

Bedrock Friday 14 October 2016 Newsletter

"The Times they Are a-Changing..." Bob Dylan, regarded as the voice of a generation for his influential songs from the 1960s onwards, has won the Nobel Prize for Literature in a surprise decision that made him the only singer-songwriter to win the award. Just like our financial markets, not all views are shared; over the years, not everyone has agreed that Dylan was a poet of the first order. Novelist Norman Mailer countered: "If Dylan's a poet, I'm a basketball player."

Thinking of the 75 year old Dylan, great poet or not, brings us to wonder about BREXIT... We observe the Pound Sterling eroding, we hear that the Scots are contemplating a re-run of their referendum for exiting the U.K., we hear similar rumblings from North Ireland. Sterling may have already seen a dramatic slump in the past few months, but a number of analysts have predicted more pain for the U.K. currency and expect it to plunge further on the back of uncertainty around Brexit negotiations.

The pound is currently trading at 1.2190 against the dollar and is down by more than 16% since the start of the year. Alberto Gallo, partner and portfolio manager at Algebris Investments says "In a 'hard Brexit' scenario we see the pound going to parity against the euro and potentially even lower. This is our base case scenario after (U.K. Prime Minister) Theresa May took an unrealistic and antagonistic stance vs. the EU at Birmingham (party conference)." Kathleen Brooks, research director at City Index says "The revision to our forecasts are as follows: Short-term GBP/USD: \$1.20, long-term (6 months) \$1.15." George Magnus, senior economic adviser at UBS Investment Bank "...sterling could be everyone's favourite bear trade. Parity or close would be more risk premium than fundamental value, but there's a lot of risk to price in." In Oxford Economics forecast, the pound drops to \$1.28 by the end of 2016 (compared to a pre-referendum forecast of \$1.44) and ends 2017 and 2018 at \$1.29 and \$1.32 respectively. "The decline in the pound is like a fever" according to former Treasury Secretary Larry Summers. "It's a sign of some serious problems that are associated with the Brexit strategy," he told CNBC on Monday evening. Looking further out, investment bank UBS is calling for sterling to finish 2017 at \$1.20 while HSBC's David Bloom sees a more brutal path ahead, with an end-2017 forecast of \$1.10. London Mayor Sadiq Khan told business leaders that he'll fight any attempt to take the U.K. out of the European Union's single market; a move he says could make Britain poorer. "If we were to leave the single market without an agreement in place for privileged access for British business, the consequences could be disastrous,"

Was the idea of BREXIT a clever one? Is it worthy of a Nobel? Time will tell as after all, Poetry is indeed in the ear of the beholder... (After all, our parents hated Dylan...).

BREXIT did bring Britain back to centre stage, but unlikely to be a precursor for renewed "Days of Empire".

The next set of headlines which will move the UK to page two are likely to be data of Q3 earnings which will start pouring-in imminently. When Goldman Sachs Group Inc. Chief U.S. Equity Strategist David Kostin puts on his macro goggles, he sees a disappointing third-quarter earnings season ahead. "Variables that determine earnings surprises – changes in U.S. economic growth, interest rates, oil price, the dollar, and EPS [earnings per share] revisions – suggest a below-average share of firms will report positive earnings per share surprises (43% vs. 46%)," he writes in a note to clients. "We see a weak third-quarter reporting season coupled with negative fourth-quarter EPS revisions pushing stocks 2% lower to our year-end target of 2,100." Bottom-up forecasts indicate that at the aggregate level, adjusted EPS will decline by 1% year-over-year, he says. Is he "Blowing In The Wind"?

There's a chilling trend in the market, and it could wreak havoc on your portfolio, a top market watcher said. "We are seven years into a full-fledged, all out, central bankers doing everything they can to stimulate demand," Bank of America-Merrill Lynch's head of U.S. equity and quantitative strategy Savita Subramanian recently warned on CNBC's "Fast Money." "We looked at all of these indicators that have been pretty good at forecasting recessions and we extrapolated that if they follow the current trends they're on, we're going to hit a recession sometime in the second half of next year." The S&P is 1.8-percent away from its intraday all-time high of 2,193.81, hit on August 15. Subramanian's year-end 2016 S&P 500 price target is 2000, about seven percent lower than where it's trading today. And, if she's right, it's about to get a lot worse next year. And yet, she says the health care and technology sectors look the best right now. "They are both pretty cheap on a relative basis, It's now trading at almost the lowest multiples we've ever seen," Blowing In The Wind when we see US Jobless claims at a 42 year low a Labour Department report showed Thursday in Washington... Well, we think this is "Like a Rolling Stone", telling us that it may be less Windy out there than what some analysts are saying... Oh yes, we also have the US Presidential Elections blowing in our faces... The markets are reading a favourable Clinton advantage, hence health care stocks down and the US Dollar up. But it isn't over yet... The fun will continue for a few more weeks © To use Bob's namesake's words, "Washington isn't a city, it's an abstraction" - Dylan Thomas.

Market Weekly Highlights:

- The dollar continues its upward trend against major peer currencies, boosted by the growing expectations for a Fed rate hike in December (markets are currently pricing a 65.9% probability for a rate hike in December). The USD Index (DXY) is trading at around 97.82 or +1.23% WTD, bringing the YTD performance to -0.83%. The dollar is now trading at about \$1.1026 against the EUR and at 0.9877 against the Swiss Franc. The GBP has lost an additional 1.89% against the dollar, to trade at around the 1.22 level. The JPY weakened by 1.05% to trade at 104.07. The Russian Ruble moved lower by 1.3% against the USD, now at 62.98. The Brazilian Real is higher for the week to trade at around 3.18. Gold continues to suffer from the dollar strength but remains relatively unchanged over the last 5 trading session at 1'255.75
Oil is heading for a fourth weekly advance after a decline in U.S. fuel supplies and crude stockpiles which offset an increase in nationwide inventories. West Texas Intermediate rose 1.95% for the week, to trade at \$50.78/Bbl and the Brent is trading at \$52.14/Bbl.
- Big swings in the Bond markets as well, with most of the benchmark yields up for the week as the sell-off in Government bonds continued after the release of the minutes the last FOMC meeting which suggest that rates should rise “relatively soon.”
The US 10 year yield rose 4.8Bp to stabilize at the 1.77% mark – as a reminder, this month the US 10 year yield jumped by more than 17 Bp. The BOJ was successful in its policy of yield curve control with its 10-year JGBs yield almost unchanged over the week, offering -0.06%. The German Bund yield moved higher by 2.6Bp during the week and is currently offering 0.05%. The Swiss 10 year bond yield continues to trade deeply into negative territories at negative 0.49%. The Italian 10Yr yield is unchanged at 1.39% whilst the Spanish 10Yr yields increased +10.9Bp to offer 1.12%. Finally, the 10Yr UK Gilt yield soared 15.3Bp to trade at 1.02%.
- Global equities retreated over the last 5 trading sessions amid investors’ concerns about corporate earnings and the implications of an expected tightening of U.S. monetary policy. In the US, all three major indices are down over 5 days, with the Dow declining 0.93%, the S&P -1.31% and the NASDAQ off 1.76%. Futures are currently pointing in the green for today’s opening. European equities are trading lower as well over the last 5 trading sessions, with the Eurostoxx50 down 1.54%, the CAC -1.67% and the DAX -1.46%. Despite the weakness of the GBP, the UK FTSE is down -0.32% over the last 5 trading sessions. In Asia, Shanghai rose by +1.67% whereas the HK Hang Seng is down 3.21% for the week and the Nikkei off 0.25%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE												13/10/2016
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	2,132.55	-0.31	-1.31	-1.65	0.32	-1.44	2.39	4.34	6.94	24.70	17.41
DOW JONES INDUS. AVG	USD	18,098.94	-0.25	-0.93	-1.14	0.36	-2.20	0.96	3.87	6.94	18.28	16.83
NASDAQ COMPOSITE INDEX	USD	5,213.33	-0.49	-1.76	-1.86	0.76	3.56	5.41	4.11	9.00	36.64	18.87
RUSSELL 2000 INDEX	USD	1,215.75	-0.93	-2.45	-2.87	0.34	1.13	7.72	7.03	6.93	11.51	17.64
EURO STOXX 50	EUR	2,975.04	-1.10	-0.17	-0.22	1.03	1.10	-2.13	-8.32	-6.14	0.60	14.42
EURO STOXX 600	EUR	335.62	-0.86	-0.45	-1.40	-0.09	-0.12	-1.71	-7.57	-4.97	8.29	15.84
CAC 40 INDEX	EUR	4,405.17	-1.06	-0.24	-0.20	1.58	1.23	-1.60	-4.26	-3.68	5.12	14.53
DAX INDEX	EUR	10,414.07	-1.04	-0.16	-0.35	0.92	4.03	3.77	-2.51	5.63	20.06	13.40
FTSE 100 INDEX	GBP	6,977.74	-0.65	-0.38	1.71	5.16	5.46	10.25	12.42	11.93	7.84	17.11
SWISS MARKET INDEX	CHF	7,999.93	-0.85	-0.92	-1.09	-1.38	-1.52	0.36	-8.71	-6.10	1.53	17.42
NIKKEI 225	JPY	16,774.24	-0.39	-0.25	2.47	1.46	2.87	-0.32	-11.44	-5.78	17.02	16.70
HANG SENG INDEX	HKD	23,031.30	-1.61	-2.86	-0.13	0.33	7.91	9.04	6.17	3.69	0.21	12.44
SHANGHAI SE COMPOSITE	CNY	3,061.35	0.09	1.97	1.97	2.03	0.32	-0.60	-13.43	-6.09	36.91	14.03
S&P BSE SENSEX INDEX	INR	27,643.11	-1.56	-1.86	-0.61	-2.38	-0.88	8.08	6.05	3.42	34.40	18.22
RUSSIAN RTS INDEX \$	USD	987.99	-0.67	-1.56	-0.45	1.64	1.44	7.89	30.30	14.26	-33.07	6.85
BRAZIL IBOVESPA INDEX	BRL	61,118.58	0.16	1.43	4.71	7.11	10.16	16.61	40.99	30.85	12.83	14.80
MSCI WORLD	USD	1,689.62	-0.35	-1.33	-2.09	-0.17	-0.80	1.06	1.61	2.21	8.12	16.60
MSCI WORLD HEDGED	USD	742.92	-0.43	-1.23	-1.02	0.89	1.04	3.94	3.25	5.02	23.88	-
MSCI WORLD LOCAL	-	1,292.66	-0.43	-0.94	-1.09	0.76	-0.08	2.24	1.17	3.32	16.41	-
MSCI AC WORLD	USD	410.00	-0.46	-1.48	-2.01	-0.09	-0.41	1.52	2.66	2.55	5.73	16.13
MSCI EM	USD	890.65	-1.34	-2.64	-1.42	0.62	2.85	5.35	12.15	4.86	-12.91	13.14
MSCI AC ASIA x JAPAN	USD	540.90	-1.31	-2.90	-1.82	0.09	3.83	5.65	8.19	4.45	-1.81	13.64
MSCI EM LATIN AMERICA	USD	2,467.97	-0.60	0.99	3.66	7.20	3.96	11.21	34.88	22.35	-28.15	16.24
MSCI EM Eur, ME & Africa	USD	231.44	-1.79	-4.17	-4.12	-3.13	-4.00	-3.16	10.10	-7.23	-31.84	10.80
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	205.40	-0.42	-0.71	0.06	4.80	-1.05	6.46	15.17	0.89	-21.80	31.82
MSCI MATERIALS	USD	209.25	-0.79	-1.77	-3.16	0.82	-0.08	5.24	13.31	7.02	-8.72	18.56
MSCI INDUSTRIALS	USD	203.42	-0.17	-1.34	-2.47	-0.22	-0.51	1.79	6.05	6.94	8.54	17.03
MSCI CONS DISCRETIONARY	USD	190.74	-0.22	-0.97	-1.30	0.35	0.08	-0.37	-1.49	-0.86	12.58	16.40
MSCI CONS STAPLES	USD	214.23	-0.12	-0.79	-2.98	-1.21	-5.01	-0.99	2.80	4.60	18.40	20.95
MSCI HEALTH CARE	USD	197.73	0.01	-2.58	-3.19	-2.55	-5.95	-2.06	-5.94	-0.82	23.91	16.09
MSCI FINANCIALS	USD	92.40	-1.12	-1.96	-0.71	-0.06	2.26	0.25	-4.76	-4.18	-5.13	12.03
MSCI INFO TECH	USD	158.71	-0.56	-1.43	-1.62	1.19	6.30	6.88	8.42	12.40	42.21	18.00
MSCI TELECOMS	USD	68.26	-0.07	-0.26	-3.99	-2.54	-7.47	-4.68	0.49	4.20	0.59	14.18
MSCI UTILITY	USD	115.01	0.89	0.78	-3.73	-2.43	-7.32	-3.59	2.99	0.10	4.06	16.10
MSCI WORLD REAL ESTATE	USD	194.12	0.62	0.24	-4.54	-2.42	-6.18	-1.92	2.26	2.89	7.56	22.18
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1,187.37	-0.06	-0.31	-0.20	0.33	0.94	3.28	1.13	-0.33	-1.30	-
HFRX EQUAL WEIGHTED	USD	1,200.64	-0.03	-0.28	-0.17	0.29	1.12	3.80	2.37	1.18	1.70	-
HFRX GLOBAL EUR	EUR	1,073.07	-0.06	-0.35	-0.29	0.16	0.45	2.38	-0.20	-1.85	-3.80	-

MARKET INDICES PERFORMANCE												13/10/2016
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	0.28	0.00	-3.13	1.02	-3.55	-2.62	6.54	12.14	28.92	-	-
US 2 YEAR	USD	0.86	2.05	2.49	9.31	9.70	18.18	8.87	-19.27	30.63	-	-
US 10 YEAR	USD	1.76	2.31	4.61	16.98	6.66	22.86	-2.77	-50.52	-20.76	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	508.28	0.17	0.00	-0.59	0.12	-0.42	2.19	5.80	5.40	15.17	1.23
US GOVERNMENT TR	USD	2,183.11	0.24	0.04	-0.71	-0.19	-0.91	0.98	4.22	2.77	9.68	1.23
US CORPORATE TR	USD	2,797.61	0.31	0.25	-0.30	0.68	0.06	4.09	8.87	7.19	17.17	2.90
US HIGH YIELD TR	USD	1,789.89	-0.10	0.01	0.41	1.61	3.18	9.65	15.58	11.03	16.28	6.18
EU GOVERNMENT TR	EUR	254.89	0.20	-0.05	-1.03	-0.10	-0.46	1.98	5.02	5.05	20.90	0.25
EU CORPORATE TR	USD	261.25	0.09	-0.04	-0.38	-0.01	0.67	3.46	6.60	7.19	16.27	0.74
EU HIGH YIELD TR	EUR	291.42	-0.01	0.09	0.34	0.35	1.91	4.08	7.36	7.25	17.91	3.97
BARCLAYS GLOBAL CONVERT.	USD	218.26	-0.10	-0.94	-0.80	-0.06	1.63	3.12	2.54	2.45	7.71	-
GLOBAL EM TR (HEDGED)	USD	363.46	0.07	-0.09	-0.30	0.69	1.42	6.27	12.08	11.02	19.93	4.22
S&P/LSTA U.S. LEV LOAN	USD	97.73	-	5.76	5.97	6.01	6.08	9.15	11.42	7.68	0.21	5.17
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,339.28	0.67	0.04	2.35	6.32	2.76	5.77	7.77	-11.61	-52.23	-
GSCI ENERGY TR	USD	417.93	0.74	0.06	4.44	10.31	9.82	12.09	13.48	-15.43	-63.01	-
GSCI INDUSTRIAL METALS TR	USD	1,037.49	-1.02	-0.72	-2.32	3.93	-1.13	4.91	8.66	-0.66	-24.11	-
GSCI PRECIOUS METALS TR	USD	1,541.14	0.24	0.41	-5.05	-5.32	-7.84	0.77	18.65	7.33	-4.66	-
GSCI AGRICULTURE TR	USD	452.53	2.09	1.87	1.68	4.33	-5.24	0.54	0.54	-5.26	-30.58	-
GENERIC 1ST 'CL' FUTURE	USD	50.44	1.01	2.29	5.62	15.30	7.35	9.59	7.60	-15.46	-56.21	-
GOLD SPOT \$/OZ	USD	1,258.13	-0.21	-0.11	-4.58	-5.10	-5.96	2.25	18.29	6.03	-1.33	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.52	0.40	1.32	2.56	2.71	1.91	3.17	-0.73	4.24	21.99	-
Euro Spot	EUR	1.11	-0.42	-1.71	-2.00	-2.13	-0.99	-2.29	1.36	-4.04	-18.81	-
Japanese Yen Spot	JPY	103.71	-0.46	-1.16	-2.73	-1.69	1.11	5.00	15.39	14.05	-5.39	-
British Pound Spot	GBP	1.23	-0.40	-1.84	-5.91	-7.78	-8.53	-13.78	-17.18	-21.14	-23.64	-
Swiss Franc Spot	CHF	0.99	-0.24	-1.12	-1.74	-1.54	-0.78	-2.20	1.37	-3.93	-7.92	-
Brazilian Real Spot	BRL	3.18	0.53	1.55	2.63	4.26	2.69	10.05	24.60	22.48	-31.54	-
China Renminbi Spot	CNY	6.73	0.04	-0.79	-0.79	-0.75	-0.62	-3.60	-3.44	-5.60	-9.12	-
Singapore Dollar Spot	SGD	1.38	-0.45	-1.02	-1.75	-1.72	-3.24	-1.73	2.24	-0.63	-10.35	-
Norwegian Krone Spot	NOK	8.15	-0.48	-1.27	-2.51	0.59	2.12	0.52	7.97	-1.33	-27.05	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	16.69	4.90	29.98	25.58	-7.99	30.19	21.65	-8.35	-7.43	6.17	-
USD SWAP SPREAD SEMI 2YR	USD	22.89	-	-8.03	-13.08	-13.12	19.01	88.68	82.32	93.74	57.53	-
TED SPREAD	-	-	-	6.30	1.03	15.93	54.16	44.78	30.18	82.78	211.93	-

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