

# Bedrock Friday January 29<sup>th</sup> Newsletter

It is a wonderful way to start a day to the sound of a “pop” from the opening of a bottle of Champagne - The party isn’t over! This one offered by the Bank of Japan which popped the cork on another Champagne-stimulus (or is it Sake?) - The BOJ blindsided global financial markets on Friday by adopting negative interest rates for the first time ever, buckling under pressure to revive growth in the world’s third-largest economy. The Yen now carries a negative rate of -0.1%! Currency-wars? Whilst the underlying reason for this is anything but joyful, it is amusing to think that the Japanese just copied the ECB whom in turn followed the stoic, laid back, conservative Swiss who started this ballsy, avant-gardist fashion ☺ What is our world coming to?

The Federal Reserve may say it’s bent on more interest rate hikes this year, but it’s much more likely it will need to cut instead, warned Austan Goolsbee just yesterday (who was chairman of Obama’s Council of Economic Advisers from 2010-11) ...

And then, Russia is talking with Saudi Arabia about cutting oil production to reduce the excess supplies. Hardly likely much will come of this, but the oil market is so desperate they want to believe it and oil rallied to \$33.6 for WTI and over \$34 for Brent - up over 27% in the last ten days...

And the Japanese Yen dropped 2% against the US\$ this morning, Nikkei up 3% for the day having popped up 3%, then crashing 5% and back to up 4%. If you doubted that the Central Banks of the World were the true drivers of markets, think again! They may well be driving “under the influence”, but they definitely are holding the steering wheel and the gas pedal...

And then we are watching with amazement the Republican polls which suggest that The Donald is leading whilst the Democrats’ polls are showing Sanders gaining ground on Hillary. Extremes of the right and of the left; scary. But there may well be a ‘white knight’ arising - Michael Bloomberg has instructed advisers to draw up plans for an independent campaign in this year’s presidential race. His advisers said he is galled by Donald Trump’s dominance of the Republican field, and troubled by Hillary Clinton’s stumbles and the rise of Senator Bernie Sanders of Vermont on the Democratic side. Mr. Bloomberg, 73, has already taken concrete steps towards a possible campaign and has indicated to friends and allies that he would be willing to spend at least \$1 billion of his fortune on it (he has over \$40Bn!). We like the idea of Bloomberg running the country. He runs a business empire very well, he ran New York City very well so he could probably run the US quite well too. But our optimism is attenuated by the knowledge that an “independent” candidate has never won in the USA. Hoping is cheap though (for us, not him!).

Some technical information to add to our ‘macro-musings’ - We are deep into Q4 earnings season with under half of the S&P reporting we remain at 79% beating expectations for earnings. Some ‘biggies’ disappointed like Apple, others like Face Book blew way above the most bullish thoughts. Overall, quite reassuring albeit top-lines coming in weak, if better than some sad expectations. The S&P 500 forward looking P/E ratio is at 15.23X, which isn’t expensive either from an historical point of view nor when compared to the US ten year note with an implied P/E of 50X!

Then we saw US home prices rising 5.8% in November as per Case-Shiller; above consensus and ahead of October’s rise. Allianz Chief Economic Adviser Mohamed El-Erian said Tuesday the world economy is at the end of the era of borrowing growth and profits from the future in the form of easy monetary policies. "Either we validate the financial asset prices and growth faster, or alternatively we will slip into a global recession with financial disorder". He put a timetable of about three years on the outcome. "There is nothing predestined about where we end up. We are heading toward this ‘T-junction’ and we can still take the right road". Well, as with Bloomberg, we hope our fearless leaders take the right turn (even if it is one to the left). The markets seem to doubt a good outcome here, as they are clearly pricing-in and economic slowdown - falling yields on US Treasuries, falling equity prices and rising volatilities are the message of troubles. That may have changed over the past few days as oil rebounded and equities with it. This too is strange, as historically (and logically) equity prices should be inversely correlated to the cost of energy... Some argue that the reason for this inversion in correlation comes from Oil-rich countries with sovereign wealth funds - These have been huge net-investors into the markets and as their cash-flows dwindle or even turn negative, they reduce their buying if not switch to net selling; i.e. as oil rises, they will be buying equities...

At the end of the day, we believe that markets are primarily driven by sentiment which itself is sometimes influenced by data. Strangely, said sentiments appear to evolve in broad paintbrushes - Two indices of sentiment we like watching are; the “Hemline Index” which measures the changes in skirt length which unfortunately is lengthening at this time suggesting lower markets, then the “Escort Indicator” which measures activity in the oldest profession for Wall Street is stable at 2015 levels. So sentiment is stable with a downwards bias... And we note that Mattel has modified their 57 year-old icon - Barbie is getting wider hips and shorter legs as part of Mattel Inc.’s attempt to revive the world’s largest toy brand. We don’t know what to conclude here... Your weekend thoughts could help us on this.

## Market Weekly Highlights:

- The Dollar remains marginally weaker for the week; with the USD Index (DXY) at 99.0. The US\$ is trading at about \$1.0915 against the EUR and at 1.0180 against the Swiss Franc. The Pound is completely unchanged 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 news that the BOJ will instigate negative interest rates on large scale deposits at 120.80, having briefly hit 121.42 on the news release. Gold has gained \$16 this week and is now at \$1'114. We note that Oil fell for the first three days of the week trading at \$29.25/Bbl. for WTI and bouncing back \$5 in the last couple of sessions and trading at \$33.50/Bbl. with news of a possible production cut agreement from Saudi having sent it as high as \$34.82; Brent is now at \$34.00/Bbl. The Russian Ruble moved in-line with oil, now at 75.60 per USD having rallied from 82.00 in the last three sessions. The Brazilian Real is stable though at 4.07. We do not see a significant further rally in the Real and our outlook would be for sustained weakness. The CNY remained static at 6.58.
- The US 10Yr Treasury yield moved lower again this week and is now trading at 1.92%. The German 10Yr Bund yield dropped as well this week from 0.49% to 0.34%. The Spanish 10Yr yield has followed the move and is trading at 1.52% having been as high as 1.76%. The Italian 10Yr yield moved lower but at a slower pace from 1.60% to 1.44% during the week. In the UK, the Gilts' yields had resisted the move lower but succumbed as the BOJ moved to negative rates, sending the yields down from 1.72% to hit 1.59%. The Swiss 10Yr yield is lower at -0.25%.
- This week was relatively stable in comparison to the previous weeks in the equity markets. The S&P500 is -0.7% for the week, although looking to open up about 0.7% on the open today. The Dow Jones is almost completely flat for the week and NASDAQ at -1.84% with both markets looking to open positive today. The DAX is trading -0.70% for the week, the CAC40 is +0.30%, with the SMI at -0.20%, the UK FTSE trading +1.6% and the EuroStoxx50 at -0.70%. In Asia, the Nikkei has closed the week at +3.30% after the BOJ stimulus package was announced, whilst the Shanghai composite and the Hang Seng Index had divergent results for the week closing respectively at -6.14% and +3.16%.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

28/01/2016

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	1893.36	0.56	1.30	-7.37	-8.90	-9.38	-10.21	-7.37	-6.33	25.57	15.23
DOW JONES INDUS. AVG	USD	16069.64	0.79	1.18	-7.78	-9.32	-9.50	-9.47	-7.78	-7.74	15.16	14.52
<b>NASDAQ COMPOSITE INDEX</b>	USD	4506.676	0.87	0.77	<b>-10.00</b>	-11.77	-11.19	-11.84	-10.00	-3.77	42.90	16.69
<b>RUSSELL 2000 INDEX</b>	USD	1003.273	0.06	0.59	<b>-11.68</b>	-13.55	-13.93	-18.41	-11.68	-15.70	10.58	14.98
EURO STOXX 50	EUR	2979.42	-2.10	-0.17	-7.64	-8.94	-11.58	-15.59	-7.64	-10.49	9.77	13.02
EURO STOXX 600	EUR	334.89	-1.57	0.26	-7.27	-8.24	-9.71	-13.90	-7.27	-8.01	16.85	14.58
CAC 40 INDEX	EUR	4322.16	-1.33	0.96	-5.58	-6.87	-10.38	-12.74	-5.58	-5.46	15.65	13.77
DAX INDEX	EUR	9639.59	-2.44	-0.06	-9.16	-10.14	-9.65	-12.96	-9.16	-9.12	24.34	11.99
FTSE 100 INDEX	GBP	5931.78	-0.98	1.85	-3.73	-4.84	-6.04	-9.38	-3.73	-11.77	-5.21	15.30
SWISS MARKET INDEX	CHF	8153.27	-2.04	-0.13	-6.33	-7.01	-7.78	-12.01	-6.33	-2.08	10.75	15.72
NIKKEI 225	JPY	17041.45	-0.71	3.30	-7.96	-7.71	-7.49	-13.72	-7.96	-0.50	61.21	16.81
<b>HANG SENG INDEX</b>	HKD	19195.83	0.75	3.16	<b>-10.18</b>	-10.53	-13.75	-20.05	-10.18	-19.97	-16.79	9.81
<b>SHANGHAI SE COMPOSITE</b>	CNY	2655.661	-2.92	-6.14	<b>-22.65</b>	-23.18	-19.18	-27.75	-22.65	-16.08	16.05	10.91
S&P BSE SENSEX INDEX	INR	24469.57	-0.09	3.37	-5.16	-5.03	-7.71	-10.14	-5.16	-16.55	23.90	17.21
RUSSIAN RTS INDEX \$	USD	727.13	3.16	7.43	-1.88	-3.49	-11.53	-14.21	-1.88	-0.63	-54.26	5.85
<b>BRAZIL IBOVESPA INDEX</b>	BRL	38630.19	0.66	2.62	<b>-10.89</b>	-11.51	-15.34	-23.12	-10.89	-19.12	-36.05	8.76
MSCI WORLD	USD	1532.68	0.09	-0.27	-7.82	-9.07	-10.19	-12.95	-7.82	-9.51	8.65	14.82
MSCI WORLD HEDGED	USD	664.878	-0.11	2.03	-7.60	-7.75	-9.45	-10.69	-7.60	-5.52	26.24	-
MSCI WORLD LOCAL	-	1179.371	-0.10	2.04	-7.70	-7.88	-9.84	-11.48	-7.70	-7.33	19.27	-
MSCI AC WORLD	USD	367.64	0.17	-0.09	-7.94	-9.13	-10.63	-13.63	-7.94	-11.29	3.19	14.31
MSCI EM	USD	722.23	0.87	1.63	-9.06	-9.69	-14.64	-19.76	-9.06	-25.79	-32.49	10.74
MSCI AC ASIA x JAPAN	USD	450.71	0.40	0.57	-9.85	-10.01	-13.69	-17.80	-9.85	-22.47	-18.83	11.08
MSCI EM LATIN AMERICA	USD	1666.39	1.20	5.26	-8.93	-10.79	-16.23	-27.47	-8.93	-37.16	-57.91	11.91
MSCI EM Eur, ME & Africa	USD	195.12	3.07	5.46	-7.18	-8.93	-18.79	-25.37	-7.18	-28.63	-45.37	9.61
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	169.64	2.99	2.71	-4.88	-6.27	-15.16	-19.77	-4.88	-24.12	-34.02	21.04
MSCI MATERIALS	USD	163.63	-0.07	-0.52	-11.39	-12.67	-16.50	-21.92	-11.39	-25.92	-32.83	15.40
MSCI INDUSTRIALS	USD	176.9	0.19	0.51	-7.77	-8.74	-9.50	-10.88	-7.77	-10.25	7.66	15.00
MSCI CONS DISCRETIONARY	USD	178.8	0.38	0.00	-7.65	-8.74	-10.32	-11.42	-7.65	-3.58	27.53	15.30
MSCI CONS STAPLES	USD	204.1	0.67	1.62	-2.06	-3.34	-2.99	-3.03	-2.06	-0.53	20.14	20.13
MSCI HEALTH CARE	USD	191.07	-2.39	-2.84	-9.11	-10.23	-8.68	-15.56	-9.11	-7.71	38.56	15.34
MSCI FINANCIALS	USD	85.67	-0.14	-0.55	-11.70	-12.90	-14.08	-18.97	-11.70	-13.22	-1.61	11.28
MSCI INFO TECH	USD	133.64	0.82	-1.74	-8.70	-10.47	-10.58	-8.34	-8.70	-3.46	34.91	15.63
MSCI TELECOMS	USD	66.74	-0.63	1.23	-1.75	-2.88	-3.28	-6.98	-1.75	-4.15	13.27	14.88
MSCI UTILITY	USD	111.62	0.85	1.89	-0.04	-0.98	-2.09	-3.12	-0.04	-11.69	7.94	14.68
MSCI WORLD REAL ESTATE	USD	176.78	-0.32	-0.41	-6.87	-7.94	-8.95	-8.42	-6.87	-14.07	-2.29	22.25
HEDGE FUND INDICES												
<b>HFRL GLOBAL HEDGE FUND</b>	USD	1137.71	-0.32	0.09	<b>-3.10</b>	-3.23	-4.70	-7.26	-3.10	-6.53	-2.54	-
HFRL EQUAL WEIGHTED	USD	1148.8	-0.20	0.26	-2.05	-2.05	-3.54	-4.69	-2.05	-3.46	0.81	-
HFRL GLOBAL EUR	EUR	1040.87	-0.32	0.07	-3.20	-3.37	-4.98	-7.70	-3.20	-7.28	-4.10	-

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.3256	0.00	0.03	0.16	0.13	0.26	0.28	0.16	0.32	-	-
US 2 YEAR	USD	0.7954	-0.02	-0.07	-0.25	-0.30	0.07	0.09	-0.25	0.28	-	-
US 10 YEAR	USD	1.9452	-0.03	-0.11	-0.32	-0.36	-0.23	-0.34	-0.32	0.19	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	485.37	0.07	0.24	1.03	0.99	0.51	1.69	1.03	0.43	10.23	1.63
<b>US GOVERNMENT TR</b>	USD	2131.87	0.08	0.33	<b>1.77</b>	1.95	1.29	2.07	1.77	0.52	5.73	1.63
US CORPORATE TR	USD	2570.23	0.00	0.03	0.02	0.36	-0.85	0.01	0.02	-3.12	6.06	3.68
<b>US HIGH YIELD TR</b>	USD	1518.29	0.25	0.78	<b>-1.96</b>	-1.87	-6.55	-7.84	-1.96	-6.94	1.28	<b>9.26</b>
EU GOVERNMENT TR	EUR	245.9934	0.11	0.51	1.35	1.46	0.82	2.56	1.35	1.06	18.72	0.55
EU CORPORATE TR	USD	245.84	0.22	0.66	0.32	0.43	0.03	0.49	0.32	-0.65	12.31	1.42
<b>EU HIGH YIELD TR</b>	EUR	267.31	0.13	1.26	<b>-1.53</b>	-2.02	-2.85	-2.99	-1.53	-1.56	14.41	5.54
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	202.37	-0.20	0.32	<b>-4.92</b>	-5.01	-6.41	-9.53	-4.92	-6.38	9.85	-
GLOBAL EM TR (HEDGED)	USD	323.1028	0.35	1.18	-0.37	-0.32	-2.07	-1.49	-0.37	0.12	2.19	5.74
S&P/LSTA U.S. LEV LOAN	USD	87.18916	0.02	0.07	-0.59	-0.55	-3.89	-7.43	-0.59	-8.64	-10.79	6.69
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2028.207	0.97	6.56	-6.56	-5.90	-21.88	-27.79	-6.56	-29.85	-59.65	-
GSCI ENERGY TR	USD	326.872	2.71	12.88	-11.25	-10.48	-32.38	-39.95	-11.25	-39.55	-70.57	-
GSCI INDUSTRIAL METALS TR	USD	931.301	-1.11	2.10	-2.46	-2.19	-7.75	-13.49	-2.46	-21.74	-40.92	-
GSCI PRECIOUS METALS TR	USD	1364.272	-0.18	1.59	5.04	4.26	-6.01	1.18	5.04	-14.63	-36.50	-
GSCI AGRICULTURE TR	USD	441.5603	-0.96	-1.44	-1.90	-1.20	-5.51	-6.77	-1.90	-12.74	-41.56	-
GENERIC 1ST 'CL' FUTURE	USD	33.22	1.66	4.91	-13.05	-14.87	-33.05	-38.17	-13.05	-38.56	-67.76	-
GOLD SPOT \$/OZ	USD	1115.34	-0.23	1.35	4.84	4.08	-2.90	1.46	4.84	-11.50	-33.12	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	98.51	0.56	-0.51	0.44	0.98	1.83	2.15	0.44	4.52	24.51	-
Euro Spot	EUR	1.094	-0.42	0.91	0.29	-0.24	-0.76	-0.82	0.29	-3.76	-19.26	-
Japanese Yen Spot	JPY	118.82	-1.71	-1.75	-0.55	-0.36	0.20	2.52	-0.55	-2.15	-24.95	-
<b>British Pound Spot</b>	GBP	1.4362	0.01	0.69	<b>-2.53</b>	-3.06	-6.19	-7.94	-2.53	-4.67	-8.88	-
Swiss Franc Spot	CHF	1.0138	-0.44	-0.22	-1.59	-2.46	-2.83	-4.94	-1.59	-9.28	-9.52	-
<b>Brazilian Real Spot</b>	BRL	4.0697	0.99	2.10	<b>-2.68</b>	-5.17	-4.02	-17.52	-2.68	-36.69	-50.97	-
China Renminbi Spot	CNY	6.5753	-0.05	0.00	-1.29	-1.41	-3.37	-5.62	-1.29	-5.05	-5.35	-
Singapore Dollar Spot	SGD	1.4279	0.34	0.48	-0.32	-0.83	-1.36	-3.82	-0.32	-4.87	-13.30	-
<b>Norwegian Krone Spot</b>	NOK	8.6135	-0.15	1.30	<b>2.51</b>	1.12	-0.70	-5.49	2.51	-9.24	-36.29	-
VOLATILITY / LIQUIDITY INDICES												
<b>CBOE SPX VOLATILITY INDX</b>	USD	<b>22.42</b>	-2.99	-16.00	<b>23.12</b>	39.43	53.46	79.36	23.12	19.51	68.44	-
USD SWAP SPREAD SEMI 2YR	USD	7.07	-	6.59	-41.41	-16.55	-41.17	-68.72	-41.41	-69.33	-56.17	-
TED SPREAD	USD	29	-	-14.40	-35.56	-29.23	1.29	15.54	-35.56	21.14	20.48	-

All data is compiled from Bloomberg

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