

# Bedrock Friday November 6<sup>th</sup> Newsletter

Today is Judgement Day for those of you who are of the Investment Persuasion. It is today that we will get the October Non-Farm-Payroll ("NFP") data. If the American economy has sinned and produced less than the expected 185'000 new jobs, the FOMC will likely NOT raise rates in December, punishing those of the faith with an extended period of uncertainty. However, if the number is to be better than expectations, we will likely be blessed with a December hike and a big Santa Claus rally into next year. The Lords of the FOMC will be driven by their "data dependent" concepts - A good number will tip the thinking towards a hawkish rise, a disappointing one will reinforce the doves. Clearly, other data such as the continuing Q3 releases whilst important will be at best anecdotal beside The Number.

By the way, so far, of about 85% S&P companies reporting, 74% beat and 26% missed, much like the statistics of last week. This said, we can look at the same data with different eyes and note that this U.S. earnings season is on track to be the worst since 2009 as profits from oil & gas and commodity - related companies plummet; with profits down 3.1% on a share-weighted basis. This would be the biggest quarterly drop in earnings since the third quarter 2009, and the second straight quarter of profit declines. Earnings growth turned negative for the first time in six years in the second quarter this year. The damage is the biggest in commodity-related industries, with the energy sector showing a 54% drop in quarterly earnings per share so far in the quarter, with profits in the materials sector falling 15%. For the year as a whole, S&P 500 earnings are expected to fall 0.5%. For 2016, earnings growth is now seen at 7.9%, down from 10.9% in late July.

Coincidentally, Face Book [FB] did very well, and rising over 5% to a market-cap in excess of \$300Bn, overtaking GE! The world, it is a-changin'... A Billion daily connected users are more valuable than jet engines, nuclear power generators, finance, widgets and other "real" activities...

By contrast, the euro-zone is the only region worldwide where earnings are expected to "grow significantly" in 2015, according to a note from Societe Generale Head of European Equity Strategy, Roland Kaloyan (except perhaps for Volkswagen...).

We now step back a little and try to focus on the current state of affairs - The NASDAQ 100 hit an all-time high this week, the S&P 500 is at 2'100 about 6% away from our year-end prediction (2'229), the Eurostoxx 50, whilst 10% below this year's high, it is up 14% from its lows for a 9% YTD gain. The volatile Shanghai index is up 11% YTD, and 23% up from its August lows. The Nikkei is up 11% YTD, WTI oil is 15% down for the year but this, after regaining 19% from its low in August; the benchmark 10 year US Treasury Note now yields 2.23%, essentially unchanged for the year. The US Dollar index, "DXY", is up 8.7% year to date and can be expected to take another leg-up if indeed The Number today were to please the deities of the FOMC...

Recent strength in the corporate bond market is not necessarily a sign that the economy will improve significantly, Evercore Executive Chairman Roger Altman said Monday. Altman made his comments in response to a Wall Street Journal article that suggested record bond sales by companies with good credit ratings in October was an upbeat sign for the economy. Corporate bond sales reached \$103 billion in October.

We do know a lot about the past. This knowledge feeds many chartists who gladly trace lines on paper and screens, drawing past observations. This practice is fascinating for the adepts of this school and a pay cheque for those who scribble the lines through the data. The utility though is at best debateable. Tom Lee of boutique equity research firm Fundstrat Global Advisors said "Everybody is saying we're going to flatline into the end of the year. [But] given where short positions are and how much capital is on the sideline maybe ... we end up 10% [or] 12% for the year". Whilst we do not have the resources or intelligence of Tom Lee and others of his mettle, we will venture that irrespective of today's number (which after all, relates to the past), we expect equities to continue their rebound into year-end, bonds to remain in their 0.25% yield range around current levels and the Dollar to pursue its gentle rise towards parity, firstly with the Swiss Franc and later into next year against the Euro. We do recognize that others disagree - Marc Faber is again on his 'doom and gloom' mode, and economist El-Erian put the risk of a recession in the United States at 25% to 30%. Clearly, views which do not support our optimism-driven outlook. Others are questioning the bullish outlook for the Dollar, saying that the interest-rate differential is fully priced-in as is the change thereof. They would add that trade balances are as important as interest rates. The Euro-zone is trade positive and the US is in deficit. This differential is likely to expand (against the Dollar) as Europe is gaining traction. The Chartists will say that currency trends (since Bretton Woods) last seven years, and amazingly, the Dollar rally has just hit that time-mark... "We never liked these quandaries, and we always will"... We go to a weekend set for pondering the truths of our financial future. Isn't it nice to think that tomorrow is a new day with no mistakes in it yet! ☺

## Market Weekly Highlights:

- The US Dollar moved much higher during the week, jumping up from 96.60 to 98.10 by this morning. The US\$ is now trading at about \$1.0870 against the EUR and at 0.9880 against the Swiss Franc. The Pound has weakened against the USD after the UK data yesterday and is at 1.5130. 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 few days and is trading at 121.80. After the initial strength in the Gold it has dropped heavily back to \$1,108. WTI slid throughout the week, dropping to \$45.50/Bbl. With Brent trading at \$48.40/Bbl, so almost unchanged on the week. The Russian Ruble is almost unchanged at 63.80, with the Brazilian Real has managed to find some strength even in the face of the USD rally, trading at 3.79 this morning.
- The US 10Yr Treasury yield has moved higher again this week as the market adjusted to the higher possibility of a rate rise in December and is trading at 2.23% (almost where we started the year). The German 10Yr Bund had moved significantly lower during the week, sending the yields up to as high as 0.62%, having reversed last week's entire move. The Spanish 10Yr yield has followed the move and is trading around 1.82%. Italian 10Yr yield followed suit and is currently at 1.68%. In the UK, the yield on the Gilts has drifted sideways and in fact unmoved at 1.93% this morning. The Swiss 10Yr yield is unmoved at -0.34%.
- Equity Markets were generally all positive on the week as the earnings season continues to upwardly surprise. The S&P500 closed last night at +0.99% for the week. The Dow Jones moved higher and closed last night at +1.13% for the week and with the futures pointing to a flat open. The DAX is currently trading at +0.10% for the week; the CAC40 is +0.94%, SMI - 0.13%, the UK FTSE trading flat and the EuroStoxx 50 at +0.36%. The Shanghai composite closed the week on slightly more positive note at +6.13% whilst the Hang Seng Index was up only +1.00% for the same period. In Japan the Nikkei was up again by 0.96% for the week.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

05/11/2015

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	2099.93	-0.09	0.50	0.99	6.06	0.79	0.95	1.99	3.38	47.01	17.34
DOW JONES INDUS. AVG	USD	17863.43	0.00	0.61	1.13	6.39	2.55	0.12	0.23	1.76	34.86	16.19
<b>NASDAQ COMPOSITE INDEX</b>	USD	5127.738	-0.25	1.05	1.46	7.99	1.41	4.23	<b>8.27</b>	10.55	70.25	19.34
<b>RUSSELL 2000 INDEX</b>	USD	1190.689	0.03	2.15	<b>2.48</b>	5.03	-2.07	-2.35	-1.16	1.61	44.18	18.53
EURO STOXX 50	EUR	3447.49	0.24	0.42	0.42	6.59	-6.43	-3.53	9.09	10.65	35.35	14.89
EURO STOXX 600	EUR	378.76	-0.37	0.37	0.37	4.57	-5.95	-3.04	10.02	11.80	37.17	16.07
<b>CAC 40 INDEX</b>	EUR	4980.04	0.64	0.96	0.96	6.09	-4.77	-0.74	<b>15.73</b>	16.96	42.14	15.92
DAX INDEX	EUR	10887.74	0.39	0.02	0.02	9.59	-6.33	-4.39	10.67	15.73	47.09	13.26
FTSE 100 INDEX	GBP	6364.9	-0.66	-0.02	-0.02	0.53	-5.74	-8.28	-3.14	-2.92	8.07	15.80
SWISS MARKET INDEX	CHF	8990.16	0.43	-0.08	-0.08	1.93	-5.57	0.48	-0.58	0.76	32.40	17.34
NIKKEI 225	JPY	19116.41	1.00	1.74	0.96	5.94	-6.77	-1.36	10.40	14.73	114.65	18.31
HANG SENG INDEX	HKD	23051.04	-0.01	1.00	1.00	4.74	-6.19	-17.27	-3.13	-3.31	4.21	11.47
<b>SHANGHAI SE COMPOSITE</b>	CNY	3522.819	1.83	6.13	<b>6.13</b>	17.60	-1.95	-15.11	10.99	47.99	70.47	14.54
S&P BSE SENSEX INDEX	INR	26304.2	-0.94	-1.66	-1.66	-2.67	-7.36	-1.88	-4.67	-6.10	39.31	17.16
<b>RUSSIAN RTS INDEX \$</b>	USD	877.26	-1.03	4.58	<b>3.84</b>	6.22	7.02	-17.65	<b>11.04</b>	-13.69	-39.40	5.98
<b>BRAZIL IBOVESPA INDEX</b>	BRL	48046.76	0.71	2.79	<b>4.75</b>	0.65	-3.93	-15.86	-3.92	-8.72	-19.19	10.47
MSCI WORLD	USD	1710.77	-0.15	0.29	0.29	4.25	-2.39	-3.50	0.06	0.19	30.45	16.68
MSCI WORLD HEDGED	USD	736.275	-0.07	0.48	0.78	5.17	-2.40	-1.23	4.39	6.25	51.62	-
MSCI WORLD LOCAL	-	1310.877	-0.09	0.41	0.74	5.06	-2.88	-2.15	2.75	4.36	43.33	-
MSCI AC WORLD	USD	413.09	-0.18	0.45	0.45	4.26	-2.39	-4.98	-0.97	-1.23	24.53	16.07
MSCI EM	USD	864.14	-0.46	1.92	1.92	4.28	-2.35	-16.94	-9.64	-12.83	-14.12	11.94
MSCI AC ASIA x JAPAN	USD	530.09	-0.54	1.66	1.66	5.55	-1.95	-15.13	-5.97	-6.49	1.56	12.35
MSCI EM LATIN AMERICA	USD	2072.25	0.09	4.17	3.26	2.06	-6.62	-23.73	-24.03	-31.29	-44.18	14.06
MSCI EM Eur, ME & Africa	USD	244.97	-0.65	1.24	1.24	1.09	-4.43	-17.28	-9.53	-17.45	-27.29	10.81

## EQUITY MARKET INDICES - BY SECTOR

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
<b>MSCI ENERGY</b>	USD	205.06	-1.33	2.10	2.10	2.62	-0.20	-15.99	<b>-13.77</b>	-21.22	-15.72	20.12
<b>MSCI MATERIALS</b>	USD	196.22	-0.74	-0.34	-0.34	3.48	-6.83	-16.78	<b>-12.03</b>	-12.69	-13.98	17.20
MSCI INDUSTRIALS	USD	196.32	-0.07	0.09	0.09	4.17	-1.58	-4.46	-1.51	-1.65	30.64	16.89
MSCI CONS DISCRETIONARY	USD	200.38	0.28	-0.02	-0.02	4.94	-0.16	1.19	7.61	12.70	58.45	18.05
MSCI CONS STAPLES	USD	208.5	0.09	-0.44	-0.44	2.93	-1.44	1.47	4.29	5.07	30.96	21.19
MSCI HEALTH CARE	USD	209.67	-0.11	0.38	0.38	5.21	-6.72	-2.57	4.89	5.04	64.51	17.86
MSCI FINANCIALS	USD	99.3	0.01	0.09	0.09	2.86	-5.74	-5.56	-3.37	-3.37	26.40	13.12
<b>MSCI INFO TECH</b>	USD	150.66	-0.20	1.33	1.33	7.82	4.81	4.13	<b>6.64</b>	9.27	56.63	17.68
MSCI TELECOMS	USD	68.65	-0.20	-0.97	-0.97	3.78	-4.47	-4.72	0.42	-1.51	19.87	15.45
MSCI UTILITY	USD	114.15	-0.58	-0.57	-0.57	0.94	-2.06	-2.08	-7.24	-6.66	13.19	15.25
MSCI WORLD REAL ESTATE	USD	192.44	0.07	-0.62	-0.62	2.65	-0.62	-2.49	-1.03	-0.04	13.47	24.00

## HEDGE FUND INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
HRFX GLOBAL HEDGE FUND	USD	1199.88	-0.23	0.19	0.11	1.40	-2.72	-3.95	-1.52	-1.50	5.75
HRFX EQUAL WEIGHTED	USD	1194.29	-0.21	0.07	-0.02	1.16	-1.44	-2.03	0.26	0.19	7.31
HRFX GLOBAL EUR	EUR	1100.72	-0.23	0.16	0.08	1.34	-2.88	-4.30	-2.12	-2.17	4.22

## MARKET INDICES PERFORMANCE

05/11/2015

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	0.0406	0.01	-0.03	-0.03	0.05	0.01	0.04	0.01	0.02	-
US 2 YEAR	USD	0.8299	0.00	0.11	0.11	0.23	0.13	0.19	0.17	0.28	-
US 10 YEAR	USD	2.2325	0.00	0.09	0.09	0.20	0.01	-0.01	0.06	-0.15	-

## FIXED INCOME INDICES - BY TYPE OF ISSUER

Yield to Worst

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
GLOBAL AGG TR HEDGED	USD	479.79	-0.04	-0.29	-0.35	-0.18	0.60	0.31	0.89	2.36	8.98	1.73
US GOVERNMENT TR	USD	2096.08	-0.07	-0.51	-0.51	-1.02	0.13	0.73	0.92	2.01	3.44	1.73
US CORPORATE TR	USD	2584.85	-0.07	-0.41	-0.41	-0.30	0.41	-0.36	-0.10	0.97	6.09	3.49
US HIGH YIELD TR	USD	1625.63	-0.26	0.06	0.06	2.13	-1.15	-3.29	0.29	-1.74	12.57	7.41
EU GOVERNMENT TR	EUR	242.4379	-0.17	-0.64	-0.64	0.28	1.06	0.83	1.40	3.78	18.52	0.70
EU CORPORATE TR	USD	245.07	-0.02	0.02	-0.04	1.17	0.19	-0.74	-0.21	0.76	12.65	1.38
<b>EU HIGH YIELD TR</b>	EUR	276.6	-0.03	0.55	0.52	2.76	0.44	-0.39	<b>2.91</b>	3.52	24.71	4.58
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	218.84	0.05	1.22	<b>0.94</b>	2.79	-2.64	-3.42	1.95	2.80	25.05	-
GLOBAL EM TR (HEDGED)	USD	330.5119	-0.11	0.35	0.32	1.97	0.54	-0.68	3.17	0.75	6.91	5.18
<b>S&amp;P/LSTA U.S. LEV LOAN</b>	USD	90.33561	-0.08	-0.43	-0.29	-0.19	-3.86	-6.53	<b>-5.25</b>	-7.09	-5.79	5.99

## COMMODITY INDICES - BY TYPE OF ISSUER

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
GSCI INDEX TOTAL RETURN	USD	2551.965	-1.29	-1.39	-2.21	-3.15	-5.65	-23.42	-21.06	-38.08	-46.72
GSCI ENERGY TR	USD	477.974	-1.38	-0.96	-2.28	-4.15	-7.04	-30.14	-24.13	-47.55	-53.65
GSCI INDUSTRIAL METALS TR	USD	985.68	-1.14	-1.01	-0.77	-2.67	-5.67	-25.62	-22.09	-27.11	-33.35
GSCI PRECIOUS METALS TR	USD	1359.694	-0.22	-3.74	-3.31	-3.12	1.82	-7.98	-6.92	-4.12	-37.87
GSCI AGRICULTURE TR	USD	469.8556	-0.76	-0.07	-0.86	-0.79	0.06	-1.20	-13.23	-11.51	-40.44
GENERIC 1ST 'CL' FUTURE	USD	45.2	0.69	-2.32	-2.32	-7.63	-1.30	-29.23	-23.38	-46.41	-50.88
GOLD SPOT \$/OZ	USD	1103.87	0.43	-2.93	-2.93	-3.36	1.75	-7.01	-6.43	-2.91	-35.39

## CURRENCIES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
<b>DOLLAR INDEX SPOT</b>	USD	97.936	0.10	1.12	1.12	2.70	0.20	4.19	<b>8.60</b>	11.39	21.61
<b>Euro Spot</b>	EUR	1.0884	-0.09	-1.20	-1.20	-3.53	-0.47	-4.17	<b>-10.12</b>	-12.13	-15.14
Japanese Yen Spot	JPY	121.75	-0.14	-1.07	-1.07	-1.39	2.31	-2.02	-1.76	-5.50	-34.10
British Pound Spot	GBP	1.5208	-0.22	-1.65	-1.65	-0.35	-2.18	-0.47	-2.59	-4.16	-5.14
Swiss Franc Spot	CHF	0.9953	0.00	-0.74	-0.74	-2.86	-1.45	-7.96	-0.10	-2.21	-5.27
<b>Brazilian Real Spot</b>	BRL	3.78	0.52	1.82	2.01	3.48	-7.79	-19.15	<b>-29.69</b>	-33.66	-
China Renminbi Spot	CNY	6.3461	-0.12	-0.57	-0.57	0.04	-2.26	-2.41	-2.33	-3.79	-1.70
Singapore Dollar Spot	SGD	1.4069	-0.05	-0.45	-0.45	0.81	-1.70	-5.98	-5.83	-7.93	-13.15
<b>Norwegian Krone Spot</b>	NOK	8.5529	-0.18	-0.97	-0.97	-3.42	-3.41	-13.22	<b>-13.03</b>	-19.81	-33.31

## VOLATILITY / LIQUIDITY INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
<b>CBOE SPX VOLATILITY INDEX</b>	USD	15.05	-2.97	3.01	-0.13	-22.42	9.30	-0.66	<b>-21.61</b>	10.10	-14.39
USD SWAP SPREAD SEMI 2YR		7.67	-3.13	-38.60	-38.60	-38.75	-71.31	-70.86	-67.61	-64.42	-25.70
TED SPREAD		30.84	2.42	15.12	17.31	-7.50	28.66	13.88	40.12	45.75	36.70

All data is compiled from Bloomberg

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