

# Bedrock Friday September 11<sup>th</sup> Newsletter

Friday of yet another unusual week - Shortened by a Monday holiday in the States and trimmed by a Geneva specific Thursday holiday. All week we continued to see the massive influx of refugees arriving into Europe from Syria, Afghanistan and North Africa. Germany expects this influx to reach (if not exceed) 800'000 people this year. The US announced yesterday that they will consider accepting 10'000 Syrians next year... This exodus might bring significant dislocations for the EU and others as it is becoming a significant burden for the west as whole countries are emptying-out towards the more prosperous areas. And the world kept on spinning with some notable wiggles to keep our attention;

The markets head into Friday cautious about next week's Fed meeting and wary of any attempts by the market to rally; now looking to the Fed's meeting next week as an event that will set the direction for trading. The markets are split on when the central bank will raise rates, with the fed funds futures showing a low chance for a move in September but many forecasters still seeing a hike. Today's data includes PPI producer inflation data and consumer sentiment which might influence said expectations. The World Bank chief economist warned the Fed to delay their rate rise; saying the US Federal Reserve risks triggering "panic and turmoil" in emerging markets if it opts to raise rates at its September meeting and should hold fire until the global economy is on a surer footing. Rising uncertainty over growth in China and its impact on the global economy could mean a Fed decision to raise its policy rate next week, for the first time since 2006, could have negative consequences. That means that if the Fed's policymakers were to decide next week to raise rates they would be doing so against the counsel of both of the institutions created at Bretton Woods as guardians of global economic stability. Such a decision could yield a "shock" and a new crisis in emerging markets. "The world economy is looking so troubled that if the US goes in for a very quick move in the middle of this I feel it is going to affect countries quite badly," Basu said.

Billionaire value investor Mario Gabelli whose company manages over \$40 billion in assets said Tuesday he's largely ignoring the recent extreme stock market volatility, saying his investment horizon is three to five years, not six to 12 weeks. Hedge fund founder Leon Cooperman said Tuesday he's been a buyer throughout the recent selloff, and he sees stock markets heading higher. "Even though I think the market is in a zone of fair valuation, I think the market is not in a position in my opinion to go down a lot, and I think that the path is still upward". His No. 1 reason for being optimistic: This would be the first bull market in history to end without one Federal Reserve interest rate tightening. Cooperman's second reason to be optimistic is his belief that bear markets don't "materialize out of immaculate conception," but because investors anticipate the onset of recession. He noted that at a recent gathering convened by Blackstone Advisory Partners' Byron Wien, not one of 21 distinguished guests saw a recession coming. Thirdly, stocks still represent the best option among financial assets. "Common stocks are in line with their historical norms, not overpriced, and you can find so many attractively priced stocks, I think stocks are still the most attractive house in the financial asset neighbourhood." He's still buying energy stocks and believes oil has entered a "bottoming zone."

A chill came from Standard & Poor's stripping of Brazil's investment-grade credit rating on Wednesday in a move that calls into question President Dilma Rousseff's efforts to regain market trust and pull Latin America's largest economy out of recession. S&P cut Brazil's rating to BB-plus, which denotes substantial credit risk, from BBB-minus. The outlook on the new rating remains negative, which means additional downgrades are possible in the near term. The Brazilian Real fell to 3.91 for the US\$, just about an all-time low.

China's foreign exchange reserves posted their biggest monthly fall on record in August, reflecting Beijing's attempts to halt a slide in the Yuan and stabilize financial markets following its surprise move to devalue the currency last month. China's reserves, the world's largest, fell by \$93.9Bn last month to \$3.55Tr. The drop left market watchers questioning how sustainable China's efforts to support the Yuan are, as capital flows out of the country due to economic fears. China revised down its reading for growth in 2014, saying the economy expanded by 7.3%, a notch below the previous estimate of 7.4%. Stoking concerns further, Japan's revised GDP for the second quarter shrank an annualized 1.2%. While the data came in better than the initial estimate of a 1.6% contraction, some analysts remain unimpressed. "It doesn't change the fact that Japan's economy shrank despite no hurricane or big economic issues. Japan's economy is still very fragile," said Japan Macro Advisors.

And yet, Asian stocks went on a roll Wednesday, with Japan's Nikkei 225 index at the epicentre of the monstrous rally, gaining a huge 7.7%

Oil prices rallied 4% on Thursday as traders' focus on strong U.S. demand for gasoline overshadowed news of increased U.S. inventories of crude. U.S. Energy Information Administration data on Thursday showed demand over the latest four-week period was up almost 4% from a year ago.

As we leave to the weekend before the Fed's meeting, think how much we all like the whooshing sound made by deadlines as they fly by...

## Market Weekly Highlights:

- The US Dollar is almost down on the week. The Dollar Index (DXY) is finishing the week where it at 95.40; however, it started the week as high as 96.40. The US\$ is now trading at about \$1.13 against the EUR and at 0.9730 against the Swiss Franc. The Pound has managed to recoup nearly all its recent losses this week and is trading higher at 1.5430. 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 weakened versus the USD this week and is trading lower at 120.60 having started the week at 118.75. Gold which started the week at \$1,121 has fallen back to \$1,105 this morning. WTI is trading at \$44.80/Bbl having spent most of the week range trading between this level and \$46.00. Brent is now at \$47.80/Bbl having also popped to a high on Wednesday of \$50.04. The Russian Ruble has remained remarkably steady this week, oscillating in a 1 figure range around 68.50. The Brazilian Real has continued its slide and is in fact heading towards its all-time low of 3.95 against the USD. It is currently at 3.85 having been as low against the USD as 3.91 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 is trading at 2.20% having come back from the Labour day weekend with a bit of a hangover seeing the bond price slide and the yield march higher from 2.12% to as high as 2.25%. The German 10Yr Bund has hardly moved this week; with the yield bouncing around 0.68%. The Spanish 10Yr yield is surprisingly unchanged at just above 2.10% after a yet another strangely quiet week. Italian 10Yr yield is lower on the week at 1.84% moving from 1.90% midweek. In the UK, the yield on the Gilts has remained below 2.0%, dipping to 1.80% but trading this morning at 1.85%. The Swiss 10Yr yields have dipped marginally at -0.06%.
- Equity Markets were generally positive this week in the US. The Dow Jones closed last night at +1.42% for the week, having been up over 3.4% at one point on Wednesday. The S&P 500 closed last night at +1.29% and the NASDAQ a similar move of +2.4%. The futures on all of the indices do suggest that the equities will open lower today ahead of the NFP numbers. The DAX is currently trading at +0.83% for the week, the CAC40 at +1.03%, SMI +1.07% and the UK FTSE looking to be trading at +1.68% and with the EuroStoxx 50 up 0.66%. The Shanghai composite halted its slide this week with the index actually up by +1.27%. Whilst the Hang Seng Index was up +3.18% for the week. In Japan the Nikkei was up by 2.65% for the week with a huge +8% up day on Wednesday.  
We do note that volatility as measured by the VIX had another busy week, seeing the index drop dramatically after the US holiday by about 10%, opening at 25.09 on Tuesday only to drop to 21.51 on Tuesday... last night closed at 24.37 so down 12.4% on the week.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

10/09/2015

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	1952.29	0.54	0.18	-1.01	-6.32	-7.42	-4.31	-5.18	-2.26	36.18	16.16
DOW JONES INDUS. AVG	USD	16330.4	0.47	-0.13	-1.20	-6.16	-9.47	-7.40	-8.37	-4.21	22.57	14.87
NASDAQ COMPOSITE INDEX	USD	4796.251	0.84	0.97	0.41	-4.78	-5.63	-1.11	1.27	4.45	54.49	17.75
RUSSELL 2000 INDEX	USD	1153.03	0.42	0.61	-0.55	-4.80	-9.13	-5.16	-4.29	-1.65	36.95	17.18
EURO STOXX 50	EUR	3221.14	-1.49	0.90	-1.86	-10.99	-9.66	-12.07	1.99	-0.89	25.47	13.77
EURO STOXX 600	EUR	359.34	-1.19	1.20	-1.50	-9.21	-9.07	-9.64	4.32	3.80	31.10	15.33
CAC 40 INDEX	EUR	4596.53	-1.46	1.39	-1.44	-10.06	-7.75	-8.24	7.33	3.27	29.64	14.70
DAX INDEX	EUR	10210.44	-0.90	1.33	-0.85	-9.93	-10.24	-13.84	3.74	4.96	39.15	12.70
FTSE 100 INDEX	GBP	6155.81	-1.09	1.66	-1.68	-7.83	-10.28	-8.61	-6.44	-9.66	6.06	15.18
SWISS MARKET INDEX	CHF	8778.76	-1.05	1.25	-0.72	-7.04	-4.22	-3.79	-2.48	-0.77	34.71	16.98
NIKKEI 225	JPY	18299.62	-2.51	2.65	-3.32	-11.86	-10.39	-2.45	4.66	14.80	107.37	17.16
HANG SENG INDEX	HKD	21562.5	-2.49	3.34	-0.62	-12.09	-19.96	-9.20	-8.77	-12.68	8.45	10.72
SHANGHAI SE COMPOSITE	CNY	3197.893	-1.39	1.27	-0.18	-18.53	-37.51	-2.76	-1.06	38.44	50.92	13.11
S&P BSE SENSEX INDEX	INR	25622.17	-0.38	1.85	-2.34	-7.89	-2.67	-10.44	-6.66	-4.92	43.77	15.74
RUSSIAN RTS INDEX \$	USD	800.49	0.48	0.74	-4.08	-3.71	-15.87	-5.71	1.12	-34.35	-45.98	5.66
BRAZIL IBOVESPA INDEX	BRL	46503.99	-0.33	0.09	-0.26	-5.23	-13.38	-4.91	-7.01	-20.28	-21.74	10.23
MSCI WORLD	USD	1625.4	-0.16	1.86	-1.22	-7.10	-8.66	-4.99	-4.93	-6.42	23.91	15.73
MSCI WORLD HEDGED	USD	693.45	-0.26	-0.02	-1.23	-8.16	-7.45	-4.60	-1.69	0.19	43.29	-
MSCI WORLD LOCAL	-	1237.934	-0.28	-0.06	-1.28	-8.34	-7.80	-5.58	-2.97	-1.52	35.48	-
MSCI AC WORLD	USD	391.69	-0.20	1.87	-1.27	-7.23	-9.60	-6.02	-6.10	-8.52	18.55	15.14
MSCI EM	USD	804.16	-0.63	1.97	-1.78	-8.44	-17.67	-14.73	-15.91	-24.80	-17.36	11.19
MSCI AC ASIA x JAPAN	USD	490.72	-1.00	2.92	-0.50	-8.38	-17.28	-13.91	-12.95	-17.51	-0.76	11.54
MSCI EM LATIN AMERICA	USD	1969.8	-1.03	-2.76	-4.26	-10.39	-21.95	-18.04	-27.79	-43.64	-46.35	13.08
MSCI EM Eur, ME & Africa	USD	233.51	0.29	0.58	-3.94	-8.95	-14.27	-11.72	-13.76	-27.90	-31.45	10.31
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	187.37	-0.18	0.32	-4.29	-9.54	-18.86	-15.26	-21.21	-35.62	-24.59	17.90
MSCI MATERIALS	USD	191.19	-0.70	2.44	-1.98	-8.80	-17.39	-15.38	-14.28	-21.63	-15.25	15.83
MSCI INDUSTRIALS	USD	186.9	-0.28	2.01	-0.61	-6.27	-9.50	-6.89	-6.23	-7.38	26.05	15.84
MSCI CONS DISCRETIONARY	USD	188.44	-0.29	2.11	-0.23	-5.61	-5.93	-2.46	1.20	4.38	49.69	16.72
MSCI CONS STAPLES	USD	194	-0.41	0.91	-1.52	-7.61	-4.76	-3.24	-2.96	-1.28	21.77	19.43
MSCI HEALTH CARE	USD	208.63	0.32	1.83	-0.73	-6.75	-5.74	-0.13	4.37	7.18	65.97	17.75
MSCI FINANCIALS	USD	95.91	-0.44	2.25	-1.69	-8.77	-9.77	-4.87	-6.67	-8.19	25.73	12.64
MSCI INFO TECH	USD	136.91	0.77	2.41	-0.11	-4.75	-7.26	-3.74	-3.09	-0.62	36.46	16.31
MSCI TELECOMS	USD	68.01	-1.05	1.63	-1.00	-6.34	-4.24	-0.42	-0.51	-4.35	12.56	15.34
MSCI UTILITY	USD	108.07	-0.72	1.23	-2.63	-7.83	-6.13	-4.18	-12.18	-10.56	5.86	14.40
MSCI WORLD REAL ESTATE	USD	178.24	-0.30	1.27	-1.79	-8.13	-7.46	-8.70	-8.34	-7.38	6.49	22.49
HEDGE FUND INDICES												
HFEX GLOBAL HEDGE FUND	USD	1203.54	0.11	0.16	-0.22	-1.96	-3.19	-2.73	-1.22	-3.76	5.67	-
HFEX EQUAL WEIGHTED	USD	1194.18	0.13	0.20	0.00	-1.10	-1.80	-1.05	0.26	-2.30	6.58	-
HFEX GLOBAL EUR	EUR	1105.46	0.11	0.15	-0.26	-1.99	-3.36	-3.09	-1.70	-4.42	4.23	-

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0203	0.01	-0.01	0.02	-0.08	0.01	0.01	-0.02	0.01	-	-
US 2 YEAR	USD	0.7295	0.00	0.02	-0.01	0.06	0.02	0.05	0.07	0.17	-	-
US 10 YEAR	USD	2.2079	-0.01	0.08	-0.01	0.07	-0.17	0.10	0.04	-0.34	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	478	-0.06	0.07	0.19	0.07	1.48	-0.45	0.51	3.02	9.45	1.72
US GOVERNMENT TR	USD	2095.28	-0.16	-0.18	-0.05	-0.39	1.18	0.33	0.88	2.95	3.29	1.72
US CORPORATE TR	USD	2571.69	-0.28	-0.03	0.23	-0.58	0.19	-1.91	-0.61	0.97	7.42	3.48
US HIGH YIELD TR	USD	1633.67	-0.04	0.43	0.63	0.11	-2.34	-1.44	0.78	-1.31	14.90	7.13
EU GOVERNMENT TR	EUR	239.8903	0.03	-0.08	0.50	-0.66	1.53	-3.70	0.34	3.64	18.81	0.82
EU CORPORATE TR	USD	243.75	-0.03	0.09	0.23	-0.52	0.81	-2.40	-0.75	1.02	14.58	1.40
EU HIGH YIELD TR	EUR	273.61	-0.11	0.15	0.11	-0.50	-0.34	-1.44	1.80	2.14	27.11	4.67
BARCLAYS GLOBAL CONVERT.	USD	217.3	-0.14	0.00	-0.26	-3.25	-4.28	-1.84	1.23	-0.05	25.59	-
GLOBAL EM TR (HEDGED)	USD	324.6716	-0.18	-0.02	-0.20	-0.97	-0.89	0.03	1.35	-0.88	7.05	5.39
S&P/LSTA U.S. LEV LOAN	USD	92.72307	0.00	0.10	0.12	-0.69	-3.25	-3.91	-2.75	-5.19	-3.13	5.60
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2664.168	1.73	-1.25	-4.15	-2.86	-18.70	-11.98	-17.59	-41.91	-48.26	-
GSCI ENERGY TR	USD	506.802	2.63	-2.80	-6.94	-2.51	-24.80	-15.01	-19.55	-51.84	-54.73	-
GSCI INDUSTRIAL METALS TR	USD	1066.302	0.67	1.71	2.94	0.26	-11.22	-9.48	-15.71	-23.94	-32.28	-
GSCI PRECIOUS METALS TR	USD	1361.889	0.64	-1.25	-1.79	-0.08	-6.92	-4.98	-6.77	-12.84	-39.92	-
GSCI AGRICULTURE TR	USD	451.1767	0.50	1.86	-0.43	-6.99	-5.99	-8.56	-16.68	-14.66	-46.41	-
GENERIC 1ST 'CL' FUTURE	USD	45.92	-1.70	-3.44	-8.25	4.35	-27.37	-13.99	-22.35	-53.75	-55.00	-
GOLD SPOT \$/OZ	USD	1110.75	-0.14	-1.27	-2.26	0.02	-6.16	-3.99	-6.38	-10.61	-35.97	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.456	-0.07	-0.87	-0.46	-1.95	0.43	-4.42	5.67	13.16	19.45	-
Euro Spot	EUR	1.128	0.16	1.34	0.78	2.32	0.36	7.12	-6.61	-12.59	-12.11	-
Japanese Yen Spot	JPY	120.62	0.15	-1.20	0.66	3.89	2.47	0.84	-0.55	-11.07	-35.43	-
British Pound Spot	GBP	1.5445	-0.02	1.79	0.63	-0.83	-0.48	3.43	-0.87	-5.00	-3.91	-
Brazilian Real Spot	BRL	3.8496	-1.81	-2.84	-5.95	-10.70	-19.00	-19.44	-30.96	-40.55	-47.46	-
China Renminbi Spot	CNY	6.3772	0.05	-0.28	0.08	-0.77	-2.62	-1.75	-2.64	-3.82	-0.61	-
Singapore Dollar Spot	SGD	1.4134	-0.04	0.74	-0.15	-0.89	-4.89	-1.76	-6.25	-10.63	-13.04	-
Norwegian Krone Spot	NOK	8.1825	0.18	1.73	1.38	1.35	-3.97	0.50	-8.76	-21.90	-29.38	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	24.37	-7.09	-6.59	-14.28	77.75	89.65	44.46	26.93	90.39	48.51	-
USD SWAP SPREAD SEMI 2YR	13.6	-0.29	3.83	-10.67	-45.28	-48.46	-49.55	-40.89	-41.83	-8.07	-	-
TED SPREAD	32.08	4.26	0.82	-2.49	29.30	17.68	24.53	45.75	46.22	5.91	-	-

All data is compiled from Bloomberg

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