Bedrock Friday June 3rd Newsletter

On our side of the world it is hardly believable that we are in summer. Global warming or whatever, we are wet and cool. The new "normal" perhaps…

Weather aside, the key is *whether* the Fed will do something and what if they do. But maybe we are all too focussed on the details of the inevitable? We are all glued to various mumblings and rants emanating from various Fed members and tremble when these appear 'hawkish' and rejoice when they sound 'dovish'. We now feel that this is the classic "Boy who cried Wolf" effect - so much talk that we no longer listen. Charles Evans, the Chicago Federal Reserve President said yesterday "Two rate hikes in 2016, that's my own call for that, if the data continue to be in line with my outlook, that's a slow and gradual increase this year", then added "Timing's not really that critical for my viewpoint, as long as by the end of this year we're at just a little under 1 percent". We like this pragmatism, and in truth, he is absolutely right - if the Fed will move its range for rates from 0.25%-0.50% to say 0.50%-1.00%, what will happen? With US corporates flush with cash, cost of borrowing is hardly important. Mortgage rates? Well, these are linked to the long-end of the curve which may actually fall as the short-end rises, and if we are wrong here and they rise too, well, the US housing market seems to be strong, some saying overheated even!

U.S. home price appreciation remained strong in March, meeting consensus estimates and matching the previous month's year-over-year gains. The S&P/Case-Shiller 20-City Composite Home Price Index rose by 5.4% in March from the same month last year, in line with expectations. "The economy is supporting the price increases with improving labour markets, falling unemployment rates and extremely low mortgage rates," David M. Blitzer, managing director and chairman of the Index Committee at S&P Dow Jones Indices, said in a statement. Evans makes sense, quite unusual coming from an official… Further support for the arrival of the said inevitability of rates rising came on Tuesday with data showing that U.S. consumer spending recorded its biggest increase in more than six years in April as households stepped up purchases of automobiles, suggesting acceleration in economic growth. Last month's increase was the largest since August 2009 and beat economists' expectations for a 0.7% rise. The personal consumption expenditures (PCE) price index, excluding the volatile food and energy components, rose 0.2% after edging up 0.1%in March. That left the increase in the year-on-year core PCE rate at 1.6%. The core PCE is the Fed's preferred inflation measure and is running below its 2% target.

So other than the markets' fears of the rate hike, the economy seems to be doing just fine, thank you!

We are not alone in this optimism - Stocks have had a nice few months, but a sign from the bond market suggests that the market's gains are set to accelerate, according to strategist Tom Lee of Fundstrat Global Advisors. "Credit has made a big enough move, and it's telling us that over the next eight to 12 months, the stock market will have a big catch-up trade, which will be more than double digits" in terms of percentage gain. He points out that since 1985 high-yield bonds have posted double-digit gains in 15 separate years. In 14 of those 15 years, the S&P 500 has risen more than 10%; in the remaining year, 1992, stocks rose 8%. "Stocks tend to follow credit, and high-yield is telling us that it's an important time to own equities," the often bullish Lee said Thursday, adding in a Friday note that the catch-up trade should drive the S&P 500 "to reach 2300-plus by year-end."

Sam Stovall, U.S. equity strategist at S&P Global is waiting for the S&P to break through its previous highs "History is a great guide, it's never gospel. But I think what it does imply is that we can expect higher prices should we get back to breakeven," and then he expects a major rally from these levels. He too is unconcerned about the Fed actions, saying "the boxer is rarely felled by the punch he expects"… So there, that isn't the true concern here ☺

Where can we look for trouble? Maybe in the oil-patch? For the first time since October, last week Brent and WTI crude futures reached $50 a barrel. But in spite of the shift upwards, analysts still disagree over where the price of "black gold" is heading. Last week, Jason Gammel, an energy analyst at Jefferies, told CNBC the stage was set for a "fundamental price recovery" in the crude market. Amrita Sen, co-founder and chief oil analyst of Energy Aspects, also forecast further price gains. As for this week's meeting of the oil-producing cartel OPEC in Vienna, analysts who concurred that nothing concrete was likely to come out of it were right. And our black gold continued to trade around the $50 mark for both WTI and Brent.

So where are the big black clouds? We look around and the news has lightened-up on the bad stuff. We see and hear less about refugees, less talk of war; it is as though the newsmakers have tired of these nasty, depressing subjects which clearly have not gone away. Are we having an ostrich moment? Let's not forget that when the said bird raises its head from the sand, its eyes do scratch…

Our "sand" might be found in the US Presidential elections - Now that Paul Ryan has endorsed The Donald, the prospects of his election have increased. Not that we have a view on Hillary's relative value… When we think of Trump we remember Churchill's quip "Tact is the ability to tell someone to go to hell in such a way that they look forward to the trip"…

Market Weekly Highlights:

- The Dollar remained unchanged on the week, with the USD Index (DXY) oscillating around 95.50. The US$ is now trading at about $1.1160 against the EUR and at 0.99 against the Swiss Franc. The Pound is much lower on the week at 1.4410 on survey data surrounding votes for Brexit. The Japanese Yen has regained a little ground and is now 108.90. We maintain our belief in the fundamental relative strength of the US$ - 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 had rallied again to above $50, and dropping a little now on USD strength to trade at $49.25; whilst Brent no longer trades at a discount to WTI, currently pricing at $50.10/Bbl. The Russian Ruble has weakened a little and is at 66.94 per USD. The Brazilian Real had remained steady at 3.60. We do not see a further significant rally in the Real.

- The yield for the US 10Yr Treasury is marginally lower for the week at 1.80%. The German 10Yr Bund yield is down for the week to 0.10%. Whilst the Spanish 10Yr yield is unchanged at 1.48%. The Italian 10Yr yield has remained steady for the week at around 1.36%. In the UK, the Gilts' yields moved significantly lower on the week from 1.48% to 1.33%. The Swiss 10Yr yield has also dropped to -0.40%.

- This week was very mixed for equities globally. The S&P500 was up 0.30% for the shortened week. The Dow Jones slipped by 0.19% and NASDAQ at +0.77% with all markets looking to open completely flat. The DAX is trading -0.36% for the week, the CAC40 is now -0.67%, with the SMI at -0.91%, the UK FTSE trading at -0.35% and EuroStoxx50 at -1.06% as we write. In Asia, the Nikkei has closed the week at -1.14%, whilst the Shanghai Composite and the Hang Seng Index closed up 4.17% and up 1.8% respectively.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE — 02/06/2016

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	2105.26	0.29	0.70	0.40	2.03	5.61	2.71	3.00	-0.42	28.34	17.23
DOW JONES INDUS. AVG	USD	17838.56	0.32	-0.07	0.29	0.49	5.28	2.06	2.37	-1.32	16.94	16.59
NASDAQ COMPOSITE INDEX	USD	4971.363	0.39	1.56	0.47	4.37	5.61	-1.31	-0.72	-2.51	43.46	18.68
RUSSELL 2000 INDEX	USD	1170.584	0.65	2.59	1.37	4.35	8.79	0.00	3.05	-7.43	18.18	18.00
EURO STOXX 50	EUR	3033.86	-0.03	-1.17	-0.68	2.30	0.99	-9.00	-6.88	-15.10	10.73	14.04
EURO STOXX 600	EUR	344.35	0.14	-1.19	-0.56	2.96	1.79	-7.15	-5.55	-12.74	15.71	15.78
CAC 40 INDEX	EUR	4466	0.05	-0.83	-0.63	2.40	1.38	-5.35	-3.45	-11.07	14.19	14.95
DAX INDEX	EUR	10208	0.03	-0.54	-0.31	3.06	4.91	-5.18	-4.77	-10.41	23.47	12.80
FTSE 100 INDEX	GBP	6185.61	-0.02	-0.62	-0.07	0.66	1.57	-0.77	-0.25	-10.41	-4.57	16.69
SWISS MARKET INDEX	CHF	8205.82	0.25	-0.95	-0.04	4.62	3.30	-7.22	-6.86	-11.24	5.56	17.24
NIKKEI 225	JPY	16562.55	-2.32	-1.14	-3.44	3.06	-1.87	-16.54	-12.56	-18.71	25.49	16.30
HANG SENG INDEX	HKD	20859.22	0.58	1.68	0.52	1.19	4.92	-6.67	-4.53	-24.35	-6.10	11.12
SHANGHAI SE COMPOSITE	CNY	2925.229	0.41	4.17	0.76	-1.80	2.76	-18.02	-16.97	-40.15	27.81	13.09
S&P BSE SENSEX INDEX	INR	26843.14	0.48	0.96	0.90	6.65	9.35	3.95	3.03	0.26	37.21	17.25
RUSSIAN RTS INDEX $	USD	885.93	-0.52	-2.69	-1.27	-6.13	11.80	7.97	17.94	-5.75	-32.31	6.81
BRAZIL IBOVESPA INDEX	BRL	49887.24	1.78	0.82	2.92	-4.54	5.71	7.53	15.08	-6.79	-7.52	12.54
MSCI WORLD	USD	1673.77	0.08	-0.14	-0.05	0.91	4.72	-0.27	0.66	-6.49	13.65	16.47
MSCI WORLD HEDGED	USD	723.94	0.02	0.24	-0.19	1.41	5.15	-1.70	0.61	-4.17	26.71	-
MSCI WORLD LOCAL	-	1269.244	0.00	-0.19	-0.21	1.95	3.84	-1.54	-0.66	-6.47	19.83	-
MSCI AC WORLD	USD	402.49	0.10	-0.11	-0.02	0.68	4.63	-0.36	0.78	-7.78	9.69	15.91
MSCI EM	USD	809.34	0.29	0.13	0.23	-1.43	3.74	-1.21	1.91	-18.73	-18.95	12.20
MSCI AC ASIA x JAPAN	USD	495.11	0.34	0.53	0.16	-0.08	3.37	-2.64	-0.97	-18.65	-8.21	12.48
MSCI EM LATIN AMERICA	USD	2062.7	0.89	-0.64	1.20	-5.74	5.14	5.01	12.73	-18.72	-40.77	14.61
MSCI EM Eur, ME & Africa	USD	223.51	-0.26	-1.22	-0.18	-4.13	3.80	0.12	6.33	-18.30	-28.58	10.98
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	195.05	-0.18	-1.09	-0.40	-0.68	8.12	2.33	9.37	-16.01	-23.04	26.83
MSCI MATERIALS	USD	197.59	-0.02	-0.60	-0.31	-2.47	7.71	4.31	7.00	-15.80	-12.08	18.76
MSCI INDUSTRIALS	USD	198.75	-0.17	-0.26	-0.31	-0.22	4.69	2.17	3.62	-4.40	15.34	16.60
MSCI CONS DISCRETIONARY	USD	189.88	0.26	0.20	0.03	-0.07	2.45	-3.50	-1.93	-5.82	23.51	15.89
MSCI CONS STAPLES	USD	217.18	0.03	0.00	0.36	0.44	3.69	5.35	4.21	6.01	21.41	21.37
MSCI HEALTH CARE	USD	205.83	0.94	1.31	1.24	2.48	6.39	0.31	-2.08	-7.05	36.68	16.73
MSCI FINANCIALS	USD	92.84	-0.16	-0.82	-0.45	0.90	4.58	-5.68	-4.31	-12.63	2.10	12.94
MSCI INFO TECH	USD	146.79	-0.13	-0.05	-0.34	4.62	4.91	-1.44	0.28	-1.67	38.61	17.56
MSCI TELECOMS	USD	71.19	0.08	-0.71	-0.68	-0.82	1.12	5.39	4.80	-1.15	17.30	15.42
MSCI UTILITY	USD	118.65	-0.12	-0.27	-0.51	-1.16	4.16	8.61	6.25	0.97	11.59	16.44
MSCI WORLD REAL ESTATE	USD	196.7	0.04	-0.09	-0.11	-0.42	4.69	4.79	3.62	0.85	9.89	23.44
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1162.89	0.07	0.29	0.07	0.53	1.81	-2.49	-0.95	-7.14	-3.14	
HFRX EQUAL WEIGHTED	USD	1172.91	0.08	0.28	0.08	0.75	2.16	-1.08	0.01	-3.98	-0.25	
HFRX GLOBAL EUR	EUR	1057.94	0.03	0.23	0.03	0.38	1.38	-3.21	-1.61	-8.18	-5.10	

MARKET INDICES PERFORMANCE — 02/06/2016

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.2739	0.00	-0.04	-0.01	0.08	0.00	0.07	0.11	0.26	-	
US 2 YEAR	USD	0.8869	0.00	-0.02	0.01	0.13	0.04	-0.06	-0.16	0.21	-	
US 10 YEAR	USD	1.8025	0.00	-0.05	-0.04	0.01	-0.03	-0.51	-0.47	-0.56	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	499.7618	0.12	0.15	0.13	0.30	1.71	4.24	4.03	5.46	12.60	1.37
US GOVERNMENT TR	USD	2161.21	0.20	0.12	0.15	0.05	0.62	3.45	3.17	4.31	7.23	1.37
US CORPORATE TR	USD	2710.75	0.24	0.18	0.17	0.04	4.25	5.31	5.49	5.57	11.52	3.14
US HIGH YIELD TR	USD	1672	0.12	0.06	-0.09	0.88	7.14	5.25	7.97	-0.63	9.42	7.34
EU GOVERNMENT TR	EUR	250.7191	0.10	0.12	0.13	0.62	0.93	3.44	3.30	5.59	18.66	0.39
EU CORPORATE TR	EUR	254.1614	0.08	0.19	0.13	0.26	2.27	3.63	3.71	4.31	13.16	1.03
EU HIGH YIELD TR	EUR	283.0946	0.07	0.15	0.02	0.34	5.07	2.33	4.29	2.31	17.90	4.33
BARCLAYS GLOBAL CONVERT.	USD	214.56	0.12	0.65	0.25	1.47	4.34	-0.95	0.80	-6.01	11.46	-
GLOBAL EM TR (HEDGED)	USD	344.8416	0.19	0.26	0.24	0.43	4.19	5.42	6.34	4.12	11.51	4.84
S&P/LSTA U.S. LEV LOAN	USD	90.98577	0.00	0.05	0.00	-0.03	4.43	2.09	3.74	-5.40	-7.39	5.68
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2405.925	0.78	0.80	0.97	4.74	18.21	3.69	10.84	-26.25	-47.85	
GSCI ENERGY TR	USD	418.325	0.65	0.30	0.50	8.07	29.26	0.31	13.59	-37.45	-59.03	
GSCI INDUSTRIAL METALS TR	USD	964.668	-0.63	-0.02	-0.47	-7.50	-2.56	3.69	1.04	-19.34	-32.02	
GSCI PRECIOUS METALS TR	USD	1484.99	-0.09	-0.94	-0.34	-6.89	-1.65	14.79	14.33	0.34	-16.01	
GSCI AGRICULTURE TR	USD	497.4239	1.99	2.38	3.37	4.57	15.39	9.10	10.51	3.78	-29.64	
GENERIC 1ST 'CL' FUTURE	USD	49.17	0.08	-0.55	0.22	11.06	28.18	-0.95	10.41	-32.03	-52.95	
GOLD SPOT $/OZ	USD	1210.95	0.13	-0.03	-0.23	-5.75	-4.09	14.16	14.24	2.32	-14.09	
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.564	-0.04	0.01	-0.38	2.78	-2.11	-2.14	-3.15	0.07	15.57	
Euro Spot	EUR	1.1151	0.03	0.35	0.20	-2.97	1.80	1.96	2.69	-1.07	-14.70	
Japanese Yen Spot	JPY	108.87	0.08	1.41	1.79	-2.00	4.51	12.71	10.52	14.22	-8.50	
British Pound Spot	GBP	1.4423	0.08	-1.29	-0.34	-0.69	1.81	-4.69	-2.05	-5.91	-5.80	
Swiss Franc Spot	CHF	0.9904	-0.01	0.42	0.34	-3.63	0.17	0.28	1.17	-5.72	-4.37	
Brazilian Real Spot	BRL	3.5935	0.22	-0.28	0.50	-2.55	8.37	6.78	10.22	-12.83	-40.42	
China Renminbi Spot	CNY	6.5845	-0.01	-0.29	0.01	-1.37	-0.76	-2.84	-1.39	-5.88	-6.89	
Singapore Dollar Spot	SGD	1.3758	0.00	0.27	0.14	-1.70	0.95	1.39	3.10	-2.40	-8.98	
Norwegian Krone Spot	NOK	8.3352	0.07	0.08	0.59	-2.47	3.16	1.85	6.16	-6.98	-30.32	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	13.63	-4.01	1.49	-3.95	-12.63	-18.38	-24.74	-25.15	-0.22	-16.28	
USD SWAP SPREAD SEMI 2YR	USD	14.69	-	-9.05	-3.15	4.53	262.25	84.52	24.41	-38.26	-9.88	
TED SPREAD		40.62	-	4.37	1.32	-9.41	19.51	74.63	-9.73	48.46	62.48	

All data is compiled from Bloomberg

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