

Bedrock Friday May 20th Newsletter

Good is bad and bad is good... Remember the days when rising oil prices were considered to be a tax on the economy and therefore caused equity prices to decline? And inversely, when oil prices declined, this was viewed as a tax cut and equities were bid up?

Well, since their February lows of \$26.95 per barrel of WTI, oil has risen to \$48.59, an 80% rise. In this interval, the S&P 500 index has risen from a low of 1'810 to 2'040 at yesterday's close; for a gain of about 12%. Have the rules of the game changed? Maybe, or should we interpret this differently - maybe the economy is stronger than we think, and despite the drag of energy prices (as per the old wisdom!) the market has gained enough to offset this drag and then some... Well, maybe this underlying strength is what is driving the newly emerging thought that the Federal Reserve will indeed, and at last, be raising interest rates imminently? Well, the US Dollar has risen significantly in the last few days against every other currency, giving credence to the "old market truths" that interest-rate differentials set FX rates... Earlier this month one Euro bought a Dollar and sixteen cents and now only a Dollar and twelve cents; nothing changed, other than the thought that maybe a rate rise in the US is a little less 'perhaps' and a little more 'possibly'... To drive this point harder, we look at Gold which had been roaring since the start of this year, peaking at \$1'303.59 per ounce on May 2nd, only to fall back about \$50/Oz since (still up 16% or so for the year!)... With US ten year Treasuries now yielding 1.85%, having started the month at 1.84%; coming from 2.27% in the first days of January!

So what has happened since the start of May? Arguably nothing except;

1. The Donald has become the only Republican in the running, so he is likely to be the GOP candidate, and Hillary looks steady in her lead chez les Democrats, and
2. The FOMC April minutes suggested that the Fed is closer to lifting rates than the street had been expecting, and
3. US Consumer Price Index ("CPI") rose 0.4% in April vs. 0.3% expected, so maybe reinforcing #2 above? Year-on-year the CPI increased by 1.1% but may be driven upwards with the recent rise in oil and commodities or slowed again by the rise in the US Dollar...
4. US leading indicators were up 0.6% in April, well ahead of the 0.4% expected.
5. Brexit referendum vote on June 23rd is now three weeks closer than it was!

Outside of our list above, U.S. bank Goldman Sachs, one of the most bearish forecasters on oil over the past year, on Monday raised its short-term price outlook as it said the market had flipped into a deficit due to production outages in Nigeria and Canada. Goldman, one of the most active banks in commodities, had been predicting as recently as a few months ago that oil prices could fall below \$20 due to global oversupply. They did say "could fall", not "will fall to"... Clearly, good language skills, with poor batteries in their crystal balls... On Monday, it said it now saw U.S. crude trading as high as \$50 in the second half of 2016; although it cautioned that price rises would be modest in 2017 as the market would return to surplus. Absolutely amazing outlook, the astounding ability of Goldman to state the blindingly obvious as WTI trades all by itself at \$49/Bbl...

Well, whilst we are not making Goldman Sachs a subject, they did say on Tuesday that they downgraded European and Japanese stocks and upgraded U.S. equities to neutral over the next 12 months. Stating they are not comfortable taking equity risk with few sustainable signs of a growth recovery and valuations near peak levels. But JPMorgan's Samantha Azzarello said she disagrees with Goldman's outlook. "There's less upside maybe going forward, but we do expect the market to grind higher, and we think there's more returns to be had. You just have to be increasingly selective," and Sameer Samana, global quantitative strategist for Wells Fargo, said he too still sees opportunity for growth in stocks. Whom should we listen to? Perhaps to Jim Paulsen who said "We're going to break through and head up to new highs," as he predicted the S&P 500 to reach a new high of 2'200. "Climbing a wall of worry is back and is likely to push us up into new highs and generate a little optimistic excitement again." We like his rational optimism. We find support for this optimism in China, which may be in the middle of a growth slowdown, but its investors will find a way to keep pumping money into the United States over the next decade, according to a new report.

In fact, the deceleration of China's economy may be one of the primary factors driving up investment in countries like the U.S., according to the study from the Asia Society and Rosen Consulting Group. Released on Monday, the report projected that Chinese direct investment "across existing U.S. commercial real estate assets and residential purchases" could hit at least \$218 billion from 2016 through 2020 — and that's excluding new development projects. And we say that at the end of the day, what sets prices is the flow of capital... But we are cautious in our optimism, never losing sight of the fact that the place where optimism most flourishes is the lunatic asylum. ☺

Market Weekly Highlights:

- The Dollar has managed to recoup nearly all of the last few weeks' losses with the USD Index (DXY) trading at 95.25 or up 0.7% for the week. The US\$ is now trading at about \$1.1220 against the EUR and at 0.99 against the Swiss Franc. The Pound is higher on the week at 1.4565; in fact this seems to be the only pair that has not weakened against the USD. The Japanese Yen has weakened significantly to 110.30. 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. We note that WTI Oil has rallied again to \$48.30; whilst Brent moved to trade at \$48.80/Bbl. The Russian Ruble which had strengthened in line with oil price moves reversed the trend this week and is now at 66.60 per USD, having been as low as 64.50. The Brazilian Real had remained steady at 3.50 only to retreat a little yesterday and peaking at 3.62 for the USD. We do not see a further significant rally in the Real.
- The yield for the US 10Yr Treasury is higher for the week at 1.85% as the street may be coming closer to a possible June rate rise from the Fed. The German 10Yr Bund yield is up for the week from 0.12% to 0.18%. Whilst the Spanish 10Yr yield is at 1.57%. The Italian 10Yr yield has oscillated for the week around 1.47%. In the UK, the Gilts' yields have moved higher on the week from 1.37% to 1.47% as we write. The Swiss 10Yr yield has also dropped marginally to -0.29%.
- This week was generally flat to negative for equities, both European and US. The S&P500 was down 0.32% for the week. The Dow Jones dropped 0.57% and NASDAQ at -0.11% with all markets looking to open up about 0.25%. The DAX is trading 0.08% for the week, the CAC40 is now +0.28%, with the SMI at +1.22%, the UK FTSE trading at -0.15% and EuroStoxx50 at -0.17% as we write. In Asia, the Nikkei has closed the week at +1.97%, whilst the Shanghai Composite and the Hang Seng Index closed down 0.06% and up 0.67% respectively.

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Highlighted items are interesting data points for the week

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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	2040.04	-0.37	-1.17	-1.22	-2.97	6.38	-2.35	-0.19	-4.04	22.43	16.72
DOW JONES INDUS. AVG	USD	17435.4	-0.52	-1.61	-1.90	-3.65	6.37	-2.18	0.06	-4.65	13.69	16.25
NASDAQ COMPOSITE INDEX	USD	4712.533	-0.56	-0.52	-1.32	-4.76	4.62	-7.69	-5.89	-7.08	34.78	17.74
RUSSELL 2000 INDEX	USD	1094.778	-0.74	-1.25	-3.19	-4.16	8.39	-6.84	-3.62	-12.96	9.70	16.90
EURO STOXX 50	EUR	2919.22	-1.22	-0.20	-2.56	-6.10	2.77	-14.53	-9.70	-19.89	4.47	13.58
EURO STOXX 600	EUR	333.91	-1.01	0.60	-1.41	-4.01	3.16	-11.82	-7.96	-17.16	8.69	15.40
CAC 40 INDEX	EUR	4282.54	-0.85	0.21	-2.25	-5.72	2.51	-11.85	-6.64	-15.67	7.61	14.41
DAX INDEX	EUR	9795.89	-1.48	0.09	-1.67	-5.28	5.14	-11.23	-8.12	-16.69	16.73	12.39
FTSE 100 INDEX	GBP	6053.35	-1.55	-0.24	-1.89	-4.47	2.92	-3.33	-1.90	-12.61	-9.35	16.48
SWISS MARKET INDEX	CHF	7908.79	-0.68	0.66	-0.09	-2.85	1.15	-11.78	-9.80	-14.66	-3.95	16.57
NIKKEI 225	JPY	16646.66	0.01	1.97	0.42	-1.01	4.82	-15.81	-12.07	-17.13	8.95	16.14
HANG SENG INDEX	HKD	19694.33	-0.51	0.80	-5.65	-6.40	3.07	-12.65	-9.30	-27.94	-15.39	10.76
SHANGHAI SE COMPOSITE	CNY	2806.906	-0.01	-0.06	-3.84	-4.95	-1.21	-22.17	-20.17	-36.45	22.85	12.55
S&P BSE SENSEX INDEX	INR	25399.72	-1.19	-0.08	-0.54	-1.45	7.42	1.54	-2.48	-8.51	25.94	16.22
RUSSIAN RTS INDEX \$	USD	885.42	-4.47	-2.34	-5.34	-4.54	24.01	1.34	18.92	-12.76	-36.47	6.76
BRAZIL IBOVESPA INDEX	BRL	50132.53	-0.85	-5.84	-7.01	-6.52	20.68	4.14	15.65	-8.69	-10.00	12.70
MSCI WORLD	USD	1627.61	-0.80	-0.51	-2.58	-3.98	5.81	-4.42	-2.12	-9.78	7.19	15.93
MSCI WORLD HEDGED	USD	703.561	-0.54	-0.72	-1.27	-2.85	6.02	-4.24	-2.22	-7.47	19.66	-
MSCI WORLD LOCAL	-	1234.453	-0.58	-0.31	-1.57	-3.40	5.06	-5.78	-3.39	-9.54	12.51	-
MSCI AC WORLD	USD	391.13	-0.87	-0.64	-3.03	-4.38	5.79	-4.70	-2.06	-11.38	3.17	15.36
MSCI EM	USD	781.84	-1.55	-1.79	-6.94	-7.96	5.51	-7.31	-1.55	-24.54	-25.41	11.53
MSCI AC ASIA x JAPAN	USD	474.38	-1.15	-0.93	-5.58	-7.35	3.11	-7.96	-5.11	-24.01	-15.81	11.69
MSCI EM LATIN AMERICA	USD	2060.31	-2.39	-6.88	-10.11	-8.26	17.60	-0.64	12.60	-22.22	-44.46	14.44
MSCI EM Eur, ME & Africa	USD	217.95	-2.32	-3.05	-10.51	-10.98	7.65	-9.33	3.68	-26.07	-34.62	10.56
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	192.98	-0.90	0.13	-4.27	-2.78	13.50	-1.22	8.21	-18.57	-25.46	26.68
MSCI MATERIALS	USD	194.91	-1.05	-0.64	-5.91	-5.79	12.08	0.41	5.55	-17.60	-14.36	18.47
MSCI INDUSTRIALS	USD	194.95	-1.08	-0.53	-3.04	-3.60	6.73	-1.66	1.64	-6.57	10.15	16.17
MSCI CONS DISCRETIONARY	USD	184.51	-0.50	-1.11	-3.31	-4.42	4.22	-7.17	-4.71	-8.87	16.10	15.30
MSCI CONS STAPLES	USD	213.41	-0.22	-1.70	-0.90	-2.29	3.13	2.98	2.40	2.24	15.06	21.02
MSCI HEALTH CARE	USD	196.63	-1.17	-0.61	-2.18	-4.21	3.29	-5.77	-6.46	-11.61	28.04	15.91
MSCI FINANCIALS	USD	90.23	-0.96	0.48	-3.16	-4.22	7.74	-9.51	-7.00	-15.78	-4.81	12.51
MSCI INFO TECH	USD	140.43	-0.65	0.30	-0.43	-5.10	4.44	-6.83	-4.06	-5.97	30.77	16.73
MSCI TELECOMS	USD	70.25	-1.15	-1.94	-2.15	-3.44	3.14	2.38	3.42	-2.97	8.28	15.17
MSCI UTILITY	USD	116.7	-0.19	-2.40	-2.79	-2.18	3.10	4.09	4.50	-2.60	3.44	16.03
MSCI WORLD REAL ESTATE	USD	192.42	-1.14	-2.03	-2.38	-2.99	7.73	0.60	1.36	-4.29	-2.51	22.78
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1152.28	-0.13	-0.18	-0.39	-0.20	1.97	-3.26	-1.86	-7.66	-4.64	-
HFRX EQUAL WEIGHTED	USD	1164.44	-0.07	-0.12	0.02	0.37	2.17	-1.92	-0.71	-4.47	-1.16	-
HFRX GLOBAL EUR	EUR	1049	-0.14	-0.21	-0.47	-0.33	1.54	-3.96	-2.44	-8.69	-6.54	-

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.3001	0.00	0.04	0.09	0.08	0.01	0.20	0.14	0.28	-	-
US 2 YEAR	USD	0.8804	-0.17	0.13	0.10	0.09	0.14	-0.04	-0.17	0.30	-	-
US 10 YEAR	USD	1.8454	0.00	0.15	0.01	0.00	0.10	-0.42	-0.42	-0.40	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	497.6864	0.05	-0.39	0.14	0.01	1.60	3.49	3.60	4.33	11.44	1.41
US GOVERNMENT TR	USD	2155.7	0.24	-0.69	-0.11	0.09	-0.08	2.93	2.91	3.61	6.31	1.41
US CORPORATE TR	USD	2695.91	0.27	-0.83	-0.46	0.23	4.30	4.35	4.91	4.16	9.60	3.18
US HIGH YIELD TR	USD	1653.69	-0.41	-0.08	-0.57	0.23	10.24	4.13	6.79	-1.68	6.58	7.56
EU GOVERNMENT TR	EUR	249.4131	-0.01	-0.15	0.58	-0.18	0.75	1.87	2.76	3.58	16.80	0.44
EU CORPORATE TR	USD	252.9509	-0.05	-0.16	0.08	-0.06	2.59	2.63	3.22	2.68	11.88	1.08
EU HIGH YIELD TR	EUR	280.7548	-0.08	-	-0.56	-0.24	6.24	1.27	3.43	1.12	15.97	4.52
BARCLAYS GLOBAL CONVERT.	USD	210.12	-0.27	0.28	-0.84	-1.24	4.74	-3.00	-1.28	-7.89	8.32	-
GLOBAL EM TR (HEDGED)	USD	342.9554	-0.32	-	-0.28	-0.08	5.16	3.92	5.76	3.02	8.26	4.92
S&P/LSTA U.S. LEV LOAN	USD	90.71165	0.01	-0.02	-0.11	0.76	5.38	1.39	3.42	-5.99	-8.22	5.78
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2356.855	-0.82	1.12	1.11	6.07	20.80	-1.17	8.58	-26.74	-50.26	-
GSCI ENERGY TR	USD	411.002	-0.40	2.41	3.28	11.20	36.90	-5.87	11.60	-36.88	-61.46	-
GSCI INDUSTRIAL METALS TR	USD	956.378	-0.73	-0.49	-8.29	-5.32	-0.25	2.99	0.17	-22.19	-31.41	-
GSCI PRECIOUS METALS TR	USD	1538.63	-1.77	-1.50	-3.25	-0.26	2.47	16.33	18.46	2.76	-11.53	-
GSCI AGRICULTURE TR	USD	471.7691	-1.76	-0.45	-0.73	0.41	8.25	3.12	4.82	-2.66	-32.65	-
GENERIC 1ST 'CL' FUTURE	USD	48.16	0.87	5.13	5.79	9.96	39.96	-2.53	10.64	-31.65	-54.69	-
GOLD SPOT \$/OZ	USD	1254.7	-0.01	-1.46	-2.97	0.82	2.30	16.39	18.19	3.70	-9.99	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.287	-0.05	0.67	2.32	0.79	-1.41	-4.34	-3.44	-0.22	13.74	-
Euro Spot	EUR	1.1203	0.17	-0.77	-2.00	-0.66	1.74	5.41	3.31	1.15	-12.89	-
Japanese Yen Spot	JPY	109.96	-0.23	-1.43	-3.37	-0.34	2.46	11.43	9.08	10.11	-7.20	-
British Pound Spot	GBP	1.4611	-0.27	1.43	-0.28	1.67	2.98	-4.08	-1.12	-6.21	-4.48	-
Swiss Franc Spot	CHF	0.9907	0.01	-1.52	-3.10	-1.86	0.92	2.79	1.16	-5.39	-2.35	-
Brazilian Real Spot	BRL	3.5645	0.03	-2.29	-3.61	-0.91	12.83	4.30	11.12	-14.77	-42.90	-
China Renminbi Spot	CNY	6.5495	0.12	-0.15	-0.97	-1.12	-0.30	-2.40	-0.73	-5.17	-6.15	-
Singapore Dollar Spot	SGD	1.381	0.17	-0.47	-2.50	-2.49	1.52	2.46	2.89	-3.02	-9.04	-
Norwegian Krone Spot	NOK	8.3646	0.51	-1.44	-3.26	-2.45	3.36	3.83	6.26	-9.03	-29.90	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDEX	USD	16.33	2.38	8.58	4.01	22.97	-20.46	5.56	-10.32	26.79	25.42	-
USD SWAP SPREAD SEMI 2YR	USD	13.35	-	-1.35	-3.24	-6.42	135.13	237.28	10.44	-48.93	-10.44	-
TED SPREAD	USD	35.38	-	-2.16	-17.36	-17.03	7.77	23.66	-21.38	30.60	45.48	-

All data is compiled from Bloomberg

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