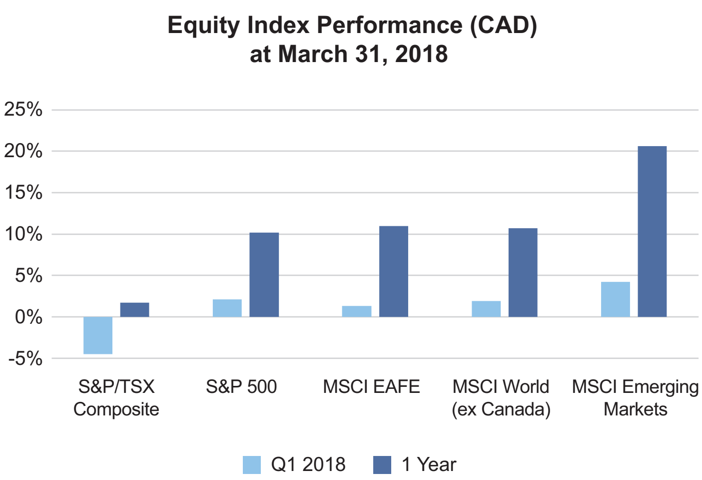
Economic expansion continues around the world in almost all developed and developing countries. At the top end, among the countries reporting GDP data for the fourth quarter of 2017, the economies of China and India both grew by 6.6% on an annualized basis. At the bottom end, Norway's economy shrank by 1.1%, annualized. GDP growth in the G7 countries ranged from 1.3% in Italy to 2.8% in France. Canada's economy grew 1.7% on an annualized basis. Inflation is slowly creeping up in some countries while staying low elsewhere. The three English-speaking countries in the G7 reported consumer prices up by 2% or more from February 2017 to February 2018. The other G7 members reported inflation below 2%.



Source: TD Securities, MSCI

Canada

It wasn't that long ago that Canada was the growth leader in the G7. Since then, however, it seems that Canada has been slipping behind. Holding back growth was a slowdown in consumer spending as higher interest rates and over-indebtedness began to weigh on consumers. Also, with new mortgage rules in place in the Greater Toronto Area and in Ontario's golden horseshoe, residential construction has slowed from its frenetic pace at the end of last year. However in March, Canada signed the Trans-Pacific Partnership (TPP), and the U.S. appeared to have slightly softened its hardline North American Free Trade Agreement (NAFTA) negotiation stance. This change provides hope for an improved trade picture and future economic growth.

U.S.

The U.S. economic advance appeared to be losing some momentum in the first quarter of the year as consumer spending moderated from strong growth in the last quarter of 2017.

However, tax cuts, impressive employment gains combined with rising wages, increased factory output, and healthy business and consumer sentiment should sustain real GDP growth for 2018 in the 2.5% to 3.0% range. The caveat here is that President Donald Trump's protectionist policies, if fully enacted, could counterbalance these growth-inducing trends by triggering retaliation from U.S. trading partners. One sign of hope on this front is some initial small positive progress in the NAFTA negotiations.

Europe

Judging by economic data for the last quarter of 2017 the overall economy in the Eurozone continued to expand but at a slightly less robust pace than during the previous quarter. This expansion was a continuation of healthy overall global growth which encouraged greater investment spending and associated tightening labour market conditions. Despite the favourable economic backdrop, the political environment remained unsettled as evidenced by Italy's less than conservative election results and the resignations of two leaders in Central Europe.

On the monetary front, the European Central Bank (ECB) has continued to hint that its asset purchasing initiatives will be scaled back, although inflation continues to be significantly lower than the ECB's 2% target due to the strong performance of the euro against the U.S. dollar.

Brexit talks resulted in a draft withdrawal agreement reached on March 19. However, questions remain concerning future cross-border trading relationships.

Also, obviously, Donald Trump's anti-free trade stance further complicates the future economic forecasting horizon.

U.K.

The U.K. economy continued to grow slowly in the first two months of 2018 despite ongoing Brexit negotiations. With inflation above the Bank of England's 2% target, overnight rates are still expected to be raised once or twice over the course of the year. The central bank, however, has a delicate interest rate balancing act due to subdued real consumer spending growth and the drag on business capital spending from ongoing Brexit uncertainties.

Japan

As in related developed market economies, Japanese economic growth momentum carried over into the first quarter of 2018. Unemployment has declined to a two decade low, fostering hopes for a continued rise in consumer spending. In March the manufacturing sector grew for the nineteenth consecutive month. Non-residential investment growth continues to power the economy. The signing of the Trans-Pacific Partnership will also improve the outlook for exporters. However, accusations of political malfeasance may hinder Prime Minister Abe's ability to get re-elected in September, adding risk to the market outlook.

Emerging Markets

Volatility returned to emerging markets after two years of strong and steady performance. While on the whole the quarter was still positive, there were several periods of sustained negative moves. As always, the performance of emerging market countries varied greatly. For example, Brazil's stock market did very well as the country's recovery from a deep recession continued, and India's market lagged appreciably following a long rally that culminated in high stock price valuations. Northern Asian economies (China, South Korea and Taiwan) are continuing to show improved growth. Mexico has also weathered the storm of America's threatened protectionism and is expected to experience improved economic growth as the year progresses.

Bonds

There has been quite a turnaround in the economic and interest rate outlooks for Canada and the U.S. over the past few months. Last fall the BoC hiked interest rates in consecutive meetings to a level above those in the U.S. and in doing so pushed the exchange rate above 82 cents U.S. Since then, however, it seems that Canada faces some economic headwinds. Despite an additional BoC interest rate hike, the Canadian dollar, as noted above, continued to languish. This year could see the U.S. Federal Reserve (the Fed) raise rates as many as four times while the BoC may hike rates only twice.

Regardless of central bank actions, longer-term bond yields are still expected to rise slowly as inflationary pressures begin to rise.

Canadian Bond Market Performance

	First Quarter	1 Year
FTSE TMX Universe Bond Index	0.10%	1.36%
FTSE TMX Short Term Bond Index	0.22%	-0.37%
FTSE TMX Long Term Bond Index	-0.01%	5.06%
Canadian Federal Bonds	0.33%	-0.19%
Provincials	-0.27%	2.63%
Investment Grade Corporate	0.28%	1.81%
High Yield Corporate	1.47%	8.10%

Source: FTSE TMX