

We are into February and our globe is still spinning and the news keep pouring-in, "it's amazing that the amount of news that happens in the world every day, just exactly fits the newspaper" (Jerry Seinfeld); The U.S. trade deficit in December jumped to the highest level in more than two years as American exports fell and imports climbed to a record level. The deficit jumped 17.1% to \$46.6 billion in December, the biggest imbalance since November 2012. Exports fell 0.8% to \$194.9 billion. Imports soared 2.2% to \$241.4 billion. The deficit for all of 2014 increased to \$505 billion, up 6% from 2013. Didn't we all expect the deficit to shrink as oil imports were to be substituted by domestic production? Go figure... And then, if indeed the trade deficit is widening, why is the Dollar rising? A trade deficit implies purchases of foreign currencies vs. the Dollar, does imply a slowing of the US\$ rally?

On Tuesday we heard that new orders for U.S. factory goods fell for a fifth straight month in December, but a smaller-than-previously reported drop in business spending plans supported views of a rebound in the months ahead. New orders for manufactured goods declined 3.4% as demand fell across a broad sector of industries. November's orders were revised to show a 1.7% drop instead of a previously reported 0.7% fall. Much of this weakness can be blamed on the strong US Dollar. In December, factory orders excluding the volatile transportation category fell 2.3%, the biggest drop since March 2013, after declining 1.3% in November.

We are advancing into earning-season, with 435 companies reporting so far, we see 25% reporting below expectations, 75% coming-in with beats or in-line results. The equity markets seem indifferent to what we are seeing as the S&P500 is only +0.18% YTD.

Currencies seem to have found new adjusted comfort zones with the Euro at about 1.145 vs. the US\$, Swiss Franc at 0.92 (with evidence of SNB intervention), the Yen at 117.3 and even the battered Ruble steady at 66 vs. the US\$. There has been a significant drop in talk of the Fed tightening in the near future, or any future for that matter. Arguably, the Euro's slide equates to a US tightening, Mario trumps Janet?

Business investment has played an integral role in hopes that a bustling U.S. economy would light the way for the rest of the world in 2015. Tumbling gas prices, a newly resurgent U.S. dollar and a weak-spending consumer have taken considerable lustre off that picture. In fact, companies reporting quarterly earnings are predicting not robust times ahead but rather tepid profit growth, with a cornerstone of those forecasts being a drop, not a rise, in capital expenditures, or capex. Goldman Sachs lowered its capex forecast from a gain of 6% to a decline of 3%, a stunning turnaround that the firm attributed primarily to weakened energy companies that have suffered from oil's decline. The number represents the worst figure since the financial crisis days of 2009.

Oil prices rallied again this week, with producers announcing spending cuts that added to a slew of positive factors helping to drive the commodity higher. U.S. crude climbed more than \$1.50 a barrel on Tuesday and was trading above \$52 a barrel by Friday morning. Both WTI and Brent have seen gains of around 8% and 10% respectively since last Friday. Oil has seen a few sessions of firmer prices, with the Brent crude benchmark up 2% YTD but WTI is still down 1.5% for the year. Unidentified delegates from OPEC cited by Reuters were also vocal about this brief rally in markets, warning that prices were likely to stay depressed until the summer due to weak seasonal demand.

But then, we see that big investors are starting to listen to hedge and private equity fund talk about all the money to be made in energy. However, they are not yet moving into the beat-up sector en-masse given uncertainty around timing. Deutsche Bank said that U.S. hedge fund clients like family offices, pensions and endowments are eyeing energy, and that there's been an uptick in requests for meetings with energy-focused managers, including traditional hedge funds and mutual funds that invest in both debt and equity. "Investors of all types ... are looking at investing in the energy space in 2015," Deutsche Bank wrote in a report for clients. Others in private equity, like Apollo Global Management, Carlyle affiliate NGP Energy Capital Management, Blackstone's private equity arm and Warburg Pincus, either recently completed or are in the process of raising new multibillion dollar energy-focused funds. "I think this is going to be one of the best opportunities we've had in many, many years," Blackstone CEO Steve Schwarzman said at the DealBook Conference in December, referring to the drop in energy prices and related businesses. Should we argue with these great wizards of finance? It does seem astonishing that in a world in which we consume more oil than ever before, in a world where the finite quantity of oil is declining every day, that oil prices will not reverse direction and climb back up; we at Bedrock are tempted to join them and are preparing a simple, market security with which to ride on their coattails...

We leave you into this freezing weekend with the reassurance, "that there cannot be a crisis next week... as our schedules are already full", Henry Kissinger.

This Week's Highlights:

- As the US Dollar takes a brief pause and the Eurocrats discuss the way they will word the Greek support mechanism, EURUSD has moved higher throughout the week. The pair moved from a low of 1.1280 to hit 1.1530 on Tuesday. As the dust settles around Greece and the Russia story has subsided the EUR has steadied at 1.1460. USDCHF has moved between 0.92 and 0.93 all week and seems to be settling in at the lows as we write of 0.9210. Cable moved higher after the UK Construction PMI data came in a shade higher than expected, moving from 1.50 to hit 1.5340 by this morning. USDJPY is almost totally unchanged at 117.35. The Ruble recovered a little strength as oil rebounded and last week's news was forgotten, sending the USDRUB from 70.00 to a shade over 65.50 today (the sanctions against Russia are not abating, and we remain cautious on Ruble holdings).
- Janet Yellen's speech has been moved to the distant memory of the market as the US 10Yr yield moved back to 1.81%, where it was before she spoke last week. The German 10 Yr Bund has touched 0.30% and remains at 0.34% after a few sporadic intraday moves on news flows. The periphery in Europe saw their bonds remain resilient this week, with static or slight narrowing of their spreads over the Bund. Italy's 10 Yr dropped to 1.55% (121Bps over the Bund) and with Spain unchanged at 1.45% (111Bps over the Bund). Japanese 10Yr yields moved gently higher this week, rising to 0.34%. The UK has seen the Gilt markets change course this week, with the yields rising from 1.34% to 1.55%. With the Swiss 10Yr yielding -0.10% and the 5Yr Swiss yielding -0.50%. Has the world gone crazy... the Nestle CHF bond maturing in 2018 is now yielding -0.82%!
- Equities have been mostly positive this week. The major US indices show strong performance, with European indices tagging along with smaller positive figures. The large cap US indices are +3.5% on average, with almost of Europe up 1.2% for the week. In Asia, China was +0.70% and Japan -0.15%. Russia is in focus again with the MICEX being +6.0% and the RTS Index +12.0%. (MICEX being in Rubles and the RTS is in USD).

Bedrock Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

05/02/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	
EQUITY MARKET INDICES - BY REGION											
MSCI WORLD	USD	1,727.49	0.74	2.98	2.98	4.42	1.17	2.03	1.04	8.46	16.56
MSCI WORLD HEDGED	USD	719.53	0.62	1.73	2.62	3.83	3.83	7.93	2.01	17.75	-
MSCI WORLD LOCAL	-	1,300.70	0.60	1.69	2.59	3.79	3.55	7.19	1.95	15.62	-
MSCI AC WORLD	USD	422.18	0.68	2.89	2.89	4.49	0.95	1.00	1.21	8.15	15.89
MSCI EM	USD	982.21	0.14	2.14	2.14	5.08	-0.92	-7.06	2.71	5.64	11.86
S&P 500 INDEX	USD	2,062.52	1.05	2.04	3.38	2.99	1.54	7.41	0.18	16.30	17.16
DOW JONES INDUS. AVG	USD	17,884.88	1.20	2.69	4.19	2.95	1.88	8.77	0.35	14.44	16.55
NASDAQ COMPOSITE INDEX	USD	4,765.10	1.10	1.74	2.80	3.75	2.73	9.42	0.61	17.45	18.21
RUSSELL 2000 INDEX	USD	1,208.71	1.45	1.56	3.72	4.08	3.14	7.39	0.33	9.49	18.35
EURO STOXX 50	EUR	3,408.96	-0.17	1.72	1.72	13.33	9.89	11.76	8.34	13.22	14.64
EURO STOXX 600	EUR	372.51	0.12	1.49	1.49	12.33	10.51	13.16	8.75	15.41	15.70
CAC 40 INDEX	EUR	4,703.30	0.15	2.05	2.05	15.07	11.14	11.69	9.97	12.20	15.24
DAX INDEX	EUR	10,905.41	-0.05	1.97	1.97	15.16	16.29	19.45	11.22	17.81	14.08
FTSE 100 INDEX	GBP	6,865.93	0.10	1.67	1.67	7.79	4.75	3.41	4.51	4.64	15.57
SWISS MARKET INDEX	CHF	8,544.32	-0.74	1.90	1.90	-3.72	-3.61	3.07	-4.89	3.97	16.88
NIKKEI 225	JPY	17,504.62	-0.98	-0.15	-0.15	4.53	5.10	16.42	1.13	24.68	18.40
HANG SENG INDEX	HKD	24,765.49	0.35	0.67	0.67	5.05	4.32	3.06	4.52	15.16	11.46
SHANGHAI SE COMPOSITE	CNY	3,136.53	-1.18	-4.19	-4.19	-8.22	26.80	38.71	-4.91	51.29	11.73
S&P BSE SENSEX INDEX	INR	28,850.97	-0.11	-1.34	-1.34	6.69	3.14	12.18	4.70	41.76	18.45
RUSSIAN RTS INDEX \$	USD	804.50	4.40	12.60	12.60	11.22	-18.39	-28.48	5.00	-37.59	5.62
BRAZIL IBOVESPA INDEX	BRL	49,233.85	-0.14	3.08	4.96	2.57	-6.47	-12.84	-1.55	3.13	10.84
MSCI AC ASIA x JAPAN	USD	582.72	-0.30	0.87	0.87	5.32	2.79	-1.57	3.37	13.48	12.33
MSCI EM LATIN AMERICA	USD	2,653.03	0.45	0.04	3.82	2.38	-12.04	-22.58	-2.74	-9.30	12.78
MSCI EM Eur, ME & Africa	USD	283.66	1.59	4.63	4.63	6.55	-4.42	-10.62	4.76	-6.90	11.17
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	239.63	1.55	6.54	6.54	6.83	-7.94	-18.56	0.77	-7.40	22.74
MSCI MATERIALS	USD	231.10	1.24	4.41	4.41	7.05	2.83	-7.03	3.61	-0.10	16.65
MSCI INDUSTRIALS	USD	201.07	0.70	2.96	2.96	4.61	0.73	2.62	0.88	4.98	16.41
MSCI CONS DISCRETIONARY	USD	190.12	0.43	3.41	3.41	6.14	6.93	7.96	2.10	10.24	17.15
MSCI CONS STAPLES	USD	205.66	0.19	1.63	1.63	5.56	3.64	6.71	2.87	14.20	20.08
MSCI HEALTH CARE	USD	206.63	1.01	1.10	1.10	4.45	3.52	11.64	3.37	20.60	18.29
MSCI FINANCIALS	USD	100.97	0.76	3.58	3.58	2.05	-1.74	-0.45	-1.74	3.48	13.10
MSCI INFO TECH	USD	140.56	0.82	2.79	2.79	2.78	1.94	6.86	-0.51	18.06	16.61
MSCI TELECOMS	USD	70.92	0.14	2.75	2.75	6.45	1.75	0.57	3.74	5.11	16.46
MSCI UTILITY	USD	124.39	0.21	0.03	0.03	3.58	1.71	7.24	1.08	13.73	16.40
MSCI WORLD REAL ESTATE	USD	206.70	1.05	1.72	1.72	5.60	7.37	8.89	6.30	20.31	26.09

MARKET INDICES PERFORMANCE

05/02/2015

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HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,218.67	0.02	0.24	0.31	0.01	0.04	-1.22	0.02	0.33	
HFRX EQUAL WEIGHTED	USD	1,192.54	0.11	0.23	0.23	0.16	0.05	-1.51	0.12	-0.06	
HFRX GLOBAL EUR	EUR	1,123.90	0.02	0.24	0.28	-0.06	-0.11	-1.51	-0.06	-0.12	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.01	0.01	0.01	0.01	-0.02	-0.01	-0.01	-0.03	-0.06	
US 2 YEAR	USD	0.51	-0.01	0.06	0.06	-0.11	-0.04	0.06	-0.15	0.19	
US 10 YEAR	USD	1.80	-0.02	0.16	0.16	-0.14	-0.58	-0.67	-0.37	-0.90	
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	482.43	-0.01	-0.13	-0.41	1.07	2.93	4.47	1.44	7.51	1.45
US GOVERNMENT TR	USD	2,114.49	-0.11	-0.30	-0.68	1.21	2.78	3.83	1.80	5.40	1.45
US CORPORATE TR	USD	2,647.61	-0.11	-0.21	-0.69	1.53	3.25	3.84	2.33	8.07	2.87
US HIGH YIELD TR	USD	1,643.16	0.23	0.72	0.70	1.63	-0.70	-0.05	1.37	3.23	6.28
EU GOVERNMENT TR	EUR	244.21	-0.02	0.32	0.02	1.87	4.60	6.86	2.14	12.40	0.61
EU CORPORATE TR	USD	247.74	0.01	0.13	-0.02	0.77	1.86	3.88	0.88	7.81	0.93
EU HIGH YIELD TR	EUR	272.36	-0.02	0.32	0.28	1.24	1.93	2.66	1.34	6.38	4.13
JACI GLOBAL	USD	251.85	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	-
GLOBAL EM TR (HEDGED)	USD	323.35	0.07	0.32	0.37	1.19	-1.44	-0.61	0.94	5.86	5.18
S&P/LSTA U.S. LEV LOAN	USD	95.70	0.12	0.28	0.33	0.50	-1.58	-2.46	0.37	-2.85	5.01
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,100.79	2.06	7.73	3.69	-0.88	-24.76	-35.28	-4.08	-34.92	
GSCI ENERGY TR	USD	608.95	3.27	12.52	5.82	2.38	-33.17	-45.00	-3.34	-44.74	
GSCI INDUSTRIAL METALS TR	USD	1,218.88	0.20	4.04	2.01	-1.96	-9.86	-14.15	-3.65	-6.36	
GSCI PRECIOUS METALS TR	USD	1,562.25	-0.25	0.76	-1.16	4.94	10.16	-3.34	6.95	-1.59	
GSCI AGRICULTURE TR	USD	515.43	1.09	2.39	2.90	-5.64	-2.93	-8.73	-4.81	-16.85	
GENERIC 1ST 'CL' FUTURE	USD	50.48	1.53	6.24	6.24	6.75	-35.02	-45.65	-3.94	-44.03	
GOLD SPOT \$/OZ	USD	1,264.81	0.09	-1.39	-1.39	3.90	10.87	-3.05	6.85	0.62	
CURRENCIES											
DOLLAR INDEX SPOT	USD	93.57	0.15	-1.16	-1.16	2.41	6.47	15.06	3.81	15.82	
Euro Spot	EUR	1.15	-0.20	1.44	1.44	-3.67	-7.44	-14.41	-5.32	-15.72	
Japanese Yen Spot	JPY	117.53	0.17	0.14	0.14	0.90	-1.81	-12.98	2.09	-12.97	
British Pound Spot	GBP	1.53	-0.06	1.72	1.72	1.11	-3.24	-9.10	-1.66	-6.15	
Brazilian Real Spot	BRL	2.75	-0.13	-5.14	-2.28	-1.44	-8.65	-16.89	-3.20	-12.49	
China Renminbi Spot	CNY	6.25	0.15	0.11	0.11	-0.49	-2.10	-1.29	-0.61	-2.91	
Singapore Dollar Spot	SGD	1.34	-0.09	0.62	0.62	-0.94	-3.71	-7.24	-1.52	-5.76	
Norwegian Krone Spot	NOK	7.51	-0.29	2.56	2.56	2.80	-8.82	-16.85	-1.11	-17.52	

All data is compiled from Bloomberg

Bedrock Newsletter

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