Bedrock Newsletter Thursday, April 2nd 2015

As Bedrock will be closed for Good Friday and then for Easter Monday, we bring forward our Friday Newsletter by a day, to wish you all a good Easter and Passover and a concurrent good start for Q2 ☺ Good wishes aside, we observe a shaky market; Q1 closed with a whimper- Dow at minus 0.25%, S&P positive 0.44%, 10 year note closed at 1.93% down from 2.17%; A useless quarter…
Suddenly, concerns about Q1 results have swept over the markets - Realization that the strong dollar might have hurt earnings of US large-cap companies, fallen oil is now(?) expected to be reflected in energy companies' results, the never-ending story of Greece rising back to the headlines (just as European data is surprizing to the upside), we are now confronted with a new, scary scenario - Yemen is disintegrating as a state and whilst it isn't a significant economy, it is adjacent to Saudi Arabia and the Kingdom is reacting with military force. Very few (if any) want to see Shi'ite extremists taking control of a land so close to the world's oil. WTI popped up through $50 and Brent through $60...
Many in the West are concerned about the rise of Islamic extremists and fear the evolving conflict. We try to better understand the forces at play here and the risks imbedded therein; When the Prophet Muhammad died in 632 AD, a fight broke out among the followers as to who would inherit the leadership of Islam. Those who supported their prophet's family eventually became known as the Shi'ites. Those who supported what might be labelled "the establishment" in Mecca became known as the Sunnis. The Shi'ites were defeated, their leaders were killed; the Sunnis proceeded to take over the larger part of the Muslim world. Sunnis and Shi'ites still refight that battle which took place almost 1400 years ago. Ayatollah Khomeini's mission was not to defeat the Shah but rather, devising a strategy to rectify what he considered the great wrong that took place so long ago: bringing down the Sunni rulers and their version of Islam, to replace them with the true, Shi'ite, version of Islam. No wonder Saudi rulers, who follow an extreme Sunni version of Islam called Wahhabism, and their fellow GCC Sunni-ruled Gulf States understood that Khomeini was a mortal threat. Whilst the west is negotiating with Iran on its nuclear standings, Iran is seeking to become the leader of the Islamic world - They are supporting ISIS in Iraq and Syria, Hezbollah in Lebanon, arguably Hamas in Gaza, the Muslim Brotherhood in Egypt and other Islamic factions around the globe, seemingly irrespective of their sectorial affiliations. Syria, Libya, effectively Iraq and now Yemen becoming ungoverned surfaces, now grounds in which extremist groups fester and grow with Iranian funding and support. It has been a conflict of a millennia and isn't over yet. What does it all mean? To quote Samuel Goldwin- "For your information, I'd like to ask a question"…
We have all been focussed on the possibility of a last-minute deal over Iran's nuclear program, which could depress oil prices amid expectations that an agreement would see an influx of Iranian crude on the market. The Yemen story reversed this decline. Away from the politics and conflicts, the chief oil analyst at Energy Aspects argued that oil demand was actually robust and would likely prevent the oil price falling further. Analysts at Barclays Research agreed that oil prices would stabilise. "We expect supply and demand dynamics to help the oil market to bottom in the second quarter and gradually rebound over the rest of the year," With Goldman Sachs even more bullish, expecting "the new equilibrium price" for oil to be around $70 a barrel for Brent and $65 for WTI, although it does admit "the risks are skewed to the downside." On the other side of the bullish argument, we see concerns raised from an Iranian perspective - "An agreement would trigger an instant price dip for Brent oil, but of no more than $5," said IHS Energy Insight. While "a deal would be a breakthrough, it will only add to the supply glut in the oil markets and, potentially, push Brent towards $30 a barrel."
Away from oil and its politics, in the US, private business job creation decelerated in March as an economic slowdown and other factors put a dent in activity. Companies added 189K positions for the month, down from the 214K in February, a number that was revised slightly upward from the 212K initially reported. The disappointing numbers come as economic growth is falling short of earlier lofty expectations. Economists have been paring back expectations, with most economists now expecting GDP growth to come in below 2% for Q1. Corporate earnings also are taking a hit, with S&P Capital IQ expecting a decline in S&P 500 profits of about 3% for Q1 and nearly 2% in Q2. The pace of U.S. manufacturing growth fell in March to its slowest in almost two years, pressured by slowing gains in new orders and stagnant employment. The Institute for Supply Management (ISM) said its index of national factory activity fell to 51.5 from 52.9 the month before. The reading was shy of expectations and was the lowest reading since May 2013. Raoul Pal of The Global Macro Investor Newsletter said the dollar index could climb another 25% before the bull-run is over. "If we look back historically at how these big dollar bull markets go, I think it's going to go, using the (dollar index), at least to 125, maybe even further." Stay with the US$ and add to European equities, currency hedged…
As the clocks go forward and spring is now upon us we look to the Gregorian calendar to see that April has had the highest performance on average over the last 50 years and 66% of the time has been positive. Let's hope Aries is smiling on us all, but as Arthur C. Clarke put it, "I don't believe in Astrology; I'm a Sagittarius, and we're sceptical."

This Week's Highlights (so far):

- EURUSD struggled this week as the pair moved from 1.09 to briefly touching 1.0713, moving up as the USD weakened on data news flows. USDCHF is lower this week at 0.9580 as the trade balance shrank and the jobs data was supportive. GBP has bucked the trend against the USD and is lower having moved from 1.49 to trade as low as 1.47400, although now is a shade over 1.48. The Yen is weaker on Governor Lee's dovish stance and the pair moved from 119.20 to over 120.00. The Ruble had a relatively strong week as the pair moved from 58.50 to 56.50; as oil stabilises and/or strengthens it would appear that the Ruble is able to find some footing. The Brazilian Real also followed suit pushing the USD down from 3.28 to 3.14 on the week.
- US 10Yr Treasury yield slipped throughout the week, the moving from 1.96% to hit 1.83%. The German 10Yr Bund has remained in a tight trading range this week between 0.21% and 0.16%… Although it did put in a new all-time low of 0.151%. The Spanish 10Yr yield moved lower this week from 1.35% to 1.16%. Italian 10Yr followed in line, moving from 1.38% to 1.26%. In the UK, the 10Yr Gilt continues to move to the beat of its own drum and bobbled around 1.56%. Swiss 10Yr yields slipped a little and are now -0.06% i.e. nothing.
- In general the US equity markets are flat(ish) so far on this shortened week. Both the Dow and the S&P500 are a few basis points positive on the week, with the NASDAQ being -0.5%. Europe has had mixed results with the DAX +0.5%, CAC +0.6%, AEX +1.23% and the UK FTSE at -0.5%. In the Emerging Markets the Bovespa is up 5.7%. Russia stocks are up as well by 6.2% on the MICEX.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

01/04/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	
			PRICE CHANGE IN % (unless indicated)								
EQUITY MARKET INDICES - BY REGION											**P/E**
S&P 500 INDEX	USD	2,059.69	**-0.38**	-0.07	-0.40	-2.73	0.07	5.83	0.04	8.93	17.20
DOW JONES INDUS. AVG	USD	17,698.18	**-0.42**	-0.11	-0.44	-3.23	-0.76	5.34	-0.70	6.79	16.07
NASDAQ COMPOSITE INDEX	USD	4,880.23	**-0.42**	0.08	-0.42	-2.55	3.25	10.16	3.04	14.12	18.92
RUSSELL 2000 INDEX	USD	1,251.71	**-0.08**	1.45	-0.08	0.73	4.41	14.17	3.90	4.94	19.07
EURO STOXX 50	EUR	3,714.89	**0.47**	1.13	0.38	3.35	18.21	19.47	17.95	16.43	16.03
EURO STOXX 600	EUR	398.52	**0.31**	0.92	0.22	1.76	16.65	19.91	16.24	18.18	16.74
CAC 40 INDEX	EUR	5,062.22	**0.57**	1.22	0.67	3.06	19.17	19.44	18.60	14.37	16.54
DAX INDEX	EUR	12,001.38	**0.29**	1.20	0.17	5.05	22.75	30.35	22.24	24.55	15.43
FTSE 100 INDEX	GBP	6,809.50	**0.54**	-1.07	0.72	-1.71	4.18	5.82	3.89	2.44	15.94
SWISS MARKET INDEX	CHF	9,137.26	**0.09**	0.62	0.11	0.92	1.73	5.60	1.73	7.41	17.93
NIKKEI 225	JPY	19,034.84	**-0.90**	-0.81	0.55	2.58	10.67	23.31	10.67	29.21	18.45
HANG SENG INDEX	HKD	25,082.75	**0.73**	3.18	1.51	1.56	5.95	10.22	7.08	12.22	12.09
SHANGHAI SE COMPOSITE	CNY	3,810.29	**1.66**	3.90	2.08	14.67	18.27	61.84	18.27	85.81	15.17
S&P BSE SENSEX INDEX	INR	28,260.14	**1.08**	0.53	1.08	-4.07	1.33	6.37	2.77	25.31	15.79
RUSSIAN RTS INDEX $	USD	910.41	**3.41**	5.67	4.25	1.58	16.08	-16.19	16.08	-24.92	5.90
BRAZIL IBOVESPA INDEX	BRL	52,321.76	**2.29**	0.89	2.29	2.55	7.85	-2.24	4.63	1.20	11.85
MSCI WORLD	USD	1,738.15	**-0.14**	-0.39	-0.15	-2.17	1.96	4.21	1.67	3.00	16.95
MSCI WORLD HEDGED	USD	737.88	**-0.19**	-0.43	-0.19	-0.61	4.61	9.12	4.61	12.87	-
MSCI WORLD LOCAL	-	1,328.76	**-0.20**	-0.52	-0.20	-0.87	4.15	8.33	4.15	10.88	-
MSCI AC WORLD	USD	424.56	**-0.04**	-0.13	-0.05	-2.00	2.08	3.65	1.78	2.44	16.29
MSCI EM	USD	982.93	**0.86**	2.13	0.86	-0.54	3.06	-0.97	2.78	-2.19	12.21
MSCI AC ASIA x JAPAN	USD	591.98	**0.35**	1.67	0.35	0.43	4.46	5.70	5.01	7.02	12.64
MSCI EM LATIN AMERICA	USD	2,519.62	**2.79**	1.01	2.78	-3.64	-4.45	-18.90	-7.63	-22.28	14.08
MSCI EM Eur, ME & Africa	USD	278.40	**1.55**	2.46	1.53	-1.23	3.56	-6.61	2.82	-13.47	11.19
EQUITY MARKET INDICES - BY SECTOR											**P/E**
MSCI ENERGY	USD	227.79	**0.41**	-0.41	0.41	-2.47	-4.31	-15.93	-4.21	-18.91	23.14
MSCI MATERIALS	USD	225.92	**0.05**	-1.15	0.05	-5.57	1.65	-1.02	1.29	-7.79	16.83
MSCI INDUSTRIALS	USD	201.93	**-0.32**	-0.77	-0.32	-2.65	1.65	4.86	1.31	-0.45	16.49
MSCI CONS DISCRETIONARY	USD	195.58	**-0.43**	-0.21	-0.43	-1.89	5.87	13.28	5.03	8.54	17.87
MSCI CONS STAPLES	USD	203.70	**0.13**	0.00	0.13	-2.59	2.71	6.67	1.89	7.09	20.47
MSCI HEALTH CARE	USD	213.71	**-0.76**	-0.57	-0.78	-0.29	6.83	11.60	6.91	17.64	18.84
MSCI FINANCIALS	USD	103.19	**0.24**	-0.28	0.21	-0.89	0.59	3.00	0.42	0.27	13.70
MSCI INFO TECH	USD	142.78	**-0.49**	-0.25	-0.49	-3.81	1.25	7.08	1.06	12.88	16.98
MSCI TELECOMS	USD	69.39	**0.33**	-0.98	0.33	-3.76	1.83	0.61	1.51	-2.34	16.32
MSCI UTILITY	USD	116.39	**0.22**	0.46	0.16	-1.21	-5.32	-0.55	-5.42	-1.13	15.97
MSCI WORLD REAL ESTATE	USD	201.70	**0.18**	-0.27	0.17	-0.92	2.97	10.95	3.73	12.56	25.71

MARKET INDICES PERFORMANCE

01/04/2015

			PRICE CHANGE IN % (unless indicated)								
HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,243.54	**-0.12**	-0.07	0.33	0.33	2.06	0.28	2.06	0.36	
HFRX EQUAL WEIGHTED	USD	1,213.85	**-0.06**	0.00	0.42	0.42	1.91	0.09	1.91	-0.05	
HFRX GLOBAL EUR	EUR	1,147.79	**0.36**	0.00	0.41	0.41	2.08	0.15	2.07	0.31	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.02	0.01	-0.01	0.00	0.01	0.01	0.01	-0.02	0.01	
US 2 YEAR	USD	0.53	**-0.01**	-0.08	-0.03	-0.13	-0.14	0.00	-0.14	0.07	
US 10 YEAR	USD	1.85	**0.00**	-0.14	-0.07	-0.23	-0.26	-0.57	-0.32	-0.95	
FIXED INCOME INDICES - BY TYPE OF ISSUER											**Yield to Worst**
GLOBAL AGG TR HEDGED	USD	485.25	**0.19**	0.17	0.19	0.76	2.04	3.97	2.04	7.62	1.43
US GOVERNMENT TR	USD	2,116.65	**0.30**	0.32	0.30	0.92	1.91	3.31	1.91	5.65	1.43
US CORPORATE TR	USD	2,659.59	**0.46**	0.50	0.46	0.78	2.79	3.87	2.79	7.46	2.87
US HIGH YIELD TR	USD	1,662.27	**0.02**	0.16	0.02	-0.52	2.55	1.35	2.55	1.95	6.16
EU GOVERNMENT TR	EUR	248.65	**0.04**	0.39	0.04	1.17	4.00	6.39	4.00	12.94	0.46
EU CORPORATE TR	EUR	249.10	**0.03**	0.27	0.03	-0.07	1.43	2.92	1.43	7.48	0.93
EU HIGH YIELD TR	EUR	277.16	**0.04**	0.35	0.04	-0.04	3.12	3.90	3.12	5.79	3.91
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	329.20	**0.35**	0.38	0.35	0.94	2.77	1.10	2.77	4.91	4.90
S&P/LSTA U.S. LEV LOAN	USD	96.22	**-0.05**	0.07	-0.05	-0.27	0.70	-0.72	0.92	-2.20	4.85
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,042.35	**2.54**	0.49	2.54	-4.44	-5.89	-31.78	-5.89	-38.04	
GSCI ENERGY TR	USD	594.02	**3.45**	1.03	3.45	-6.94	-5.71	-42.18	-5.71	-46.64	
GSCI INDUSTRIAL METALS TR	USD	1,204.20	**0.29**	-0.99	0.29	0.22	-4.81	-9.72	-4.81	-7.11	
GSCI PRECIOUS METALS TR	USD	1,499.26	**2.19**	0.80	2.19	-0.11	2.64	-0.92	2.64	-6.96	
GSCI AGRICULTURE TR	USD	498.67	**1.96**	-0.69	1.96	-2.43	-7.90	0.02	-7.90	-28.77	
GENERIC 1ST 'CL' FUTURE	USD	50.09	**-0.14**	-2.74	5.08	-0.83	-7.52	-46.20	-8.51	-47.55	
GOLD SPOT $/OZ	USD	1,203.90	**0.02**	-0.05	1.73	-0.22	1.26	-0.85	1.63	-6.64	
CURRENCIES											
DOLLAR INDEX SPOT	USD	98.19	**-0.42**	0.35	-0.59	2.42	7.35	14.22	8.31	21.89	
Euro Spot	EUR	1.08	**0.58**	-0.54	0.88	-3.21	-9.81	-14.56	-10.52	-21.37	
Japanese Yen Spot	JPY	119.76	**0.19**	-0.28	0.50	0.50	0.81	-9.29	0.21	-13.09	
British Pound Spot	GBP	1.48	**0.20**	0.02	0.23	-3.35	-3.11	-8.01	-4.65	-10.67	
Brazilian Real Spot	BRL	3.16	**1.00**	1.14	1.00	-8.52	-16.03	-21.61	-16.03	-28.53	
China Renminbi Spot	CNY	6.20	**0.02**	0.23	0.05	1.23	0.17	-0.95	0.14	0.14	
Singapore Dollar Spot	SGD	1.36	**0.33**	0.88	1.00	0.50	-2.02	-6.37	-2.44	-7.09	
Norwegian Krone Spot	NOK	8.03	**0.71**	-0.80	1.06	-3.54	-4.83	-19.19	-6.57	-25.14	
VOLATILITY / LIQUIDITY INDICES											
CBOE SPX VOLATILITY INDX	USD	15.11	**-1.18**	-2.14	-1.18	15.87	-15.06	-6.50	-21.30	15.43	
USD SWAP SPREAD SEMI 2YR		25.44	**1.38**	6.88	2.63	2.63	13.66	-4.27	12.42	119.49	
TED SPREAD		25.56	2.04	**5.06**	2.04	1.51	16.13	14.88	16.13	32.71	

All data is compiled from Bloomberg

Disclaimer