

# Bedrock Friday September 18<sup>th</sup> Newsletter

This is the “morning after”... the long awaited September Fed decision on rates came and they did nothing. Phew! We breathed a sigh of relief when we saw that the Fed actually gets it. The Fed made it clear that it recognized that if there is no inflation, a world of uncertainty and no real risk in keeping rates low - then rates should stay low. That was exactly why markets initially greeted the decision with a rally and applause before the averages pulled back later in the day when investors rang the register. Many had expected to see a selloff regardless of what the decision was, partially because the market had run up so much in anticipation of “the event”.

We have to ask ourselves, if it makes sense to create turmoil because of an amorphous belief that inflation lurks around the corner and there is not ever going to be a good time for tightening... why not just tighten anyway?

There were three critical forces that the Fed addressed directly which showed us that the Fed understands that things are slipping: First, there is no inflation. That is a huge positive for stocks, but not for workers. Wages aren't growing, and the only people who seem to be making the money are CEOs. Wage inflation is needed. Second, Federal Reserve chief Janet Yellen is right to be concerned about international ramifications of even a small rate hike. Europe is trying to rebound, but China, Russia and Brazil are struggling and that cannot be ignored. Third, the Fed clearly understood there was time to wait. What's the darned risk? In a world with people taking multiple jobs just to survive, why not wait for a better worldwide rebound before taking action? We had maintained our view that the Federal Reserve's dual mandate is properly fulfilled: There is no inflation and there is full employment. We held all along the old adage “Don't fix what ain't broke”...

Ultimately, we think that the U.S. is better off that the Fed stood pat on Thursday. Thus, the wise actions of the Fed will now allow for the higher prices that can be expected to occur in reaction.

Some supporting data explaining the Fed's decision: Builder confidence in the US continued its careful ascent in September as the monthly sentiment index rose one point to 62, the highest since 2005, but was viewed as lacklustre as the climb-rate appears to be slowing with sales expectation falling by 3%. U.S. consumer prices fell in August as gasoline prices resumed their decline and a strong dollar curbed the cost of other goods, pointing to tame inflation. On Wednesday, we saw that CPI slipped 0.1% last month, the first decline since January, after edging up 0.1% in July. In the 12 months through August, CPI rose 0.2% after a similar gain in July. Signs of a disinflationary trend reasserting itself are in stark contrast with a rapidly tightening labour market, highlighting the dilemma faced by Fed officials. In the 12 months through August, the core CPI increased 1.8%. It was the fifth time in six months that the 12-month change was 1.8% The Fed tracks the personal consumption expenditures price index excluding food and energy which is running well below the core CPI.

In early September, both the World Bank and the IMF cautioned the U.S. central bank against raising rates until the world economy was on a surer footing. Their warnings followed a summer of turmoil in global markets, triggered by jitters over China's deteriorating economic outlook and the prospect of higher borrowing costs in the world's largest economy. Janet did take note of these views, or so it seems. And this against the suggestion of J.C. Trichet the former Chairman of the ECB, who advised Janet to ignore this advice saying, "The Fed has to be independent of the self-appointed good advisors, it is part of the credibility of the monetary policy."

Earlier this month, the ECB downgraded its inflation forecast and left the door open to extend and expand its bond buying program that currently stands at €60Bn (\$66.7Bn) per month and is due to expire in September 2016. Sharing his assessment of the euro zone economy, Trichet said he believed the single currency bloc was largely "back on its feet", barring Greece. "The legacy of the sovereign risk is progressively being eliminated, and it's clear that when you look at the details; Spain is growing now and quite correctly, Ireland is growing, Portugal is growing". As for the Euro, Trichet believed it was trading at an appropriate level given Europe's current growth dynamics.

A storm in a tea-cup? We are reminded of the Greek debacle... Thursday came and went, the issue of a U.S. rate hike hasn't gone away and will clearly come back to haunt our thinking and markets in the months to come. We are certain that they will do it eventually. How much and when are the clouds hanging over us. We will observe yet again new Greek elections in the interim. Yesterday's big event's only visible result is a decline in the US\$; The DXY or the US\$ index, fell 1.2%, which was clearly floating on the rate-rise expectation. We believe that this fall is an opportunity to add Dollars.

It has been broadly assumed that if the EU were ever to break up, it would be due to inequities surrounding in-compatible fiscal cultures. What we're seeing with the current refugee crisis, are tensions equal to, if not more heightened than previous economic ones. The immigrant flow is causing cracks in the Schengen Accords. It will be expensive to absorb so many newcomers. Ask yourself, why is the Euro rising?

What is a logical evolution here? We ask if logic is the right or applicable instrument. Just as we know that banning marriage will reduce divorce rates, logically speaking...

## Market Weekly Highlights:

- The US Dollar is down courtesy of the FOMC's strong right leg, kicking the can down the road. The Dollar Index (DXY) is currently at the lows of the week of 94.35, having been as high as 95.80 on Wednesday. The US\$ is now trading at about \$1.1440 against the EUR and at 0.9540 against the Swiss Franc. The Pound has managed to bounce further on the FED announcement (perhaps that should really be the USD has weakened in favour of the Pound!) and is trading higher at 1.5630. 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 strengthened versus the USD this week and is trading at 119.25 having been at 121.00 just prior to the FED announcement. Gold which started the week at \$1,105 has jumped back to \$1,137 this morning. WTI is trading at \$46.80/Bbl having spent most of the week trading around \$44.50. Brent is now at \$49.00/Bbl having also popped to a high on Wednesday of \$50.34. The Russian Ruble has found some strength this week, seeing the USD slip from 69.00 to 65.75. 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 3.90 having briefly seen the dollar drop to 3.83 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 2.17%; exactly where it started the week. However, the yields had risen on the expectation of a possible rate rise, having traded as high as 2.30%. We are now exactly where we started the year! The German 10Yr Bund has inched higher this week; with the yield bouncing from 0.63% to briefly hit 0.79% only to slump back to 0.69% as we are writing. The Spanish 10Yr yield is surprisingly little affected by the large market moves, seeing the yield slip only from 2.10% to 2.03%. Italian 10Yr yield is unchanged on the week at 1.84% moving from 1.94% yesterday. In the UK, the yield on the Gilts has remained well below 2.0%, rising from 1.83% to 1.98% but trading this morning at 1.87%. The Swiss 10Yr yields have moved higher and now they yield 0%... if you were lucky, yesterday you could have received 3bps!
- Equity Markets were generally positive this week in the US. The Dow Jones closed last night at +1.47% for the week. The S&P 500 closed last night at +1.49% and the NASDAQ a similar move of +1.48%. The futures on all of the indices do suggest that the equities will open marginally lower this afternoon. The DAX is currently trading at +0.01% for the week, the CAC40 at +1.39%, SMI +0.39% and the UK FTSE looking to be trading at +0.86% and with the EuroStoxx 50 up 1.05%. The Shanghai composite continued its slide this week with the index down by 3.20%. Whilst the Hang Seng Index was up +1.94% for the week. In Japan the Nikkei was down by 1.06% for the week.  
We do note that volatility as measured by the VIX had another busy week, seeing the index drop dramatically after the Fed announcement by about 19%. However, it retraced that entire move to end the session almost where it started at 21.10 down 8.88% on the week.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

17/09/2015

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	1990.2	-0.24	1.94	0.91	-5.09	-6.18	-5.21	-3.34	-1.05	36.38	16.49
DOW JONES INDUS. AVG	USD	16674.74	-0.38	2.11	0.89	-4.78	-7.95	-7.75	-6.44	-3.42	22.93	15.21
NASDAQ COMPOSITE INDEX	USD	4893.949	0.10	2.04	2.46	-3.27	-4.66	-1.78	3.33	6.54	54.00	18.07
RUSSELL 2000 INDEX	USD	1180.693	0.47	2.40	1.83	-2.81	-8.09	-5.71	-1.99	1.85	37.78	17.57
EURO STOXX 50	EUR	3255.79	0.12	1.22	-1.31	-7.68	-6.48	-12.04	2.55	-1.36	26.37	13.87
EURO STOXX 600	EUR	361.21	-0.18	0.85	-1.11	-7.57	-6.63	-10.01	4.74	3.16	31.03	15.44
CAC 40 INDEX	EUR	4655.14	0.20	1.43	-0.84	-7.19	-3.95	-8.34	7.98	3.34	31.35	14.84
DAX INDEX	EUR	10229.58	0.02	0.17	-1.16	-7.10	-8.65	-14.95	3.41	3.49	38.01	12.63
FTSE 100 INDEX	GBP	6186.99	-0.68	0.89	-1.21	-5.42	-7.98	-11.13	-6.00	-9.49	5.18	15.38
SWISS MARKET INDEX	CHF	8849.43	-0.25	0.39	-0.20	-6.15	-0.83	-4.86	-1.97	-0.27	34.72	17.07
NIKKEI 225	JPY	18432.27	1.43	-1.06	-4.34	-12.09	-9.61	-7.54	3.55	12.46	98.06	16.99
HANG SENG INDEX	HKD	21854.63	-0.48	1.96	1.18	-6.60	-17.87	-9.10	-7.11	-9.28	6.43	10.88
SHANGHAI SE COMPOSITE	CNY	3086.061	-2.10	-3.20	-3.37	-17.35	-35.26	-13.40	-4.23	33.77	50.42	12.75
S&P BSE SENSEX INDEX	INR	25863.97	1.00	3.05	0.46	-5.29	-1.60	-8.12	-3.98	-0.85	42.40	16.26
RUSSIAN RTS INDEX \$	USD	823.13	-1.70	4.09	-0.21	2.74	-15.28	-1.10	5.20	-29.94	-46.26	5.83
BRAZIL IBOVESPA INDEX	BRL	48551.08	0.00	4.40	4.13	2.32	-10.49	-5.77	-2.91	-16.83	-21.44	10.95
MSCI WORLD	USD	1652.88	-0.05	1.59	0.45	-5.24	-7.17	-5.77	-3.32	-5.16	23.61	15.98
MSCI WORLD HEDGED	USD	703.666	-0.03	1.47	0.23	-5.78	-5.48	-4.92	-0.24	1.72	42.27	-
MSCI WORLD LOCAL	-	1255.807	-0.04	1.44	0.15	-5.92	-5.84	-5.91	-1.57	-0.03	34.55	-
MSCI AC WORLD	USD	398.77	0.01	1.74	0.51	-4.97	-8.03	-6.58	-4.40	-7.01	18.18	15.40
MSCI EM	USD	827.5	0.58	3.12	1.07	-2.43	-15.35	-13.51	-13.47	-21.67	-17.81	11.51
MSCI AC ASIA x JAPAN	USD	501.41	0.68	2.33	1.67	-2.84	-15.09	-13.35	-11.05	-14.54	-2.62	11.74
MSCI EM LATIN AMERICA	USD	2043.42	-0.20	3.74	-0.68	-4.67	-21.27	-15.46	-25.09	-40.51	-45.77	13.97
MSCI EM Eur, ME & Africa	USD	242.32	0.03	4.16	-0.31	-1.61	-11.85	-8.17	-10.51	-24.44	-30.17	10.67
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	192	0.01	3.48	-1.92	-5.78	-16.14	-14.99	-19.26	-33.77	-24.16	18.30
MSCI MATERIALS	USD	192.53	-0.28	0.98	-1.30	-6.72	-16.83	-15.28	-13.68	-21.17	-17.84	16.08
MSCI INDUSTRIALS	USD	189.37	-0.24	1.21	0.71	-4.83	-7.66	-8.01	-4.99	-6.47	25.04	16.04
MSCI CONS DISCRETIONARY	USD	193.2	0.41	2.24	2.29	-3.28	-3.87	-2.36	3.75	7.01	51.66	17.12
MSCI CONS STAPLES	USD	199.64	0.21	2.87	1.34	-4.01	-2.87	-2.23	-0.14	1.31	24.02	20.02
MSCI HEALTH CARE	USD	213.22	0.46	1.71	1.46	-5.31	-4.06	-1.92	6.67	8.11	67.72	18.13
MSCI FINANCIALS	USD	96.86	-0.50	0.90	-0.72	-7.09	-8.73	-6.15	-5.74	-7.78	24.00	12.73
MSCI INFO TECH	USD	138.91	-0.50	1.03	1.35	-3.86	-5.97	-4.97	-1.68	0.55	34.43	16.55
MSCI TELECOMS	USD	66.91	-0.10	-0.89	-2.61	-6.75	-6.12	-3.95	-2.12	-6.48	10.18	15.02
MSCI UTILITY	USD	110.72	0.97	2.34	-0.24	-6.79	-4.67	-4.96	-10.03	-7.48	7.87	14.66
MSCI WORLD REAL ESTATE	USD	183.19	0.64	1.81	0.94	-6.31	-5.61	-8.76	-5.79	-2.19	7.58	23.04
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1204.64	0.15	0.09	-0.13	-1.50	-3.17	-2.90	-1.13	-3.38	5.33	-
HFRX EQUAL WEIGHTED	USD	1194.61	0.10	0.04	0.03	-0.82	-1.86	-1.31	0.29	-1.99	6.29	-
HFRX GLOBAL EUR	EUR	1106.35	0.15	0.08	-0.18	-1.54	-3.33	-3.28	-1.62	-4.03	3.92	-

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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	0.02	-0.02	0.01	-0.06	0.01	-0.02	-0.03	0.01	-	-
US 2 YEAR	USD	0.6797	0.00	-0.03	-0.06	-0.04	0.05	0.13	0.02	0.12	-	-
US 10 YEAR	USD	2.1726	-0.02	-0.02	-0.05	-0.02	-0.16	0.25	0.00	-0.44	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	477.34	0.22	-0.14	0.05	-0.36	0.85	-0.86	0.37	3.03	9.54	1.73
US GOVERNMENT TR	USD	2096.1	0.46	-0.18	-0.01	-0.09	1.04	-0.51	0.92	3.37	3.79	1.73
US CORPORATE TR	USD	2575.82	0.65	-0.07	0.40	0.06	0.48	-2.46	-0.45	1.70	7.62	3.45
US HIGH YIELD TR	USD	1626.71	-0.05	-0.41	0.20	-0.10	-2.60	-1.28	0.35	-1.80	13.27	7.26
EU GOVERNMENT TR	EUR	238.9714	0.00	-0.47	0.12	-0.80	1.24	-3.64	-0.05	3.42	18.63	0.87
EU CORPORATE TR	USD	242.48	-0.05	-0.52	-0.29	-1.11	0.07	-2.38	-1.26	0.50	13.77	1.49
EU HIGH YIELD TR	EUR	272.79	0.01	-0.30	-0.19	-0.72	0.15	-1.31	1.50	1.83	25.14	4.75
BARCLAYS GLOBAL CONVERT.	USD	218.72	0.05	0.65	0.39	-1.66	-3.27	-2.06	1.89	1.20	24.48	-
GLOBAL EM TR (HEDGED)	USD	325.6122	0.26	0.29	0.09	-0.69	-0.62	0.88	1.64	-0.12	6.96	5.36
S&P/LSTA U.S. LEV LOAN	USD	92.52524	-0.13	-0.21	-0.10	-0.66	-3.07	-3.77	-2.96	-5.35	-3.95	5.64
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2650.151	-0.71	-0.53	-4.65	0.20	-17.05	-8.43	-18.02	-42.37	-48.57	-
GSCI ENERGY TR	USD	503.64	-0.99	-0.62	-7.53	1.28	-23.30	-9.67	-20.05	-52.65	-55.03	-
GSCI INDUSTRIAL METALS TR	USD	1056.445	0.00	-0.92	1.99	2.85	-8.06	-10.39	-16.49	-23.84	-35.63	-
GSCI PRECIOUS METALS TR	USD	1373.711	-0.09	0.87	-0.94	-0.37	-5.40	-3.22	-5.96	-11.39	-40.73	-
GSCI AGRICULTURE TR	USD	454.9329	-1.00	0.83	0.40	-2.12	-3.48	-6.36	-15.98	-12.15	-44.85	-
GENERIC 1ST 'CL' FUTURE	USD	46.9	-1.04	3.99	-5.67	8.43	-24.94	-5.23	-20.16	-52.57	-52.85	-
GOLD SPOT \$/OZ	USD	1131.55	-0.07	2.07	-0.36	1.16	-5.92	-3.15	-4.57	-7.71	-36.19	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	94.627	-0.26	-0.85	-1.51	-2.74	0.36	-4.23	4.56	11.93	19.09	-
Euro Spot	EUR	1.1435	-0.04	0.82	1.96	3.69	0.63	5.22	-5.51	-11.55	-12.39	-
Japanese Yen Spot	JPY	120.01	0.51	1.00	1.53	4.20	2.98	0.59	0.32	-8.97	-33.99	-
British Pound Spot	GBP	1.5591	-0.09	0.96	1.51	-0.54	-1.91	4.00	0.00	-5.00	-4.11	-
Brazilian Real Spot	BRL	3.8977	-1.74	-1.23	-7.11	-10.70	-21.58	-16.88	-31.82	-39.51	-47.87	-
China Renminbi Spot	CNY	6.3658	0.03	0.18	0.24	0.48	-2.44	-2.11	-2.48	-3.49	-0.71	-
Singapore Dollar Spot	SGD	1.3983	0.29	1.16	1.26	0.67	-4.31	-1.26	-4.93	-9.14	-12.11	-
Norwegian Krone Spot	NOK	8.0688	-0.19	0.84	2.42	2.50	-3.57	1.03	-7.82	-21.77	-29.38	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	21.14	-0.98	-13.25	-25.64	53.30	60.27	51.32	10.10	75.73	49.08	-
USD SWAP SPREAD SEMI 2YR	USD	13.23	-8.54	-16.21	-20.29	-47.73	-54.34	-54.01	-47.25	-50.23	-7.56	-
TED SPREAD	USD	35.02	21.26	9.16	6.44	28.70	22.58	56.48	59.11	59.98	21.05	-

All data is compiled from Bloomberg

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