

TD Wealth Investment Strategy

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Global Geopolitical Risks

Global Tensions are Rising

- **North Korea** tension: serious global concerns about Pyongyang's nuclear threats
- **Syria:** U.S. missile strikes Syrian air base in retaliation for use of chemical weapons on Syrian civilians
- **Afghanistan:** U.S. drops its most powerful non-nuclear bomb against Islamic State targets

Rising global geopolitical challenges causing a shift in attention away from domestic policies

Domestic Policy Challenges

...and President Trump's potential softening in position

- The Affordable Care Act Repeal is withdrawn in March due to lack of support
- August time frame for tax reform legislation seen as "not realistic" – delays expected
- Debt ceiling increase to be approved in the upcoming months

Potential Softening in Position

- NATO no longer "obsolete"
- China not labeled a currency manipulator
- Janet Yellen re-nomination as Head of the Federal Reserve now possible
- Negative position on NAFTA and TPP has softened
- "Reciprocal Tax" alternative to BAT



Market Update

Market Update

Asset Class Returns (%)

Performance to March 31, 2017

U.S. Fixed Income	Election to April 25 2017	YTD	3 Month	1 Year	3 Year	5 Year
Barclays US Treasury TR USD	-1.50	0.67	0.67	-1.44	2.07	1.61
Barclays US Agg Bond TR USD	-0.83	0.82	0.82	0.44	2.68	2.34
Barclays US Corp IG TR USD	0.07	1.22	1.22	3.31	3.65	3.96
Barclays US Treasury US TIPS TR USD	-0.46	1.26	1.26	1.48	2.03	0.97
Barclays Municipal TR USD	-0.51	1.58	1.58	0.15	3.55	3.24
BofAML US HY Master II Constnd TR USD	5.56	2.71	2.71	16.87	4.64	6.85

U.S. Equities	Election to April 25 2017	YTD	3 Month	1 Year	3 Year	5 Year
S&P 500 TR USD	12.69	6.07	6.07	17.17	10.37	13.30
Russell 1000 TR USD	12.91	6.03	6.03	17.43	9.99	13.26
Russell 1000 Growth TR USD	14.06	8.91	8.91	15.76	11.27	13.32
Russell 1000 Value TR USD	11.75	3.27	3.27	19.22	8.67	13.13
Russell 2000 TR USD	18.83	2.47	2.47	26.22	7.22	12.35

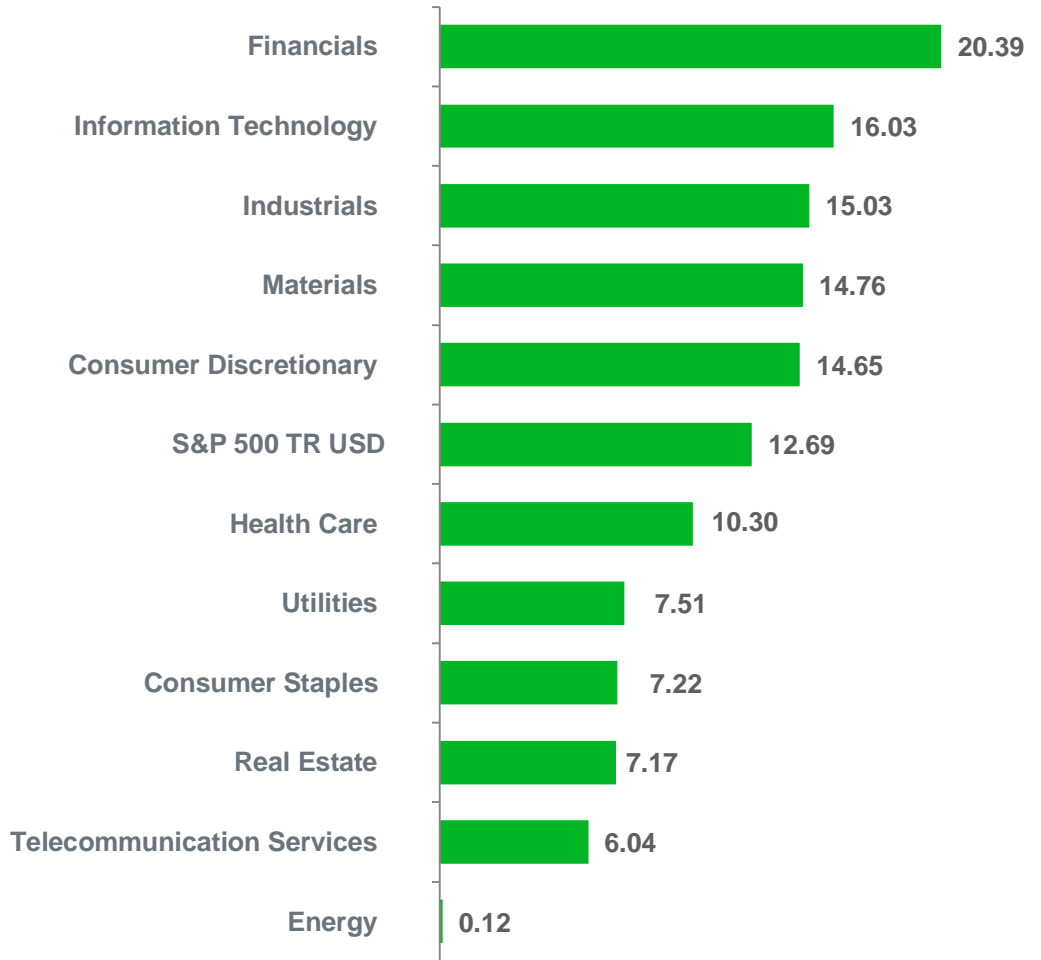
Global Equities	Election to April 25 2017	YTD	3 Month	1 Year	3 Year	5 Year
MSCI EAFE NR USD	12.35	7.25	7.25	11.67	0.50	5.83
MSCI EM NR USD	9.69	11.45	11.45	17.22	1.18	0.81

Commodities	Election to April 25 2017	YTD	3 Month	1 Year	3 Year	5 Year
LBMA Gold Price PM USD	-1.13	8.64	8.64	0.63	-1.23	-5.62
Oil Price Brent Crude PR	13.16	-7.02	-7.02	33.41	-20.88	-15.59
WTexas Crude Int Oil BL	N/A	-5.97	-5.97	36.82	-20.76	-13.28

Source: Morningstar Direct.
 Periods greater than 1 year are annualized. Past performance is not indicative of future results.

U.S. Sector Returns

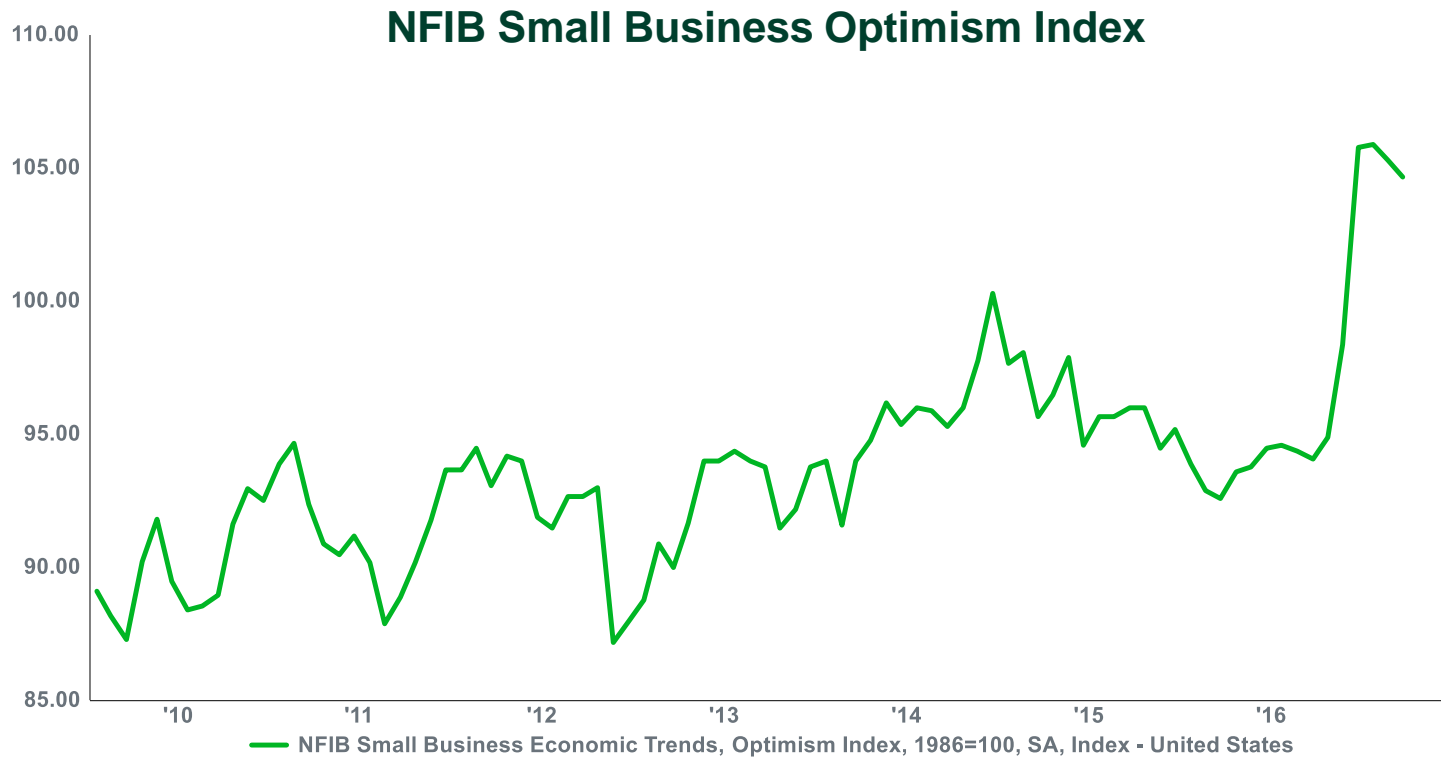
Since Election Day



S&P 500 Sector Returns (%) Election to April 25, 2017

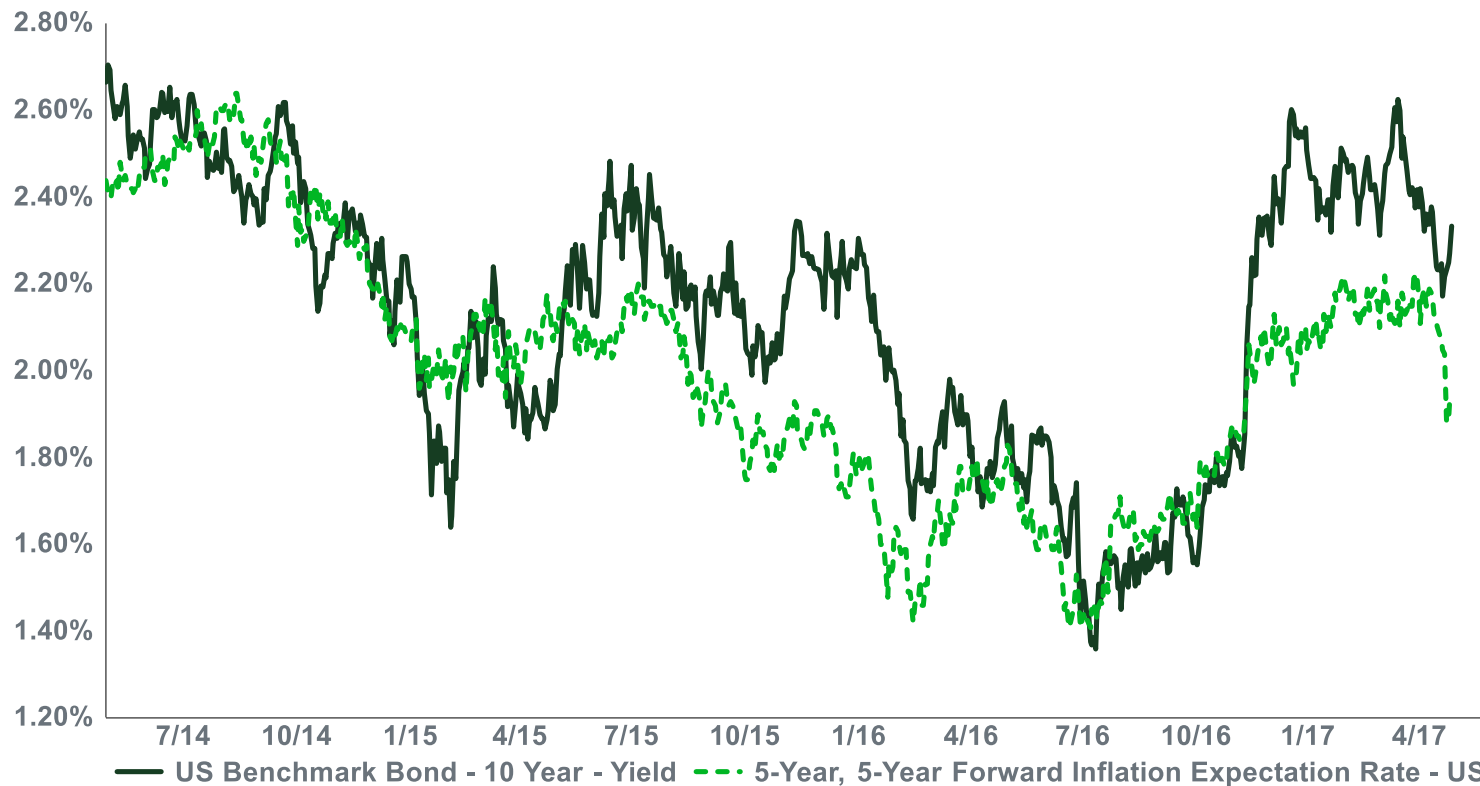
Confidence Index

- Small business optimism is still high but has moderated since January



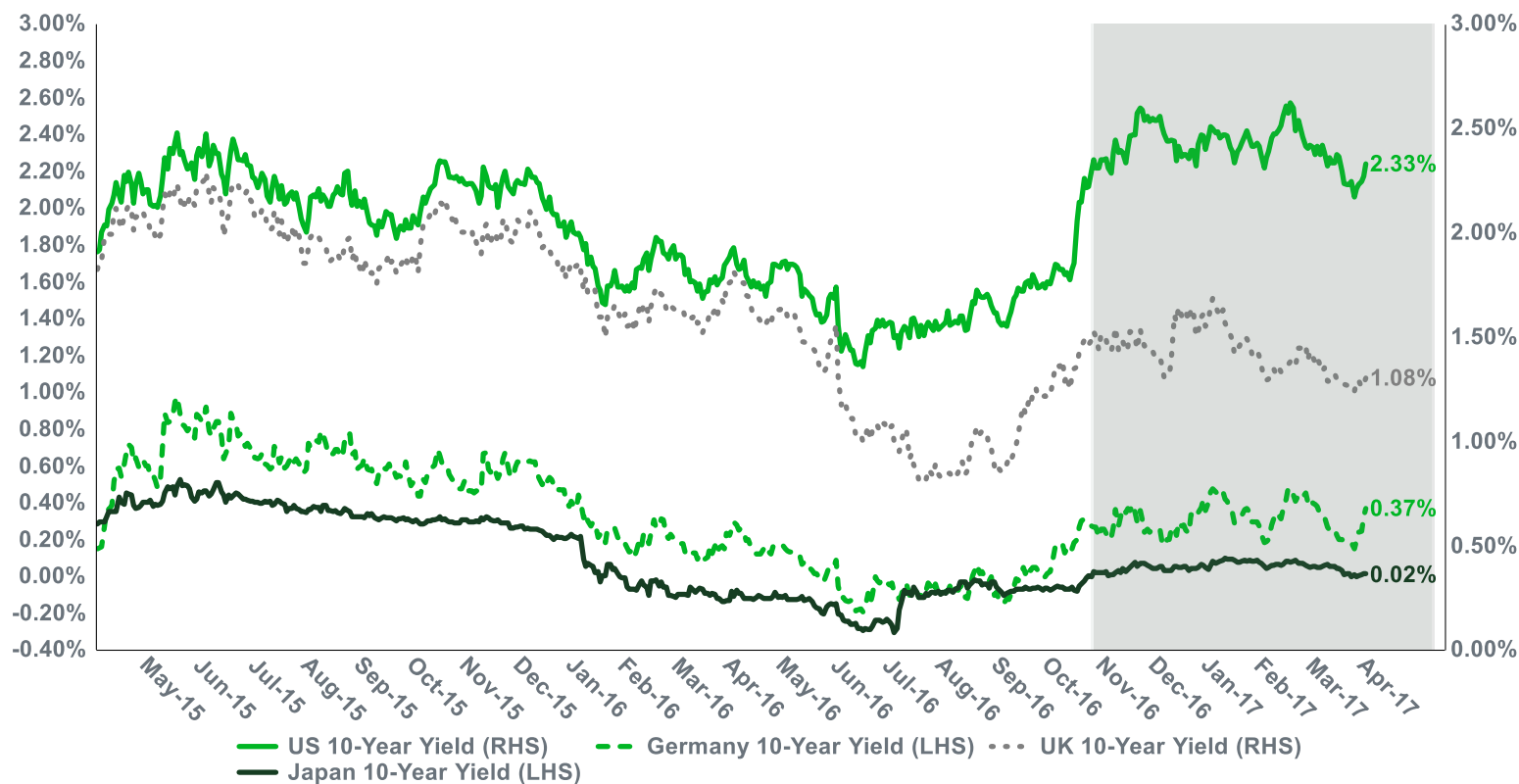
Bond Yields and Inflation Expectations

- After a recent decrease due in part to heightened geopolitical risks and lower than expected inflation data, yields tick up post French election



- After a recent moderation, global bond yields resume upward trend

Global 10-Year Bond Yields



Source: FactSet as of April 25, 2017

Balance Sheet Normalization

Timing of Implementation Remains Uncertain

- The Fed currently hold **\$2.46 trillion** in Treasuries and **\$1.77 trillion** in MBS, (approx. 17.6% of total Treasuries outstanding and 19.8% of total MBS outstanding, respectively)
- Concerns with the normalization process include possible spikes in mortgage rates and other long-term borrowing costs which could slow down the economy



- After a recent spike due to global geopolitical tensions, volatility subsided following the first round of French elections

Volatility



Source: FactSet as of April 24, 2017

U.S. Stock Valuations Are Stretched

- S&P 500 forward 12-Month P/E ratio at levels not seen since 2004



- Q1 earnings growth rate could be highest since 2011

U.S. Sector Earnings Growth

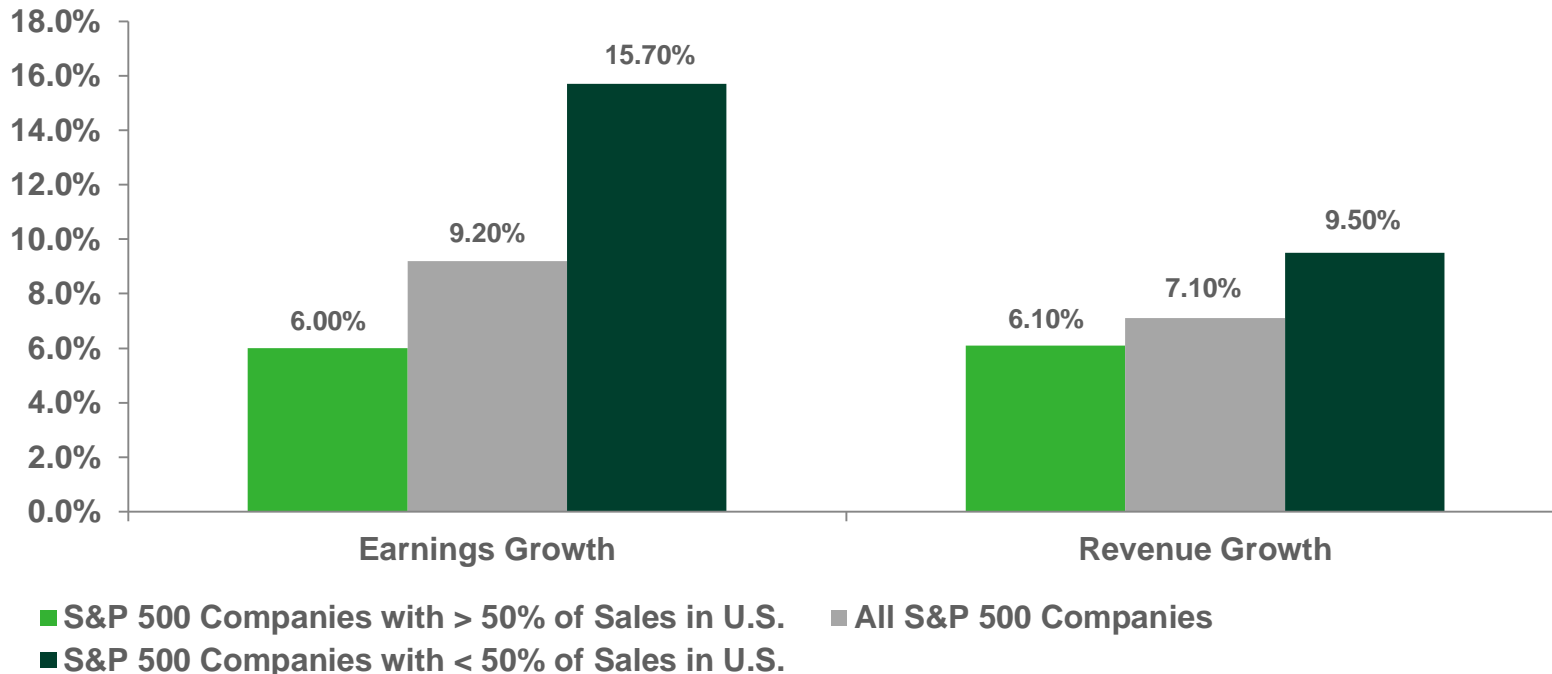
S&P 500 Earnings Growth Rate Estimates

Sector	Q117	Q217	CY17
Consumer Discretionary	-1.8%	1.9%	5.6%
Consumer Staples	1.5%	4.4%	4.1%
Energy	N/A	464.1%	292.3%
Financials	16.4%	9.1%	11.8%
Healthcare	0.5%	1.9%	4.0%
Industrials	-7.0%	0.1%	3.5%
Information Technology	13.0%	10.6%	9.9%
Materials	13.2%	10.0%	13.8%
Telecommunication Services	-3.6%	4.7%	0.2%
Real Estate	6.7%	5.6%	3.9%
Utilities	2.3%	0.9%	-0.7%
S&P 500	9.2%	8.7%	9.7%

U.S. Earnings & Revenue Growth

- Higher earnings growth expected for S&P 500 companies with more global exposure

Estimates: S&P 500 Earnings Growth & Revenue Growth: Q1 2017





President Trump's Priorities and Policies

President Trump's Priorities

- Revision of international trade deals
- Lower tax rates for corporations and individuals
- Repatriation of overseas corporate earnings
- Deregulation
- Infrastructure spending stimulus
- Repeal/modification of Affordable Care Act



Global Trade and Immigration Policies

Positives

- Companies are incentivized to keep production at home — jobs increase

Risks

- Global trade disruptions/trade wars
- Reciprocal Tax could push the U.S.\$ higher
- Inflation
- Headwind to global GDP growth
- Immigration restrictions limit skilled labor force and will impact U.S. population growth



Tax Cuts

Positives

- Lower individual & corporate tax rates would increase corporate earnings and spur corporate investment and personal spending

Risks

- Funding could require either cuts in spending or a sizeable rise in U.S. debt
- Tax cuts could end up being revenue neutral
- Increase in saving rates rather than in spending



Repatriation of Overseas Corporate Earnings

\$2.5
TRILLION

One-time tax break
(10% proposed) on
overseas cash



Positives

- Shareholder friendly: could spur increase in investment, buybacks, dividends, M&As
- Proceeds could in part be used to finance fiscal stimulus

Risks

- Increase in investment might not materialize

Less Regulation

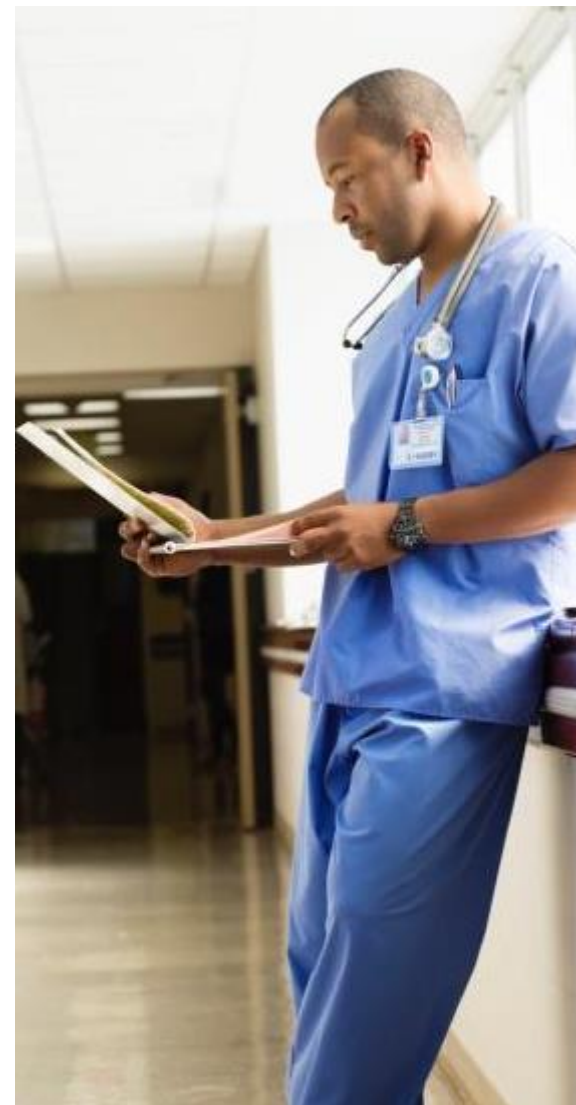
Lower regulatory burdens expected to have the biggest impact on the Financial Services, Energy and Health Care sectors

Positives

- Less constraints on companies' balance sheets
- Savings on compliance costs leads to more cash available for investment and growth

Risks

- Rollback on regulation might not be as sweeping as expected particularly for Financials and Energy sectors



Infrastructure Spending

\$1 TRILLION

Positives

- Short-term boost to the economy
- Long-term productivity improvements

Risks

- Timing of implementation uncertain
- Impact on the economy is typically lagged
- Increase to U.S. debt if unfunded
- Could result in inflationary pressure if economy is near full employment



Focus on Old Economy Jobs is a Risk

Manufacturing processes are increasingly becoming high-tech. Less workers required for the same output.



Trump Policies Impacts

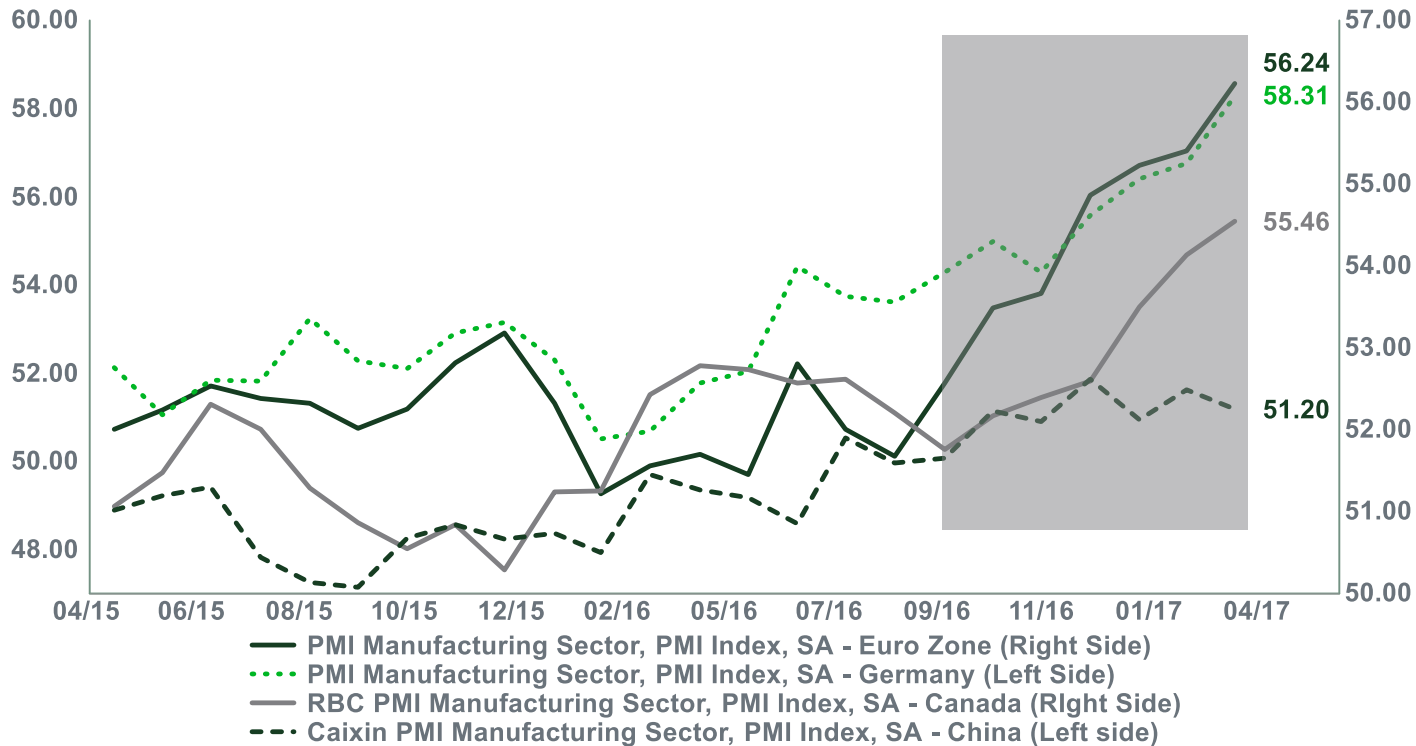
Policy Area	Positives	Risks
Trade Tariffs /Immigration Restrictions	<ul style="list-style-type: none"> • Companies incentivized to keep production home - jobs increase 	<ul style="list-style-type: none"> • Global trade disruptions/trade wars • Inflation • Headwind to global GDP growth • Limit skilled labor force
Tax-Cuts	<ul style="list-style-type: none"> • Spur corporate investment and personal spending 	<ul style="list-style-type: none"> • Implementation delays • Tax cuts end up being revenue neutral • Increase in individual saving rates rather than in spending rates
Repatriation	<ul style="list-style-type: none"> • Increase in investments, buybacks, dividends, M&As. • Cash to finance infrastructure projects 	<ul style="list-style-type: none"> • Increase in investment might not materialize
Deregulation	<ul style="list-style-type: none"> • Less constraints on companies' balance sheets and savings on compliance costs — more cash available for investment and growth 	<ul style="list-style-type: none"> • Rollback on regulation might not be as sweeping as expected particularly for Financials and Energy sectors
Infrastructure Spending	<ul style="list-style-type: none"> • Short-term boost to the economy • Long-term productivity improvements 	<ul style="list-style-type: none"> • Less spending than anticipated • Increase to U.S. debt if unfunded • Timing issues — could cause inflationary pressure if economy near full employment
Trump Effect	Pro-business, pro-jobs approach spurred optimism	Delays and disappointments could cause market pull-back



Global factors

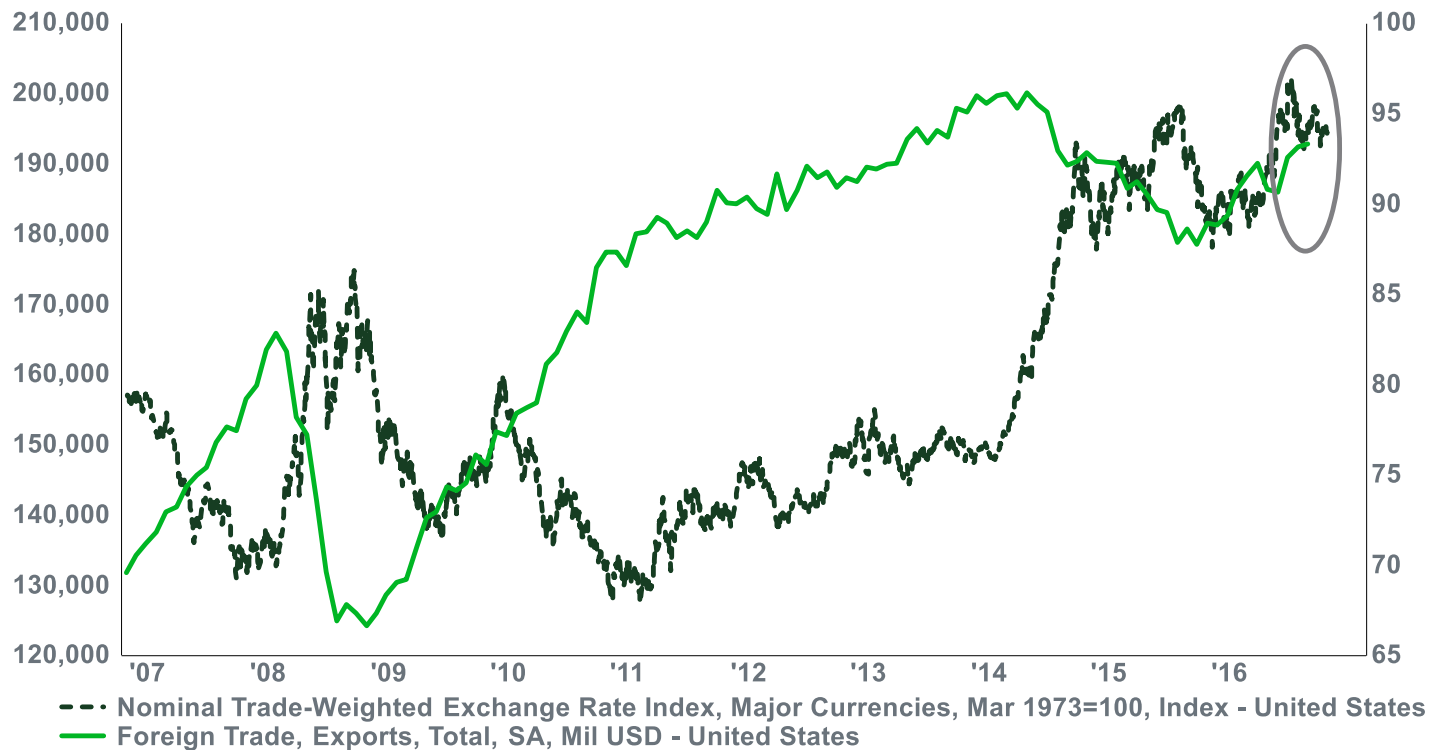
Global PMI Indices on the Rise...

- Global manufacturing sectors show signs of improving health



US\$ Weakening may be a Tailwind for Trade

- Recent US\$ weakening could be a tailwind for U.S. exports



Source: FactSet as of April 14, 2017; (Foreign Trade Exports data as of February 28, 2017)

Political Risks Remain Elevated in Europe

- Long period of sluggish economic growth
- Increase in income inequality, including a decline in middle-class incomes
- A rise in immigration and increase in cultural and religious diversity
- Terrorist attacks



The Rise of Populism



Political Risks Remain Elevated in Europe

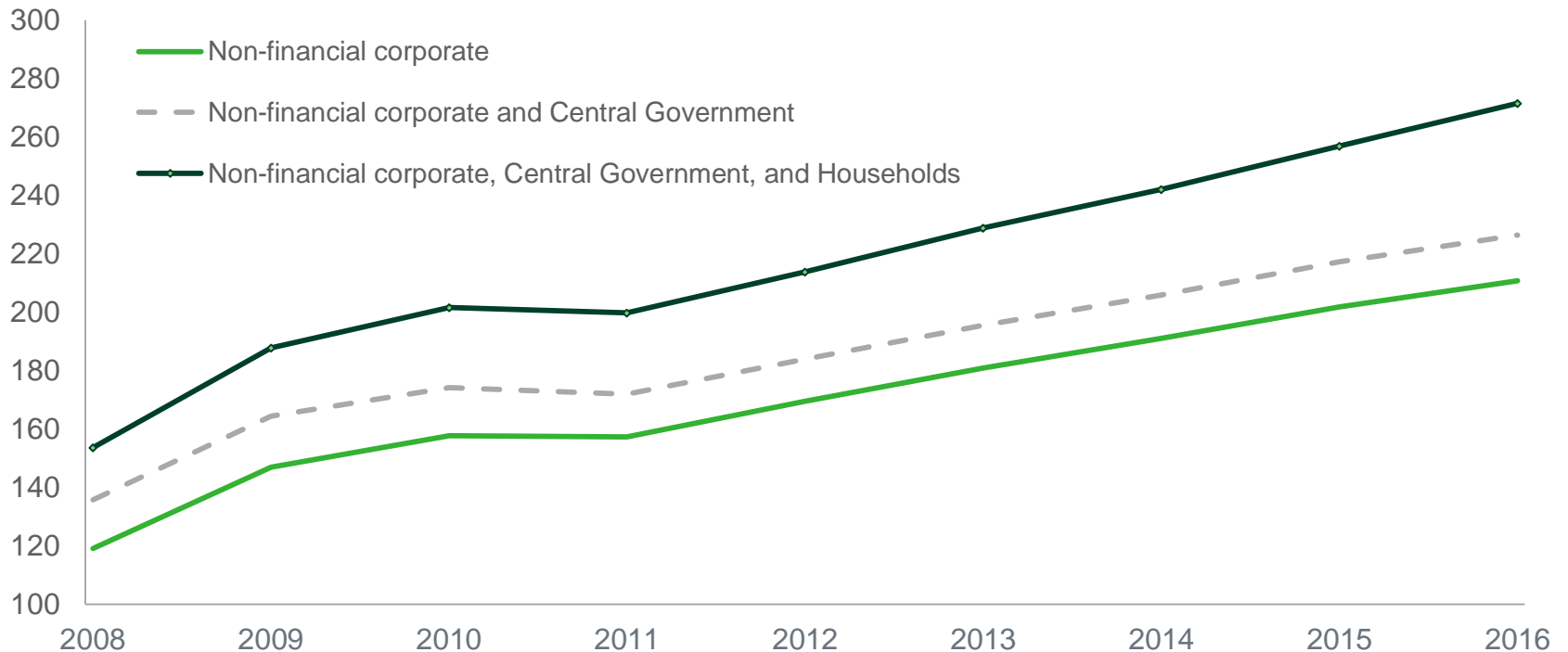
- April 23: centrist Macron and far-right nationalist Le Pen won the first round of the French presidential election, triggering a runoff on May 7
- June 8: U.K. PM May called for early election
- September 24: German federal elections
- **Upcoming elections add uncertainty to the European political landscape**



China's Debt Level is a Long-Term Risk

- China's debt to GDP ratio continues to reach new heights
- If China decides to resolve domestic credit imbalances, growth could suffer

Debt ratio with GDP (%)

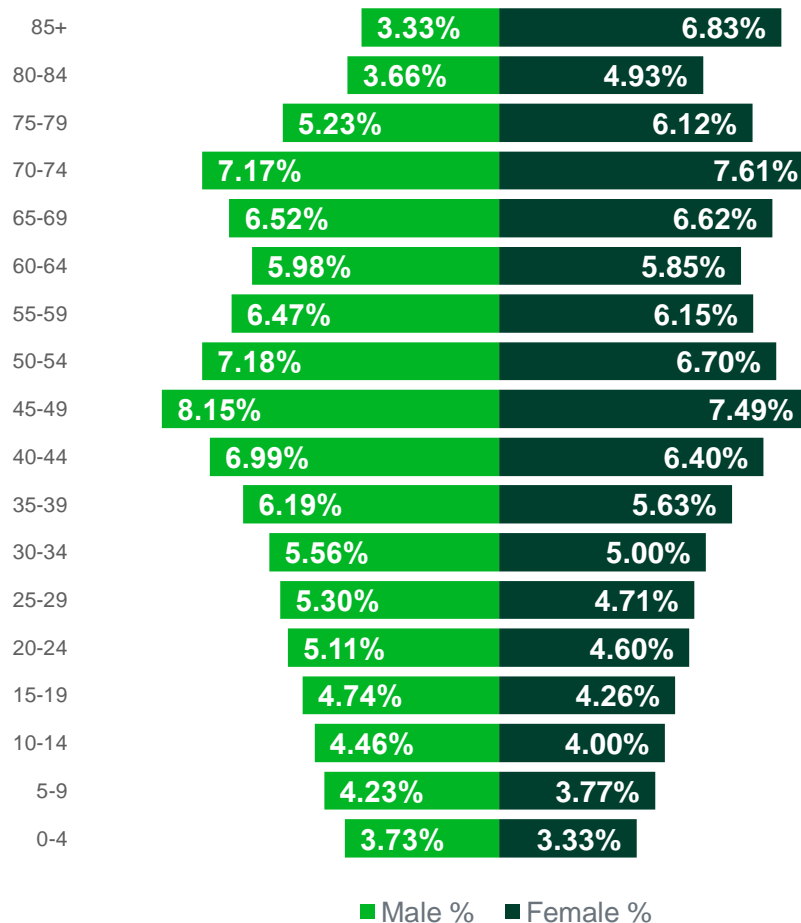


Source: People's Bank of China, TD Economics. Last observation 2016.

Global Demographics a Headwind while U.S. Demographics are more favorable

Aging global population reduces spending and borrowing and increases savings rates

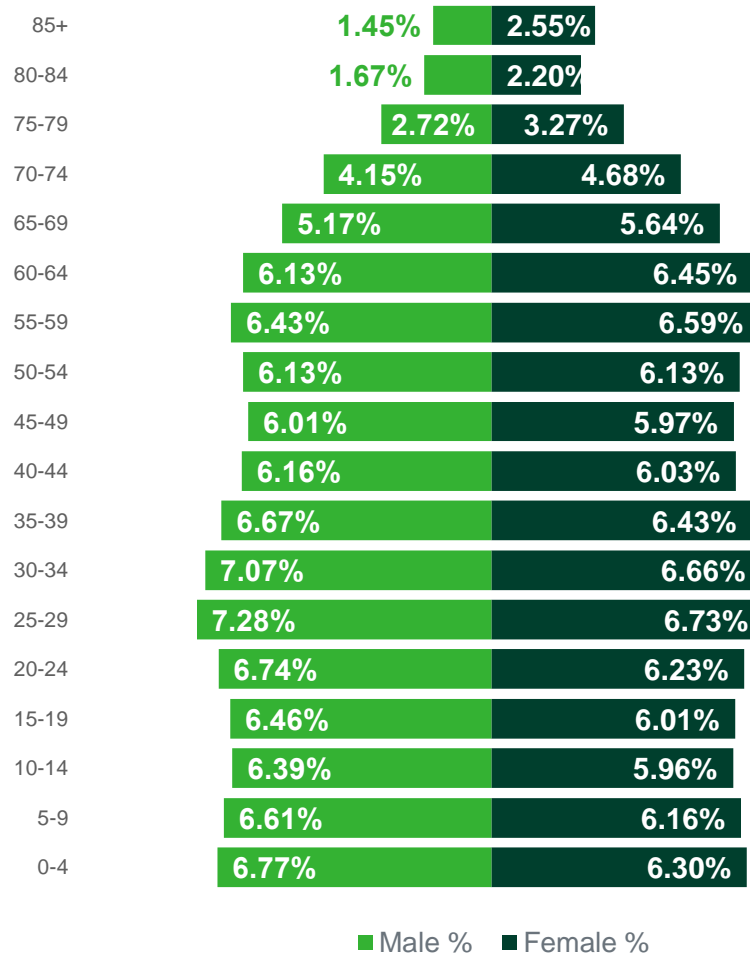
Japan 2020 Projected Population Distribution by Age Group (%)



Global Demographics a Headwind while U.S. Demographics are more favorable

Aging global population reduces spending and borrowing and increases savings rates

U.S. 2020 Projected Population Distribution by Age Group (%)



TD Wealth Asset Allocation Committee's View



- Broadly neutral outlook balances optimism about a cyclical economic recovery against policy uncertainty and ongoing structural challenges
- Expect low single digit fixed income returns; current levels of yields reflect optimism on growth and likely to rise only modestly
- **Neutral rating in equities** reflects stretched valuations and risk of policy disappointment
- Preference for **U.S. equities and currency** driven by the potential for lower corporate taxes and stronger growth
- Friction between the U.S. and its trading partners could cause volatility, and political risk in Europe remains high
- It is crucial for investors to keep a **long-term perspective**

Summary

- Global economy shows signs of recovery
- Global geopolitical risks are high, and the future of international trade is unclear
- Election of pro-business President spurred optimism. However, implementation uncertainty remains
- Trump administration's unconventional approach will likely continue to increase headline risk and volatility
- Inflation might recalibrate the Fed's interest rate hiking path





Sid Vaidya

CFA

US Chief Investment
Strategist

- As the US Wealth Investment Strategist, Sid is tasked with delivering the firm's thought leadership, market views and investment strategies across all asset classes for client portfolios. He also works extensively with TD Wealth's Products group in developing the product vision for US investment platforms and solutions.
- Sid joined TD in 1996 and has twenty years of wide-ranging experience in the North American financial services industry with proven capability in developing comprehensive investment platforms and solutions, thought leadership and channel communications, advisor training and practice management initiatives and extensive relationship management activities. Prior to taking the role as the US Wealth Investment Strategist in 2015, he was Head of Managed Investments in the Portfolio Advice & Investment Research team, where he led all investment manager due diligence and oversight functions.
- Sid is a member of TD's Wealth Asset Allocation Committee. He holds a Bachelor of Commerce from the University of Toronto and has been awarded the Chartered Financial Analyst designation.



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