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ANNUAL MARKET THEMES 2013

A CANADIAN PERSPECTIVE



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Annual Market Returns

Market Performance Total Returns (%) as of December 31st

	2013	2012	2011	2010	2009	2008	2007	2006	2005
S&P/TSX Composite Index	13.0	7.2	-8.7	17.6	35.1	-33.0	9.8	17.3	24.1
S&P/TSX 60 Index	13.3	8.1	-9.1	13.8	31.9	-31.2	11.1	19.2	26.3
S&P/TSX Small Cap Index	7.6	-2.2	-16.4	35.1	62.4	-45.5	0.9	11.6	10.6
S&P 500 Index	41.5	13.5	4.4	9.4	8.1	-21.9	-10.6	15.7	1.6
NASDAQ Composite Index	47.9	13.4	0.4	9.4	12.2	-23.6	-15.8	-0.9	-1.8
Dow Jones Industrial Average	38.6	7.8	10.8	8.4	4.9	-15.6	-7.7	19.0	-1.5
Russell 2000 Index	48.1	13.8	-1.8	20.6	8.0	-17.2	-16.5	18.1	1.8
MSCI World (Net) Index	35.4	13.3	-3.4	6.2	11.1	-26.5	-7.5	20.0	6.1
MSCI EAFE (Net) Index	31.3	14.8	-10.2	2.4	12.6	-29.8	-5.7	26.3	10.0
IFC Investible Emerging Markets Index	6.3	16.3	-17.2	13.3	54.7	-42.8	18.9	35.0	31.0
DEX Overall Universe Bond Index	-1.2	3.6	9.7	6.7	5.4	6.4	3.7	4.1	6.5
DEX Overall Short Term Bond Index	1.7	2.0	4.7	3.6	4.5	8.6	4.1	4.0	2.4
DEX Overall Mid Term Bond Index	-0.6	4.7	10.9	7.8	7.5	7.0	3.3	4.1	5.7
DEX Overall Long Term Bond Index	-6.2	5.2	18.1	12.5	5.5	2.7	3.4	4.1	13.8
DEX Overall High Yield Bond Index	5.4	14.8	-2.3	15.2	11.4	4.2	5.1	9.4	3.0
DEX 91-Day T-Bill Index	1.0	1.0	1.0	0.5	0.6	3.3	4.4	4.0	2.6
DEX Federals Universe Bond Index	-1.5	2.1	8.4	5.4	-0.2	11.5	4.6	3.6	5.7
DEX Provincials Universe Bond Index	-2.7	3.4	13.2	8.6	4.7	5.3	4.2	4.4	8.4
DEX Municipals Universe Bond Index	-0.8	3.5	11.6	8.2	6.2	5.9	3.9	4.2	6.1
DEX ALL Corporates Universe Bond Index	0.8	6.2	8.2	7.3	16.3	0.2	1.8	4.4	6.0

All returns in Canadian Dollars. Source: Bloomberg, TD Securities, BMO NB, PC Bond.



2013 Canadian Stock Market: In Review

Highlights:

- Blackberry (BB) rallies to over \$18 a share and then sinks to below \$6 when its latest product flounders, its CEO is replaced and a Fairfax Financial non-binding offer for \$9 per share collapses. Fairfax then led a group of investors that raised approximately \$1B in debt securities for Blackberry.
- US big box retailer Target, opens its first stores in Canada; competition in the retail sector is fierce.
- Loblaw buys Shoppers Drug Mart. Sobeys buys Safeway and further entrenches itself as a national grocer.
- S&P/TSX Equity Income Index is rebalanced to lower turnover rate by adding buffers.
- Gold stocks are decimated as the price drops from a high of approximately \$1690 US to end the year at \$1,212.9 USD.
- Canadian households remain highly in debt compared to US counterparts. Home prices buoyed by cheap mortgages.
- China's deceleration put downward pressure on commodity prices. Materials sector suffers.

Market Performance Total Returns (%)

	2013 %
S&P/TSX Composite Index	13.0
S&P/TSX 60 Index	13.3
S&P/TSX Completion Index	12.2
S&P/TSX Small Cap Index	7.6
S&P/TSX Equity Income Index	16.0
Ethical Canadian Index	12.7
BMO Nesbit Burns Small Cap (wtd.) Index	7.8

Source: TD Securities, Bloomberg, BMO NB

Top 3 S&P /TSX Stocks (by % weight)

	2013 %
Royal Bank of Canada	5.8
Toronto Dominion Bank	5.1
Bank of Nova Scotia	4.5

Source: TD Securities



2013 Canadian Stock Market: In Review

Sector Performance Total Returns (%)

Best Performing Sectors		Worst Performing Sectors	
	%		%
Health Care	72.1	Materials	-29.1
Consumer Discretionary	43.0	Utilities	-4.1
Information Technology	37.3	Telecommunication Services	13.1

Source: TD Securities

Stocks of Influence - Top 10 Contributing Stocks to the S&P /TSX Composite Index

	Influence %	Return %
Valeant Pharmaceuticals International Inc.	1.2	110.0
Royal Bank of Canada	1.1	19.3
Toronto Dominion Bank	1.0	19.5
Manulife Financial Corp.	0.9	55.1
Canadian National Railway Co.	0.9	34.1
Bank of Nova Scotia	0.7	15.6
Canadian Pacific Railway Ltd.	0.6	59.2
Magna International Inc. A	0.6	75.3
Canadian Natural Resources Ltd.	0.5	25.5
Suncor Energy Inc.	0.5	13.9

Source: TD Securities



Canadian Stock Market: Trends & Analysis

Market Performance Total Returns (%)

	2013	2012	2011	2010	2009	2008	2007	2006
S&P/TSX Composite Index	13.0	7.2	-8.7	17.6	35.1	-33.0	9.8	17.3
S&P/TSX 60 Index	13.3	8.1	-9.1	13.8	31.9	-31.2	11.1	19.2
S&P/TSX Completion Index	12.2	4.8	-7.9	30.3	47.7	-38.8	5.8	13.7
S&P/TSX Small Cap Index	7.6	-2.2	-16.4	35.1	62.4	-45.5	0.9	11.6
S&P/TSX Equity Income Index	16.0	7.6	4.8	-	-	-	-	-
Ethical Canadian Index	12.7	7.5	-12.1	16.1	34.3	-32.3	10.1	17.0
BMO Nesbitt Burns Small Cap (wtd.) Index	7.8	2.5	-14.4	38.5	75.1	-46.6	2.0	16.6

Source: Bloomberg, TD Securities, BMO NB

Canadian Dollar Return vs US Dollar (%)

Year	%
2013	-6.6
2012	2.9
2011	2.2
2010	5.5
2009	15.9
2008	-19.3

Source: Bloomberg

DEX Overall Universe Bond Index Return (%)

Year	%
2013	-1.2
2012	3.6
2011	9.7
2010	6.7
2009	5.4
2008	6.4

Source: PC Bond



Canadian Stock Market: Trends & Analysis

Market Highlights – A Look Back

	<ul style="list-style-type: none">- Gov't rules that Foreign State-Owned Enterprises can only acquire Canada's Oil Sand companies on an 'exceptional basis.'- Glencore takes over Viterra.
2012	<ul style="list-style-type: none">- The oil price spread between WTI and Western Canadian Select reaches \$42.50 on Dec. 14, while average differential during the last 4 years was \$15.87.- SNC-Lavalin Group's construction arm embroiled in scandal involving missing funds and bribes- Household debt to income ratio reached record high of 164.6% by the Third Quarter- Scotia Bank buys ING Direct- RIM bottoms out at \$6.18 in September, representing a 95.9% decline from its \$149.90 peak in 2008
2011	<ul style="list-style-type: none">- Cameco was impacted by global nuclear power concerns after Fukushima power station was affected by a tsunami.- Enbridge's Northern Gateway and TranCanada's Keystone XL project face resistance.- The friendly merger between the TMX Group and the London Stock Exchange was cancelled, but the Maple Consortium bid for the company continued.- Sino Forest Accused of fraud by U.S. short seller, shares plummet.
2010	<ul style="list-style-type: none">- Canadian equity market experienced considerable volatility in 2010, an example being the 'flash crash' of May.- Australian mining giant BHP Billiton Ltd attempted a take-over bid for Potash Corp. of Saskatchewan, which was blocked by the Federal Government.- Tax exemption for Income Trusts expired at year-end.- Overall employment reached pre-recession levels by November 2010.- Shareholders of Magna International eliminate dual class share structure through a buyout of Frank Stronach.
2009	<ul style="list-style-type: none">- So called 'junk' rally. Small caps, resource stock dominate returns. Selected stocks have spectacular gains. Teck Resources moves from \$3.42 in March to \$39.69 at year end. Ivanhoe Mines moves from \$2.15 in October '08 to \$15.36 at year end.- Canadian Dollar appreciates 15% versus the US\$ and 10% versus Euro. - Suncor and PetroCanada merge.- Recovery in the Canadian housing market.- Reversing a long held strategy, Barrick does equity issue and buys back gold hedges.- Nortel declares bankruptcy.



Canadian Stock Market: Trends & Analysis

Sector Performance Total Returns (%)

	2013		2012		2011		2010		2009	
Best Performing Sector	Health Care	72.1	Cons. Staples	22.6	Health Care	50.4	Health Care	57.0	Financials	45.6
	Cons. Disc.	43.0	Cons. Disc.	22.1	Telecom. Serv.	24.9	Materials	36.5	Info. Tech.	44.3
	Info. Tech	37.3	Financials	17.6	Cons. Staples	6.8	Cons. Disc.	25.3	Energy	39.5
Worst Performing Sectors	Materials	-29.1	Materials	-5.7	Info. Tech.	-52.5	Info. Tech.	-11.6	Telecom Serv.	6.6
	Utilities	-4.1	Info. Tech	-2.9	Materials	-21.2	Cons. Staples	10.3	Cons. Staples	8.1
	Telecom. Serv.	13.1	Utilities	4.0	Cons. Disc.	-15.5	Financials	10.5	Cons. Disc.	15.1

Source: TD Securities

Top 3 S&P / TSX Stocks (by % weight)

	2013		2012		2011		2010		2009		2008	
Royal Bank	5.8	Royal Bank	5.8	Royal Bank	5.2	Royal Bank	4.8	Royal Bank	6.2	Royal Bank	5.4	
TD Bank	5.1	TD Bank	5.2	TD Bank	4.8	TD Bank	4.2	Suncor Energy	4.5	Encana	4.5	
Scotiabank	4.5	Scotiabank	4.6	Scotiabank	3.9	Suncor Energy	3.9	TD Bank	4.4	Barrick Gold	4.1	

Source: TD Securities



Canadian Stock Market: History

Stocks of Influence - Top 10 Contributing Stocks to the S&P/TSX Composite Index

2013

	Influence	Return %
Valeant Pharmaceuticals International Inc.	1.2	110.0
Royal Bank of Canada	1.1	19.3
Toronto Dominion Bank	1.0	19.5
Manulife Financial Corp.	0.9	55.1
Canadian National Railway Co.	0.9	34.1
Bank of Nova Scotia	0.7	15.6
Canadian Pacific Railway Ltd.	0.6	59.2
Magna International Inc. A	0.6	75.3
Canadian Natural Resources Ltd.	0.5	25.5
Suncor Energy Inc.	0.5	13.9

2012

	Influence	Return %
Royal Bank of Canada	0.8	15.2
Bank of Nova Scotia	0.5	13.0
Toronto Dominion Bank	0.5	9.8
Nexen Inc.	0.4	63.9
Canadian Pacific Railway Ltd.	0.4	46.2
Suncor Energy Inc.	0.4	11.3
Agrium Inc.	0.3	45.0
Manulife Financial Corp.	0.3	24.5
Brookfield Asset Management	0.3	30.0
Canadian National Railway Co.	0.3	12.7

Price Returns. Source: TD Securities



Canadian Stock Market: History

Stocks of Influence - Top 10 Contributing Stocks to the S&P/TSX Composite Index

2011

	Influence	Return %
Enbridge	0.5	35.4
Canadian National Railway Co.	0.4	20.8
Valeant Pharmaceuticals Intl	0.4	68.5
BCE Inc.	0.4	20.2
Transcanada Corp.	0.3	17.2
Telus Corp.	0.3	26.7
Rogers Communications Inc.	0.1	13.4
Toronto Dominion Bank	0.1	2.8
Yamana Gold Inc.	0.1	17.6
Tim Hortons Inc.	1.0	20.1

2010

	Influence	Return %
Teck Resources Limited	0.9	67.8
Potash Corp Of Saskatchewan	0.9	35.0
Barrick Gold Corp.	0.9	28.1
Bank of Nova Scotia	0.7	16.0
Silver Wheaton Corp.	0.6	145.5
Toronto Dominion Bank	0.6	12.6
Canadian Natural Resources Ltd	0.6	16.7
Magna International Inc.	0.5	94.9
BCE Inc.	0.4	21.9
Cenovus Energy	0.4	25.6

Price Returns. Source: TD Securities



Canadian Stock Market: History

Canadian Equity Market Total Returns (Periods Ended December 31, 2013)

Annualized Rate of Return%

	1 YR.	5 YRS.	10 YRS.
S&P/TSX 60 Index	13.3	10.8	8.2
S&P/TSX Composite Index	13.0	11.9	8.0
S&P/TSX Completion Index	12.2	15.8	-
S&P/TSX Small Cap Index	7.6	14.0	3.4
S&P/TSX Equity Income Index	16.0	-	-
BMO Nesbitt Burns Small Cap (wtd.) Index	7.8	18.1	7.2

S&P/TSX Composite GICs Performance (Periods Ended December 31, 2013)

Annualized Rate of Return (%)

	1 YR.	5 YRS.	10 YRS.
Energy	13.6	10.0	10.0
Materials	-29.1	-0.7	4.7
Industrials	37.5	19.6	10.8
Consumer Discretionary	43.0	16.3	7.1
Consumer Staples	23.6	14.0	7.1
Health Care	72.1	46.8	11.3
Financials	23.7	17.8	9.7
Information Technology	37.3	-4.2	-4.1
Telecommunications	13.1	15.5	11.0
Utilities	-4.1	8.4	8.0

Total Returns Source: TD Securities



2013 Canadian Fixed Income Market: In Review

Highlights:

- Fed indicates in May that, they will slowly reduce open market purchases of Bonds - so called “tapering.”
- Bond yields rise. Canadian government 10Y bond ends 2013 up 96bps at 2.76. Short end of curve remains anchored with no changes.
- Loonie declines by 6.6% to end the year at \$1.06 per U.S. dollar.
- BoC in October stops its reiterations that higher rates would “become appropriate”
- The unemployment rate increased by 0.1% during the year to end 2013 at 7.2%.
- CPI year over year rate continues to drift lower ending 2013 at 1.2%.

Market Performance (%)

	2013
DEX Overall Universe Bond Index	-1.2
DEX 91-Day T-Bill Index	1.0
DEX Overall Short Term Bond Index	1.7
DEX Overall Mid Term Bond Index	-0.6
DEX Overall Long Term Bond Index	-6.2
DEX Federals Universe Bond Index	-1.5
DEX Provincials Universe Bond Index	-2.7
DEX Municipals Universe Bond Index	-0.8
DEX Corporates Universe Bond Index	0.8
DEX Overall High Yield Bond Index	5.4

Source: PC Bond



2013 Canadian Fixed Income Market: In Review

Year End Bond Yields (%) 2013

		%
United States	3 Month	0.07
	5 Year	1.74
	10 Year	3.03
Canada	3 Month	0.92
	5 Year	1.94
	10 Year	2.76

Source: Bloomberg

CPI YOY % Change

	%
2013	1.2
2012	0.8
2011	2.3
2010	2.4
2009	1.3
2008	1.2

World Bond Returns (%) (CAD)

	%
Canada	-2.28
Australia	-7.65
France	9.91
Germany	9.40
Japan	-9.98
U.K.	4.63
U.S.	4.22

Source: Salomon Bond Indices

Returns %

	%
CDN Dollar vs. US Dollar	-6.6
S&P/TSX Composite Index	13.0

Source: Bloomberg



2013 Canadian Fixed Income Market: Trends & Analysis

Highlights - A Look Back

- 2012**
 - BOC continues holding the Overnight Rate at 1.0%. Inflation at lower end of the band for most of the year
 - CAD vs USD exchange rate hovers around parity, being long in corporates is the best strategy
 - Instability in Ontario (Premier resigns) and Quebec (Minority PQ) pared with high debts contribute to worst annual return in Provincials in years
 - BC issues Yuan denominatd bonds
 - Canada's Big Six banks sell billions of debt in the U.S. because rates are cheaper, even when converted back to CAD
- 2011**
 - Canadian GDP rate remained steady in the 3.0% range.
 - Unemployment Rate (7.4% in November) remains above pre-crisis low of 5.9% registered in January 2007.
 - The BOC Over Night Rate remained unchanged (1.0%).
 - 10-Year Gov't of Canada yield reached an all time low of 1.84% (Dec 19). CPI edged up to 2.9% rate in November.
 - U.S. Fed initiates Operation Twist but yield curve remains steep in Canada (see graph).
 - The CAD remains within a few cents of parity with USD.
 - Corporate refinancing activity was high at first, but eased later in the year.
- 2010**
 - Canada was the first G8 nation to raise interest rates post-recession. Governor Carney bumped the overnight rate twice, bringing it to 1.0%.
 - A record issuance of High-Yield bonds took place in 2010, as companies refinance debt at record low rates.
 - The Canadian dollar flirted with USD parity through much of 2010, bolstered by strong commodity prices and strong buying by central banks.
 - Winning strategies included high yield outperformed government bonds and long outperformed short bonds.
 - Historically steep yield curve
- 2009**
 - Bank of Canada declares recession over on consecutive quarterly GDP growth late in 2009.
 - Canadian unemployment rate increased to 8.5%, from 6.6% at the beginning of 2009. Inflation remains low at 1.0% year-over-year.
 - Canadian prime rate lowered to 2.25% and bank rate reduced to 0.25%. Short-term yields are less than 0.20% with the yield curve continuing its steepening trend
 - Government of Canada continues bond issuance to support more than \$50 B budget deficit for 2009.



2013 Canadian Fixed Income Market: Trends & Analysis

World Bond Returns (%) (CAD)

	2013	2012	2011	2010	2009	2008
Canada	-2.28	2.18	9.54	6.18	-1.71	12.00
Australia	-7.65	3.80	16.90	13.55	8.43	16.67
France	9.91	5.71	5.75	-6.28	-6.29	27.11
Germany	9.40	3.12	8.49	-5.88	-9.19	30.52
Japan	-9.98	12.00	10.21	11.40	-15.22	56.25
U.K.	4.63	4.39	18.70	-1.44	-3.86	0.29
U.S.	4.22	-0.92	-12.1	0.29	-16.89	39.23

Source: Salomon Bond Indices

Bond Market Total Returns

Annualized Rate of Return (%) - Periods Ended December 31, 2013

	1 Year	5 Year	10 Year
DEX Municipals Universe Bond Index	-0.79	5.64	5.56
DEX Federals Universe Bond Index	-1.52	2.77	4.56
DEX Provincials Universe Bond Index	-2.70	5.29	5.65
DEX ALL Corporates Universe Bond Index	0.84	7.67	5.77
DEX 30-Day T-Bill Index	0.96	0.71	1.91
DEX Overall Short Term Bond Index	1.74	3.29	4.04
DEX Overall Mid Term Bond Index	-0.63	5.97	5.77
DEX Overall Long Term Bond Index	-6.16	6.72	6.74

Source: PC Bond

Year End Bond Yields (%)

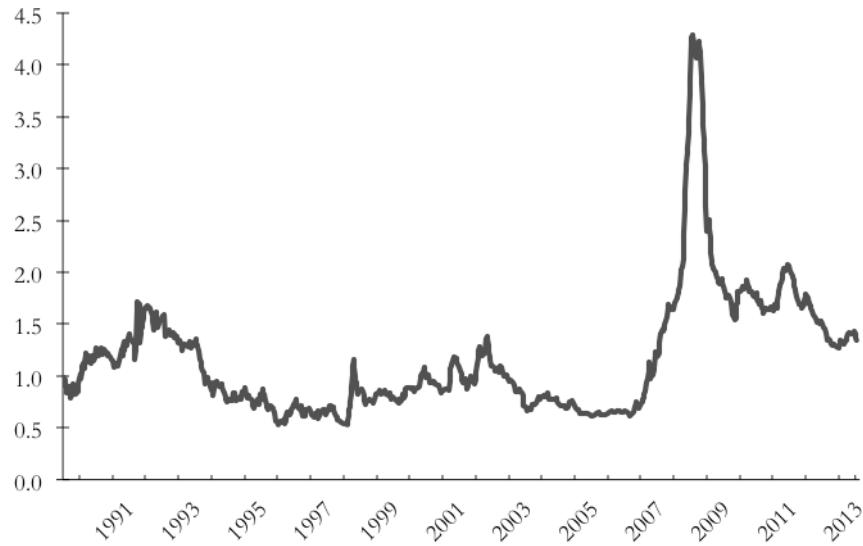
	2013		2012		2011		2010		2009		2008	
United States	3 Month	0.07	3 Month	0.05	3 Month	0.02	3 Month	0.13	3 Month	0.06	3 Month	0.09
	5 Year	1.74	5 Year	0.72	5 Year	0.83	5 Year	2.01	5 Year	2.68	5 Year	1.55
	10 Year	3.03	10 Year	1.76	10 Year	1.88	10 Year	3.30	10 Year	3.84	10 Year	2.22
Canada	3 Month	0.92	3 Month	1.21	3 Month	0.80	3 Month	1.05	3 Month	0.34	3 Month	0.88
	5 Year	1.94	5 Year	1.38	5 Year	1.28	5 Year	2.42	5 Year	2.77	5 Year	1.69
	10 Year	2.76	10 Year	1.80	10 Year	1.94	10 Year	3.12	10 Year	3.61	10 Year	2.68

Source: Bloomberg

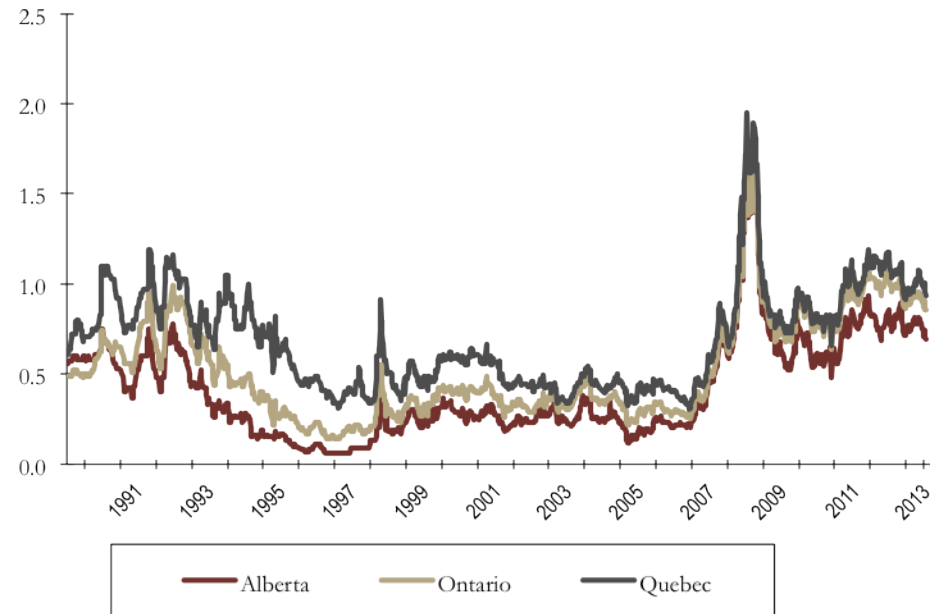


2013 Canadian Fixed Income Market History

"A" Corporate Yield Spreads vs. Federals



10-YR Provincial Yield Spreads vs. Federals

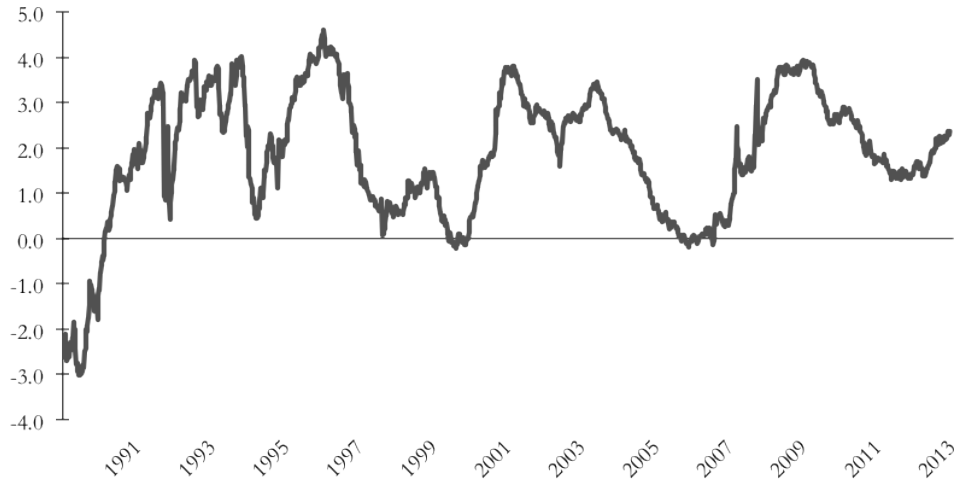


Source: PC Bond

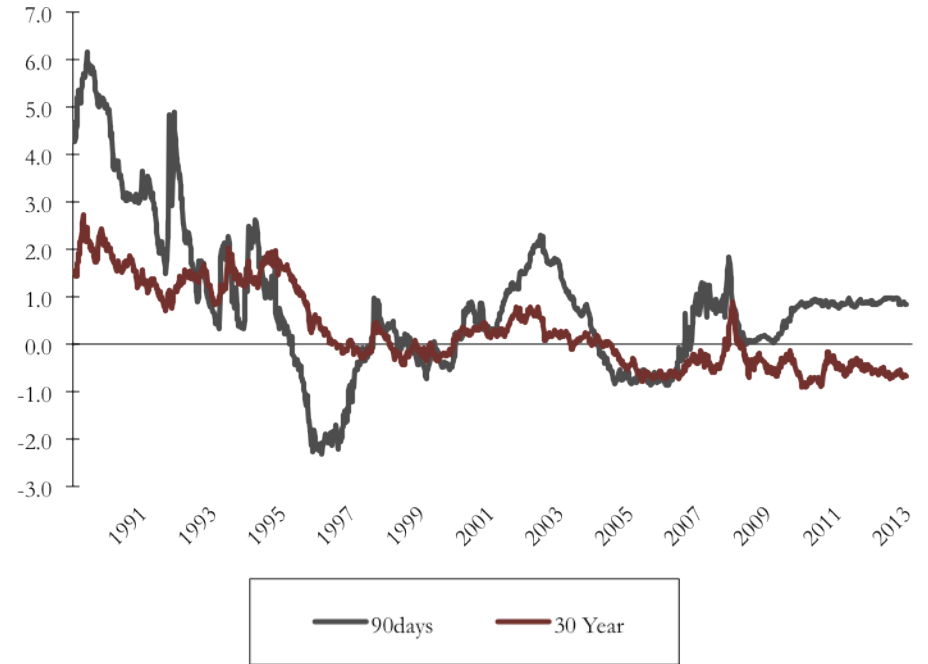


2013 Canadian Fixed Income Market History

Canada Yield Curve Steepness (30 Year - 3 Month)



Canada vs. U.S. Yield Spreads



Source: PC Bonds



2013 Canadian Fixed Income Market History

US/CAD Exchange Rates



Source: Bloomberg





GUARDIAN CAPITAL

Our history. Your future.

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