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BULL CAPITAL MANAGEMENT INC.

QUARTERLY MARKET COMMENTARY – QUARTER ENDED DECEMBER 31, 2016

Overview

The final quarter of 2016 once again saw wide ranging returns between asset classes with the continuation of the upward trend in most equity markets juxtaposed against the fairly large decline in fixed income markets, both in Canada and on a global scale. The big event of the quarter was obviously the election of Donald Trump, as the next president of the United States, in early November. As a result, November represented a turning point for equity markets, following an October of mixed results, which saw strong moves upwards for the two months following the election. The upward movement in equity markets was predicated on the fact that many of the president-elect's proposed policies (tax cuts, infrastructure spending, etc.) turbo charged the reflation trade, pushing up some equity valuations, while also causing rates to move higher more rapidly. These swift moves resulted in a significant divergence in returns across the various sectors, as seen by weaknesses in yield-oriented and defensive sectors (Consumer Staples) versus the robust rebound in Financials and other cyclical sectors (Energy and Materials). This sector rotation was a reversal of the trends that have been in place for several quarters. US economic data also started to reassert itself in October (higher inflation, growing wages on labour market tightening, Fed expectations to raise rates continued) resulting in higher Treasury yields. These higher yields rose even more rapidly following the results of the US election, which also added momentum to an already strengthening US dollar. Conversely, the decline in the bond market, which was slightly negative in October, intensified with the rapid increase in bond yields following Trump's victory. These moves seemingly set aside the potential negatives of Trump's policies, especially in Canada given some of the difficulties that still exist in the broader economy. Tremendous uncertainty remains, but for now it seems that the market is focusing on a business friendly environment. Another important, but much less surprising, event in December was the decision by the US Federal Reserve to raise short-term interest rates for the first time in 2016, and for only the second time in the past decade. Also, the Canadian dollar declined slightly against the US dollar in the fourth quarter but finished the year with a gain of 3% against the US dollar, 5.7% against the euro and flat against the yen.

Global Equity (in local currency terms unless noted otherwise)

The global equity market generated a strong positive return in the fourth quarter, but the results varied dramatically across the underlying sectors, with a strong rebound in the Financials sector, at one end of spectrum, compared to the negative return earned in the Consumer Staples and Health Care sectors, at the other. The extent of the sector rotation in the fourth quarter resulted in similar full year results with the same two defensive sectors generating the weakest return, while the cyclical Energy and Materials sectors led the way for 2016. Once again the vast majority of the countries (18 of 23), represented in the global equity index, generated positive returns with Italy and Japan at the top of the list. For the second quarter in a row, the international component of the index was well ahead of the US component (7.1% versus 3.8%), though the US market outperformed the international market on a full year basis (12% versus 5.4%). Despite a small decline in the fourth quarter, emerging markets had their best year since 2012 with a return of 9.7%, following three years of relatively weak performance.

Canadian Equity

Three more positive months for the S&P/TSX Composite pushed the index to a 4.5% return in the fourth quarter and a very robust gain of 21.1% for all of 2016. While there were some minor bumps along the way, the trend for the Canadian equity index has been strongly positive since oil bottomed in February at \$26 per barrel. The continued upward move in the market (eleven consecutive positive months) has corresponded with the movement in the price of oil from the February lows to almost \$54 by the end of the year. The index was also boosted by the Materials sector in the first half of the year and by the Financials sector over the final six months. In fact, the Financials sector was the top performing sector in the fourth quarter with a return of 11.5%, with strong contribution from both banks and insurance companies. The S&P/TSX Small Cap index was up 3.1% in the fourth quarter and finished the year with a return of 38.5%, marking the first year of outperformance relative to large caps since 2010.

Fixed Income

The decline of 3.5% in the Canadian bond market marked the largest single quarter decline for the index since June 1994. The large decline in the quarter reduced the return for the full year to 1.6%. Expectations of increased inflation and higher interest rates led to a rapid rise in yields, as noted previously, with the 10-year Government of Canada Bond yield moving from 1.00% at the start of the quarter to a high of 1.84%, before finishing the quarter at 1.72%. Spread narrowing resulted in a much stronger relative return for corporate bonds (down 1.7%) compared to both provincials (-4.9%) and federals (-3.3%). Rising yields also pushed long-term bonds down by 7.6%, whereas short-term bonds fell only 0.5%, in the quarter. Global bonds (as measured by the Citigroup World Government Bond index) declined 6.4% in the fourth quarter and were down 1.4% for the full year.

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C\$)	Global Equity	4.26	4.30	4.30	12.18	16.72	5.30
MSCI ACWI (C\$)	Global Equity (incl. Emerging Markets)	3.58	4.65	4.65	11.46	15.61	5.04
S&P500 (C\$)	US Equity	6.28	8.62	8.62	17.66	21.21	8.47
MSCI EAFE (C\$)	International Equity	1.63	-2.01	-2.01	6.34	12.62	2.19
MSCI EM (C\$)	Emerging Markets	-1.90	7.87	7.87	5.32	7.06	3.29
S&P/TSX Composite	Canadian Equity	4.53	21.09	21.09	7.07	8.25	4.72
S&P/TSX Small Cap	Canadian Small Cap	3.12	38.46	38.46	5.43	4.28	2.20
Citigroup World Government Bond Index (C\$)	Global Fixed Income	-6.36	-1.43	-1.43	7.17	4.67	4.46
FTSE TMX Corporate Bond	Canadian Corporate Fixed Income	-1.83	3.71	3.71	4.64	4.17	5.39
FTSE TMX Universe Bond	Canadian Fixed Income	-3.45	1.64	1.64	4.61	3.22	4.78
FTSE TMX 91 Day T-bill	Canadian Cash	0.15	0.52	0.52	0.69	0.81	1.39