Bedrock Friday October 30th Newsletter

They say buses come in threes… well this week Central Banks come in fours! The BoE's Carney, the ECB's Draghi, the Fed's Yellen and the BOJ's Kuroda all have been out in force. To say that economic data was taking a back seat is possibly doing an injustice to the economists out there… but in reality the only news that is driving markets are the words (or missing words) in the central bank statements and press conferences. As Jon Kabat-Zinn said… "When you pay attention to boredom it gets unbelievably interesting!" Well, we may have heard these speeches a few times but this time Carney used the new wording, "UK rate rise not a certainty". Oh, shock to the system. But wait, there is more… Yellen DIDN'T say the word "vigilant".
Traders went on a hawkish frenzy, boosting chances of a December hike from just 6% a month ago to 50% by Thursday. Where the CME's FedWatch gauge earlier this week had been figuring in no rate hike until at least March, December is now well back in play and the chance for a January move is at 59%. Gold plunged Thursday and the U.S. dollar fell, events that should not happen in tandem. A hike should trigger a stronger greenback and weaker gold, which traditionally is a hedge against inflation and would fall when rates rise.

If the ECB's mandate is clear, single minded and based on defined economic criteria, the Fed's mandate is a little harder to evaluate; being a dual mandate. And after Wednesday night's wording it appears that they are now adding an unsaid third policy action of helping the ECB in another unsaid "nudge and a wink" manner by strengthening the US Dollar. As we have said many times, the ECB is trying to import inflation by systematically weakening the euro. At the last meeting Draghi mentioned that the committee had discussed negative rates this time round and apparently for the first time. This was shortly followed by the possible expansion of the current quantitative easing plan that they had implemented that was due to finish in September 2016. Mr Draghi has perhaps found the Holy Grail of growth through "what definitively isn't currency intervention"? Fast forward a few days to Janet Yellen, and we see a very different picture. An economy that grew in Q2 by 3.9%, but by only 1.5% in Q3 with personal consumption at +1.2%; however the consumer spending remained resilient and the market reacted with further equity gains and the Treasuries selling off. Perhaps Americans will start actually spending their way out of the doldrums?!
With the stimulus that is being pumped into the system and indeterminably long view on a zero rate interest policy looming globally, we see that risk assets will likely benefit as the only asset class that could provide a return in such a low interest rate environment. The ECB will be front and centre for the largest attention from market participants – but surely currency hedged for non-euro based investors. US$ based players will need to be more selective as the dollar based economic-cycle is in a different phase; here, consumer discretionary, tech and consumer staples seem to be performing better than the other sectors.

We thought that following our positive outlook on the European economy we would highlight one whopper of an anomaly in the Eurozone; the German current account surplus. With a little help from our friends at Variant Perception we have the following stats for you (you know how much we love statistics…): the German account surplus is the largest in the world, standing at €250Bn and is 8% of their GDP. Their cumulative current account balances since 1999 amounts to roughly €1.8Tn, versus the whole of the Eurozone ex-Germany which has run a cumulative deficit of a shade under €1.5Tn. Effectively, the Euro-zone as a whole is a net exporter, but is that meaningful? If European QE, zero rate interest rate policy and accommodative fiscal policy can't stimulate the current accounts of the *other* European nations, what will? Maybe the U.S.'s "Volkswagen Tax" – effectively a transfer of several billion Euro's out of the German economy into the US economy might be employed within Europe and a redistribution might be implemented; well, the French seem to have caught-on…
With the central banks hogging the headlines and driving the markets, Q3 earnings have been largely ignored. We took a glance and note that of 303 S&P companies reporting, 76% have beaten expectations and 24% have missed - a slight improvement in the ratio from what we had as of last Friday; supporting, or justifying, the 0.7% rise for the S&P 500 index since last Friday, with the futures pointing to a little more for today! Add to this basic economic driver the fact that the US funded their budget having increased the debt ceiling for another two years. To think that some were concerned about a possible US default… It didn't happen, yet again, by the power of raised hands in a big white building in Washington: "All in favour of not defaulting?"… "Motion passed" ☺
Amidst all the central bank gyrations and political fixes, real earnings (and some imaginary ones, apparently, see the SEC investigation of IBM's reporting methods!), we must remain vigilant on the risks of entanglement by the "Master-Powers" in the skies of Syria and Iraq, and now, we must add a sharp eye on the "floatings-around" in the South China Sea, where Chinese and US warships are at risk of "a minor incident that sparks war"… We can observe a lot just by watching (Yogi Berra) ☺

Market Weekly Highlights:

- The US Dollar remained steady this week, having started the week slipping lower, only to surge from 96.60 to 97.80 for the DXY on the Fed news conference. The Dollar Index (DXY) is however exactly where it started the week at 97.10. The US$ is now trading at about $1.10 against the EUR and at 0.9880 against the Swiss Franc. The Pound has slightly weakened against the USD and is at 1.5330. We maintain our belief in the fundamental strength of the US$ 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 has dropped over the last three days and is trading at 120.80 – almost unchanged this morning on BOJ news. After the initial strength in the Gold it has dropped back to $1,148. WTI slid throughout the week, finding a footing at $43.00/Bbl. and is now at $45.50/Bbl. With Brent trading at $48.40/Bbl, so almost unchanged on the week. The Russian Ruble has slipped a little this week as the price of oil has dropped sending the Ruble to 64.40 against the dollar, with the Brazilian Real oscillating in a new trading range between 3.85 and 3.95.

- The US 10Yr Treasury yield has moved higher again this week as the market adjusted to the possibility of a rate rise in December and is trading at 2.15% (almost exactly where we started the year). The German 10Yr Bund had moved significantly higher during the week, sending the yields down to as low as 0.42%, only to reverse course and seem to be trading exactly where they started the week at 0.51%. The Spanish 10Yr yield has followed the move and is trading around 1.62% having dropped at one point to 1.55%. Italian 10Yr yield has slightly bucked the trend and the bonds are trading stronger and the yields have dropped to 1.44%. In the UK, the yield on the Gilts has drifted upwards and in fact moved from 1.75% to 1.93% this morning a significant move and perhaps a signal that the market may be expecting rate rises sooner rather than later. The Swiss 10Yr yield moved from negative 0.34% to negative 0.28%.

- Equity Markets were generally all positive on the week as the earnings season continues to upwardly surprise and the Central Banks left the punch bowl in place. The S&P500 closed last night at +0.69% for the week. The Dow Jones moved higher and closed last night at +0.62% for the week and with the futures pointing to a higher open. The DAX is currently trading at +0.22% for the week; the CAC40 slipped a little at -0.56%, SMI +0.65%, the UK FTSE trading at -0.90% and the EuroStoxx 50 at -0.36%. The Shanghai composite closed the week on slightly weaker note of -0.88% whilst the Hang Seng Index was down heavily at -2.21% for the same period. In Japan the Nikkei was up again by 1.37% for the week.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

29/10/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
				PRICE CHANGE IN % (unless indicated)								
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2089.41	-0.03	1.80	8.82	8.82	-0.91	0.19	1.48	4.75	47.98	17.30
DOW JONES INDUS. AVG	USD	17755.8	-0.13	1.52	9.03	9.03	0.06	-0.47	-0.38	3.26	35.47	16.11
NASDAQ COMPOSITE INDEX	USD	5074.274	-0.42	3.13	9.83	9.83	-1.06	2.69	7.14	11.13	69.82	18.72
RUSSELL 2000 INDEX	USD	1165.625	-1.11	0.96	5.90	5.90	-5.39	-4.47	-3.24	0.85	43.33	17.58
EURO STOXX 50	EUR	3413.39	-0.20	-0.04	10.44	10.44	-4.45	-5.29	8.83	12.79	36.10	14.87
EURO STOXX 600	EUR	375.7	-0.01	-0.14	8.36	8.36	-4.90	-4.79	10.01	13.95	38.66	16.15
CAC 40 INDEX	EUR	4885.82	-0.10	-0.34	10.13	10.13	-2.77	-2.77	14.84	18.49	41.84	15.85
DAX INDEX	EUR	10800.84	-0.29	0.46	12.26	12.26	-3.66	-5.32	10.60	18.98	48.88	13.31
FTSE 100 INDEX	GBP	6395.8	-0.62	-0.56	5.71	5.71	-3.91	-7.94	-2.41	-0.86	9.54	15.89
SWISS MARKET INDEX	CHF	8957.27	0.28	0.75	5.45	5.45	-4.47	-1.10	-0.07	2.96	35.34	17.66
NIKKEI 225	JPY	18935.71	0.17	1.37	9.75	9.75	-7.02	-2.24	9.35	21.87	115.82	18.13
HANG SENG INDEX	HKD	22819.94	-0.60	-2.21	8.60	8.60	-7.58	-19.52	-4.09	-4.48	5.65	11.34
SHANGHAI SE COMPOSITE	CNY	3387.315	0.36	-0.88	10.80	10.80	-8.72	-23.84	4.57	41.47	64.02	13.74
S&P BSE SENSEX INDEX	INR	26838.14	-0.75	-2.48	2.42	2.42	-3.31	-0.83	-2.59	-2.04	45.35	17.36
RUSSIAN RTS INDEX $	USD	839.57	-1.77	-4.70	5.33	5.33	-4.14	-19.19	5.20	-24.29	-41.84	5.67
BRAZIL IBOVESPA INDEX	BRL	45628.35	-2.38	-4.49	1.26	1.26	-8.56	-18.85	-8.76	-12.82	-20.90	10.11
MSCI WORLD	USD	1706.61	-0.42	0.00	7.88	7.88	-3.02	-4.04	-0.18	1.03	31.06	16.61
MSCI WORLD HEDGED	USD	732.782	-0.20	1.51	8.21	10.47	-2.28	-2.70	3.89	8.24	51.94	-
MSCI WORLD LOCAL	-	1305.507	-0.19	1.54	8.14	10.39	-2.73	-3.58	2.33	6.37	43.71	-
MSCI AC WORLD	USD	411.35	-0.54	-0.25	7.78	7.78	-3.25	-5.72	-1.38	-0.87	24.98	15.98
MSCI EM	USD	846.14	-1.64	-2.58	6.83	6.83	-5.36	-19.24	-11.52	-16.02	-14.80	11.77
MSCI AC ASIA x JAPAN	USD	522.19	-1.22	-2.08	8.06	8.06	-4.32	-17.33	-7.37	-8.41	1.53	12.24
MSCI EM LATIN AMERICA	USD	1989.31	-2.21	-2.05	5.00	5.00	-12.01	-26.13	-27.07	-36.18	-45.83	13.77
MSCI EM Eur, ME & Africa	USD	240.28	-2.70	-3.78	4.46	4.46	-7.07	-18.90	-11.26	-21.68	-27.96	10.56
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	199.95	-0.03	-1.60	10.51	10.51	-5.68	-18.84	-15.92	-23.35	-17.72	19.36
MSCI MATERIALS	USD	195.96	-0.98	-1.94	10.41	10.41	-6.56	-16.31	-12.15	-12.51	-13.50	17.01
MSCI INDUSTRIALS	USD	195.46	-0.33	-0.63	8.41	8.41	-1.59	-4.99	-1.94	-0.48	32.66	16.72
MSCI CONS DISCRETIONARY	USD	199.38	-0.10	0.60	8.13	8.13	-1.27	0.57	7.07	13.48	60.52	17.89
MSCI CONS STAPLES	USD	210.4	-0.24	-0.44	6.76	6.76	0.41	2.50	5.24	7.80	32.03	21.28
MSCI HEALTH CARE	USD	209.22	-0.06	2.78	6.23	6.23	-7.14	-2.72	4.67	5.58	63.20	17.83
MSCI FINANCIALS	USD	99.71	-0.96	-0.38	6.64	6.64	-5.66	-5.48	-2.97	-2.00	28.66	13.19
MSCI INFO TECH	USD	149.46	-0.34	0.20	10.86	10.86	2.30	2.31	5.79	10.97	56.98	17.58
MSCI TELECOMS	USD	69	-0.39	-0.07	7.26	7.26	-3.56	-5.12	0.94	-1.26	19.92	15.49
MSCI UTILITY	USD	114	-1.07	-2.12	2.79	2.79	-1.28	-3.56	-7.36	-6.73	11.13	15.16
MSCI WORLD REAL ESTATE	USD	194.15	-0.49	-0.36	6.49	6.49	0.87	-2.89	-0.15	1.23	16.05	24.27
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1197.55	0.32	0.88	1.38	1.53	-2.55	-4.31	-1.71	-1.71	5.49	
HFRX EQUAL WEIGHTED	USD	1193.4	0.21	0.46	1.13	1.25	-1.11	-2.10	0.19	-0.24	7.14	
HFRX GLOBAL EUR	EUR	1098.98	0.33	0.88	1.33	1.46	-2.71	-4.67	-2.27	-2.38	4.01	

MARKET INDICES PERFORMANCE

29/10/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
				PRICE CHANGE IN % (unless indicated)								
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.061	0.00	0.06	0.08	0.08	-0.01	0.06	0.03	0.06	-	
US 2 YEAR	USD	0.7157	-0.01	0.07	0.09	0.09	-0.01	0.15	0.05	0.25	-	
US 10 YEAR	USD	2.1493	-0.02	0.06	0.11	0.11	-0.11	0.12	-0.02	-0.16	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	481.17	-0.36	-0.31	0.26	0.24	0.90	-0.22	1.18	2.76	9.45	1.67
US GOVERNMENT TR	USD	2104.67	-0.40	-0.43	-0.45	-0.45	0.72	0.23	1.33	2.12	3.80	1.67
US CORPORATE TR	USD	2592.27	-0.56	-0.57	0.29	0.29	0.70	-1.39	0.19	0.74	6.10	3.43
US HIGH YIELD TR	USD	1624.73	0.01	-0.08	2.75	2.75	-1.65	-3.40	0.23	-1.83	12.89	7.46
EU GOVERNMENT TR	EUR	243.9826	-0.52	0.00	0.99	0.99	1.36	-0.54	2.05	4.62	19.76	0.64
EU CORPORATE TR	USD	245.03	-0.30	0.22	1.42	1.58	0.19	-1.41	-0.22	1.11	13.12	1.37
EU HIGH YIELD TR	EUR	275.08	-0.02	0.61	2.79	2.97	-0.13	-1.12	2.35	3.15	24.67	4.69
BARCLAYS GLOBAL CONVERT.	USD	216.2	-0.02	0.88	3.09	4.00	-3.66	-5.21	0.72	2.10	24.41	-
GLOBAL EM TR (HEDGED)	USD	329.3665	-0.17	0.17	2.65	3.02	0.31	-1.34	2.82	0.25	6.52	5.26
S&P/LSTA U.S. LEV LOAN	USD	90.72122	-0.05	-0.06	-0.45	-0.45	-3.66	-6.12	-4.85	-6.49	-5.40	5.90
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2588.044	-0.31	0.14	-0.60	-0.41	-8.15	-20.63	-19.94	-39.21	-46.52	
GSCI ENERGY TR	USD	482.604	-0.17	0.79	-1.59	-1.55	-12.01	-27.24	-23.39	-48.93	-53.80	
GSCI INDUSTRIAL METALS TR	USD	995.78	-1.36	-1.73	-2.54	-0.05	-7.76	-21.05	-21.29	-27.47	-32.48	
GSCI PRECIOUS METALS TR	USD	1412.575	-2.68	-1.63	3.32	2.33	4.97	-5.66	-3.30	-7.29	-36.46	
GSCI AGRICULTURE TR	USD	470.1654	0.61	0.97	0.66	1.42	0.36	-3.06	-13.17	-13.82	-40.72	
GENERIC 1ST 'CL' FUTURE	USD	46.06	-1.09	2.15	-0.59	-0.59	-8.83	-27.69	-23.30	-48.30	-49.17	
GOLD SPOT $/OZ	USD	1145.95	0.31	-1.30	3.09	3.09	5.59	-2.95	-2.99	-4.11	-32.76	
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.28201	-0.17	-0.01	0.80	0.80	-0.45	2.66	7.59	12.74	21.50	
Euro Spot	EUR	1.0977	0.16	-0.21	-1.63	-1.63	0.58	-2.04	-9.12	-12.83	-15.16	
Japanese Yen Spot	JPY	121.13	0.31	0.60	-0.72	-0.72	2.81	-1.13	-0.80	-9.56	-34.05	
British Pound Spot	GBP	1.531	0.16	0.14	1.37	1.37	-1.71	-0.10	-1.55	-4.17	-4.59	
Swiss Franc Spot	CHF	0.9895	0.18	-0.92	-1.46	-1.46	-1.87	-5.60	0.67	-3.21	-5.60	
Brazilian Real Spot	BRL	3.8487	1.49	1.50	2.57	5.54	-13.45	-23.06	-30.95	-36.03	-47.18	
China Renminbi Spot	CNY	6.3566	0.52	0.42	0.51	0.51	-1.81	-1.91	-1.87	-3.30	-1.33	
Singapore Dollar Spot	SGD	1.4038	0.24	-0.19	1.56	1.56	-1.79	-5.48	-5.36	-8.75	-12.95	
Norwegian Krone Spot	NOK	8.5658	-0.07	-2.16	-0.65	-0.65	-4.65	-12.12	-13.06	-21.80	-33.13	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	14.61	1.95	1.11	-40.37	-40.37	20.45	0.41	-23.91	0.62	-17.97	
USD SWAP SPREAD SEMI 2YR		11.83	-1.61	-1.44	-0.26	-0.26	-50.47	-54.01	-49.26	-46.01	16.40	
TED SPREAD		26.79	-6.43	-16.26	-22.42	-20.20	6.73	-5.44	21.72	20.40	33.15	

All data is compiled from Bloomberg

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