Bedrock Friday November 20th Newsletter

We spoke too soon, Friday the 13th finished with very sad and dire events in Paris. As the dust has settled a little now, the so-called ringleader was killed and several taken into custody for questioning. A stark reminder of the variety of the value placed on life by different people. We are also saddened by the fact that true political, religious and war torn refugees are likely to suffer further as a result of the terrorist activities that used the guise of asylum seekers. As Chinese President Xi Jinping said, “Terrorists are the common enemy of humankind”. We at Bedrock cannot help but think that the late great Maggie Thatcher would have dealt with this situation rather differently having stated that “democratic nations must try to find ways to starve the terrorist and the hijacker of the oxygen of publicity on which they depend.” And on that note we shall not grant more precious media time to “them”.

Moving to the markets we have taken a pragmatic look at how they reacted to the news. With nervous trepidation the equity markets have moved higher on the week. This was backed by supportive data as the US CPI ex food and energy came in at 1.9% YoY and 0.2% MoM. As the numbers have remained steady for a few months now we can see why inflation worries have lessened for the doves of the FOMC. Leading to the wording in the minutes that showed that the first rate rise could be supported by the committee. In fact when we look at the US economy it is more interesting to look at the price inflation in some of the sub-sectors. The US economy is made up of 74% in the services sector, where the prices are steadily increasing and inflation expectations are also moving higher. In fact when we look at energy, the negative effects that we have seen through commodity prices decreasing and that they seem to be bottoming, we do not see further negative revision to the CPI from the commodity space. When combined, the effects of the two sub-sectors on CPI (energy is stable and may move higher into the future and the services sector with a much higher weighting is gently increasing) there seems to be a constructive argument for why CPI seems to be on the right track now; if at an embryonic stage. With their second mandate being focused on employment, utilisation is at 77.5%, but weekly earnings are increasing by 2.1% versus this time last year, wage inflation we hear you say?! Even continuing claims are now at 14 year lows. Is the US now at full employment again? Have the FOMC actually after 8 years managed to get close to fulfilling their mandate….? Gosh, doesn’t really look like a good batting average, but then again they only had a balance sheet of a shade over $4 Trillion to sort out their domestic problems…

So if employment is steady and strong in the US, how come the stock market is flat for the year? Well, U.S. companies have been shelling out staggering dividends. In Q3 alone, the dividends paid to shareholders were an eye watering $108 billion or a 23.4% increase on Q2 setting a new record for quarterly dividend increases. U.S. dividends rose "at an astonishing pace," Henderson Global Investors said in a statement. Globally, dividends hit $297 billion, a 2.3% gain, with the headline number somewhat subdued when adjusting for pressures that the rising U.S. dollar had on exchange rates. Underlying global growth, which adjusts for special dividends as well as currency movements, index changes and timing, registered a more robust 9% that Henderson said was in line with the first two quarters. The surge in dividends came amid a weak quarter for capital expenditures (down 5.6%) and hiring. Companies in the S&P 500 are holding about $1.3 trillion on their balance sheets, with total non-financial companies holding $2.06 trillion. Capex is expected to decline for the full year, while buybacks are rising, expected to climb 12% for the year, according to Goldman Sachs.

When we look at Europe and Japan we do not see the same picture and we do not see the same market responses. The ECB is considering negative interest rates as a policy tool to combat negative inflation; the Japanese are struggling to stimulate a nation of savers with low rates (that have been there for nearly 30 years) and QE that seems to be running out of steam. We cannot see a scenario where Japan manages to use fiscal tools to pull them out of their malaise without opening their borders… the only question is how Japan opens its borders when every ounce of political media push in the rest of the world is trying to stymie immigration for fear of terrorist attacks. Not wishing to diminish the sadness that is caused by terrorist attacks, yet more people die in the US from slipping in the bath than they do from terrorist atrocities. Perhaps stopping economic migration is yet another politically stimulated policy that will have, as yet, unknown economic effects. As Groucho Marx once said, “politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies.”

Talking of which… Obamacare. This week sees the first of the leading insurers revealing that it may be forced to leave the exchanges for the Affordable Care Act marketplace that were launched under Obamacare. If other insurers follow suit, the premiums are likely to rise and the choice available would likely decrease. Last year the program narrowly avoided being torpedoed, however this year it looks like the first warning shots are ringing out loud for a policy that was not thoroughly thought through. Failure is not fatal, but failure to change it might be… However, as Albert Einstein once said, “Only two things are infinite, the universe and human stupidity. And I’m not sure about the former!”

Market Weekly Highlights:

- The US Dollar index (DXY) which opened this week at 99.20 moved sideways and is trading fractionally higher at 99.30 by this morning. The US$ is at about $1.0680 against the EUR showing further strength and so too against the Swiss Franc which is now trading at 1.0140. The Pound has strengthened against the USD this week and is trading at 1.5250. We maintain our belief in the fundamental strength of the US$ in the longer term. 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 dropped over the first days of the week reaching 123.80 and is trading back at 122.8. Gold is trading where it opened the week at $1,082. WTI also has traded around $41 during the week and is now at $40.50/Bbl., whilst Brent is now trading at $44.30/Bbl. almost unchanged on the week. The Russian Ruble together with Brazilian Real gained some ground against the USD and are now trading respectively at 64.80 and at 3.71.

- The US 10Yr Treasury yield has moved sideways this week as the market already adjusted to the higher probability of a rate rise in December and is trading around 2.25%. The German 10Yr Bund has moved higher during the week, sending the yields down to 0.49% as we write. The Spanish 10Yr yield has followed the move and is trading around 1.67%. Italian 10Yr yield followed suit and is currently at 1.50%. In the UK, the yield of Gilts has drifted sideways during the week and now is trading lower at 1.89%. The Swiss 10Yr yield is unmoved at -0.30%.

- Equity Markets moved higher this week erasing some of last week's losses and are generally all looking to close the week on a positive stance. The S&P500 closed last night at +1.72% for the week. The Dow Jones moved a little lower and however it still closed last night at +1.63% for the week and with the futures pointing to a flat open. The DAX is currently trading at 3.45% for the week; the CAC40 is +1.68%, SMI +2.92%, the UK FTSE trading +3.49% and the EuroStoxx 50 at +2.66%. In Asia, the Nikkei has closed the week at +1.44% whilst Shanghai composite and the Hang Seng Index were up respectively +1.60% and 1.39%.

Bedrock Friday November 20th Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

12/11/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
				PRICE CHANGE IN % (unless indicated)								
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2045.97	-1.38	-2.57	-1.61	2.11	-1.80	-2.50	-0.63	0.33	48.85	16.95
DOW JONES INDUS. AVG	USD	17448.07	-1.44	-2.33	-1.22	2.14	0.23	-3.39	-2.10	-1.16	36.78	15.80
NASDAQ COMPOSITE INDEX	USD	5005.079	-1.19	-2.39	-0.96	4.35	-0.57	0.47	5.68	6.94	73.55	18.91
RUSSELL 2000 INDEX	USD	1154.809	-1.96	-3.01	-0.61	0.61	-4.14	-6.29	-4.14	-1.75	46.36	18.01
EURO STOXX 50	EUR	3387.7	-1.71	-2.78	-1.36	4.67	-4.10	-5.11	7.16	10.31	35.25	14.65
EURO STOXX 600	EUR	372.56	-1.57	-2.52	-1.36	3.32	-4.22	-6.34	8.13	10.28	36.87	15.78
CAC 40 INDEX	EUR	4856.65	-1.94	-3.14	-1.43	3.97	-3.19	-2.70	12.99	15.28	40.73	15.53
DAX INDEX	EUR	10782.63	-1.15	-2.30	-1.06	7.00	-2.53	-5.43	9.48	16.08	49.75	13.14
FTSE 100 INDEX	GBP	6178.68	-1.69	-3.30	-3.41	-3.13	-6.46	-11.59	-6.43	-7.41	6.18	15.31
SWISS MARKET INDEX	CHF	8816.94	-0.76	-2.18	-1.83	1.39	-5.90	-3.05	-2.32	-2.01	30.52	17.02
NIKKEI 225	JPY	19697.77	0.03	1.72	2.69	7.47	-4.85	-0.85	12.30	12.67	126.26	18.73
HANG SENG INDEX	HKD	22888.92	2.40	-2.06	-1.08	-0.90	-6.76	-17.81	-5.12	-6.76	5.70	11.24
SHANGHAI SE COMPOSITE	CNY	3632.902	-0.48	-0.26	5.86	8.73	-9.45	-18.17	10.70	44.06	74.86	14.43
S&P BSE SENSEX INDEX	INR	25866.95	0.48	-2.64	-3.93	-4.81	-6.92	-4.72	-6.87	-8.57	37.17	16.92
RUSSIAN RTS INDEX $	USD	831.95	-1.63	-3.50	-2.49	-4.85	-0.54	-23.82	4.27	-18.54	-39.54	5.70
BRAZIL IBOVESPA INDEX	BRL	46883.58	-0.39	-2.42	2.21	-1.01	-2.35	-16.83	-6.25	-9.57	-18.44	10.28
MSCI WORLD	USD	1671.49	-1.17	-1.93	-2.01	0.63	-4.02	-6.62	-2.23	-2.61	31.42	16.39
MSCI WORLD HEDGED	USD	722.32	-1.21	-1.90	-1.13	1.37	-2.62	-3.49	2.41	3.60	51.88	-
MSCI WORLD LOCAL	-	1284.989	-1.25	-1.98	-1.25	1.24	-3.13	-4.37	0.72	1.74	43.58	-
MSCI AC WORLD	USD	403.12	-1.06	-1.96	-1.98	0.33	-3.97	-8.00	-3.36	-4.06	25.21	15.79
MSCI EM	USD	833.74	0.04	-2.20	-1.66	-2.41	-3.59	-19.36	-12.82	-16.01	-15.11	11.72
MSCI AC ASIA x JAPAN	USD	515.2	0.72	-2.03	-1.19	-0.96	-2.17	-16.65	-8.61	-9.95	0.59	12.20
MSCI EM LATIN AMERICA	USD	2006.59	-1.12	-3.17	-0.02	-1.96	-6.72	-25.88	-26.44	-31.97	-44.02	13.74
MSCI EM Eur, ME & Africa	USD	232.24	-1.18	-2.50	-4.02	-6.72	-8.35	-22.01	-14.23	-22.54	-29.10	10.45
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	192.49	-2.43	-5.26	-4.16	-4.83	-6.83	-20.32	-19.06	-25.06	-17.30	18.78
MSCI MATERIALS	USD	189.36	-1.71	-2.94	-3.82	-2.98	-8.68	-20.61	-15.10	-16.92	-14.35	16.74
MSCI INDUSTRIALS	USD	193.53	-1.09	-1.36	-1.34	0.73	-2.58	-6.81	-2.90	-3.36	32.51	16.78
MSCI CONS DISCRETIONARY	USD	196.61	-0.90	-1.44	-1.91	1.25	-0.99	-1.41	5.59	9.25	59.66	17.83
MSCI CONS STAPLES	USD	203.6	-1.02	-1.07	-2.78	-1.25	-2.37	-1.61	1.84	1.33	29.73	20.82
MSCI HEALTH CARE	USD	203.4	-1.53	-2.35	-2.62	1.71	-8.82	-6.53	1.76	1.56	62.97	17.27
MSCI FINANCIALS	USD	98.08	-1.12	-1.59	-1.14	0.99	-5.85	-8.02	-4.55	-4.62	28.93	13.04
MSCI INFO TECH	USD	147.67	-0.79	-2.28	-0.68	4.32	2.66	0.32	4.52	5.95	60.49	17.51
MSCI TELECOMS	USD	67.71	-0.85	-0.44	-2.32	2.48	-5.85	-6.56	-0.95	-5.22	21.04	15.35
MSCI UTILITY	USD	110.47	-0.68	-0.47	-3.77	-3.61	-6.69	-6.05	-10.23	-8.62	13.91	14.80
MSCI WORLD REAL ESTATE	USD	186.39	-0.15	-0.99	-3.75	-1.66	-4.01	-6.06	-4.15	-4.17	12.38	23.25
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1194.12	-0.02	-0.48	-0.37	0.15	-2.76	-4.16	-1.99	-2.24	5.42	
HFRX EQUAL WEIGHTED	USD	1191.52	0.04	-0.23	-0.25	0.36	-1.30	-2.19	0.03	-0.29	7.21	
HFRX GLOBAL EUR	EUR	1095.25	-0.02	-0.50	-0.41	0.09	-2.92	-4.52	-2.61	-2.92	3.89	

MARKET INDICES PERFORMANCE

12/11/2015

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	0.1271	0.00	0.05	0.06	0.13	0.04	0.11	0.09	0.12	-	
US 2 YEAR	USD	0.8711	0.00	-0.01	0.15	0.25	0.16	0.29	0.21	0.36	-	
US 10 YEAR	USD	2.3045	-0.01	-0.02	0.16	0.26	0.12	0.01	0.13	-0.04	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	478.82	0.01	-0.20	-0.55	-0.37	-0.18	0.55	0.69	2.12	8.47	1.76
US GOVERNMENT TR	USD	2088.21	-0.02	-0.38	-0.88	-1.31	-0.49	0.44	0.54	1.43	2.24	1.76
US CORPORATE TR	USD	2572.78	-0.07	-0.47	-0.88	-0.99	-0.02	-0.55	-0.57	0.43	4.85	3.55
US HIGH YIELD TR	USD	1601.75	-0.48	-1.47	-1.41	-0.71	-1.72	-4.74	-1.19	-3.13	11.55	7.80
EU GOVERNMENT TR	EUR	242.5781	0.08	0.56	-0.58	0.22	0.61	1.25	1.46	3.60	18.24	0.68
EU CORPORATE TR	USD	245.19	-0.04	0.05	0.01	0.64	-0.15	-0.24	-0.16	0.57	12.32	1.37
EU HIGH YIELD TR	EUR	276.55	-0.04	-0.02	0.50	1.63	0.71	-0.07	2.89	2.93	24.25	4.55
BARCLAYS GLOBAL CONVERT.	USD	216.06	-0.61	-1.27	-0.35	0.94	-2.70	-5.07	0.65	1.15	24.37	-
GLOBAL EM TR (HEDGED)	USD	328.3764	-0.02	-0.65	-0.33	0.43	0.06	-1.06	2.51	0.27	6.08	5.31
S&P/LSTA U.S. LEV LOAN	USD	90.02008	-0.12	-0.35	-0.64	-0.80	-3.45	-6.81	-5.58	-7.42	-5.64	5.99
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2428.684	-1.61	-4.83	-6.93	-8.83	-9.61	-26.84	-24.87	-40.80	-49.48	
GSCI ENERGY TR	USD	446.309	-2.69	-6.63	-8.75	-11.02	-12.99	-34.44	-29.15	-50.26	-57.02	
GSCI INDUSTRIAL METALS TR	USD	959.74	-1.87	-2.63	-3.38	-8.78	-7.67	-25.85	-24.14	-29.68	-36.02	
GSCI PRECIOUS METALS TR	USD	1326.36	-0.36	-2.45	-5.68	-7.54	-4.32	-10.15	-9.20	-7.55	-41.20	
GSCI AGRICULTURE TR	USD	457.9093	0.28	-2.54	-3.38	-2.74	-0.04	-4.39	-15.43	-15.66	-40.67	
GENERIC 1ST 'CL' FUTURE	USD	41.75	0.05	-5.69	-10.35	-11.88	-4.37	-34.61	-29.68	-48.57	-53.24	
GOLD SPOT $/OZ	USD	1085.22	-0.18	-0.60	-5.16	-7.32	-2.86	-10.89	-8.57	-6.81	-37.20	
CURRENCIES												
DOLLAR INDEX SPOT	USD	98.649	0.15	-0.38	1.91	4.26	2.44	5.53	9.45	12.68	21.84	
Euro Spot	EUR	1.0814	-0.43	0.24	-2.17	-5.38	-3.44	-5.17	-11.00	-13.71	-15.25	
Japanese Yen Spot	JPY	122.61	-0.11	0.31	-1.74	-2.44	1.37	-2.93	-2.42	-5.69	-35.33	
British Pound Spot	GBP	1.5233	-0.11	1.09	-1.37	-0.20	-2.52	-3.35	-2.31	-3.14	-4.12	
Swiss Franc Spot	CHF	1.0001	-0.34	0.19	-1.55	-4.55	-2.70	-8.65	-0.92	-3.99	-5.59	
Brazilian Real Spot	BRL	3.7711	-0.27	0.24	2.25	-0.21	-7.70	-19.93	-29.53	-31.90	-45.61	
China Renminbi Spot	CNY	6.369	-0.07	-0.32	-0.88	-0.51	0.38	-2.65	-2.64	-3.88	-2.30	
Singapore Dollar Spot	SGD	1.4186	-0.23	-0.07	-1.45	-1.36	-1.74	-6.82	-6.77	-9.14	-14.00	
Norwegian Krone Spot	NOK	8.6614	-0.47	-0.37	-2.50	-6.27	-5.55	-15.13	-14.37	-21.95	-33.67	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	18.37	20.14	18.44	21.90	3.96	36.17	33.50	-4.32	33.21	10.33	
USD SWAP SPREAD SEMI 2YR		10.16	2.85	15.34	-13.64	-9.05	-56.87	-60.66	-54.45	-52.37	-12.92	
TED SPREAD		23.45	1.08	-23.96	-10.80	-26.90	10.09	-11.48	6.54	5.11	7.32	

All data is compiled from Bloomberg

Visit www.bedrockgroup.ch

The content of this document has been approved and issued by Bedrock S.A. and Bedrock Asset Management (UK) ltd for information purposes only. The information and opinions contained in this document are for background information and discussion purposes only and do not purport to be full or complete. No information in this document should be construed as providing financial, investment or other professional advice. This information contained herein is for the sole use of its intended recipient and may not be copied or otherwise distributed or published without Bedrock's express consent. No reliance may be placed for any purpose on the information contained in this document or their accuracy or completeness. Information included in this document is intended for those investors who meet the Financial Conduct Authority definition of Professional Client or Eligible Counterparty.

Confidentiality

This presentation and the information contained herein are confidential. Each copy of this presentation is addressed to a specifically named recipient and shall not be passed on to a third party.

By its acceptance hereof, the recipient agrees to keep the presentation and its contents strictly confidential and may not disclose or divulge any information contained herein to any other person. This presentation cannot be published, copied, reproduced or distributed in any manner whatsoever. The recipient will use this presentation for the sole purpose of obtaining a general understanding of the business, operations and financial performance of Bedrock in order to make a decision as to whether the recipient should proceed with a further investigation of the Funds and this investment opportunity

Bedrock reserves the right to request the return of this presentation at any time, without the retention of any copies by the prospective investor.

Investment Risks

The value of all investments and the income derived therefrom can fluctuate due to market movements and you may not get back the amount originally invested. In the case of overseas investments, values may vary as a result of changes in currency exchange rates. This may be due, in part, to exchange rate fluctuations in investments that have an exposure to currencies other than the base currency of the portfolio. Past performance is no guide to or guarantee of future performance.

Limitation of Liability and Indemnity

Bedrock expressly disclaims liability for errors or omissions in the information and data contained in this document. No representation or warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. Bedrock accepts no liability for any loss or damage arising out of the use or misuse of or reliance on the information provided including, without limitation, any loss of profits or any other damage, direct or consequential.

You agree to indemnify and hold harmless Bedrock and its affiliates, and the directors and employees of Bedrock and its affiliates from and against any and all liabilities, claims, damages, losses or expenses, including legal fees and expenses arising out of your access to or use of the information in this presentation, save to the extent that such losses may not be excluded pursuant to applicable law or regulation.

Any opinions contained in this presentation may be changed after issue at any time without notice.

Copyright and Other Rights

The copyright, trademarks and all similar rights of this presentation and the contents, including all information, graphics, code, text and design, are owned by Bedrock.