

Stocks and bonds have been winners in 2015 but according to one major player, stocks will prevail as the better investment this year. On Tuesday, BlackRock's chief investment strategist for fixed income, Jeff Rosenberg, said that if he were to take a bet on stocks or bonds in 2015, he'd pick stocks. "I'd be a buyer of the stock market, just because the risk and reward," he said. "The issue with bonds right now is there's a skew to the potential returns. The upside is quite limited, given how low yields are." Well, it hasn't taken long for him to be vindicated: Thursday gave us all-time closing high on the NASDAQ which broke its previous high from March 2000, an all-time intra-day high for the S&P 500, whilst the DJIA lagged slightly, and closing away from its own high by about 1%.

But our purpose is to see into the future, not the past (yesterday's new highs are just that - yesterday's news). According to Rosenberg, weak economic data in the first quarter was seasonal, and the economy could see a pickup in the second half of the year. "When you see the economic data change, the narrative around the bond market and the stock market will change at the same time." However, despite low rates in Europe, Rosenberg sees a combination of an improving economy and a potential Fed rate hike in September as catalysts for a bond sell-off. "The theme [for a Fed hike] is really all about the pace," he said. "My central case is around September and then another increase probably in December."

Earnings for the most part have come in better than expected, despite headwinds from the strong dollar and low oil prices, which has given credence to the U.S. market that we're able to move higher yet from here. After the close on Thursday MSFT beat on both top and bottom lines and its stock rose further in after-hours, then GOOG disappoints and rises anyway in after-hours. AMZN beat with a lower loss than expected and rose 7.5% after hours (probably big short covering) and then, IBM which disappointed the market on Monday, missing on top-line whilst beating on EPS, fell 1.5% on Tuesday but gained 3% yesterday.

What do the charts tell us? Following last year's 7.5% increase, the Dow index is up just over one percent year to date. The index has consolidated near 18,225 since early March amid concerns that a stronger U.S. dollar could negatively impact earnings at U.S. multinational firms. But the weekly chart shows the Dow remains within a well-defined trading channel and exhibits a consolidation pattern consistent with a continuation of the uptrend. A basic look at the 2015 S&P 500 chart shows a market that has seen a plethora of tops, bottoms and in-betweens in just 3 ½ months of trading, with a 6.3% difference between the index's intraday highs and lows. Point swings in the hundreds on the Dow industrials have been commonplace. Yet investors aren't looking for protection—to the contrary, in fact. The most commonly cited gauge of investor fear, the CBOE Volatility Index ("VIX"), has plunged a stunning 35% year to date. Traders essentially buy the index as an insurance policy during troubled times.

What about equities elsewhere? As per Goldman Sachs, Eurozone equities trade at a larger discount to US equities than they have historically – Earnings and growth are positively correlated and therefore better growth prospects in Europe could provide a constructive backdrop for earnings. Japanese equities remain attractively valued. Strong dispersion in EM – however as a whole, equities are fairly valued relative to history. Russian equities and Chinese financials trade at a discount while countries undergoing structural reforms like India and Mexico trade at a premium.

Yes, equities appear to have both intellectual and real money support. What is happening with the bonds though? It's a conundrum: bonds aren't likely to win a popularity contest any time soon, but analysts don't expect investor demand will slack off. "There are two things going on that are offsetting each other. One is that there is quite a lot of concern about what happens to bonds when the Federal Reserve starts to raise interest rates; that's behind the lack of enthusiasm," said Richard Jerram, chief economist at Bank of Singapore. "On the flip side, there is still globally a search for yield taking place."

That demand doesn't look like it'll slack off anytime soon. Bond demand is likely to outstrip supply globally by around \$450 billion this year on a notional basis, widening from \$384 billion last year, JPMorgan said in a note earlier this month. Much of that buying may come from retail investors, estimating they will pour around \$350 billion into bond funds after buying \$500 billion last year. In the Q4 last year, bond mutual funds received higher inflows than equity funds for a third quarter (ICI data). "In other words, the supply/demand picture for 2015 continues to look supportive for bonds globally". Rational or not, at the end-of-the-day, it is supply and demand that set prices. For the week ending April 11th, global bond funds saw a net inflow of \$4.7 billion, marking a 15th week of injections. Whilst we do not believe that bonds offer much in terms of rewards, clearly, there is reason to believe that there is little down-side risk in holding them.

Now to oil; yet another conundrum! It has bounced-back against analysts' predictions of just weeks ago. To one market technician, crude oil is trading like it is 2009 all over again. And that could be very good news for the oil bulls. Ari Wald, head of technical analysis at Oppenheimer, looked back to crude oil's massive decline in 2008. After losing nearly 80% of its value, oil prices rallied from the lows in 2009. And Wald says that crude oil today looks very similar the oil chart of six years ago. "Oil prices will recover, but they are unlikely to go where they were before the collapse. Near term, it's very slushy ... but the dust has not settled yet because the fracking industry is young. It has not gone through a crisis before." - Fadel Gheit, an analyst at Oppenheimer said oil will probably settle in the \$70-a-barrel range, and the U.S. unconventional industry will emerge from the collapse in prices as a changed industry.

For those who find the wild intra-day market swings difficult to handle, do consider the sure cure for seasickness is to sit under a tree. May your weekend be sunny under your tree ☺

This Week's Highlights:

- EURUSD remained relatively unchanged on the week with the German IFO numbers causing a rally from 1.08 to 1.09, USDCHF however is almost unchanged to the pip at 0.9530 as we write. As the May 7th election looms on the horizon for the UK, the British Pound has managed to regain some of its lost footing and is back to recent highs of 1.5150. The USD has managed to strengthen this week against the JPY, gently moving from 118.80 to 119.60. In the Emerging Markets we have seen that the Real has only had three trading days this week but has managed to gain further ground moving from 3.05 to hit 2.97 at the close yesterday. As oil has stabilised well above 50 the Rub has steadied and is now trading at 50.60 RUB/\$.
- US 10Yr Treasury reversed last week's move, rising from 1.84% to hit 1.98%. The German 10Yr Bund followed suit, dropping and sending the yields higher from 0.07% to hit 0.18% this morning. The Spanish 10Yr yield moved lower this week from 1.48% to 1.34%. Italian 10Yr followed the same line as Spain, moving from 1.50% to 1.38%. In the UK, the 10Yr Gilt continues to move to the beat of its own drum and jumped from 1.55% to 1.72%. Swiss 10Yr yields are now -0.08%.
- In general the US equity markets are slightly higher on the week. Both the Dow and the S&P500 were around +1.3% on the week as at yesterday's close, with the NASDAQ being +2.5%, plus it is looking likely that they will move slightly higher on the open today. Europe saw the DAX +1.30%, CAC 1.40% and the UK FTSE at +1.40%. In the Emerging Markets the Bovespa is +3.2% and Tuesday was closed as well. Russia stocks are up by 1.5% on the MICEX.

Bedrock Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

23/04/2015

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	2,112.93	0.25	0.38	2.18	1.02	2.98	7.55	2.62	12.47	17.72
DOW JONES INDUS. AVG	USD	18,058.69	0.14	-0.26	1.59	0.26	2.18	7.46	1.32	9.44	16.27
NASDAQ COMPOSITE INDEX	USD	5,056.06	0.42	0.96	3.17	1.23	6.27	12.77	6.76	21.88	19.59
RUSSELL 2000 INDEX	USD	1,271.54	0.48	-0.11	1.50	0.84	6.95	13.85	5.55	11.11	19.48
EURO STOXX 50	EUR	3,697.88	-0.69	0.99	0.36	-0.56	9.70	22.44	17.93	16.32	16.05
EURO STOXX 600	EUR	407.18	-0.39	1.07	2.70	1.37	10.16	24.71	19.11	21.38	17.16
CAC 40 INDEX	EUR	5,178.91	-0.62	1.12	3.32	2.21	12.07	25.96	21.72	16.10	16.95
DAX INDEX	EUR	11,723.58	-1.21	0.47	-1.86	-2.19	10.27	30.66	19.78	22.98	15.17
FTSE 100 INDEX	GBP	7,053.07	0.46	1.24	4.55	0.88	3.64	10.84	7.85	5.64	16.82
SWISS MARKET INDEX	CHF	9,338.25	-0.08	1.29	2.59	0.78	14.75	9.77	4.25	11.37	18.44
NIKKEI 225	JPY	20,187.65	0.27	1.87	4.23	1.56	14.32	30.92	14.72	38.98	19.13
HANG SENG INDEX	HKD	27,827.70	-0.37	1.12	12.30	14.60	12.53	20.00	18.46	23.93	13.40
SHANGHAI SE COMPOSITE	CNY	4,414.51	0.36	2.48	17.23	19.02	31.09	90.84	35.83	113.59	17.62
S&P BSE SENSEX INDEX	INR	27,735.02	-0.56	-3.06	-1.38	-2.10	-5.83	2.68	0.26	20.52	15.50
RUSSIAN RTS INDEX \$	USD	1,028.47	2.44	4.33	18.38	18.40	26.95	0.54	31.81	-9.03	6.37
BRAZIL IBOVESPA INDEX	BRL	55,694.85	1.95	1.39	9.87	8.11	14.17	7.21	11.35	7.46	13.44
MSCI WORLD	USD	1,792.31	0.33	1.32	2.96	1.12	4.95	7.46	4.83	6.61	17.49
MSCI WORLD HEDGED	USD	758.84	0.15	0.16	2.62	1.02	6.61	13.51	7.56	16.43	-
MSCI WORLD LOCAL	-	1,384.30	0.12	0.10	2.48	0.77	5.97	12.60	6.94	14.37	-
MSCI AC WORLD	USD	439.61	0.36	1.29	3.50	1.80	5.11	7.42	5.39	6.43	16.85
MSCI EM	USD	1,053.91	0.62	1.08	8.14	7.73	6.36	7.06	10.21	4.92	12.96
MSCI AC ASIA x JAPAN	USD	636.84	0.26	0.51	7.95	8.48	8.46	13.84	12.97	14.23	13.42
MSCI EM LATIN AMERICA	USD	2,681.35	1.43	0.83	9.38	7.43	-1.48	-11.86	-1.70	-17.75	15.21
MSCI EM Eur, ME & Africa	USD	292.41	1.33	1.36	6.64	5.12	4.13	-2.01	7.99	-6.75	11.60
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	245.30	0.90	0.68	8.13	7.93	6.63	-5.82	3.15	-15.79	25.10
MSCI MATERIALS	USD	231.82	0.62	1.05	2.67	0.17	4.76	2.64	3.93	-5.99	17.78
MSCI INDUSTRIALS	USD	207.33	0.03	1.23	2.34	0.40	4.37	7.10	4.02	2.68	17.16
MSCI CONS DISCRETIONARY	USD	200.18	0.40	1.40	1.91	0.33	8.14	15.80	7.50	13.35	18.34
MSCI CONS STAPLES	USD	207.67	0.03	0.00	2.08	0.78	0.92	8.09	3.98	7.40	20.78
MSCI HEALTH CARE	USD	221.80	0.31	1.73	2.98	0.81	6.87	14.02	10.96	23.90	19.48
MSCI FINANCIALS	USD	105.53	0.26	0.83	2.49	0.48	5.84	4.81	2.70	3.48	13.93
MSCI INFO TECH	USD	147.85	0.10	2.90	2.91	0.48	4.32	11.32	4.51	19.29	17.59
MSCI TELECOMS	USD	72.44	1.41	2.78	4.74	2.42	3.54	6.12	5.97	3.25	16.88
MSCI UTILITY	USD	118.25	0.54	0.81	1.76	0.58	-5.07	-1.33	-3.91	-1.22	16.25
MSCI WORLD REAL ESTATE	USD	202.93	0.02	0.09	0.78	-1.08	-1.52	7.18	4.36	11.50	25.93

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HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,253.32	-0.02	-0.47	0.79	0.61	3.09	3.30	2.87	1.58	
HFRX EQUAL WEIGHTED	USD	1,220.28	-0.02	-0.27	0.53	0.48	2.72	2.30	2.44	0.69	
HFRX GLOBAL EUR	EUR	1,154.81	-0.03	-0.49	0.73	0.55	2.99	3.02	2.69	1.09	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.02	0.00	0.01	0.00	0.01	0.01	0.02	-0.02	0.02	
US 2 YEAR	USD	0.53	0.00	0.02	-0.02	-0.02	0.05	0.15	-0.13	0.09	
US 10 YEAR	USD	1.96	0.00	0.09	0.03	0.08	0.16	-0.31	-0.22	-0.72	
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	484.48	0.04	-0.28	0.03	0.04	0.40	3.42	1.88	6.87	1.45
US GOVERNMENT TR	USD	2,109.13	0.13	-0.34	-0.05	-0.03	-0.24	2.20	1.55	4.78	1.45
US CORPORATE TR	USD	2,652.85	0.19	-0.36	0.21	0.22	0.35	2.95	2.53	6.01	2.89
US HIGH YIELD TR	USD	1,682.44	0.01	0.06	1.24	1.59	3.46	1.64	3.79	2.81	5.92
EU GOVERNMENT TR	EUR	248.13	-0.01	-0.33	-0.17	0.10	1.78	6.72	3.78	11.87	0.47
EU CORPORATE TR	EUR	249.31	0.01	-0.29	0.11	0.32	0.77	3.01	1.52	6.98	0.93
EU HIGH YIELD TR	EUR	277.70	0.08	-0.18	0.23	0.55	2.14	4.55	3.32	5.32	3.94
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	333.72	0.17	0.07	1.73	2.12	3.51	2.01	4.18	5.45	4.68
S&P/LSTA U.S. LEV LOAN	USD	96.67	0.05	0.09	0.41	0.56	1.14	-0.09	1.39	-1.42	4.73
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,217.42	1.99	0.09	8.44	7.04	10.41	-23.76	-0.48	-36.25	
GSCI ENERGY TR	USD	654.01	2.70	0.49	13.90	12.93	19.39	-30.31	3.82	-43.28	
GSCI INDUSTRIAL METALS TR	USD	1,207.45	-0.42	-1.85	0.56	-1.46	2.22	-10.19	-4.55	-9.92	
GSCI PRECIOUS METALS TR	USD	1,471.75	0.58	-0.58	0.31	-0.27	-8.43	-3.63	0.76	-8.81	
GSCI AGRICULTURE TR	USD	490.32	0.69	0.11	0.26	-3.16	-4.95	-7.86	-9.45	-30.33	
GENERIC 1ST 'CL' FUTURE	USD	57.74	-0.16	0.98	17.77	17.99	19.46	-31.89	2.91	-42.01	
GOLD SPOT \$/OZ	USD	1,194.02	0.04	-0.81	0.92	0.10	-7.69	-2.95	0.82	-7.64	
CURRENCIES											
DOLLAR INDEX SPOT	USD	97.28	-0.34	-0.58	-1.43	-0.25	2.31	13.09	7.40	21.49	
Euro Spot	EUR	1.08	0.47	0.64	1.34	-0.45	-3.23	-14.17	-10.11	-21.37	
Japanese Yen Spot	JPY	119.58	0.23	-0.34	0.70	0.39	-0.70	-9.34	0.40	-14.23	
British Pound Spot	GBP	1.51	0.52	1.16	2.15	1.92	0.38	-5.93	-2.83	-9.92	
Brazilian Real Spot	BRL	2.97	1.35	1.68	7.81	5.44	-13.15	-15.84	-10.54	-25.21	
China Renminbi Spot	CNY	6.20	-0.01	-0.01	0.02	0.12	0.92	-1.32	0.12	0.84	
Singapore Dollar Spot	SGD	1.34	0.41	0.73	2.70	2.28	0.64	-4.56	-0.80	-5.84	
Norwegian Krone Spot	NOK	7.83	0.62	0.67	3.80	0.99	0.30	-15.20	-4.22	-22.87	
VOLATILITY / LIQUIDITY INDICES											
CBOE SPX VOLATILITY INDX	USD	12.48	-1.81	-0.95	-18.38	-8.37	-25.09	-22.53	-35.00	-6.31	
USD SWAP SPREAD SEMI 2YR		26.31	0.49	1.19	5.21	0.72	2.68	2.92	15.26	151.81	
TED SPREAD		25.67	-0.19	-1.23	2.48	-3.79	6.56	12.34	16.63	20.18	

All data is compiled from Bloomberg

Bedrock Newsletter

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