

Bedrock Friday February 12th Newsletter

Now this is a truly incredulous and painful opening for a new year. Stock markets around the world have been beaten harshly and the rally in the US\$ has reversed brutally. Bonds have rallied to reach new yield lows. The extensive discussions in the financial media about the process of US interest rate rises has turned on a dime and the topic now centres on the Fed's move to negative rates. Japan has moved there, joining the Swiss, the ECB and the Swedes. Oil has continued to slide, reaching a pain threshold for many producers; let it be at a corporate level or even sovereign states dependent on oil exports. Clearly, the 'tone' of the markets has turned from the targeted 2% inflation and moderate growth towards disinflation if not outright deflation and recession. Depressing language is printed all around us - "The world appears to be trapped in a circular reference death spiral," Citi strategists led by Jonathan Stubbs said in a report on Thursday. "Stronger U.S. dollar, weaker oil/commodity prices, weaker world trade/petrodollar liquidity, weaker EM (and global growth)... and repeat. Ad infinitum, this would lead to Oilmageddon, a 'significant and synchronized' global recession and a proper modern-day equity bear market." Stubbs said that macro strategists at Citi forecast that the dollar would weaken in 2016 and that oil prices were likely bottoming, potentially providing some light at the end of the tunnel. "The death spiral is in nobody's interest. Rational behaviour, most likely, will prevail".

Scarily, for the first time ever, the governing agency and U.S. central bank is requiring banks to include, in a round of stress tests commencing this year, to prepare for the possibility of negative yields for Treasury rates. The scenario is purely hypothetical and not a forecast, according to a Fed news release on Jan. 28. However, the development is part of a larger scenario of a world where zero rates are morphing into negative rates. But if everyone is going this route, we get a log-jam - This is how beggar-thy-neighbour monetary policies work, and perhaps why they ultimately fail. As we want to believe that our Central Bank leaders are wise men and women, this will be avoided. As we believe that the whole quagmire is routed in the dramatic and rapid decline in oil prices, perhaps, just perhaps a new QE program will be devised jointly by the Fed, ECB, BOJ and others whereby they buy together physical crude oil in lieu of bonds? The acquired black gunk will then be added to the respective buying country's Strategic Reserve, it would give money to the troubled producer countries such as Venezuela, Nigeria and Russia where government budgets are severely affected, possibly counteracting growing risks of social unrest? Simply announcing such a concept would stabilize oil prices. Strangely, the expected benefits to the industrial world, i.e., the West, from low energy costs and close to zero capital costs didn't materialize. Everybody is suffering, both end-users and producers. Sound too simple? All the more reason to believe it could work! Occam's razor...If we see it at Bedrock, maybe, just maybe... "them wise leaders" will see it too?

Groucho Marx once said "A black cat crossing your path signifies that the animal is going somewhere"...

As we see a solution to the expensive woes with which we are all afflicted, we turn-on our optimistic sights; 60% of the S&P 500 have reported their Q4 earnings, 73% have beaten expectations and 27% have met or missed - we should have seen a rising market. Interestingly, the average "beat" was of 12% whilst the average "miss" was also by 12%. We feel vindicated in our long-standing low esteem of said analysts...

Well, Fed Fund futures contracts don't see the Federal Reserve raising rates until at least February 2018 and in fact are pricing in a small likelihood of a rate cut. We feel vindicated here too, having questioned the reasoning for the December hike. Maybe, just maybe we dare postulate that we have seen the bottom from oil through equities to interest rates? Maybe even 'Barclays US high-yield' spreads at 810Bp over treasuries having topped here? Yes, we do feel that these markets have over-shot any rational move.

Indeed, we have an intellectual issue with understanding why anyone would invest in a Swiss Government 10 year bond with a negative yield of 0.35% pa. Whoever this is, they probably have an above zero I.Q., no?

Let's find our smiles and move our attention to the US presidential elections. It will be funny for a while...

Market Weekly Highlights:

- The Dollar has softened over the past week; with the USD Index (DXY) trading at 95.50 down from 97.50 at the beginning of the week. The US\$ is now trading at about \$1.1275 against the EUR and at 0.9770 against the Swiss Franc. The Pound is now at 1.45 having been in a trading channel between 1.44 and 1.4550 for the week. In spite of this decline we maintain our belief in the fundamental relative strength of the US\$ - this view is driven by the outlook for interest rates to hold or rise further in the US and hold or decline elsewhere. The Japanese Yen has risen massively, sending the USD down from 117.50 to be trading at 112.60. Gold has soared from \$1,164 and is now at \$1,237. We note that WTI Oil has slipped again to \$27, whilst Brent has slid to \$31.40/Bbl., a significant rise in the spread between the two. The Chinese have been on holiday this week so the currency remained closed. The Russian Ruble now at 79.44 per USD has moved in line with the oil weakness. The Brazilian Real has been closed for most of the week due to Carnival but upon reopening as slipped from 3.88 to 4.00. We do not see a significant rally in the Real and our outlook remains for continued weakness.
- The risk off sentiment of this week pushed the yield for the US 10Yr Treasury to as low as 1.52% on Thursday as Yellen spoke to the committee; only to reverse course to hit 1.70% this morning. The German 10Yr Bund yield dropped as well to 0.13% from 0.3%, again only to reverse to 0.21% now. While the Spanish 10Yr yield moved in the opposite direction, moving from 1.60% to hit 1.84%. The Italian 10Yr yield moved higher but at a slower pace from 1.55% to 1.67% during the week. In the UK, the Gilts' yields could not resist the move lower but succumbed as the Swedes moved to negative rates, sending the yields down from 1.55% to hit 1.22%. The Swiss 10Yr yield is marginally lower at -0.28%.
- This week was quite violent on the down move in comparison to previous weeks in the equity markets. The S&P500 was down 2.71% for the week, although looking to open up about 0.85% on the open today. The Dow Jones was down 3.36% and NASDAQ at -2.21% with both markets looking to open positive today. The DAX is trading -4.6% for the week, the CAC40 is now -6.2%, with the SMI at -4.6%, the UK FTSE trading -3.9% and EuroStoxx50 at -5.5%. In Asia, the Nikkei has closed the week at -11.1%, whilst the Shanghai composite and the Hang Seng Index were shut for Chinese New Year.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

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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	1829.08	-1.21	-4.51	-5.73	-5.65	-10.60	-12.32	-10.51	-12.42	20.38	14.79
DOW JONES INDUS. AVG	USD	15660.18	-1.60	-4.61	-4.90	-5.18	-10.25	-10.01	-10.13	-12.87	11.71	14.18
NASDAQ COMPOSITE INDEX	USD	4266.837	-0.38	-5.38	-7.52	-8.94	-14.75	-15.41	-14.79	-12.16	33.90	15.79
RUSSELL 2000 INDEX	USD	953.7152	-0.99	-8.02	-7.89	-8.71	-17.41	-21.11	-18.04	-21.59	3.95	14.36
EURO STOXX 50	EUR	2680.35	-3.90	-5.44	-10.58	-11.16	-19.63	-21.86	-16.67	-20.33	2.79	12.00
EURO STOXX 800	EUR	303.58	-3.65	-5.23	-8.76	-10.01	-17.10	-19.36	-15.57	-17.60	7.59	13.68
CAC 40 INDEX	EUR	3896.71	-4.05	-5.80	-10.41	-9.63	-18.52	-19.66	-14.66	-16.27	7.34	12.65
DAX INDEX	EUR	8752.87	-2.93	-4.44	-9.43	-11.13	-17.70	-18.77	-17.40	-18.73	15.85	11.06
FTSE 100 INDEX	GBP	5536.97	-2.28	-3.83	-7.55	-5.14	-8.97	-14.41	-9.90	-17.63	-11.27	14.60
SWISS MARKET INDEX	CHF	7496.62	-3.04	-4.60	-8.72	-8.86	-13.87	-17.31	-13.88	-11.81	2.25	15.25
NIKKEI 225	JPY	15713.39	-2.31	-12.28	-14.65	-15.51	-24.07	-27.84	-21.44	-15.30	34.07	14.50
HANG SENG INDEX	HKD	18545.8	-3.85	-5.80	-6.93	-7.06	-19.96	-23.40	-16.40	-24.99	-21.09	9.21
SHANGHAI SE COMPOSITE	CNY	2763.492	-0.63	0.95	0.95	-13.27	-23.02	-26.19	-21.92	-10.16	13.61	11.03
S&P BSE SENSEX INDEX	INR	22951.83	-3.40	-6.55	-7.50	-6.79	-11.06	-16.38	-11.91	-20.13	17.61	16.12
RUSSIAN RTS INDEX \$	USD	671.34	-3.63	-8.23	-8.67	-2.10	-18.18	-18.14	-10.08	-21.02	-56.98	5.67
BRAZIL IBOVESPA INDEX	BRL	39318.3	-2.62	1.87	-2.69	-0.49	-16.14	-18.74	-9.30	-20.62	-32.79	8.98
MSCI WORLD	USD	1498.9	-1.18	-3.61	-5.97	-5.94	-12.12	-15.70	-11.66	-15.94	3.90	14.20
MSCI WORLD HEDGED	USD	629.653	-1.61	-5.69	-7.54	-6.70	-13.89	-15.79	-12.49	-12.64	18.82	-
MSCI WORLD LOCAL	-	1116.96	-1.57	-5.62	-7.51	-6.76	-14.16	-16.48	-12.58	-14.25	12.34	-
MSCI AC WORLD	USD	353.35	-1.30	-3.81	-5.78	-5.52	-12.35	-15.84	-11.52	-16.80	-0.89	13.76
MSCI EM	USD	713.04	-2.40	-3.59	-3.95	-1.41	-14.48	-17.25	-10.21	-26.58	-32.67	10.67
MSCI AC ASIA x JAPAN	USD	444.43	-2.48	-3.04	-3.73	-2.67	-13.74	-15.12	-11.10	-22.96	-19.42	10.99
MSCI EM LATIN AMERICA	USD	1672.48	-2.43	-6.26	-4.10	0.74	-16.65	-23.29	-8.60	-35.56	-57.04	11.85
MSCI EM Eur, ME & Africa	USD	191.91	-1.44	-4.55	-4.66	0.76	-17.37	-23.99	-8.71	-31.97	-45.68	9.56
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	160.42	-0.90	-5.31	-7.33	-0.46	-16.66	-23.52	-10.05	-32.89	-36.40	21.60
MSCI MATERIALS	USD	164.89	-1.10	-4.18	-0.59	-1.28	-12.92	-20.79	-10.71	-29.13	-31.93	15.84
MSCI INDUSTRIALS	USD	173.71	-1.42	-3.50	-3.88	-3.34	-10.24	-12.42	-9.44	-14.17	5.62	14.50
MSCI CONS DISCRETIONARY	USD	167.96	-0.16	-3.23	-7.26	-7.99	-14.57	-15.08	-13.25	-12.99	18.83	14.04
MSCI CONS STAPLES	USD	201.84	-0.85	-1.45	-3.01	-0.04	-0.86	-3.16	-3.15	-2.11	18.31	19.95
MSCI HEALTH CARE	USD	183.69	-1.41	-2.23	-5.11	-7.14	-9.89	-17.60	-12.62	-11.13	33.48	14.74
MSCI FINANCIALS	USD	79.04	-2.58	-6.43	-9.58	-12.03	-19.41	-24.05	-18.53	-22.57	-10.24	10.46
MSCI INFO TECH	USD	127.72	-0.18	-2.32	-7.35	-7.56	-13.51	-11.35	-12.75	-11.55	27.62	14.90
MSCI TELECOMS	USD	66.15	-0.68	-3.28	-2.61	0.75	-2.30	-8.46	-2.62	-7.35	12.10	14.62
MSCI UTILITY	USD	111.3	-1.59	-3.11	-1.75	1.90	0.75	-5.96	-0.33	-7.14	8.35	14.60
MSCI WORLD REAL ESTATE	USD	169.98	-0.77	-4.29	-6.04	-6.21	-8.80	-12.38	-10.46	-16.66	-5.64	21.53
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1122.43	0.13	-1.21	-1.68	-2.95	-6.02	-8.78	-4.40	-8.21	-4.44	-
HFRX EQUAL WEIGHTED	USD	1135	0.16	-1.02	-1.39	-2.34	-4.71	-8.09	-3.22	-5.00	-0.85	-
HFRX GLOBAL EUR	EUR	1026.88	0.13	-1.17	-1.66	-3.00	-6.26	-9.17	-4.50	-8.94	-5.94	-

MARKET INDICES PERFORMANCE

11/02/2016

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	-0.01	-0.03	0.07	0.15	0.18	0.12	0.27	-	-
US 2 YEAR	USD	0.6574	0.01	-0.06	-0.12	-0.27	-0.21	-0.01	-0.39	0.03	-	-
US 10 YEAR	USD	1.6881	0.03	-0.15	-0.23	-0.42	-0.62	-0.46	-0.58	-0.30	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	490.6	0.16	0.51	0.85	1.64	2.47	2.33	2.12	2.23	11.40	1.46
US GOVERNMENT TR	USD	2169.2	0.26	0.98	1.45	2.49	3.88	3.09	3.55	3.45	7.54	1.46
US CORPORATE TR	USD	2588.83	-0.10	0.27	0.39	0.02	0.62	0.28	0.74	-1.49	6.80	3.60
US HIGH YIELD TR	USD	1468.74	-1.12	-2.51	-3.61	-4.44	-8.30	-9.69	-5.16	-11.00	-1.33	10.10
EU GOVERNMENT TR	EUR	246.8981	0.10	0.04	-0.12	1.44	1.78	2.25	1.73	1.18	19.44	0.53
EU CORPORATE TR	USD	245.67	0.00	-0.21	-0.42	0.21	0.15	0.04	0.25	-1.01	12.07	1.47
EU HIGH YIELD TR	EUR	261.34	-0.78	-1.94	-2.54	-3.18	-5.54	-5.00	-3.72	-4.25	13.19	6.18
BARCLAYS GLOBAL CONVERT.	USD	196.33	-0.72	-3.26	-3.90	-4.93	-9.69	-11.88	-7.76	-10.27	6.63	-
GLOBAL EM TR (HEDGED)	USD	322.8332	-0.21	-0.58	-0.44	-0.26	-1.71	-1.69	-0.45	0.30	3.13	5.79
S&P/LSTA U.S. LEV LOAN	USD	86.37642	-0.46	-0.93	-0.88	-2.06	-4.05	-7.30	-1.52	-10.02	-11.12	7.10
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	1871.051	-0.88	-6.95	-9.10	-5.94	-24.20	-30.24	-13.80	-38.93	-63.38	-
GSCI ENERGY TR	USD	280.078	-1.97	-11.87	-16.23	-12.65	-38.93	-44.72	-23.95	-53.36	-75.52	-
GSCI INDUSTRIAL METALS TR	USD	923.699	0.03	-3.97	-1.72	3.05	-5.55	-10.50	-3.26	-22.18	-42.64	-
GSCI PRECIOUS METALS TR	USD	1524.22	4.34	7.65	11.69	13.83	14.51	11.51	17.35	0.91	-28.88	-
GSCI AGRICULTURE TR	USD	433.0499	-0.33	-1.98	-2.84	-1.21	-5.16	-8.69	-3.79	-15.91	-40.89	-
GENERIC 1ST 'CL' FUTURE	USD	26.21	3.28	-12.37	-19.48	-18.04	-41.32	-44.90	-30.30	-56.08	-74.14	-
GOLD SPOT \$/OZ	USD	1246.7	-0.60	5.57	10.82	14.05	14.19	10.20	16.75	1.39	-24.95	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.562	0.33	-1.19	-3.74	-3.13	-2.81	-0.40	-2.79	1.00	19.69	-
Euro Spot	EUR	1.1323	-0.42	1.06	4.11	3.85	4.27	1.05	3.81	-1.11	-16.19	-
Japanese Yen Spot	JPY	112.42	-0.02	3.94	7.74	4.63	9.04	10.47	6.92	5.93	-16.86	-
British Pound Spot	GBP	1.4477	-0.01	-0.19	1.63	0.19	-4.97	-7.28	-1.76	-5.90	-7.58	-
Swiss Franc Spot	CHF	0.9725	-0.38	1.52	4.80	2.66	2.45	-0.08	2.65	-4.64	-6.06	-
Brazilian Real Spot	BRL	3.9925	-1.58	-2.56	0.17	1.53	-5.80	-12.98	-0.79	-28.17	-	-
China Renminbi Spot	CNY	6.5743	-0.07	0.03	0.03	-0.89	-3.47	-5.55	-1.23	-4.89	-5.22	-
Singapore Dollar Spot	SGD	1.3897	-0.42	0.92	2.06	3.05	1.66	0.24	1.65	-2.80	-11.21	-
Norwegian Krone Spot	NOK	8.5595	-0.45	-0.44	0.94	0.74	0.74	-5.15	2.85	-11.15	-36.21	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	28.14	7.04	28.85	39.31	25.23	53.18	106.76	64.53	83.44	122.83	-
USD SWAP SPREAD SEMI 2YR	6.57	-	-35.00	-8.01	-17.54	-41.24	-75.84	-49.75	-77.63	-62.41	-	-
TED SPREAD	33.74	-	2.18	11.61	-22.24	45.43	58.40	-25.02	33.36	48.50	-	-

All data is compiled from Bloomberg

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