

Bedrock Friday July 15th Newsletter

Another week came and went...Q2 earnings' reports are trickling-in seeming to point to 'better than expected' season. The markets are repricing themselves accordingly; the S&P 500 and the DJIA have marked a sequence of new all-time highs as the week progressed. Some equity investors get worried when new highs are hit. Should they be? Well, perhaps we should take a small step back to gain some insight from perspective? Last year in May, the S&P reached a new high of 2'134.72 and then meandered down as we were concerned about oil prices collapsing, about the Fed's *then* imminent tightening and many other concerns. Well, a little more than a year forward, BREXIT included, we are at 2'163.75, about 1.5% higher than the then all-time high. So many risks have been taken-out of the equation whilst the "discounting-factor" of the future has been further reduced- the benchmark 10 year US yields have fallen from 2.25% to about 1.50 today. In pure economic terms, it is arguable that the equity market is cheap!

We miss the days when the Fed was opaque and credible in being so, when CNN, CNBC, Bloomberg News and other continuously updated realities were not pumping data and opinions into our limited processing abilities... information overkill these days...

Let's not feel poorly though; 2016 was expected to be the year of the stock picker. In fact, this has been the year investors wanted to do anything but try to pick stocks. Active fund managers had their worst first half ever, with fewer than one in five beating a basic market benchmark, according to data from Bank of America Merrill Lynch that go back to 2003. Overall, just 18% of large-cap fund managers have beaten the Russell 1000 benchmark for 2016, with the number rising to 22% in June. Few if any have been reading the markets properly. So what to make of Bank of America Merrill Lynch equity analysts (who are among the most bearish on Wall Street) whose crystal-ball says the S&P 500 could retest its February lows this summer, about 15% below current levels. Goldman Sachs has a year-end target of 2'100 for the S&P. But then, as this prediction was issued, they also recommended "owning volatility" which they expected would spike. Well, the VIX was well above 20 when this thought was floated, only to fall through 13 (!!!) yesterday.

Sifting through the news flows, we did focus on the Fed's Beige Book published on Wednesday. In short, it stated "Economic activity increased at a modest pace in most regions". With the U.S. labour market near what is considered to be full employment, economists generally have been expecting wages to rise, which in turn would help spark higher inflation. Well, to the great dismay of the Fed and other central bankers it simply isn't happening. Government data puts inflation at about 1% and even that anaemic number may overstate the true level of price growth. Billions of online transactions are tracked on a daily basis by Adobe and show that deflation is rampant across several consumer categories. Prices are falling fast in the Adobe Digital Price Index ("DPI"), which measures 80% of all online transactions from the top 100 U.S. retailers. The consumer price index is calculated on a monthly basis by surveying the costs of about 80,000 items, while the DPI tracks 2.2 million products every day. Online commerce makes up almost 8% of all retail sales, according to the Census Bureau. The DPI suggests that current measures of inflation may be overblown. Deflation may be exerting a stronger pull on our economy than the CPI indicates. "It strongly suggests that direction, It's certainly eye-opening" says Austan Goolsbee, professor of economics at the University of Chicago's, an adviser to the Adobe project.

The elephant in the "economics room" is the internet. We believe that the impact of 'on-line-everything' on disintermediation is much more powerful than the on-line share of commerce at 8%. When true prices are exposed, they affect the traditional distribution pricing, and when one realises how much more business types are coming on-line, we can't see how the future prices of anything will be rising. Prices of most everything will decline for a very long time to come. And there is little the Fed and other central banks can do about it. What does this mean for all of us in the investment world? A first sight, it may well justify the bond markets' general exuberance- if a growing, structural deflationary force is rolling through the global economy then extremely low or even negative yields have a valid "raison d'être". Huge changes tend to creep-up on us unnoticed...

Remember James Brown who sang "This is a Man's World"? That too is changing- From Merkel to May, will women soon rule the world? Christine Lagarde and Janet holding the world's purse and the prospects of Hillary in the US and Christiana Figueres in the running for the UN Secretary General, James Brown's song is becoming obsolete... The world may well become a better place when we consider two known adages- "Consistency is the hobgoblin of the small mind" and "It is a woman's prerogative to be inconsistent"... Metaphors have a way of holding the most truth in the least space...

Oh, and then, China's economy narrowly beat estimates Friday with a 6.7% expansion on-year in the three months through June, the fears of imminent collapse of earlier this year were clearly misguided ☺

Market Weekly Highlights:

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- The Dollar is slightly down for the week with the USD Index (DXY) trading at round 96 and remains down 2.68% YTD. The USD is now trading at about \$1.1140 against the EUR and at 0.9785 against the Swiss Franc. The Bank of England kept its benchmark interest rate at a record-low 0.5% on Thursday and Theresa May took over as prime minister a day earlier, restoring some calm to U.K. politics after last month's Brexit vote, and in response, the GBP climbed 3.1% over the week but remains negative 9.35 % for the year. We expect the GBP to continue to be very volatile as the information is digested.
With the Brexit vote the European stability is at risk which comforts us even more in our belief in the fundamental relative strength of the US\$ - this view is driven mainly by the outlook for short-dated interest rates to hold or rise in the US and hold or decline elsewhere.
The Japanese Yen is currently trading around the 106 level, a fall of 5% for the week: its steepest weekly decline in 17 years. The Russian Ruble is basically flat at 63.20 per USD. The Brazilian Real rose this week against the USD and is trading at or around 3.25. Gold dropped \$32 as equities rallied ahead of potential stimulus measures from policy makers and is currently trading at about \$1'334/Oz.
We note that WTI Oil continued to decline a further 2.4% this week as consumption seems to falter and is now trading at \$45.23/Bbl whilst Brent is up flat for the week, trading at about \$46.89/Bbl.
- Big swings in the Bond market; We note that the yield on the benchmark US 10 year note is back to 1.53%, with the Japanese 10 year JGB at NEGATIVE 27Bps, the German Bund at NEGATIVE 0.03% and the Swiss at NEGATIVE 0.56%. The Italian 10Yr is almost flat for the week and is trading at 1.22%. The Spanish 10Yr yield has been mostly trading in the 1.14%-1.18% range over the week and trades at around 1.18% as we write. In the UK, the Gilts' yields moved higher from 0.708% to 0.834% to finally stabilize today at 0.81%. The global flight to security seems to attenuate slightly.
- Terror attacks again hit France, plunging European markets into negative territories for the last trading day of the week. However, for the week, European markets have significantly rallied as the political uncertainties are diminishing with the nomination of the new UK prime minister. The DAX is trading +4.5% for the week, the CAC40 is now up 4%%, the SMI at +1.26, the UK FTSE trading at +0.76% for the week and EuroStoxx50 at +3.90% In Asia, the Nikkei recovered the most this week jumping 9.21%%, whilst the Shanghai Composite is up 2.22% and the Hang Seng Index closed up 5.33%. The futures are all pointing flat for the US equity open.

Highlighted items are interesting data points for the week

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2163.75	0.53	3.14	3.09	4.45	3.99	15.07	5.96	2.67	28.60	17.74
DOW JONES INDUS. AVG	USD	18506.41	0.73	3.41	3.21	4.91	3.40	15.75	6.21	2.53	19.52	17.23
NASDAQ COMPOSITE INDEX	USD	5034.058	0.57	3.22	3.95	4.12	1.94	12.16	0.53	-1.27	39.54	16.00
RUSSELL 2000 INDEX	USD	1202.171	0.09	4.56	4.36	4.60	6.30	19.30	5.84	-4.93	15.23	17.56
EURO STOXX 50	EUR	2963.07	1.26	4.22	3.25	4.50	-3.16	0.18	-9.48	-18.38	10.09	13.80
EURO STOXX 600	EUR	338.5	0.80	3.22	2.43	4.40	-1.43	2.44	-7.64	-15.54	13.62	15.80
CAC 40 INDEX	EUR	4385.52	1.16	4.23	3.08	4.71	-2.83	3.75	-5.80	-13.46	12.62	14.60
DAX INDEX	EUR	10088.3	1.39	4.35	3.81	4.60	-0.03	5.28	-6.46	-12.92	22.03	12.78
FTSE 100 INDEX	GBP	6654.47	-0.24	0.91	2.25	11.46	4.84	14.59	6.54	-1.53	0.98	17.20
SWISS MARKET INDEX	CHF	8174.02	0.39	1.44	1.67	6.18	1.74	0.57	-7.53	-12.51	1.93	17.52
NIKKEI 225	JPY	16385.89	0.95	9.21	5.92	3.63	-2.08	-3.79	-13.32	-19.38	13.73	16.51
HANG SENG INDEX	HKD	21561.06	1.12	5.41	4.24	5.91	1.69	11.04	-1.09	-13.49	1.75	11.99
SHANGHAI SE COMPOSITE	CNY	3054.018	-0.21	2.22	4.26	5.79	-0.77	5.29	-13.70	-19.74	48.31	13.61
S&P BSE SENSEX INDEX	INR	27942.11	0.46	2.61	3.09	4.14	8.61	13.82	6.57	-1.29	38.93	17.38
RUSSIAN RTS INDEX \$	USD	972.44	2.18	3.42	3.81	6.17	6.76	47.98	27.64	6.25	-28.07	7.32
BRAZIL IBOVESPA INDEX	BRL	55480.87	1.62	6.66	7.67	13.42	4.23	43.85	27.99	4.87	18.70	13.78
MSCI WORLD	USD	1703.22	0.52	2.46	3.02	4.25	1.96	11.98	2.43	-3.67	13.48	16.78
MSCI WORLD HEDGED	USD	739.156	0.53	3.71	3.28	5.10	2.98	9.85	2.73	-1.77	26.89	-
MSCI WORLD LOCAL	-	1293.656	0.53	2.49	3.22	4.84	2.49	10.51	1.25	-4.05	19.35	-
MSCI AC WORLD	USD	411.7	0.59	2.67	3.11	4.55	2.01	12.96	3.09	-4.03	10.93	16.25
MSCI EM	USD	865.93	1.13	4.47	3.82	7.14	2.27	22.10	9.04	-7.68	-9.06	12.82
MSCI AC ASIA x JAPAN	USD	520.95	0.74	4.07	3.43	5.61	1.51	15.65	4.20	-7.74	0.63	13.09
MSCI EM LATIN AMERICA	USD	2374.01	2.48	7.86	4.61	14.72	6.83	46.03	29.74	-4.84	-24.56	15.75
MSCI EM Eur, ME & Africa	USD	241.09	1.63	5.23	4.50	7.95	1.20	32.51	14.89	-11.19	-23.31	11.27
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	207.57	0.52	2.42	1.78	6.41	8.77	29.22	16.39	-4.70	-18.48	28.64
MSCI MATERIALS	USD	209.42	0.78	4.76	5.94	6.38	5.05	28.07	13.40	-4.93	-2.81	19.23
MSCI INDUSTRIALS	USD	204.47	0.58	3.14	3.67	4.40	2.35	16.34	6.60	1.95	16.24	16.98
MSCI CONS DISCRETIONARY	USD	190.58	0.37	2.61	4.32	3.30	-0.38	8.41	-1.57	-5.28	17.64	16.33
MSCI CONS STAPLES	USD	225.54	0.10	0.52	1.08	4.87	3.70	14.19	8.22	8.22	23.65	22.05
MSCI HEALTH CARE	USD	210.24	0.24	0.85	2.68	5.38	4.13	8.40	0.01	-7.20	35.17	17.10
MSCI FINANCIALS	USD	90.36	0.99	4.22	3.17	2.65	-1.74	4.01	-6.86	-14.78	-2.42	12.75
MSCI INFO TECH	USD	149.31	0.79	2.77	4.33	3.72	1.00	12.23	2.00	2.96	39.28	17.74
MSCI TELECOMS	USD	73.77	0.37	1.37	0.44	5.31	2.60	14.07	8.60	3.06	18.32	15.75
MSCI UTILITY	USD	124.09	-0.39	-0.03	-0.39	3.88	3.46	13.83	11.12	7.41	14.89	17.20
MSCI WORLD REAL ESTATE	USD	206.91	-0.20	1.64	1.73	5.03	4.21	16.49	9.00	7.40	14.86	23.87
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1175.33	-0.08	0.65	0.94	1.10	1.79	2.19	0.11	-5.10	-1.68	-
HFRX EQUAL WEIGHTED	USD	1187.21	-0.01	0.54	0.99	1.09	2.37	2.45	1.23	-2.13	1.26	-
HFRX GLOBAL EUR	EUR	1067.32	-0.09	0.62	0.86	0.96	1.39	1.40	-0.74	-6.27	-3.81	-

All data is compiled from Bloomberg

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.3103	0.00	0.04	0.05	0.06	0.09	0.08	0.15	0.30	-	-
US 2 YEAR	USD	0.6734	0.03	0.07	0.09	0.00	-0.06	-0.18	-0.37	0.05	-	-
US 10 YEAR	USD	1.5304	-0.01	0.17	0.06	-0.04	-0.22	-0.50	-0.74	-0.82	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	510.4456	-0.21	-0.36	0.36	1.19	2.48	5.44	6.26	7.60	16.35	1.13
US GOVERNMENT TR	USD	2203.08	-0.34	-0.83	-0.05	0.62	1.72	3.66	5.17	5.93	10.82	1.13
US CORPORATE TR	USD	2795.94	-0.38	-0.46	1.04	1.96	3.74	8.27	8.80	9.13	17.69	2.82
US HIGH YIELD TR	USD	1734.73	0.17	1.31	2.72	3.27	6.26	15.29	12.02	4.16	14.45	6.59
EU GOVERNMENT TR	EUR	256.069	-0.25	-0.43	0.14	1.56	2.32	4.85	5.50	7.72	22.03	0.20
EU CORPORATE TR	USD	259.5145	-0.01	0.41	1.16	1.53	2.64	6.18	5.90	6.83	16.30	0.74
EU HIGH YIELD TR	EUR	285.9739	0.20	1.20	1.64	1.33	1.99	7.19	5.35	4.11	20.03	4.18
BARCLAYS GLOBAL CONVERT.	USD	215.56	0.37	2.49	2.21	1.77	4.92	1.27	4.99	-4.39	12.42	-
GLOBAL EM TR (HEDGED)	USD	358.3727	-0.06	0.33	1.49	3.25	4.79	11.82	10.51	8.85	20.13	4.30
S&P/LSTA U.S. LEV LOAN	USD	92.12401	0.08	0.66	1.51	1.14	2.83	4.90	5.03	-3.02	-6.01	5.43
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2301.428	1.10	1.60	-3.49	-4.78	4.77	17.14	6.03	-24.24	-53.00	-
GSCI ENERGY TR	USD	388.424	2.07	1.00	-5.56	-6.20	5.15	25.11	5.47	-34.57	-65.52	-
GSCI INDUSTRIAL METALS TR	USD	1053.1	0.36	4.27	2.77	8.14	6.78	15.82	10.30	-6.22	-22.06	-
GSCI PRECIOUS METALS TR	USD	1658.661	-0.80	-1.64	1.84	4.88	10.29	26.35	27.72	16.84	2.71	-
GSCI AGRICULTURE TR	USD	473.7198	-0.81	4.01	-1.50	-7.97	5.26	6.32	5.25	-9.78	-29.97	-
GENERIC 1ST 'CL' FUTURE	USD	45.68	-1.23	-0.64	-6.64	-7.94	3.56	18.89	-0.99	-30.01	-62.00	-
GOLD SPOT \$/OZ	USD	1335.16	-0.14	-2.42	0.84	3.22	8.03	22.45	25.62	16.00	3.79	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	96.077	-0.01	-0.24	-0.08	1.54	1.45	-2.92	-2.60	-1.13	15.69	-
Euro Spot	EUR	1.112	0.12	0.74	0.24	-1.13	-1.34	1.99	2.49	1.67	-14.77	-
Japanese Yen Spot	JPY	105.35	-0.28	-4.84	-2.32	0.34	2.94	10.72	13.79	17.14	-5.48	-
British Pound Spot	GBP	1.3343	0.19	3.20	0.44	-5.88	-6.24	-9.28	-14.52	-11.46	-	-
Swiss Franc Spot	CHF	0.9809	0.13	0.38	-0.37	-1.86	-1.19	2.21	2.30	-2.83	-3.19	-
Brazilian Real Spot	BRL	3.2526	0.36	3.53	-1.22	7.06	7.08	22.99	21.77	-3.46	-30.30	-
China Renminbi Spot	CNY	6.6835	0.00	0.11	-0.53	-1.52	-3.11	-1.47	-2.84	-7.10	-8.16	-
Singapore Dollar Spot	SGD	1.3424	-0.13	0.14	0.22	0.62	0.99	7.10	5.53	1.59	-6.12	-
Norwegian Krone Spot	NOK	8.3644	-0.12	1.79	-0.13	-0.79	-1.47	5.50	5.60	-2.62	-27.61	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	12.82	-1.69	-0.68	-16.12	-34.91	-3.74	-51.48	-28.01	-0.91	-4.93	-
USD SWAP SPREAD SEMI 2YR	USD	18.2	-	10.97	18.34	15.80	47.68	199.83	49.92	-29.63	-1.87	-
TED SPREAD	USD	36.88	-	-3.07	-6.73	-5.51	-10.96	-2.18	-18.04	30.13	55.48	-

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