

Sell in May... only to buy something else, clearly! The US 10Year yield is only marginally higher by 17 basis points on the month. With US equities moving higher, the S&P 500 index put in a new all-time high yesterday at 2,121 with the Dow Jones Industrial Average a mere 0.20% away from its all-time and even the Nasdaq at 5,050 is less than 1% from its high of 5,091. Perhaps the warm weather has the market believing we are already in the summer months! Elsewhere we have seen the catastrophic devastation caused by the earthquakes in Nepal and in Greece negotiations continued with the EU. When in doubt about your bail-out, "who you gonna call?"... Well, if you are Greece and you owe the IMF a large interest payment, surely you simply give the IMF some of their own cash to fund it? Although this was an accounting sleight of hand, it is not that different from the practices that have been employed during the many US debt ceiling issues; granted it may not be possible next time round, but for now the Greeks are servicing their debts. German inflation surprised to the upside - but it has done so every month this year, thus it is not as a direct result of European QE per se. The German 10 Yr Bunds have sold off and as such the yields have moved higher. Real yields remain low and nominal yields are below nominal GDP in most instances. So naturally the media who lack a front page story have proclaimed the popping of the Bond Bubble with the uptick in yields. We do not disagree that the Bond world has to be a bubble, but is it popping now...? We are not so sure.

In Physics, a bubble is maintained when the surface tension on a film is in equilibrium with the differential pressure from inside to outside the bubble. A bubble can be burst in many ways, introducing impurities, oscillations that cause the shape to change or simply by popping the bubble with a very large pin. The media in the last week or so has been extremely quick to point out that the recent 40 basis point move up in the 10 year US Treasury yield marks the end of the 30 year bull rally in the bond markets. And that the equilibrium has been destabilised; that the "impurities" in the market caused by central bank intervention (and now the possible reversal of the Interest Rate cuts) has caused the bond bubble to burst... Well, as always, we at Bedrock have decided to read the markets rather than the news. To do so we think there are a few points that need to be understood; where should the 10 Yr Treasury be trading? What has caused the situation we are in now? Has the equilibrium been fundamentally changed?

Outside of the Foreign Exchange markets, the Bond market is the most liquidly traded market on the globe. In principal over the long term, the bond market is the most rational and mathematically correct pricing source available to investors. Historically, the 10 Year Treasury has traded at 300 Bps over the inflation rate. When left to the market forces alone this has held true in the long run. Let's assume that real inflation is at 0% for now, the US 10 Year Treasury should be at 3%. Well we are now 2.20%, so you can clearly see the effects of the Central Bank intervention on the pricing. Yes, there seems like a fundamental mismatch between the pricing on Government paper; but with the Government as a natural buyer, it is artificially keeping the price slightly elevated... but not THAT elevated. In Europe, inflation should kick in some time in Q3. Yet yields on the 10 Yr German Bund are a meagre 0.60%. Germany is not Europe, but it is the engine that is well lubricated and still functioning – based on the recent import data, the normally cautious spenders have increased their imports, so perhaps there is indeed reason to be positive here! But with yields this low it certainly would appear to be a disaster waiting to happen.

So what has happened in the US that we can use as a guide for the European interest rate environment? A large scale investor (the US government) has been buying regardless of the price, forcing yields lower and maintaining the yields at below market driven rates. The same is happening in Europe with the ECB bond buying program, but we are much earlier in the investment cycle with a minimum of another 18 months of 60Bn EURs to be pumped into the system - a little under 1.1 Trillion Euros in total still to come. Even Greek debt has been oversubscribed by 1.3 times at every auction this year!

Fundamentally has anything changed? Well, the FED is still rolling over its expiries and purchasing debt, it is still reinvesting the coupons and the balance sheet is relatively steady – bloated, but steady nonetheless. In Europe, the balance sheet is increasing and the accommodative monetary policy is still in place and should remain there for the foreseeable future. So in reality, QE in whatever form is likely to keep yields low. We are certainly not denying there is a bubble; in fact we believe that this is one of the most precariously positioned investments in the world at the moment. However, we do not believe that this will be changing overnight; equally we would not be advising to buy now.

Let's look backwards for once, the US economy in 2008 had 23 million full time jobs and after \$4 Trillion of QE the economy has managed to regain some footing to see 21 million today. If the economy stabilises at these levels of adding around 200K jobs a month, by the end of the year the US employment data should show an economic recovery back to the heady days of 7 years ago. We remain positive and are not worried about new highs in the equity markets, in fact with innovation and low rates we believe that these will continue to be beaten. We look forward to higher highs!

This Week's Highlights:

- This week's movement was again dominated by the USD which continued to trend downwards; with the DXY (US Dollar Index) dropping 1.1% so far, sliding from above 95 to 93.60. EURUSD moved higher throughout the week from 1.12 to move up to 1.1410. With the UK election passed, the Pound has surged again from 1.5450 to 1.5760. The CHF rallied again this week, with the USD dropping from 0.9350 to below 0.9160, EURCHF regaining the ground it had lost, gently gliding higher from 1.03 to touch 1.0430 today. In fact the JPY seems to be one of the few currencies bucking the trend with USDJPY almost unchanged on the week at 119.80. In the emerging markets, the RUB has risen slightly, sending the USDRUB to hit 49.00 with oil prices moving higher but looking to close out the week at the moment at around 50.00. Moving to Brazil, the Real has remained relatively steady, oscillating around 3.00 – 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 had a bumpy week, the yields temporarily soared from 2.12% to hit 2.37%, however, this has since rectified itself and the yields are now back to a more reasonable level of 2.18%. The German 10Yr Bund likewise had a tough week, dropping in price and sending the yields flying from 0.55% to hit 0.75% - we have subsequently moved lower in yields dropping back to 0.63%. The Spanish 10Yr yield moved higher to hit 1.95% but slipped back to 1.77%. Italian 10Yr followed the same line as Spain, moving back down from 1.95% to be at 1.78% now. In the UK, the yields are slightly higher on the Gilts at 1.94%. Swiss 10Yr yields have remained positive this week, with the bonds yielding 0.05%.
- In general the US equity markets are higher on the week. Both the Dow and the S&P500 were around +0.30% this week as at yesterday's close, with the NASDAQ being +0.94%; with the S&P 500 putting in a new all-time high of 2,121 as at yesterday's close. Europe saw the DAX at -0.74%, CAC40 at -0.67% and the UK FTSE at -0.68%. With the Shanghai +2.44% and the Nikkei +1.83%.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

14/05/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2121.1	1.09	1.59	1.71	0.89	1.15	3.98	3.02	13.38	59.40	17.73
DOW JONES INDUS. AVG	USD	18252.24	1.08	1.83	2.31	0.77	1.29	3.50	2.41	10.98	44.49	16.35
NASDAQ COMPOSITE INDEX	USD	5050.795	1.39	2.13	2.21	0.79	3.21	7.73	6.85	24.12	74.54	19.33
RUSSELL 2000 INDEX	USD	1245.106	1.05	1.60	2.05	-2.37	1.80	6.07	3.35	13.61	60.17	19.03
EURO STOXX 50	EUR	3802.22	1.41	-0.95	-0.02	-4.96	4.85	18.13	14.88	14.27	85.92	15.71
EURO STOXX 600	EUR	397.99	0.71	-0.07	1.03	-3.42	6.05	19.14	16.74	18.13	62.71	16.97
CAC 40 INDEX	EUR	5029.31	1.38	-0.82	0.04	-3.91	6.08	20.14	18.16	13.58	68.11	16.42
DAX INDEX	EUR	11559.82	1.84	-0.87	1.34	-5.10	5.88	25.45	18.38	20.21	81.34	14.67
FTSE 100 INDEX	GBP	6973.04	0.53	-0.68	0.55	-1.38	1.82	5.17	6.59	2.31	28.71	16.94
SWISS MARKET INDEX	CHF	9050.66	0.06	3.07	0.76	-2.86	5.71	2.59	1.81	6.21	55.86	18.18
NIKKEI 225	JPY	19570.24	-0.98	1.83	1.09	-0.69	10.16	12.82	13.08	38.01	121.70	18.87
HANG SENG INDEX	HKD	27286.55	0.14	0.63	-1.35	0.48	12.44	15.21	17.57	22.09	39.50	13.34
SHANGHAI SE COMPOSITE	CNY	4378.312	0.07	2.44	-2.99	5.50	34.49	73.82	33.20	112.78	81.43	17.36
S&P BSE SENSEX INDEX	INR	27206.06	-0.17	0.80	1.15	-5.13	-6.10	-2.59	-0.85	14.29	67.33	15.48
RUSSIAN RTS INDEX \$	USD	1054.9	-2.51	0.09	3.15	0.89	16.16	6.13	34.27	-15.27	-24.20	6.54
BRAZIL IBOVESPA INDEX	BRL	56856.57	0.50	-0.47	0.76	3.16	11.99	9.43	13.30	5.20	0.74	12.87
MSCI WORLD	USD	1803.42	0.78	0.49	1.41	1.10	2.92	5.02	5.48	7.20	48.55	17.37
MSCI WORLD HEDGED	USD	753.894	0.73	1.44	0.93	-0.28	3.11	7.77	6.88	14.32	68.89	-
MSCI WORLD LOCAL	-	1352.777	0.71	1.33	0.75	-0.58	2.41	6.76	6.04	12.35	57.29	-
MSCI AC WORLD	USD	441.22	0.72	0.44	1.13	0.97	3.14	4.97	5.78	6.48	43.41	16.73
MSCI EM	USD	1035.8	0.19	0.08	-1.14	-0.10	4.98	4.54	8.31	0.65	9.48	12.76
MSCI AC ASIA x JAPAN	USD	619.18	0.18	-0.08	-1.98	-1.42	6.08	8.38	9.84	9.67	26.56	13.19
MSCI EM LATIN AMERICA	USD	2728.9	0.81	1.36	1.34	3.71	3.07	-8.56	0.04	-18.84	-21.93	15.15
MSCI EM Eur, ME & Africa	USD	297	-0.26	0.91	0.24	2.70	2.80	-1.56	9.69	-9.48	-3.75	11.55

EQUITY MARKET INDICES - BY SECTOR

P/E

MSCI ENERGY	USD	241.51	0.10	-0.89	-1.96	-1.12	-0.84	-6.64	1.56	-17.72	8.40	23.92
MSCI MATERIALS	USD	239.64	0.47	0.60	2.34	3.65	1.46	4.85	7.44	-3.28	14.26	18.24
MSCI INDUSTRIALS	USD	209	0.68	0.87	1.50	0.96	2.67	4.40	4.86	3.86	40.56	17.29
MSCI CONS DISCRETIONARY	USD	200.38	0.53	-0.14	1.07	0.51	3.27	10.92	7.61	15.34	68.64	18.09
MSCI CONS STAPLES	USD	206.35	1.18	0.78	1.99	0.53	1.93	4.70	4.72	6.64	39.46	20.71
MSCI HEALTH CARE	USD	219.96	1.13	0.68	2.27	0.01	5.71	10.63	10.04	21.50	91.14	18.96
MSCI FINANCIALS	USD	107.21	0.55	0.58	1.63	1.83	4.20	4.25	4.33	5.95	58.19	13.93
MSCI INFO TECH	USD	149.43	1.52	1.23	2.29	2.36	2.82	6.61	5.77	21.29	57.78	17.72
MSCI TELECOMS	USD	72.5	0.08	-0.06	-0.30	2.18	1.27	1.16	6.06	0.18	32.20	16.42
MSCI UTILITY	USD	118.52	0.84	-0.03	0.26	0.53	-0.17	-1.72	-3.69	-0.55	19.34	16.05
MSCI WORLD REAL ESTATE	USD	200.48	1.04	0.12	0.28	-1.10	-2.03	3.10	3.10	6.75	31.00	25.35

INDEX NAME

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1243.1	-0.05	0.15	-0.25	-1.16	1.23	1.73	2.03	1.01	9.42
HFRX EQUAL WEIGHTED	USD	1215.82	-0.02	0.14	-0.07	-0.52	1.44	1.84	2.07	0.65	8.45
HFRX GLOBAL EUR	EUR	1144.64	-0.03	0.14	-0.27	-1.27	1.08	1.43	1.79	0.47	7.97

MARKET INDICES PERFORMANCE

14/05/2015

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.0101	0.00	0.01	0.01	0.00	0.01	0.01	-0.03	-0.01	-
US 2 YEAR	USD	0.5443	0.00	-0.03	-0.02	0.05	-0.10	0.03	-0.12	0.19	-
US 10 YEAR	USD	2.195	-0.04	0.05	0.16	0.31	0.14	-0.13	0.02	-0.29	-

FIXED INCOME INDICES - BY TYPE OF ISSUER

Yield to Worst

GLOBAL AGG TR HEDGED	USD	476.22	0.07	-0.29	-1.12	-1.97	-0.77	1.40	0.14	4.19	11.13	1.64
US GOVERNMENT TR	USD	2082.48	0.17	-0.17	-0.82	-1.49	-0.51	1.04	0.26	2.68	3.63	1.64
US CORPORATE TR	USD	2592.89	0.23	-0.40	-1.37	-2.52	-1.10	1.09	0.21	2.48	11.83	3.12
US HIGH YIELD TR	USD	1682.25	0.05	0.16	0.02	0.27	1.85	1.96	3.78	2.00	23.97	6.02
EU GOVERNMENT TR	EUR	239.59	0.01	-0.70	-2.33	-3.66	-1.86	2.25	0.21	6.95	22.58	0.80
EU CORPORATE TR	USD	245.5	-0.04	-0.26	-0.94	-1.77	-1.19	0.66	-0.03	4.14	19.01	1.16
EU HIGH YIELD TR	EUR	276.83	-0.03	0.21	-0.42	-0.64	1.10	3.27	3.00	4.08	36.73	3.98
JACI GLOBAL	USD	251.853	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	25.72	-
GLOBAL EM TR (HEDGED)	USD	332.4613	0.00	0.11	-0.30	-0.32	2.60	1.75	3.78	3.59	16.88	4.72
S&P/LSTA U.S. LEV LOAN	USD	96.57312	-0.02	-0.05	-0.07	0.02	0.51	-0.69	1.29	-2.15	2.25	4.79

COMMODITY INDICES - BY TYPE OF ISSUER

GSCI INDEX TOTAL RETURN	USD	3323.46	0.07	1.82	0.86	7.53	3.22	-17.83	2.80	-34.09	-30.40
GSCI ENERGY TR	USD	678.125	-0.42	1.85	0.57	10.50	5.06	-22.63	7.65	-41.07	-36.72
GSCI INDUSTRIAL METALS TR	USD	1274.228	-0.73	-1.21	-1.65	5.67	5.68	-6.05	0.72	-6.34	-17.80
GSCI PRECIOUS METALS TR	USD	1521.522	0.67	4.02	4.11	3.28	-0.16	3.46	4.16	-7.26	-25.15
GSCI AGRICULTURE TR	USD	489.3343	2.37	2.88	1.72	0.17	-6.04	-10.14	-9.63	-29.95	-24.36
GENERIC 1ST 'CL' FUTURE	USD	59.88	-0.65	0.17	-0.23	3.03	7.29	-25.12	6.19	-39.89	-37.65
GOLD SPOT \$/OZ	USD	1221.06	-0.04	2.71	3.05	1.49	-0.72	2.68	3.01	-5.83	-20.96

CURRENCIES

DOLLAR INDEX SPOT	USD	93.457	0.08	-1.33	-1.13	-4.87	-0.71	6.86	3.61	16.91	15.16
Euro Spot	EUR	1.141	-0.14	1.74	1.51	6.65	0.34	-8.48	-5.82	-16.89	-10.49
Japanese Yen Spot	JPY	119.18	-0.23	0.26	-0.06	-0.26	-0.81	-2.34	0.28	-14.96	-32.88
British Pound Spot	GBP	1.5776	-0.07	2.01	2.70	6.22	2.62	0.79	1.21	-6.10	-1.43
Brazilian Real Spot	BRL	2.9942	1.51	1.06	0.68	2.31	-5.33	-13.11	-11.24	-26.45	-33.33
China Renminbi Spot	CNY	6.2016	-0.05	0.07	-0.03	0.00	0.71	-1.26	0.01	0.40	1.82
Singapore Dollar Spot	SGD	1.3205	-0.24	0.36	0.00	2.52	2.51	-1.90	0.14	-5.39	-4.70
Norwegian Krone Spot	NOK	7.3705	0.30	1.76	2.50	6.49	3.00	-7.68	1.40	-19.02	-18.34

VOLATILITY / LIQUIDITY INDICES

CBOE SPX VOLATILITY INDX	USD	12.74	-7.41	-15.80	-12.44	-0.78	-13.27	-4.28	-33.65	-3.26	-42.01
USD SWAP SPREAD SEMI 2YR		25.94	1.20	-1.87	3.71	-0.94	0.00	23.53	14.43	84.21	-32.92
TED SPREAD		26.59	2.78	-2.89	-4.63	2.11	5.52	17.14	20.81	29.64	-29.93

All data is compiled from Bloomberg

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