

Straight Forward

Summer 2018



Where there is a Will...

Wealth Advisory Services, TD Wealth

While you are busy living in the present, reflecting on your mortality and arranging your affairs for estate planning purposes can be difficult. However, an up-to-date Will and power of attorney (POA)¹ can help ensure that your wishes are carried out during your lifetime and in administering your affairs on your passing. As your life circumstances change, it is also important to continue to review these documents regularly with your legal, tax and financial advisors so that the documents continue to reflect your intentions.

What is a Power of Attorney?

In general, a POA is a document that allows you the opportunity to grant another person (the attorney), usually a family member, trusted friend or a trust company (e.g. The Canada Trust Company), the legal authority to act on your behalf during your lifetime. Depending on your wishes, a POA may be granted for property or personal care and may be broad or specific.

A POA for property may be specific with respect to when it becomes effective and terminates, as well as limitations on the rights of the attorney. The document may specifically state that the attorney may act on your behalf with respect to only one of your assets (e.g. a specific bank account) or apply more broadly. It may also state that the powers granted to the attorney are effective immediately or after a specific incident (e.g. mental incapacity).

A POA for personal care allows you to authorize an attorney to manage your health care decisions in the event that you are unable to do so. This type of authorization is limited to personal care decisions only and may only be effective once you are unable to make these decisions for yourself.

If you do not have a POA and are later deemed to lack capacity, your loved ones may have to make an application in court to be appointed to manage your health care decisions and/or property.

At that point, you will not be able to make any decisions about who to appoint to manage your property or health.

What if I already have a Power of Attorney?

If you have already executed a POA, you should have these documents reviewed regularly by your professional advisors to ensure that they continue to reflect your wishes. You may have to revoke a previous POA and have a new one drafted due to a change in life circumstances. For example:

- You or your attorney move to a different province or country;
- You acquire assets in a different country;
- You get married, divorced or separated;
- Your children are now adults and you wish to appoint them as your attorney;
- Your relationship with the named attorney has changed;
- You wish to give more general/specific powers to your attorney;
- There is a change in law that affects the legality of your attorney's appointment.

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¹Each province has its own legislation and phrasing associated with these documents. For example, Quebec refers to POAs as Mandates.



TD Economics

Reasons for The Bank of Canada to remain “Gradual”

Beata Caranci, Vice President and Chief Economist, TD Economics

In its most recent policy announcement the Bank of Canada (BoC) noted that the “Governing Council will take a gradual approach to policy adjustments.” “Gradual” has become the watchword for the BoC, and with good reason. Canada is already absorbing policy tightening on multiple fronts. First, macroprudential measures within the housing market have created a higher qualifying bar for mortgage seekers. Second, Canadian longer term yields have been moving higher in relatively tight correlation with their U.S. counterparts. As a result, the BoC will likely continue a gradual approach, lagging the U.S. Federal Reserve in normalizing monetary policy. Below we outline four reasons for the BoC to step lightly.

Reason 1: Rate sensitivity and household spending impacts

Canadians are already feeling the effects of higher borrowing costs. Interest payments rose at a double-digit pace in the first quarter. At the same time, consumer spending continued to decelerate, alongside household borrowing. This is the reaction that should be expected in the face of higher interest rates, but record high household debt levels are amplifying the impacts. Current debt levels mean the sensitivity of household finances to rising borrowing costs is about 30% greater than a decade earlier.

To be sure, a deceleration of borrowing and spending from their recent unsustainable pace is a welcomed development. If all goes according to plan, the result will be a more balanced composition of economic growth and less reliance on debt to fuel it. But before we can reach the promised land, rising interest costs will cut into discretionary spending. Ultimately, this leaves the BoC walking a tightrope. Higher rates are warranted to stem debt growth, but not so high as to spur outright deleveraging. The BoC will closely monitor credit growth as a guide, inching rates up periodically to ensure ongoing assessment of the data trend.

Reason 2: Highly uncertain housing outlook

Canadian housing market volatility has become acute since the end of 2017. Regulatory changes at both the national (B-20) and provincial level (especially in B.C.) resulted in outsized swings in resale activity. The pull-forward of activity at the end of 2017 led to a subsequent 44% retreat (annualized) in resale activity in the first quarter of 2018.

Fortunately, there is reason to believe that the worst of the adjustment is behind us. Monthly moves have become less dramatic, with some markets beginning to see modest increases. However, the market is not expected to form a convincing bottom out until the third quarter, with little reason to expect a sharp resurgence thereafter. With housing markets in a state of adjustment, it is unlikely that the BoC will want to cause additional stress. This all argues strongly in favour of a gradual, well-telegraphed tightening of Canadian monetary policy.

Reason 3: External backdrop is not getting better

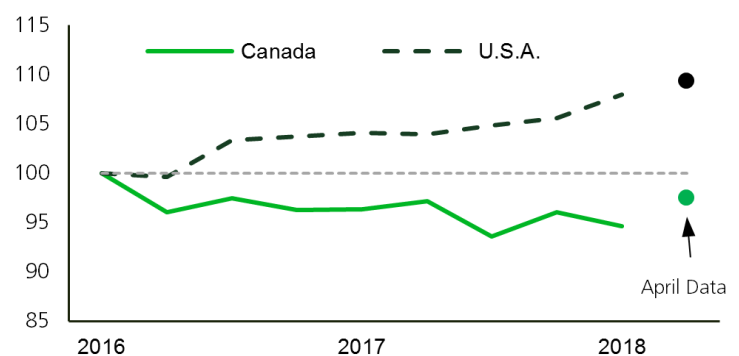
The more things change, the more they stay the same. The strong U.S. economy would typically offer a significant lift to Canadian export growth, but contentious trade negotiations have the potential to mute this benefit. Recently announced tariffs (and Canada’s retaliatory response) are modest in scope, but send a clear negative signal to business leaders. Trade wars can quickly escalate, as measures and countermeasures are piled on top of each other. The fact that policy has moved in this direction tilts the balance towards further protectionist action. Canadian exports have not been strong for some time, although recent data have been more encouraging (figure 1). Negative trade policies can quickly cast a shadow over a recent pick-up in export growth, or throw into question its sustainability.

Reason 4: Underlying inflation remains benign

The core of the Canadian outlook is quite simple: modestly above-trend growth in the near term, settling towards its underlying potential over time. If reading that description caused you to yawn, you’ve hit on the ‘core’ argument for core inflation to remain benign. An economy running around its potential pace is not one likely to generate significant inflationary pressures. Energy prices, a soft loonie and import tariffs will all work to push overall inflation up to 2.5% this year. In contrast, the BoC’s three core inflation measures are not expected to change much, averaging just 2.1%.

One factor working to Canada’s advantage on this front is the improving composition of what’s driving economic growth. Stronger business investment creates greater economic capacity to mitigate inflationary pressures. Some readers may view 2% growth as ho-hum when compared to a U.S. economy that will likely see a three-handle on GDP growth this year. But, there is nothing boring about hitting the bulls-eye on potential GDP while simultaneously absorbing economic risks on all fronts: domestic and external.

Figure 1: Exports have been a source of serial disappointment



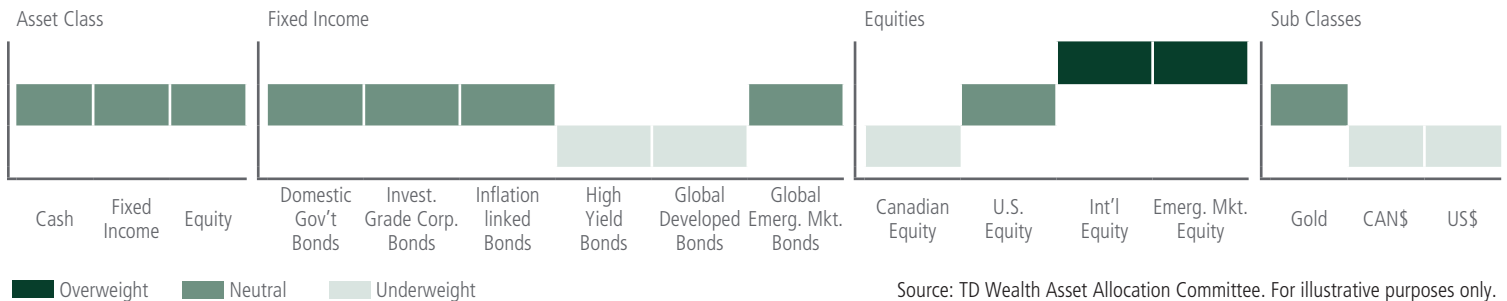
Exports, Indexed, Q1/2016=100. Source: TD Economics.

TD Wealth Asset Allocation Committee

Market Outlook: Summer 2018

Bruce Cooper, Chief Executive Officer and Chief Investment Officer, TD Asset Management Inc. and Senior Vice President, TD Bank Group

Asset Allocation Summary



Over the past quarter, the global economy continued to fire on all cylinders. Governments are spending after years of austerity and private sector consumption remains strong against the backdrop of historically low unemployment rates. Despite the tightening economic cycle in the United States, and various headwinds, the global economy remains poised for growth.

Expectations of rising inflation caused the yield on 10-year U.S. Treasuries to hit a level of 3% for the first time since January 2014. While crossing 3% is noteworthy, we continue to believe that the increase in rates will be gradual and subdued. This is due in part to the fact that inflation remains on target but also due to the low level of yields on a global basis.

Rising bond yields create headwinds for equity markets. However, equity valuations have come down to more reasonable levels in recent months and continued earnings growth – backed by a fundamentally strong economy – is expected to remain a key driver for equity returns. Our expectation is that rising earnings and falling price/earnings multiples will combine to deliver positive returns in 2018, but lower than what we have seen in recent years.

While economic fundamentals and corporate earnings remain strong, we believe that the themes of rising yields, central bank tightening, and fears over heightened trade frictions are likely to persist, potentially leading to greater volatility in the coming months. Our prediction of “lower-for-longer” remains in effect for interest rates, and low to mid-single digit returns continues to be our base case for equities.

Against this backdrop, we have maintained our positioning at the asset class level, which is neutral across cash, fixed income and equities. Below is our positioning within those asset classes.

Equities

Despite episodes of volatility over the past quarter, most equity markets performed generally well. We continue to believe that equities will deliver positive mid-single digit returns in 2018 as global growth, corporate earnings and free cash flow remain strong and supportive. Within equities, valuations continue to be most attractive in the international space. Since March 2017, we have had a preference for global equities, particularly from Europe and

Japan. European stocks are benefiting from a solid economy, strong earnings growth and a European Central Bank that continues to hold interest rates close to zero.

We are neutral U.S. equities. Free cash flow from corporations is strong and attractive versus fixed income yields. In addition, it is anticipated that corporate tax cuts will add significantly to earnings in 2018. Valuations have declined in 2018 and are now at more reasonable levels than they were earlier in the year. We expect earnings growth to slow as the impact of tax cuts are reduced and fiscal stimulus fades. We remain modestly overweight within the emerging markets equity space. Strong global growth and reasonable valuations could present tailwinds, commodity prices, particularly oil, have also risen and should be positive for emerging market equities.

We are underweight Canadian equities. Despite strong Canadian equity market returns in the latter half of the quarter, we have concerns over elevated levels of household debt, pipeline politics and uncertainty surrounding the outcome of NAFTA negotiations.

Fixed Income

Overall, our outlook for bonds hasn't changed and coupon-like returns are anticipated in the low single digits. We are neutral domestic government bonds as they can offer diversification, stability and modest income. Our view is also neutral for investment grade corporate bonds. Spreads have narrowed, but they may still offer a yield advantage over government bonds and the economic backdrop is supportive for corporate health. The difference between the yield on a nominal fixed-rate bond and the real yield on an inflation-linked bond (break even rates) have been gradually rising, but are still reasonable from a historical perspective, so our neutral rating has been maintained for inflation linked bonds.

We are maximum underweight high yield bonds as they are quite expensive and narrow spreads make the risk/reward dynamic unattractive. Within the global developed bond space, we are currently maximum underweight. We believe very low nominal and real yields in Europe and Japan are not compelling. We have moved to a modest overweight, from maximum underweight, in the global emerging market bond space where there are some discrete opportunities and real yields are attractive.

TD Wealth

Where there is a Will... (continued from page 1)

Why do I need a Will?

A Will is a document that is prepared during your lifetime to express who you would like to appoint as your executor, directions on how you wish your estate to be distributed, and potentially, your preference for guardians for your minor children, after you have passed.

What is the role of my Executor?

Having an updated Will allows you to appoint an executor, who will be responsible for the administration of your estate. You should also consider naming an alternate executor in your Will in case the primary executor is unable to fulfill their duties.

When appointing an executor, consider:

- Who to appoint (e.g. a family member or trusted friend).
- Depending on the complexity of your estate, you may consider appointing a professional executor such as a trust company or a professional advisor to assist with estate administration.
- Whether it would be appropriate to appoint one or more of your beneficiaries as executor.
- Whether your chosen executor have the time to deal with your estate. Consider the individual's other commitments and geographic distance from your estate.
- Whether your executor likely to be able to deal with the responsibility of estate administration. Depending on the size and complexity of the estate and the demands of beneficiaries, being an executor may be stressful and time-consuming.
- If your executor lives in another province or country, there may be additional cost and tax issues that should be discussed with a professional.

Your executor should be informed and comfortable with the level of responsibility they are taking on. They should also have access to your most recent Will and estate information.

What if I already have a Will?

If you have already executed a Will, you should review it regularly to ensure that it continues to reflect your wishes. If you are having a new Will drafted, ensure that it includes a revocation clause whereby you revoke your previous Will. Be sure not to revoke Wills you intend to operate alongside the new Will such as those drafted for other jurisdictions or those that only set out beneficiary designations for registered accounts or insurance policies.

You may consider having a new Will drafted when there is a change in your life situation including:

- You wish to change your named executor;
- You get married, have children, get divorced or separated;
- Your children are now adults and you wish to appoint them as your executors;
- Your relationship with the named executor has changed;
- You beneficiaries' circumstances change (e.g. disability or bankruptcy); or
- There is a change in law that affects your Will.

It can be important to have a Will drafted and updated regularly. Without a Will, the division of your estate will be determined by provincial legislation and may not necessarily align with your wishes. Similarly, an outdated Will may not reflect your current wishes.

These are just a few of the many considerations that should be addressed during an estate planning conversation. It is helpful to speak with your tax and legal advisors about your estate planning goals on a regular basis to ensure your wishes are reflected in your Will.



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