TD Wealth

# Quarterly Market Review

**Portfolio Advice & Investment Research**

April 7, 2015


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## Q1/15 Quarterly Market Review

## Highlights

### Canadian & U.S. Fixed Income

- The North American fixed income markets rallied in Q1/2015, with Canadian and U.S. government bond indices posting total returns of 4.40% Q/Q and 1.77% Q/Q, respectively.
- Canadian and U.S. investment grade corporate bond indices registered total returns of 3.55% Q/Q and 1.75% Q/Q respectively, aided by falling government bond yields. Credit markets have experienced increased volatility and investment grade spreads increased marginally during the quarter.

### Canadian Equities

- During Q1/15, the S&P/TSX Composite Index (S&P/TSX) posted a moderate gain of 1.85% on a price return basis (2.58% on a total return basis) despite weakness in the heavyweight energy and financials sectors.
- The health care sector significantly outperformed the S&P/TSX as the sector appreciated 45.05% Q/Q.
- Small-cap stocks underperformed large-cap Canadian equities, and value stocks outperformed their growth counterparts.

### U.S. Equities

- U.S. equities delivered mixed performance in Q1/15 in U.S. dollar terms, with the S&P 500 returning 0.44% and the Dow Jones Industrial Average (Dow) returning -0.26%. In Canadian dollar terms, the S&P 500 returned 9.63% and the Dow returned 8.86%. The strength in the U.S. dollar versus the Canadian dollar enhanced returns for Canadian investors.
- The S&P 500 touched new all-time highs during Q1/15 and registered its ninth consecutive quarterly gain.
- Six of the ten sectors of the S&P 500 advanced during the quarter.
- Large-cap U.S. equities underperformed mid- and small-cap U.S. stocks, while U.S. growth stocks outperformed their value counterparts.

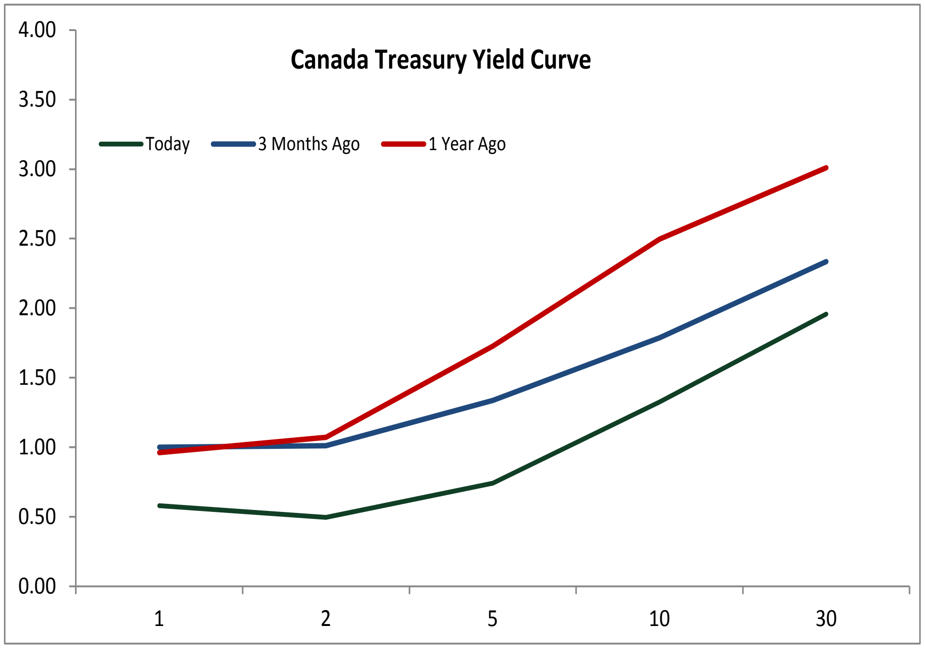
### International Equities

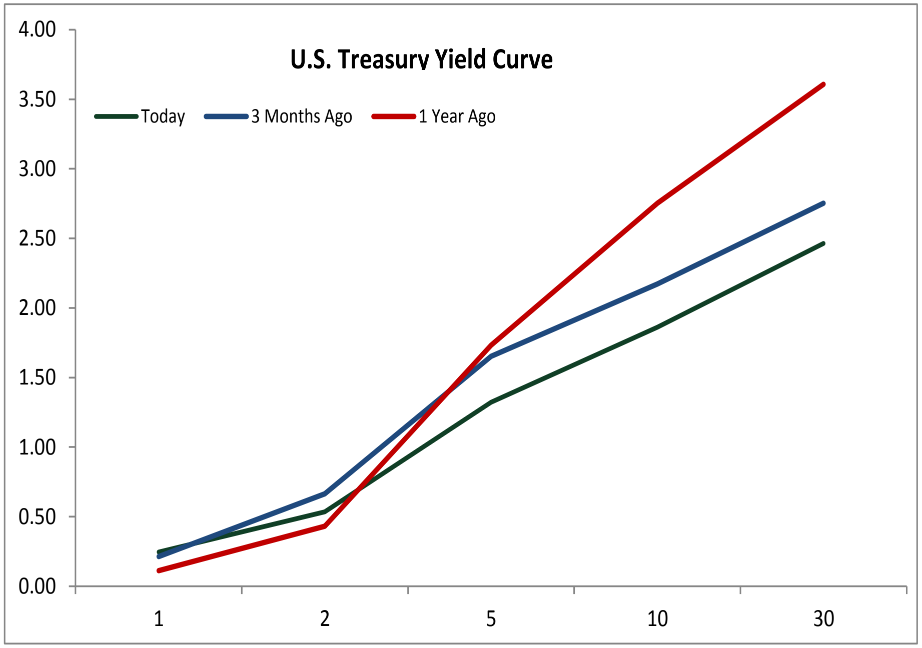
- Most major developed international markets advanced in Q1/15, as did the emerging markets region.

## Canadian & U.S. Fixed Income

| Money Market/Bond Issues and Indices (Total Return) | Q1/15 Return | YTD Return | Canadian Yields | U.S. Yields |
|---|---|---|---|---|
| 91-Day Treasury Bill | -- | -- | 0.54% | 0.02% |
| 2-Year Government Bonds | -- | -- | 0.51% | 0.56% |
| 5-Year Government Bonds | -- | -- | 0.76% | 1.37% |
| 10-Year Government Bonds | -- | -- | 1.36% | 1.92% |
| 30-Year Government Bonds | -- | -- | 1.98% | 2.54% |
| FTSE TMX Canada Universe Bond Index | +4.15% | +4.15% | 1.74% | -- |
| FTSE TMX Canada All Government Bond Index | +4.40% | +4.40% | 1.55% | -- |
| FTSE TMX Canada All Corporate Bond Index | +3.55% | +3.55% | 2.24% | -- |
| FTSE TMX Canada Real Return Bond Index | +7.33% | +7.33% | -0.02% | -- |
| Merrill Lynch High Yield Master II Index - US$ | +2.54% | +2.54% | -- | 6.28% |

Source: Bloomberg Finance L.P. as at March 31, 2015.




Source: Bloomberg Finance L.P. as at March 31, 2015.

The North American fixed income markets rallied in Q1/15, with Canadian and U.S. government bond indices posting total returns of 4.40% Q/Q and 1.77% Q/Q, respectively. European sovereign debt yields declined to record lows during the quarter as the European Central Bank (ECB) picked up the policy-loosening torch and commenced its own version of quantitative easing to fight economic stagnation and deflationary pressures. Notably, from a broad global perspective, government bond yields are currently negative out to seven years in maturity in Germany; five years in Denmark and the Netherlands; four years in Austria, Belgium, Finland, France and Sweden; three years in Ireland; out to at least two years in many other European countries; and incredibly out to 12 years in Switzerland. A sizeable yield gap between North American and European sovereign debt continues to enhance the relative appeal of U.S. Treasuries and Canadian government bonds. The Canadian yield curve has shifted lower and steepened in the wake of the Bank of Canada's (BoC) unexpected rate cut that was announced in mid-January. The 2-year Government of Canada bond yielded 0.51% at the end of March, down from the 1.01% at the end of Q4/14. 10-year Government of Canada bonds yielded 1.36% at the end of Q1/15, as it declined 36 basis points (bps) during the quarter.

The U.S. Treasury curve flattened further in the first quarter, as 30-year Treasury yields declined 21 bps. The 10-year yield fell 25 bps during the quarter, but rose from record lows of 1.64% to finish the quarter at 1.92%. Expectations for the commencement of policy tightening from the U.S. Federal Reserve (Fed) have been pushed back. TD Economics is of the opinion that it will likely not be until September 2015 before the Fed raises the target for the federal funds rate.

Canadian and U.S. investment grade corporate bond indices registered total returns of 3.55% Q/Q and 1.75% Q/Q in local currency terms respectively, aided by falling government bond yields. Credit markets have experienced increased volatility and investment grade spreads increased marginally during the quarter. High yield spreads narrowed during the quarter. Credit conditions in the energy sector have stabilized, after increasing almost 400 bps during Q4/14 as the plunge in oil prices took its toll. Investment grade corporate debt offerings in the U.S. market totaled a record US$341.9 billion during Q1/2015, an increase of 8% compared to a year ago.

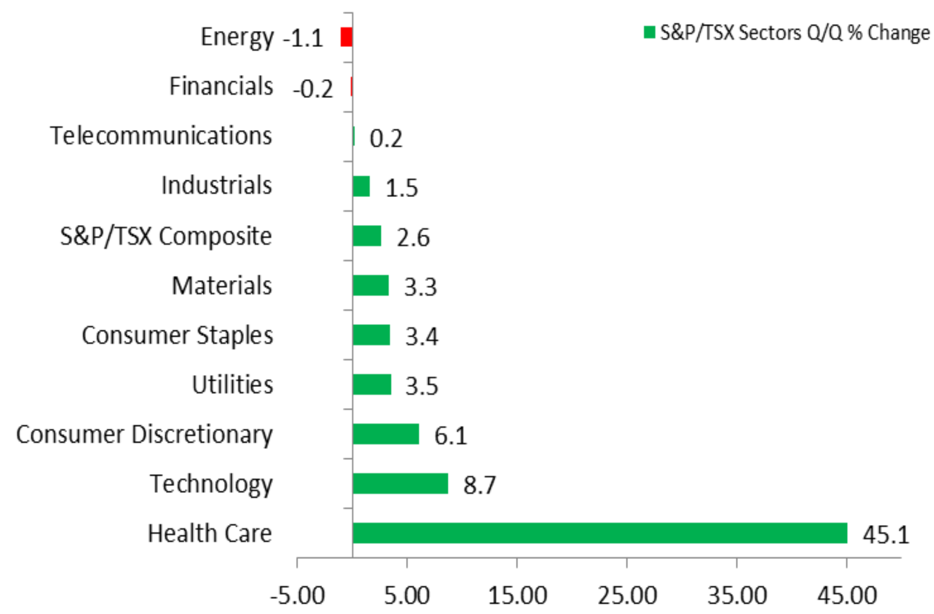
During the quarter, the Dollar Index, which measures the strength of the U.S. dollar against a basket of six major currencies, rose and reached its quarterly peak in mid-March before paring its advance. The Canadian dollar fell 8.40% Q/Q against the U.S. dollar as low oil prices and soft growth prospects impacted the Loonie.

## Canadian Equities

| Indices | March 31/15 | Q1/15 Return | YTD Return |
|---|---|---|---|
| S&P/TSX Composite Index | 14,902.44 | +1.85% | +1.85% |
| S&P/TSX 60 Index | 869.28 | +1.69% | +1.69% |
| S&P/TSX Cdn MidCap Index | 968.45 | +2.33% | +2.33% |
| S&P/TSX Cdn SmallCap Index | 573.49 | -0.96% | -0.96% |
| S&P/TSX Preferred Share Index | 760.76 | -6.00% | -6.00% |

Source: Bloomberg Finance L.P. as at March 31, 2015. Price index values and returns.

The S&P/TSX rose 1.85% on a price return basis (2.58% on a total return basis) during Q1/15. Most sectors in the index provided positive returns which helped offset relative weakness in the heavyweight energy and financials sectors. The health care sector provided outsized gains, specifically Valeant Pharmaceuticals International Inc. which rose 50.43% Q/Q following a successful takeover bid for Salix Pharmaceuticals Ltd., and Catamaran Corp. which rose 25.42% after UnitedHealth Group Inc. agreed to purchase the company. The S&P/TSX underperformed the S&P 500 in Canadian dollar terms for a third consecutive quarter. In Q1/15, the energy sector was weighed down by a further decline in the price of West Texas Intermediate (WTI) crude oil. WTI fell 10.6% and reached its lowest level since 2009. The decline in crude oil prices was driven by the lack of a supply response to weaker global demand and lower oil prices, as the Organization of the Petroleum Exporting Countries (OPEC) refused to cut its output target. Despite the surge in the U.S. dollar, the price of gold bullion ended Q1/15 relatively unchanged with a return of -0.10%.



Source: Bloomberg Finance L.P., as at March 31, 2015. Index Total Returns.

The energy and financials sectors, which are the two largest sectors in the S&P/TSX, posted losses which muted the returns of the overall market in Q1/15. Small-cap stocks underperformed large-cap Canadian equities as the S&P/TSX Small Cap Index returned -0.96% Q/Q on a price return basis compared to the large-cap S&P/TSX 60 Index's gain of 1.69% Q/Q. Canadian value stocks, as measured by the Morningstar Canada Value Index, gained 2.18% Q/Q and outperformed the comparable growth benchmark, the Morningstar Canada Momentum Index, which registered a loss of -5.48% Q/Q.

Canadian preferred shares traded sharply lower in price during Q1/15. The S&P/TSX Preferred Share Index (TXPR) declined 6.0% during the quarter, while the S&P/TSX Preferred Share Laddered Index (TXPL), comprised entirely of Rate-Reset Preferred shares, posted a loss of 9.3%. Looking at the individual segments of the market, the prices of the Rate-Reset preferred shares declined 8.8% during Q1/15, while Perpetual preferred share prices outperformed as they gained 0.6%. The smaller Fixed-Floater segment fared the worst, declining 13.4% in price, while the prices of Floating Rate issues plunged 11.5%. The rate cut from the BoC diminished the appeal of floating rate product and the decline in 5-year yields to record lows weighed heavily on Rate-Reset issues. Issues with low reset spreads and reset/redemption dates approaching in the next year or two were the most negatively impacted.

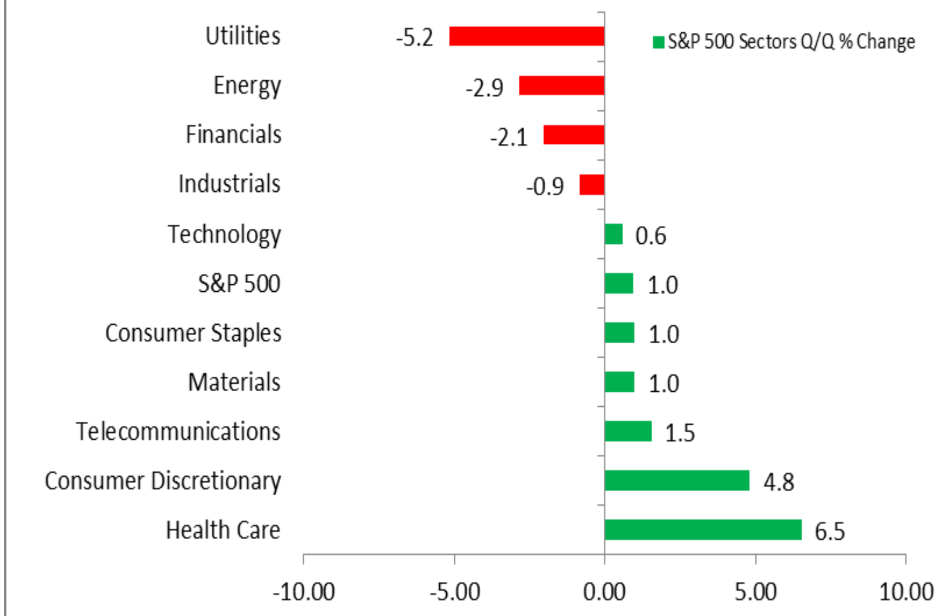
## U.S. Equities

| Indices | March 31/14 | Q1/15 Return | Q1/15 Return (C$) | YTD Return | YTD Return (C$) |
|---|---|---|---|---|---|
| Dow Jones Industrial Average Index | 17,776.12 | -0.26% | +8.86% | -0.26% | +8.86% |
| S&P 500 Index | 2,067.89 | +0.44% | +9.63% | +0.44% | +9.63% |
| S&P 400 Index | 1,524.03 | +4.93% | +14.53% | +4.93% | +14.53% |
| NASDAQ Composite Index | 4,900.89 | +3.48% | +12.95% | +3.48% | +12.95% |
| Russell 2000 Index | 1,252.77 | +3.99% | +13.51% | +3.99% | +13.51% |

Source: Bloomberg Finance L.P. as at March 31, 2015. Price index values and returns. Index returns calculated in local currency and C$.

U.S. equities posted mixed results in Q1/15. The S&P 500 rose 0.44% Q/Q and touched an all-time high on March 2, achieving nine consecutive quarters of positive returns, while the Dow lost 0.26% Q/Q. While the returns for the quarter were essentially flat, there was a distinct uptick in volatility. During the quarter, U.S. equities were hampered by a significant strengthening in the U.S. dollar which negatively impacted forecasted earnings growth rates. However, the strength in the U.S. dollar versus the Canadian dollar helped enhance returns for Canadian investors. In Canadian dollar terms, the S&P 500 gained 9.63% Q/Q on a price return basis, and the Dow rose 8.86% Q/Q.

Six of the ten sectors of the S&P 500 advanced during the quarter, with utilities, energy, financials and industrials being the sectors that finished down. The S&P 500, a benchmark for U.S. large-cap equities, gained 0.44% Q/Q on a price return basis, and underperformed U.S. mid-cap stocks, as measured by the S&P 400 Index, which gained 4.93% Q/Q as well as the rise in small-cap U.S. stocks, as measured by the Russell 2000 Index, of 3.99% Q/Q. This continues a longer term trend of small-cap outperformance dating back to the second half of 2014. U.S. growth stocks, as measured by the Morningstar U.S. Growth Index, gained 6.22% Q/Q, and outperformed the comparable value benchmark, the Morningstar U.S. Value Index, which registered a gain of 3.33% Q/Q.



Source: Bloomberg Finance L.P., as at March 31, 2015. Index Total Returns.

## International Equities

| Indices | March 31/15 | Q1/15 Return | Q1/15 Return (C$) | YTD Return | YTD Return (C$) |
|---|---|---|---|---|---|
| FTSE 100 Index | 6,773.04 | +3.15% | +7.26% | +3.15% | +7.26% |
| DAX Index | 11,966.17 | +22.03% | +17.66% | +22.03% | +17.66% |
| CAC 40 Index | 5,033.64 | +17.81% | +14.01% | +17.81% | +14.01% |
| MSCI Europe TR (LC) Index | 7,823.69 | +11.74% | +13.06% | +11.74% | +13.06% |
| Nikkei 225 Stock Average | 19,206.99 | +10.06% | +19.76% | +10.06% | +19.76% |
| MSCI Emerging Markets Free TR (LC) Index | 102,375.80 | +4.94% | +11.6% | +4.94% | +11.6% |

Source: Bloomberg Finance L.P. as at March 31, 2015. Price index values and returns, except MSCI Europe TR (LC) and MSCI Emerging Markets Free TR (LC) which are total return indices. Index returns calculated in local currency and C$.

Most major developed international markets advanced in Q1/15. In Europe, Germany's DAX Index gained 22.03% Q/Q, France's CAC 40 Index rose 17.81% while the UK's FTSE 100 Index gained 3.15% Q/Q on a price return basis. European markets gained following the launch of a large-scale economic stimulus effort by the European Central Bank in March. Economic confidence in the Eurozone, as measured by the Economic Sentiment Indicator, also jumped to the highest level since the summer of 2011 in March, indicating that businesses and consumers are becoming more optimistic.

Japan's Nikkei 225 Stock Average posted a 10.06% Q/Q gain on a price return basis in Q1/15 as the Bank of Japan maintained unprecedented monetary stimulus to boost the economy. Exports also resumed a higher growth profile relative to imports given the competitive advantage from a lower Yen.

In emerging market equities, Chinese equities rallied 15.87% Q/Q, with the Shanghai Composite Index hitting a seven-year high during the quarter, after the People's Bank of China hinted at further monetary easing measures to boost the Chinese economy. The bank has already cut interest rates twice since November and reduced the amount of cash lenders must keep in reserve. India's S&P/CNX Nifty Index gained 2.51% Q/Q on continued investor optimism over the reform agenda announced by the new central government and as the Reserve Bank of India surprised investors with a cut to key lending rates.

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