

Bedrock Newsletter Friday, March 13th 2015

It is Friday the 13th, for the second time this year... Well, we did survive the first one, so it is likely we will survive today... Especially as it feels as though springtime is upon us; the USA already being on summer hours. We are closing Q1 slowly, with the financial world focused on three topics - The start of the ECB's QE as of Monday past, the rise of the US\$ and the effects of the dramatic fall in oil. We will try to view all this with the perspective of time:

Six years ago to the day, on March 13th 2009, oil traded at \$46, exactly where we are trading today; having risen powerfully from \$33 at the close of 2008. Well, those were sad days of economic meltdown, unlike today, a time when economies are clearly mending.

Similarly to those days of 2008 when the Fed had embarked on its first attempts at QE, we now have the ECB launching its own version. Well, the US\$ is flying on expectations of US tightening vs. all other Central Banks' loosening. Back then as oil rose to \$46, the US\$/Euro was trading 1.2928 and the Swiss Franc was 1.1852. Arguably, with oil at \$46/Bbl. it was "worth" Euro 35.58 and is now at 44. So is oil really down? For Euro-zone users, it is actually 23% dearer and exactly where it was for our American friends.

Ten year US Treasuries yielded 2.89% on March 13th 2009 and the German ten year Bund was 3.06%. Today, the Treasury yields 2.13% and the Bund is at 0.26% - The change here is quite dramatic, as German yields are now 1.87% below the US and were 0.17% above! And you wondered who was driving the World? Yes, you got it right- It is the Central Banks!

Now let us try and look into the future - as we have a crystal-clear day (at least here in Geneva), we may see further than usual:

Let us focus on the variable that is controlled by the central banks, i.e., interest rates. We all know that the ECB has embarked on its QE program of buying European bonds. That has the obvious outcome of lower yields across the curve. This should put the desired pressure on the Euro which will therefore remain soft against other majors. The US FOMC, which is broadly expected to start tightening, will therefore be adding fuel to the ascent of the Dollar. The big question here is whether or not Yellen and crew will take this into account and delay the anticipated tightening? Well, last Friday we got a stellar employment report for February, having added 295'000 jobs and a drop in the unemployment rate down to 5.50% - Yellen is stuck! A call for a rise in the fed funds rate based on the heating economy and the cooling effect the rising Dollar might have. Let's have yet another look-back to 2008 - The broader measure of unemployment that includes those who have stopped looking as well as those working part-time for economic reasons—the underemployed—fell from 11.3% to 11.0%. The headline rate fell to its lowest level since May 2008.

To us, condensing time we feel that there are many similarities between the numerical measures of today to those sad days of 2008. We remember fondly that the stock markets were just about to start their historic rally from early 2009 to today - are we facing yet another large leg up here? Perhaps in Europe the economy may appear mired in low growth and low-inflation, but shares are poised to surge as much as 70% by the end of 2016, Citigroup said. "European equities offer investors a historic yield pick-up over both corporate and government bonds," adding that the region's stocks haven't been this cheap compared with credit for over 50 years. Citigroup raised its end-2015 Stoxx 600 target to 450 from 400 and introduced an end-2016 target of 550 as a "grey-sky" scenario; compared with the index's close around 393 Monday. Its "blue-sky" scenario is for around a 70% upside by end-2016, or a target of around 670, using higher growth and rating assumptions. Citigroup isn't alone in expecting the sun to shine on Europe. "The euro is on its way lower, but European asset prices are on their way higher," Julius Baer said in a note last week.

Well, we would not argue against such titans of the crystal-ball. We would suggest that investors remain Euro-currency hedged..."Year to date, the euro's down 11%. This is only March. Do we have another 7% before the end of this year? I don't see why not," said Marc Chandler, head of FX strategy at Brown Brothers Harriman. "We're only about half way to where we're going (against the euro). ...There's another 30 cents or so on the downside." Chandler said the euro could be setting up to retest its all-time low just above 0.82 to the dollar by 2016. Well, as the ECB loosens and rates tumble, the large Euro-zone trade balances swell even more, and then, we might see capital-flows leave the high savings of Europe, adding further downward pressure on the Euro. We say "stay away". Some would argue that this expected fall in the Euro will drive US interest rates even lower, as savings leave the negative interest rates of Europe for the haven of the Dollar and the bliss of 1% yields...

Hard to read the markets? You are not alone - Fewer than 1 in 4 active managers have outperformed market benchmarks over the past 10 years and only about 4% of large-cap growth fund pros did so in 2014, according to a sweeping new study released Thursday by S&P Dow Jones Indices.

We hope the 13th comes and goes like the last one did... We are idealists. We don't know where we are going, but we are on our way...

This Week's Highlights:

- EURUSD dropped to 1.0495 this week, a figure not seen since January 2003. Even after this enormous rally we remain constructive on the USD as the Central Bank policy is clear, even if the exact timing is not so. USDCHF moved higher in line with the general Dollar strength, jumping from 0.9860 to hit 1.0129. Cable has dropped throughout the week from 1.5130 to touch 1.4850 this morning; however, the Pound hit an 8 year low against the EUR at 0.7014 this week as the monetary policy and political landscape weigh heavily on the EUR. USDJPY has seen strength in line with the general USD rally, moving upwards from 120.60 to hit 122.00, we are a little off the highs at 121.50 at the moment. The Ruble slid in line with oil price weakness, seeing the Ruble slump against the USD from 60.15 to 63.00 although it has regained a little ground as oil stabilised to be at 61.30 now. The Central Bank also cut rates to 14% but only the forward curves adjusted with this news.
- US 10Yr Treasury yield slipped this week despite USD strength, the yield move from 2.25% to hit 2.14% today having been as low as 2.05% as the equities took a battering midweek. The German 10 Yr Bund moved from 0.40% to a low of 0.186% as the ECB started to buy German treasuries in its first week of European QE, we have now steadied at 0.26%. The Spanish 10Yr yield slid from 1.31% to 1.05% and settling now at 1.15%. Italian 10Yr followed a similar pattern, dropping from 1.35% to touch 1.03% and also settling now at 1.15% - still trading pari passu with Spanish 10 Year debt. In the UK, the 10Yr Gilt reversed its recent course sending yields lower from 1.95% to 1.75%. Swiss 10Yr is unchanged on the week at -0.02%, very little to say here; whilst the 5Yr yield remains negative, dropping from -0.25% to -0.40% this morning.
- The major European indices show steady performance for the week, the DAX leading the way at +1.75%, however the UK has seen poor performance on the week at -2.38%. In the US, the S&P500 and the DOW were -1.67% and -1.33% respectively. The NASDAQ is lower on the week at -1.80%. In Asia, China was down for the week at -1.4%, whereas Japan was up 1.49%.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

12/03/2015

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											
S&P 500 INDEX	USD	2,065.95	1.29	-1.67	-1.83	-1.48	3.18	4.05	0.34	11.89	17.27
DOW JONES INDUS. AVG	USD	17,895.22	1.50	-1.33	-1.31	-0.69	3.56	5.34	0.40	11.09	16.67
NASDAQ COMPOSITE INDEX	USD	4,893.29	0.90	-1.80	-1.42	-0.01	5.15	7.13	3.32	14.85	18.79
RUSSELL 2000 INDEX	USD	1,236.64	1.73	0.19	0.27	1.10	7.31	6.55	2.65	5.09	18.96
EURO STOXX 50	EUR	3,641.32	-0.23	0.74	1.26	5.71	18.81	12.65	15.82	20.69	15.75
EURO STOXX 600	EUR	395.36	0.01	0.42	0.92	4.98	19.75	14.98	15.56	21.98	16.48
CAC 40 INDEX	EUR	4,987.33	-0.21	0.48	0.75	4.81	21.40	12.31	16.75	17.36	16.23
DAX INDEX	EUR	11,799.39	-0.06	2.33	3.68	7.82	23.20	22.48	20.55	31.08	15.35
FTSE 100 INDEX	GBP	6,761.07	0.72	-2.13	-2.62	-1.58	7.36	-0.62	3.02	3.22	15.72
SWISS MARKET INDEX	CHF	9,119.81	0.15	0.78	1.52	5.77	2.88	4.04	1.87	11.52	17.65
NIKKEI 225	JPY	18,991.11	1.43	1.49	2.43	7.49	10.84	20.73	10.33	29.96	20.05
HANG SENG INDEX	HKD	23,797.96	0.36	-1.41	-4.03	-3.48	2.47	-3.14	0.92	9.50	11.34
SHANGHAI SE COMPOSITE	CNY	3,349.32	1.78	4.06	1.89	5.28	14.80	44.64	4.27	67.05	13.11
S&P BSE SENSEX INDEX	INR	28,930.41	0.95	-2.66	-2.37	-1.47	4.81	5.93	4.24	31.65	18.80
RUSSIAN RTS INDEX \$	USD	859.26	1.33	-6.34	-4.69	-6.51	6.93	-29.56	8.08	-20.72	5.54
BRAZIL IBOVESPA INDEX	BRL	48,880.40	-0.05	-2.95	-5.24	-3.47	1.83	-14.14	-2.25	7.56	11.14
MSCI WORLD	USD	1,728.62	1.07	-0.77	-2.50	-1.34	3.20	-0.05	1.11	4.66	16.94
MSCI WORLD HEDGED	USD	735.39	0.92	-0.98	-0.95	1.10	7.22	6.55	4.26	13.95	-
MSCI WORLD LOCAL	-	1,326.15	0.91	-1.03	-1.06	0.91	6.84	5.81	3.95	11.95	-
MSCI AC WORLD	USD	420.91	1.02	-0.93	-2.67	-1.61	2.98	-1.23	0.91	4.21	16.24
MSCI EM	USD	948.52	0.59	-2.34	-4.22	-3.86	1.08	-10.65	-0.81	0.57	11.88
MSCI AC ASIA x JAPAN	USD	572.50	0.45	-2.19	-2.67	-1.92	2.66	-3.60	1.56	7.72	12.36
MSCI EM LATIN AMERICA	USD	2,413.26	0.41	-4.57	-9.07	-8.85	-7.55	-29.09	-11.53	-15.37	13.21
MSCI EM Eur, ME & Africa	USD	266.80	0.88	-3.05	-6.06	-7.65	-0.12	-17.01	-1.47	-10.27	10.79
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	220.74	-0.15	-3.28	-6.35	-9.37	0.07	-23.26	-7.18	-18.00	22.05
MSCI MATERIALS	USD	227.85	0.94	-1.60	-4.88	-3.53	5.09	-6.22	2.15	-5.05	16.93
MSCI INDUSTRIALS	USD	202.64	0.95	-0.15	-2.10	-0.45	4.49	0.74	1.67	2.77	16.95
MSCI CONS DISCRETIONARY	USD	196.06	1.48	-0.08	-0.97	1.05	7.73	8.80	5.29	10.15	18.21
MSCI CONS STAPLES	USD	202.38	1.02	-1.48	-3.43	-1.47	2.72	3.47	1.23	8.54	20.39
MSCI HEALTH CARE	USD	211.51	1.28	0.38	-0.83	1.65	5.09	9.10	5.81	17.19	18.88
MSCI FINANCIALS	USD	102.37	1.58	-0.16	-1.38	-0.51	1.20	-1.81	-0.38	1.76	13.61
MSCI INFO TECH	USD	143.00	0.54	-1.62	-2.83	-1.60	3.23	4.24	1.32	15.74	17.04
MSCI TELECOMS	USD	69.08	1.15	-1.38	-4.19	-3.51	1.77	-2.39	1.05	-0.42	16.32
MSCI UTILITY	USD	113.89	0.99	-0.55	-4.68	-4.07	-5.72	-4.68	-7.45	-2.18	15.42
MSCI WORLD REAL ESTATE	USD	197.73	1.35	0.11	-2.51	-3.37	2.51	4.50	1.69	11.98	25.24

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HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,236.60	0.30	-0.31	-0.23	1.02	2.51	-1.11	1.49	-0.35	
HFRX EQUAL WEIGHTED	USD	1,207.11	0.20	-0.18	-0.14	0.93	2.08	-1.25	1.34	-0.57	
HFRX GLOBAL EUR	EUR	1,140.02	0.31	-0.31	-0.27	0.99	2.38	-1.42	1.37	-0.80	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.02	0.00	0.02	0.01	0.02	0.01	0.01	-0.02	-0.02	
US 2 YEAR	USD	0.68	0.01	-0.05	0.06	0.04	0.14	0.12	0.01	0.34	
US 10 YEAR	USD	2.14	0.02	-0.11	0.14	0.08	0.05	-0.48	-0.04	-0.51	
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	481.45	0.08	0.32	-0.02	0.23	1.54	4.01	1.24	6.96	1.52
US GOVERNMENT TR	USD	2,090.53	0.11	0.11	-0.33	-0.30	0.42	3.04	0.65	4.24	1.52
US CORPORATE TR	USD	2,622.66	0.03	-0.04	-0.62	-0.21	1.32	3.50	1.36	6.48	3.03
US HIGH YIELD TR	USD	1,658.86	0.08	-0.52	-0.73	0.52	4.04	0.26	2.34	2.32	6.16
EU GOVERNMENT TR	EUR	248.77	-0.14	1.32	1.22	1.95	4.81	7.68	4.05	13.58	0.43
EU CORPORATE TR	USD	249.27	-0.18	0.10	0.00	0.33	1.90	3.41	1.50	7.65	0.88
EU HIGH YIELD TR	EUR	277.59	0.00	-0.06	0.12	1.62	3.43	3.52	3.28	6.29	3.79
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	324.85	0.14	-0.45	-0.39	0.60	2.14	-0.65	1.41	4.99	5.11
S&P/LSTA U.S. LEV LOAN	USD	96.49	-0.01	-0.18	0.05	0.42	1.59	-1.33	1.20	-1.97	4.80
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,017.31	-0.76	-3.74	-5.23	-4.26	-12.83	-33.80	-6.67	-38.56	
GSCI ENERGY TR	USD	592.40	-1.46	-5.76	-7.20	-5.47	-14.52	-43.56	-5.96	-46.90	
GSCI INDUSTRIAL METALS TR	USD	1,180.42	1.07	-1.20	-1.76	-2.16	-10.37	-15.02	-6.69	-7.37	
GSCI PRECIOUS METALS TR	USD	1,423.04	0.21	-3.74	-5.18	-5.88	-6.22	-7.84	-2.58	-17.66	
GSCI AGRICULTURE TR	USD	497.72	0.36	0.74	-2.62	-3.56	-10.39	-4.17	-8.08	-27.98	
GENERIC 1ST 'CL' FUTURE	USD	47.05	0.21	-4.96	-5.25	-11.46	-20.04	-49.15	-12.39	-49.06	
GOLD SPOT \$/OZ	USD	1,153.68	0.48	-0.68	-4.45	-5.71	-5.18	-5.73	-2.16	-15.39	
CURRENCIES											
DOLLAR INDEX SPOT	USD	99.44	-0.06	1.80	4.28	5.49	12.46	17.96	10.08	24.81	
Euro Spot	EUR	1.06	-0.22	-2.14	-5.22	-6.86	-14.67	-17.99	-12.28	-23.48	
Japanese Yen Spot	JPY	121.29	-0.06	-0.44	-1.43	-2.15	-2.92	-11.68	-1.30	-16.08	
British Pound Spot	GBP	1.49	-0.07	-1.09	-3.66	-3.39	-4.89	-8.38	-4.52	-10.53	
Brazilian Real Spot	BRL	3.17	-1.25	-5.15	-10.26	-10.81	-16.17	-26.12	-16.06	-25.60	
China Renminbi Spot	CNY	6.26	0.06	0.07	0.17	-0.29	-1.05	-1.88	-0.85	-1.94	
Singapore Dollar Spot	SGD	1.38	-0.30	-0.59	-1.65	-2.21	-5.26	-8.81	-4.35	-8.59	
Norwegian Krone Spot	NOK	8.10	-0.46	-2.86	-5.83	-6.76	-8.06	-21.46	-8.45	-26.65	

All data is compiled from Bloomberg

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