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**BULL CAPITAL MANAGEMENT INC.**

QUARTERLY MARKET COMMENTARY – QUARTER ENDED SEPTEMBER 30, 2016

## **Overview**

The second quarter ended with a bang, following the surprising result of the Brexit vote, and the rebound that began in late June continued into the third quarter throughout the months of July and August. While the markets looked ahead to the upcoming US election in November, there were very few significant events, over the course of the summer, that impacted the global capital markets with relative calm taking hold for most equity and fixed income markets. Of course, all investors continue to watch the US Federal Reserve from one meeting to the next in an attempt to determine when the next interest rate increase will occur. While it appears that the US economy remains stable, growing at a moderate pace, there is certainly no rush to raise rates if it risks inhibiting further growth. The last interest rate hike by the Fed occurred in December 2015 and, thus far in 2016, there have been no more despite early predictions of 3 or more rate rises this year. Lowered expectations, for the timing and pace at which rates will increase, has led to continued positive performance from equity and fixed income markets, both in Canada and on a global basis. The Canadian equity market continued to perform well in the third quarter, but was matched or surpassed by some of the other foreign equity markets, particularly when reported in Canadian dollars. Both gold and oil prices were little changed from the beginning to the end of the third quarter, though both experienced volatility throughout the quarter (gold prices rose quickly, then gradually declined over the quarter, while oil prices experienced a decline in July only to recover before quarter-end). Further sector rotation occurred in the quarter and the resource sectors (Energy and Materials) were not the drivers of Canadian market returns, instead other sectors like Information Technology, Industrials and Financials were among the largest contributors. For the second consecutive quarter, currency movements in North America were minimal with a very small decline in the Canadian dollar (0.9%) against the US dollar. There was a slightly larger decline against the yen and the euro (2.4% and 2.7%, respectively), which contributed to stronger returns for Canadian investors from international equity.

## **Global Equity** (in local currency terms unless noted otherwise)

With positive returns in all but one of the countries that comprise that MSCI World index, global equities generated a very strong positive return in the third quarter. With the international markets up over 6% in the quarter (8.1% in CAD) and the US equity market also positive with a gain of 3.9% (5.5% in CAD), it was the international component that drove most of the index returns. These returns were achieved even with continued modest growth in much of Europe and relatively weak corporate earnings. Somewhat surprising was the fact that it was economically sensitive sectors like Information Technology, Financials and Consumer Discretionary that were among the leading sectors in the global markets, given the weak economic backdrop that remains in most regions. Emerging markets had another strong quarter gaining 7.6% (10.7% in CAD) driven in part by the delay in rate increases by the Federal Reserve and the impact that this will have on borrowing costs in the emerging markets.

## **Canadian Equity**

With the exception of January, the S&P/TSX Composite index has posted positive returns in every month this year, leading to a 9 month return of 15.8%, which ranks among the top performing global equity markets this year. The third quarter return of 5.5% marks the strongest quarter this year, despite the Materials sector posting a negative return (down 1.1%). Materials was the only negative sector in the index, and while there were other sectors that generated stronger positive returns, Energy and Financials (up 6.2% and 5.9%, respectively) were the largest contributors to overall performance, given their size in the index. While oil prices did not increase in the quarter, Energy stocks received a boost late in the third quarter following an agreement by OPEC members to reduce output. The S&P/TSX Small Cap index also had a third consecutive positive quarter (up 4.9%) and has gained 34.3% thus far in 2016.

## **Fixed Income**

Canadian bonds were positive for the fifth consecutive quarter with a return of 1.2%. The broad bond index has now gained 6.3% over the past 12 months. The recurring theme of capital flight to safety (buying government bonds) continued in the immediate aftermath of the Brexit vote, though this quickly reversed as investors sought higher yields, driving up corporate bond prices and narrowing credit spreads. The 10-year Government of Canada Bond yield continues to hover near all-time lows and once again declined (from 1.06% to 1.00%), though less so than in the previous two quarters. Long-term bonds were the strongest segment of the yield curve with a return of 2.4% (10.8% year-to-date) versus short-term bonds that gained 0.5% (2% year-to-date). Global bonds were up 1.9% in the quarter contributing to a one year return of 7.8%.



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# Bull Capital Management Inc. - Research Report

Capital Market Performance for the Period Ending September 30, 2016

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C\$)	Global Equity	6.49	0.04	9.46	14.72	16.74	6.16
MSCI ACWI (C\$)	Global Equity (incl. Emerging Markets)	6.93	1.03	10.04	13.99	15.71	6.03
S&P500 (C\$)	US Equity	5.46	2.20	13.46	20.48	21.72	8.97
MSCI EAFE (C\$)	International Equity	8.08	-3.59	4.70	8.90	12.31	3.46
MSCI EM (C\$)	Emerging Markets	10.71	9.96	14.79	7.77	7.75	5.62
S&P/TSX Composite	Canadian Equity	5.46	15.84	14.22	8.00	8.06	5.29
S&P/TSX Small Cap	Canadian Small Cap	4.92	34.27	35.77	6.70	4.83	2.75
Citigroup World Government Bond Index (C\$)	Global Fixed Income	1.85	5.27	7.84	10.31	5.39	5.78
FTSE TMX Corporate Bond	Canadian Corporate Fixed Income	1.58	5.65	6.31	5.61	4.89	5.68
FTSE TMX Universe Bond	Canadian Fixed Income	1.18	5.27	6.29	5.97	4.38	5.22
FTSE TMX 91 Day T-bill	Canadian Cash	0.12	0.37	0.45	0.72	0.83	1.48

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