

Bedrock Friday October 7th Newsletter

Welcome to a new Friday! One week into Q4 and some interesting things are happening! For starters, oil prices have drifted back up across the \$50/Bbl level for both Brent and WTI. Like in the 'good ol' days', Brent has regained its premium over WTI. Then we sense that the markets agree that the Fed is truly and seriously poised to commence some interest-rate fiddling in December, evidenced by the slow drift upwards in the yield curve with ten year Treasuries now yielding 1.74% - quite significant a move... And then, the true "headline" of the week is clearly the rather brutal thrashing of the Pound Sterling (GBP). Theresa May announced that the UK will finally file 'Article 50' in March 2017. So the realization that Britain will actually, really and definitively take the BREXIT route. The GBP is now at \$1.224, down over 16.4% down since June 23rd. Overnight the Pound was slammed by 6% in the east, touching a low of \$1.1841 and bounced up some since. Our friends across the Channel are clearly not out-of-the-woods quite yet... Actually, the "tone" of the talk from the European shore is hardly a friendly one... With this messy backdrop, we take a longing look across the big puddle towards America only to find that they are in a political mess of their own. A little further west we find Japan still trying to find itself. Another step Westwards we see that China is losing some of its foreign-currency reserves and one more step to the West from there, Russia is making unfriendly noises- scary ones reminiscent of the 'Cold War' days. One more step to the West and we find a new crack in the European Union's Eastern shell with Hungary voting against the EU's immigration policy and Germany struggling with Merkel's views on the same topic. Then there is France... Say no more... Whilst we can clearly see a global economic stabilization and maybe even signs of growth, we are apprehensive about the politics of the whole world...

Some commentators are now blaming "Robo-Traders" for the brief yet brutal 6% Sterling mini-crash of last night. Is this truly a worry that algorithms might wreak havoc on our markets? Were the images of the Mad-Max future misguided and it won't be humanity that destroys our way of life? Whatever... Clearly there is a general "malaise" about 'The System'; the populist push to the right of the political spectrum resulting in a rise of the demagogues from Trump to Nigel Farage and Putin. An echo of the thirties? Possibly this mood merits a closer look than today's centre-stage US September Non-Farm Payrolls due soon.

Policy-making elites converge on Washington this week for meetings that epitomize a faith in globalization that's at odds with the growing backlash against the inequities it creates. From Britain's vote to leave the European Union to Donald Trump's championing of "America First," pressures are mounting to roll back the economic integration that has been a hallmark of gatherings of the IMF and World Bank for more than 70 years. Fed by stagnant wages and diminishing job security, the populist uprising threatens to depress a world economy that the IMF's Managing Director Christine Lagarde says is already "weak and fragile." The calls for less integration and more trade barriers also pose risks for elevated financial markets that remain susceptible to sudden swings in investor sentiment, as underscored by recent jitters over Frankfurt-based Deutsche Bank AG's financial health. In its latest World Economic Outlook released Tuesday the fund highlighted the threats from the anti-trade movement to an already subdued global expansion. After growth of 3.2% in 2015, the world economy's expansion will slow to 3.1% this year before rebounding to 3.4% in 2017, according to the report. The forecasts for U.S. growth were cut to 1.6% this year and 2.2% in 2017. "I'm characterizing the global economy as something akin to a driverless car that's stuck in the slow lane," said David Stockton, a former Fed official and now chief economist at consultants LH Meyer Inc. "Everybody feels like they're being taken for a ride but they're pretty nervous because they can't see anybody in control." Well, if this outlook isn't gloomy enough, eight years after the financial crisis, the world is suffering from a debt hangover of unprecedented proportions. Gross debt in the non-financial sector has more than doubled in nominal terms since the turn of the century, reaching \$152 trillion last year, and it's still rising, the IMF said. The figure includes debt held by governments, non-financial firms and households. Current debt levels now sit at a record 225% of world GDP!

China's foreign exchange reserves shrank at a faster pace in September, suggesting the central bank may have stepped up its efforts to defend the domestic currency, according to data from the People's Bank of China on Friday. The reserves fell by \$18.79 billion from the previous month to \$3.1664 trillion, following a drop of \$15.89 billion in August. A poll of economists by The Wall Street Journal had tipped an \$11 billion decrease in September. The fall in the reserves suggests capital outflow pressure may have increased in September despite government efforts to tighten control over capital flows and stabilize the yuan rate. Should the U.S. raise interest rates later this year, China may face renewed outflow pressure, economists say.

Through all these macro and emotional concerns, we try to remain focussed on the fundamental economics. We like the US\$, we broadly like equities and are agnostic on bonds where the 30 year rally may be at an end but we see no collapse is in the cards.

A thought for your weekend- Poetry is the art of creating imaginary gardens with real toads.

Market Weekly Highlights:

- The dollar has been very strong against major peer currencies, boosted by the growing expectations for a Fed rate hike in December. The USD Index (DXY) is trading at around 96.97 or +1.58% WTD, bringing the YTD performance to -2.63%. The dollar is now trading at about \$1.11 against the EUR and at 0.9824 against the Swiss Franc. During early Asian trading hours this morning, the GBP experienced a Flash Crash plunging 6.1% in 2 minutes, to reach 1.18451 against the US\$, a 31 year low. At the time we write, the GBP recovered somewhat, and is trading at 1.243.
As a reminder the pound is down 16.4% since the 23rd of June.
The Russian Ruble moved higher by 1.15% against the USD at 62.16, following the oil rally.
The Brazilian Real is higher for the week to trade at around 3.228.
Gold has been hit by the dollar strength losing 4.80% or \$63 this week to 1'252.75. Oil prices rallied above the \$50 level after better than expected US inventories data. WTI crude is now trading at \$50.47, a five day rise of 4.62%, and the Brent is trading at \$52.51/Bbl.
- Big swings in the Bond markets this week, with most of the benchmark yields strongly up for the week after a sell-off in Government bonds triggered by a more Hawkish tone from Fed members and rumours that the ECB will slow its bond-buying program.
The US 10 year yield jumped 14Bp to stabilize at the 1.73% mark. The yield on 10-year JGBs moved 2.6Bp higher to currently offer negative 0.06%. The German Bund is on "Neutral Gear" offering 0.00% after gaining 11.8Bp during the week.
The Swiss 10 year bond yield continues to trade deeply into negative territories at -0.50%. The Italian 10Yr and the Spanish 10Yr yields soared +17.5Bp and +15Bp to offer 1.36% and 1.03% respectively. Finally, the 10Yr UK Gilt yield jumped 14.9Bp as well, to offer 0.87%.
- Equity markets have benefited from improved growth expectations and have increased moderately as the week has progressed and are now looking forward today's US non-farm payrolls release. In the US, all three major indices are up for the 5 days, with the Dow up 0.69%, the S&P +0.45% and the NASDAQ +0.72% but futures are pointing slightly south for today's opening. European equities started the week strongly up before closing weaker during the last 2 sessions after a Bloomberg report added concerns that the ECB might be considering winding down bond purchases ahead of ending their quantitative easing. Currently, majors European indices remain up over 5 days, with the Eurostoxx50 up +0.16%, the CAC +0.13% and the DAX +1.13%. The UK FTSE is up +1.80% over the last 5 trading sessions, but keep in mind that the pound lost 4% during the period. In Asia, the Hang Seng is up +2.20% for the week and the Nikkei +2.49%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE											06/10/2016	
INDEX NAME	CCY	Last Price	1D	PRICE CHANGE IN % (unless indicated)							P/E	
				5D	MTD	1M	3M	6M	YTD	1Y		3Y
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2,160.77	0.05	0.45	-0.35	-1.16	3.00	5.82	5.72	8.26	28.92	17.65
DOW JONES INDUS. AVG	USD	18,268.50	-0.07	0.69	-0.22	-1.39	2.08	4.14	4.84	8.02	22.31	16.99
NASDAQ COMPOSITE INDEX	USD	5,306.85	-0.17	0.72	-0.10	0.43	8.82	9.46	5.98	10.76	40.75	19.18
RUSSELL 2000 INDEX	USD	1,246.24	-0.17	0.69	-0.43	-1.17	8.39	14.04	9.71	8.12	16.93	18.04
EURO STOXX 50	EUR	3,021.58	-0.16	0.21	0.21	-2.69	8.21	4.77	-7.93	-6.75	2.92	14.52
EURO STOXX 600	EUR	342.82	-0.38	-0.47	-0.47	-2.61	5.95	4.02	-6.70	-5.44	10.39	15.92
CAC 40 INDEX	EUR	4,480.10	-0.22	0.20	0.20	-2.20	8.24	4.98	-3.88	-4.50	7.00	14.63
DAX INDEX	EUR	10,568.80	-0.16	1.03	0.01	-2.24	11.61	10.30	-2.15	5.44	22.36	13.48
FTSE 100 INDEX	GBP	6,999.96	-0.41	1.88	1.88	2.66	7.58	14.53	12.60	10.93	9.19	17.39
SWISS MARKET INDEX	CHF	8,170.44	-0.30	0.14	0.14	-2.05	2.34	5.01	-7.57	-5.66	3.33	17.70
NIKKEI 225	JPY	16,899.10	0.47	2.49	2.49	-0.90	10.37	7.05	-11.42	-7.98	21.70	16.61
HANG SENG INDEX	HKD	23,952.50	0.69	2.16	2.16	0.25	14.94	17.44	8.61	5.71	3.60	12.71
SHANGHAI SE COMPOSITE	CNY	3,004.70	0.21	-0.96	0.00	-2.04	2.46	-0.16	-15.10	-1.57	38.17	13.76
S&P BSE SENSEX INDEX	INR	28,106.21	-0.41	0.54	0.54	-3.15	2.99	13.49	7.27	3.62	40.82	17.45
RUSSIAN RTS INDEX \$	USD	1,004.25	0.73	1.54	1.54	0.04	8.91	17.10	32.91	19.20	-30.34	7.01
BRAZIL IBOVESPA INDEX	BRL	60,644.24	0.65	3.93	3.90	0.86	16.59	25.01	39.89	23.98	15.70	14.98
MSCI WORLD	USD	1,718.40	-0.15	-0.42	-0.42	-1.66	4.53	5.97	3.34	3.93	11.85	16.81
MSCI WORLD HEDGED	USD	752.20	0.00	0.54	0.22	-0.51	5.68	7.27	4.54	7.37	26.62	-
MSCI WORLD LOCAL	-	1,309.19	0.00	0.18	0.18	-0.82	4.94	6.85	2.46	4.14	20.08	-
MSCI AC WORLD	USD	417.55	-0.11	-0.21	-0.21	-1.59	5.20	6.74	4.55	4.39	9.53	16.35
MSCI EM	USD	917.04	0.20	1.50	1.50	-0.97	10.89	13.31	15.48	7.79	-8.72	13.44
MSCI AC ASIA x JAPAN	USD	559.85	0.36	1.62	1.62	-0.20	11.34	12.92	11.98	8.54	3.21	13.96
MSCI EM LATIN AMERICA	USD	2,443.86	0.24	1.79	2.65	-2.39	11.03	20.15	33.56	17.41	-27.06	16.43
MSCI EM Eur, ME & Africa	USD	240.16	-0.78	-0.51	-0.51	-2.78	6.02	6.67	14.25	-3.18	-28.27	11.19
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	207.25	0.00	0.96	0.96	0.75	3.19	14.34	16.21	1.65	-19.90	31.64
MSCI MATERIALS	USD	214.54	0.02	-0.71	-0.71	-1.51	8.85	15.01	16.17	10.86	-5.65	18.90
MSCI INDUSTRIALS	USD	207.78	-0.13	-0.38	-0.38	-1.52	6.00	7.70	8.33	8.99	13.08	17.28
MSCI CONS DISCRETIONARY	USD	193.62	-0.16	0.19	0.19	-1.50	5.72	3.69	0.00	0.77	15.97	16.55
MSCI CONS STAPLES	USD	217.26	-0.28	-1.60	-1.60	-3.20	-2.70	0.50	4.25	6.86	21.72	21.06
MSCI HEALTH CARE	USD	202.89	-0.54	-0.67	-0.67	-1.81	-1.95	1.52	-3.48	1.60	28.84	16.45
MSCI FINANCIALS	USD	94.26	0.11	1.29	1.29	-1.17	10.22	8.33	-2.84	-3.28	-0.68	12.23
MSCI INFO TECH	USD	161.34	0.07	0.01	0.01	0.91	12.89	10.89	10.22	14.97	46.78	18.27
MSCI TELECOMS	USD	68.96	-0.73	-3.01	-3.01	-5.69	-4.80	-2.34	1.52	4.47	2.56	14.14
MSCI UTILITY	USD	114.82	-0.51	-3.88	-3.88	-5.85	-6.89	-2.60	2.82	1.35	6.03	15.96
MSCI WORLD REAL ESTATE	USD	194.50	-0.19	-4.36	-4.36	-7.24	-3.63	-0.62	2.46	3.01	10.39	22.46
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1,191.09	0.09	0.17	0.12	0.47	2.28	3.77	1.45	0.22	-0.86	-
HFRX EQUAL WEIGHTED	USD	1,204.01	0.06	0.12	0.11	0.35	2.32	4.20	2.66	1.65	2.11	-
HFRX GLOBAL EUR	EUR	1,076.81	0.08	0.08	0.06	0.30	1.79	2.88	0.14	-1.28	-3.34	-
MARKET INDICES PERFORMANCE											06/10/2016	
INDEX NAME	CCY	Last Price	1D	PRICE CHANGE IN % (unless indicated)							Yield to Worst	
				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	0.32	-0.51	4.15	4.15	-2.04	3.13	8.65	15.27	32.05	-	-
US 2 YEAR	USD	0.85	0.06	8.83	8.83	11.62	26.10	16.24	-19.75	22.52	-	-
US 10 YEAR	USD	1.75	0.90	15.18	15.18	20.71	36.12	5.73	-52.32	-32.06	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	508.56	-0.09	-0.54	-0.54	-0.73	-0.60	2.10	5.86	5.82	15.16	1.22
US GOVERNMENT TR	USD	2,182.32	-0.14	-0.74	-0.74	-1.04	-1.66	0.46	4.18	3.17	9.53	1.22
US CORPORATE TR	USD	2,790.60	-0.03	-0.55	-0.55	-0.88	-0.37	3.62	8.60	7.56	16.98	2.93
US HIGH YIELD TR	USD	1,789.76	0.06	0.40	0.40	0.75	4.99	11.63	15.57	11.59	16.56	6.12
EU GOVERNMENT TR	EUR	255.28	0.00	-0.88	-0.88	-1.12	-0.50	1.93	5.18	5.61	21.02	0.23
EU CORPORATE TR	USD	261.50	-0.01	-0.29	-0.29	-0.57	1.33	3.37	6.71	7.68	16.40	0.72
EU HIGH YIELD TR	EUR	291.31	0.08	0.30	0.30	-0.61	3.27	4.89	7.32	7.53	18.48	3.98
BARCLAYS GLOBAL CONVERT.	USD	220.34	-0.06	0.33	0.15	-0.34	5.05	4.90	3.52	3.66	8.86	-
GLOBAL EM TR (HEDGED)	USD	364.08	-0.06	-0.13	-0.13	-0.46	2.20	7.66	12.27	11.65	20.60	4.18
S&P/LSTA U.S. LEV LOAN	USD	92.41	-	0.15	0.21	-0.13	0.98	3.97	5.36	2.02	-5.22	5.22
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,338.25	0.30	2.63	2.30	6.54	0.21	12.50	7.72	-13.86	-52.11	-
GSCI ENERGY TR	USD	417.70	1.03	5.12	4.39	11.19	4.16	23.75	13.42	-19.72	-62.80	-
GSCI INDUSTRIAL METALS TR	USD	1,044.99	-0.26	-0.97	-1.62	3.46	2.31	8.12	9.45	3.42	-23.24	-
GSCI PRECIOUS METALS TR	USD	1,534.92	-1.31	-5.98	-5.44	-8.21	-9.47	3.03	18.17	8.41	-7.95	-
GSCI AGRICULTURE TR	USD	444.23	-1.68	0.42	-0.18	1.84	-4.17	0.68	-1.30	-7.20	-32.27	-
GENERIC 1ST 'CL' FUTURE	USD	50.44	0.56	5.14	5.14	10.00	8.10	20.05	7.12	-17.45	-56.63	-
GOLD SPOT \$/OZ	USD	1,254.41	0.08	-4.58	-4.58	-6.67	-7.72	1.21	18.28	9.59	-5.12	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	96.77	0.34	1.71	1.71	2.25	0.79	2.76	-1.56	1.67	21.45	-
Euro Spot	EUR	1.12	-0.37	-1.11	-1.11	-1.15	0.42	-2.36	2.28	-1.13	-18.19	-
Japanese Yen Spot	JPY	103.95	0.09	-2.42	-2.42	-2.04	-2.98	4.19	15.75	15.55	-6.88	-
British Pound Spot	GBP	1.26	-1.25	-3.96	-3.96	-6.62	-3.49	-11.37	-15.46	-18.68	-22.61	-
Swiss Franc Spot	CHF	0.98	-0.15	-1.11	-1.11	-1.27	-0.37	-2.70	2.02	-0.89	-8.08	-
Brazilian Real Spot	BRL	3.23	-0.21	0.98	1.07	-0.98	3.16	12.82	22.70	19.35	-31.48	-
China Renminbi Spot	CNY	6.67	-0.07	-0.04	0.00	0.11	-0.36	-3.27	-2.67	-4.73	-8.26	-
Singapore Dollar Spot	SGD	1.37	-0.17	-0.86	-0.86	-2.04	-1.83	-1.61	3.17	2.73	-9.25	-
Norwegian Krone Spot	NOK	8.06	-0.30	-1.20	-1.20	1.23	5.30	2.99	9.43	1.63	-26.14	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDEX	USD	12.84	-1.15	2.33	2.33	13.90	-7.86	-15.84	-25.32	-26.09	-29.93	-
USD SWAP SPREAD SEMI 2YR	USD	23.41	-	-8.19	-8.19	-9.49	34.91	72.94	92.59	84.81	77.92	-
TED SPREAD	-	-	-	-8.47	-8.47	8.06	40.52	37.19	22.47	70.57	147.57	-

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