

Money, money, every where, And all the yields did shrink. Money, money, every where, Nor any bond did sink. The very markets did rot – Oh Christ! How ever could this be. Yea, micro-processors did leave the bids, to drop the S&P. We may not have the same eloquence as Samuel Coleridge, but we will try to make sense of the current amplitude of oscillations and give you a few of our thoughts. The markets are seemingly overreacting to the Federal Reserve's premature "spurt" of exuberance in the interest rate markets. As you have seen us write for the last two years, we believe there was no rationale to raise rates and still none now; clearly this does not mean that it cannot or will not happen. With a distinct lack of conviction in the markets the high frequency trading modules have simply dumped their holdings with a complete disregard for fundamental analysis... throwing the proverbial baby out with the bath water. Of the 45 companies that have already delivered their Q4 earnings data, 78% of them have beaten expectations – yet again we wish there was a way to short the analysts. SanDisk is a case in point with an agreed purchase price of \$86 that the shareholders support and has received regulatory approval in Singapore; yet it is trading at \$66... Go figure!

One of the big elephants in the room is the debt burden that has been accumulated. Ah, but the banks have delevered we hear you cry! Even if one were to concede financial institutions are less leveraged; the reality is that businesses, the federal government and the Federal Reserve have taken on enormous amounts of additional debt since 2007. Even household debt has increased back to its 2007 record of \$14.1 trillion. Specifically, business debt during that time frame has grown from \$10.1 trillion, to \$12.6 trillion; the total US national debt boomed from \$9.2 trillion, to \$18.9 trillion; and the Fed's balance sheet has exploded from \$880 billion to \$4.5 trillion. Banks may be better off today than they were leading up to the 2007, but the government and Fed's balance sheets have become bloated in their efforts to borrow and print the economy back to health.

It is not just a fear in the credit markets, the equity market worries do not seem to have abated, with news each day that seems to be heralding the next financial apocalypse. Technicians look at levels that have historically either acted as supports or are statistically important when viewed in the rear view mirror. Their projections lead to predicted levels that may be significant in the collective behaviour of market participants. Jonathan Krinsky, MKM Partners' chief technician, said recently that the worst-case scenario for the S&P 500 could be a re-test of the breakout from 2007, which comes in around 1,575. "It seems scary but that's only about 25% off the highs and that's well within the confines of normal pullbacks". That's more than a 16% move from where we opened today at 1,885. Another Technician was a little more sanguine and Boroden believes there are two key levels of support. The first floor of support was between 1,847 and 1,857, and the second floor running between 1,832 and 1,838, down about 3%. However, if the S&P 500 breaks down below the floor of support in the 1,830s, then Boroden believes a brutal sell-off could happen. It could even be similar to the magnitude of what happened in the financial crisis.

Goldman's chief U.S. equity strategist David Kostin said in a note late on Thursday that it was lowering its forecast of S&P 500 earnings per share by \$3 to \$106, \$117, and \$126 for 2015, 2016, and 2017. The note said the energy sector was "the leading driver of its reduced profit outlook" and expected the sector to post a decline in operating EPS for the first time in 48 years. In 2015, 29 energy companies defaulted to account for 26% of all corporate defaults. The credit-rating agencies expect about 6% of all U.S. energy corporates to default in 2016. The falling oil price is now almost universally seen as a leading indicator of weak economic growth - and therefore even weaker energy demand. Yet history shows that falling oil prices generally presage an upturn in activity, not a recession. Every global recession since 1970 has followed a sharp increase in oil prices, not a decline!

But Fidelity's Timmer sees hope coming later in 2016. "This is going to be a first half of the year versus the second half of the year, where I think we're setting up for a very big 'V' bottom, the way we saw in 2009, only this time in the beaten-down sectors like energy, emerging markets, and commodities." Larry Fink also expects a second half turnaround, but not before what could be another 10% to the downside for stocks – this was last Friday. "I believe there's not enough blood in the street. We're probably going to have to test the markets lower." Well by Wednesday we saw 6% down on the S&P 500... Perhaps the light at the end of the tunnel is in fact daylight and not a train!

We look at the data today and reflect on what might be the outcome. Consumer confidence numbers are almost at their highest in 9 years, the earnings per share are the highest we can see for the S&P 500 and although industrial utilisation rates are dropping the world is changing to service oriented companies. Oil is at 12 year lows and the defaults are already happening. The washout is happening. We are cautiously optimistic; as Ben Bernanke said, "Well, optimism's a good thing. It makes people go out and start businesses, spend and do whatever is necessary to get the economy going." With the consumer flying high we won't discount them just yet. And let's not forget that Super Mario just announced that he expects ECB Money Pumping 2.0 to commence any time soon! Roll-up, Roll-up, come get your free money – in fact Mario will pay you to take it!

Market Weekly Highlights:

- The Dollar remains quite steady for the week despite the volatile equity markets; with the USD Index (DXY) at 99.3, although having had a slight drop on Wednesday to 98.60. The US\$ is trading at about \$1.0810 against the EUR and at 1.0140 against the Swiss Franc. The Pound is now at 1.4350. 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 rise further or hold in the US and hold or decline elsewhere. The Japanese Yen is weaker on the week at 118.53 as we write having touched 116 on Wednesday. Gold has gained \$9 this week and is now at \$1'097. We note that Oil fell very heavily the first three days of the week trading at \$26.19/Bbl for WTI and bouncing back \$5 in the last couple of sessions and trading at \$31.60/Bbl. for WTI, with Brent at \$31.55/Bbl. The Russian Ruble moved in-line with oil, now at 78.33 per USD having rallied from 86 in the two last sessions. The Brazilian Real is stable though at 4.11. We do not see a significant further rally in the Real and our outlook would be for sustained weakness. The CNY remained under pressure at 6.58.
- The US 10Yr Treasury yield moved lower early this week reaching 1.94% and is now trading at above 2.07%. The German 10Yr Bund yield dropped a little this week from 0.54% to 0.49% having touched almost 0.43% on Wednesday. The Spanish 10Yr yield has followed the move and is trading around 1.728% but was as high as 1.85% on Wednesday. Italian 10Yr yield however is almost completely unchanged on the week at 1.57% passing from 1.70% to 1.5% during the week. In the UK, the Gilts' yields have drifted higher during the week to hit almost 1.76% from 1.61%. The Swiss 10Yr yield is lower at -0.17%.
- This week was the most volatile of the year for equity markets across all regions. The S&P500 is -1.0% for the week, recovering from the -5.4% of losses during the first two trading sessions. The Dow Jones is now at only -1.70% for the week and NASDAQ at -0.87% with markets gaining +1.5% on the US open across the board. The DAX is trading +2.95% for the week, the CAC40 is +3.40%, with the SMI at +2.36%, the UK FTSE trading +2.0% and the EuroStoxx50 at +2.72%. In Asia, the Nikkei has closed the week at only -1.10% after the final two sessions gained +6.0%, whilst the Shanghai composite and the Hang Seng Index had divergent results for the week closing respectively at +0.54% and -2.26%.

Bedrock Friday January 22nd Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

21/01/2016

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	1868.99	0.52	-1.13	-8.56	-8.34	-8.94	-11.60	-8.56	-9.41	25.22	14.98
DOW JONES INDUS. AVG	USD	15882.68	0.74	-1.66	-8.85	-8.81	-9.19	-11.03	-8.85	-10.84	15.83	14.15
NASDAQ COMPOSITE INDEX	USD	4472.056	0.01	-1.19	-10.69	-10.58	-9.11	-13.53	-10.69	-5.86	42.28	16.41
RUSSELL 2000 INDEX	USD	997.342	-0.20	-1.27	-12.20	-12.34	-13.61	-20.74	-12.20	-16.22	10.91	14.77
EURO STOXX 50	EUR	2943.92	2.13	1.55	-8.24	-6.72	-10.59	-17.53	-8.24	-9.77	10.36	12.85
EURO STOXX 600	EUR	328.51	1.94	1.53	-8.45	-6.16	-9.48	-16.33	-8.45	-8.01	16.42	14.27
CAC 40 INDEX	EUR	4206.4	1.99	1.95	-7.43	-6.03	-10.62	-15.55	-7.43	-5.72	14.74	13.51
DAX INDEX	EUR	9574.16	1.94	2.07	-9.31	-7.12	-7.14	-15.44	-9.31	-6.64	26.59	11.95
FTSE 100 INDEX	GBP	5773.79	1.81	1.18	-5.93	-3.46	-7.90	-11.92	-5.93	-13.60	-4.96	14.72
SWISS MARKET INDEX	CHF	8035.06	0.86	0.90	-7.24	-3.94	-6.93	-11.94	-7.24	2.26	12.18	15.42
NIKKEI 225	JPY	16017.26	-2.43	-1.10	-10.90	-10.21	-8.01	-17.65	-10.90	-2.14	58.34	16.21
HANG SENG INDEX	HKD	18542.15	-1.82	-2.26	-12.93	-12.60	-16.48	-24.53	-12.93	-22.19	-19.35	9.34
SHANGHAI SE COMPOSITE	CNY	2880.482	-3.23	0.54	-17.59	-20.13	-13.42	-27.56	-17.59	-12.77	25.98	11.48
S&P BSE SENSEX INDEX	INR	23962.21	-0.40	-0.13	-6.49	-4.56	-10.50	-14.32	-6.49	-15.80	22.23	16.92
RUSSIAN RTS INDEX \$	USD	632.12	0.59	0.76	-13.09	-13.70	-23.56	-27.04	-13.09	-19.48	-58.59	5.22
BRAZIL IBOVESPA INDEX	BRL	37717.11	0.19	-4.51	-12.99	-13.23	-21.05	-25.92	-12.99	-23.72	-38.86	8.44
MSCI WORLD	USD	1497.87	0.42	-1.52	-9.92	-9.23	-11.33	-15.21	-9.92	-12.43	7.48	14.42
MSCI WORLD HEDGED	USD	651.622	0.55	-3.16	-9.44	-8.02	-8.54	-14.00	-9.44	-7.16	25.03	-
MSCI WORLD LOCAL	-	1155.84	0.53	-3.19	-9.54	-8.17	-8.91	-14.79	-9.54	-8.97	18.11	-
MSCI AC WORLD	USD	358.45	0.32	-1.65	-10.24	-9.63	-12.17	-16.32	-10.24	-14.35	1.57	13.87
MSCI EM	USD	688.52	-0.61	-2.91	-13.30	-13.35	-19.77	-26.06	-13.30	-30.00	-36.19	10.12
MSCI AC ASIA x JAPAN	USD	435.38	-1.06	-3.35	-12.91	-12.83	-17.21	-23.01	-12.91	-24.86	-22.46	10.55
MSCI EM LATIN AMERICA	USD	1583.18	0.16	-5.82	-13.48	-13.31	-22.05	-33.55	-13.48	-42.81	-59.79	11.22
MSCI EM Eur, ME & Africa	USD	176.36	0.58	-3.07	-16.10	-16.65	-29.00	-34.45	-16.10	-36.87	-50.86	8.71
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	157.48	3.39	-1.96	-11.70	-10.44	-22.94	-25.32	-11.70	-31.91	-37.52	18.87
MSCI MATERIALS	USD	160.41	1.06	-1.90	-13.14	-11.96	-18.85	-25.13	-13.14	-28.33	-34.08	14.88
MSCI INDUSTRIALS	USD	172.35	0.05	-1.93	-10.15	-9.36	-11.67	-13.57	-10.15	-13.47	5.96	14.44
MSCI CONS DISCRETIONARY	USD	174.46	0.63	-0.76	-9.90	-9.54	-11.24	-13.85	-9.90	-5.52	25.69	14.90
MSCI CONS STAPLES	USD	196.45	0.40	-0.54	-5.73	-4.97	-6.87	-6.31	-5.73	-4.59	17.97	19.31
MSCI HEALTH CARE	USD	192.76	-0.18	-0.61	-8.30	-7.37	-3.53	-14.84	-8.30	-7.15	42.80	15.41
MSCI FINANCIALS	USD	83.99	-0.02	-3.33	-13.43	-12.76	-15.28	-21.27	-13.43	-16.19	-2.34	11.05
MSCI INFO TECH	USD	132.15	0.21	-0.67	-9.72	-9.66	-9.11	-9.80	-9.72	-6.34	33.16	15.30
MSCI TELECOMS	USD	63.84	1.25	-1.28	-6.02	-4.99	-6.75	-10.29	-6.02	-8.67	10.49	14.22
MSCI UTILITY	USD	107.14	-0.05	-1.72	-4.06	-2.64	-8.87	-6.81	-4.06	-13.85	4.58	14.10
MSCI WORLD REAL ESTATE	USD	172.56	-0.10	-2.85	-9.10	-8.50	-11.44	-10.66	-9.10	-15.75	-4.49	21.88
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1136.72	-0.29	-1.17	-3.18	-2.69	-4.50	-8.48	-3.18	-6.09	-2.41	-
HFRX EQUAL WEIGHTED	USD	1145.87	-0.40	-1.12	-2.30	-1.90	-3.64	-5.78	-2.30	-3.29	0.77	-
HFRX GLOBAL EUR	EUR	1040.13	-0.30	-1.19	-3.27	-2.85	-4.77	-8.93	-3.27	-6.81	-3.98	-

MARKET INDICES PERFORMANCE

21/01/2016

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Yield to Worst
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.2798	0.00	0.05	0.12	0.09	0.28	0.25	0.12	0.26	-	-
US 2 YEAR	USD	0.8528	0.02	0.00	-0.19	-0.12	0.25	0.15	-0.19	0.34	-	-
US 10 YEAR	USD	2.0432	0.01	0.01	-0.23	-0.19	0.02	-0.28	-0.23	0.18	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	484.22	-0.04	0.22	0.80	0.55	0.51	1.87	0.80	0.61	9.60	1.66
US GOVERNMENT TR	USD	2128.36	-0.16	0.53	1.60	1.42	0.41	2.20	1.60	1.00	4.95	1.66
US CORPORATE TR	USD	2567.28	-0.34	-0.39	-0.10	-0.10	-1.73	-0.03	-0.10	-2.33	5.07	3.69
US HIGH YIELD TR	USD	1491.81	0.50	-1.98	-3.67	-2.83	-8.00	-9.48	-3.67	-8.14	-0.33	9.72
EU GOVERNMENT TR	EUR	244.9826	0.30	0.31	0.94	0.84	0.40	2.44	0.94	0.99	17.94	0.59
EU CORPORATE TR	USD	244.22	0.15	-0.08	-0.34	-0.53	0.23	0.06	-0.34	-0.83	10.90	1.54
EU HIGH YIELD TR	EUR	263.99	0.16	-1.39	-2.75	-3.28	-3.38	-4.54	-2.75	-2.29	12.39	6.02
BARCLAYS GLOBAL CONVERT.	USD	201.72	0.22	-1.82	-5.23	-4.64	-5.58	-10.49	-5.23	-6.18	9.85	-
GLOBAL EM TR (HEDGED)	USD	319.3328	0.03	-0.74	-1.53	-1.31	-2.73	-3.18	-1.53	-0.30	0.95	5.94
S&P/LSTA U.S. LEV LOAN	USD	87.12539	-0.15	-1.16	-0.67	0.03	-4.02	-8.16	-0.67	-8.89	-10.80	6.73
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	1903.359	2.30	-3.13	-12.31	-10.67	-26.19	-35.17	-12.31	-35.77	-61.87	-
GSCI ENERGY TR	USD	289.569	3.59	-6.73	-21.38	-18.87	-39.23	-49.70	-21.38	-47.88	-73.69	-
GSCI INDUSTRIAL METALS TR	USD	912.176	1.49	0.32	-4.46	-4.14	-9.69	-17.02	-4.46	-25.48	-41.94	-
GSCI PRECIOUS METALS TR	USD	1342.9	-0.71	2.29	3.39	1.26	-6.48	-1.15	3.39	-16.46	-38.90	-
GSCI AGRICULTURE TR	USD	448.0263	0.56	0.55	-0.46	-1.88	-4.28	-9.76	-0.46	-14.29	-40.70	-
GENERIC 1ST 'CL' FUTURE	USD	29.53	3.66	-7.24	-21.19	-19.32	-38.48	-44.37	-21.19	-46.05	-70.52	-
GOLD SPOT 3/0Z	USD	1101.24	-0.51	0.62	3.23	2.16	-6.04	0.13	3.23	-15.86	-35.27	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	99.05601	0.29	0.39	0.72	1.13	3.08	1.79	0.72	5.60	24.38	-
Euro Spot	EUR	1.0874	-0.38	-0.76	-0.27	-1.13	-2.48	-0.88	-0.27	-4.69	-18.68	-
Japanese Yen Spot	JPY	117.7	-0.34	-0.95	1.80	2.51	2.19	4.97	1.80	0.33	-24.89	-
British Pound Spot	GBP	1.4221	0.23	-0.04	-3.28	-3.88	-7.41	-8.71	-3.28	-5.04	-10.01	-
Swiss Franc Spot	CHF	1.0075	-0.28	-0.90	-0.81	-2.30	-3.67	-4.98	-0.81	-13.76	-8.02	-
Brazilian Real Spot	BRL	4.1552	-1.39	-3.73	-4.66	-3.49	-5.17	-23.67	-4.66	-37.40	-50.88	-
China Renminbi Spot	CNY	6.58	0.01	0.08	-1.31	-1.54	-3.37	-5.63	-1.31	-5.63	-5.46	-
Singapore Dollar Spot	SGD	1.4323	0.25	0.76	-0.72	-1.73	-2.41	-4.40	-0.72	-6.26	-14.11	-
Norwegian Krone Spot	NOK	8.7951	0.06	0.51	0.60	-0.96	-5.19	-7.40	0.60	-12.90	-36.55	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	26.69	-3.26	5.83	46.57	60.78	84.71	120.21	46.57	62.74	114.72	-
USD SWAP SPREAD SEMI 2YR		6.71	1.34	14.48	-42.76	-50.62	-46.16	-72.80	-42.76	-72.80	-54.45	-
TED SPREAD		33.88	-6.38	-10.13	-24.71	-22.20	7.08	26.09	-24.71	43.07	46.67	-

All data is compiled from Bloomberg

Bedrock Friday January 22nd Newsletter

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