

Bedrock Friday September 2nd Newsletter

Summer vacations are over and we are into September. Markets' liquidity should rebuild now... What happened over the summer? In truth, hardly anything - broadly equities inched up and bonds inched down (in price) with an utterly stable US Dollar as commodities slipped back. The yield on the US 10 year Treasury which yielded 1.44% on July 1st is now at 1.594% The S&P 500 benchmark equity index entered the period at 2'102.95 and closed last night at 2'170.66 We went away for holidays with oil at \$48.99 per barrel to find it today at \$43.40 (down 11%), gold was \$1'341.35 and is now \$1'310 (down 2.3%). On the currency side, the US\$ index DXY was 95.65 and is now 95.76 Uneventful at most!

No one was surprised as Brazil's Senate ousted President Dilma Rousseff on Wednesday, ending an impeachment process that polarized Latin America's biggest country amid a massive corruption scandal and brutal economic crisis. Even the Brazilian currency didn't budge (now at 3.244 vs. US\$, exactly where it was July 1st).

Let's now take a look forward;

The relatively quiet markets of summer are about to get a wakeup call. As markets enter September the "tranquillity" can change- a month that will be big with central bank meetings and other events that could challenge expectations. "I think it's potentially a turning point for volatility. Volatility was very low over the course of the summer," said Jeff Kleintop, chief global investment strategist at Charles Schwab. It is also a time when markets could start to focus on the presidential election, and if Republican Donald Trump gains momentum, analysts expect volatility. Oil could also be a big story for September, with OPEC and non-OPEC members meeting in Algeria at the end of the month. September is a month that will put the course of central bank easing to the test with the Fed meeting Sept. 20 and 21, the same days the Bank of Japan meets. The BOJ is expected to unveil a review of its own extreme negative interest rate policies. The Fed is not expected to raise rates at that meeting, but market odds have been rising to as high as 40% that it could, after comments from Fed officials at their Jackson Hole, Wyoming symposium last week. JPMorgan economists changed their call on the ECB meeting. In the last several days, they said they no longer look for a deposit rate cut of 10 basis points or an official extension of quantitative easing beyond next March. They say they no longer see a rate cut "as the ECB is unlikely to feel enough pressure from the current growth data or from the currency." Before the central bank meetings, there is a G-20 leaders meeting in China on Sept. 4 and Sept. 5, the U.S. Labour Day holiday. That could be interesting for currency markets since the G-20 finance leaders are believed to have agreed not to engage in competitive devaluations.

The US Productivity, which measures hourly output per worker, dropped at a 0.6% annual rate instead of the 0.5% pace of decline reported last month. It was the third consecutive quarterly drop. This isn't supportive for profitability and may affect future earnings, and potentially amplified by interest rates rising and consequent Dollar rise. A point of concern!

We can't ignore the US Presidential elections- we are some 70 days away... Strategists say the market is more comfortable with the idea of Clinton since she is well known and it would retain the status quo in Washington, while Trump brings a high level of uncertainty. We think you'll see investors more sit on their hands and get a little worried if the race looks tighter. In five of the last 10 elections, the loser was ahead in the Gallup polls as late as the last week of October! And Trump is trailing Hillary... The U.S. stock market is pricing in gridlock, with a Democrat president and split Congress, meaning a Clinton win. We say that no matter which of the two disliked candidates wins, the said gridlock will happen, so we are most likely to face two more years of inaction of the fiscal side.

That gridlock keeps the Fed in play longer, as Washington would be unable to make much change in policy as is currently the case. Political stability even through inaction is what the market prefers...

That said, considering we're at all-time highs on bonds and stocks, it's probably not a bad time to have little bit of dry powder. This is not us calling for a change in trend. It's just us saying, be ready for the possibility for another opportunity like February, a 3 to 7% decline in some of the risk assets.

Marvin Goodfriend, who was an economist and policy advisor at the Federal Reserve's Bank of Richmond from 1993-2005, currently a professor of economics at Carnegie Mellon University, said this week that the Fed might need to cut interest rates to as low as negative 2% "In eight recessions since 1960, the Fed had to push the short rate 2.5% below the long term rate. Today, the 10-year rate in the U.S. is 1.5%," he noted, saying that would indicate that during the next recession, the Fed would need to cut rates as low as minus 1% at a minimum. "In five of those recessions, the Fed had to push the federal funds rate 3.5% below the 10-year bond rate". No, everything isn't quite "honkey dory" as say our American friends...

Well, in an hour or so we will see the "NFP" employment report for August. A notoriously unreliable month and yet, it likely will shape the markets perceptions for the Fed rate hike and move things about. Stay buckled and ponder Samuel Becket's quip "What do I know of man's destiny? I could tell you more about radishes". Apply this thought to the markets... ☺

Market Weekly Highlights:

- Dollar is slightly up this week with the USD Index (DXY) trading at round 95.6910 or +0.13% WTD, bringing the YTD performance to -2.98%. The USD is now trading at about \$1.1192 against the EUR and at 0.9802 against the Swiss Franc. The GBP is currently trading above the 1.30 level at 1.3275 against the USD, posting a 1.05% weekly gain supported by a stronger-than-expected UK manufacturing purchasing managers' index ("PMI"). The Yen weakened 1.67% over the week and is trading at 103.57 at the time we write. The Russian Ruble weakened almost 1.8% against the USD this week, at 65.75. The Brazilian Real is slightly down for the week to trade at around 3.25. Gold is lower this week at \$1'310.91 per ounce. Oil suffered from the latest weekly inventory statistics that were higher than expected. WTI is down 8.6% WTD to currently trade at \$43.55/barrel and the Brent is currently back below the \$46 mark at \$45.75 a barrel.
- Big swings in the Bond markets as well- Over the week, the US 10 year yield lost 4Bp to stabilize at the 1.59% mark. The yield on 10-year JGBs yield moved 2Bp higher to currently offer negative 0.05%. The German Bund continues to navigate negative territories at -0.08%. The Swiss 10 year bond yield increased more than 6Bp over the week, but it remains deeply negative, trading at -0.46%. The Italian 10Yr also moved higher by almost 6Bps, whilst the Spanish 10Yr yield jumped by 12.7Bps, trading at 1.19% and 1.07% respectively. In the UK, the 10Yr Gilts yields jumped also by more than 10 Bps to offer 0.67%.
- Most equity markets in Europe closed lower, while those in the US closed basically flat on Thursday on sluggish US manufacturing data that signalled a contraction for the first time in six months. Futures prices indicate a 34 percent chance of a hike this month, down from 42 percent at the end of last week. Over the week, Global Equity markets as measured by the MSCI World index closed slightly lower, losing 0.15%. European markets were among the worst performers with the DAX down -0.50%, the SMI down -0.31% and the CAC almost flat abandoning just -0.05%. Despite yesterday's disappointing PMI data, main US markets are up for the week, ahead of the non-farm payrolls numbers. The DOW is up 0.13%, the NASDAQ +0.16% and the S&P500 +0.08% for the week. Futures are pointing north with all eyes clearly focusing on the nonfarm payrolls data. In Asia, the Shanghai Composite was down 0.36% for the week while Hang Seng closed gained 1.8% and the Nikkei jumped +3.45%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

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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	2170.86	0.00	-0.07	0.00	0.64	3.12	9.28	8.21	11.39	32.94	17.81
DOW JONES INDUS. AVG	USD	18419.3	0.11	-0.16	0.10	0.58	3.26	8.99	5.71	12.65	24.37	17.39
NASDAQ COMPOSITE INDEX	USD	5227.206	0.27	0.29	0.27	1.74	5.15	11.14	-4.39	10.05	45.61	19.35
RUSSELL 2000 INDEX	USD	1238.804	0.00	-0.02	-0.01	3.12	5.91	16.34	9.15	8.18	22.64	17.99
EURO STOXX 50	EUR	3017.49	-0.19	0.35	-0.07	3.92	-0.43	-0.04	-7.55	-5.56	8.90	14.22
EURO STOXX 600	EUR	343.66	0.05	0.00	0.06	2.46	-0.18	0.81	-8.04	-2.87	13.46	16.14
CAC 40 INDEX	EUR	4439.67	0.03	0.18	0.26	2.81	-0.36	0.56	-4.04	-2.31	11.08	14.71
DAX INDEX	EUR	10534.31	-0.55	-0.61	-0.65	3.74	3.09	7.64	-2.04	4.73	27.65	13.65
FTSE 100 INDEX	GBP	6745.97	-0.50	-0.86	-0.34	1.70	9.26	9.94	8.26	11.09	3.87	17.47
SWISS MARKET INDEX	CHF	8142.64	-0.73	0.01	-0.40	1.97	-0.44	1.61	-7.36	-5.30	3.52	17.68
NIKKEI 225	JPY	16926.84	0.23	3.45	0.23	3.26	2.19	1.07	-11.08	-6.46	24.70	16.55
HANG SENG INDEX	HKD	23162.34	0.93	1.36	1.07	4.94	11.33	16.09	5.97	10.93	4.72	12.62
SHANGHAI SE COMPOSITE	CNY	3063.305	-0.72	-0.10	-0.59	3.23	4.86	7.64	-13.33	-2.94	46.17	14.07
S&P BSE SENSEX INDEX	INR	26423.48	-0.10	2.36	-0.05	1.64	5.95	17.31	8.89	11.73	50.58	17.79
RUSSIAN RTS INDEX \$	USD	944.96	-0.55	-2.64	-0.26	4.95	6.98	21.48	25.19	20.06	-26.64	7.14
BRAZIL IBOVESPA INDEX	BRL	58236.27	0.58	0.89	0.58	3.69	16.74	29.72	34.24	25.34	12.35	14.29
MSCI WORLD	USD	1723.55	0.24	-0.15	0.23	1.00	2.97	8.53	3.65	6.88	16.36	17.00
MSCI WORLD HEDGED	USD	748.937	0.02	0.22	0.02	0.64	3.47	9.63	4.09	9.94	30.99	-
MSCI WORLD LOCAL	-	1306.783	0.02	0.29	0.02	1.32	2.96	7.29	2.27	6.16	22.69	-
MSCI AC WORLD	USD	417.35	0.19	-0.26	0.18	1.07	3.69	9.27	-4.50	7.23	13.96	16.47
MSCI EM	USD	891.08	-0.26	-1.14	-0.29	1.63	10.10	15.86	12.21	11.85	-5.03	13.10
MSCI AC ASIA x JAPAN	USD	542.24	-0.14	-0.31	1.89	0.52	14.34	8.46	12.75	5.74	13.54	15.88
MSCI EM LATIN AMERICA	USD	2401.8	0.01	-0.93	0.00	2.29	16.44	26.43	31.26	20.31	-22.29	15.88
MSCI EM Eur, ME & Africa	USD	234.46	-0.40	-4.37	-0.40	-2.08	4.90	11.06	11.54	-0.26	-23.41	11.11
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	199.47	-0.23	-1.96	-0.25	2.50	2.27	12.37	11.85	5.23	-21.39	30.91
MSCI MATERIALS	USD	213.46	0.57	-1.00	0.51	1.90	8.03	18.11	15.59	12.76	-3.22	19.37
MSCI INDUSTRIALS	USD	208.45	0.26	-0.32	0.26	2.20	4.88	11.00	8.68	12.51	19.61	17.40
MSCI CONS DISCRETIONARY	USD	194.46	0.61	0.09	0.60	1.48	2.41	5.64	0.43	4.45	22.67	16.62
MSCI CONS STAPLES	USD	221.73	0.34	-0.48	0.33	-0.65	2.10	6.31	6.40	14.21	25.86	21.55
MSCI HEALTH CARE	USD	204.24	-0.26	-1.12	-0.26	-4.61	-0.77	4.95	-2.84	-1.65	32.85	16.61
MSCI FINANCIALS	USD	94.62	0.26	1.34	0.25	4.56	1.92	7.89	-2.47	-0.63	3.97	12.32
MSCI INFO TECH	USD	158.08	0.45	0.36	0.44	2.78	7.69	13.05	7.99	16.60	49.27	18.47
MSCI TELECOMS	USD	71.74	0.31	-0.88	0.31	-2.38	0.77	2.41	5.61	6.50	13.57	14.64
MSCI UTILITY	USD	118.51	-0.10	-0.77	-0.10	-4.61	-0.12	4.82	6.13	9.80	13.42	16.44
MSCI WORLD REAL ESTATE	USD	205.64	0.18	0.00	0.18	-2.29	4.54	10.25	8.33	15.09	21.22	23.79
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1183.17	-0.11	-0.12	0.16	0.16	1.81	3.97	0.78	-1.91	-0.26	-
HFRX EQUAL WEIGHTED	USD	1197.7	-0.07	-0.05	0.32	0.32	2.19	4.55	2.12	0.29	2.62	-
HFRX GLOBAL EUR	EUR	1073.38	0.04	-0.24	0.15	0.15	1.50	3.20	-0.17	-3.22	-2.46	-

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			1D	5D	MTD	1M	3M	6M	YTD		1Y	3Y
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	0.3247	0.00	1.02	-0.51	5.58	5.08	2.97	16.20	31.45	-	-
US 2 YEAR	USD	0.7937	1.21	-4.91	-1.16	11.49	-9.32	-4.75	-25.40	8.56	-	-
US 10 YEAR	USD	1.5921	2.40	-3.75	1.21	3.63	-20.68	-24.85	-67.73	-59.22	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	510.9357	-0.09	-0.04	-0.09	0.33	2.24	4.10	6.36	7.13	16.85	1.16
US GOVERNMENT TR	USD	2201.18	0.00	0.38	0.00	-0.11	1.85	2.63	5.08	5.02	11.19	1.16
US CORPORATE TR	USD	2812.47	-0.02	0.41	-0.02	0.90	3.75	8.46	9.45	9.63	18.93	2.81
US HIGH YIELD TR	USD	1770.02	-0.04	0.02	-0.04	2.28	5.86	13.78	14.30	9.07	17.03	6.29
EU GOVERNMENT TR	EUR	256.538	-0.19	-0.35	-0.19	-0.03	2.32	3.43	5.70	7.61	22.89	0.18
EU CORPORATE TR	USD	262.061	-0.01	0.04	-0.01	0.63	3.11	5.66	6.94	7.83	17.78	0.64
EU HIGH YIELD TR	EUR	292.2404	0.00	0.23	0.00	1.62	3.23	8.55	7.66	6.99	20.85	3.82
BARCLAYS GLOBAL CONVERT.	USD	219.81	0.10	0.03	0.10	0.70	2.57	7.47	3.27	2.01	13.18	-
GLOBAL EM TR (HEDGED)	USD	363.2121	-0.16	-0.04	-0.16	1.44	5.33	10.06	12.00	11.90	23.19	4.19
S&P/LSTA U.S. LEV LOAN	USD	92.48149	0.02	0.15	0.02	0.18	1.64	6.38	5.44	-0.16	-5.29	5.25
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2154.703	-1.82	-5.85	-1.82	2.01	-9.75	6.44	-0.73	-18.92	-57.04	-
GSCI ENERGY TR	USD	364.444	-3.35	-8.61	-3.35	6.11	-12.32	13.18	-1.04	-28.31	-69.70	-
GSCI INDUSTRIAL METALS TR	USD	1015.576	0.46	-0.14	0.46	-2.41	4.62	3.99	6.37	-1.10	-24.86	-
GSCI PRECIOUS METALS TR	USD	1620.046	0.53	-0.29	0.53	-3.71	9.00	8.35	24.73	16.13	-9.01	-
GSCI AGRICULTURE TR	USD	429.0606	1.19	-3.35	1.19	-2.90	-12.02	0.16	-4.67	-4.47	-34.66	-
GENERIC 1ST 'CL' FUTURE	USD	43.16	0.14	-9.28	-3.31	8.40	-15.82	6.32	-7.53	-27.73	-64.30	-
GOLD SPOT \$/OZ	USD	1313.92	-0.27	-0.82	0.11	-3.90	8.22	5.68	23.46	15.55	-5.81	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.65301	0.11	0.20	-0.27	0.73	0.21	-2.50	-2.91	-0.07	16.66	-
Euro Spot	EUR	1.1197	-0.11	-0.12	0.24	-0.35	0.30	2.92	2.97	-0.37	-15.21	-
Japanese Yen Spot	JPY	103.23	-0.44	-1.78	-0.25	-2.70	5.00	9.44	15.94	16.05	-4.20	-
British Pound Spot	GBP	1.3288	0.04	1.04	1.03	-0.63	-7.97	-5.72	-9.93	-13.24	-14.61	-
Swiss Franc Spot	CHF	0.9801	-0.03	-0.22	0.36	-1.65	1.02	1.67	2.21	-1.14	-4.69	-
Brazilian Real Spot	BRL	3.2573	-0.94	-0.70	-0.94	0.25	10.57	20.78	21.60	13.55	-26.76	-
China Renminbi Spot	CNY	6.675	-0.10	-0.18	-0.04	-0.82	-1.45	-1.96	-2.81	-4.88	-8.41	-
Singapore Dollar Spot	SGD	1.3596	-0.08	-0.11	0.12	-1.56	1.11	2.65	4.25	4.03	-6.37	-
Norwegian Krone Spot	NOK	8.335	-0.08	-0.86	-0.16	1.04	-0.07	3.87	6.01	-1.16	-27.08	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	13.48	0.45	-1.47	0.22	0.60	-1.32	-21.30	-26.14	-48.45	-20.93	-
USD SWAP SPREAD SEMI 2YR	USD	25.12	-	9.72	-1.02	-0.04	64.40	103.28	81.58	42.06	-	-
TED SPREAD	-	-	-	0.26	-0.70	3.17	30.32	66.99	13.56	71.25	113.63	-

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