

## Bedrock Newsletter for Friday April 4<sup>th</sup> 2014

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Another rather uneventful week is closing; In an attempt to spice things up a little, we have changed our Newsletter format- our market review section was changed to a numerical data-set instead of text form. Your comments are welcome!

Monday we saw that Euro-area inflation slowed in March by more than economists forecast, to the lowest level in over four years, keeping pressure on the European Central Bank to take action to foster the currency bloc's recovery. Consumer prices grew 0.5% in the year, after a 0.7% gain in February. That missed the 0.6% median forecast in a Bloomberg News survey of 41 economists. The inflation rate has been below 1% for six months, while the ECB seeks to keep it at just-under 2%. Today's result is half of the ECB's forecast for 2014 and well below the central bank's medium-term objective. Factory activity in the euro zone expanded for the ninth straight month in March, albeit at a slower pace than seen last month as the peripheral nations balanced out the slowing core nations, as unemployment remained close to its record high. Unemployment in the euro area remained stuck at 11.9% in February, hardly moving from this time last year, when the figure was 12%, according to the European Statistics Office, Eurostat.

U.S. companies outside of the finance industry are holding more cash on their balance sheets than ever, with \$1.64 trillion at the end of 2013. That's up 12% from the prior record in 2012, Moody's Investors Service said.

Although there was really little new in Fed Chair Janet Yellen's Monday speech in Chicago, it is not insignificant that she reinforced the message that the Fed will continue to provide ample monetary stimulus "for some time." Certainly, the stock market seemed to appreciate her comments, whether that was Yellen's intention or not. When asked the meaning of "considerable time," Yellen said "around six months," but she emphasized that there was no "preset course" and that the actual timing of rate hikes would depend on the economy. She even suggested there might be circumstances in which the Fed might need to stay "highly accommodative" for longer.

Manufacturing in the U.S. expanded at a faster pace in March as gains in production and orders showed the industry was mending at the close of a winter-depressed first quarter.

On Tuesday Dennis Gartman said – "I've been at this 40 years, and I've learned one thing: Don't fight the Fed". If you do, it's a losing battle. They have a bigger margin account than you or I will ever dream of having, and they're continuing to fund your margin account."

On Wednesday the ADP National Employment report said total private payrolls jumped by 191'000 in March, but sharply revised upwards February's figure to 178K from 139K. Analysts' consensus estimate had expected a gain of 195K jobs.

Exchange-traded funds tracking U.S. inflation saw the biggest withdrawals since June. Traders pulled \$134 million alone from the iShares TIPS ETF, the largest fund tracking Treasury Inflation Protected Securities, erasing 60 percent of the inflation bets accumulated in March, according to data compiled by Bloomberg. The fund saw inflows of \$326.8 million in March. Demand for inflation protection has declined since Fed Chair Janet Yellen said on March 31 that slack in labor markets showed that the central bank's accommodative policies will be needed for some time. The comments came less than two weeks after Yellen roiled markets by suggesting interest rates will rise by the middle of next year, indicating to some investors that consumer demand in the world's largest economy will be strong enough to push inflation toward the Fed's elusive 2% target. "The fundamentals look incredibly weak, no big spike in oil or food to serve as a catalyst," BNP's Kohli said. "There is no sense of urgency in the inflation markets, and without that sense of urgency, and with the Fed being more hawkish, there is little to boost demand for inflation protection."

Thursday the European Central Bank kept interest rates unchanged even after inflation in the euro area weakened to the slowest pace in more than four years. The 24-member Governing Council left the main refinancing rate at a record low of 0.25% after policy makers met in Frankfurt this week. This decision was forecast by 54 of 57 economists in a Bloomberg News survey, with three expecting a cut. The deposit rate was left unchanged at zero and the marginal lending rate at 0.75%.

The trade deficit in the U.S. unexpectedly widened in February to the highest level in five months as exports of fuels and capital equipment dropped. The gap widened by 7.7% to \$42.3 billion, the biggest since September, from the prior month's \$39.3 billion. The US\$ should have fallen, but instead, it has risen... there is much talk of a shift in high frequency trading from equities to currencies- could this be part of the explanation we are still seeking on the incoherent exchange rate movements? The Dow and the S&P 500 hit fresh highs on Thursday and Jim Cramer told CNBC the rally is sustainable. "A lot of people say it's a bubble. A lot of people say it's a short squeeze. I say when the transports do well and the industrials follow through, that's historically been a sign that maybe you're on more solid footing than you think." Cramer was referring to Dow Theory, which says when one average follows another average's direction, the move is indicative of a trend in the market overall. In this case, both the industrial and transportation averages have pushed higher, suggesting the broader market will climb, too.

And to round-off a nice week, Bedrock was awarded "Best External Investment Manager" in Switzerland by 'Wealthbriefing' ☺

Success consists of going from failure to failure without loss of enthusiasm. Winston Churchill

MARKET INDICES PERFORMANCE

03/04/2014

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								P/E
			1D	5D	MTD	1M	3M	6M	1Y	YTD	
<b>EQUITY MARKET INDICES - BY REGION</b>											
MSCI WORLD	USD	1,685.14	-0.14	1.40	0.67	0.43	2.37	8.89	18.49	1.45	15.30
MSCI WORLD LOCAL	-	1,201.65	-0.01	2.14	0.91	2.05	2.12	9.87	18.16	1.45	-
MSCI AC WORLD	USD	413.74	-0.17	1.42	0.66	0.86	2.35	7.80	16.03	1.27	14.61
MSCI EM	USD	1,000.17	-0.48	1.55	0.55	4.60	2.11	-0.77	-1.66	-0.25	10.59
S&P 500 INDEX	USD	1,888.77	-0.11	2.15	0.88	0.79	3.13	11.73	21.08	2.19	16.07
DOW JONES INDUS. AVG	USD	16,572.55	0.00	1.90	0.70	1.08	0.62	9.95	13.46	-0.02	14.95
NASDAQ COMPOSITE INDEX	USD	4,237.74	-0.91	2.08	0.92	-2.62	2.56	11.29	31.40	1.46	18.80
RUSSELL 2000 INDEX	USD	1,181.12	-0.98	2.58	0.69	-2.28	2.17	9.54	27.60	1.50	19.53
EURO STOXX 50	EUR	3,208.19	0.04	1.13	1.47	2.29	4.35	9.56	22.38	3.19	13.78
CAC 40 INDEX	EUR	4,452.76	0.08	0.94	1.39	1.29	4.83	6.93	19.50	3.65	13.99
DAX INDEX	EUR	9,640.55	0.12	0.56	0.89	0.54	2.18	11.80	23.32	0.93	13.53
FTSE 100 INDEX	GBP	6,668.07	0.28	0.79	1.06	-2.28	-0.93	3.32	5.11	-1.20	-
SWISS MARKET INDEX	CHF	8,524.07	0.03	1.80	0.83	0.93	3.07	7.31	9.81	3.91	16.18
NIKKEI 225	JPY	15,063.77	-0.05	2.50	1.59	2.33	-7.53	7.41	19.23	-7.53	16.88
HANG SENG INDEX	HKD	22,478.00	-0.39	1.87	1.48	-0.79	-1.49	-2.85	0.63	-3.55	10.32
SHANGHAI SE COMPOSITE	CNY	2,058.83	0.74	0.84	1.26	-0.61	-1.17	-5.33	-7.48	-2.70	7.90
S&P BSE SENSEX INDEX	INR	22,419.31	-0.40	0.36	0.15	5.70	7.52	12.57	21.12	5.90	14.20
RUSSIAN RTS INDEX \$	USD	1,212.94	0.18	2.25	-1.07	2.43	-15.93	-15.95	-14.55	-15.93	4.79
BRAZIL IBOVESPA INDEX	BRL	51,408.21	-0.57	3.55	1.97	9.16	0.84	-2.73	-5.93	-0.19	10.04
<b>EQUITY MARKET INDICES - BY SECTOR</b>											
MSCI ENERGY	USD	281.82	0.33	1.20	1.07	2.85	3.79	8.30	14.93	2.26	13.52
MSCI MATERIALS	USD	244.12	-0.36	1.28	0.56	-0.80	2.38	6.53	10.13	1.72	15.36
MSCI INDUSTRIALS	USD	202.91	0.03	1.94	1.11	1.03	1.34	9.75	23.18	0.47	16.07
MSCI CONS DISCRETIONARY	USD	179.56	-0.35	2.03	1.30	-1.13	-0.56	6.42	24.69	-1.21	16.31
MSCI CONS STAPLES	USD	190.20	-0.01	0.25	-0.12	0.56	1.06	6.14	5.76	-0.14	17.63
MSCI HEALTH CARE	USD	181.03	-0.35	1.20	0.19	-2.22	5.87	13.97	23.52	5.34	17.18
MSCI FINANCIALS	USD	102.93	0.02	1.87	0.91	1.73	1.60	7.49	18.28	1.02	13.25
MSCI INFO TECH	USD	125.75	-0.59	1.45	0.60	0.00	3.51	13.51	26.34	2.10	15.21
MSCI TELECOMS	USD	71.06	0.01	0.81	0.23	1.07	-0.17	5.71	16.49	-1.29	14.87
MSCI UTILITY	USD	117.72	0.00	-0.25	-0.72	1.73	8.84	8.40	10.02	7.14	15.45
MSCI WORLD REAL ESTATE	USD	179.18	-0.01	1.69	0.99	-0.01	2.49	1.23	-4.25	2.40	22.59
<b>HEDGE FUND INDICES</b>											
HFRX GLOBAL HEDGE FUND	USD	1,241.56	0.20	0.47	0.20	-0.03	1.31	3.39	4.99	1.31	-
HFRX EQUAL WEIGHTED	USD	1,216.06	0.13	0.39	0.13	0.17	1.59	3.25	5.38	1.59	-
HFRX GLOBAL EUR	EUR	1,149.56	0.18	0.45	0.18	-0.06	1.22	3.24	4.61	1.22	-
<b>FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)</b>											
US 3 MONTH	USD	0.02	0.00	-57.18	-50.00	-66.67	-76.93	-25.12	-75.00	-76.93	-
US 2 YEAR	USD	0.45	0.07	1.05	8.61	36.47	14.58	38.00	100.75	19.58	-
US 10 YEAR	USD	2.80	0.06	2.87	2.98	3.76	-6.54	5.83	58.81	-7.57	-
<b>FIXED INCOME INDICES - BY TYPE OF ISSUER</b>											
GLOBAL AGG TR HEDGED	USD	450.54	0.07	-0.23	-0.11	-0.20	1.84	2.01	1.04	1.93	-
US GOVERNMENT TR	USD	2,000.30	0.06	-0.42	-0.26	-0.74	1.00	0.30	-1.65	1.04	-
US CORPORATE TR	USD	2,473.52	0.17	-0.47	-0.20	-0.37	2.52	3.65	0.87	2.73	-
US HIGH YIELD TR	USD	1,631.45	0.04	0.27	0.13	0.40	2.95	6.46	7.51	3.11	-
EU GOVERNMENT TR	EUR	220.17	0.15	-0.15	-0.07	0.55	3.21	4.55	5.04	3.53	-
EU CORPORATE TR	USD	231.76	0.10	-0.15	-0.04	0.17	2.24	3.28	4.22	2.30	-
EU HIGH YIELD TR	EUR	262.31	0.05	0.29	0.18	0.83	3.04	6.98	11.73	3.28	-
JACI GLOBAL	USD	264.98	0.14	0.99	0.57	0.44	4.96	7.56	15.63	4.59	-
GLOBAL EM TR (HEDGED)	USD	313.68	-0.03	0.34	0.12	1.11	2.78	4.12	0.53	2.82	-
S&P/LSTA U.S. LEV LOAN	USD	98.41	0.02	0.00	0.02	0.07	-0.07	0.93	0.06	0.18	-
<b>COMMODITY INDICES - BY TYPE OF ISSUER</b>											
GSCI INDEX TOTAL RETURN	USD	4,923.14	0.86	-1.08	-0.97	-2.42	4.90	1.07	2.72	1.94	-
GSCI ENERGY TR	USD	1,119.51	1.09	-1.31	-1.08	-4.02	3.42	-0.10	4.11	-0.59	-
GSCI INDUSTRIAL METALS TR	USD	1,306.12	-0.04	2.46	0.96	-0.41	-3.42	-3.05	-8.36	-4.44	-
GSCI PRECIOUS METALS TR	USD	1,617.65	-0.57	-0.63	0.09	-5.25	2.92	-3.50	-18.85	6.19	-
GSCI AGRICULTURE TR	USD	692.91	0.80	-1.04	-1.45	3.72	14.72	5.80	0.04	14.23	-
GENERIC 1ST 'CL' FUTURE	USD	100.60	0.31	-1.05	-0.96	-2.14	7.89	-3.65	6.73	2.97	-
GOLD SPOT \$/OZ	USD	1,287.30	0.04	-0.62	0.26	-3.53	4.07	-1.79	-17.19	6.77	-
<b>CURRENCIES</b>											
DOLLAR INDEX SPOT	USD	80.51	0.04	0.41	0.51	0.42	-0.35	0.48	-2.62	0.59	-
Euro Spot	EUR	1.37	-0.15	-0.38	-0.50	-0.31	0.52	1.05	5.91	-0.31	-
Japanese Yen Spot	JPY	103.89	0.04	-1.02	-0.64	-1.62	0.32	-6.17	-7.27	1.37	-
British Pound Spot	GBP	1.66	-0.08	-0.32	-0.46	-0.47	1.09	3.59	8.86	0.17	-
Brazilian Real Spot	BRL	2.28	-0.47	-0.91	-0.34	2.84	4.25	-3.19	-11.20	3.62	-
China Renminbi Spot	CNY	6.21	-0.05	-0.04	0.04	-1.15	-2.61	-1.46	-0.14	-2.58	-
Singapore Dollar Spot	SGD	1.26	-0.13	-0.50	-0.58	0.36	0.25	-1.45	-1.95	-0.14	-
Norwegian Krone Spot	NOK	6.01	-0.13	-0.07	-0.38	0.01	2.66	-0.67	-3.87	1.00	-
<b>VOLATILITY / LIQUIDITY INDICES</b>											
CBOE SPX VOLATILITY INDX	USD	13.37	2.14	-8.55	-3.67	-5.18	-2.83	-20.13	-3.74	-2.55	-
USD SWAP SPREAD SEMI 2YR		12.31	5.85	0.98	-2.22	-8.00	15.15	-5.31	-19.96	17.24	-
TED SPREAD		0.00	0.12	5.88	7.47	13.39	23.68	-3.33	-4.51	-85.32	-