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BULL CAPITAL MANAGEMENT INC.

QUARTERLY MARKET COMMENTARY – QUARTER ENDED DECEMBER 31, 2017

Overview

The fourth quarter of 2017 was another strong period for equities, which helped cap another solid year for the global capital markets. As always, there were a few underlying factors that drove markets higher including global economic growth and ongoing accommodative monetary policies, though much less than in the past. Another contributing factor to US fourth quarter returns was the expectation and ultimate passage of the Tax Cuts and Jobs Act, which reduced corporate tax rates in the US from 35% down to 21%, leading to further increased after-tax earnings for US corporations. For Canadian equity investors who outperformed many of their global counterparts in 2016, the opposite was true in 2017 where they lagged both in the fourth quarter and throughout 2017 with a return of 9.1% compared to 14.4% for global equity markets (18.4% in local currency). There was also very little equity market volatility, instead indices moved consistently higher led by the US S&P500, which earned a positive return in every month of the year. The VIX (a measure of expected volatility for the S&P500) remained muted for the entire year and reached all-time lows in the fourth quarter. Another reversal for 2017 was the strengthening Canadian dollar versus the US dollar (up by 6.6%), which negatively impacted Canadian investor returns. Conversely, the Canadian dollar declined by 6.2% against the Euro.

As noted above, the Federal Reserve in the US continued to increase interest rates (three times in 2017), while the Bank of Canada also embarked on raising interest rates in 2017, despite minimal inflationary pressures in both countries. Also, the Bank of England raised their benchmark interest rate by 0.25% in November. While other central banks were slowly tightening, the European Central Bank announced a reduction in the pace of their Quantitative Easing program in October (halving their monthly bond purchases to EUR30B). Given the upward move in yields (at least in the short end of the curve, which is directly affected by central bank decisions), short-term bonds, and the bond market in general, generated lacklustre returns for the third consecutive year. These higher short-term rates caused concerns around weaker long-term economic growth, thereby pulling down long-term yields and flattening the yield curve.

Global Equity (in local currency terms unless noted otherwise)

The positive trend in global equities continued in the fourth quarter, marking the seventh consecutive positive quarter for the broad market index. In fact, the pace even picked up in 2017 with the global equity benchmark earning its strongest return since 2013 and having one of its best years (up 18.5% in local currency) since the bull market began in 2009. The US equity market (S&P500) gained almost 22% with no drawdowns of more than 3%, while the international markets (MSCI EAFE) returned 15.2%. Global growth stocks outperformed value in every quarter of 2017 (fourth quarter was 6.2% versus 4.4%), resulting in a significant deviation in the returns of the two styles (24.0% for growth versus 13.3% for value). Information Technology was the strongest sector in both the fourth quarter and throughout 2017, and while the Energy sector performed well in the fourth quarter, it was the worst performing sector for the full year. Poor Energy performance was followed by the Telecom, Real Estate and Utilities sectors. Emerging markets had another strong quarter gaining 5.7% (up 30.5% year to date).

Canadian Equity

The Canadian equity market finished the year on a strong note gaining 4.5% in the final three positive months. After a very modest first half of the year (up 0.7%), the S&P/TSX returned 8.3% over the past six months. Every sector was positive in the fourth quarter and there were several sectors that produced solid returns throughout 2017, as all but three sectors generated double digit returns for the full year. The Energy sector was one of the weak performers (up 0.7% in the fourth quarter and down 7% for the year) holding back the benchmark, despite a 12% increase in the price of oil this year. The narrow Health Care sector continued to be extremely volatile, this time with a positive return of 46.7% in the fourth quarter led by massive returns from a couple of marijuana companies and a 46% rebound in Valeant Pharmaceuticals in the quarter. The S&P/TSX Small Cap index performed in line with the Composite index in the fourth quarter but trailed for the full year with a return of only 2.8% in 2017.

Fixed Income

The Canadian bond market was positive in the fourth quarter (up 2.0%), offsetting the decline of 1.8% that occurred in the previous quarter, as the Bank of Canada left interest rates unchanged for the quarter. The positive return boosted the index to a gain of 2.5% for 2017, and despite some increased intra-period volatility, the bond market posted its fourth consecutive positive year. With two rate increases in 2017, the yield curve flattened further having a fairly significant impact on the relative performance of long-term bonds (up 5.2% in the fourth quarter and 7% for the year) versus short-term bonds (up 0.3% in the quarter and 0.1% for the year). Global fixed income had another very modest year, particularly from a Canadian investor perspective, with a gain of only 0.2%, resulting in a two year return of -0.6%.

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C\$)	Global Equity	6.06	14.36	14.36	12.15	16.94	7.53
MSCI ACWI (C\$)	Global Equity (incl. Emerging Markets)	6.28	15.83	15.83	12.18	16.06	7.15
S&P500 (C\$)	US Equity	7.20	13.83	13.83	14.36	21.29	11.08
MSCI EAFE (C\$)	International Equity	4.77	16.82	16.82	10.64	13.02	4.37
MSCI EM (C\$)	Emerging Markets	8.00	28.27	28.27	11.99	9.30	4.10
S&P/TSX Composite	Canadian Equity	4.45	9.10	9.10	6.60	8.64	4.65
S&P/TSX Small Cap	Canadian Small Cap	4.69	2.75	2.75	7.23	5.32	2.39
Citigroup World Government Bond Index (C\$)	Global Fixed Income	1.22	0.21	0.21	4.35	4.83	5.09
FTSE TMX Corporate Bond	Canadian Corporate Fixed Income	1.86	3.37	3.37	3.26	3.61	5.55
FTSE TMX Universe Bond	Canadian Fixed Income	2.02	2.52	2.52	2.56	3.00	4.66
FTSE TMX 91 Day T-bill	Canadian Cash	0.24	0.56	0.56	0.57	0.73	1.01