

# Bedrock Friday September 25<sup>th</sup> Newsletter

Earlier this week Yogi Berra passed away. In homage, we chose to open our weekly ramblings with a pertinent quote: "The future ain't what it used to be." Indeed, Yogi had foresight- Only a week ago we had low-pollution diesel cars as saviours of the planet and this week we learned that the future might not have any, as Volkswagen group was caught in a huge scandal of faking test results of such vehicles. Wow! The whole car industry is now under scrutiny and has lost a substantial part of its market capitalization. Then we heard a clever guy announcing that the price for an important drug developed in 1953 (!) which he had acquired will be repriced from \$13.50 to \$750. A 5'000% increase. We won't venture into a debate of the conflict between free markets and morality, leaving this subject to Hillary Clinton who instantly Twitted "Price gouging like this in the specialty drug market is outrageous. Tomorrow I'll lay out a plan to take it on", redefining her Presidential quest to ride on the pharmaceutical industry's pricing practices. The market sensed a whiff of price-controls in the making and smacked the valuations of all stocks even remotely connected to health care. The biotech index took it on the chin with a 5% valuation penalty. Again, as Yogi said, they clearly made a wrong mistake... Well, the huge overnight price increase for an important tuberculosis drug has been rescinded after the company that acquired the drug gave it back to its previous owner under pressure. Hillary might have to find a new "cause celebre"...

Well, there are a few company-specific stories which are affecting outlooks and markets- VW which might find itself under US Justice Department investigation for "criminal conspiracy" could lead to indictments of individuals. Then, we see GlenCore, a natural resources company based in Switzerland that has immense commodity exposure. The company raised money in the equity markets recently, but its stock has fallen to an all-time low, with no wrong-doing, and then, Petrobras, the huge Brazilian oil company that has issued an immense amount of bonds, most of which are in a pullback. It was once among the largest companies in the world, and now has fallen 44 percent this year, down to \$4. What really worries us most is Petrobras' \$170 billion in debt. Given the steep decline in oil, how the heck will it make interest payments, given the way its debt is configured? The Brazilian Real hit an all-time low against the U.S. dollar on Wednesday, the latest in a plague of bad news for the emerging market. And according to one currency strategist, there's no telling when the real problems will end. Boris Schlossberg, managing director of FX strategy at BK Asset Management, said it's impossible to say how far Brazil's currency will fall. Brazil has been hit hard by the steep plunge in commodities prices and the economic slowdown in China. The Real has tumbled almost 35 percent against the dollar year to date. Earlier this month, S&P cut Brazil's credit rating to below investment grade. And Win Thin, head of emerging market currency strategy at Brown Brothers Harriman, said more downgrades for Brazil are on the horizon. Thin said he sees two downgrades, more from S&P and the Real falling another 10% before Brazil starts to see any improvement.

Surprises emanating from companies and countries do rattle markets and us as investors. We atoned for our sins and other wrongdoings this week with "Yom Kippur" on Wednesday and now hope for a new phase of stabilisation to be supported by our favourite Central Bankers; Mario Draghi said it's too soon to say whether risks to the economic outlook warrant a step-up in the European Central Bank's stimulus. He implied that if need be, the ECB could and would increase its QE. The ECB now foresees consumer-price growth of 1.1% in 2016 and 1.7% in 2017. That compares with its medium-term goal of just under 2%. Inflation was 0.2% in August. "The gravity of the challenges right now would demand that we use all available instruments within our common knowledge." We were comforted in our view for outperformances for European equities. Then, last night after the US close, Federal Reserve Chair Janet Yellen said a rate hike "sometime later this year" would likely be appropriate, though the decision to abandon accommodative policy depends on economic data, saying "The more prudent strategy is to begin tightening in a timely fashion and at a gradual pace" and in effect, told the markets that she herself was in favour of a rate rise this year, saying that the inflation "shortfall" will likely prove transitory. Currency traders liked the speech and have been buying back the Dollar which has risen strongly against everyone else. Last week the USD/EUR was at 1.13 before the "no rate change" announcement, falling to 1.1460 the next morning, only to find itself back at 1.1160 now.

The stock markets seem to like this information, rising 2-3% in Europe and the US futures roaring. Again, we like it when the governing powers support our views, in this case for a strong US\$, riding on expectations for higher interest rates. Where we are starting to question our views is in regard to Japan which announced last night that it fell back to deflation, after the BOJ backed away from more easing in recent months. But then, they can step on the pedal again (Diesel isn't popular in Japan...).

And we are days away from 'October phobia, the month of crashes and massacres. But in spite of historic cracks (October 1987 and 1929), overall, October has been the best month to buy stocks!

We are off now to the last weekend of September, hoping to find Q3 was better than expectations, thinking that the only place where success comes before work is in the dictionary... ☺

## Market Weekly Highlights:

- The US Dollar is up this week with the Dollar Index (DXY) currently at 96.56, the highest of the week, having surged from last week's FOMC meeting driven lows. The US\$ is now trading at about \$1.117 against the EUR and at 0.977 against the Swiss Franc. The Pound has dropped against the USD now at 1.5224 after reaching the highest levels at 1.5659 on the FED announcement last week. 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 marginally weakened versus the USD this week and is trading at 120.85 reaching the 121.00 level prior to the FED announcement. Gold bounced \$32 this week from \$1'124 in the beginning to \$1'156.80 last night and dropping back \$10 this morning trading at \$1'144 as we write. WTI is trading at \$45.35/Bbl having spent most of the week trading around \$45.50. Brent is now at \$48.26/Bbl having dropped from Wednesday's highs of \$50.30. The Russian Ruble has traded around 65.70 during the week against USD. The Brazilian Real has continued its slide and hit 4.2478 to trade back to 3.92 against USD during the last session, its all-time low. 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 hasn't moved much and is trading at 2.1694%; exactly where it started the week. However, the yields have come down on the "no rate change" decision last week, having traded as high as 2.30%. We are now exactly where we started the year! The German 10Yr Bund has dropped during the week and is now heading higher to reach the levels where it started; with the yield dropping from 0.684% to hit 0.569% yesterday and now trading back to 0.65% as we are writing. The Spanish 10Yr yield has been trading around 2% levels this week after dropping from 2.10% to 2.03% on the FOMC meeting announcements last week. Italian 10Yr yield has followed the same movement as Spanish yields to only trade 30 bps lower. In the UK, the yield on the Gilts has remained well below 2.0%, rising from 1.73% to 1.83% currently. The Swiss 10Yr yields have moved lower and now they yield a negative 0.07%.
- Equity Markets were generally negative this week in the US up to last night's Yellen comments on the still "probable" hike of the rates this year. The Dow Jones closed last night at -2.84% for last 5 days. The S&P 500 closed last night at -2.91% and the NASDAQ a similar move of down 3.26%. However futures on indices are all positive this morning and suggest that the equities will open strongly higher this afternoon. The DAX is currently trading at +2.93% for the day and lowering the negative impact of VW this week, the CAC40 at +3.35%, SMI +2.76% and the UK FTSE trading at +2.53% and with the EuroStoxx 50 up 3.09% hoping to close the week at a smaller negative figure. The Shanghai composite has slowed the slide this week with the index down by only 0.18%. Whilst the Hang Seng Index was down -3.35% for the week. In Japan the Nikkei was down by 0.81% for the week.  
We do note that volatility as measured by the VIX had another busy week, seeing the index up by about 16% at 23.47 as we write. However, it should go lower during today's session as the markets are expected to trade strongly higher.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

24/09/2015

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	1932.24	-0.34	-2.91	-2.03	3.46	-8.09	-6.25	-6.15	-1.72	34.04	16.05
DOW JONES INDUS. AVG	USD	16201.32	-0.48	-2.84	-1.98	3.41	-9.44	-8.56	-9.10	-4.39	20.39	14.79
<b>NASDAQ COMPOSITE INDEX</b>	USD	4734.479	-0.38	<b>-3.26</b>	-0.88	<b>5.06</b>	-7.39	-2.91	<b>-0.03</b>	5.99	51.86	17.56
RUSSELL 2000 INDEX	USD	1137.536	-0.22	-3.66	-1.89	3.03	-11.36	-7.81	-5.57	2.46	35.56	16.99
<b>EURO STOXX 50</b>	EUR	3019.34	-1.97	<b>-2.13</b>	-5.49	-3.98	<b>-14.42</b>	-16.12	<b>-1.79</b>	-3.50	20.31	13.30
EURO STOXX 600	EUR	339.63	-2.11	-1.98	-4.15	-2.42	-12.28	-12.62	1.52	1.84	26.09	14.92
<b>CAC 40 INDEX</b>	EUR	4347.24	-1.93	-1.79	-4.26	-2.41	-11.64	-11.28	<b>4.26</b>	2.28	26.78	14.36
DAX INDEX	EUR	9427.64	-1.92	-2.79	-6.04	-4.82	-15.98	-18.76	-1.69	1.37	29.83	11.73
FTSE 100 INDEX	GBP	5961.49	-1.16	-0.56	-2.85	-0.19	-10.84	-13.17	-7.56	-8.58	3.59	15.08
<b>SWISS MARKET INDEX</b>	CHF	8278.07	-2.01	<b>-3.38</b>	-4.32	-3.60	-6.65	-8.10	-6.01	-3.75	27.67	16.46
<b>NIKKEI 225</b>	JPY	17571.83	-2.76	-0.81	-5.35	0.41	-13.92	-9.45	<b>2.46</b>	9.20	96.67	16.85
HANG SENG INDEX	HKD	21095.98	-0.97	-3.07	-1.95	-0.73	-21.72	-13.37	-9.98	-10.60	2.66	10.58
<b>SHANGHAI SE COMPOSITE</b>	CNY	3142.687	0.86	<b>-0.18</b>	-3.54	<b>4.30</b>	-31.70	-15.53	-4.40	31.86	52.39	12.67
S&P BSE SENSEX INDEX	INR	25863.5	0.16	-0.39	-1.60	-0.65	-7.29	-8.00	-5.95	-2.29	38.35	15.95
RUSSIAN RTS INDEX \$	USD	769.38	-1.43	-3.75	-5.71	3.63	-16.50	-10.89	-0.60	-33.14	-47.98	5.44
BRAZIL IBOVESPA INDEX	BRL	45291.96	-0.11	-6.71	-2.86	1.68	-14.83	-12.66	-9.43	-19.07	-25.14	10.21
<b>MSCI WORLD</b>	<b>USD</b>	<b>1587.38</b>	<b>-0.58</b>	<b>-2.66</b>	<b>-3.53</b>	<b>0.22</b>	<b>-10.90</b>	<b>-9.63</b>	<b>-7.15</b>	<b>-6.79</b>	<b>19.60</b>	<b>15.39</b>
MSCI WORLD HEDGED	USD	676.982	-0.89	-3.79	-3.57	0.99	-10.38	-9.60	-4.02	-1.89	37.58	-
MSCI WORLD LOCAL	-	1208.105	-0.87	-3.80	-3.66	0.74	-10.71	-10.51	-5.30	-3.56	30.12	-
MSCI AC WORLD	USD	382.54	-0.60	-2.92	-3.58	0.16	-11.91	-10.67	-8.29	-8.65	14.18	14.82
MSCI EM	USD	785.68	-0.76	-5.32	-4.04	-0.36	-20.49	-19.51	-17.84	-23.40	-21.58	10.95
MSCI AC ASIA x JAPAN	USD	482.78	-0.47	<b>-4.44</b>	-2.11	1.28	-19.47	-17.79	-14.36	-16.21	-6.17	11.34
<b>MSCI EM LATIN AMERICA</b>	USD	1838.78	-1.70	<b>-10.01</b>	-10.63	-7.18	-27.32	-26.28	-32.59	-43.65	-50.30	12.78
MSCI EM Eur, ME & Africa	USD	228.3	-1.46	<b>-5.72</b>	-6.08	-3.52	-18.41	-17.51	-15.68	-25.80	-33.83	9.97

## EQUITY MARKET INDICES - BY SECTOR

24/09/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	PIE
MSCI ENERGY	USD	182.07	-0.18	<b>-2.81</b>	-6.99	1.85	-20.20	-20.66	-23.44	-34.82	-26.95	17.47
<b>MSCI MATERIALS</b>	USD	179.18	-0.88	<b>-5.48</b>	-8.14	-4.85	-22.11	-22.26	-19.67	-24.64	-21.75	15.04
MSCI INDUSTRIALS	USD	179.95	-1.07	<b>-3.20</b>	-4.30	-0.92	-11.81	-12.13	-9.72	-8.96	20.55	15.29
MSCI CONS DISCRETIONARY	USD	185.36	-0.69	<b>-2.78</b>	-1.86	2.07	-8.35	-6.14	-0.46	5.04	46.00	16.44
MSCI CONS STAPLES	USD	194.98	-0.05	<b>-1.47</b>	-1.03	1.13	-4.88	-5.03	-2.47	0.76	20.56	19.64
MSCI HEALTH CARE	USD	202.85	-1.10	<b>-3.91</b>	-3.48	-0.66	-9.17	-6.30	1.48	4.04	57.36	17.31
MSCI FINANCIALS	USD	92.84	-0.63	<b>-2.69</b>	-4.84	-2.09	-12.94	-11.03	-9.65	-9.42	20.10	12.19
<b>MSCI INFO TECH</b>	USD	135.91	-0.23	<b>-0.92</b>	-0.84	<b>5.59</b>	-7.59	-5.29	-3.80	1.09	34.62	16.20
MSCI TELECOMS	USD	64.87	-0.66	<b>-2.76</b>	-5.57	-3.27	-10.60	-7.83	-5.11	-8.01	5.72	14.72
<b>MSCI UTILITY</b>	USD	108.48	0.29	<b>-1.32</b>	-2.26	-1.37	-4.68	-7.37	-11.85	-8.04	4.65	14.41
MSCI WORLD REAL ESTATE	USD	180.83	-0.43	<b>-1.51</b>	-0.36	1.58	-5.37	-11.27	-7.00	-1.88	7.89	22.77

## HEDGE FUND INDICES

<b>HFRX GLOBAL HEDGE FUND</b>	USD	1193.6	-0.16	<b>-0.92</b>	-1.05	-0.98	-4.67	-4.13	<b>-2.04</b>	-4.02	4.53
HFRX EQUAL WEIGHTED	USD	1188.46	-0.07	<b>-0.51</b>	-0.48	-0.38	-2.65	-2.10	-0.22	-2.31	5.83
HFRX GLOBAL EUR	EUR	1096.08	-0.16	<b>-0.93</b>	-1.11	-1.09	-4.82	-4.50	-2.53	-4.67	3.11

## MARKET INDICES PERFORMANCE

24/09/2015

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	0.00	0.02	0.00	-0.05	0.00	-0.03	-0.04	-0.01	-
<b>US 2 YEAR</b>	USD	0.7233	0.04	<b>0.05</b>	-0.01	0.12	0.04	0.12	<b>0.06</b>	0.17	-
<b>US 10 YEAR</b>	USD	<b>2.1569</b>	0.03	0.02	-0.06	0.09	-0.25	0.23	<b>-0.01</b>	-0.35	-

## FIXED INCOME INDICES - BY TYPE OF ISSUER

Yield to Worst

GLOBAL AGG TR HEDGED	USD	479.99	0.08	0.56	0.61	-0.11	1.45	-0.97	0.93	3.32	9.65	1.66
<b>US GOVERNMENT TR</b>	USD	2107.94	0.15	<b>0.13</b>	0.56	0.20	1.74	-0.09	1.49	3.36	3.85	1.66
US CORPORATE TR	USD	2588.65	0.06	-0.06	0.90	0.82	1.14	-2.18	0.05	1.53	7.30	3.40
<b>US HIGH YIELD TR</b>	USD	1603.82	-0.57	<b>-1.27</b>	-1.21	-0.52	-4.06	-3.36	-1.06	-2.31	12.16	7.64
<b>EU GOVERNMENT TR</b>	EUR	241.484	0.07	<b>0.31</b>	1.17	1.09	2.21	<b>-2.50</b>	1.00	3.76	19.64	<b>0.76</b>
EU CORPORATE TR	EUR	242.83	-0.11	0.14	-0.15	-0.61	0.24	-2.21	-1.12	0.55	13.46	1.49
EU HIGH YIELD TR	EUR	270.6	-0.17	<b>-0.80</b>	-0.99	-0.26	-1.50	-1.98	0.68	1.04	24.31	4.99
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	212.2	-0.31	<b>-2.98</b>	-2.60	-0.16	-6.76	-5.71	<b>-1.15</b>	-1.19	21.40	-
<b>GLOBAL EM TR (HEDGED)</b>	USD	322.5357	-0.40	<b>-0.94</b>	-0.85	-0.23	<b>-2.21</b>	-1.51	<b>0.68</b>	-1.41	5.83	5.54
S&P/STA U.S. LEV LOAN	USD	91.98801	-0.07	<b>-0.58</b>	-0.68	-0.58	-3.66	-4.34	-3.52	-5.58	-4.48	5.72

## COMMODITY INDICES - BY TYPE OF ISSUER

GSCI INDEX TOTAL RETURN	USD	2596.18	0.29	<b>-2.04</b>	-6.59	5.60	-18.50	-13.27	-19.69	-42.63	-48.01
<b>GSCI ENERGY TR</b>	USD	490.585	0.45	<b>-2.59</b>	-9.92	10.27	-24.66	-14.85	<b>-22.13</b>	-53.19	-54.32
<b>GSCI INDUSTRIAL METALS TR</b>	USD	1010.075	0.21	<b>-4.39</b>	-2.49	2.20	-11.97	-17.48	-20.16	-25.77	-37.26
GSCI PRECIOUS METALS TR	USD	1415.535	2.01	3.05	2.08	0.25	-2.17	-4.41	-3.09	-6.99	-38.65
<b>GSCI AGRICULTURE TR</b>	USD	455.3006	-0.28	<b>0.08</b>	0.48	-0.59	-5.92	-9.40	-15.91	-9.27	-44.26
GENERIC 1ST 'CL' FUTURE	USD	44.91	0.89	<b>0.22</b>	-8.89	13.73	-25.61	-14.83	-22.76	-53.99	-52.05
<b>GOLD SPOT \$/OZ</b>	USD	<b>1153.97</b>	-0.74	<b>0.56</b>	0.93	0.44	-2.38	-4.19	<b>-3.33</b>	-6.23	-34.95

## CURRENCIES

<b>DOLLAR INDEX SPOT</b>	USD	<b>95.994</b>	0.50	<b>1.70</b>	0.68	2.05	1.35	-0.52	<b>6.87</b>	13.24	21.27
Euro Spot	EUR	1.123	-0.85	<b>-1.44</b>	-0.88	-3.32	-0.62	1.50	-7.96	-12.67	-13.68
Japanese Yen Spot	JPY	120.07	-0.55	<b>-0.62</b>	0.41	-1.57	2.40	-1.03	-0.79	-9.92	-35.56
British Pound Spot	GBP	1.5242	-0.14	<b>-2.03</b>	-0.81	-2.97	-3.34	2.29	-2.29	-6.72	-5.97
<b>Brazilian Real Spot</b>	BRL	<b>3.9507</b>	5.76	<b>-1.34</b>	-8.36	-10.07	-21.57	-20.53	<b>-32.73</b>	-39.67	-48.73
China Renminbi Spot	CNY	6.3823	0.13	-0.16	0.07	0.60	-2.59	-2.53	-2.65	-3.73	-1.07
Singapore Dollar Spot	SGD	1.4216	-0.17	<b>-1.71</b>	-0.86	-1.29	-5.61	-3.72	-6.92	-10.79	-13.71
<b>Norwegian Krone Spot</b>	NOK	8.4515	-0.52	<b>-3.92</b>	-2.54	-3.17	-8.09	-7.73	<b>-12.28</b>	-24.67	-32.49

## VOLATILITY / LIQUIDITY INDICES

<b>CBOE SPX VOLATILITY INDX</b>	USD	<b>23.47</b>	6.06	<b>11.02</b>	-17.45	-34.84	67.52	52.01	<b>22.24</b>	50.06	52.11
USD SWAP SPREAD SEMI 2YR	USD	10.3	1.94	<b>-13.58</b>	-30.83	-45.62	-54.11	-54.96	<b>-54.23</b>	-53.33	-24.08
TED SPREAD	USD	32.64	1.87	<b>-6.60</b>	-0.79	3.19	16.24	28.40	48.30	45.07	20.44

All data is compiled from Bloomberg

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