TD Wealth

Quarterly Market Review

Portfolio Advice & Investment Research

July 4, 2016

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

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Please refer to Appendix A of this report for important disclosure information.

Q2/16 Quarterly Market Review

Highlights

Canadian & U.S. Fixed Income

- The Canadian government bond index posted gains and outperformed relative to the U.S. government bond index as the Canadian index advanced 2.67% Q/Q, compared to the 2.11% Q/Q return for the Bloomberg U.S. Treasury Bond Index.
- Canadian and U.S. investment grade corporate bond indices registered returns of 2.46% Q/Q and 3.50% Q/Q, respectively. Credit markets held up very well in the quarter, with credit spreads trending tighter before a sharp jump post Brexit. Despite the reaction to the UK vote, spreads ended the quarter lower than where they started.
- High yield credit spreads followed a similar path and are now narrower than where they were at the end of Q1/16.

Canadian Equities

- The Canadian equity market rose in Q2/16 as the S&P/TSX Composite Index (S&P/TSX) returned 5.1%.
- Six of the ten S&P/TSX sectors posted positive returns. The energy and materials sectors were among the strongest performers.
- Large-cap Canadian stocks significantly underperformed small- and mid-caps, and growth stocks outperformed their value counterparts.

U.S. Equities

- U.S. equities delivered mixed results in Q2/16. The S&P 500 Index (S&P 500) gained 2.5% Q/Q, the Dow Jones Industrial Average (Dow) rose 2.1% Q/Q and the NASDAQ Composite (NASDAQ) returned -0.2% Q/Q.
- Eight of the ten sectors in the S&P 500 delivered a positive return during the second quarter.
- Large-cap U.S. equities underperformed small-cap and mid-cap stocks, while U.S. value stocks outperformed their growth counterparts.

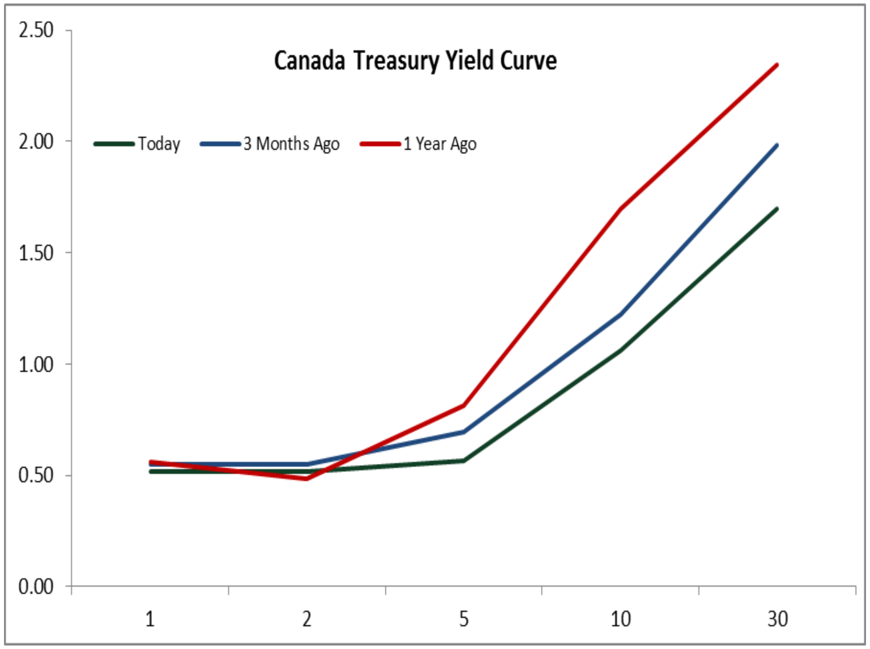
International Equities

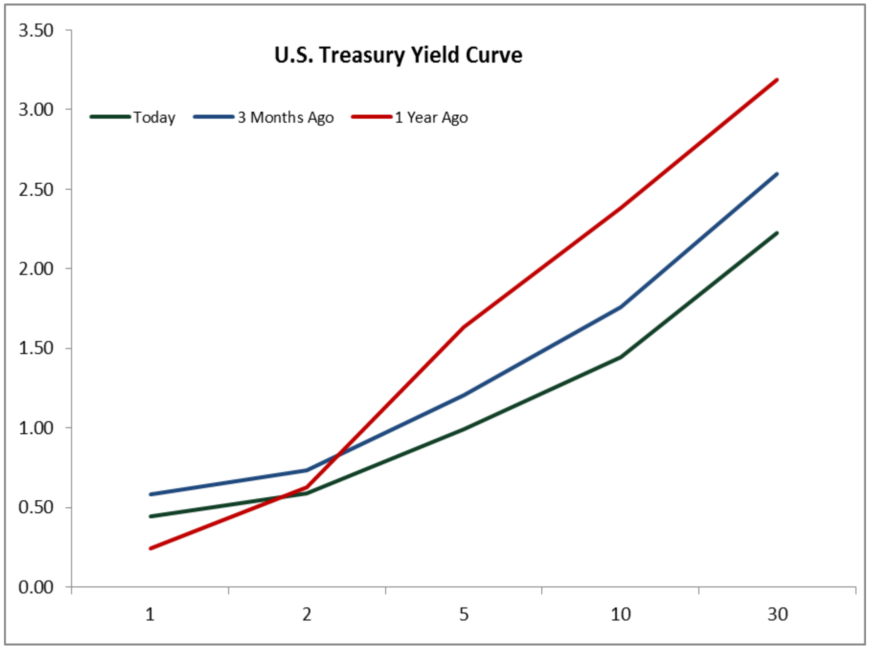
- Most major developed international markets fell in Q2/16 and followed a similar pattern of returns, rising in April and May before declining in June.
- The MSCI Emerging Markets Index gained 0.8% Q/Q. Performance among emerging economies was diverse, reflecting differences in policies and the impact of commodity prices, which rose during the quarter.

Canadian & U.S. Fixed Income

Money Market/Bond Issues and Indices	Q2/16 Return	YTD Return	Canadian Yields	U.S. Yields
91-Day Treasury Bill	--	--	0.48%	0.26%
2-Year Government Bonds	--	--	0.52%	0.58%
5-Year Government Bonds	--	--	0.57%	1.00%
10-Year Government Bonds	--	--	1.06%	1.47%
30-Year Government Bonds	--	--	1.72%	2.28%
FTSE TMX Canada Universe Bond Index	+2.62%	+4.05%	1.77%	--
FTSE TMX Canada All Government Bond Index	+2.67%	+4.06%	1.51%	--
FTSE TMX Canada All Corporate Bond Index	+2.46%	+4.00%	2.47%	--
FTSE TMX Canada Real Return Bond Index	+3.67%	+5.83%	0.18%	--
Merrill Lynch U.S. Corporate Master Index – US$	+3.50%	+7.56%	--	2.86%
Merrill Lynch High Yield Master II Index - US$	+5.88%	+9.32%	--	7.32%

Source: Bloomberg Finance L.P. as at June 30, 2016. Index returns are reported on a total return basis.





Source: Bloomberg Finance L.P. as at June 30, 2016.

The Canadian government bond index posted gains and outperformed relative to the U.S. government bond index as the Canadian index advanced 2.67% Q/Q, compared to the 2.11% Q/Q return for U.S. Treasuries as measured by the Bloomberg U.S. Treasury Bond Index.

North American Government bonds had been trading in a fairly tight range in Q2 before a weak non-farm payrolls print for May cast doubt on the upward trajectory for the U.S. Federal Reserve's policy rate. Global equity market gyrations post Brexit drove a supportive bid for safe assets like government bonds going into the end of the quarter.

On June 15, 2016, the Federal Open Market Committee decided to maintain the target federal funds rate (Fed Funds rate) at 0.25% to 0.50%. The median of policy makers' updated quarterly projections showed that while 17 policy makers anticipated two 25 basis point hikes this year, the number of officials who see just one move rose to six from one in the previous forecasting round in March. The median projection of officials for the federal funds rate at year-end remained at 0.875%, but the median long-run projection fell to 3.0% from 3.3% in March.

The reduction of rate hike expectations from the U.S. Federal Reserve and the bid for safe havens has resulted in a sharp move lower in the U.S. Treasury yield curve. The front end of the curve declined substantially, but yields on medium- and longer-dated maturities fell more as the curve flattened.

On May 25, 2016, the Bank of Canada (BoC) maintained its target for the overnight rate at 0.5% and opined that the Canadian economy's "structural adjustment to the oil price shock continues, but is proving to be uneven. Growth in the first quarter of 2016 appears to be in line with the Bank's April projection, although business investment and intentions remain disappointing. The second quarter will be much weaker than predicted because of the devastating Alberta wildfires. The Bank's preliminary assessment is that fire-related destruction and the associated halt to oil production will cut about 1 1/4 percentage points off real GDP growth in the second quarter. The economy is expected to rebound in the third quarter, as oil production resumes and reconstruction begins."

The Canadian yield curve flattened in Q2/16, with yields on longer dated securities falling as those at the front end of the curve rose. The 2-year Government of Canada bond yielded 0.52% at the end of June, down 2 basis points (bps) from the end of Q1/16. The 10-year Government of Canada bond yielded 1.06% at the end of Q2/16, as yields declined 17 bps during the quarter.

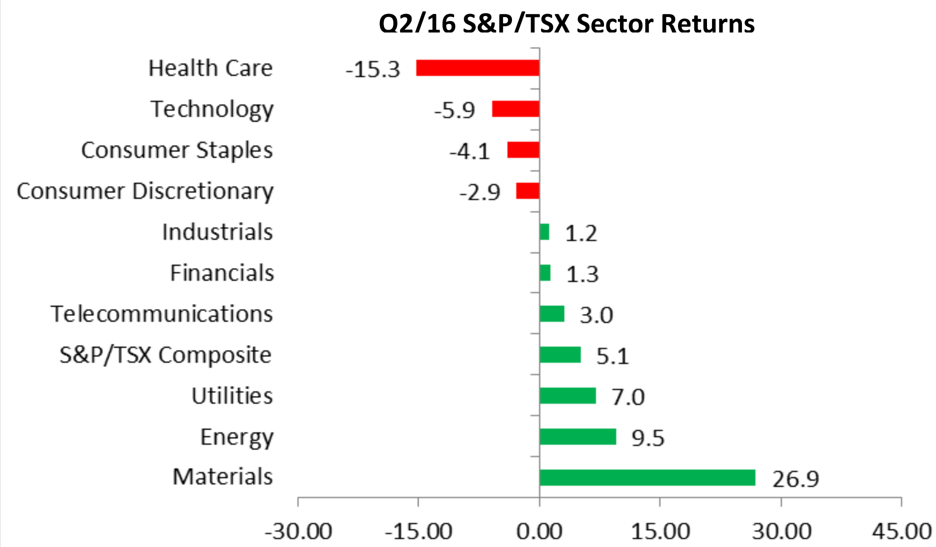
Investors' flight to safe assets following the UK's European Union (EU) referendum on June 23rd has pushed the global total of sovereign debt with negative yields to US$11.7 trillion as of June 27, up US$1.3 trillion from the end of May, according to new analysis by Fitch Ratings. Fitch reports that a total of US$2.6 trillion in sovereign bonds with maturities of seven years or more now trade at a negative yield. Japanese government bonds (JGBs) continue to represent about two-thirds of the global total (US$7.9 trillion), while Germany and France each now have over US$1 trillion in sovereign debt with sub-zero yields. Japan's negative-yielding debt total grew by about 18% during the month, while Germany's and France's total grew by 8% and 13%, respectively. The 10-year U.S. Treasury yield, at 1.47%, is 9 bps away from its all-time low of 1.379%, set on July 25, 2012. Likewise, at 1.06%, the benchmark 10-year Canada yield is just 15 bps away from its all-time low of 0.908% set earlier this year on February 11, 2016. The 30-year Canada bond established a new record low of 1.719% on June 27, 2016.

Canadian and U.S. investment grade corporate bond indices registered returns of 2.46% Q/Q and 3.50% Q/Q, respectively. Credit markets held up very well in the quarter, with credit spreads trending tighter before a sharp jump post Brexit. Despite the reaction to the UK vote, spreads ended the quarter lower than where they started. High yield credit spreads followed a similar path and are now narrower than where they were at the end of Q1/16.

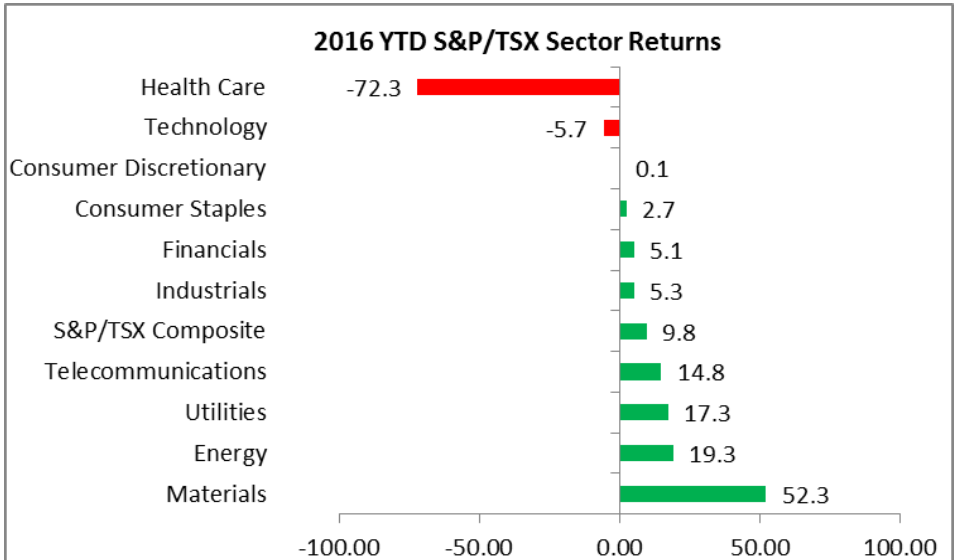
Canadian Equities

Indices	Jun. 30/16	Q2/16 Return	YTD Return
S&P/TSX Composite Index	44,903.83	+5.07%	+9.84%
S&P/TSX 60 Index	2,109.09	+4.24%	+8.66%
S&P/TSX Cdn MidCap Index	1,417.46	+7.68%	+13.63%
S&P/TSX Cdn SmallCap Index	931.18	+17.93%	+27.98%
S&P/TSX Preferred Share Index	616.20	+1.35%	-5.64%

Source: Bloomberg Finance L.P. as at June 30, 2016. Total index values and returns, except the S&P/TSX Preferred Share Index which is reported on a price return basis.



Source: Bloomberg Finance L.P., as at June 30, 2016. Index Total Returns.



Source: Bloomberg Finance L.P., as at June 30, 2016. Index Total Returns.

The Canadian equity market rose in Q2/16 as the S&P/TSX returned 5.1% (9.8% YTD) and six of the ten sectors advanced. Most of the gains on the S&P/TSX occurred in April and May while June was essentially flat. The rise in the Canadian equity market was driven primarily by the energy and materials sectors as commodity prices continued to recover during the second quarter. In Q2/16, West Texas Intermediate (WTI) oil rose 26.1% (30.5% YTD), reaching a peak of US$51.23/barrel on June 8th, partly over concerns of oil supply disruptions resulting from the May wildfires in the Fort McMurray region. The price of gold bullion rose 7.3% Q/Q (24.6% YTD) with a large portion of the gains occurring due to the uncertainty leading up to and following the UK's surprise vote to leave the EU.

The financials sector, which is the largest sector in the S&P/TSX, rose 1.3% during Q2 (5.1% YTD) but underperformed the broad market. The health care sector was the notable underperformer relative to the broad S&P/TSX as the sector returned –15.3% Q/Q (-72.3% YTD). The significant underperformance of the health care sector relative to the broad market during the quarter was primarily driven by Valeant Pharmaceuticals International Inc. (VRX-T), which fell 23.5% as the company reported weaker than expected earnings and cut its full-year guidance.

Large-cap stocks significantly underperformed mid-cap and small-cap Canadian equities as the large-cap S&P/TSX 60 Index returned 4.2% Q/Q (8.7% YTD) compared to 7.7% Q/Q (13.6% YTD) for the S&P/TSX Canadian Mid Cap Index and 17.9% Q/Q (28.0% YTD) for the S&P/TSX Canadian Small Cap Index. Canadian growth stocks, as measured by the Morningstar Canada Target Momentum Index, gained 3.0% Q/Q (3.7% YTD) and outperformed the comparable value benchmark, the Morningstar Canada Target Value Index, which gained 1.2% Q/Q (5.8% YTD).

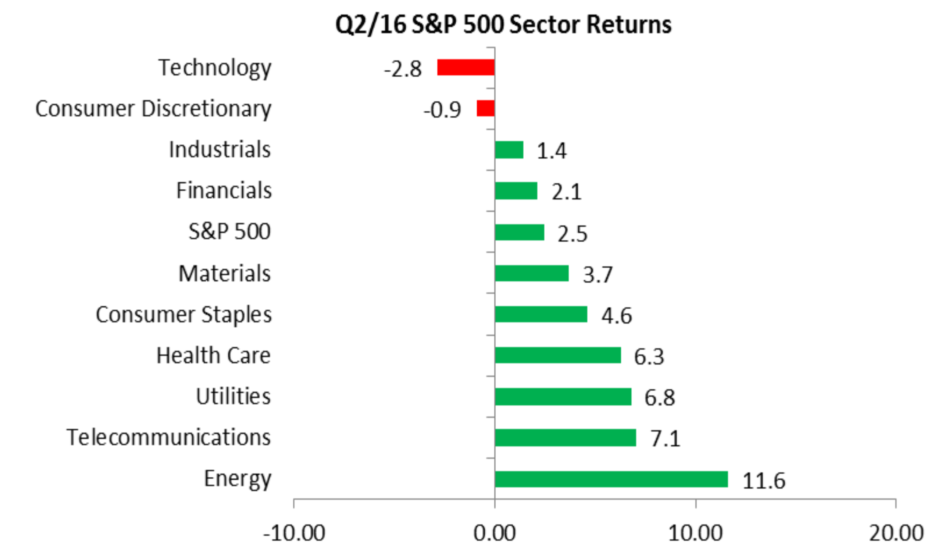
For the second consecutive quarter, the S&P/TSX outperformed the S&P 500 in Canadian dollar terms after underperforming for the previous six quarters. The U.S. dollar strengthened against a basket of six major currencies during the quarter as investors sought the perceived safety of the U.S. dollar.

Canadian preferred shares traded higher in price during Q2/16. The S&P/TSX Preferred Share Index (TXPR) rose 1.4% during the quarter (-5.6% YTD). Looking at the performance of individual market segments, the prices of Rate-Reset preferred shares advanced 0.9% during Q2/16, while Perpetual preferred share prices posted a 3.6% gain. Floating Rate-Resets posted the strongest gains, advancing 3.7% and the Fixed-Floater segment increased 2.9% in price, while the prices of Floating Rate issues moved 1.5% higher.

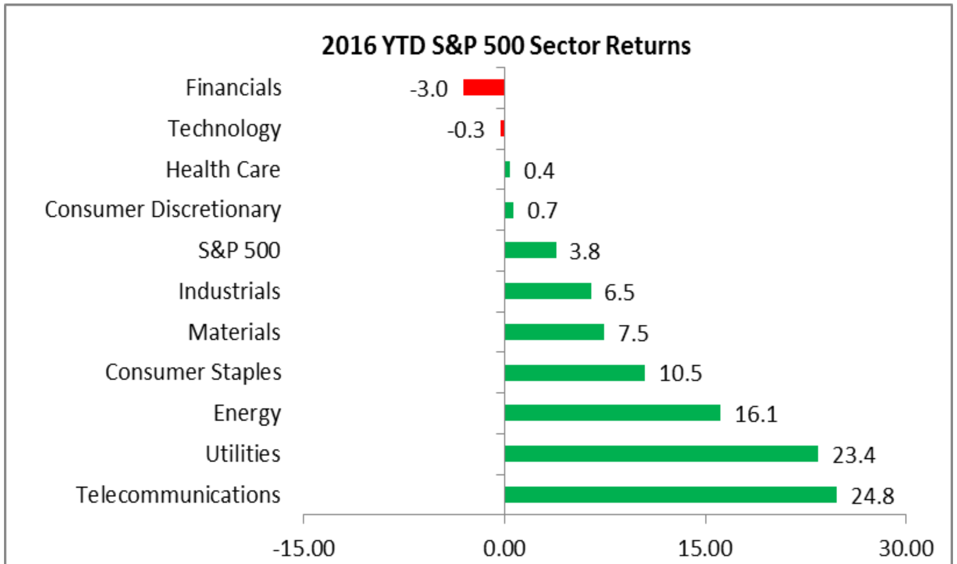
U.S. Equities

Indices	Jun. 30/16	Q2/16 Return	Q2/16 Return (C$)	YTD Return	YTD Return (C$)
Dow Jones Industrial Average Index	37,267.07	+2.07%	+2.09%	+4.31%	-2.09%
S&P 500 Index	3,968.21	+2.46%	+2.48%	+3.84%	-2.54%
S&P 400 Index	2,162.71	+3.99%	+4.02%	+7.93%	+1.30%
NASDAQ Composite Index	5,473.12	-0.23%	-0.21%	-2.66%	-8.63%
Russell 2000 Index	5,552.02	+3.79%	+3.82%	+2.22%	-4.06%

Source: Bloomberg Finance L.P. as at June 30, 2016. Total index values and returns. Index returns calculated in local currency and C$.



Source: Bloomberg Finance L.P., as at June 30, 2016. Index Total Returns.



Source: Bloomberg Finance L.P., as at June 30, 2016. Index Total Returns.

U.S. equities delivered mixed results in Q2/16 as the S&P 500 gained 2.5% Q/Q (3.8% YTD) and the Dow rose 2.1% Q/Q (4.3% YTD), while the NASDAQ returned -0.2% Q/Q (-2.7% YTD). Eight of the ten sectors in the S&P 500 delivered a positive return during the quarter, with gains led by the energy sector. Prior to the final week of the quarter, U.S. equity markets were on track to deliver negative returns for the second quarter as the S&P 500 lost 5.3% in the two days following the UK referendum. However, the S&P 500 recovered most of these losses in the final week of the quarter as it advanced 5.1% from its close on June 27th to the end of Q2. Market volatility, as measured by the CBOE Volatility Index (VIX), soared 12% during the quarter and reached as high as 85%, with much of the increase occurring in the period leading up to and following the referendum. Economic indicators are generally positive and domestic demand remained well supported by accommodative interest rates, a tightening labour market and rising wages. Economic growth, as measured by real GDP, is forecasted to rise 2.5% (annualized) in the second quarter by TD Economics.

Relative to the Canadian dollar, the U.S. dollar ended the quarter at essentially the same level, providing minimal impact to relative returns for Canadian investors during Q2/16. In Canadian dollar terms, the S&P 500 returned 2.5% Q/Q, the Dow gained 2.1% Q/Q, and the NASDAQ declined 0.2% Q/Q. On a year to date basis, the Canadian dollar rose by 6.7% against the U.S. dollar, detracting from relative returns for Canadian investors as the S&P 500 returned -2.5%, the Dow lost 2.1% and the NASDAQ returned -8.6% in Canadian dollar terms.

The S&P 500, a benchmark for U.S. large-cap equities, gained 2.5% Q/Q (3.8% YTD) and underperformed small-cap U.S. stocks, as measured by the Russell 2000 Index, which gained 3.8% Q/Q (2.2% YTD) and U.S. mid-cap stocks, as measured by the S&P 400 Index, which gained 4.0% Q/Q (7.9% YTD). U.S. value stocks, as measured by the Morningstar U.S. Value Index, gained 4.0% Q/Q (8.0% YTD), and outperformed the comparable growth benchmark, the Morningstar U.S. Growth Index, which registered a total return of 0.4% Q/Q (-1.0% YTD).

International Equities

Indices	Jun. 30/16	Q2/16 Return	Q2/16 Return (C$)	YTD Return	YTD Return (C$)
FTSE 100 Index	5,214.61	+6.54%	-1.77%	+6.62%	-9.89%
DAX Index	9,680.09	-2.86%	-5.47%	-9.89%	-14.55%
CAC 40 Index	10,400.40	-0.59%	-3.25%	-5.67%	-9.78%
MSCI Europe (LC) Index	7,145.02	+1.65%	-2.27%	-3.23%	-10.47%
Nikkei 225 Stock Average	23,563.61	-6.89%	+1.53%	-17.34%	-9.72%
MSCI Emerging Markets Free (LC) Index	95,630.77	+0.83%	+0.68%	+3.63%	-0.12%

Source: Bloomberg Finance L.P. as at June 30, 2016. Total index values and returns. Index returns calculated in local currency and C$.

Most major developed international markets fell in Q2/16 and followed a similar pattern of returns, rising in April and May before declining in June. In Europe, the UK's FTSE 100 Index was an outlier as the index gained 6.5% Q/Q (6.6% YTD), reversing the losses suffered following the Brexit vote and ending the quarter at the index's highest level for Q2. Germany's DAX Index fell 2.9% Q/Q (-9.9% YTD) and France's CAC 40 Index declined 0.6% Q/Q (-5.7% YTD). At a meeting in early June, the European Central Bank (ECB) maintained the level of its quantitative easing program at €80 billion euros per month and left the main refinancing rate at zero and the deposit rate at -0.4%. However, the ECB expanded the type of assets that will be included in the stimulus program to include euro-denominated corporate bonds as the central bank struggles to deal with deflation. Given the instability following the Brexit referendum, the ECB is expected to increase the level of corporate bond purchases included in the program.

Japan's Nikkei 225 Stock Average posted a 6.9% Q/Q loss in Q2/16 (-17.3% YTD), its first back-to-back quarterly decline since Q3/12. In early June, Prime Minister Shinzo Abe announced that Japan will delay its planned sales tax increase for two and a half years and also detailed a new fiscal stimulus package to be implemented this fall due to low economic growth and essentially non-existent inflation. The decision by the UK to leave the EU also pushed the yen to a two and a half year high versus the U.S. dollar and other major currencies, which will erode exporters' earnings.

The MSCI Emerging Markets Index gained 0.8% Q/Q (3.6% YTD). Emerging equity markets experienced heightened volatility during the second quarter, trending upward in April and then dropping through mid-May, followed by another rise leading up to the Brexit vote. The index declined following the results of the Brexit vote but subsequently recovered most of the losses in the final week of the quarter. Performance among emerging economies was diverse, reflecting differences in policies and the impact of commodity prices, which rose during the quarter. The Shanghai Composite PR Index declined 2.5% Q/Q (-17.2% YTD) as Chinese economic activity and company profits slowed in May, pointing to protracted weakness and the need for further policy support. In mid-June, MSCI decided for the third time in a row not to include Chinese A-shares in its key emerging markets indices.

Appendix A – Important Information

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