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BULL CAPITAL MANAGEMENT INC.

QUARTERLY MARKET COMMENTARY – QUARTER ENDED JUNE 30, 2016

Overview

With the exception of the spike in volatility at the end of June, the second quarter of 2016 was relatively calm with regular ebbs and flows across global capital markets on a month to month basis. June was the most volatile month in the quarter, and while returns moved fairly dramatically intramonth, the final result was a relatively modest overall return. The pinnacle of this volatility occurred in the days following the June 23rd vote, by the citizens of the UK, who marginally voted in favour of withdrawing from the European Union (known as 'Brexit'). The surprising result led to uncertainty, and dramatic equity market declines, over the next two days (with Europe experiencing the greatest declines), almost all of which was recovered in the remainder of the month (with the exception of international equity). Opinions on the extent to which Brexit will impact the global economy and equity markets vary widely with some suggesting that the issue is very much regional (limited to the UK and Europe), while others opine that there may be greater residual effects to follow. Either way, once the steps are taken to move forward with the separation, it is clear that it will be a process that is drawn out over the next couple of years, allowing economies and markets to adjust gradually to the potential impact. Outside of this significant event, equity markets continued to display diverging returns by sector with the resource related sectors continuing, and even accelerating, their upward move on the back of continued strength in commodity prices. This factor in particular led to a very strong return in the Canadian equity market once again, leaving Canada as one of the top performing developed equity markets through the first half of 2016. At the same time, record low interest rates around the globe (and negative bond yields on a growing portion of global sovereign debt issues) continue to push investors into higher yielding segments of the equity market, which have driven strong returns in those sectors, such as Utilities and Telecoms. Currency had much less of an impact in the current quarter with the Canadian dollar remaining essentially flat relative to the US dollar, while gaining 2.9% against the euro. The Japanese yen continued to strengthen with a gain of almost 9% against the Canadian dollar. Bond yields reached new historic lows and continued to push up the returns in many developed bond markets, including Canada.

Global Equity (in local currency terms unless noted otherwise)

Major global equity markets had mixed results in the second quarter leading to a marginally positive return for the three-month period (1.3% in local currency and 0.5% in Canadian dollars). The US component of the global equity market rebounded strongly in the week following the Brexit vote and generated a positive return for the third consecutive quarter with only two sectors (IT and Consumer Discretionary) in negative territory. International markets were slightly negative and have declined 7.2% thus far in 2016. As is often the case, returns within these non-North American markets were wide ranging with further declines in France (1.9%), Germany (3.1%) and Japan (7.8%) partially offset by gains in the other regions in Europe. Most surprisingly, the UK returned 6.7% in local currency (though the pound experienced a fairly large decline at the end of the quarter). Emerging markets were slightly positive in the second quarter and remain well ahead of developed international markets through the first half of the year.

Canadian Equity

The S&P/TSX Composite index followed up a strong first quarter, with an even better second quarter (up 5.1%), and has now gained 9.8% through the first six months of the year. Four of the ten sectors in the index were negative, and three others earned returns of less than 3%, but the extremely strong showing from Materials (26.9%), Energy (9.5%) and Industrials (7%) propelled the index forward for the second consecutive quarter. The two resource sectors continue to benefit from a rebound in oil prices and a large rally in gold, silver and mining stocks (the price of gold and silver are up 25% and 36%, respectively, thus far in 2016 and oil has rebounded over 80% from the mid-February lows). With a much larger allocation to Materials (over 36%), the S&P/TSX Small Cap index continued its rapid rebound with a gain of almost 18% in the quarter and 28% year-to-date.

Fixed Income

As noted previously, Canadian bonds had a very strong second quarter (2.6%) and with four consecutive positive quarters have earned 5.2% over the past year. The vast majority of the gain in the Canadian bond market occurred in June in the days following the Brexit vote as the uncertainty surrounding the vote, and its implications, resulted in a 'flight to safety', which led investors to bid up Canadian government bonds. While the 10-year Government of Canada Bond yield declined from 1.23% to 1.06% (nearing all-time lows), it does remain in positive territory. Long-term bonds were once again the strongest performing component of the market, rising 5.5% compared to short-term bonds, which moved up only 0.7%. From a sector perspective, provincial bonds led the way with a return of 3.6%, followed by corporate bonds and federal bonds, which earned 2.5% and 1.7%, respectively. Global bonds also had another strong quarter gaining 3.1% in Canadian dollar terms, pushing the one year return for the global bond index to 15.3%.



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Bull Capital Management Inc. - Research Report

Capital Market Performance for the Period Ending June 30, 2016

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C\$)	Global Equity	0.46	-6.06	0.54	14.53	13.04	5.97
MSCI ACWI (C\$)	Global Equity (incl. Emerging Markets)	0.44	-5.52	-0.44	13.55	11.72	5.80
S&P500 (C\$)	US Equity	1.90	-3.09	7.55	19.57	18.85	9.01
MSCI EAFE (C\$)	International Equity	-1.99	-10.80	-7.09	9.30	7.79	3.07
MSCI EM (C\$)	Emerging Markets	0.12	-0.68	-9.05	5.41	2.00	5.06
S&P/TSX Composite	Canadian Equity	5.07	9.84	-0.20	8.27	4.21	4.93
S&P/TSX Small Cap	Canadian Small Cap	17.93	27.97	9.77	7.72	-0.09	1.90
Citigroup World Government Bond Index (C\$)	Global Fixed Income	3.10	3.60	15.33	10.01	7.32	5.78
FTSE TMX Corporate Bond	Canadian Corporate Fixed Income	2.46	4.00	4.49	5.18	5.33	5.98
FTSE TMX Universe Bond	Canadian Fixed Income	2.61	4.04	5.20	5.59	5.17	5.60
FTSE TMX 91 Day T-bill	Canadian Cash	0.12	0.25	0.48	0.78	0.85	1.58

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