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BULL CAPITAL MANAGEMENT INC.

QUARTERLY MARKET COMMENTARY – QUARTER ENDED MARCH 31, 2018

Overview

The first quarter of 2018 saw most major equity markets kick the year off with a very strong start, in a continuation from the robust performance of the previous year. However, this upward move was quickly halted before the end of January, with a major decline that extended over the next couple of weeks. The drop that occurred was rapid and introduced a degree of volatility that had not been present in the market for many quarters. A number of factors contributed to this volatility but among the primary causes of the pullbacks were the threat of a trade war between the US and China, as well as concerns over increasing inflation and the impact that the resulting rising interest rates (as suggested by the chair of the US Federal Reserve) might have on future economic growth. To put this increased volatility in context, consider that over the course of 2017 the MSCI World (global equity) index, when measured in local currency, experienced only six trading days where the return of the index was greater than 1% (positive or negative) and zero days in which the movement exceeded 2% in either direction. In the first quarter of 2018 alone, there were seven days in which the market gained over 1% and eight days in which the market declined over 1%, two of which were close to 3% in a single day. While the late January decline wiped out the strong return from the first few weeks of the year, the markets did exhibit a degree of resiliency with a solid rebound (supported by strong underlying economic fundamentals and solid corporate earnings), before a second decline near the end of the quarter pushed most major markets into negative territory for the full quarter. The Canadian equity market experienced a similar pattern, with the one exception being that the initial positive returns were much more muted. As a result, the S&P/TSX Composite declined 4.5% for the quarter, while the S&P500 was down only 0.8% (in USD). Along with the relative weakness in the Canadian equity market, the Canadian dollar experienced a decline of 2.8% against the US dollar, 5.4% against the euro and 8.8% against the Japanese yen, all of which boosted the return for non-Canadian equities (both US and International) into positive territory. Fixed income markets also experienced some volatility but returned relatively flat results for the quarter, as the decline in the month of January (as yields increased) was offset by gains in the following two months.

Global Equity (in local currency terms unless noted otherwise)

The strength of growth stocks was evident once again in the global markets in the first quarter. The top performing sectors were Information Technology (even after the late quarter decline, as a result of regulatory concerns with Facebook in regards to user privacy), Consumer Discretionary and Health Care. On the opposite end of the spectrum were the more defensive value sectors including Telecom, Consumer Staples and Energy, which were among the weakest performers. Global markets have exhibited a similar pattern over the past 12 months in terms of sector performance as well. And while the end result for global equity markets suggests a relatively modest quarter, the reality was anything but. Following the strong return in January (3.8%), the MSCI World index declined in both February and March, marking the first consecutive monthly declines since February 2016. Emerging markets benefited from a relatively weak US dollar and generated a slightly positive return (in local currency) for the quarter, driven by a 6.8% return in January.

Canadian Equity

With a negative return in each of the three months in the first quarter, the Canadian equity market generated its largest quarterly drop since the third quarter of 2015, and is now up only 1.7% over the past 12 months. The 4.5% decline in the quarter was among the worst major developed market returns with the primary differentiator being the decline in the month of January. Unlike most other major equity markets, the Canadian equity market was relatively flat through the early part of the year, but experienced similar declines thereafter. A lack of exposure to the growth sectors previously noted remains a reason for the relative underperformance for Canada, as does the continued struggles of the Energy sector (down 9.4% in the quarter). Within the Canadian market, Information Technology was the only sector that earned a positive return of significance (Real Estate was up 0.5%), driven by three stocks (Shopify, Constellation Software and CGI Group). The S&P/TSX Small Cap index experienced a larger impact from weak commodity sector performance and declined 7.7% in the first quarter.

Fixed Income

The Canadian bond market was essentially flat in the first quarter (up 0.1%), resulting in a one year return of 1.4% for the broad market index. With the Bank of Canada increasing the overnight rate by 0.25% in January (citing inflationary pressures and improving economic data), the bond market was down 0.8% in the month, though falling yields resulted in an offsetting gain over the next two months. Only the short-term component of the bond market yielded a positive return (0.2%), while both the mid-term and long-term segments were flat for the quarter. Due primarily to the impact of currency, global fixed income (Citigroup World Government Bond Index) earned a return of 5.5% in the quarter.



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Bull Capital Management Inc. - Research Report

Capital Market Performance for the Period Ending March 31, 2018

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C\$)	Global Equity	1.47	1.47	10.13	8.61	15.06	8.34
MSCI ACWI (C\$)	Global Equity (incl. Emerging Markets)	1.79	1.79	11.35	8.76	14.53	8.01
S&P500 (C\$)	US Equity	2.00	2.00	10.52	11.44	18.84	12.02
MSCI EAFE (C\$)	International Equity	1.21	1.21	11.31	6.18	11.69	5.11
MSCI EM (C\$)	Emerging Markets	4.24	4.24	21.13	9.46	10.11	5.39
S&P/TSX Composite	Canadian Equity	-4.52	-4.52	1.71	4.08	6.93	4.47
S&P/TSX Small Cap	Canadian Small Cap	-7.73	-7.73	-6.57	4.49	3.50	1.99
Citigroup World Government Bond Index (C\$)	Global Fixed Income	5.46	5.46	5.08	4.04	6.10	4.31
FTSE TMX Corporate Bond	Canadian Corporate Fixed Income	0.29	0.29	1.81	2.17	3.36	5.36
FTSE TMX Universe Bond	Canadian Fixed Income	0.09	0.09	1.36	1.21	2.88	4.37
FTSE TMX 91 Day T-bill	Canadian Cash	0.30	0.30	0.76	0.59	0.74	0.92

Source: FTSE TMX Bond, MSCI Barra, S&P Dow Jones Indices