

Bedrock Friday August 12th Newsletter

A boring week... We did have our share of "interesting" the week before, so it is ok... We did close the previous Friday with a very strong employment report out of the USA showing us 255'000 new jobs for July, way ahead of consensus. As would be expected, this drove the markets further into records since. But as we yawn in this week's no action, we watch the stealth equity rally continuing to crawl along... Yesterday, for the first time since December 1999 (a long time ago!) we saw the three main equity indices in the USA closing at all-time-highs, simultaneously! That is the DJIA, S&P500 and the NASDAQ. We like this kind of boredom...

Jeremy Siegel, professor at the University of Pennsylvania's Wharton School, appeared on CNBC's "Trading Nation" in July to predict that equities could jump by as much as 15% in the second half of the year. In an appearance Tuesday on CNBC's "Futures Now" he reinforced his outlook, though this time with the caveat that a strong earnings season is needed or the market could see its wings clipped. Well, Q2 earnings with 458 of the 500 S&P companies reporting, 51 had top-line beats and 71% beat on bottom line. Siegel may well be right! He still sees the S&P 500 headed above 2,300 this year (we closed Thursday at 2'185.79).

But let's not forget the even bigger market of bonds. These have continued to hold firm with interest rates around the globe at or close to their historic lows. Every player in this market is keeping his/her eyes peeled on the Fed. Ben Bernanke thinks his former colleagues at the Federal Reserve will be reluctant to raise interest rates anytime soon. One of Wall Street's favourite pastimes is trying to discern hidden meaning in language tweaks from Fed officials. But Bernanke, the central bank's former chairman, thinks doing so under current conditions will only lead investors astray. For investors, Bernanke believes the Fed's realization that it has been too optimistic about growth, and that as a result policy is probably less accommodative than it appears, is likely to lead to reluctance to raise rates. That comes even though "the current policy is not as stimulative as previously thought," he said. "With a shorter distance to travel to get to a neutral level of the funds rate, rate hikes are seen as less urgent even by those participants inclined to be hawkish," Bernanke wrote. *We are delighted to find an important supporter of Bedrock's long-standing views that rates will not be rising anytime soon.* We are strong proponents of the thinking that GDP growth is primarily driven by demographics. Perhaps the slowness in said growth in the USA can be found in the statistic released by the US Centre for Disease Control ("CDC")- The US fertility rate has fallen to the lowest point since record keeping began, more than a century ago. We do know that Fertility in Europe has been dropping for longer than in the USA and we all know what is happening to European growth...

Indeed some analysts have been pointing-out a slowdown in productivity growth but few if any were alluding to reproductive productivity...

But then again, some views of the economy give us hope anyway- U.S. household debt hit \$12.29 trillion in the second quarter, up \$434 billion from a year earlier as auto loans and credit card debt increased, a Federal Reserve Bank of New York survey showed on Tuesday. Some 4.8% of the outstanding debt was in some stage of delinquency, down from 5.6% from a year ago, according to the quarterly household debt and credit report. If indeed the public is borrowing more and repaying better, the all-important household economics are doing better. Confidence will rise, the economy will grow, stocks will rally and we will all be happy ☺

On this smiley backdrop, Marc Faber of "Boom, Doom and Gloom" notoriety is now predicting a 50% crash in the S&P500. In fact, stocks would need to fall by at least that much in order for some of Faber's calls to be proven correct. In October 2009, when the S&P was trading near 1,100, Faber said on Indian TV18 that U.S. and Indian stocks were "very overbought" and "the gravy's out" on the rally. Since then, Faber has generally only become more and more bearish as stocks have climbed. And on Monday, as Faber made his latest crash call, the S&P 500 touched an all-time high of 2,185.44 (and risen further since!). Yes, his views are within the realm of possible happenings... We here at Bedrock think that the continued slow melt-up is significantly more likely...

Beyond markets, we are bemused and entertained by the ongoing shenanigans of the US elections, are saddened by the indifference of the powers to be in regard to the human sufferings in Aleppo and elsewhere. We keep seeing weird and unusual weather phenomena which some attribute to 'Global Warming'. A little-discussed yet possibly dramatic side effect of this unusual weather can be found with bees. Yes, those little critters which among other things produce honey; Of the 100 crop species responsible for providing 90% of food worldwide, 71 are dependent on bee pollination, according to UN estimates. "If the bee disappeared off the face of the Earth, man would only have four years left to live." Albert Einstein.

And there is some evidence there is a collapse in honey-bee colonies. Maybe it isn't the weather but just bees reproducing less, just like Europeans and Americans?

Market Weekly Highlights:

- Dollar is slightly down this week with the USD Index (DXY) trading at round 95.944 or -0.27% WTD, bringing the YTD performance to -2.72%. The USD is now trading at about \$1.1142 against the EUR and at 0.9735 against the Swiss Franc. The GBP weakened further after the drop following the BOE decision to increase its monetary stimulus last week. The GBP is currently trading below the 1.30 level at 1.2956 against the USD. The Yen soften 2bp over the week to trade at 102.1 at the time we write. The Russian Ruble rose 1.86% against the USD this week, at 64.27. The Brazilian Real increased 1.56% against the USD over the five trading sessions and is trading at or around 3.14. Gold is almost unchanged this week at \$1'340.05 per ounce, however during the week, the precious metal rose above \$1'355 after the oil data release. WTI closed last Friday at \$41.77 to rebound to \$43.50 on Tuesday before falling below \$41.5 now up big for the week at \$43.52 on mixed signals from US inventories and record high production from Saudi Arabia in July. At the time we write, the Brent is trading at \$46.06.
- Big swings in the Bond markets as well- Over the week, the US 10 year note lost 4Bp to stabilize at the 1.55% mark. On Monday the US 10Yr was trading above 1.58% before falling on Wednesday as 10-year notes were auctioned at the lowest yield in four years amid near-record demand from a group of buyers that includes foreign central banks and mutual funds, supporting the lower-for-longer theme in a negative yield environment. The yield on 10-year JGBs lost 1Bp and is now trading at negative 0.11%. After falling as low as -0.11% earlier this week, the German Bund slightly recovered to finally abandoned 2Bp to negative 0.09% . The Swiss 10 year bond reiterated its leadership within the "Negative Yielder club", losing additional 3Bp to trade at -0.56%. The Italian 10Yr fell more than 7Bp to trade at 1.06%, while the Spanish 10Yr yield plunged 8.5Bp and is trading at around 0.93%, its lowest level. In the UK, the 10Yr Gilts yields declined from 0.65% to the 0.54% mark: -0.11Bp. Since the BoE decision to cut rates, the UK Gilts has lost more than 23Bp.
- Global Equity market had another strong week, with the MSCI world Index up +1.12%. European markets are leading, with the Eurostoxx50 up 2.46% for the week and the DAX up +3.33%. The UK FTSE100 is up +1.7% week-to-date following the decrease of the GBP. SMI is up +1.22% while Italian and Spanish equity markets are up by 2%. Within the US, the three major indices have reached new highs and the DOW is leading the way up: 1.42%, the NASDAQ is up +1.20% and the S&P500 is up 1.00% for the week. Futures are pointing north and we might see another all-time high weekly closing for US equity markets. In Asia Shanghai Composite was up 2.5% for the week while Hang Seng closed the week up +2.8% the winner of all remain Japanese equities, with Nikkei jumping 4.09% this week.

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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)									PIE
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2185.79	0.49	1.00	0.56	1.56	5.90	17.21	6.94	4.78	29.38	17.96
DOW JONES INDUS. AVG	USD	18613.52	0.65	1.42	0.98	1.45	5.04	16.53	6.82	6.96	20.71	17.59
NASDAQ COMPOSITE INDEX	USD	5228.399	0.47	1.20	1.28	4.09	10.37	20.54	4.41	3.65	42.47	19.41
RUSSELL 2000 INDEX	USD	1229.116	0.49	1.27	0.75	1.83	10.87	28.45	8.21	1.67	16.65	17.86
EURO STOXX 50	EUR	3049.03	1.01	2.52	1.93	3.93	3.85	10.61	-6.70	-12.51	7.83	14.29
EURO STOXX 600	EUR	346.66	0.91	1.58	1.43	3.13	4.10	11.00	-5.20	-9.45	13.30	16.32
CAC 40 INDEX	EUR	4503.95	1.17	2.20	1.53	4.07	4.99	12.83	-2.79	-8.48	10.71	14.97
DAX INDEX	EUR	10742.84	0.86	3.40	3.70	7.58	8.70	19.54	-0.22	-1.87	28.24	13.73
FTSE 100 INDEX	GBP	6914.71	1.23	1.75	2.79	3.47	13.24	21.11	10.73	5.19	5.14	17.77
SWISS MARKET INDEX	CHF	8296.14	1.06	1.19	2.02	1.82	5.14	8.29	-5.97	-9.72	3.64	18.06
NIKKEI 225	JPY	16735.12	-0.18	4.09	2.12	7.71	2.06	7.68	-11.11	-18.34	24.27	17.00
HANG SENG INDEX	HKD	22580.55	0.53	2.84	4.04	7.31	14.36	24.33	3.93	-4.77	2.27	12.32
SHANGHAI SE COMPOSITE	CNY	3002.637	-0.51	2.48	2.39	0.04	7.57	10.39	-13.80	-21.50	45.18	13.78
S&P BSE SENSEX INDEX	INR	27859.6	0.31	0.14	0.23	1.11	9.02	22.32	7.65	2.20	48.40	17.59
RUSSIAN RTS INDEX \$	USD	952.81	0.65	3.03	3.90	0.88	5.22	39.70	27.31	15.90	-27.35	7.38
BRAZIL IBOVESPA INDEX	BRL	58299.57	2.42	1.23	1.73	7.45	9.50	46.45	34.49	20.48	15.90	14.39
MSCI WORLD	USD	1735.8	0.53	1.12	0.81	2.67	5.21	16.77	4.39	-0.38	13.89	17.12
MSCI WORLD HEDGED	USD	752.53	0.51	1.72	0.96	3.34	6.03	19.52	4.59	0.65	27.98	-
MSCI WORLD LOCAL	-	1314.748	0.46	0.86	0.83	2.27	5.62	16.12	2.90	-0.89	20.62	-
MSCI AC WORLD	USD	420.83	0.53	1.26	1.14	3.05	5.95	17.88	5.38	0.23	11.78	16.59
MSCI EM	USD	907.6	0.52	2.49	3.91	6.27	12.51	27.61	14.29	5.33	-5.24	13.21
MSCI AC ASIA x JAPAN	USD	543.54	0.16	1.84	3.16	5.54	12.23	23.15	8.72	3.81	5.01	13.48
MSCI EM LATIN AMERICA	USD	2512.99	2.06	5.09	8.25	13.58	48.87	37.34	15.26	-23.17	16.41	11.67
MSCI EM Eur, ME & Africa	USD	252.15	0.64	3.80	4.21	6.17	11.06	29.79	19.95	-0.13	-20.94	11.67
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	201.37	1.34	1.31	0.83	-3.07	3.24	21.45	12.91	-4.00	-20.90	30.63
MSCI MATERIALS	USD	215.38	0.46	2.23	2.05	4.41	8.88	28.87	16.83	3.46	-4.48	19.67
MSCI INDUSTRIALS	USD	209	0.61	2.11	1.45	3.40	5.32	19.76	8.96	5.37	16.28	17.44
MSCI CONS DISCRETIONARY	USD	196.33	0.84	1.48	1.02	3.47	4.00	16.27	1.40	-0.74	19.53	16.77
MSCI CONS STAPLES	USD	224.31	0.62	1.22	0.38	-0.06	2.35	10.32	7.63	7.62	22.50	21.92
MSCI HEALTH CARE	USD	211.92	0.51	-0.34	-0.97	1.20	7.00	14.25	0.81	-4.94	34.39	17.18
MSCI FINANCIALS	USD	93.05	0.14	1.39	1.45	4.23	2.49	14.89	-4.09	-10.60	-1.49	13.18
MSCI INFO TECH	USD	157.39	0.36	0.61	1.71	6.29	11.99	22.21	7.52	9.25	45.13	18.44
MSCI TELECOMS	USD	74.4	0.44	1.63	0.70	1.40	2.79	12.47	9.52	2.96	16.61	15.44
MSCI UTILITY	USD	122.2	0.47	0.18	-2.46	-1.00	1.65	9.85	6.43	3.25	12.02	16.84
MSCI WORLD REAL ESTATE	USD	208.79	-0.66	0.27	-1.45	1.14	5.22	22.73	9.99	7.63	19.12	23.27
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1184.63	0.05	0.40	0.28	1.06	2.57	5.54	0.90	-3.72	-1.12	-
HFRX EQUAL WEIGHTED	USD	1196.67	0.02	0.31	0.23	1.07	2.73	5.43	2.04	-0.99	1.79	-
HFRX GLOBAL EUR	EUR	1074.3	0.05	0.36	0.23	0.90	2.14	4.62	-0.09	-4.97	-3.34	-

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.2798	0.00	0.02	0.03	-0.01	0.02	0.00	0.12	0.18	-	-
US 2 YEAR	USD	0.7379	-0.55	0.02	0.08	0.05	-0.02	0.02	-0.31	0.07	-	-
US 10 YEAR	USD	1.5474	-0.01	-0.04	0.09	0.04	-0.20	-0.20	-0.72	-0.60	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	511.4489	-0.14	0.31	-0.04	0.19	2.50	4.72	6.46	6.62	16.28	1.13
US GOVERNMENT TR	USD	2199.09	-0.40	0.04	-0.62	-0.27	1.56	1.88	4.98	4.51	10.55	1.13
US CORPORATE TR	USD	2795.41	-0.44	0.36	-0.43	-0.01	3.21	8.63	8.75	8.28	17.52	2.84
US HIGH YIELD TR	USD	1754.67	0.07	0.81	1.16	1.29	5.94	18.78	13.31	7.90	15.54	6.48
EU GOVERNMENT TR	EUR	258.0727	-0.04	0.34	0.13	0.76	3.48	4.74	6.33	6.88	22.47	0.12
EU CORPORATE TR	USD	261.8934	-0.03	0.31	0.28	1.21	3.42	6.88	6.87	6.65	16.87	0.63
EU HIGH YIELD TR	EUR	289.9257	0.05	0.52	0.81	1.81	3.29	11.23	6.81	5.58	19.74	3.96
BARCLAYS GLOBAL CONVERT.	USD	219.99	0.27	0.70	0.63	3.16	4.58	12.05	3.35	-1.26	12.14	-
GLOBAL EM TR (HEDGED)	USD	361.6615	-0.10	0.61	0.83	0.99	4.89	12.07	11.52	10.20	20.29	4.20
S&P/LSTA U.S. LEV LOAN	USD	92.52384	0.02	0.23	0.01	0.76	1.98	7.37	5.49	-0.71	-5.66	5.28
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2203.72	2.19	1.80	2.19	-2.72	-5.11	17.78	1.53	-17.84	-54.43	-
GSCI ENERGY TR	USD	369.48	4.05	2.91	4.01	-3.34	-7.42	31.92	0.32	-27.07	-96.86	-
GSCI INDUSTRIAL METALS TR	USD	1041.465	0.25	1.08	-0.32	1.87	6.30	12.75	9.08	0.91	-25.30	-
GSCI PRECIOUS METALS TR	USD	1667.408	-0.21	-1.36	-0.67	-1.05	6.27	9.40	26.38	21.99	0.61	-
GSCI AGRICULTURE TR	USD	445.5007	-0.30	0.56	-0.92	-4.46	-4.76	2.68	-1.02	-6.07	-29.97	-
GENERIC 1ST 'CL' FUTURE	USD	43.49	0.60	4.67	5.17	-8.11	-11.02	18.31	-5.67	-22.80	-63.33	-
GOLD SPOT \$/OZ	USD	1336.7	0.08	0.32	-0.83	0.50	6.02	8.23	26.23	19.15	0.11	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.857	0.03	-0.32	0.37	-0.58	1.84	-0.06	-2.78	-0.39	17.89	-
Euro Spot	EUR	1.1137	0.14	0.80	-0.19	0.83	-1.97	-0.92	2.68	-0.05	-16.14	-
Japanese Yen Spot	JPY	101.96	-0.14	-0.27	-0.04	2.54	6.78	10.92	17.75	21.66	-5.09	-
British Pound Spot	GBP	1.2856	0.08	-0.81	-1.99	-2.11	-10.27	-10.59	-12.00	-18.95	-16.13	-
Swiss Franc Spot	CHF	0.9755	0.15	0.69	-0.46	1.54	-0.38	0.32	2.89	0.14	-4.95	-
Brazilian Real Spot	BRL	3.1444	-0.54	1.56	3.32	5.25	9.78	26.97	25.96	10.49	-27.75	-
China Renminbi Spot	CNY	6.8337	-0.14	0.26	-0.12	0.68	-1.90	-1.04	-2.25	-3.87	-7.84	-
Singapore Dollar Spot	SGD	1.3433	-0.23	0.04	-0.50	-0.01	1.98	3.83	5.36	3.89	-6.22	-
Norwegian Krone Spot	NOK	8.25	0.18	3.31	2.56	2.40	-1.25	4.44	7.38	-0.97	-28.70	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	11.68	-3.07	2.55	-1.60	-13.80	-18.95	-54.02	-35.86	-14.18	-8.82	-
USD SWAP SPREAD SEMI 2YR	USD	25.47	-	-8.37	11.76	51.70	87.83	333.28	110.44	1.17	43.84	-
TED SPREAD	USD	53.72	-	1.57	6.27	37.71	44.29	59.22	19.38	152.21	151.03	-

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