

It is Friday, May first. Labour-day and much of the world is resting in celebration. A good thing, as the markets need a break for reflection. We had the FOMC statement on Wednesday which was rather dovish, i.e., they re-holstered their interest-rate guns. Oil flared up (now almost \$60 for WTI) and the US\$ is under downwards pressure. Ten year US Treasury yields rose through 2%, now at 2.05%. Well, if a dovish outlook on short dated interest rates makes the longer dated interest rates rise, would a rise in short rates cause the long yields to fall? Well, there are analysts who expect the benchmark ten year Treasury to fall in yield to 1% should the Fed finally start to tighten (now broadly expected for September). Whilst we embrace the view that indeed, a US tightening could cause a flattening of the yield curve, we hold our doubts that an FOMC action is in the cards: There is no inflation in the USA, so other than a political reason, we can't rationalise such a move - This week we saw evidence that the US economy stalled in Q1 as weather and lower energy prices bit resulting in GDP expanding at 0.2% annual rate (where is the great gain from lower oil????). A big step down from Q4 pace of 2.2% and lower than the consensus 1.0% expectation. The horrid Q1 weather is widely blamed for this slowdown but then, could it be the very strong Dollar which pulled the handbrake? After all, a rising currency is equivalent to a tightening... The fallen oil has caused CAPEX cutbacks by many big players - Schlumberger slashed its capital spending plans from \$3Bn to \$2.5Bn, and competitor Haliburton riposted with a 15% cut of its own.

The Eurozone ended four months of deflation in April, with official data on Thursday showing that prices were unchanged from a year ago; in line with market expectations, following a 0.1% fall in March. Core inflation in the euro area, which strips out volatile energy and food costs, was unchanged at 0.6% from a year earlier, Eurostat said. Yes, the ECB's action has dropped the Euro as planned! Bravo Mario!

Many have been bullish on Japan since Abe's election and indeed, the Japanese equities have rallied into a falling yen. Well, whilst we supported the bullish sentiment on Japan, Fitch this week turned against this view and downgraded Japan from "A+" to "A". Well, diversity of opinion is the base definition of a market, or so it is generally believed...

Talking about faiths, the American energy revolution is based on the new science of fracking. But as with Ying and Yang, there is now a growing faction of "Oil Protestants" where some scientists are now more certain than ever that oil and gas drilling is causing hundreds upon hundreds of earthquakes across the US. Seismologists warn that the shaking can dramatically increase the chances of bigger, more dangerous quakes. Up to now, the oil and gas industry has generally argued that any such link requires further study. Doesn't this remind you of the Asbestos and smoking "studies", or perhaps the safe nuclear energy (Chernobyl, Fukushima)? Just like the energy, tobacco and construction industries, the oil industry creates jobs and tax revenues... The Oklahoma Geological Survey acknowledged earlier this week that it is "very likely" that recent seismic activity was caused by the injection of wastewater into disposal wells. Earthquake activity in Oklahoma in 2013 was 70 times greater than it was before 2008, state geologists reported. Oklahoma historically recorded an average of 1.5 quakes of magnitude 3 or greater each year. It is now seeing an average of 2.5 such quakes each day, according to geologists. Well, whilst very far away from Oklahoma, Kathmandu shows us how devastating an earthquake can be. The American Petroleum Institute said the industry is working with scientists and regulators "to better understand the issue and work toward collaborative solutions." Oil prices have risen some 20% in April for their strongest recovery since the selloff that began in June last year. The rebound was partly on the notion that a global supply glut that drove prices down by half since last summer may be easing with higher demand ahead of the peak driving season in the United States. Energy entrepreneur T.Boone Pickens said on Monday that he is standing by his call that oil goes higher this year and further next year. Pickens predicts \$70 per barrel of oil by the end of this year and prices in the \$90 to \$100 range in the next 12 to 18 months.

Away from oil and natural disasters, Apple reported its Q1 results. Other than significantly beating expectations on both top and bottom lines, Apple's results were the second best reported by ANY company EVER (behind themselves from last quarter)! Isn't this good enough to justify their biggest market capitalization of any enterprise on our planet?

Perhaps these little unconnected bits of information are painting a picture which explains the general lack of fear in the markets? After a swift surge in late March and early April, gold prices have turned around, losing 2% in the past two weeks. The pros say that with a general lack of fear in the market, there's little reason to jump into the yellow metal just yet. The lack of fear is also weighing on the CBOE Volatility Index, which generally measures how much investors are willing to pay for "insurance" on the S&P 500. Last Friday, the VIX closed at its lowest level of the year. As we write, Gold is at \$1'181 and the VIX at 14.5 having risen late Thursday. Well, Marc Faber, "Dr. Gloom" predicted this week "Stocks are about to fall 40%—at least!". Well, he has been saying this periodically over the greatest stock rally in history. Dennis Gartman turned worried if to a lesser extent- He thinks a 5% to 8% market correction is in the cards. "It's not going to get ugly bad; it's not going to get ugly for a long period of time. I think it's going to get ugly swiftly and I think it's going to make a lot of people very nervous". One day they may be right, but we doubt this is due anytime soon - We remain constructive on equities and indifferent to bonds of all kinds - Neither bullish nor worried there.

It is springtime now, and we quote into this socialist weekend Robin Williams who said, "Spring is nature's way of saying, 'let's party'..."

## This Week's Highlights:

- This week's movement was totally dominated by the USD which suddenly turned south with the DXY (US Dollar Index) dropping 2.3% so far, sliding from above 97.00 to touch 94.50. EURUSD has soared on USD weakness, jumping from 1.0820 to hit 1.1270 this morning and this is with negative Italian PPI and an unemployment rate that has jumped to 13%. Regardless of the UK's worries surrounding the election outcome next week, the USD weakness has trumped all fundamentals and GBP moved from 1.51 to briefly hit 1.5498 only to trickle back to 1.5385. The CHF rallied this week, with the USD dropping from 0.96 to 0.9310, however EURCHF managing to move higher from 1.0350 to 1.0525. In fact the JPY seems to be one of the few currencies bucking the trend as the USD moved up from 118.60 to 119.80 in two days. In the emerging markets, the RUB has remained steady at or around 51.50 despite oil prices moving higher and the central bank cutting the benchmark rate by more than expected to 12.5%. Moving to Brazil, any strength that had appeared in the currency seems to have been short lived as the USD weakness was brushed aside and the Real dropped 2%, closing yesterday back above 3.01 – perhaps an equilibrium point for the short term? The Chinese Yuan was almost unchanged on the week at a shade above 6.20.
- US 10Yr Treasury followed on from last week's move, rising from 1.91% to hit 2.10% yesterday. The German 10Yr Bund like wise, dropping in price and sending the yields higher from 0.16% to hit 0.38%. The Spanish 10Yr yield remained stable but did slip slightly moving higher to 1.55% from 1.40%. Italian 10Yr followed the same line as Spain but with a slightly larger move, moving from 1.44% to briefly touch 1.60%. In the UK, it would appear that worries about the impending possible addition of Sturgeon, Salmon(d) et al to the government has been "cast" aside and the yields moved higher from 1.65% to 1.88%. Perhaps their "trolling" has been noted by the electorate and they are less worried about a left leaning government. Swiss 10Yr yields have turned positive this week, with the bonds selling off in sympathy to the rest of the world's government bonds, sending the yield from -0.10% to a stratospheric 0.04%.
- In general the US equity markets are lower on the week as Biotechs and the USD weigh on the markets. Both the Dow and the S&P500 were around -1.4% this week as at yesterday's close, with the NASDAQ being -3.0%; it is looking likely that they will all move slightly higher on the open today but for now it looks a little ugly – having said that we are only 1.9% away from the all time low we saw on Tuesday of this week for the S&P, so it really is all relative. Europe saw the DAX -3.0%, CAC -3.0% and the UK FTSE at -1.6%; as most markets are shut today we won't have any update for Friday. In the Emerging Markets the Bovespa was down by 0.65%, Russian stocks are up by 1.5% on the MICEX again and in China the Shanghai Composite was also up 1.10%.

# Bedrock Newsletter

Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

30/04/2015

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	2,085.51	-1.01	-1.30	0.00	1.25	4.54	3.34	1.29	10.71	17.49
DOW JONES INDUS. AVG	USD	17,840.52	-1.08	-1.21	0.00	0.80	3.94	2.59	0.10	7.74	16.05
NASDAQ COMPOSITE INDEX	USD	4,941.42	-1.63	-2.27	0.00	1.25	6.61	6.71	4.34	19.72	19.20
RUSSELL 2000 INDEX	USD	1,220.13	-2.15	-4.04	0.00	-2.52	4.70	3.97	1.28	8.36	18.90
EURO STOXX 50	EUR	3,615.59	0.04	-2.65	0.00	-2.67	7.88	16.13	14.91	13.03	15.71
EURO STOXX 600	EUR	395.79	-0.30	-3.34	-0.26	-0.94	7.55	17.21	15.25	16.63	16.75
CAC 40 INDEX	EUR	5,046.49	0.32	-2.56	0.00	-0.31	9.61	19.22	18.11	12.46	16.42
<b>DAX INDEX</b>	EUR	11,454.38	0.19	-2.30	0.00	<b>-4.56</b>	7.11	22.81	16.82	19.28	14.76
FTSE 100 INDEX	GBP	6,960.63	0.26	-2.08	-0.53	1.68	2.58	5.76	5.45	1.69	16.56
SWISS MARKET INDEX	CHF	9,077.12	-0.21	-2.80	0.00	-0.66	8.25	2.71	1.04	7.08	18.01
NIKKEI 225	JPY	19,520.01	-2.69	-3.25	0.06	2.61	10.51	19.00	11.92	34.84	18.66
<b>HANG SENG INDEX</b>	HKD	28,133.00	-0.94	1.10	0.00	<b>12.16</b>	14.80	17.23	19.18	27.10	13.53
<b>SHANGHAI SE.COMPOSITE</b>	CNY	4,441.66	-0.77	0.61	0.00	<b>16.57</b>	38.35	83.53	<b>37.31</b>	119.19	17.89
<b>S&amp;P BSE SENSEX INDEX</b>	INR	27,011.31	-0.79	-2.61	0.00	<b>-4.42</b>	-7.44	-3.07	-1.77	20.49	15.24
<b>RUSSIAN RTS INDEX \$</b>	USD	1,029.31	-0.19	0.08	0.00	<b>13.06</b>	39.60	-5.69	<b>30.18</b>	-10.94	6.52
<b>BRAZIL IBOVESPA INDEX</b>	BRL	56,229.38	1.63	0.98	0.00	<b>7.47</b>	19.87	2.93	12.44	8.92	13.69
MSCI WORLD	USD	1,778.40	-0.95	-1.19	0.00	2.32	6.01	4.12	4.02	5.21	17.23
MSCI WORLD HEDGED	USD	746.92	-0.82	-1.55	1.03	0.18	6.53	9.72	5.89	14.16	-
MSCI WORLD LOCAL	-	1,342.77	-0.83	-1.58	0.86	0.00	5.90	8.82	5.25	12.17	-
MSCI AC WORLD	USD	436.30	-0.96	-1.19	0.00	2.77	6.33	4.02	4.60	5.21	16.63
MSCI EM	USD	1,047.78	-1.10	-1.20	0.00	6.60	8.96	3.12	9.56	5.20	12.93
MSCI AC ASIA x JAPAN	USD	631.68	-0.86	-1.24	0.00	6.71	9.35	9.76	12.05	15.13	13.36
MSCI EM LATIN AMERICA	USD	2,692.91	-1.12	0.43	0.00	6.88	5.38	-14.74	-1.28	-17.32	15.26
MSCI EM Eur, ME & Africa	USD	296.29	-1.32	0.48	0.00	6.43	9.28	-3.50	9.42	-6.35	11.72
EQUITY MARKET INDICES - BY SECTOR											
<b>MSCI ENERGY</b>	USD	246.35	-0.34	0.86	0.00	<b>8.15</b>	9.52	-6.93	3.59	-16.28	25.02
MSCI MATERIALS	USD	234.15	-1.06	-0.20	0.00	3.64	5.79	3.64	4.98	-4.85	17.69
MSCI INDUSTRIALS	USD	205.73	-0.81	-0.83	0.00	1.88	5.35	3.56	3.22	1.92	17.01
MSCI CONS DISCRETIONARY	USD	198.25	-1.08	-2.04	0.00	1.37	7.83	11.75	6.47	12.63	18.05
MSCI CONS STAPLES	USD	205.27	-0.48	-1.45	0.00	0.77	1.43	4.37	2.68	5.06	20.42
MSCI HEALTH CARE	USD	215.07	-0.96	-2.96	0.00	0.64	5.23	7.99	7.59	18.38	18.80
MSCI FINANCIALS	USD	105.49	-0.86	-0.36	0.00	2.23	8.22	2.26	2.66	3.25	13.79
MSCI INFO TECH	USD	146.08	-1.71	-1.81	0.00	2.31	6.82	6.60	3.40	17.51	17.33
MSCI TELECOMS	USD	72.72	-0.91	-0.03	0.00	4.80	5.36	3.25	6.38	1.35	16.62
MSCI UTILITY	USD	118.21	-0.98	-1.43	0.00	1.56	-4.94	-3.82	-3.94	-2.41	16.11
MSCI WORLD REAL ESTATE	USD	199.92	-1.06	-1.82	0.00	-0.88	-1.62	2.69	2.81	8.85	25.41

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	
HEDGE FUND INDICES											
HRFX GLOBAL HEDGE FUND	USD	1,249.24	-0.18	-0.33	0.46	0.69	2.73	2.86	2.53	1.57	
HRFX EQUAL WEIGHTED	USD	1,218.80	-0.04	-0.14	0.39	0.56	2.40	1.85	2.31	0.83	
HRFX GLOBAL EUR	EUR	1,150.55	-0.19	-0.37	0.36	0.60	2.80	2.34	2.31	1.00	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.00	0.00	-0.02	0.00	-0.02	0.00	-0.01	-0.04	-0.02	
US 2 YEAR	USD	0.58	0.01	0.08	0.01	0.04	0.13	0.09	-0.09	0.17	
US 10 YEAR	USD	2.05	0.02	0.15	0.02	0.20	0.41	-0.28	-0.12	-0.56	
FIXED INCOME INDICES - BY TYPE OF ISSUER											
										Yield to Worst	
GLOBAL AGG TR HEDGED	USD	481.82	-0.13	-0.59	-0.66	-0.45	-0.58	2.78	1.27	6.05	1.51
US GOVERNMENT TR	USD	2,099.78	-0.06	-0.44	-0.50	-0.35	-1.37	1.88	1.10	4.12	1.51
US CORPORATE TR	USD	2,628.80	-0.11	-0.91	-0.70	-0.50	-1.39	2.16	1.80	4.81	2.99
US HIGH YIELD TR	USD	1,681.95	0.00	-0.03	1.21	1.24	3.08	1.83	<b>3.76</b>	2.58	5.95
EU GOVERNMENT TR	EUR	245.31	-0.28	-1.14	-1.30	-1.05	0.47	5.19	2.60	10.35	0.58
EU CORPORATE TR	USD	247.84	-0.28	-0.59	-0.48	-0.39	0.02	2.15	0.92	5.92	1.02
EU HIGH YIELD TR	EUR	278.01	-0.07	0.11	0.35	0.37	2.36	4.36	<b>3.44</b>	5.18	3.92
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	333.46	-0.12	-0.08	1.85	<b>1.69</b>	3.51	1.45	<b>4.09</b>	5.31	4.69
S&P/LSTA U.S. LEV LOAN	USD	96.64	-0.11	-0.03	0.00	0.43	1.31	-0.58	1.35	-1.77	4.76
COMMODITY INDICES - BY TYPE OF ISSUER											
<b>GSCI INDEX TOTAL RETURN</b>	USD	3,295.22	1.06	2.42	<b>11.06</b>	9.47	10.19	-21.87	1.93	-34.21	
<b>GSCI ENERGY TR</b>	USD	674.30	1.66	3.10	<b>17.43</b>	15.58	17.18	-27.90	7.04	-40.66	
GSCI INDUSTRIAL METALS TR	USD	1,295.64	2.73	7.30	7.91	6.90	8.43	-5.19	2.42	-1.57	
GSCI PRECIOUS METALS TR	USD	1,461.46	-2.39	-0.70	-0.39	-0.80	-7.53	-1.67	0.05	-9.99	
<b>GSCI AGRICULTURE TR</b>	USD	481.06	-0.82	-1.89	-1.64	-3.73	-3.96	-11.18	<b>-11.16</b>	-33.35	
<b>GENERIC 1ST 'CU' FUTURE</b>	USD	59.63	0.05	4.39	0.05	<b>15.98</b>	17.19	-29.12	<b>6.50</b>	-38.43	
GOLD SPOT \$/OZ	USD	1,184.37	-0.22	0.20	-0.22	-1.84	-7.94	0.71	-0.26	-7.98	
CURRENCIES											
DOLLAR INDEX SPOT	USD	94.60	0.09	-2.31	0.09	-3.57	-0.13	8.93	4.89	19.06	
<b>Euro Spot</b>	EUR	1.12	0.18	3.41	0.18	<b>4.47</b>	-0.86	-9.92	<b>-7.06</b>	-18.93	
Japanese Yen Spot	JPY	119.38	-0.38	-0.71	-0.38	-0.07	-1.89	-4.83	-0.05	-14.61	
British Pound Spot	GBP	1.54	0.20	1.28	0.20	3.77	2.28	-3.69	-1.25	-8.94	
<b>Brazilian Real Spot</b>	BRL	3.01	-1.76	-1.45	0.00	<b>6.04</b>	-9.52	-17.80	<b>-11.84</b>	-25.95	
China Renminbi Spot	CNY	6.20	-0.06	-0.09	0.00	-0.06	0.91	-1.45	0.04	0.91	
Singapore Dollar Spot	SGD	1.32	-0.02	0.62	-0.02	2.97	2.12	-2.47	0.12	-5.37	
<b>Norwegian Krone Spot</b>	NOK	7.53	0.01	3.20	0.01	<b>6.64</b>	1.56	-9.71	-1.07	-21.09	
VOLATILITY / LIQUIDITY INDICES											
<b>CBOE SPX VOLATILITY INDEX</b>	USD	<b>14.55</b>	8.66	16.59	0.00	-3.71	-30.62	3.71	-24.22	9.81	
USD SWAP SPREAD SEMI 2YR	USD	25.31	0.99	-4.45	0.99	0.47	5.40	22.06	11.42	102.06	
TED SPREAD	USD	27.88	-1.50	8.61	11.30	7.64	10.15	22.86	26.67	40.74	

All data is compiled from Bloomberg

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