

# Bedrock Friday 03 February 2017 Newsletter

January is over, and while it was a hectic month which saw Donald Trump take the oath and issue a raft of executive orders of all kinds, Equity markets behaved quite well and continued their positive run which started with his election. The S&P Index was up +1.79% while the Nasdaq was up +4.3%. Europe was about flat, as was Japan, but Emerging Market indices rallied hard, with India being up +5.4%, Hong Kong +6% and Brazil +7.4%! If you hear the political news, you get depressed, but if you actually read the economic news, the world is not in such a bad position. In Europe, Euro zone officials received a slew of good news on Tuesday morning with stronger-than-expected growth and inflation figures and a falling unemployment rate.

The 19-member economy saw GDP (gross domestic product) growth of 0.5 percent in the last quarter of 2016 compared to the previous three-month period, and the preliminary figures also showed a 1.8 percent rise compared to the previous year. As a result, in the whole of 2016, the euro area grew 1.7 percent. In terms of unemployment, the euro area registered in December the lowest rate since May 2009. The jobless figure stood at 9.6 percent in December, down from 9.7 percent in November and down from 10.5 percent a year ago. Looking at particular countries, Germany and the Czech Republic registered the lowest unemployment rate with 3.9 and 3.5 percent, respectively. Greece continues to see the highest number of people unemployed, above 20 percent.

In the US, meanwhile, the Fed met this week and held the line on interest rates at its meeting, though it did give a nod to growing optimism among the business community and consumers. "Measures of consumer and business sentiment have improved of late," the committee said Wednesday. The language was new, and in the arcane process of discerning where the thinking resides among central bankers, it was significant. The FOMC meeting came the same day as a report indicating that job growth may in fact be even stronger than the Fed anticipates. Indeed, Private payrolls grew by 246,000 jobs in January, according to ADP and Moody's Analytics. The number far eclipsed market expectations and perhaps served as an indicator of still more slack in the labor market. Today we will see the official unemployment numbers for January, which are widely expected to show yet better numbers and a falling unemployment rate to 4.6%.

In the currency markets, the Dollar this week had a rough time. Germany is using a "grossly undervalued" euro to gain advantage over the United States and its own European Union partners, Donald Trump's top trade adviser told the Financial Times, Peter Navarro, the head of Trump's new National Trade Council, told the newspaper that the euro was like an "implicit Deutsche Mark" whose low valuation gave Germany a competitive advantage over its main partners. The EUR yesterday hit a 2 month high at 1.0829 before retreating to within 0.5% of last week's close. However, things might be much less dire for the USD than what Trump would like, thanks to himself! The U.S. dollar is set to see big gains under his presidency, according to Raoul Pal, founder of The Global Macro Investor financial publication, who says Trump's protectionist proposals will push the Dollar Index higher—much higher.

Trump is expected to push for tax cuts and more infrastructure spending, a policy mix that economists say is bullish for growth and could light a fire under the greenback. He says the stage is being set for a big dollar rally—even as Trump takes protectionist measures that may curb trade flows.

The British Pound, also took a beating yesterday, after having hit a multi week high of 1.2706 against the USD. After the meeting of the Bank of England, the GBP fell more than a cent against the dollar and the euro while U.K. government bonds rallied, as investors tempered expectations of future interest-rate rises. The moves in sterling and gilts came after the BOE kept rates on hold but officials signalled they were willing to tolerate inflation running above target in the coming months. Sterling's decline ended a nascent rally, in which the currency gained around 5% from a mid-January low. Those gains were amid broad dollar weakness and as investors felt a greater degree of certainty surrounding Britain's exit from the European Union. But many investors and analysts expect an extended decline as Brexit negotiations begin and higher inflation hits the economy.

Investors might be a bit too euphoric given the rising tensions in the world. This week, we have seen Trump put Iran "on notice" after they fired a ballistic missile, in breach of their commitment, while China is preparing for a potential military clash with the United States, according to an article on the Chinese army's website. "The possibility of war increases" as tensions around North Korea and the South China Sea heat up, Liu Guoshun, a member of the national defence mobilization unit of China's Central Military Commission, wrote on Jan. 20—the same day as President Donald Trump's inauguration. The commentary was first reported by South China Morning Post, and comes amid concerns about a trade war between the world's two largest economies. Meanwhile, the VIX, "the fear index", plunged to the lowest in years on Wednesday... Go figure! Although economic figures around the world are undeniably stronger and better, one should not lose sight on the many risks that are piling up on our front door. Dark Clouds are piling up on Italy, which is displaying a much lesser growth rate than the EU Bloc. Yield on the 10 year BTP have risen faster and more than the rest of the EU as did those of France, which has its own political problems. This week, the liberal contender for the French Presidency election has been embroiled in a big scandal, thereby all but ruining his chances to get elected, or even to present himself to the election. His opponents are lining up, and chances are not slim to see a final contest between the hard left and the far right... no chance you say? Well, think again and remember all the pundits and polls who thought and believed hard that Brexit would not happen and that Trump would never win the election....

## Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY reached 103.80 and losing ground to trade now at 100. The USD is trading around 1.0740 against the EUR and 0.9960 against the CHF. The Pound is trading this week at roughly 1.2490 against the USD. The Japanese Yen is trading higher against the USD at 113.19, remaining up strongly vs the Dollar YTD. The Russian Rubble is trading steady against the USD at 59.20 following the oil's price stabilization. The Brazilian Real is now trading basically unchanged for the week at 3.12 despite the previous week's Central Bank's decision to cut rates by 75Bp. Gold is now at \$1'214, up about \$70 since the start of the year. Crude oil WTI reached 55.24\$ a barrel on the first day of trading on January 1st and is now trading down at just \$53.88 as we write.
- The yield on 10Y U.S. Treasuries are basically backed to year-end levels at roughly 2.50%, having bounced in a rather tight range around unclear tweets and talk from Trump. The Japanese 10 year JGB yield has remained almost unchanged since the end of last year and continues to offer POSITIVE returns trading at 0.10%. In Europe, this last month, the German Bund has traded higher almost every day and now trading at 0.45%, remaining well above the 0% mark for the last three months, whilst the Swiss 10 year bond "rallied" to yield NEGATIVE 0.02%, up for the period. In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 2.24% while the Spanish 10Y yields trade 60bps lower having started the year at 1.30% and currently trading at 1.66%.
- "The Trump Rally" which begun in November and fuelled with Fed hawkishness on interest rates for 2017, pushed all risk assets up during the last month of the year. Since 1<sup>st</sup> of January all markets are up globally with the emerging market Brazil and China on the spotlight respectively up 7.22% (BOVESPA) and 5.13% (Hang Seng). In the US, the DJIA crossed 20K and they all remain positive for the year, however this week they are all down, with the NASDAQ negative 0.34%, Dow down 1.07% and SP500 down 0.69%.  
In Europe, stocks are trading higher as well for the year with the exception of CAC40 which is down 0.36%, while they are all down for the week. The peripheral Italian with MIB is the strongest at -1.4% for the week as we write. UK FTSE is down 0.33% WTD (retreating some after May's Brexit talk) while Swiss SMI at negative 0.50%. The Spanish Market is at -0.32%, DAX is down 1.21%, and Eurostoxx50 is down 0.95%.  
In LATAM and ASIA, markets were mixed for the week with the Nikkei down 2.82%, BOVESPA down 2.44%, while Shanghai Composite up 0.55% and Indian Nifty 50 up 1.11%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

## MARKET INDICES PERFORMANCE

02/02/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
<b>EQUITY MARKET INDICES - BY REGION</b>												
S&P 500 INDEX	USD	2,280.85	0.06	-0.69	0.09	1.02	9.20	5.41	1.88	19.26	30.94	17.41
DOW JONES INDUS. AVG	USD	19,884.91	-0.03	-1.07	0.10	0.02	10.90	8.34	0.62	21.72	29.35	16.57
NASDAQ COMPOSITE INDEX	USD	5,636.20	-0.11	-0.34	0.38	3.81	11.42	9.23	4.70	25.13	41.01	18.91
RUSSELL 2000 INDEX	USD	1,357.43	-0.27	-1.32	-0.32	-0.59	17.34	11.93	0.02	34.36	24.01	18.83
EURO STOXX 50	EUR	3,253.61	-0.02	-1.14	1.08	-1.49	9.83	12.18	-0.75	12.74	10.18	14.00
EURO STOXX 600	EUR	361.95	-0.30	-0.77	0.96	-0.59	9.65	8.34	0.59	10.36	14.25	14.94
CAC 40 INDEX	EUR	4,794.29	-0.01	-0.43	1.48	-1.64	9.24	11.53	-0.89	14.01	17.32	14.33
DAX INDEX	EUR	11,627.95	-0.27	-1.39	0.99	0.57	12.82	14.55	1.47	23.48	26.81	13.49
FTSE 100 INDEX	GBP	7,140.75	0.47	-0.43	0.77	-0.34	5.35	7.83	0.15	22.55	10.64	14.52
SWISS MARKET INDEX	CHF	8,276.70	-0.63	-0.72	0.33	0.04	8.88	3.86	1.21	2.41	2.62	16.73
NIKKEI 225	JPY	18,914.58	-1.22	-2.82	-0.65	-1.03	10.41	17.63	-1.03	10.05	29.41	17.84
HANG SENG INDEX	HKD	23,184.52	-0.57	0.35	-0.99	4.42	1.96	6.39	5.13	21.79	4.96	11.60
SHANGHAI SE COMPOSITE	CNY	3,159.17	0.31	0.55	-0.60	0.82	0.89	4.95	1.18	14.79	54.44	13.20
S&P BSE SENSEX INDEX	INR	28,226.61	0.32	1.02	1.84	5.71	2.68	1.69	5.78	16.28	39.37	19.09
RUSSIAN RTS INDEX \$	USD	1,171.42	0.33	-1.51	1.15	-0.99	21.25	29.32	2.19	68.96	-8.94	6.84
BRAZIL IBOVESPA INDEX	BRL	64,578.21	-0.40	-2.44	-0.14	4.47	4.58	13.14	7.22	63.12	39.94	12.66
MSCI WORLD	USD	1,795.11	0.11	-0.46	0.15	2.11	7.68	5.38	2.51	16.50	14.20	16.50
MSCI WORLD HEDGED	USD	798.85	-0.05	-0.89	0.15	1.38	8.81	8.35	1.49	19.36	28.42	-
MSCI WORLD LOCAL	-	1,382.81	-0.06	-0.89	0.13	0.56	8.72	7.28	1.36	17.05	22.92	-
MSCI AC WORLD	USD	434.02	0.12	-0.42	0.21	2.46	7.21	5.38	2.89	17.50	12.54	15.91
MSCI EM	USD	915.21	0.24	-0.08	0.66	5.39	3.42	5.42	6.14	26.82	-1.24	12.24
MSCI AC ASIA x JAPAN	USD	548.21	0.01	-0.04	0.38	5.98	2.54	4.53	6.59	22.35	5.48	12.82
MSCI EM LATIN AMERICA	USD	2,535.30	0.81	0.11	0.75	6.57	2.88	7.38	8.32	47.61	-10.43	14.14
MSCI EM Eur, ME & Africa	USD	251.97	0.26	-0.35	0.86	2.06	6.71	5.76	2.94	29.89	-14.67	10.35
<b>EQUITY MARKET INDICES - BY SECTOR</b>												
MSCI ENERGY	USD	212.55	0.59	-1.68	0.08	-3.68	6.69	7.95	-2.94	25.56	-16.64	22.68
MSCI MATERIALS	USD	238.48	0.12	-0.32	0.69	7.40	12.10	14.30	7.48	42.81	4.20	17.11
MSCI INDUSTRIALS	USD	218.29	-0.08	-1.01	0.01	2.62	8.43	7.42	2.73	22.26	15.05	17.73
MSCI CONS DISCRETIONARY	USD	202.58	-0.09	-0.63	-0.27	3.04	7.93	5.92	3.13	13.43	19.82	16.44
MSCI CONS STAPLES	USD	211.30	0.62	0.28	0.21	2.26	-0.06	-4.53	1.81	1.56	18.94	19.69
MSCI HEALTH CARE	USD	198.16	-0.03	1.29	0.61	1.88	5.92	-7.02	2.76	3.02	16.17	15.25
MSCI FINANCIALS	USD	108.42	-0.15	-1.21	-0.02	1.28	15.34	19.88	2.11	28.49	13.20	12.89
MSCI INFO TECH	USD	169.78	0.22	-0.44	0.74	4.67	8.44	10.19	5.30	25.57	44.49	17.90
MSCI TELECOMS	USD	68.85	-0.69	-1.38	-1.22	-1.60	3.42	-6.29	-0.98	0.51	2.90	14.31
MSCI UTILITY	USD	115.00	0.68	0.31	-0.54	0.62	-0.61	-6.59	0.03	-0.23	5.32	15.91
MSCI WORLD REAL ESTATE	USD	191.45	0.63	0.27	-0.04	0.61	1.21	-7.83	0.72	5.98	12.00	24.35
<b>HEDGE FUND INDICES</b>												
HFRX GLOBAL HEDGE FUND	USD	1,211.34	0.15	-0.39	0.15	0.65	2.68	2.55	0.65	6.05	-0.91	
HFRX EQUAL WEIGHTED	USD	1,224.68	0.19	-0.22	0.19	0.62	2.24	2.51	0.62	6.38	2.16	
HFRX GLOBAL EUR	EUR	1,087.30	0.11	-0.43	0.11	0.42	2.12	1.46	0.42	4.08	-4.01	

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<b>LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)</b>												
US 3 MONTH	USD	0.49	-1.02	-2.04	-2.55	0.00	12.09	22.34	-1.02	15.65	-	
US 2 YEAR	USD	1.22	1.23	-0.13	1.25	0.28	41.14	55.01	2.86	49.46	-	
US 10 YEAR	USD	2.49	1.52	0.46	3.58	4.45	67.74	94.69	4.46	60.28	-	
US LIBOR 3M	USD	1.03	0.00	-0.28	0.00	3.67	15.36	27.55	3.67	41.60	-	
EUR LIBOR 3M	EUR	-0.34	0.00	0.00	0.00	-0.71	-2.14	-4.07	-0.71	-16.21	-	
GBP LIBOR 3M	GBP	0.36	0.00	-0.88	0.00	-1.08	-4.63	-13.55	-1.08	-23.35	-	
CHF LIBOR 3M	CHF	-0.73	0.00	0.08	0.00	0.06	0.14	2.34	0.06	2.74	-	
<b>FIXED INCOME INDICES - BY TYPE OF ISSUER</b>												
											Yield to Worst	
GLOBAL AGG TR HEDGED	USD	497.34	0.11	0.06	-0.04	-0.25	-1.81	-2.33	-0.40	1.86	10.71	1.66
GLOBAL HY TR	USD	1,210.69	0.18	0.31	0.22	2.10	2.56	4.81	2.07	18.64	13.72	5.59
US GOVERNMENT TR	USD	2,119.86	0.03	0.06	-0.09	0.19	-2.67	-3.79	0.15	-1.17	5.33	1.66
US CORPORATE TR	USD	2,732.55	0.04	-0.03	-0.10	0.17	-1.74	-1.92	0.21	6.06	10.90	3.38
US HIGH YIELD TR	USD	1,843.80	0.10	0.13	0.20	1.36	3.80	6.53	1.65	22.12	15.73	5.82
EU GOVERNMENT TR	EUR	245.68	0.39	0.05	0.06	-1.34	-2.63	-4.25	-1.84	-0.70	13.10	0.63
EU CORPORATE TR	EUR	259.67	0.20	0.21	0.12	-0.17	-0.37	-0.30	-0.29	5.33	13.06	0.97
EU HIGH YIELD TR	EUR	298.53	0.04	-0.05	0.05	0.55	2.10	3.86	0.78	11.91	16.69	3.71
BARCLAYS GLOBAL CONVERT.	USD	226.98	0.11	0.28	0.58	1.98	5.26	4.56	1.98	12.14	8.96	-
GLOBAL EM TR (HEDGED)	USD	360.69	0.22	0.33	0.26	1.31	-0.24	0.78	1.40	11.37	18.49	4.46
S&P/LSTA U.S. LEV LOAN	USD	98.75	-0.03	-0.18	-0.09	-0.16	1.35	6.96	0.14	13.25	0.11	4.73
<b>COMMODITY INDICES - BY TYPE OF ISSUER</b>												
GSCI INDEX TOTAL RETURN	USD	2,410.46	-0.33	-0.07	1.15	-0.28	9.09	14.66	-0.28	23.31	-49.26	
GSCI ENERGY TR	USD	420.14	-0.62	-0.65	1.35	-3.37	12.42	23.31	-3.37	38.98	-61.94	
GSCI INDUSTRIAL METALS TR	USD	1,210.68	-0.29	1.36	-0.52	7.86	12.65	16.45	7.86	29.12	-7.45	
GSCI PRECIOUS METALS TR	USD	1,493.44	0.80	2.40	0.51	6.05	-7.17	-12.08	6.05	8.45	-4.38	
GSCI AGRICULTURE TR	USD	453.42	-0.32	0.58	1.68	5.19	0.49	3.14	5.19	1.68	-24.26	
GENERIC 1ST 'CL' FUTURE	USD	53.54	0.88	1.58	2.27	1.66	14.23	21.04	-0.94	23.85	-51.74	
GOLD SPOT S/OZ	USD	1,215.75	-0.22	1.83	0.20	4.69	-6.88	-10.68	5.28	6.16	-3.55	
<b>CURRENCIES</b>												
DOLLAR INDEX SPOT	USD	99.79	0.12	-0.62	0.40	-3.20	2.83	4.54	-2.25	2.69	23.33	
Euro Spot	EUR	1.08	-0.08	0.48	-0.44	3.32	-3.20	-3.58	2.22	-3.20	-20.52	
Japanese Yen Spot	JPY	112.80	-0.36	1.67	-0.36	4.01	-9.04	-10.57	3.31	4.14	-10.80	
British Pound Spot	GBP	1.25	0.05	-0.18	-0.37	2.42	0.58	-5.94	1.56	-14.18	-23.13	
Swiss Franc Spot	CHF	0.99	-0.12	0.54	-0.47	3.37	-2.01	-2.08	2.53	1.05	-9.36	
Brazilian Real Spot	BRL	3.12	0.21	1.69	0.86	5.26	3.52	4.40	4.28	27.82	-22.71	
China Renminbi Spot	CNY	6.88	0.16	0.16	0.16	1.33	-1.57	-3.47	1.05	-4.30	-11.82	
Singapore Dollar Spot	SGD	1.41	-0.18	1.24	-0.29	2.57	-2.14	-5.07	2.33	-0.02	-9.77	
Norwegian Krone Spot	NOK	8.25	-0.03	1.04	-0.10	4.87	-0.83	2.42	4.67	3.77	-23.86	
<b>VOLATILITY / LIQUIDITY INDICES</b>												
CBOE SPX VOLATILITY INDX	USD	11.93	1.02	11.63	-1.50	-8.09	-46.51	-8.16	-15.88	-45.45	-44.92	
USD SWAP SPREAD SEMI 2YR	USD	30.20	-	1.98	3.14	19.00	23.73	14.66	17.18	392.26	120.35	
TED SPREAD		54.14	-	-0.04	3.74	8.17	5.23	9.66	8.17	91.04	150.30	

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