Bedrock Friday March 18th Newsletter

Another week came and went. This one has been clearly under the sign of the Fed and Janet Yellen. A dovish Federal Reserve held the line on interest rates Wednesday and substantially scaled back its expectations for further moves ahead.
Where the U.S. central bank at its December meeting had projected four rate hikes in 2016, new estimates released Wednesday reduced that number to two. Fed officials also cut their expectations for economic growth and inflation. In addition to the two rate increases this year, the Federal Open Market Committee now projects just two hikes in 2017, according to the latest Summary of Economic Projections. The current interest rate target is 0.25 to 0.5 percent, and Fed officials back in December had expected the upper level to rise to 1.4% by year's end. With the new projections, the FOMC now sees just a 0.9% funds rate in 2016 and a 1.9% level by the end of 2017, both reflecting cuts of half a percentage point. The Fed also cut its GDP growth outlook for 2016 from 2.4% to 2.2% and reduced 2017's call from 2.2% to 2.1%. Despite dissenting “noises” from various Fed members, the FOMC approved the decision 9-1. Noise, as we said…
We look at the markets’ reactions to try to gauge the true meaning of the Fed’s actions and words; Well, two trading days after ‘the event’, what do we see?

1. The US 10 year Treasury Note now yields 1.8644% down from 1.99% just before the speech.
2. The S&P 500 index traded at 2’011 just before and ahead of Friday trading we see 2’040.
3. The EuroStoxx index moved from 3’062 to 3’047 or so now. The Nikkei closed the night before Janet at 16’974 and closed last night at 16’724.
4. The VIX, as a measure of risk has fallen from 16.25 to 14.44 now.
5. The DXY, the average exchange rate of the US$ vs. its major trade partners (Euro, JPY, GBP,CAD, SEK, CHF) moved from 97 just before to 95 now, a 2% erosion of the US$
6. Oil, as measured by WTI, moved from say $38 to $40 and Gold moved from $1’229/Oz to $1’255/Oz.

Some of these moves are rational, some less so. Arguably, the fall of the Dollar makes sense, as the interest rates whilst reaffirmed on an upward slope were suggested at a slower rate of rise than had previously been anticipated. And yet, they WILL rise we were told. When the ECB cut rates just one week earlier, the Euro rose…
The next set of moves make sense given the immediate hit on the Dollar- Gold and Oil, both priced in Dollars, should have and did rise! The equities around the globe also reacted intelligently- A lower Dollar increases the profits of US companies so their stock prices rise, Europeans and Japanese find a head-wind from the rise of their currencies, hindering exports and the stock decline. The fall in the risk measure is also rational, as we are no longer guessing what the FOMC will do. Less possible outcomes to an event is a classic reduction in risk. Even the move down in Treasury yields makes sense, as we were given a longer period of positive carry between short to long rates. Perhaps, just perhaps “the world of reason” has returned?

That was the easy piece, finding the data. Explaining the observation was simple too (and we will never know if our explanation is a truth!). From here, venturing to the future becomes trickier. We scratch our heads and put new batteries in our crystal ball. Here is what we see- One week ago Mario Draghi told us that Europe needs help as things are slow. He cut rates and added stimuli. Markets rose but strangely, so did the Euro. Now Janet Yellen told us that things are OK States-side, albeit not as good as they thought back in December. The Dollar tanks. On the currency side, Mario didn’t get what he wanted, a weaker Euro, and Janet inadvertently hurt him further. The Euro has gained 4% against the Dollar for March alone! The Yen had a similar gain too. Somehow this doesn’t fit with rational thinking based on interest rate differentials- The US$ rates will be rising, the others will remain low and negative. This must be an interesting moment at which to buy the US currency against Euro, against Yen and against Swiss Francs!
This would also suggest bringing capital back into US equities, away from Europe and Japan. Commodities in general and oil in particular should benefit in US$ terms. An interesting composite of all this would suggest buying US based energy companies…
The fixed-income markets are telling us that they are not worried about any substantial rate rises in the near to medium term Your bonds are therefore reasonably secure and the lower-grade paper should continue to generate capital gains as credit spreads are likely to tighten further. This view should also reinforce appetite for equities.
In short, equities look ok now, the Dollar is deliciously cheap… volatility is very low again so risky assets gain in interest.
A weekend thought- Now that Google’s “DeepMind AlphaGo” won the impossibly difficult game of Go against the world champion, we may be at a turning point for Artificial Intelligence, will we be overtaken by our own creation?

Market Weekly Highlights:

- The Dollar has weakened over the past week; with the USD Index (DXY) trading now at 94.98, down from 97.06 in the middle of week. The US$ is now trading at about $1.1277 against the EUR and at 0.9685 against the Swiss Franc. The Pound is now at 1.4450 having been as low as 1. 4050 mid-week. We maintain our belief in the fundamental relative strength of the US$ - 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 had risen again, sending the USD down from 114.00 to trade now at 111.28. Gold is higher at $1,254.50. We note that WTI Oil has moved significantly higher again to $40.90, whilst Brent has moved up to $42.10/Bbl. Russian Ruble strengthened in line with oil price moves and is now at 67.50 per USD. The Brazilian Real has seen important swings during the week, opening at 3.60 to reach 3.85 and reverse back at 3.62. We do not see a significant rally in the Real given the serious political turmoil in the country and our outlook remains for continued weakness.

- The yield for the US 10Yr Treasury is marginally down for the week at 1.86%, having been as high as 1.99%. The German 10Yr Bund yield remained relatively steady at about 0.20%. While the Spanish 10Yr yield moved lower, dropping from 1.52% to 1.396%. The Italian 10Yr yield moved lower but at roughly the same pace from 1.37% to 1.247% as we write. In the UK, the Gilts' yields moved lower, trading from 1.55 to 1.40 during the week. The Swiss 10Yr yield is at a negative 0.317%!

- This week was generally positive for the US Equities and with more mixed results for European markets. The S&P500 was up 2.56% for the week through Thursday. The Dow Jones was up 2.86% and NASDAQ at +2.42% with all markets looking to open positive today. The DAX is trading at a positive 0.39% for the week, the UK FTSE trading +1.14% the CAC40 is now at a negative 0.93%, with the SMI at -1.78% and EuroStoxx50 at -0.97%. In Asia, the Nikkei has closed the week at -1.26%, whilst the Shanghai composite and the Hang Seng Index closed up 5.15% and up 2.34% respectively.

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

17/03/2016

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
				PRICE CHANGE IN % (unless indicated)								
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2040.59	0.66	2.56	5.61	6.40	1.75	4.22	-0.16	-2.81	31.47	16.61
DOW JONES INDUS. AVG	USD	17481.49	0.90	2.86	5.84	6.51	2.06	6.69	0.32	-3.29	20.96	15.99
NASDAQ COMPOSITE INDEX	USD	4774.985	0.23	2.42	4.76	6.41	-3.01	-1.08	-4.64	-4.17	47.49	17.75
RUSSELL 2000 INDEX	USD	1091.253	1.57	2.56	5.55	8.61	-2.66	-6.20	-3.93	-12.85	15.21	16.82
EURO STOXX 50	EUR	3043.1	-0.62	-1.40	2.89	4.69	-7.05	-4.00	-7.24	-17.38	12.03	13.57
EURO STOXX 600	EUR	340.68	-0.04	-0.62	1.85	3.41	-5.85	-4.13	-7.03	-14.68	14.59	15.28
CAC 40 INDEX	EUR	4442.89	-0.45	-1.38	1.77	4.50	-4.21	-2.32	-4.45	-11.97	15.82	14.36
DAX INDEX	EUR	9892.2	-0.91	0.15	3.69	4.03	-7.19	-0.71	-8.36	-17.42	22.90	12.40
FTSE 100 INDEX	GBP	6201.12	0.55	0.99	1.70	3.83	2.45	1.58	-0.67	-10.72	-3.99	16.55
SWISS MARKET INDEX	CHF	7861.79	-0.69	-1.86	0.07	-0.85	-8.82	-10.18	-10.99	-15.20	0.24	16.22
NIKKEI 225	JPY	16936.38	-0.22	-1.26	4.36	3.26	-11.91	-7.45	-12.13	-14.43	36.86	16.43
HANG SENG INDEX	HKD	20503.81	1.21	2.34	8.16	6.76	-4.98	-5.70	-5.67	-14.30	-6.39	10.94
SHANGHAI SE COMPOSITE	CNY	2904.832	1.20	5.15	9.94	3.22	-17.43	-4.61	-16.50	-17.39	31.93	12.23
S&P BSE SENSEX INDEX	INR	24677.37	0.06	0.03	7.49	4.55	-3.11	-5.70	-5.33	-13.61	28.16	17.44
RUSSIAN RTS INDEX $	USD	873.8	4.53	2.87	13.14	15.53	13.59	6.52	14.90	3.42	-41.79	6.14
BRAZIL IBOVESPA INDEX	BRL	50913.79	6.60	2.71	18.97	22.75	15.95	7.72	17.45	-1.19	-10.64	12.11
MSCI WORLD	USD	1643	1.34	1.03	6.19	6.45	0.57	0.75	-1.19	-6.33	14.82	16.03
MSCI WORLD HEDGED	USD	703.527	0.45	2.23	4.91	5.62	-1.92	-0.02	-2.22	-4.94	27.77	-
MSCI WORLD LOCAL	-	1242.461	0.40	2.15	4.71	5.31	-2.51	-1.06	-2.76	-6.91	20.55	-
MSCI AC WORLD	USD	396.18	1.53	1.13	6.60	6.74	0.85	0.54	-0.80	-7.19	10.34	15.51
MSCI EM	USD	816.9	3.27	2.00	10.34	9.47	3.44	-1.56	2.87	-14.62	-20.70	12.00
MSCI AC ASIA x JAPAN	USD	495.46	1.80	1.66	8.41	7.51	0.06	-1.93	-0.90	-14.37	-7.67	12.28
MSCI EM LATIN AMERICA	USD	2138.82	7.91	4.29	18.56	20.82	14.96	6.37	16.89	-11.52	-43.82	14.95
MSCI EM Eur, ME & Africa	USD	230.19	5.98	3.32	12.31	10.82	9.99	-4.94	9.50	-12.76	-32.45	10.71
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	190.38	2.64	2.86	11.17	10.93	9.23	1.63	6.75	-15.71	-24.18	26.17
MSCI MATERIALS	USD	193.51	3.13	2.38	10.01	10.22	7.63	2.08	4.79	-14.85	-17.53	19.26
MSCI INDUSTRIALS	USD	196.56	2.27	2.27	6.73	7.19	4.55	5.73	2.48	-4.51	16.32	16.56
MSCI CONS DISCRETIONARY	USD	189.85	0.94	1.62	5.68	7.07	-0.78	-0.42	-1.95	-4.05	31.85	15.88
MSCI CONS STAPLES	USD	215.51	1.41	1.15	4.57	4.08	5.29	8.90	3.41	5.54	22.66	21.30
MSCI HEALTH CARE	USD	191.02	-0.48	-2.82	0.26	0.07	-7.37	-9.51	-9.13	-12.13	35.10	15.55
MSCI FINANCIALS	USD	91.53	1.87	0.68	8.71	8.76	-4.10	-4.07	-5.66	-11.32	3.39	12.37
MSCI INFO TECH	USD	144.56	0.60	1.95	6.58	7.59	0.32	5.39	-1.24	-1.11	42.70	16.90
MSCI TELECOMS	USD	72.31	1.29	1.30	5.24	5.07	8.49	8.39	6.45	3.80	20.46	16.02
MSCI UTILITY	USD	119.06	1.81	1.98	5.86	4.66	8.57	8.31	6.62	2.20	14.87	15.61
MSCI WORLD REAL ESTATE	USD	196.58	2.16	2.89	8.86	10.59	4.93	7.06	3.56	-2.09	8.27	24.75
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1145.42	0.21	0.08	0.66	1.81	-2.41	-4.92	-2.44	-7.67	-3.44	
HFRX EQUAL WEIGHTED	USD	1151.05	0.17	0.12	0.48	1.31	-1.74	-3.65	-1.85	-4.90	-0.38	
HFRX GLOBAL EUR	EUR	1045.79	0.20	0.04	0.55	1.64	-2.80	-5.47	-2.74	-8.57	-5.11	

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				PRICE CHANGE IN % (unless indicated)								
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.2798	0.00	-0.04	-0.04	-0.01	0.11	0.30	0.12	0.25	-	
US 2 YEAR	USD	0.8475	-0.02	-0.11	0.07	0.15	-0.10	0.17	-0.20	0.30	-	
US 10 YEAR	USD	1.8626	-0.03	-0.12	0.13	0.12	-0.34	-0.27	-0.41	-0.06	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	493.43	0.28	0.61	0.27	1.08	2.66	3.37	2.71	2.48	11.38	1.46
US GOVERNMENT TR	USD	2144.32	0.20	0.49	-0.57	-0.58	1.96	1.86	2.36	1.78	6.02	1.46
US CORPORATE TR	USD	2637.1	0.34	1.00	1.44	2.11	2.30	1.81	2.62	-0.14	8.31	3.40
US HIGH YIELD TR	USD	1597.1	0.64	0.44	4.22	6.20	4.18	-1.68	3.13	-3.08	5.65	8.19
EU GOVERNMENT TR	EUR	249.1615	0.41	0.35	-0.12	0.69	2.18	3.50	2.66	0.47	19.32	0.44
EU CORPORATE TR	USD	250.43	0.17	0.98	0.98	1.92	2.18	3.28	2.19	0.82	12.86	1.17
EU HIGH YIELD TR	EUR	275.86	0.03	1.16	3.38	4.88	1.01	1.13	1.62	-0.20	17.36	4.91
BARCLAYS GLOBAL CONVERT.	USD	209.11	0.28	1.19	3.19	3.98	-1.27	-4.39	-1.76	-6.36	12.54	-
GLOBAL EM TR (HEDGED)	USD	335.1675	0.58	0.84	2.04	3.08	3.41	2.93	3.35	3.84	7.22	5.23
S&P/LSTA U.S. LEV LOAN	USD	88.64784	0.21	0.76	2.47	2.99	1.92	-4.19	1.07	-7.80	-9.69	6.17
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2210.784	2.17	2.92	9.61	10.79	3.92	-16.58	1.85	-23.61	-54.85	
GSCI ENERGY TR	USD	366.16	3.14	4.20	14.70	16.82	1.08	-27.30	-0.58	-34.32	-66.38	
GSCI INDUSTRIAL METALS TR	USD	1003.713	2.54	1.42	3.30	6.59	9.26	-4.99	5.13	-14.86	-33.08	
GSCI PRECIOUS METALS TR	USD	1545.851	3.12	-0.22	3.00	4.43	20.19	12.53	19.02	8.91	-24.94	
GSCI AGRICULTURE TR	USD	451.8341	0.21	1.43	4.79	2.64	-1.03	-0.68	0.39	-7.00	-38.62	
GENERIC 1ST 'CL' FUTURE	USD	40.2	-0.40	4.00	18.64	22.52	1.34	-23.35	-1.74	-29.17	-60.77	
GOLD SPOT $/OZ	USD	1257.94	0.08	0.66	1.63	2.28	18.08	10.53	18.61	7.83	-21.59	
CURRENCIES												
DOLLAR INDEX SPOT	USD	94.76	0.19	-1.28	-3.33	-2.07	-3.81	0.08	-3.74	-3.66	14.81	
Euro Spot	EUR	1.1318	-0.29	1.16	3.79	1.60	3.84	-0.12	3.89	3.88	-12.90	
Japanese Yen Spot	JPY	111.39	0.09	2.31	1.26	1.75	8.87	7.81	8.02	7.93	-14.45	
British Pound Spot	GBP	1.4482	-0.27	0.42	3.78	0.74	-3.03	-7.04	-1.99	-3.57	-4.40	
Swiss Franc Spot	CHF	0.9676	-0.09	1.44	3.09	2.53	2.45	0.05	3.47	1.02	-2.31	
Brazilian Real Spot	BRL	3.628	3.16	-0.05	10.69	9.98	6.90	7.43	9.17	-10.70	-45.34	
China Renminbi Spot	CNY	6.4773	0.05	0.32	1.21	0.68	0.11	-1.69	0.31	-3.78	-4.01	
Singapore Dollar Spot	SGD	1.3499	-0.51	1.22	3.67	3.41	4.21	3.16	4.55	1.47	-7.92	
Norwegian Krone Spot	NOK	8.3219	-0.28	0.82	4.17	2.95	4.79	-2.18	5.97	-2.13	-30.66	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	14.44	-3.67	-20.00	-29.73	-33.27	-30.24	-35.19	-20.70	3.36	8.08	
USD SWAP SPREAD SEMI 2YR		6.94	-	32.00	38.25	6.01	-44.48	-37.53	-36.11	-71.15	-49.70	
TED SPREAD		34.36	-	6.67	8.15	7.61	-2.05	-1.88	-23.64	53.53	72.66	

All data is compiled from Bloomberg

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