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**BULL CAPITAL MANAGEMENT INC.**

QUARTERLY MARKET COMMENTARY – QUARTER ENDED JUNE 30, 2017

## **Overview**

Most equity markets maintained their upward trend in a continuation of the results that occurred in the first quarter of 2017, albeit at a slower pace. These results, of course, varied by region with the emerging markets matching the strong results of the first quarter, while the Canadian equity market actually declined in the second quarter. While the positive performance was not without its ups and downs, the overall level of equity market volatility remains fairly low, with investors seemingly willing to overlook the ongoing political distractions in the US and Europe, potential geo-political issues coming from North Korea and stock valuations (in the US at least) at elevated levels. Also in the US, many of the anticipated campaign promises (tax cuts, infrastructure spending, trade agreement modifications, Obamacare repeal and replace) from the Trump administration remain unfulfilled and are facing continued resistance, resulting in no substantive fiscal policy breakthroughs thus far. However, even though economic growth in the US was lower in the second quarter, GDP growth continues to be positive and employment remains strong, and the political situation in Europe, which had the potential for further disruption, settled down with the election of the pro-EU French President, Emmanuel Macron. As anticipated, we witnessed an additional interest rate increase in the US but, interestingly, we also saw other central banks show signs of joining the US in this tightening phase, or at least signalling an end to looser monetary policy. In Canada, speculation of a July rate increase, based on comments from the Bank of Canada, pushed yields up resulting in the bond market entering negative territory by the end of June and causing a swift reversal in the CAD/USD exchange rate. The Canadian dollar gained 2.5% against the US dollar in the quarter, fully reversing its weakness in the first several weeks of the quarter. Results against other major currencies were mixed with a gain of 4.5% versus the yen, while declining by 4.2% against the euro. The fixed income market in Canada had another positive quarter, even after the pullback of 1.2% in the month of June.

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

The global equity market had another solid quarter with a gain of 2.7% (which was partially reduced for Canadian investors by the strengthening Canadian dollar). The MSCI World index was pushed higher by contributions from all of the underlying regions with Japan earning the largest local currency return at 6.1%, while the US gained 2.9% and Europe was up 1.8%. Strong corporate earnings were a major contributor to performance in the US but valuations remained stretched in many sectors. The international component of the index moved up in part due to decreased political risk and improvements in the outlook for the underlying European and Japanese economies, and for the global economy as a whole. Given this backdrop, growth stocks outperformed value stocks on a global scale by almost 2.5% in the second quarter and are now ahead by 7% through the first six months of the year. Health Care, Industrials, Financials and Technology were the strongest performing sectors in the global market, while Telecom and Energy stocks were the largest detractors in the quarter (Energy was weak in all regions in light of the 9% decline in the price of oil). Emerging markets had another very strong quarter amidst improving global data and were up 6.6%.

## **Canadian Equity**

The S&P/TSX Composite declined 1.6% in the second quarter and is now only slightly positive through the first six months of the year. The concentrated nature of the S&P/TSX Composite index (66% in the three largest sectors) fully accounts for the extent of the decline in the Canadian equity market in the second quarter, as these three sectors (Financials, Energy and Materials) were the only three negative performers in the quarter. Signs of improvement in Canadian GDP and the economy as a whole were more clearly reflected in all of the other sectors (led by Industrials which gained 6.1%, while Consumer Discretionary was up 4.8%). Energy was the largest decliner (down 8.3%), as reductions in output by OPEC members were less than expected and were mostly offset by increased production from US shale. Materials fell 6.4% with diversified metals and mining, copper and steel pulling back significantly, as did stocks within the chemicals industry. The Financials sector was down much less at 0.9%, led into negative territory by Canadian banks. The S&P/TSX Small Cap index retreated in each month of the quarter resulting in a decline of over 5.5% for the quarter.

## **Fixed Income**

The Canadian bond market generated a positive return in the second quarter (1.1%), and has been positive in three of the past four quarters, but has earned a flat return (0%) over the past year. The 10-year Government of Canada bond yield drifted downward from where it began the second quarter (1.63%) and stayed below that level until the last two days of the quarter to finish at 1.75%, as the market began to price in the expected Bank of Canada interest rate increase in July. There was a fairly significant range in returns across the Canadian bond sectors with provincial bonds up 2.1%, corporate bonds gaining 1% and federal bonds up only 0.2%. With the yield curve flattening in the quarter, long-term bonds were far and away the strongest contributor, gaining 4.1%, while the mid-term and short-term components of the index fell 0.1% and 0.4% respectively. Global bonds were slightly positive in the second quarter despite a significant pullback in June but are down 3.7% over the past 12 month (in Canadian dollars).



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# Bull Capital Management Inc. - Research Report

Capital Market Performance for the Period Ending June 30, 2017

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C\$)	Global Equity	1.51	6.95	18.74	12.33	16.92	6.04
MSCI ACWI (C\$)	Global Equity (incl. Emerging Markets)	1.75	7.74	19.33	11.89	16.04	5.78
S&P500 (C\$)	US Equity	0.59	5.68	18.45	17.00	20.33	9.32
MSCI EAFE (C\$)	International Equity	3.55	9.99	20.83	7.97	14.09	3.04
MSCI EM (C\$)	Emerging Markets	3.70	14.46	24.32	7.88	9.13	3.94
S&P/TSX Composite	Canadian Equity	-1.64	0.74	11.05	3.08	8.75	3.89
S&P/TSX Small Cap	Canadian Small Cap	-5.51	-4.11	3.75	-1.62	5.12	0.63
Citigroup World Government Bond Index (C\$)	Global Fixed Income	0.40	0.98	-3.70	5.67	4.76	5.55
FTSE TMX Corporate Bond	Canadian Corporate Fixed Income	1.02	2.87	2.58	4.00	4.11	5.77
FTSE TMX Universe Bond	Canadian Fixed Income	1.11	2.36	0.00	3.79	3.28	5.10
FTSE TMX 91 Day T-bill	Canadian Cash	0.09	0.19	0.46	0.61	0.75	1.20

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