

Canadian & U.S. Fixed Income

Money Market/Bond Issues and Indices (Total Return) as at March 31, 2011	March Return	YTD Return	Canadian Yields	U.S. Yields
91-Day Treasury Bill	--	--	0.95%	0.09%
2-Year Government Bonds	--	--	1.79%	0.83%
5-Year Government Bonds	--	--	2.74%	2.28%
10-Year Government Bonds	--	--	3.32%	3.47%
30-Year Government Bonds	--	--	3.74%	4.51%
DEX Universe Bond Index	-0.06%	-0.27%	3.28%	--
DEX All Governments Index	-0.03%	-0.49%	3.03%	--
DEX All Corporates Index	-0.13%	0.33%	3.91%	--
DEX Real Return Bond Index	1.68%	0.53%	1.10%	--
Merrill Lynch High Yield Master II Index - US\$	0.42%	3.90%	--	7.17%
Merrill Lynch Global High Yield Cdn Issuers Index	0.52%	2.64%	7.92%	--

Source: Bloomberg Finance L.P.

Commentary:

The North American bond market ended March relatively unchanged although the modest decline masked the intra-month volatility as investor oscillated between risk taking and risk aversion. A plethora of negative headlines acted as a counterweight to generally positive economic developments and improving sentiment. Supporting the "risk-off" trade was escalating political instability in the Middle East and North Africa, a resurgence in the European sovereign debt crisis with Portugal looking increasingly likely that it will require a bailout, and the uncertainty around a possible nuclear disaster in Japan. However, towards the second half of the month, investors started to embrace risk again as more market commentators concluded that the recent negative headlines will likely have a minimal, longer-term impact on financial markets and that the global economy should continue to stand on a firmer footing. On the interest rate front, as expected, the Bank of Canada (BoC) left its overnight target rate unchanged at 1.00 percent at its March 1, 2011 meeting. In the U.S., the Federal Reserve Board (Fed) reaffirmed its commitment to keep the Federal Funds rate at exceptionally low levels for an extended period. However, in the statement that accompanied the March 15, 2011 decision, the Fed said that core inflation is no longer trending lower and that it believes the economy is finally growing fast enough to start absorbing economic slack and meaningfully lower the unemployment rate.

Outlook:

With growing evidence that Canadian exports and U.S. employment are starting to show strong signs of recovery, the pressure is building for the BoC to start withdrawing monetary stimulus through higher short-term interest rates. Even though economic conditions in Canada may warrant tighter monetary policy, with the country in the midst of a federal election campaign, it has become increasingly unlikely that the BoC will hike interest rates before its June policy meeting. While the central bank operates at arm's length from the federal government and has no political stake in an election, it is unlikely to shift its monetary policy stance until it gets clarity in terms of fiscal policy from which ever party forms the next government. In the U.S., with QE2 set to be completed in June, bond yields are unlikely to move lower and are in fact likely to drift higher when the government support bid is removed. The clear risk to this outlook is if the geopolitical situation in the major oil producing nations in the Middle East and North Africa deteriorates further and risk aversion spikes. Under this scenario, a flight to safety may temporarily push bond yields lower.

Canadian Equities

Indices	March 31/11	Month Change	YTD Change
S&P/TSX Composite ¹	14,116.10	-0.14%	+5.01%
S&P/TSX 60 ¹	809.16	-0.51%	+5.27%
S&P/TSX Cdn MidCap ¹	966.07	+0.87%	+4.2%
S&P/TSX Cdn SmallCap ¹	781.79	+0.88%	+3.7%
S&P/TSX Cdn Energy Sector ¹	3,393.80	-2.14%	+8.07%
S&P/TSX Cdn Gold Sub-Sector ¹	3,403.52	-0.10%	-4.97%
Crude Oil (WTI) USD/barrel	\$106.72	+10.05%	+16.79%
Gold Bullion Spot USD/oz	\$1,432.30	+1.48%	+0.81%
USD/CAD	\$1.0303	+0.1%	+2.82%

Source: Bloomberg Finance L.P.

Commentary:

Canadian equities got caught in the wake of global events but the S&P/TSX Composite Index (the “S&P/TSX”) held on to end the month with little change.

Health care stocks were the best absolute performers as the share price of Valeant Pharmaceuticals International continued to make gains. The company’s shares have been rising steadily since Valeant and Biovail Corp. merged last year. It was the heavyweight financials sector, however, that provided the biggest contribution to the index for the second consecutive month. Four out of the big five banks posted gains in March as the banks finished their earnings reporting season. Better-than-expected earnings numbers and dividend increases from TD Bank and the Bank of Nova Scotia helped give the banking sector a boost. The insurance sector on the other hand did not fare well as the share prices of some of Canada’s larger insurers were hurt by concerns over exposure to the catastrophic events in Japan. Manulife Financial Corp. confirmed limited exposure to the earthquake while Sun Life Financial Inc. stated that it had no exposure to the crisis.

Among weaker sectors, energy stocks were the largest detractors to the benchmark’s returns. Weakness in the energy sector was largely driven by tumbling uranium stocks as the price of the commodity dropped in light of Japan’s growing nuclear crisis. The Information technology sector also ended the month lower as shares in Research in Motion Inc., which is preparing to launch its new Playbook tablet, fell after the company warned of weak profit and revenues in the short term.

Outlook:

The Canadian equity market’s upward momentum stalled in March as global concerns took centre stage. Despite recent volatility, many investors believe that equities overall will continue to slowly move higher. Canadian corporations are expected to continue to benefit from improving conditions in the U.S. as well as enduring demand for the country’s vast commodities from developing markets. However, risks to the global recovery remain, in particular recent tensions in North Africa and the Middle East, and the impact of these events on the price of oil. In light of ongoing challenges, many investors maintain a cautious stance with a focus on high-quality, dividend paying stocks.

U.S. Equities

Indices	March 31/11	Month Change ²	Month Change – C\$	YTD Change ²	YTD Change – C\$
DJIA ¹	12,319.73	+0.76%	+0.41%	+6.41%	+3.79%
S&P500 ¹	1,325.83	-0.10%	-0.45%	+5.42%	+2.82%
S&P400 ¹	989.05	+2.32%	+1.97%	+9.02%	+6.33%
NASDAQ Composite ¹	2,781.07	-0.04%	-0.39%	+4.83%	+2.25%
NASDAQ 100 ¹	2,338.99	-0.51%	-0.86%	+5.46%	+2.86%
Russell 2000 ¹	843.55	+2.44%	+2.08%	+7.64%	+4.99%

Source: Bloomberg Finance L.P.

Commentary:

U.S. equity markets proved resilient over the quarter. Despite heightened volatility, domestic equity markets finished strong, experiencing the best first quarter since 1999. Stocks sold off briefly on external shocks, including geopolitical unrest in North Africa and the Middle East and a natural disaster in Japan, but quickly rebounded. During the month of March, small-cap stocks outperformed as investors remained optimistic about the prospects for further merger and acquisition activity. The rise in the loonie relative to the greenback, however, has dampened returns in Canadian dollar terms.

At the broader sector level within the S&P 500 Index (the “S&P 500”), seven out of ten economic sectors delivered positive returns over the month. The telecommunications services sector fronted the advance buoyed by news of a merger between AT&T and T-Mobile, which raised hopes for further consolidation in the sector. The health care sector was the second best performer aided by the biotechnology sub-sector. Meanwhile, the energy sector was the top contributor to monthly returns of the S&P 500, aided by strong performance of the integrated oil & gas sub-sector on the back of rising oil prices. Crude oil reached its highest level in two and a half years as a result of fears that Libya tensions would threaten supplies. Information technology and financials, on the other hand, were the top detractors over the month. From a stock level, AT&T Inc., Pfizer Inc. and Chevron Corp. were the top contributors while Bank of America Corp., General Electric and Microsoft Corp. were the top detractors to the monthly returns of the S&P 500.

On the economic front, news released during the month was generally encouraging, especially regarding the labour market. Figures released by the Commerce Department showed an overall gain of 216,000 jobs in March. Since the beginning of this year, the unemployment rate has fallen from December’s 9.4 percent to 8.8 percent at the end of March, its lowest level in two years. Meanwhile, U.S. economic growth for the fourth quarter was revised to an annual rate of 3.1 percent, up from 2.8 percent earlier, owing to gains in consumer spending and exports. Investors also seemed encouraged that the Conference Board’s gauge of consumer confidence declined less than feared. Many have worried that the sharp rise in gasoline prices over the past two months might weigh on the recovery by discouraging consumers and causing them to rein in their spending on other items.

Outlook:

The U.S. economy is proving to be resilient as the recent economic readings are pointing in the right direction, indicating that the economic recovery is gaining traction. Although some of the improvements have been on the back of significant government spending, there are signs that the private sector has improved. Companies have generally reduced expenses during the recession and appear poised to see their profit margins grow when demand picks up. Corporate balance sheets are in good shape and supportive for increased dividend payments, an acceleration in share buybacks, and more merger and acquisition activity.

In the U.S., mid- and small-cap stocks have outperformed large-cap stocks for more than a decade, but analyst consensus is that today’s market environment could benefit large-cap value stocks going forward. Historically, large-cap shares have done better than small-caps when interest rates began to rise, which is their likely direction when economic growth becomes more pronounced. That said, the persistent pain-point for the economy remains to be the high unemployment rate and the weak housing market, which suggests that potential for continued swings in sentiment and stock market volatility in general remain

Europe

Indices	March 31/11	Month Change ³	Month Change – C\$	YTD Change ³	YTD Change – C\$
UK FTSE 100 ¹	5,908.76	-1.42%	-2.89%	+0.15%	+0.65%
German DAX ¹	7,041.31	-3.18%	+1.84%	-0.73%	+5.53%
French CAC 40 ¹	3,989.18	-2.95%	+4.85%	-0.50%	+8.57%
MSCI Europe (Total Return) ³	5,240.78	-1.84%	+2.23%	-1.13%	+3.93%

Source: Bloomberg Finance L.P.

Commentary:

In euro terms, broad based European market returns were negative in March but positive in Canadian dollars due to a higher relative euro. All ten sectors showed negative returns in euro terms. On an absolute return basis, the broad based European market was led by the industrials, telecommunication and consumer staples sectors. The worst performers were the financials, health care and energy sectors.

It was the industrials, information technology and telecommunications sectors that detracted the least from the index's returns; and the financials, energy and health care sectors detracted the most. By country, the U.K, Switzerland and France were the top overall index detractors.

During the month, the debts of several euro zone countries were downgraded by various rating agencies. Most significantly perhaps was a downgrade of Spain's debt by Moody's rating agency, citing a cost of shoring up Spain's savings bank industry as larger than government estimates. Smaller euro market participants Greece and Portugal were also downgraded in March as rating analysts projected that the countries would need increased financial assistance. Overall, four of the top five index detractors were banks. A "stress test" report by Standard & Poor's released in the month indicated that a severe economic recession could force European banks to raise up to 250 billion euros and cause government borrowing requirements to increase significantly. Shares of oil company BP PLC were the largest detractor in the month after a report the company's managers could face manslaughter charges following the Gulf of Mexico oil spill, which could lead to much higher fines over the disaster.

In economic news, the European Union's (EU) statistics office reported that unemployment in the 17 countries that make up the euro zone stood at 9.9 percent in February, down 0.1 percent from the previous month. In the 27-member European Union, February unemployment dropped to 9.5 percent from 9.6 percent from the previous month. Germany and Italy added workers while Spain continues to face the most severe impacts from the continuing economic and financial crisis, with an unemployment rate of 20.5 percent at the end of February. In March, the Bank of England decided to maintain its key interest rate at 0.5 percent. The European Central Bank also left its key interest rates unchanged.

Outlook:

A natural disaster in Japan along with geopolitical risks in the Middle East and North Africa have propelled oil prices to 2.5 year highs, weighing on optimism over the level of global growth. Ongoing accommodative monetary policies across the developed world have contributed to strong global economic data evidencing the momentum of recovery. Despite reasonable stock market valuations, investors remained cautious on the European sovereign debt issue as new proposals for a permanent crisis management mechanism failed to alleviate worries that further bailouts and debt restructuring for bondholders might still recur. The recovery within the euro zone remains uneven and significant spending by some governments to help restore economic growth and provide market stability have added to already high debt levels for which there is no simple fix. Austerity measures aimed at cutting record budget deficits will likely impede economic growth in parts of the euro zone. Going forward, investors will have to weigh the factors for both optimism and caution and will likely focus on companies that are able to demonstrate sustainable revenue growth.

Japan

Indices	March 31/11	Month Change ³	Month Change – C\$	YTD Change ³	YTD Change – C\$
Nikkei 225 ¹	9,755.10	-8.18%	-9.58%	-4.63%	-8.85%
TOPIX ¹	869.38	-8.61%	-10.01%	-3.27%	-7.55%

Source: Bloomberg Finance L.P.

Commentary:

The broad based TOPIX equities market showed a negative return in both local and Canadian dollar terms in March. Returns were less favourable in Canadian dollars due to a lower yen. Nine of ten equity sectors showed negative returns in local currency. On an absolute basis, the index was led by the energy sector. The utilities, financials and consumer discretionary sectors were the lagging performers for the month. Contributing most favourably to the return of the TOPIX index was the energy sector while the financials, consumer discretionary and utilities sectors were the largest drags on index performance.

Performance detraction from the smaller utilities sector came as power companies, particularly Tokyo Electric Power Company, operator of the earthquake affected Fukushima Daiichi nuclear-power plant, sold off. Sub-industries within the financial sector were also down. Bank shares plunged as investors fretted about the banks as stakeholders to the previously mentioned Tokyo Electric Power Co. and its radiation leaking reactor.

Within the consumer discretionary sector, automobile producer and supply companies suffered due to expected affects within the supply chain. Conversely, within the industrials sector, the construction and engineer industry performed strongly as investors anticipated better performance due to construction efforts to rebuild infrastructure damage. A top index contributor and Japan's biggest oil and gas developer, Inpex Corp. showed gains as the price of oil hit a 2.5-year high on supply threats due to turmoil in Libya and the Middle East.

Economically, reports released in March indicated that Japan's unemployment rate dropped to 4.6 percent in February, down 0.3 percent from the previous month. Meanwhile, industrial production increased for the fourth consecutive month in February, offering some good news. A slowdown in export growth for a significant part of last year and a strong yen heightened concerns that the economy was wavering. Japan's core consumer prices fell 0.3 percent in February from a year earlier. However, the decline marks its 24th consecutive month, supporting a continued deflationary spiral. Deflation tends to discourage economic growth as consumers are generally inclined to delay purchases if prices are anticipated to fall further. Household spending accounts for 60 percent of Japan's gross domestic product and is a key indicator of private consumption as well as a valuable gauge of the public's economic environment.

Outlook:

The fallout from the earthquake and tsunami that occurred on March 11 continues to overshadow other global events in the near term. However, the economic ramifications of this earthquake, tsunami and nuclear plant destruction are likely short lived. Supply chain disruptions and limited impact to global growth appear to be the main result. The economic impact on Japan will be significant in the coming months; however, this near-term negative impact will likely subside as rebuilding progresses. There will be a considerable cost to rebuilding, adding to Japan's existing struggle to balance a challenged economy and rein in its huge public debt. Aside from reconstruction, the government has little room left to boost spending in order to stimulate the economy, leaving the Bank of Japan under pressure to keep its accommodative monetary policy. Japan has been dependent on foreign markets to drive growth through exports in order to counter weaker domestic consumer spending. The effect on the world economy is expected to be minimal and will likely be felt as a disruption to global production and supply chains. Besides recent events, the level of the yen, strength of the global recovery, and the sustainability of growth in China and Asia will likely continue to be the key factors for Japan going forward.

Emerging Markets

Indices	March 31/11	Month Change ³	Month Change – C\$	YTD Change ³	YTD Change – C\$
MSCI Emerging Markets (Total Return)	87,254.81	+4.31%	+5.33%	+0.7%	-0.81%

Source: Bloomberg Finance L.P.

Commentary:

After recording negative returns for the first two months of the year, emerging market equities reversed course to finish March with strong returns. Results were higher when reported in Canadian dollars as the loonie depreciated against a basket of emerging market currencies. On a regional basis, Asia came in on top aided by strong performance from Indonesia, South Korea and China while Taiwan was a laggard. Albeit finishing the month in the positive territory, Latin America trailed the group weighted down by negative results from Argentina and Peru and modest returns from the region's giants Brazil and Mexico. From a country level, India was the top performing country while Morocco was the worst performer.

Emerging markets equities ended a volatile month on a high note as improvement in U.S economic fundamentals and optimism about Japans rebuilding efforts outweighed concerns over higher oil prices and unrest in the Middle East. In Asia, reports released during the month showed that China's inflation remained at 4.9 percent in February, the same level as in January, signaling that the central bank's monetary tightening so far has been insufficient in containing prices. Meanwhile, the country's trade deficit grew in February to the highest level in seven years after exports softened as the Lunar Year holidays disrupted shipments. In Hong Kong, retail sales rose in January boosted by a spike in tourism and a decrease in unemployment. Meanwhile, the Bank of Korea raised rates for the second time in 2011, after inflation hit a 27-month high in February. In other news, India's GDP grew in the fourth quarter of 2010 at an annual rate of 8.2 percent and the country industrial output grew in January, further supporting economic growth and giving the central bank scope to increase interest rate and fight inflation.

Outlook:

Emerging markets have shown impressive resilience compared with much of the developed world, where growth rates are anemic and increasing debt has constrained investment. Economic expansion in emerging markets remains strong, driven by rising levels of urbanization, industrialization, and domestic consumption. In addition, as long as the developed market central banks keep real rates low, capital is likely to continue to flow to the best growth opportunities, allowing many emerging market countries to resume the high level of growth they experienced during the 2003- 2007 expansion cycle. At a corporate level, earnings proved to be more robust during the downturn and profitability remained high during the recovery. Within the emerging markets, more capital is likely to flow to countries that have shown greater resilience on a fundamental basis. Concerns about robust growth however, have intensified, leading many governments to take steps to restrain inflationary pressures, which in turn are causing increased volatility in emerging markets equities. The risk of negative growth in the developed world and rising inflation rates in the emerging markets could result in policy induced error, which in turn, could dampen their economic growth.

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¹Stock price index values and returns

²Index returns calculated in U.S. dollars

³Index returns calculated in local currency

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