

As Friday the 13th passed with little to no event, we were “patiently” awaiting the news from Fed Chair Janet Yellen. As the news unfolded about the Tunisian attack by IS our focus was temporarily diverted to this tragedy and the international impact of such an event. Much like the Charlie Hebdo attack in Paris, the global political leaders denounced the tragedy with vigour and the President of Tunisia vowed to wage a “merciless war against terrorism”. With echoes of George W. Bush’s comments after 9/11, although the scale of the disaster is different, the effects on the country seem to be similar. Tunisia’s have been vociferous on media outlets to stress that they will not give up the progress they have made since the uprisings in the Arab Spring. Good news for the developed world.

Moving back to the markets... They had been highly volatile in the days leading up to the Fed meeting. The stock market in recent sessions had been dancing to the tune of the rising dollar. After Friday's big selloff, on Monday the Dow jumped 228 to 17,977 and the S&P 500 soared nearly 1.4% to 2,081. Bond yields moved lower as traders bought Treasuries ahead of the Fed meeting... Followed by another triple digit down day on the Dow on Tuesday; clearly a signal that the markets were uncertain about Yellen's likely commentary. Finally on Wednesday the removal of the word “patience” from Yellen’s statement produced another large triple digit day in points to the upside and as the tide came in, all boats were floating, equities, bonds, commodities – in fact only the USD seemed to drop; seeing huge falls against the EUR and the GBP on the absence of a single word. Rather inexplicable in our opinion, as nothing new was said. After the furore of the removal of a two syllable word had settled, the USD moved back to where it was before Yellen spoke. The Fed Funds futures are showing that the market believes the first Fed hike will be in October having previously been in September, a marginal move but interesting nonetheless.

The central bank also provided interest rate forecasts with its projections. The forecasts are presented as a series of dots on a chart representing individual Fed official's views. The chart currently shows expectations of a hike in the fed funds rate to a middle range of about 1.125%. George Goncalves, head of rates strategy at Nomura, believes the Fed may have been too aggressive with its previous rate rise forecast. He expects the first hike in September. "They need to lower the dots if they believe they're going to hit their growth targets," According to the projections, Fed officials expect to see GDP at 2.6% to 3.0% this year and 2.5% to 3.0% next year. "The only way they're going to achieve their optimistic outlook for inflation bouncing back and growth turning the corner is if they don't hike so much." February data showed the US to be one of the weakest countries in the world in terms of growth. If the Fed is planning to follow through on its data-driven policy then surely a rate rise makes no sense any time soon. The housing data shows that they are building fewer homes now than when the population was half the current size. However, falling petrol prices may help the central bank's case for a rate rise having dropped to \$2.416 per gallon from \$3.523 a year ago... How long will it remain this low though?

Well, many market commentators have been calling for a collapse in oil with the result being that oil companies would go bust. They would default on their debt as the market has been drowned in over \$200Bn of oil and gas paper that was issued when oil was over \$100/Bbl. Yet, their equities are relatively stable, no big name defaults, no wave of bankruptcies - in the fact the High Yield bond ETF has rallied and it has plenty of their paper in it! Cramer, host of CNBC's Mad Money, highlighted three factors that have supported the industry. Firstly the banks have not required large amounts of equity to lend to oil companies. Secondly, although drilling budgets have been cut, the cost of drilling has significantly decreased from \$29K per day to \$20K per day or a 31% cut in costs! And thirdly, the R&D capital that was previously spent on technology is paying dividends now as the new inventions and drilling techniques have substantially cut drill times, allowing them to focus on their easiest fields and reducing timelines from 25 days to drill, down to just 8 days on average. With an industry that has managed to raise \$8.5Bn in equity amongst 25 so called “troubled companies”, there would appear to be plenty of capital to help them out of their debt. "Put it all together, and I'm making a bold call here. If oil stays even at these reduced levels, I'm calling this the crash that never happened," Cramer said.

Well Boone Pickens, said that he sees oil at \$70/Bbl. by the end of the year. He said that U.S. producers were in the process of rebalancing the market, with a reduction in the rig count in response to the continued slide in oil prices. Producers overshot demand by ramping up production as oil prices surged, causing the collapse in pricing. As they continue to cut rig count to attempt to find the market balance between oversupply and excess demand, what new information will allow them to be any more prescient about the current levels as the price drops... overshoot we hear you ask? Only time will tell.

The UK and parts of Northern Europe have been plunged into darkness today – don't worry UKIP has not been elected to govern – a solar eclipse occurred. At the same time it will also be a supermoon – the moment the moon orbits closest to the earth... And would you believe it, also the spring equinox when we are mid-way between the longest day of the year and the shortest day of the year. When the three celestial events occur at the same time, some faiths believe this to be the beginning of the end of the world. We would argue that statistically it is likely that the sun will rise again tomorrow and that we are one day closer to summer, longer days, shorter nights and one day closer to the next Solar Eclipse. As Theodore Roosevelt put it so well, “keep your eyes on the stars, and your feet on the ground”. We hope to remain grounded in our views but always with an eye on the bigger picture. Have a wonderful weekend.

This Week's Highlights:

- EURUSD moved higher this week from 1.05 to briefly skyrocket to 1.1043 on Yellen's comments (or removal perhaps we should say). We are now trading at 1.0690 with the USD only marginally weaker than prior to the FOMC press meeting. Cable is almost exactly unchanged on the week at 1.4750. For now the volatility has been USD driven rather than GBP focussed – we believe that will change as the election comes closer and more note is paid to the current political balance that could be upset. USDCHF is lower on the week having slumped from 1.0050 to 0.9629 only to rebound to 0.9865 right now. EM currencies took another beating this week with the Brazilian Real sliding further from 3.18 to hit 3.30 yesterday. The Ruble de-correlated from the oil price movements and actually strengthened this week, moving from 62.50 to briefly touch 59.11 – we are a shade over of 60.00 as we write.
- US 10Yr Treasury yield slipped this week, the yield moved from 2.10% to hit 1.90% on the FOMC news, however today it has given back a little ground and is trading at 1.96%. The German 10 Yr Bund has continued its march higher, sending the yields lower and lower, we are now at 0.18% for the 10 year German debt... The Spanish 10Yr yield is unchanged at 1.18%. Italian 10Yr had a slightly wilder week in terms of its movements, but is now at 1.21% - still trading pari passu with Spanish 10 Year debt. In the UK, the 10Yr Gilt continued its recent course sending yields lower from 1.70% to 1.51%. Swiss 10Yr is more or less unchanged at -0.05%.
- The major European indices show steady performance for the week, the DAX at +0.90%, however the UK has seen superb performance on the week at +3.44% to make up for last week's poor performance. In the US, the S&P500 and the DOW were +1.13% and +0.36% respectively, despite some extremely large moves in daily trading. The NASDAQ is higher on the week at +2.02%. In Asia, China was up for the week at +2.32%, with Japan up +1.59%.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

19/03/2015

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	2,089.27	-0.49	1.13	-0.72	-1.00	0.90	3.92	1.48	11.61	17.50
DOW JONES INDUS. AVG	USD	17,959.03	-0.65	0.36	-0.96	-1.00	0.87	3.93	0.76	9.97	16.30
NASDAQ COMPOSITE INDEX	USD	4,992.38	0.19	2.02	0.58	0.73	4.76	9.01	5.41	15.58	19.24
RUSSELL 2000 INDEX	USD	1,254.86	0.22	1.47	1.74	1.87	4.93	9.41	4.16	4.66	19.17
EURO STOXX 50	EUR	3,670.73	0.06	0.73	2.33	5.51	17.24	12.51	17.05	19.22	15.87
EURO STOXX 600	EUR	400.83	0.60	1.11	2.25	4.91	17.85	15.07	17.08	22.39	16.78
CAC 40 INDEX	EUR	5,037.18	0.07	0.68	1.88	4.43	18.93	13.08	18.07	16.56	16.46
DAX INDEX	EUR	11,899.40	-0.20	0.47	4.88	8.21	22.18	22.03	21.95	28.63	15.37
FTSE 100 INDEX	GBP	6,962.32	0.40	3.47	0.40	0.86	6.56	2.00	6.22	6.61	16.19
SWISS MARKET INDEX	CHF	9,328.48	0.78	2.16	3.76	5.19	4.21	5.81	4.12	13.22	18.21
NIKKEI 225	JPY	19,476.56	-0.35	1.59	4.06	6.70	11.00	19.85	12.09	37.51	20.36
HANG SENG INDEX	HKD	24,468.89	1.45	2.32	-1.80	-1.84	5.44	0.28	3.26	15.07	11.63
SHANGHAI SE COMPOSITE	CNY	3,582.27	0.14	7.25	9.27	11.41	16.37	55.29	11.83	81.46	14.15
S&P BSE SENSEX INDEX	INR	28,469.67	-0.53	-0.61	-3.52	-3.09	3.50	4.57	3.02	30.31	18.61
RUSSIAN RTS INDEX \$	USD	847.99	0.83	1.96	-5.21	-6.64	10.66	-27.37	7.49	-26.15	5.61
BRAZIL IBOVESPA INDEX	BRL	50,953.53	-1.11	4.24	-1.22	-0.55	2.62	-11.83	1.89	7.77	11.64
MSCI WORLD	USD	1,751.31	-0.14	1.83	-1.22	-0.95	2.00	0.63	2.44	5.86	17.24
MSCI WORLD HEDGED	USD	745.70	-0.16	1.40	0.44	1.36	5.60	7.18	5.72	16.22	-
MSCI WORLD LOCAL	-	1,344.68	-0.18	1.40	0.32	1.21	5.23	6.43	5.40	14.18	-
MSCI AC WORLD	USD	426.62	-0.04	1.92	-1.35	-1.06	2.01	-0.37	2.28	5.50	16.53
MSCI EM	USD	964.97	0.87	2.70	-2.56	-1.98	2.16	-8.44	0.91	2.58	12.17
MSCI AC ASIA x JAPAN	USD	585.19	1.14	2.43	-0.51	0.15	5.49	-0.38	3.81	12.33	12.66
MSCI EM LATIN AMERICA	USD	2,400.24	-0.69	-0.54	-9.56	-8.65	-11.44	-29.52	-12.00	-19.11	13.55
MSCI EM Eur, ME & Africa	USD	267.48	1.38	2.87	-5.82	-6.76	-0.81	-16.14	-1.22	-11.25	10.93
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	223.79	-0.91	2.66	-5.06	-6.23	-7.14	-22.59	-5.90	-17.31	22.61
MSCI MATERIALS	USD	226.02	-0.50	0.17	-5.65	-5.20	1.36	-6.97	1.33	-4.75	16.92
MSCI INDUSTRIALS	USD	204.94	-0.44	1.50	-0.99	-1.21	2.77	1.27	2.82	4.04	17.21
MSCI CONS DISCRETIONARY	USD	197.79	-0.03	1.26	-0.10	0.42	7.24	9.57	6.22	11.54	18.41
MSCI CONS STAPLES	USD	203.41	-0.29	1.06	-2.94	-1.61	1.43	3.32	1.75	9.57	20.56
MSCI HEALTH CARE	USD	218.74	0.62	3.49	2.56	3.35	6.81	10.98	9.43	20.46	19.46
MSCI FINANCIALS	USD	103.07	-0.13	1.30	-0.70	-0.55	0.40	-1.66	0.30	2.37	13.78
MSCI INFO TECH	USD	146.06	-0.08	2.52	-0.75	-0.79	2.69	6.06	3.38	16.62	17.51
MSCI TELECOMS	USD	69.52	-0.20	1.03	-3.58	-2.61	0.71	-3.30	1.70	-0.83	16.51
MSCI UTILITY	USD	116.12	-0.33	2.98	-2.81	-2.77	-5.46	-3.20	-5.64	0.36	15.68
MSCI WORLD REAL ESTATE	USD	201.66	0.46	2.04	-0.58	-1.27	3.78	7.77	3.71	16.73	25.90

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HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,244.16	0.29	0.61	0.38	1.07	3.06	-0.46	2.11	0.40	
HFRX EQUAL WEIGHTED	USD	1,212.97	0.19	0.49	0.34	1.00	2.58	-0.66	1.83	0.10	
HFRX GLOBAL EUR	EUR	1,147.11	0.29	0.62	0.35	1.07	2.94	-0.75	2.01	-0.04	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.01	0.01	-0.01	0.00	-0.01	-0.02	0.00	-0.03	-0.04	
US 2 YEAR	USD	0.61	0.00	-0.05	-0.01	-0.03	-0.03	0.04	-0.06	0.19	
US 10 YEAR	USD	1.96	-0.01	-0.15	-0.03	-0.15	-0.20	-0.61	-0.21	-0.81	
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	483.86	0.10	0.50	0.48	1.03	2.08	4.35	1.75	7.52	1.47
US GOVERNMENT TR	USD	2,103.67	-0.15	0.63	0.30	0.86	1.42	3.57	1.28	5.15	1.47
US CORPORATE TR	USD	2,637.77	-0.11	0.58	-0.04	0.85	2.21	3.81	1.95	7.26	2.98
US HIGH YIELD TR	USD	1,652.87	0.30	-0.36	-1.09	-0.22	2.56	-0.30	1.97	1.72	6.29
EU GOVERNMENT TR	EUR	248.38	0.15	-0.16	1.06	1.98	4.36	7.09	3.89	13.27	0.46
EU CORPORATE TR	USD	248.80	-0.03	-0.19	-0.19	0.11	1.57	3.05	1.31	7.46	0.93
EU HIGH YIELD TR	EUR	276.05	-0.04	-0.55	-0.44	0.55	2.90	2.85	2.71	5.67	3.95
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	324.25	0.27	-0.19	-0.58	-0.04	1.79	-0.59	1.22	4.63	5.15
S&P/LSTA U.S. LEV LOAN	USD	96.13	-0.03	-0.38	-0.33	-0.24	1.10	-1.68	0.82	-2.32	4.86
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	2,932.48	-0.98	-2.81	-7.89	-7.26	-13.94	-35.37	-9.29	-40.36	
GSCI ENERGY TR	USD	565.20	-2.15	-4.59	-11.46	-10.30	-16.57	-46.24	-10.28	-49.19	
GSCI INDUSTRIAL METALS TR	USD	1,184.70	2.13	0.36	-1.41	-0.60	-8.21	-13.64	-6.35	-7.47	
GSCI PRECIOUS METALS TR	USD	1,447.59	1.78	1.73	-3.55	-3.07	-2.06	-4.77	-0.90	-14.38	
GSCI AGRICULTURE TR	USD	491.40	-0.03	-1.27	-3.85	-5.10	-12.74	-2.03	-9.25	-29.76	
GENERIC 1ST 'CL' FUTURE	USD	43.96	-0.71	-2.65	-12.28	-14.09	-24.32	-53.00	-18.90	-53.46	
GOLD SPOT \$/OZ	USD	1,171.11	0.06	1.15	-3.41	-2.50	-2.05	-3.61	-1.10	-11.75	
CURRENCIES											
DOLLAR INDEX SPOT	USD	99.26	-0.27	-1.33	3.88	5.03	10.48	16.83	9.66	23.44	
Euro Spot	EUR	1.07	0.19	1.75	-4.61	-6.16	-12.67	-16.88	-11.72	-22.49	
Japanese Yen Spot	JPY	120.78	-0.05	0.46	-1.00	-1.50	-0.65	-9.93	-0.88	-15.27	
British Pound Spot	GBP	1.48	-0.14	-0.08	-4.57	-4.33	-5.50	-9.96	-5.42	-10.74	
Brazilian Real Spot	BRL	3.29	-2.47	-3.82	-13.69	-12.91	-19.21	-28.06	-19.27	-28.62	
China Renminbi Spot	CNY	6.20	-0.14	0.88	1.04	0.83	0.29	-1.03	0.01	0.39	
Singapore Dollar Spot	SGD	1.39	-0.08	0.30	-1.84	-2.04	-5.03	-8.53	-4.54	-7.97	
Norwegian Krone Spot	NOK	8.09	0.11	1.62	-5.13	-6.85	-8.12	-21.46	-7.78	-24.91	

All data is compiled from Bloomberg

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