulus. Stronger business conditions and greater stability in Europe, meanwhile, led to results that were mixed in local currency terms, but positive when converted to Canadian dollars. Investor anxiety about the effect of tapering on emerging markets and China's cooling economy led to negative results for China's Shanghai Index and the MSCI Emerging Markets Index, and after making strong gains in 2013, Japan's Nikkei Index declined 9.0%, or 3.3% in Canadian dollar terms.

We marked the fifth anniversary of the current bull market during the first quarter of this year. It has been gratifying to see how well both the global economy and stock markets have recovered in this time – the S&P 500 Index in the U.S. has gained more than 180% and the MSCI World Index is up 140% from their lows of March 2009 to the end of March 2014. Nevertheless, the volatility experienced in the most recent quarter is a reminder that capital market investments typically do not take a path uniformly upward, often experiencing declines or "corrections" before moving forward again. For that reason, I believe it is important to take a longer-term approach, and to invest in a portfolio that is well diversified among asset classes, geographies and sectors, depending on your individual investment objectives.

In closing, I would like to thank you for your business. If you have any questions or concerns about your account, please do not hesitate to contact me.

Melinda Burgess
Investment Advisor
TD Wealth Private Investment Advice



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