

It is Friday, at last. A strange week in the markets, marked by bursts of volatility in certain asset classes and regions. Greek stories were hovering over sudden and huge selloffs in Chinese equities which in-turn caused some scary drops in oil and iron commodities, some rather disturbing intra-day gyrations in US and European equity indices. Unnerving... We do observe that the main drivers for these movements have subsided into Friday - The Greeks have presented their creditors and the world with a compromise package of budgets, expenses and a request for yet another chunk of money. The Chinese government has announced a series of measures to calm their stock-markets, Yellen spoke and presented the minutes of the FOMC meeting, John Kerry extended yet again the latest deadline for the nuclear negotiations with Iran. Oh yes, we didn't get any nasty images or reports on ISIS, Yemen, Iraq or Syria for a while (or were they hidden behind the other headlines?). Perhaps we are now set for a quiet "next week"?

We have made an un-scientific observation about volatility which we feel could be of interest - it is as if the world requires a certain fixed amount of volatility across all asset classes in order to maintain its spin. We started the year with a huge drop in oil and other commodities. These jumped around till March. At the same time, bonds and equities were stable from a volatility perspective. Currencies started to jump around as commodities stabilized and as we got huge movements in the bond markets whilst the VIX remained low and stable. Then in June the bonds stabilized at new levels, currencies steadied as commodities traded in tight bands and equities started to show signs of nervousness. Amazingly, as the Greek saga intensified, even the Euro-US Dollar exchange was trading in a tight range. Into July, every market was steady except for equities. This last week has been horrendous for equity-volatility, seeing the VIX close Thursday trading at 20! (It had been at 12 just one week ago). Well, if our observation of this fixed quant of volatility is true, then we can expect the VIX to settle at this or some other level, hold steady and we will see a spike in some other market's volatility. Our best guess is that the next sector to become volatile might be the FX world. Is this financial acne?

Well, Q2 earnings season has started with Alcoa reporting a beat on revenues and a small miss on EPS. We do expect the earnings to be the driver for the next moves in equities. If recent quarters are to be our lantern, we expect these to beat expectations and therefore have an upwards direction for the broad US indices. At the same time, with the ECB's success in driving down the Euro, we are seeing data indicating significant economic improvement in Euro-zone economics in spite of Greek wobbles. So yes, our outlook for European equities remains positive and may well further surprize us on the up-side!

Oil appears to have stabilized after some wicked drops (as much as 8% on Monday!) and WTI seems happy to trade at \$53 or so, now that the Chinese equities appear to have bottomed. Kent Moors, executive chair of Money Map Global Energy Symposium, said Monday "... oil prices to hit between \$75 and \$85 a barrel by the end of the year. Demand, when all is said and done, for this year will come in higher than at any point OPEC or IEA has ever calculated!" He also said "Oil falling on news related to the nuclear deal is a perceptual thing, but it has no substance." Moors is not alone with this view - energy entrepreneur Boone Pickens is sticking to his prediction that oil will hit \$70 a barrel by the end of the year despite the recent volatility in crude and said "If I miss on \$70 it'll be because it's over \$70, not under \$70. That's how confident I am," Arguably, the spike-down in oil this week was driven by some convoluted thinking - If Chinese equities are falling it MUST be that the Chinese economy is falling apart. If so, Chinese demand for oil will fall and as such, let's sell oil NOW. Well, Chinese equities have rebounded nicely... Let's not lose sight of the fact that the US has become the "plug-producer" and as the marginal US production comes from fracking-type wells, they have relatively easy production-volume control. So our best guess here is that prices will remain stable with, if anything, an upwards bias as global demand continues to rise.

A shadow on this optimistic outlook may have come from the International Monetary Fund which said Thursday it has trimmed down its expected global growth for 2015 to 3.3%, citing weaker-than-expected economic activity in North America during the first quarter. In April, the organization said its global growth projection for this year was at 3.5%. The IMF also kept its economic growth outlook for 2016 unchanged at 3.8%. The IMF's chief economist, said in prepared remarks that, while the IMF left its 2015 forecast for China unchanged at 6.8%, it did it with greater uncertainty.

We can read support for the IMF's views in the Fed's statements - Federal Reserve officials struck a notably dovish tone in their most recent discussions about monetary policy, while at the same time setting the groundwork for future rate hikes. Members agreed the economy was getting better yet felt unready to exit a policy of zero interest rates that began in late 2008. So we continue to be comfortable holding US\$ bonds and with the ECB buying Euro denominated paper, we hold here too.

We leave you to a hot, sunny summer weekend to forget this week and look forward to calm in the next ones. And if you had a doubt, finance is an art - The best artists know what to leave out...

This Week's Highlights:

- The Dollar had turned positive this week with the USD Index (DXY) moving from 96.00 to 97.20, only to see it come back to 95.90 now. The US\$ is now trading at about \$1.1190 against the EUR and at 0.9370 against the Swiss Franc. The Pound had a poor week now trading at 1.55 having been as low as 1.5350 but starting the week above 1.56. We maintain our belief in the fundamental strength of the US\$. Again, this view is driven by the outlook for interest rates to hold or rise in the US and hold or decline elsewhere. The Japanese Yen is steady versus the USD and is trading 122.40. Gold turned lower and we are now trading at 1,162. We note that Oil is lower in sympathy to the strengthening USD, with WTI at \$53.25/Bbl and Brent at \$59.00/Bbl. The Russian Ruble has weakened with the oil price decline and is trading at 56.70 per USD along with the Brazilian Real which is steady at 3.22 - Until the reforms are firmly in place we do not see a significant rally in the Real and our worries would be for further downside movements.
- The US 10Yr Treasury yields moved lower throughout the week as the USD strengthened, seeing the yield move from 2.38% to hit 2.18%, only to reverse course and move back to 2.35%. The German 10Yr Bund has followed the news flows from Greece, but effectively unchanged on the week at a shade above 0.80%. The Spanish 10Yr dropped significantly, sliding from 2.35% to hit 2.0% this morning. Italian 10Yr notes followed a similar trajectory, dropping from 2.40% and finally settling lower at 2.07%. In the UK, the yields moved higher from 1.95% to settle closer to 2.03% as we write. Swiss 10Yr yields remained stable at 0.08%.
- In general the US equity markets are lower on the week. Both the Dow and the S&P500 closed Thursday night respectively at -1.02% and -1.23% for the week; and the NASDAQ being -1.73% - with the futures indicating a largely higher open on Friday across the three indices potentially erasing this week's losses. Europe really has had a mixed week with the EuroStoxx50 +2.30%, DAX +1.43%, CAC40 at +1.87%, IBEX +2.05% and the UK FTSE at +1.0%. With the Shanghai bouncing by 5.1% but the Nikkei was -3.70%. The Greek stock exchange is currently up 16.03% for the week.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

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| 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 | 2051.31 | 0.23 | -1.26 | -0.57 | -2.56 | -2.41 | 0.32 | -0.37 | 4.41 | 52.91 | 17.11 |
| DOW JONES INDUS. AVG | USD | 17548.62 | 0.19 | -1.18 | -0.40 | -2.51 | -2.82 | -1.06 | -1.54 | 3.75 | 38.69 | 15.58 |
| NASDAQ COMPOSITE INDEX | USD | 4922.397 | 0.26 | -1.81 | -1.29 | -3.04 | -1.47 | 4.64 | 3.93 | 11.97 | 69.60 | 18.52 |
| RUSSELL 2000 INDEX | USD | 1234.154 | 0.42 | -1.77 | -1.58 | -2.59 | -2.42 | 4.09 | 2.45 | 6.22 | 55.21 | 18.60 |
| EURO STOXX 50 | EUR | 3420.03 | 2.78 | 1.62 | 2.14 | -0.82 | -8.36 | 14.94 | 11.16 | 11.01 | 56.01 | 15.02 |
| EURO STOXX 600 | EUR | 381.06 | 2.20 | 0.80 | 1.35 | -1.10 | -6.41 | 14.36 | 12.82 | 14.89 | 51.20 | 16.24 |
| CAC 40 INDEX | EUR | 4757.22 | 2.55 | 1.14 | 1.52 | -1.45 | -7.20 | 16.37 | 13.82 | 13.06 | 53.15 | 15.65 |
| DAX INDEX | EUR | 10996.41 | 2.32 | 1.52 | 2.57 | -0.35 | -9.28 | 16.35 | 14.49 | 16.22 | 74.37 | 14.05 |
| FTSE 100 INDEX | GBP | 6581.63 | 1.41 | 1.00 | 2.00 | -2.62 | -6.18 | 2.31 | 1.30 | -0.31 | 17.44 | 15.92 |
| SWISS MARKET INDEX | CHF | 8985.08 | 1.50 | 1.86 | 3.39 | -0.26 | -4.14 | -0.29 | 1.06 | 7.14 | 46.64 | 17.64 |
| NIKKEI 225 | JPY | 19855.5 | 0.60 | -3.70 | -2.25 | -1.33 | -0.64 | 15.01 | 13.35 | 29.99 | 123.31 | 18.66 |
| HANG SENG INDEX | HKD | 24392.79 | 3.73 | -4.45 | -5.13 | -6.69 | -8.69 | 4.11 | 5.50 | 7.16 | 28.39 | 11.92 |
| SHANGHAI SE COMPOSITE | CNY | 3709.331 | 5.83 | 5.18 | -9.34 | -24.05 | -3.88 | 18.03 | 19.88 | 90.24 | 79.16 | 16.09 |
| S&P BSE SENSEX INDEX | INR | 27573.66 | -0.35 | -1.76 | -0.66 | 2.83 | -4.43 | 0.51 | 0.36 | 8.77 | 56.65 | 14.77 |
| RUSSIAN RTS INDEX \$ | USD | 889.76 | 1.61 | -2.16 | -4.27 | -6.17 | -9.97 | 14.97 | 13.79 | -34.97 | -33.98 | 6.01 |
| BRAZIL IBOVESPA INDEX | BRL | 51781.75 | -1.07 | -1.85 | -2.45 | -1.96 | -3.76 | 6.02 | 3.55 | -3.45 | -6.52 | 11.84 |
| MSCI WORLD | USD | 1717.47 | 0.62 | -1.55 | -1.05 | -3.33 | -3.48 | 2.00 | 0.46 | -0.98 | 40.91 | 16.64 |
| MSCI WORLD HEDGED | USD | 729.693 | 0.64 | -1.49 | -0.57 | -1.59 | -3.22 | 4.36 | 3.45 | 7.31 | 59.19 | - |
| MSCI WORLD LOCAL | - | 1306.226 | 0.64 | -1.51 | -0.61 | -1.69 | -3.75 | 3.32 | 2.39 | 5.49 | 50.40 | - |
| MSCI AC WORLD | USD | 417.12 | 0.73 | -1.87 | -1.51 | -3.61 | -4.31 | 1.32 | 0.00 | -2.38 | 35.32 | 15.95 |
| MSCI EM | USD | 919.78 | 1.70 | -4.62 | -5.40 | -5.94 | -11.10 | -4.33 | -3.82 | -13.42 | -1.55 | 11.71 |
| MSCI AC ASIA x JAPAN | USD | 555.02 | 2.03 | -5.04 | -5.48 | -6.26 | -11.33 | -2.03 | -1.55 | -5.31 | 15.83 | 12.05 |
| MSCI EM LATIN AMERICA | USD | 2406.89 | 0.20 | -4.45 | -4.39 | -5.79 | -7.93 | -10.18 | -11.76 | -29.66 | -31.15 | 13.98 |
| MSCI EM Eur, ME & Africa | USD | 265.91 | 2.36 | -2.72 | -4.02 | -2.46 | -8.57 | -3.10 | -1.79 | -20.33 | -15.97 | 10.98 |
| EQUITY MARKET INDICES - BY SECTOR | | | | | | | | | | | | |
| MSCI ENERGY | USD | 215.87 | 0.42 | -2.41 | -3.05 | -6.88 | -8.75 | -5.10 | -9.23 | -29.31 | -3.30 | 20.84 |
| MSCI MATERIALS | USD | 214.73 | 0.87 | -3.31 | -3.44 | -7.23 | -6.61 | -2.73 | -3.73 | -15.08 | 3.68 | 16.95 |
| MSCI INDUSTRIALS | USD | 196.2 | 0.54 | -1.94 | -1.51 | -4.83 | -5.45 | 0.75 | -1.57 | -3.61 | 41.07 | 16.53 |
| MSCI CONS DISCRETIONARY | USD | 195.62 | 0.67 | -1.75 | -0.99 | -2.04 | -2.54 | 7.10 | 5.05 | 7.85 | 67.48 | 17.55 |
| MSCI CONS STAPLES | USD | 202.83 | 0.64 | 0.61 | 1.31 | -0.36 | -2.83 | 1.72 | 1.46 | 1.74 | 31.64 | 20.14 |
| MSCI HEALTH CARE | USD | 218.52 | 0.83 | -0.36 | 0.27 | -0.86 | -0.95 | 7.20 | 9.32 | 15.79 | 84.09 | 18.86 |
| MSCI FINANCIALS | USD | 102.37 | 1.08 | -1.99 | -1.39 | -3.42 | -2.34 | 2.84 | -0.38 | -0.78 | 48.23 | 13.47 |
| MSCI INFO TECH | USD | 140.17 | -0.10 | -2.29 | -1.63 | -5.06 | -3.86 | -0.09 | -0.79 | 6.32 | 50.87 | 16.60 |
| MSCI TELECOMS | USD | 69.45 | 0.32 | -1.96 | -1.71 | -2.31 | -1.10 | 3.03 | 1.59 | -3.27 | 22.47 | 16.02 |
| MSCI UTILITY | USD | 113.14 | 0.14 | 0.29 | 1.43 | -1.41 | -3.98 | -6.52 | -8.06 | -7.56 | 11.93 | 15.38 |
| MSCI WORLD REAL ESTATE | USD | 188.5 | 0.32 | -0.47 | 0.48 | -1.58 | -7.61 | -5.48 | -3.06 | -1.61 | 18.58 | 24.12 |
| HEDGE FUND INDICES | | | | | | | | | | | | |
| HFRX GLOBAL HEDGE FUND | USD | 1222.99 | -0.55 | -0.99 | -0.88 | -1.76 | -2.33 | 0.36 | 0.38 | -1.76 | 8.61 | - |
| HFRX EQUAL WEIGHTED | USD | 1202.66 | -0.33 | -0.64 | -0.54 | -1.16 | -1.32 | 1.02 | 0.97 | -1.36 | 8.03 | - |
| HFRX GLOBAL EUR | EUR | 1124.47 | -0.55 | -1.00 | -0.94 | -1.83 | -2.55 | 0.12 | -0.01 | -2.39 | 7.11 | - |

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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 | 0.0102 | 0.00 | 0.01 | 0.01 | -0.01 | -0.01 | -0.01 | -0.03 | -0.01 | - | - |
| US 2 YEAR | USD | 0.605 | 0.02 | -0.02 | -0.04 | -0.12 | 0.05 | 0.04 | -0.06 | 0.15 | - | - |
| US 10 YEAR | USD | 2.3429 | 0.02 | -0.04 | -0.01 | -0.14 | 0.40 | 0.40 | 0.17 | -0.19 | - | - |
| FIXED INCOME INDICES - BY TYPE OF ISSUER | | | | | | | | | | | | |
| GLOBAL AGG TR HEDGED | USD | 474.88 | -0.29 | 0.54 | 0.25 | 0.55 | -2.00 | -0.81 | -0.14 | 3.25 | 9.73 | 1.74 |
| US GOVERNMENT TR | USD | 2083.5 | -0.46 | 0.48 | 0.23 | 0.77 | -1.15 | -0.72 | 0.31 | 2.68 | 2.37 | 1.74 |
| US CORPORATE TR | USD | 2570.45 | -0.65 | 0.45 | 0.27 | 0.37 | -3.03 | -1.88 | -0.66 | 1.11 | 9.10 | 3.34 |
| US HIGH YIELD TR | USD | 1658.33 | 0.09 | -0.47 | -0.22 | -0.85 | -0.97 | 2.07 | 2.30 | -0.66 | 20.85 | 6.66 |
| EU GOVERNMENT TR | EUR | 237.14 | -0.08 | 0.93 | 0.47 | 0.76 | -4.53 | -1.08 | -0.82 | 4.52 | 20.60 | 0.95 |
| EU CORPORATE TR | USD | 242.1 | -0.06 | 0.10 | 0.05 | -0.06 | -3.03 | -1.67 | -1.42 | 1.89 | 16.46 | 1.45 |
| EU HIGH YIELD TR | EUR | 271.76 | 0.17 | -0.60 | -0.20 | -1.19 | -2.42 | 0.91 | 1.11 | 1.75 | 32.97 | 4.60 |
| BARCLAYS GLOBAL CONVERT. | USD | 221.24 | -0.66 | -1.49 | -1.41 | -2.42 | -2.23 | 3.05 | 3.07 | 2.14 | 34.00 | - |
| GLOBAL EM TR (HEDGED) | USD | 328.7302 | 0.01 | -0.02 | 0.08 | 0.12 | -1.07 | 2.80 | 2.62 | 0.24 | 13.42 | 5.00 |
| S&P/LSTA U.S. LEV LOAN | USD | 94.86164 | -0.02 | -0.17 | -0.21 | -1.04 | -1.70 | -0.70 | -0.51 | -4.16 | 1.07 | 5.19 |
| COMMODITY INDICES - BY TYPE OF ISSUER | | | | | | | | | | | | |
| GSCI INDEX TOTAL RETURN | USD | 3042.31 | 1.51 | -4.20 | -5.70 | -6.26 | 0.54 | -0.11 | -5.89 | -38.64 | -34.70 | - |
| GSCI ENERGY TR | USD | 596.322 | 2.21 | -5.68 | -8.08 | -9.96 | 0.94 | 4.24 | -5.34 | -48.13 | -39.47 | - |
| GSCI INDUSTRIAL METALS TR | USD | 1123.46 | 1.98 | -2.16 | -0.97 | -5.93 | -6.59 | -9.21 | -11.19 | -20.46 | -24.08 | - |
| GSCI PRECIOUS METALS TR | USD | 1428.587 | -0.19 | -0.47 | -1.11 | -1.83 | -3.25 | -5.16 | -2.34 | -14.74 | -30.50 | - |
| GSCI AGRICULTURE TR | USD | 522.1229 | 0.58 | -1.40 | -2.60 | 7.01 | 5.37 | -3.88 | -3.57 | -11.04 | -35.40 | - |
| GENERIC 1ST 'CL' FUTURE | USD | 52.78 | 1.91 | -5.52 | -9.55 | -13.42 | -1.16 | 2.38 | -6.37 | -47.46 | -38.12 | - |
| GOLD SPOT \$/OZ | USD | 1159.43 | 0.31 | -0.46 | -0.80 | -1.95 | -3.69 | -4.86 | -1.84 | -12.93 | -25.79 | - |
| CURRENCIES | | | | | | | | | | | | |
| DOLLAR INDEX SPOT | USD | 96.606 | -0.60 | -0.09 | 0.57 | 1.46 | -3.34 | 4.45 | 6.38 | 19.84 | 15.14 | - |
| Euro Spot | EUR | 1.1036 | 0.67 | -0.04 | -0.33 | -1.89 | 4.77 | -6.12 | -8.17 | -18.36 | -9.31 | - |
| Japanese Yen Spot | JPY | 121.34 | -0.60 | 0.59 | 0.35 | 0.50 | -1.52 | -3.05 | -1.88 | -16.98 | -34.93 | - |
| British Pound Spot | GBP | 1.538 | 0.32 | -0.91 | -1.80 | -0.65 | 5.45 | 1.70 | -0.95 | -9.94 | -0.59 | - |
| Brazilian Real Spot | BRL | 3.2203 | 0.47 | -3.84 | -3.64 | -3.83 | -5.05 | -18.24 | -17.47 | -31.29 | -36.89 | - |
| China Renminbi Spot | CNY | 6.2088 | 0.00 | -0.05 | -0.13 | -0.05 | 0.00 | -0.08 | -0.05 | -0.11 | 2.53 | - |
| Singapore Dollar Spot | SGD | 1.3498 | -0.04 | -0.33 | -0.22 | -0.65 | 1.32 | -1.19 | -1.84 | -8.06 | -6.03 | - |
| Norwegian Krone Spot | NOK | 8.1399 | 0.84 | -1.04 | -2.71 | -3.83 | 0.34 | -4.05 | -7.68 | -23.52 | -24.41 | - |
| VOLATILITY / LIQUIDITY INDICES | | | | | | | | | | | | |
| CBOE SPX VOLATILITY INDX | USD | 19.97 | 1.58 | 24.11 | 9.54 | 51.06 | 58.74 | 13.79 | 4.01 | 58.62 | 6.68 | - |
| USD SWAP SPREAD SEMI 2YR | USD | 25.5 | 0.75 | -0.23 | -0.46 | 0.75 | -1.19 | 13.22 | 11.99 | 52.83 | 0.75 | - |
| TED SPREAD | USD | 27.58 | 0.91 | -2.72 | -0.83 | 0.18 | 7.90 | 15.45 | 25.31 | 29.00 | -28.66 | - |

All data is compiled from Bloomberg

Bedrock Newsletter

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