Bedrock Friday April 1st Newsletter

Easter holidays are over, Q1 2016 ended last night and today is April Fools' Day. Do read us with a grain of salt today… What did we learn in Q1? For one, don't panic and sell when markets fall inexplicably… You no doubt remember the fears of earlier this year? Well, after tumultuous trading in early 2016, two of the three major U.S. averages clawed back to finish the first quarter in the green.
At one point in the quarter, the major indexes plunged more than 11% from the start of the year. They rebounded though, and enjoyed particularly strong runs in March. The Dow Jones Industrial Average saw its biggest quarterly comeback since 1933. The S&P 500 and the Dow both rose for the second-straight quarter, finishing 0.8% and 1.5% higher. The S&P enjoyed gains of 6.6% in March, while the Dow climbed 7.1% for the month. The Nasdaq, meanwhile, had its first negative first quarter since 2009, falling 2.8%. But the index also recovered in March, rising 6.8%. Early volatility drove investors to gold, and the metal posted its best quarter in about 30 years. Gold prices rose 16.5% in the first quarter. It is amazing how the talk on the street adapts itself to the market realities. The doom and gloom of the impending global recession expected in the words of January and February have dissipated and even reversed tone. China is no longer collapsing, deflation isn't here, and no-one will be drowning in deep oil baths. Causality is debateable here - Is oil rising because the economies are growing again, or is the rise in oil driving the economies? Whatever… it is April First after all…

Here is a deeper view of the markets - 15 years ago, the dividend yield granted by the S&P 500 over the prior 12 months was 1.4%, with about 1.5% expected over the following 12 months. This as the 10-year Treasury yield sat at a touch below 5%. In the modern era; the 10-year Treasury yield has generally been higher than the S&P's dividend yield. The rationale is that stocks offered the possibility, if not the outright expectation, of capital appreciation, while bonds hold no such opportunity if held to maturity. On Monday, the 10-year yield was below 1.9%, while the S&P 500 dividend yield over the past 12 months has been 2.1%, with about 2.3% expected over the next year. This is mostly a story of the plunge in Treasury yields, which has come as dividend pay-outs have crept higher. Still, it is striking to see the S&P's dividend yield outpace Treasury rates. While this may be viewed as a sign to buy stocks, another possible conclusion is that investors have become highly pessimistic about how future stock market returns will compare to their long-term average. If you go back to the '20s, people used to consider stocks to be more risky, and therefore required a higher dividend yield than they did on bonds. In some small way, perhaps that logic is taking root once again.

Oh, and we did have a huge rebound in oil prices. Once upon a time, when oil prices hinted at a rise, markets fell as the common sense of those 'once upon a time' days was that oil price rises act like a tax increase, halting the economy. Stocks then fell. But not this time. Even if the current rally in oil is a so-called "Short Covering Rally", it has driven WTI prices from a low of $26.95 in February to a high of $42 just a couple of days ago (a 56% rise!). As we fill our tanks, do we ignore the price rise because it was driven by hedge funds' trading and not by a "real" economic reason? Not really… the price is up, so Exxon and its brethren in that business see their shares rise and we pay more. Is this a "new logic"? The talk on the street now points to further rises for oil in April. Under the "new logic" this should drive equities higher too! Or not? Well, we will soon be reading Q1 earnings… The S&P 500 companies are expected to see a decline of 6.9% in first-quarter earnings, according to Thomson Reuters. But some analysts are saying that they expect actual earnings to beat expectations… Is this a circular logic or a lack thereof? Officially expect low, but hint that the others are wrong… Statistics support optimism here, April is usually a positive month for stocks and the S&P 500 has been positive 70% of the time since 1945, ranking it as the second-best month after December, and in the past 10 years, April has been the top-performing month. The S&P has gained an average 1.41% in April going back to World War II.
Better yet, a non-statistical view from long-time stock market bull Tom Lee who said that he expects the S&P 500 to make a new all-time high by the end of May, on the back of improving fundamentals.
The bond markets keep grinding higher in price, eroding yields further. And the Fed-talk sounds dovish so rate rise expectations are attenuated, and the US Dollar falters… is this by Fed design? Weaken the currency and import inflation to reach the elusive 2% target rate? This clearly destroys the ECB's tactic of acquiring growth through the depreciation of the Euro which in the face of negative rates, is up 5% for the year against the Dollar. Currency wars are clearly on… unofficially of course. April's Fool… It will help US corporate earnings though… yes, expectation may well be beaten but for the wrong reasons… Oh yes, we hardly noticed that the scary Chinese Yuan is within 1% of its year-end rate. We would argue that the Fed will raise rates, maybe later, but will. Then the Dollar will rise again. Hold-on to your $$$ we say, but be ready for volatility to come visit. Tighten your FX seat belt, as you relax your equity VIX belt! Enjoy a spring weekend, post today's Non-Farm-Payroll data.

Market Weekly Highlights:

- The Dollar has weakened again over the past week; with the USD Index (DXY) trading at 94.60, down from 96.30 at the start of the week. The US$ is now trading at about $1.390 against the EUR and at 0.96 against the Swiss Franc. The Pound is now at 1.4350 having been as low as 1.4120 mid-week. We maintain our belief in the fundamental relative strength of the US$ - 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 has risen again, sending the USD down from 113.80 to trade at 112.00. Gold is higher at $1,233. We note that WTI Oil has moved significantly higher again to $38.00, whilst Brent has moved up to $40.00/Bbl. Russian Ruble strengthened in line with oil price moves and is now at 67.00 per USD. The Brazilian Real has rallied this week from 3.72 to 3.59. We do not see a significant rally in the Real and our outlook remains for continued weakness.

- The yield for the US 10Yr Treasury is significantly lower for the week at 1.79%, having been as high as 1.92%. The German 10Yr Bund yield remained relatively steady, but has now dropped to 0.15%. While the Spanish 10Yr yield moved lower, dropping from 1.52% to 1.44%. The Italian 10Yr yield moved lower but at roughly the same pace from 1.30% to 1.23% during the week. In the UK, the Gilts' yields resisted the move lower, with yields steady at 1.44%. The Swiss 10Yr yield is yet lower again at -0.33%.

- This week was generally positive for US equities but a mixed bag for European Equities. The S&P500 was up 1.17% for the week. The Dow Jones was up 0.97% and NASDAQ at +2.02% with all markets looking to open marginally down. The DAX is trading -0.2% for the week, the CAC40 is now -0.16%, with the SMI at -1.22%, the UK FTSE trading +0.24% and EuroStoxx50 at -0.77%. In Asia, the Nikkei has closed the week at -4.93%, whilst the Shanghai composite and the Hang Seng Index closed up 1.01% and down 0.56% respectively.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

31/03/2016

PRICE CHANGE IN % (unless indicated)

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2059.74	-0.20	1.13	0.00	4.11	0.77	7.07	0.77	0.00	31.85	16.86
DOW JONES INDUS. AVG	USD	17685.09	-0.18	1.04	0.00	4.86	1.49	8.68	1.49	-0.07	21.36	16.26
NASDAQ COMPOSITE INDEX	USD	4869.848	0.01	2.12	0.00	3.84	-2.75	5.25	-2.75	-0.21	50.34	18.16
RUSSELL 2000 INDEX	USD	1114.028	0.33	3.56	0.00	5.65	-1.92	1.50	-1.92	-11.00	18.67	17.20
EURO STOXX 50	EUR	3004.93	-1.29	-3.00	-1.79	-1.51	-9.68	-3.84	-9.68	-20.56	12.47	13.29
EURO STOXX 600	EUR	337.54	-1.05	-2.26	-1.52	-1.87	-9.13	-3.99	-9.13	-16.59	13.15	15.12
CAC 40 INDEX	EUR	4385.06	-1.34	-2.48	-1.61	-2.10	-6.96	-2.53	-6.96	-14.77	15.62	14.10
DAX INDEX	EUR	9965.51	-0.81	-2.25	-1.69	0.83	-8.80	3.03	-8.80	-18.36	25.68	12.41
FTSE 100 INDEX	GBP	6174.9	-0.42	-1.60	-1.21	-0.86	-2.28	0.46	-2.28	-10.42	-4.86	16.40
SWISS MARKET INDEX	CHF	7807.89	-0.47	-3.05	-1.97	-3.87	-13.20	-10.07	-13.20	-16.24	-2.05	15.86
NIKKEI 225	JPY	16758.67	-0.71	-4.93	-3.55	0.49	-15.08	-8.79	-15.08	-15.08	33.20	16.00
HANG SENG INDEX	HKD	20776.7	-0.13	-0.76	-1.53	5.42	-6.64	-1.86	-6.64	-18.43	-8.25	10.88
SHANGHAI SE COMPOSITE	CNY	3003.915	0.11	1.01	0.19	10.11	-14.97	-1.42	-14.97	-21.02	34.69	12.66
S&P BSE SENSEX INDEX	INR	25341.86	0.01	-0.65	-0.66	5.86	-3.77	-3.99	-3.61	-10.92	33.44	17.77
RUSSIAN RTS INDEX $	USD	876.2	0.73	1.17	-0.44	10.93	15.23	11.60	15.23	-4.18	-39.66	6.45
BRAZIL IBOVESPA INDEX	BRL	50055.27	-2.33	0.74	0.00	13.45	15.47	10.46	15.47	-4.33	-10.46	12.19
MSCI WORLD	USD	1648.12	-0.28	1.50	0.00	4.62	-0.88	3.79	-0.88	-5.18	15.41	16.10
MSCI WORLD HEDGED	USD	706.494	-0.32	1.06	5.35	5.35	-1.81	4.33	-1.81	-4.43	28.88	-
MSCI WORLD LOCAL	-	1245.959	-0.32	0.94	5.01	5.01	-2.49	3.20	-2.49	-6.41	21.60	-
MSCI AC WORLD	USD	398.26	-0.22	1.66	0.00	5.25	-0.28	3.92	-0.28	-6.19	11.10	15.60
MSCI EM	USD	836.8	0.34	3.01	0.00	11.14	5.37	4.91	5.37	-14.87	-18.85	12.30
MSCI AC ASIA x JAPAN	USD	507.58	0.26	2.32	0.00	9.52	1.53	4.41	1.53	-14.26	-6.43	12.56
MSCI EM LATIN AMERICA	USD	2168.49	-0.51	4.23	0.00	17.32	18.51	13.56	18.51	-13.94	-42.77	14.91
MSCI EM Eur, ME & Africa	USD	235.64	0.77	5.07	0.00	12.82	12.10	2.02	12.10	-15.36	-29.74	11.14
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	185.88	-0.34	0.98	0.00	6.86	4.23	2.06	4.23	-18.40	-25.78	26.44
MSCI MATERIALS	USD	191.76	-0.60	1.71	0.00	7.34	3.84	7.30	3.84	-15.12	-15.34	18.94
MSCI INDUSTRIALS	USD	197.41	-0.45	1.22	0.00	5.75	2.92	9.07	2.92	-2.24	18.59	16.64
MSCI CONS DISCRETIONARY	USD	191.38	-0.25	1.99	0.00	4.50	-1.16	2.95	-1.16	-2.15	33.07	15.98
MSCI CONS STAPLES	USD	216.85	-0.62	1.84	0.00	3.97	4.05	10.18	4.05	6.46	20.74	21.38
MSCI HEALTH CARE	USD	194.64	-0.13	0.92	0.00	0.52	-7.41	-1.81	-7.41	-8.92	33.82	15.82
MSCI FINANCIALS	USD	90.32	-0.14	1.32	0.00	4.73	-6.91	-3.97	-6.91	-12.47	3.74	12.25
MSCI INFO TECH	USD	147.36	-0.11	1.87	0.00	5.81	0.67	9.23	0.67	3.21	46.90	17.23
MSCI TELECOMS	USD	72.19	-0.73	1.39	0.00	3.81	6.27	12.97	6.27	4.04	18.77	15.94
MSCI UTILITY	USD	120.59	0.06	1.95	0.00	7.14	7.99	9.52	7.99	3.61	13.48	15.72
MSCI WORLD REAL ESTATE	USD	197.84	0.15	2.59	0.00	7.20	4.22	7.74	4.22	-1.91	8.05	25.03
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1152.35	0.17	0.28	1.26	1.26	-2.01	-2.45	-1.85	-7.44	-2.70	
HFRX EQUAL WEIGHTED	USD	1157.1	0.18	0.20	1.00	1.00	-1.44	-1.94	-1.34	-4.73	0.18	
HFRX GLOBAL EUR	EUR	1051.39	0.15	0.25	1.09	1.09	-2.38	-3.06	-2.22	-8.40	-4.46	

MARKET INDICES PERFORMANCE

31/03/2016

PRICE CHANGE IN % (unless indicated)

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.2034	0.01	-0.08	0.01	-0.12	0.04	0.23	0.04	0.19	-	
US 2 YEAR	USD	0.7521	0.03	-0.12	0.03	-0.09	-0.30	0.11	-0.30	0.22	-	
US 10 YEAR	USD	1.7967	0.03	-0.10	0.03	-0.03	-0.47	-0.24	-0.47	-0.06	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	496.16	0.08	0.36	0.82	0.82	3.28	3.38	3.28	2.44	11.46	1.39
US GOVERNMENT TR	USD	2160.14	0.24	0.63	0.24	0.69	3.12	2.10	3.12	2.05	6.34	1.39
US CORPORATE TR	USD	2671.78	0.34	0.76	0.34	3.20	3.97	3.35	3.97	0.46	9.24	3.21
US HIGH YIELD TR	USD	1600.51	0.25	0.34	0.25	3.53	3.35	1.43	3.35	-3.72	5.58	8.18
EU GOVERNMENT TR	EUR	250.5471	0.00	0.42	0.00	0.64	3.23	3.47	3.23	0.76	19.85	0.39
EU CORPORATE TR	USD	251.86	0.05	0.23	1.56	1.56	2.77	4.25	2.77	1.14	13.35	1.09
EU HIGH YIELD TR	EUR	276.87	0.03	0.16	3.76	3.76	2.00	3.46	2.00	-0.06	18.27	4.79
BARCLAYS GLOBAL CONVERT.	USD	210.02	0.08	0.72	3.64	3.64	-1.33	0.14	-1.33	-6.09	13.24	-
GLOBAL EM TR (HEDGED)	USD	338.1041	0.26	0.75	2.94	2.94	4.26	5.37	4.26	3.07	8.67	5.10
S&P/LSTA U.S. LEV LOAN	USD	89.04787	0.05	-0.15	0.00	2.87	1.53	-2.22	1.53	-7.46	-9.43	6.16
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2116.436	0.04	-1.36	4.93	4.93	-2.50	-18.71	-2.50	-28.67	-56.95	
GSCI ENERGY TR	USD	345.643	0.18	-2.01	8.27	8.27	-6.15	-29.52	-6.15	-39.81	-68.72	
GSCI INDUSTRIAL METALS TR	USD	973.097	0.35	-0.15	0.15	0.15	1.92	-4.76	1.92	-18.96	-33.22	
GSCI PRECIOUS METALS TR	USD	1506.741	0.68	1.07	0.40	0.40	16.00	10.21	16.00	2.70	-26.70	
GSCI AGRICULTURE TR	USD	445.8794	-0.91	-1.19	3.41	3.41	-0.94	-4.54	-0.94	-8.83	-37.27	
GENERIC 1ST 'CL' FUTURE	USD	38.34	-0.55	-3.37	-0.55	5.89	-9.99	-28.57	-9.99	-39.21	-64.18	
GOLD SPOT $/OZ	USD	1232.7	0.09	1.43	0.09	0.14	16.24	10.80	16.24	2.49	-22.86	
CURRENCIES												
DOLLAR INDEX SPOT	USD	94.58601	0.02	-1.60	0.02	-3.81	-4.08	-1.64	-4.08	-3.64	14.35	
Euro Spot	EUR	1.138	0.01	1.92	0.01	4.72	4.84	1.66	4.78	5.74	-11.43	
Japanese Yen Spot	JPY	112.57	0.29	0.75	0.29	1.58	7.40	6.85	7.11	6.70	-16.94	
British Pound Spot	GBP	1.436	-0.16	1.45	-0.16	2.76	-2.77	-5.25	-2.71	-3.28	-5.86	
Swiss Franc Spot	CHF	0.9618	0.07	1.72	0.07	3.78	4.19	1.68	4.27	0.61	-1.51	
Brazilian Real Spot	BRL	3.5922	0.31	2.41	0.00	11.80	10.26	9.89	10.26	-11.01	-	
China Renminbi Spot	CNY	6.4536	-0.17	0.79	-0.17	1.35	0.45	-1.67	0.45	-4.12	-3.97	
Singapore Dollar Spot	SGD	1.3484	-0.04	1.69	-0.04	3.83	4.69	6.06	5.16	1.06	-8.07	
Norwegian Krone Spot	NOK	8.2685	0.04	2.55	0.04	4.66	7.28	1.96	7.00	-2.81	-29.50	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	13.95	2.88	-6.63	0.00	-21.19	-23.39	-38.14	-23.39	-7.68	2.72	
USD SWAP SPREAD SEMI 2YR		11.94	-	-0.47	-10.39	143.74	-6.96	-16.73	-9.93	-57.94	-36.50	
TED SPREAD		43.03	-	23.37	35.44	35.44	-4.38	24.62	-4.38	71.78	103.36	

All data is compiled from Bloomberg

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