

Last week we mused about faith. We held onto our belief into a troubled market, we remained firm over the “flash-crash” of Monday, enduring the 1’000 point free-fall of the Dow Jones and the meltdown of Shanghai. We questioned our beliefs and chose to keep them and even added equities to our portfolios on Tuesday. Oooof, as said Jobs, looking at the results with the S&P down 2.4% since Thursday night close but up 1% this week.

Then, the Chinese central bank (“PBOC”) added liquidity, cut rates and announced that pension funds may now buy equities. Fed officials made noises that the US economy is robust and that interest rate rises will occur, if at a later date than September. On Wednesday, New York Fed President William Dudley said that prospects of a September lift-off in the central bank’s key lending rate “seems less compelling to me than it was a few weeks ago.” These words accompanied data that durable goods orders to U.S. factories for long-lasting manufactured goods rose by 2% in July, and demand in a key category that tracks business investment plans jumped by the largest amount in 13 months.

While markets look for signs of when the Federal Reserve will tighten monetary policy, market chatter about what the Federal Reserve’s next steps will be suddenly has shifted from when it will raise rates to when it will offer more stimulus. Bridgewater Associates founder Ray Dalio believes the central bank could resort to easing. The Fed could loosen monetary policy through quantitative easing rather than tightening, he said in a client note. He highlighted that risks of deflationary contraction are increasing relative to risks of inflationary expansion. Jim Cramer gave investors a reality check. He warned to never, ever, confuse the day-to-day actions of the stock market with the state of the real economy. As many saw in the horrendous decline on Monday, the market and the economy can vary drastically.

Then we were told that the U.S. economy grew faster than initially thought in the second quarter on solid domestic demand, showing fairly strong momentum that could still allow the Federal Reserve to hike interest rates this year. GDP expanded at a 3.7% annual pace instead of the 2.3% rate reported last month. Then, Oil rocketed more than 10% higher on Thursday, posting its biggest one-day rally in years, as recovering equity markets and news of diminished crude supplies set off a short-covering surge by bearish traders. Oil climbed as world stock markets rose on hopes that Chinese government measures to stimulate the economy would pay off, while the dollar strengthened as risk aversion eased. Since July, as oil prices embarked on a second steep decline, big funds and speculators nearly trebled their gross short positions in U.S. crude oil futures and options to more than 160 million barrels, and dealers have been bracing for that to unwind - with some warning that the scramble to exit those trades could be fierce.

Asian stocks extended their recovery into the final trading day of the week as investors cheered a second day of gains in Chinese and U.S. markets. China’s benchmark Shanghai Composite ended nearly 5% higher, with gains accelerating in the final half-hour of trade. South Korean stocks also gained for a fourth consecutive session, hitting a nine-day high and ending the week 3.3% higher. Elsewhere, Philippine and Thai stocks both jumped nearly 1%, tracking the Asia-wide rally.

As we said, keeping one’s faith can be rewarding...

To be sure, overall sentiment still remains fragile amid conflicting comments from Federal Reserve officials at a key meeting of central bankers at Jackson Hole.

Gold chose to fall this week, some say that it is because the Dollar is up, others invoke the return of the Risk-Off sentiment. We suggest that it may be reasoned elsewhere; in Poland, where rumours are circulating that a lost Nazi train was found with huge amounts of gold on board may add supply...

In Europe, the Big Headline du Jour “BHDJ” is the rising tide of refugees from Africa, Syria, Afghanistan, Iraq and elsewhere. Thousands upon thousands of people are escaping the depravity and dangers of their countries and finding their way to the safe-haven of Europe. Germany alone is expecting over 800’000 arrivals this year. Greece, Italy, Macedonia, Hungary and others are struggling with the influx. England and France are battling masses of people trying to get through the Chunnel. The broadsheets are lamenting the costs and the risks to employment, just as the text sheds tears for human sufferings. Well, as we know, many dark clouds have silver linings - A boost to the population is a driver for GDP. This immigration whether legal or not, creates demand. America was built on immigration, Germany absorbed East Germany and flourished, Israel accepted a 20% increase of its population with the immigration of Russians in the 1990’s and experienced stellar GDP growth. We favoured European equities on the back of the ECB’s QE, and this “problem” only adds to this view!

It seems natural that the shifting composition of a nation’s population ought to influence GDP growth and perhaps also capital markets returns. Pat Paulsen, the American Satirist wrote: “All the problems we face in the United States today can be traced to an unenlightened immigration policy... on the part of the American Indian.”

We accompany you into the closing weekend of summer with a thought on faith - When one talks to God, they are praying. When God talks to us, we are schizophrenic ☺

## This Week's Highlights:

- The US Dollar dropped dramatically on Monday as equities continued to slide. The Dollar Index (DXY) has managed to turn positive for the week though, moving from as low as 92.62 on Monday to peak at 96.00. The Fed meets at Jackson Hole for the next two days and all eyes will be firmly fixed on the policy direction that is taken. For now the recent Fed members who have openly discussed their views seem to be leaning to waiting a little longer for the first rate rise. The US\$ is now trading at about \$1.13 against the EUR and at 0.96 against the Swiss Franc. The Pound has not managed to hold its ground this week and is trading lower at 1.54. We maintain our belief in the fundamental strength of the US\$ in the longer term and that these fluctuations introduce good entry points for long US\$ positions. 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 remained strong versus the USD this week and is trading 120.80 having at one point hit 116, which was where we were trading in January. Gold which started the week at \$1,162 has fallen back to briefly hit \$1,120 and is at \$1,130 this morning. We note that after oil had dropped to a 6.5 year low there has been room and reason for the oil to rebound. WTI is trading now at \$41.90/Bbl having touched 37.75 on Monday and Brent is now at \$47.00/Bbl having also dropped to 42.23. The Russian Rubble has rebounded in line with the crude price action, and is trading at 67.25 per USD having briefly peaked at 71.69 on Monday! The Brazilian Real which has recovered fractionally for the week is still down against the USD at 3.55 but the USD peaked at 3.66! We do not see a significant rally in either the RUB and are concerned that the Real would rather be in for continued weakness.
- The US 10Yr Treasury yield is significantly higher on the week at 2.15%... considering the scale of the equity pullback and huge volatility increase therein, the Treasuries do not seem to have reflected the irrational worry that has occurred in the equities. The German 10Yr Bund has moved significantly lower in price this week and has sent the yields flying from 0.51% to 0.76% in two trading sessions – we are currently at 0.72%. The Spanish 10Yr yield is surprisingly unchanged at just above 2.04% after a strangely quiet week. Italian 10Yr yield is higher on the week at 1.92% moving from 1.84% at the beginning of the week. In the UK, the yield on the Gilts has jumped much higher, moving from 1.72% to 1.92% this morning. Even the Swiss 10Yr yields have become “less negative” at about -0.12%.
- Equity Markets were incredibly volatile this week. With the US seeing huge intraday swings with the NASDAQ dropping 8.8% on the open on Monday only to rally 12.1% from the lows to finish the week to Thursday +2.27%! The Dow slipped a whopping 6.6% on the Monday open but has rallied by 8.36% since the low and is now +1.18% for the week, with the S&P 500 moving lower by 5.27% on its Monday open but rallying by 6.47% to last night leaving it +0.85% for the week. The futures are indicating a slightly negative open, but should still leave the indices positive for the week, should it close in a similar fashion (which it almost never does!). The DAX has been extremely volatile this week as well, seeing over a 1,000 point oscillation down and up! The DAX is currently trading at +1.22% for the week, the CAC had fallen by over 8.6% on Monday but has recovered so far to be +0.6% for the week. The Swiss SMI is relatively unchanged. The Eurostoxx 50 looks to be trading at about +1.0% for the week. The Shanghai composite continued to slide this week with the index dropping another whopping 7.85% and has now turned negative for the year at -0.07%. Whilst the Hang Seng Index is now down 18.64% year to date. In Japan the Nikkei was down by 1.5% for the week leaving the index at +9.66% year-to- date.

We do note that volatility as measured by the VIX exploded upwards over this turmoil, now at 26.1 or double its previous “stability level” of a week ago, having spiked to 53.29 on Monday!

# Bedrock Newsletter

Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

27/08/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	1987.66	2.44	-2.36	-5.52	-5.04	-6.28	-5.55	-3.46	-0.45	41.04	16.60
DOW JONES INDUS. AVG	USD	16654.77	2.27	-1.98	-5.85	-5.53	-8.12	-8.15	-6.55	-2.49	27.11	15.12
NASDAQ COMPOSITE INDEX	USD	4812.708	2.45	-1.33	-6.15	-5.43	-5.60	-3.04	1.62	5.60	56.40	17.86
RUSSELL 2000 INDEX	USD	1153.608	1.90	-1.61	-6.87	-5.80	-7.94	-6.47	-4.24	-1.06	41.67	17.19
<b>EURO STOXX 50</b>	EUR	3280.78	3.47	0.88	<b>-9.02</b>	-7.83	-10.27	-8.98	4.11	3.52	34.13	14.04
<b>EURO STOXX 600</b>	EUR	362.27	3.48	0.06	<b>-8.80</b>	-7.31	-11.14	-7.83	5.54	6.00	35.23	15.43
<b>CAC 40 INDEX</b>	EUR	4658.18	3.49	0.41	<b>-8.51</b>	-6.58	-9.50	-6.09	<b>8.83</b>	6.50	35.51	14.92
<b>DAX INDEX</b>	EUR	10315.62	3.18	1.54	<b>-9.09</b>	-7.99	-11.96	-9.83	4.85	8.65	46.81	12.82
FTSE 100 INDEX	GBP	6192.03	3.58	0.15	-7.45	-5.46	-11.98	-10.79	-5.62	-8.94	7.30	15.07
SWISS MARKET INDEX	CHF	8812.58	3.09	-0.03	-6.71	-5.17	-6.37	-2.42	-2.09	2.02	36.98	17.10
NIKKEI 225	JPY	18574.44	1.13	-1.54	-7.04	-5.87	-6.89	1.80	<b>9.66</b>	23.78	111.84	18.08
<b>HANG SENG INDEX</b>	HKD	21838.54	3.60	-2.14	<b>-10.99</b>	-10.50	-20.12	-11.66	<b>-7.10</b>	-11.36	10.69	10.88
<b>SHANGHAI SE COMPOSITE</b>	CNY	3083.591	5.34	-7.85	<b>-11.77</b>	-11.76	-30.04	-2.35	-0.07	47.20	55.91	13.24
S&P BSE SENSEX INDEX	INR	26231.19	2.01	-2.85	-5.44	-3.18	-3.35	-9.45	-3.32	-0.19	50.79	16.18
RUSSIAN RTS INDEX \$	USD	804.86	6.66	5.96	-5.94	-3.75	-18.47	-9.91	2.16	-33.76	-43.47	5.61
BRAZIL IBOVESPA INDEX	BRL	47715.27	3.64	2.29	-6.19	-3.80	-11.60	-7.50	-4.58	-20.86	-18.30	10.98
MSCI WORLD	USD	1650.53	2.12	-0.03	-6.52	-5.53	-7.86	-6.90	-3.46	-5.38	28.52	15.96
MSCI WORLD HEDGED	USD	703.372	2.62	-2.70	-6.49	-4.66	-7.77	-5.26	-0.28	1.78	46.90	-
MSCI WORLD LOCAL	-	1256.557	2.56	-2.73	-6.65	-4.83	-8.10	-6.26	-1.51	0.06	38.86	-
MSCI AC WORLD	USD	397.58	2.23	-0.02	-6.84	-5.84	-9.10	-8.07	-4.68	-7.66	22.85	15.33
MSCI EM	USD	813.08	3.28	0.09	-9.83	-8.77	-19.46	-17.89	-14.98	-25.20	-15.02	11.14
MSCI AC ASIA x JAPAN	USD	490.23	2.98	-0.76	-10.57	-10.12	-20.35	-16.66	-13.04	-18.61	0.15	11.41
MSCI EM LATIN AMERICA	USD	2087.84	5.26	-0.13	-9.41	-7.28	-17.56	-21.33	-23.46	-42.07	-41.88	13.60
MSCI EM Eur, ME & Africa	USD	239.96	2.85	0.91	-8.52	-6.47	-14.12	-15.51	-11.38	-26.80	-26.91	10.30

## EQUITY MARKET INDICES - BY SECTOR

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
<b>MSCI ENERGY</b>	USD	190.05	4.76	0.40	<b>-8.96</b>	-8.69	-18.28	-19.37	<b>-20.08</b>	-36.75	-21.69	18.73
<b>MSCI MATERIALS</b>	USD	193.59	2.75	-1.55	<b>-8.42</b>	-6.93	-17.27	-19.19	<b>-13.21</b>	-22.52	-10.78	15.80
<b>MSCI INDUSTRIALS</b>	USD	188.21	1.79	-0.46	-5.94	-4.41	-9.13	-9.07	-5.57	-7.14	29.35	15.96
MSCI CONS DISCRETIONARY	USD	189.39	1.86	0.38	-6.87	-5.37	-5.89	-4.34	1.71	4.30	53.56	16.71
MSCI CONS STAPLES	USD	197.7	1.34	-0.72	-6.09	-5.36	-4.50	-5.66	-1.11	0.21	23.98	19.78
MSCI HEALTH CARE	USD	213.31	2.03	0.34	-6.08	-5.12	-3.96	0.02	6.71	10.53	73.00	18.16
MSCI FINANCIALS	USD	98.3	2.10	-0.55	-7.22	-6.34	-7.23	-5.30	-4.34	-6.04	34.23	12.87
MSCI INFO TECH	USD	137.57	2.12	2.27	-5.57	-5.22	-8.20	-6.52	-2.63	0.77	37.82	16.31
MSCI TELECOMS	USD	68.95	1.88	-0.88	-4.01	-2.63	-3.67	-4.37	0.86	-3.35	16.73	15.47
MSCI UTILITY	USD	112.27	1.37	-3.22	-4.04	-2.14	-5.54	-6.03	-8.77	-7.13	11.39	15.10
MSCI WORLD REAL ESTATE	USD	184.12	2.05	-2.70	-4.98	-4.29	-7.33	-9.22	-5.31	-5.81	11.59	23.20

## HEDGE FUND INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
HFRX GLOBAL HEDGE FUND	USD	1197.58	0.25	-1.90	-2.92	-2.87	-4.17	-3.24	-1.71	-4.01	5.64
HFRX EQUAL WEIGHTED	USD	1188.41	0.15	-1.25	-1.92	-1.76	-2.55	-1.55	-0.23	-2.56	6.36
HFRX GLOBAL EUR	EUR	1100.89	0.19	-1.85	-2.90	-2.86	-4.28	-3.55	-2.10	-4.59	4.24

## MARKET INDICES PERFORMANCE

27/08/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0508	0.00	0.03	-0.01	0.01	0.05	0.04	0.02	0.03	-	
US 2 YEAR	USD	0.688	0.00	0.08	0.03	0.02	0.06	0.07	0.02	0.19	-	
US 10 YEAR	USD	2.1647	-0.02	0.13	-0.02	-0.09	0.03	0.17	-0.01	-0.17	-	

## FIXED INCOME INDICES - BY TYPE OF ISSUER

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	Yield to Worst
GLOBAL AGG TR HEDGED	USD	477.52	0.01	-0.50	-0.18	0.00	-0.24	-0.84	0.41	2.39	9.46	1.71
US GOVERNMENT TR	USD	2101.05	0.05	-0.53	0.27	0.48	0.41	0.18	1.16	2.50	3.41	1.71
US CORPORATE TR	USD	2568.04	0.32	-0.85	-0.50	-0.21	-1.49	-2.69	-0.75	-0.50	7.30	3.46
<b>US HIGH YIELD TR</b>	USD	1618.65	0.48	0.11	<b>-2.03</b>	-1.35	-4.00	-3.14	-0.14	-3.19	15.24	7.33
EU GOVERNMENT TR	EUR	239.1375	-0.07	-0.79	-0.81	-0.41	-0.94	-2.70	0.02	2.68	19.10	0.85
EU CORPORATE TR	USD	243.51	0.00	-0.65	-0.64	-0.45	-1.29	-2.31	-0.84	1.01	14.67	1.40
EU HIGH YIELD TR	EUR	273.03	0.30	-0.34	-0.99	-0.96	-1.66	-1.53	1.58	1.80	29.30	4.68
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	217.27	1.31	-0.42	<b>-3.22</b>	-2.34	-5.04	-2.43	1.22	-0.29	27.41	-
GLOBAL EM TR (HEDGED)	USD	324.3063	0.49	-0.59	-1.48	-1.14	-2.83	-0.56	1.24	-1.55	8.08	5.36
S&P/LSTA U.S. LEV LOAN	USD	92.60156	0.16	-0.41	-1.62	-1.61	-3.95	-3.98	-2.88	-5.77	-2.75	5.66

## COMMODITY INDICES - BY TYPE OF ISSUER

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
<b>GSCI INDEX TOTAL RETURN</b>	USD	2580.743	5.40	-0.44	-6.87	-7.43	-17.87	-18.94	<b>-20.17</b>	-45.26	-49.06
<b>GSCI ENERGY TR</b>	USD	482.672	8.41	0.64	<b>-9.95</b>	-10.92	-24.07	-24.39	<b>-23.36</b>	-55.66	-56.18
<b>GSCI INDUSTRIAL METALS TR</b>	USD	1021.8	3.30	-0.67	-3.24	-3.36	-14.91	-14.96	<b>-19.23</b>	-28.78	-31.27
GSCI PRECIOUS METALS TR	USD	1374.376	0.10	-3.15	1.98	1.94	-6.49	-8.43	-5.91	-14.64	-36.94
GSCI AGRICULTURE TR	USD	454.9396	0.86	-2.68	-3.08	-3.12	-2.07	-10.99	-15.98	-18.50	-46.12
<b>GENERIC 1ST 'CL' FUTURE</b>	USD	42.56	0.87	6.13	<b>-9.24</b>	-10.86	-27.31	-20.60	<b>-26.15</b>	-56.78	-56.85
GOLD SPOT \$/OZ	USD	1124.84	0.56	-2.56	3.23	3.25	-4.81	-6.76	-4.53	-12.29	-32.14

## CURRENCIES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
<b>DOLLAR INDEX SPOT</b>	USD	95.61001	-0.14	0.49	-1.91	-1.34	-1.53	0.19	<b>5.77</b>	15.76	17.34
<b>Euro Spot</b>	EUR	1.1246	0.44	-0.80	2.83	2.12	3.16	0.99	<b>-6.64</b>	-14.32	-10.11
Japanese Yen Spot	JPY	121.03	0.09	0.93	2.46	2.18	2.51	-0.65	<b>-0.94</b>	-14.22	-35.07
British Pound Spot	GBP	1.5403	0.19	-1.66	-1.21	-1.15	0.76	0.44	<b>-0.92</b>	-6.95	-2.44
<b>Brazilian Real Spot</b>	BRL	3.5537	1.20	-2.67	<b>-3.72</b>	-5.34	-11.65	-20.05	<b>-25.22</b>	-36.77	-42.78
China Renminbi Spot	CNY	6.4056	0.32	0.06	-2.75	-2.75	-2.88	-1.76	-2.81	-3.78	-0.50
Singapore Dollar Spot	SGD	1.3991	-0.16	0.49	-2.08	-2.70	-3.77	-2.56	<b>-5.42</b>	-10.82	-10.60
<b>Norwegian Krone Spot</b>	NOK	8.2989	0.46	-0.78	-0.94	-1.23	-5.52	-6.87	<b>-9.79</b>	-25.19	-29.43

## VOLATILITY / LIQUIDITY INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
<b>CBOE SPX VOLATILITY INDX</b>	USD	<b>26.1</b>	-13.92	36.36	<b>115.35</b>	94.20	96.09	95.65	35.94	116.60	58.28
USD SWAP SPREAD SEMI 2YR	USD	14.48	5.32	-34.07	-35.46	-37.45	-35.11	-39.32	-33.52	-28.67	-10.97
TED SPREAD	USD	27.36	-0.29	-12.81	10.50	3.79	-1.72	8.66	24.31	30.72	-17.99

All data is compiled from Bloomberg

# Bedrock Newsletter

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