

Bedrock Friday September 4th Newsletter

It is Friday again and today we introduce our 'new-and-improved' Newsletter format. We hope you find it better and we welcome your comments and suggestions for further development.

This week's action has come under the shadow of the upcoming FOMC September meeting in which they will decide on rate moves. A key ingredient in this decision is expected to be the data on the August US employment to be published immediately after this letter is issued. The market expects job creation of about 217K jobs and an unemployment rate of 5.20%. If the headline number is greater than 217K, it will be viewed as bullish for equities; or not, as it will reinforce the rate rise expectation! The unemployment rate, if indeed at 5.20% or lower will further support the Fed's reasoning for a tightening. All this on a Friday with a Chinese holiday and ahead of a long weekend in the US; expect volatility today and a "risk-off" tone. From a risk-effect point of view, Monday should be a good day, as the uncertainty of today's data and China's reaction will be known, i.e. reduced uncertainty-risk.

What would we do if we were the Fed? Well, how about the contrarian thought? We would suggest raising the base rate immediately to say 2.00%, sending a message of confidence, giving corporations a fair return on their cash-piles, feeding the growing retired-community with a reasonable risk-free return on their pensions. Let the US\$ race-up and make imported goods cheaper and at the same time cut back even more the inflation risks. Consumption will rise as incomes will grow and Goldilocks will settle in Manhattan as condominium prices will fall because mortgage rates rise. The problem is that our Goldilocks will be feeding the bears...

A reality check; this week's headlines gave us rising consumer spending with muted inflation. It was the latest report indicating momentum in the economy whilst it confronted recent global financial markets turbulence, sparked by concerns over a slowing Chinese economy; both data are *good for investors*. Federal Reserve Bank of Minneapolis President Narayana Kocherlakota said Friday he does not believe the central bank should raise interest rates this year, and policymakers may have to consider further quantitative easing. Asked whether the Fed should engage in more QE, he said the situation right now would call for consideration of those types of steps. *Good for investors*. U.S. nonfarm productivity increased at its strongest pace in 1-1/2 years in the second quarter, keeping wage inflation subdued for now. Productivity rose 0.7% from a year ago instead of the 0.3% increase reported last month. The government last week revised second-quarter GDP to show it expanding at a 3.7% annual pace instead of the 2.3% rate it had initially estimated. *Good stuff for investors!* Fed Beige Book says economic activity expanding - Most of the country is experiencing solid growth, with only the energy sector providing a drag. This too is *good for investors!* And back on the old continent, Mario Draghi leaves Euro rates steady and pledges more QE "if needed". The dovish tone of Draghi's comments boosted European stock markets and pushed the Euro lower against the dollar, exactly what the ECB wanted - being that Europe is an exporting economy; a falling Euro is effective stimulus! Inflation in the 19-country euro zone is currently at 0.2% year-on-year and concerns about deflation prompted the ECB to start monthly buying of 60Bn euros worth of assets earlier this year. We as *investors like it!*

The volatilities around equities are always troubling and often scary. We would like to remind you that it's an inevitable and important ingredient in investing - look through it to the expected future values! At the close of last year we predicted an S&P 500 level of 2'229 for year-end 2015. We also predicted the US 10 year Treasury at 2.35% to 2.75%. As of yesterday, the average analysts' year-end target is at 2'214.47 for the S&P (don't you love the precision here!?). Yesterday we closed trading at 1'951.13 or 14% below our target! The US 10 year is now at 2.12% which is way below our year-end expectation. This in itself further supports our equities valuation. Yes, a bumpy road indeed, but the horizon does look to be higher. Investors don't make money on today's consensus, but by having a different perception about the future. It is tempting to become very bearish about the economy given stock market falls, but most things we see are encouraging. We try to follow the data points and maintain a stable thought process: Yield curves are the best and longest leading indicators for the global economy and these have, encouragingly, been re-steepening. It is only in the past few weeks that we have seen some flattening as investors worried about the possibility of rate hikes coupled with fears about global growth. We hold our expectations for the year as we predicted last Christmas, i.e., somewhat higher US Dollar yields, a stock market 10-15% above current levels in the US and possibly more in Europe. We maintain our thoughts of a strong US Dollar and just keep our seat-belts tight. Supporting our view, Julian Emanuel, U.S. equity and derivatives strategist at UBS, said Thursday that he is sticking by his bold call that the S&P 500 will end the year at 2,225! And then, counter-intuitively, the apparent bottoming and rebound in oil is further supportive of this bullish sentiment. It may be heralding a broader bottoming of commodities as a whole, "I think commodities are in a bottoming process," James Paulsen said Thursday on CNBC's Futures Now.

Off to the long weekend with hope for a stable next week. "Aim for the moon. If you miss, you may hit a star" ☺

Market Weekly Highlights:

- The US Dollar is almost unchanged on the week. The Dollar Index (DXY) is finishing the week where it started at 96.10; however, it did drop to 95.20 on Tuesday only to rally to as high as 96.60 yesterday when Mr Draghi spoke after the ECB announcements. The European Central Bank announced yesterday that rates would remain low, but also that the Quantitative Easing program would continue. The US\$ is now trading at about \$1.1140 against the EUR and at 0.9730 against the Swiss Franc. The Pound has not managed to hold its ground this week and is trading lower at 1.5250. We maintain our belief in the fundamental strength of the US\$ in the longer term. 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 lower on the week at 119.00 having started the week at 121.75. Gold which started the week at \$1,130 has fallen back to \$1,125 this morning. We note that after oil had dropped to a 6.5 year low there has been room for oil to rebound. WTI is trading at \$46.50/Bbl having touched \$49.33 on Monday!! Brent is now at \$50.60/Bbl having also popped to a high on Monday of \$54.32. The Russian Ruble had rebounded in line with the crude price action, and briefly saw the dollar drop to 62.95, however it is trading at 67.50 per USD – or roughly unchanged since we wrote last week. The Brazilian Real has continued its slide and is in fact heading towards its all-time low of 4.00 against the USD. It is currently at 3.74 having been as low against the USD as 3.81 yesterday! We do not see a significant rally in the RUB and believe that we will see continued weakness in the Real.
- The US 10Yr Treasury yield had remained locked at about 2.18% all week – hardly moving with the large scale equity moves. We have seen a little buying this morning sending the yields lower to 2.12%... perhaps the job data is attracting a little attention this afternoon? The German 10Yr Bund has moved significantly lower in yield this week and has sent the prices up; with the yield slipping from 0.82% to 0.68% in three trading sessions – we are currently at the lows now. The Spanish 10Yr yield is surprisingly unchanged at just above 2.07% after a strangely quiet week. Italian 10Yr yield is lower on the week at 1.90% moving from 2.01% midweek. In the UK, the yield on the Gilts has slumped back below 2.0%, dipping to 1.84% this morning. The Swiss 10Yr yields are almost unchanged at -0.13%.
- Equity Markets were incredibly volatile this week. The Dow Jones closed last night at -1.61% for the week, having been down over 4% at one point on Tuesday. The S&P 500 closed last night at -1.90% and the Nasdaq a similar loss of 1.96%. The futures on all of the indices do suggest that the equities will open lower again today ahead of the NFP numbers. The DAX is currently trading at -1.93% for the week, the CAC40 at 2.52%, SMI down 1.32% and the UK FTSE looking to be trading at -1.60%. The EuroStoxx50 has had the worst week out of the 5 indices at -2.65%. The Shanghai composite continued to slide this week with the index dropping another 2.23% up to the Wednesday close as the markets have been on holiday since Thursday. Whilst the Hang Seng Index was down a further 3.13% for the week and leaving the year-to-date figure at over -12.0%. In Japan the Nikkei was down by 7.0% for the week leaving the index at +0.51% year-to-date. We do note that volatility as measured by the VIX had another busy week, seeing the index peak at 33.82 on Tuesday only to drop to 25.61 last night... it would be expected to open significantly higher this morning.

Bedrock Friday September 4th Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

03/09/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									PIE
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	1951.13	0.12	-1.84	-1.07	-6.79	-6.90	-7.02	-5.23	-2.33	38.88	16.18
DOW JONES INDUS. AVG	USD	16374.76	0.15	-1.68	-0.93	-6.70	-8.55	-9.52	-8.13	-4.07	25.61	14.90
NASDAQ COMPOSITE INDEX	USD	4733.497	-0.35	-1.65	-0.90	-7.29	-6.44	-4.70	-0.05	3.75	53.93	17.54
RUSSELL 2000 INDEX	USD	1145.153	-0.07	-0.73	-1.23	-6.81	-8.48	-6.95	-4.94	-1.89	39.29	17.07
EURO STOXX 50	EUR	3270.09	2.23	-2.06	-1.55	-11.06	-9.49	-10.17	2.31	-1.78	32.11	13.79
EURO STOXX 600	EUR	362.24	2.38	-1.77	-1.63	-10.51	-9.11	-8.64	4.18	2.28	34.45	15.24
CAC 40 INDEX	EUR	4653.79	2.17	-1.97	-1.50	-10.35	-8.10	-6.79	7.27	1.96	34.84	14.67
DAX INDEX	EUR	10317.84	2.68	-1.32	-0.95	-11.29	-10.39	-10.78	3.64	4.50	46.59	12.68
FTSE 100 INDEX	GBP	6194.1	1.84	-1.23	-2.11	-8.53	-10.84	-11.61	-6.85	-11.08	7.83	14.94
SWISS MARKET INDEX	CHF	8775.64	1.73	-1.14	-1.58	-8.38	-5.94	-3.42	-3.32	-1.69	36.50	16.82
NIKKEI 225	JPY	18182.39	0.48	-7.02	-5.81	-13.30	-13.16	-4.87	1.96	13.50	102.75	16.70
HANG SENG INDEX	HKD	20934.94	-1.15	-4.80	-4.06	-14.83	-24.83	-15.84	-11.92	-17.88	6.29	10.34
SHANGHAI SE COMPOSITE	CNY	3160.167	-0.20	7.96	-1.43	-12.77	-35.64	-3.15	-2.30	38.08	53.47	13.08
S&P BSE SENSEX INDEX	INR	25764.78	1.24	-4.55	-4.16	-10.26	-6.05	-14.26	-8.40	-7.00	44.44	15.35
RUSSIAN RTS INDEX \$	USD	805.23	2.01	-4.19	-4.61	-5.05	-13.81	-10.62	0.57	-35.95	-43.43	5.48
BRAZIL IBOVESPA INDEX	BRL	47365.87	1.94	-0.73	1.59	-5.38	-11.50	-6.15	-5.28	-22.10	-15.77	10.74
MSCI WORLD	USD	1622.94	0.45	-2.12	-1.37	-7.73	-8.59	-7.84	-5.07	-7.19	27.32	15.76
MSCI WORLD HEDGED	USD	693.59	0.63	-1.39	-1.21	-7.72	-8.40	-6.47	-1.67	0.01	45.63	-
MSCI WORLD LOCAL	-	1238.654	0.63	-1.43	-1.22	-7.91	-8.73	-7.47	-2.91	-1.68	37.67	-
MSCI AC WORLD	USD	391.03	0.47	-2.13	-1.44	-7.98	-9.68	-8.90	-6.25	-9.50	21.77	15.15
MSCI EM	USD	801.48	0.65	-2.29	-2.11	-10.26	-18.88	-17.90	-16.19	-27.15	-15.40	11.07
MSCI AC ASIA x JAPAN	USD	481.64	0.21	-2.54	-2.34	-11.47	-20.39	-17.84	-14.56	-20.66	-1.02	11.28
MSCI EM LATIN AMERICA	USD	2025.78	1.47	-2.97	-1.54	-10.46	-19.52	-20.01	-25.73	-44.69	-42.24	13.36
MSCI EM Eur, ME & Africa	USD	239.34	1.82	-1.42	-1.54	-7.68	-11.19	-13.73	-11.61	-28.58	-26.52	10.42
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	191.06	0.79	-1.72	-2.40	-6.58	-16.47	-18.00	-19.66	-35.65	-20.15	18.59
MSCI MATERIALS	USD	190.84	0.82	-2.82	-2.16	-9.11	-17.54	-18.87	-14.44	-23.30	-10.09	15.76
MSCI INDUSTRIALS	USD	186.06	0.43	-1.86	-1.05	-6.63	-9.72	-9.13	-6.65	-8.44	29.70	15.79
MSCI CONS DISCRETIONARY	USD	187.14	0.53	-1.77	-0.92	-8.09	-6.64	-5.42	0.50	2.78	53.23	16.61
MSCI CONS STAPLES	USD	195.57	0.73	-1.26	-0.73	-7.58	-3.83	-5.83	-2.18	-1.32	22.85	19.64
MSCI HEALTH CARE	USD	207.61	-0.02	-2.54	-1.21	-8.68	-5.63	-2.61	3.86	7.16	68.45	17.71
MSCI FINANCIALS	USD	95.73	0.54	-2.66	-1.88	-9.33	-9.29	-7.14	-6.84	-9.39	31.23	12.66
MSCI INFO TECH	USD	135.72	0.11	-1.84	-0.98	-5.66	-8.36	-7.61	-3.94	-0.61	36.84	16.18
MSCI TELECOMS	USD	68.09	1.11	-1.28	-0.89	-5.46	-4.97	-4.49	-0.39	-4.68	15.37	15.37
MSCI UTILITY	USD	108.33	0.37	-3.64	-2.40	-6.87	-6.82	-7.35	-11.97	-11.00	7.93	14.68
MSCI WORLD REAL ESTATE	USD	179.06	0.21	-2.76	-1.33	-7.68	-7.68	-11.15	-7.91	-8.77	8.56	22.59
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1201.57	0.14	0.33	-0.39	-2.59	-3.98	-3.24	-1.38	-3.98	5.88	-
HFRX EQUAL WEIGHTED	USD	1191.77	0.08	0.28	-0.20	-1.64	-2.39	-1.51	0.05	-2.47	6.53	-
HFRX GLOBAL EUR	EUR	1103.75	0.14	0.26	-0.42	-2.65	-4.12	-3.58	-1.85	-4.62	4.42	-

MARKET INDICES PERFORMANCE

03/09/2015

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	0.0153	0.00	-0.04	0.02	-0.06	0.01	0.01	-0.02	-0.01	-	-
US 2 YEAR	USD	0.6847	-0.01	-0.03	-0.05	-0.05	0.02	0.03	0.02	0.15	-	-
US 10 YEAR	USD	2.135	-0.02	-0.05	-0.08	-0.09	-0.17	0.02	-0.04	-0.31	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	477.68	0.16	0.03	0.12	-0.27	0.80	-0.40	0.45	2.65	9.30	1.72
US GOVERNMENT TR	USD	2098.96	0.14	0.03	0.13	0.19	1.01	0.59	1.06	2.87	2.99	1.72
US CORPORATE TR	USD	2572.39	0.28	0.26	0.26	-0.32	-0.29	-1.85	-0.58	0.46	7.09	3.46
US HIGH YIELD TR	USD	1626.75	0.24	0.32	0.20	-1.41	-3.14	-2.43	0.35	-2.50	15.55	7.21
EU GOVERNMENT TR	EUR	239.2572	0.36	-0.01	0.24	-0.71	0.70	-2.32	0.07	2.96	19.18	0.85
EU CORPORATE TR	USD	243.53	0.21	0.01	0.14	-0.71	-0.05	-2.19	-0.83	0.98	14.61	1.40
EU HIGH YIELD TR	EUR	273.19	0.01	0.06	-0.04	-0.91	-1.27	-1.59	1.64	1.89	28.86	4.68
BARCLAYS GLOBAL CONVERT.	USD	217.3	0.41	0.01	-0.26	-2.99	-4.87	-2.53	1.23	-0.31	25.42	-
GLOBAL EM TR (HEDGED)	USD	324.7289	0.04	0.13	-0.18	-1.43	-1.95	-0.52	1.37	-1.25	6.06	5.37
S&P/PLSTA U.S. LEV LOAN	USD	92.64461	0.01	0.05	0.03	-1.51	-3.60	-4.08	-2.83	-5.70	-2.62	5.63
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2697.88	0.83	4.54	-2.94	-0.08	-15.91	-14.44	-16.55	-42.94	-47.39	-
GSCI ENERGY TR	USD	521.388	1.34	8.02	-4.27	1.47	-20.17	-17.73	-17.24	-52.33	-53.35	-
GSCI INDUSTRIAL METALS TR	USD	1048.42	1.72	2.61	1.21	-0.25	-12.46	-11.59	-17.13	-26.24	-28.82	-
GSCI PRECIOUS METALS TR	USD	1379.153	-0.69	0.35	-0.55	2.99	-5.95	-7.36	-5.58	-13.41	-37.20	-
GSCI AGRICULTURE TR	USD	442.9525	-0.70	-2.63	-2.25	-4.87	-7.41	-11.87	-18.20	-18.84	-47.98	-
GENERIC 1ST 'CL' FUTURE	USD	46.75	-1.39	1.95	-6.30	0.39	-22.36	-17.44	-20.69	-53.54	-53.17	-
GOLD SPOT \$/OZ	USD	1125.46	-0.07	-0.78	-0.89	3.40	4.43	-6.30	-5.08	-10.87	-33.68	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	96.40501	-0.15	0.16	0.46	-1.70	0.84	0.31	6.64	14.85	18.39	-
Euro Spot	EUR	1.1123	0.13	-0.43	-0.66	2.35	-0.90	0.53	-7.94	-13.96	-11.37	-
Japanese Yen Spot	JPY	120.07	0.64	2.01	1.61	4.25	4.23	0.31	0.39	-11.77	-34.26	-
British Pound Spot	GBP	1.5258	-0.22	-1.08	-0.78	-2.18	-0.90	-0.26	-2.26	-6.77	-4.06	-
Brazilian Real Spot	BRL	3.7403	0.56	-4.99	-3.20	-7.73	-16.22	-21.62	-28.95	-40.19	-45.65	-
China Renminbi Spot	CNY	6.3559	0.00	0.53	0.36	-2.29	-2.45	-1.34	-2.37	-3.42	-0.14	-
Singapore Dollar Spot	SGD	1.4164	0.01	-0.52	-0.31	-2.49	-4.86	-3.42	-6.40	-11.33	-11.95	-
Norwegian Krone Spot	NOK	8.2825	-0.21	-0.18	-0.24	-0.10	-6.54	-6.30	-10.22	-24.54	-30.09	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	25.61	-1.84	-1.88	-9.92	97.00	74.10	79.97	33.39	102.61	42.44	-
USD SWAP SPREAD SEMI 2YR		14.58	0.69	-4.30	-3.29	-36.17	-40.54	-40.08	-36.01	-30.29	-9.66	-
TED SPREAD		31.82	-1.27	16.30	-3.28	33.92	18.29	24.74	44.57	48.83	-7.34	-

All data is compiled from Bloomberg

Bedrock Friday September 4th Newsletter

Visit www.bedrockgroup.ch

The content of this document has been approved and issued by Bedrock S.A. and Bedrock Asset Management (UK) Ltd for information purposes only. The information and opinions contained in this document are for background information and discussion purposes only and do not purport to be full or complete. No information in this document should be construed as providing financial, investment or other professional advice. This information contained herein is for the sole use of its intended recipient and may not be copied or otherwise distributed or published without Bedrock's express consent. No reliance may be placed for any purpose on the information contained in this document or their accuracy or completeness. Information included in this document is intended for those investors who meet the Financial Conduct Authority definition of Professional Client or Eligible Counterparty.

Confidentiality

This presentation and the information contained herein are confidential. Each copy of this presentation is addressed to a specifically named recipient and shall not be passed on to a third party.

By its acceptance hereof, the recipient agrees to keep the presentation and its contents strictly confidential and may not disclose or divulge any information contained herein to any other person. This presentation cannot be published, copied, reproduced or distributed in any manner whatsoever. The recipient will use this presentation for the sole purpose of obtaining a general understanding of the business, operations and financial performance of Bedrock in order to make a decision as to whether the recipient should proceed with a further investigation of the Funds and this investment opportunity.

Bedrock reserves the right to request the return of this presentation at any time, without the retention of any copies by the prospective investor.

Investment Risks

The value of all investments and the income derived therefrom can fluctuate due to market movements and you may not get back the amount originally invested. In the case of overseas investments, values may vary as a result of changes in currency exchange rates. This may be due, in part, to exchange rate fluctuations in investments that have an exposure to currencies other than the base currency of the portfolio. Past performance is no guide to or guarantee of future performance.

Limitation of Liability and Indemnity

Bedrock expressly disclaims liability for errors or omissions in the information and data contained in this document. No representation or warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. Bedrock accepts no liability for any loss or damage arising out of the use or misuse of or reliance on the information provided including, without limitation, any loss of profits or any other damage, direct or consequential.

You agree to indemnify and hold harmless Bedrock and its affiliates, and the directors and employees of Bedrock and its affiliates from and against any and all liabilities, claims, damages, losses or expenses, including legal fees and expenses arising out of your access to or use of the information in this presentation, save to the extent that such losses may not be excluded pursuant to applicable law or regulation.

Any opinions contained in this presentation may be changed after issue at any time without notice.

Copyright and Other Rights

The copyright, trademarks and all similar rights of this presentation and the contents, including all information, graphics, code, text and design, are owned by Bedrock.