

We are deep into Q2 earning season. So far, 327 of the S&P 500 companies have reported their earnings with 74% having beaten or equalled expectations. At the NASDAQ, they came close with 70% beating. Quite a poor score card for those devising said expectations, no? Many of the Biotechs showed stellar results, justifying their big price rises of late. Are they frothy? Well, Amgen, the big daddy of the sector, after great numbers, is at an estimated P/E for this year of 17.75X UNDER the 18.46X for the S&P as a whole! We are comfortable with equity prices at these levels and remain positive on the tech and healthcare sectors in particular.

China's benchmark stock market crashed 8.5% on Monday, suffering its biggest daily loss since 2007, indicating that there is seemingly no reprieve to the violent selling rocking the country's equities. A sharp fall in commodity prices, weak Chinese economic data and concerns that Beijing may be reluctant to dole out further measures to support beaten-up shares all contributed to the sell-off. Data released earlier on Monday showed China's industrial profits declined 0.3% year-on-year in June, compared with a 0.6% rise in May. Chinese stock markets have had a wild ride this year – with the Shanghai Composite Index rising a hefty 60% in the first half of the year only to slide 30% since a June peak at over 5,000. Bumpy ride, but those who stayed in are well ahead in money; if shaken.

The US market is so incredibly flat this year, strategist Tom Lee had to look back 111 years to find a comparable first half. And according to the Fundstrat Global Advisors co-founder, what happened in the second half of that year could be very instructive for today's investors. "In the first two quarters, we had 0% gains back to back. ... Only one other time did we find the markets spending six months like today: back in 1904," Lee said in an interview last Friday. After a pancake-like first half of 1904, "the market surged 41% in the second half. We are not saying 2015 is a repeat of 1904, but it goes to show, 'never short a dull market,'".

The share of Americans who own their homes fell to the lowest level in almost five decades, extending a multiyear decline as families struggle to regain ground lost during the financial crisis and rentals gain favour. The U.S. homeownership rate was 63.4% in the second quarter, down from 63.7% in the previous three months. It was the lowest reading since 1967. The rental vacancy rate fell to 6.8% from 7.1% in the first quarter and 7.5% a year earlier. It was the lowest rate since the 1980s, according to the report. This data can be interpreted to read 'growth is coming as home ownership rates revert to the historical levels', or, one could say that there is a structural shift in perceptions of ownership value, signalling a continuing softness in the housing sector and hence, a reduced economic growth. Your guess is as good as ours here, but perhaps the latter view should be over-weighted, as seen in the first reading on Q2 US GDP at 2.3% vs the 2.6% expectation. First-quarter GDP, previously reported to have shrunk at a 0.2% pace, was revised up to show it rising at 0.6%

The Federal Reserve on Wednesday declined to raise interest rates or provide any clues about when a hike is on the way. What's the hurry, Janet? The Federal Reserve should not be in a hurry to raise interest rates and the latest Federal Open Market Committee statement shows they know it. While the jobs picture has improved, an inflation rate above 2% hasn't materialized. Price stability, or more accurately steady inflation, is the Fed's second and possibly more important mandate. Despite flooding the economy with unprecedented amounts of free money, the rate of inflation has remained stubbornly low. More concerning is that the Fed's own actions could push the global economy into outright deflation. The global economy has been broadsided by a deflationary shock. The slowdown in China is one reason for deflationary pressures, but a rising U.S. dollar is just as much to blame. This deflationary spiral is one of the most difficult economic problems to short-circuit. By its own admission, the Federal Reserve has time-tested tools to fight inflation but its deflation-fighting arsenal is severely lacking. The flaw in the Fed's logic is that it views declining oil prices as temporary and not necessarily a reflection of a larger slowdown in the global economy. Forecasting is a difficult business in general, and especially when it is about the future, but the reality is that no-one, including the Fed can accurately forecast whether price declines are permanent or temporary. The Fed has kept interest rates at "emergency" levels for six years, knowing that it has better tools to fight inflation rather than deflation and that the extent of the global economic slowdown is unknowable. So, there is only one question to ask Chair Yellen: What's wrong with waiting for longer? Well, futures traders slashed their bets on September, dropping the chance from 19% to zero, according to the CME Group's FedWatch tracker! It has become the silly season for Fed speculation; everything seems to be on the table. Some predict a 0.10% rate rise, which has never happened in 179 rate moves since 1934 (each and every one of these rate changes was divisible by 25)!

The IMF said this week that they cannot participate in another round of Greek funding. Ouch. At least these guys act on their views...

Off into August, we place the IMF's views from Washington D.C. in the context of John Galsworthy who had said "Idealism increases in direct proportion to one's distance from the problem".

This Week's Highlights:

- The Dollar had turned positive this week with the USD Index (DXY) moving from 97.20 to 97.60. The US\$ is now trading at about \$1.0980 against the EUR and at 0.9625 against the Swiss Franc. The Pound had a relatively strong week now trading at 1.5570 having been as high as 1.5690. 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 was marginally weaker versus the USD and is trading 124.20 having started the week at 123.8. Gold turned lower and we are now trading at 1,082. We note that Oil is unchanged in the US, with WTI at \$48.00/Bbl, but Brent has dropped and is now at \$52.80/Bbl. The Russian Ruble has weakened and is trading at 60.50 per USD along with the Brazilian Real which is now at 3.38 having touched 3.44!
- The US 10Yr Treasury yield is unchanged on the week at 2.26%. The German 10Yr Bund has followed the news flows from Greece, but is now lower on the week sliding from 0.72% to 0.66%. The Spanish 10Yr yield was stable at 1.89% - in fact it has been steady there all week. Italian 10Yr notes dropped from 1.92% on Monday to 1.80%. In the UK, the yields moved slightly higher from 1.90% to 1.97% this morning. Swiss 10Yr yields are now at about -0.01%.
- In general the US equity markets are higher on the week with positive outcomes for a large portion of the indices for their earnings. The Dow and the S&P500 are now respectively at +1.0% and +1.39% for the week; and the NASDAQ being +0.79% - with futures largely flat from last night's close. Europe didn't follow suit this week with the EuroStoxx50 at -0.25%, DAX at -0.85%, CAC40 at +0.29%, IBEX with -1.50% and the UK FTSE at +1.32%. With the Shanghai slumping by 10.00%, but the Nikkei was up by +0.20%. The Greek stock exchange is currently still shut – we await its reopening.

Bedrock Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

30/07/2015

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	2108.63	0.01	0.31	2.21	2.21	1.11	5.70	2.42	9.22	52.87	17.55
DOW JONES INDUS. AVG	USD	17745.98	-0.03	0.08	0.72	0.72	-0.53	3.38	-0.43	7.14	36.42	15.94
NASDAQ COMPOSITE INDEX	USD	5128.785	0.34	-0.34	2.85	2.85	3.79	10.65	8.29	17.37	74.48	19.43
RUSSELL 2000 INDEX	USD	1232.071	0.21	-1.04	-1.74	-1.74	0.98	5.72	2.27	10.00	56.56	18.65
EURO STOXX 50	EUR	3583.79	0.23	-0.11	5.01	5.01	-0.54	7.30	14.29	15.42	54.62	15.40
EURO STOXX 600	EUR	396.24	0.57	0.63	4.15	4.15	0.34	8.19	15.93	18.19	51.93	16.72
CAC 40 INDEX	EUR	5046.42	0.58	0.45	6.05	6.05	0.67	10.33	18.89	19.64	54.33	16.31
DAX INDEX	EUR	11257.15	0.40	-0.46	3.20	3.20	-1.39	5.61	15.19	20.06	66.78	14.13
FTSE 100 INDEX	GBP	6668.87	0.57	1.56	2.48	2.48	-3.99	-0.99	1.77	-0.71	18.58	16.32
SWISS MARKET INDEX	CHF	9397.69	0.10	1.08	7.32	7.32	3.81	12.38	4.90	12.05	47.26	18.42
NIKKEI 225	JPY	20522.83	1.08	0.20	1.73	1.73	5.46	16.47	17.96	31.78	136.75	19.48
HANG SENG INDEX	HKD	24497.98	-0.49	-2.43	-6.60	-6.60	-12.85	0.04	3.87	-0.97	23.85	11.87
SHANGHAI SE COMPOSITE	CNY	3705.766	-2.20	-10.00	-14.34	-14.34	-17.51	14.12	13.26	66.41	74.16	15.00
S&P BSE SENSEX INDEX	INR	27705.35	0.51	-0.26	0.93	0.93	3.81	-3.92	1.97	8.28	62.68	16.59
RUSSIAN RTS INDEX \$	USD	867.74	0.22	-0.79	-9.32	-9.32	-17.20	15.59	7.79	-30.10	-38.12	5.77
BRAZIL IBOVESPA INDEX	BRL	49897.4	-0.69	0.18	-6.00	-6.00	-11.26	6.37	-0.22	-10.63	-11.05	11.38
MSCI WORLD	USD	1759.77	-0.04	0.82	1.39	1.39	-1.05	4.90	2.93	2.65	40.72	17.12
MSCI WORLD HEDGED	USD	751.43	0.21	-0.03	2.39	2.39	0.60	7.18	6.53	10.08	60.68	-
MSCI WORLD LOCAL	-	1344.909	0.21	-0.05	2.34	2.34	0.16	6.07	5.42	8.22	51.84	-
MSCI AC WORLD	USD	425.16	-0.10	0.56	0.39	0.39	-2.55	3.61	1.93	0.50	34.54	16.39
MSCI EM	USD	894.07	-0.66	-1.79	-8.04	-8.04	-14.67	-7.02	-6.51	-16.11	-6.13	11.72
MSCI AC ASIA x JAPAN	USD	545.78	-0.42	-2.23	-7.05	-7.05	-13.60	-5.52	-3.18	-8.85	11.43	12.19
MSCI EM LATIN AMERICA	USD	2260.71	-1.60	-2.80	-10.20	-10.20	-16.05	-11.53	-17.12	-33.50	-36.61	13.84
MSCI EM Eur, ME & Africa	USD	258.57	-1.11	-0.97	-6.67	-6.67	-12.73	-4.63	-4.51	-20.19	-19.68	10.79

EQUITY MARKET INDICES - BY SECTOR

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
MSCI ENERGY	USD	211.98	0.26	2.76	-4.80	-4.80	-13.95	-5.76	-10.86	-28.76	-9.64	20.46
MSCI MATERIALS	USD	209.71	0.07	0.59	-5.70	-5.70	-10.44	-5.25	-5.98	-16.39	-0.41	17.02
MSCI INDUSTRIALS	USD	198.61	0.07	1.07	-0.30	-0.30	-3.46	1.70	-0.36	-0.17	39.18	16.94
MSCI CONS DISCRETIONARY	USD	201.95	0.05	0.53	2.22	2.22	1.87	9.84	8.45	13.48	70.51	18.22
MSCI CONS STAPLES	USD	209.55	-0.44	0.62	4.67	4.67	2.09	3.55	4.82	8.95	32.76	20.90
MSCI HEALTH CARE	USD	225.3	-0.44	1.24	3.38	3.38	4.76	10.24	12.71	20.46	84.34	19.37
MSCI FINANCIALS	USD	105.69	-0.02	0.32	1.81	1.81	0.19	8.42	2.85	2.33	49.24	13.92
MSCI INFO TECH	USD	146.1	0.21	0.41	2.53	2.53	0.01	6.84	3.41	9.92	53.24	17.38
MSCI TELECOMS	USD	71.55	-0.22	0.69	1.26	1.26	-1.61	3.67	4.67	-1.20	22.12	16.43
MSCI UTILITY	USD	115.48	0.25	1.46	3.53	3.53	-2.31	-7.13	-8.16	-3.12	14.56	15.76
MSCI WORLD REAL ESTATE	USD	192.47	-0.29	0.18	2.60	2.60	-3.73	-5.29	-1.02	-0.20	16.66	24.32

HEDGE FUND INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
HFRX GLOBAL HEDGE FUND	USD	1232.38	0.28	-0.63	-0.12	-0.07	-1.35	1.35	1.15	-0.86	9.28
HFRX EQUAL WEIGHTED	USD	1210.08	0.27	-0.37	0.07	0.09	-0.70	1.68	1.59	-0.64	8.64
HFRX GLOBAL EUR	EUR	1132.74	0.28	-0.65	-0.21	-0.17	-1.55	1.01	0.73	-1.51	7.77

MARKET INDICES PERFORMANCE

30/07/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Yield to Worst
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0661	0.00	0.04	0.06	0.06	0.07	0.07	0.03	0.05	-	-
US 2 YEAR	USD	0.7358	0.01	0.06	0.09	0.09	0.17	0.29	0.07	0.21	-	-
US 10 YEAR	USD	2.259	0.00	0.00	-0.09	-0.09	0.23	0.62	0.09	-0.30	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	477.35	0.09	0.18	0.77	0.77	-0.89	-1.46	0.38	3.49	9.63	1.72
US GOVERNMENT TR	USD	2089.65	0.05	0.12	0.53	0.53	-0.48	-1.84	0.61	2.99	2.44	1.72
US CORPORATE TR	USD	2574.18	0.16	-0.05	0.41	0.41	-2.08	-3.44	-0.51	1.21	7.53	3.41
US HIGH YIELD TR	USD	1651.94	0.27	0.30	-0.60	-0.60	-1.78	1.24	1.91	-0.28	19.09	6.88
EU GOVERNMENT TR	EUR	240.71	0.36	0.59	1.99	1.99	-1.88	-1.42	0.68	5.18	21.28	0.77
EU CORPORATE TR	USD	244.97	0.16	0.28	1.24	1.24	-1.16	-1.13	-0.25	2.70	16.95	1.27
EU HIGH YIELD TR	EUR	275.6	0.05	-0.19	1.21	1.21	-0.87	1.47	2.54	3.14	34.05	4.37
BARCLAYS GLOBAL CONVERT.	USD	224.48	0.03	-0.04	0.03	0.03	-1.13	3.96	4.57	3.60	34.86	-
GLOBAL EM TR (HEDGED)	USD	328.7163	0.11	-0.17	0.07	0.07	-1.42	2.04	2.61	0.45	11.17	5.05
S&P/LSTA U.S. LEV LOAN	USD	94.16774	-0.02	-0.38	-0.94	-0.94	-2.55	-1.28	-1.23	-4.30	-0.31	5.29

COMMODITY INDICES - BY TYPE OF ISSUER

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
GSCI INDEX TOTAL RETURN	USD	2809.736	-0.29	-1.88	-12.91	-12.91	-14.73	-6.04	-13.09	-42.40	-42.51
GSCI ENERGY TR	USD	546.475	-0.36	-1.91	-15.76	-15.76	-18.96	-5.03	-13.25	-51.72	-47.28
GSCI INDUSTRIAL METALS TR	USD	1066.36	-1.22	-0.42	-6.01	-6.01	-17.70	-10.76	-15.71	-25.66	-27.60
GSCI PRECIOUS METALS TR	USD	1340.159	-0.41	-0.52	-7.10	-7.10	-8.30	-15.21	-8.25	-18.12	-35.95
GSCI AGRICULTURE TR	USD	470.5352	0.44	-4.30	-12.22	-12.22	-2.19	-6.06	-13.10	-16.27	-46.00
GENERIC 1ST 'CL' FUTURE	USD	48.52	-1.30	-0.52	-20.14	-20.14	-22.21	-9.37	-17.36	-52.18	-47.48
GOLD SPOT \$/OZ	USD	1088.57	-0.57	-1.52	-7.68	-7.68	-8.62	-15.69	-8.65	-15.61	-32.95

CURRENCIES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
DOLLAR INDEX SPOT	USD	97.56001	-0.04	0.28	2.13	2.13	3.09	2.86	8.03	19.72	18.01
Euro Spot	EUR	1.0932	-0.01	-0.48	-1.94	-1.94	-2.61	-3.62	-9.65	-18.36	-11.16
Japanese Yen Spot	JPY	124.14	-0.10	-0.36	-1.42	-1.42	-3.93	-5.38	-3.61	-17.27	-37.13
British Pound Spot	GBP	1.5602	-0.24	0.36	-0.94	-0.94	1.39	3.49	-0.08	-7.83	-0.73
Brazilian Real Spot	BRL	3.3718	-1.21	-2.55	-7.97	-7.97	-10.60	-20.43	-21.18	-33.40	-39.47
China Renminbi Spot	CNY	6.2097	0.00	0.00	-0.14	-0.14	-0.10	0.81	-0.07	-0.58	2.45
Singapore Dollar Spot	SGD	1.3754	-0.09	-0.36	-2.12	-2.12	-3.84	-1.79	-3.71	-9.36	-9.57
Norwegian Krone Spot	NOK	8.1729	-0.20	0.19	-4.10	-4.10	-8.01	-6.59	-9.00	-23.24	-26.32

VOLATILITY / LIQUIDITY INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
CBOE SPX VOLATILITY INDEX	USD	12.13	-2.96	-4.03	-33.46	-33.46	-16.63	-42.16	-36.82	-28.44	-35.92
USD SWAP SPREAD SEMI 2YR	USD	23.5	0.00	-5.05	-8.95	-8.95	-7.15	-3.09	2.44	17.85	16.97
TED SPREAD	USD	23.4	-6.77	-11.56	-15.86	-15.86	-16.07	-7.55	6.32	11.85	-32.82

All data is compiled from Bloomberg

Bedrock Newsletter

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