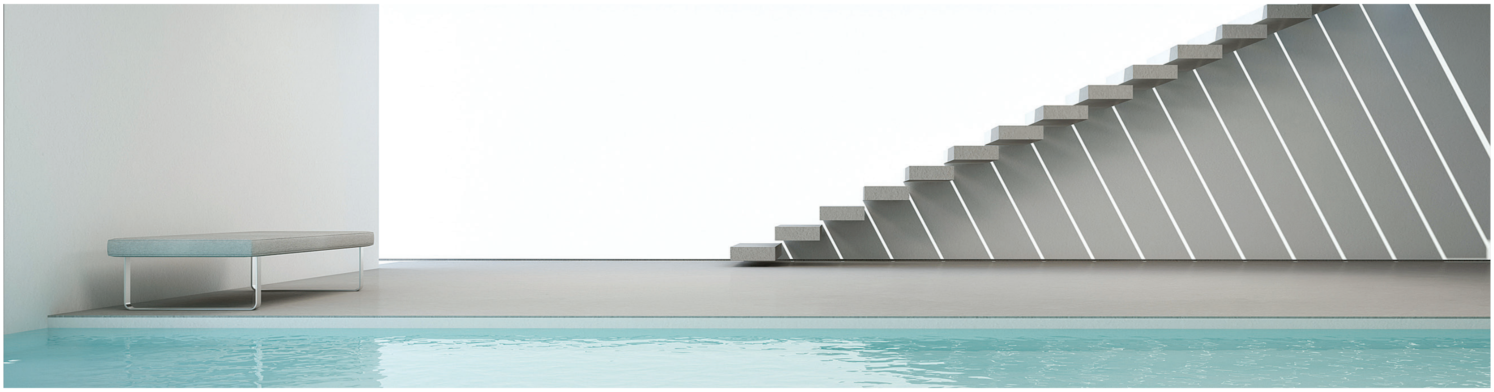
TD Wealth

Straight Forward

Summer 2017



Trust the process - estate planning for blended families

Wealth Advisory Services, TD Wealth

Estate planning for blended families can be complex, and emotional issues may surface when it comes time to make important decisions such as how to divide accumulated wealth. A failure to create a plan that addresses the potentially competing interests that may arise with blended families can lead to family disputes and years of litigation.

A detailed estate plan should go beyond simply addressing estate administration and minimizing taxes. It should highlight your intentions and wishes, provide clarity to important people in your life, and help to avoid family conflicts over items such as your personal effects. Communication and preparation are critical to every estate plan.

To assist with some of the complexities that may be associated with blended families, estate planning practitioners often suggest the use of trusts as a part of an estate plan. Trusts come in various forms (e.g., inter vivos or testamentary) and are regularly used to achieve tax and non-tax planning objectives. However, before a trust is recommended, it is important for your advisor to determine your objectives and how a trust may help to achieve them, and for you to seek professional legal advice.

When considering the use of a trust as part of an estate plan for blended families, several factors are generally taken into account, including: the projected size of the estate, the level of co-operation from a spouse or common-law partner (collectively herein referred to as "Partner"), possible tax efficiencies, costs and complexity, and the degree of access to income, capital for beneficiaries (such as a surviving Partner or children) to name a few.

If you were previously married or in a common-law relationship, an estate practitioner may suggest a testamentary spousal/common-law partner trust as part of your estate plan with your current Partner. A spousal/common-law partner trust is often used to define how wealth is to be shared between a surviving Partner and a deceased's children from a previous relationship. This type of trust can provide income to a surviving Partner during his or her lifetime, while also ensuring that any remaining property from the trust passes to children or other beneficiaries following the death of the surviving Partner.

(Continued on page 4)

In this issue

TD Economics

Patiently waiting for inflation

Derek Burleton, VP and Deputy Chief Economist, TD Economics

Since mid-way through 2016, investors have been treated to a synchronous pickup in growth across advanced and emerging market economies, with the overall rate of global expansion moving above 3% year-over-year. While a further acceleration from this recent pace will face hard limits—especially in light of structurally aging populations and weak global productivity gains—TD Economics projects sustained robust real Gross Domestic Product (GDP) gains of nearly 3.5% on average over the 2017-18 forecast horizon.

Global inflation: wherefore art thou?

The bigger surprise so far this year has been on the inflation front. The global expansion has been running on the hot side of its estimated longer-term cruising speed, particularly in advanced economies. Yet outside of the U.S., wage pressures in particular have been notably absent, helping to trigger a fierce rally in global bond markets so far this year.

A trademark of the post-crisis world has been a more belaboured pass-through of impacts relative to historical experiences. But, a divorce all together from past relationships would appear unlikely. The directional pull on inflation is clearly to the upside from current levels, even if the evidence is delayed.

For global central banks, a gradual upturn in inflation measures will make it increasingly difficult to justify maintaining emergency levels of stimulus. This will be particularly true if the multitude of downside risks that remain in play worldwide don't actually materialize. These include trade-protectionism escalation, to the potential fallout from a slowing China, to ever-evolving geopolitical events.

Advanced economies have room to run

In recent quarters, the most notable bright spots have been Canada and the euro area. In contrast, the U.S. economy is on track to disappoint elevated expectations post-U.S. election, recording real GDP growth of just over 2% this year. With hopes diminishing around passage of the administration's pro-growth agenda, economic expansion of about 2% appears to be as good as can be expected for the U.S. given the mature phase of the economic cycle.

Despite only moderate growth, the U.S Federal Reserve is still signalling a desire to implement one additional quarter point rate hike in 2017 and three next year, while beginning the process of reducing its outsized balance sheet. Risks to the growth and rate outlook from Washington are two-sided. Even if the timetable has been pushed back, a stimulative tax reform package remains a possibility. On the downside, Congress and the White House could fail to reach an agreement to avert a government shutdown this autumn.

Canada's economy has been bouncing back strongly this year, with real GDP gains expected to lead the G-7 this year at close to 3% before easing off somewhat in 2018. While much of the rebound in activity recently has been concentrated in personal consumption and housing activity, recent data point to a broadening in the expansion to areas such as energy and non-residential investment. A key wildcard for Canada remains its overvalued housing market, especially in the GTA. Recent Ontario government measures are expected to dampen housing activity but not trigger a major correction.

Within the euro zone, economic growth is expected to almost match the U.S. rate this year, which is a tall order for an economy that can only achieve expansion of just over 1% on a longer-term basis. Economies in the euro area have benefitted from a gradual re-leveraging of the household sector, a more supportive fiscal environment and a more optimistic business climate. The euro area continues to face a number of downside risks, notably undercapitalized banking systems and worries about populism in Italy. Yet, the economy is showing increasing resilience in the face of these uncertainties.

Supported by continued above-trend growth, Canada is expected to join the U.S. in raising interest rates by the end of this year, while the European Central Bank should begin tapering its asset purchases next year. As convergence on monetary policy slowly takes place between the U.S. and these key trading partners, the U.S. dollar will likely face some increased selling pressure.

The laggards in normalizing their monetary policies will be Japan, where inflation remains close to zero, and the U.K. Brexit uncertainties are likely to disproportionately take a toll on the U.K. economy. After an unexpectedly strong post-Brexit performance, there are signs that the U.K. economy is beginning to slow. On the bright side, a hard break with European Union (EU) is somewhat mitigated by the failure of any party to earn a strong mandate in the recent U.K. election.

Emerging market outperformance unlikely

With the commodity shock moving into the rear view mirror, emerging market economies have enjoyed a solid pick up alongside the mature markets over the past 3-4 quarters. However, near-term prospects for outperformance (relative to trend) are lower in the emerging world. Little near-term upside in commodity prices, elevated debt-loads and political risk in countries such as Brazil together will present headwinds.

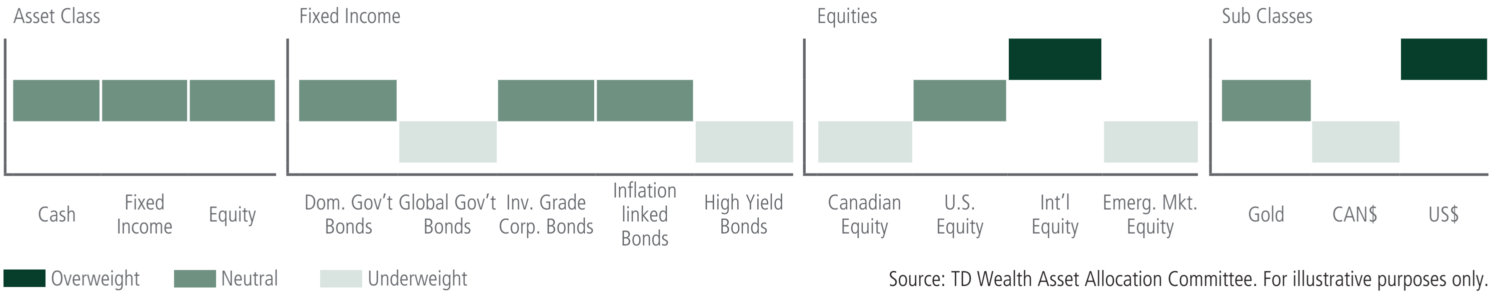
Above all, a slowdown in China's economy is expected to have knock-on effects to emerging market growth, notably across Asia. Survey indicators suggest that China's economy could be slowing at a faster pace than previously anticipated. This is partly reflecting deliberate and, in some regards, successful actions by monetary authorities to tighten credit conditions in the hopes of slowing the pace of debt accumulated within all economic sectors. This negative credit impulse is expected to send China's growth rate down towards 6% by year end, well below its recent rate of closer to 7%.

TD Wealth Asset Allocation Committee

Mid-year overview

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

Asset Allocation Summary



Source: TD Wealth Asset Allocation Committee. For illustrative purposes only.

Politics have dominated the news cycle since the start of the year. The year began with a focus on the new U.S. President's inauguration, and since then the press corps has been kept busy following the adventures of the new administration. In May, ongoing investigations into possible Russian interference in the U.S. election dominated headlines and the S&P 500 Index (S&P 500) dipped notably for a couple of sessions as speculation mounted that the U.S. might find itself in the midst of another impeachment trial. However, the downturn was short lived and the market soon resumed its upward trajectory. Overall, the atmosphere in Washington appears acrimonious, which may make it difficult for the government to pass legislation.

In Europe, a number of elections were held, including closely watched contests in France and the U.K. Results in both locations highlight a divided electorate, and with imbalances remaining globally, we expect that political turmoil could resurface.

In spite of political tensions, financial markets remained sanguine. Stocks and bonds moved higher and, with the exception of the brief hiccup in May amid the impeachment chatter, volatility is well below the historical average.

Coordinated globe growth

Perhaps less headline worthy, but no less important for investors, were developments regarding economic growth. The coordinated global growth we began to see earlier this year continued, with economies advancing across developed countries over the quarter. Canadian economic growth was surprisingly strong during the first quarter, rising almost 3.7%. However, we believe that growth will be more muted in upcoming quarters as high household debt levels, modest oil prices and low productivity are likely to act as restraints.

U.S. growth was positive although somewhat subdued at 1.7%. We anticipate growth may accelerate slightly from this level although it is likely to remain modest. The European recovery continued as the economy grew 1.9% in Q1, supported by household spending and fixed capital formation. Growth in China was stronger than expected at 6.9%; however, we believe that growth in the region will slow as the transition toward a more sustainable, consumer-based economy continues.

Excellent earnings

Amid this positive economic growth, Canadian banks reported their second quarter earnings in May. Earnings growth was in the low double digits, and underlying data indicated that the banks are in good shape, with strong credit quality and capital levels. In Europe, first quarter earnings growth was robust, rising more than 20%, which was a positive sign as European earnings have been weak since the financial crisis. Not to be left out, S&P 500 companies joined their global counterparts in surpassing expectations and delivering very good results. During Q1, both revenue growth and earnings growth for S&P 500 companies reached their highest levels since 2011.

TD Wealth Asset Allocation Committee positioning

We have maintained our broad asset class positioning, which is neutral across cash, fixed income and equities, but we did make some changes to our positioning within those asset classes during the quarter: U.S. equities from modest overweight to neutral and international equities from neutral to modest overweight.

While earnings and cash flow in the U.S. remain resilient, valuations are relatively high, profit margins are close to their peak and the "Trump bump" that followed the U.S. election seems to have subsided as questions arise about the new administration's ability to pass its pro-business policies. Conversely, valuations in Europe are attractive and profit margins are improving. Economic growth in Europe has been accelerating and Purchasing Managers' Indices have been strong, which should be positive for earnings per share growth. Europe does face long-term challenges, but we believe that the region presents investment opportunities over the next 12-18 months, which is our outlook horizon.

We expect the U.S. dollar to remain strong, but the improving economic backdrop in Europe is likely to be positive for the euro. In addition, we don't expect interest rate differentials to widen meaningfully. Combined, these factors are likely to moderate the relative outperformance of the U.S. dollar versus a basket of global currencies. We have changed the positioning of the U.S. Dollar Index from maximum overweight to modest overweight.

TD Wealth

Trust the process - estate planning for blended families (continued from page 1)

Wealth Advisory Services, TD Wealth

Among other requirements, this type of trust requires that you provide your Partner an entitlement to all of the trust income during their lifetime and no person other than your Partner may have access to any of the capital from the trust during that time.

It is important to note that testamentary trusts do not always need to come in the form of a spousal/common-law partner trust. In circumstances where other resources or planning has been implemented to provide for a surviving Partner, a "family trust" may be used to provide children or other beneficiaries with access to income or capital. The level of access children or other beneficiaries may have to income or capital from a family trust will depend on the type of discretion and powers granted to the trustee(s).

In some instances, certain more immediate planning strategies may be appropriate, such as the use of an inter vivos trust. Examples of inter vivos trusts that may be incorporated into an estate plan for blended families include an alter ego or a joint spousal/common-law partner trust. These are specialized trusts that have specific requirements. They must have been created after 1999 where, at the time the trust was created, the person creating the trust is at least 65 years of age. The person creating the trust (alter ego) or in combination with his or her Partner (joint spousal/common-law partner trust) must be entitled to receive all of the income from the trust until the creator's death (alter ego) or the later of the death of the creator and the death of the Partner (joint spousal/common-law partner trust). During this time no other person can receive or otherwise obtain the use of any of the income or capital of the trust.

So when might you use a joint spousal/common-law partner trust over a testamentary spousal/partner or family trust? Perhaps where there are concerns with probate fees that may otherwise arise or where maintaining privacy is of high importance.

When setting up a trust of any kind, careful consideration should be given to who will be named as your trustee(s) to ensure your wishes are carried out as intended. It is important to find someone who is trustworthy, reliable and knowledgeable in legal, tax and administrative matters, or is willing to seek the appropriate advice to prudently fulfil their responsibilities.

If you haven't already done so, consider speaking with your advisor about your estate planning objectives, so that the appropriate referral or introduction can be made to help prepare your estate plan.

902669 (0717)