

# Bedrock Friday 31 March 2017 Newsletter

We are today coming to the end of the first quarter. Markets wise, the quarter was good with all major equity indices enjoying a nice ride and firmly on the "green" territory. And this despite the usual talk of markets being too high, Brexit being a disaster, North Korea behaving in the most unpredictable and dangerous manner and last but not least, Trump not being able (yet) to pass any meaningful reform. So what is really behind this market rally and how long can it last?

Well, to start with, the US economy, which is still the economic engine of the world is doing just fine, and even better than expected. This has prompted the Fed to raise short term rates 2 weeks ago by another quarter point. And since, quite a few Fed Governors have been on the wires saying that 2017 as a whole could see 3 to 4 hikes. Fed's Rosengren said four moves should be the Fed's "default" position unless the data dictate that a shift is necessary. He believes the Fed should get more aggressive because there are signs that a "potentially overheating economy" is on the horizon. Inflation is getting close to the central bank's 2 percent target, and Rosengren thinks a shortage of qualified workers will cause companies to start raising wages.

US Consumer Confidence also was a big surprise; The Conference Board's reading on consumer confidence jumped to 125.6 in March from an upwardly revised level of 116.1 in February. Economists thought it would slip to 114. Thomas Simons of Jefferies says confidence has been "on an erratic trend higher" with some downturns, but this move is the highest since December 2000 and a new high for this cycle.

In Europe as well, there are some people calling for an end to easy monetary policy. The European Central Bank (ECB) should be ready to change its monetary policy as inflation data start to meet targets, a member of the bank's executive board told CNBC on Monday. Sabine Lautenschläger, member of the ECB's executive board, said the current loose monetary stance is necessary given current economic data, but added that she's hopeful that the numbers will improve by the next scheduled meeting in June.

In Japan, The unemployment rate in February was 2.8%, 0.2 point lower than January, and the lowest level since June 1994. So we have here 3 of the largest economic blocks reporting good or better economic news which we believe are the real driver of this equity rally.

But now on to the second question: how long can it last?

Well, we definitely see some clouds gathering on the horizon. First, this week, Theresa May triggered Article 50 and launched Brexit officially. At first, and maybe for some years, it will neither be good for the UK, nor for Europe. As Adam Posen (a former Bank of England member) puts it: Brexit is like arthritis, it doesn't kill you but it hits you... "If you want to cope with the terms of trade shock, Brexit is whatever other fantasies you have, it's a negative trade shock vis-à-vis the EU and if you want to close some of these trade deficits, the pound has to decline more against the euro," the former member of the Bank of England added. And we agree! Add to that the fact that Scottish First Minister Nicola Sturgeon prepared a final draft of a letter to U.K. Prime Minister Theresa May, seeking the power to hold another independence referendum in Scotland after its semi-autonomous parliament approved the move two days ago. The U.K. government repeated May's mantra that now is the time to pull together rather than take separate paths. In a statement, the Scotland Office said the U.K. would not be entering negotiations on the Scottish government's proposal and instead is focusing on the Brexit talks with the EU.

The Euro and Europe are also not in such a good position. They are losing one of the most important member of the Club and they now have a French election coming which could be a major shock both for Europe and for the markets!

Europe could be on track to encounter a shock wave up to five times as turbulent as the start of the euro zone debt crisis if French presidential candidate Marine Le Pen was able to secure victory in May, according to a team of UBS analysts. Strategists at the Swiss banking giant stressed the prominence of the anti-immigration and anti-European Union National Front leader meant France's fast approaching general election would be the most serious political risk event in the region this year. These risks are not (yet) priced. If materialized, we could see a real plunge in the Euro as well as a sharp drop of French Government Bonds and a large widening of the French-German bond yield spread.

And in the US, despite the (current) rosy economic pictures, the Trump-Russia saga is not over with hearings of Trump campaign managers coming soon and with former National Security Adviser Michael Flynn willing to testify before federal and congressional investigators, but only if he is granted immunity!

Trump has also been unable thus far to pass any of his big campaign promises. Questions are thus arising as to whether he will be able to deliver on his big promise of large tax cuts...

On the sign of times: Amazon founder and chief Jeff Bezos has become the second-richest person in the world after his stock struck a new all-time intraday high, giving him another \$1.5 billion in wealth, for \$75.6 billion in total, passing Warren Buffett, according to a report this afternoon from Bloomberg's Robert Lafranco.

Bezos is still \$10.4 billion shy of the world's wealthiest person, Microsoft (MSFT) founder Bill Gates. In passing Buffett, Bezos also surpassed Amancio Ortega, now third in line, who is the founder of Inditex S.A., and Europe's wealthiest individual. Barron's Alex Eule said that Bezos, 53, turned an Internet bookseller into an e-commerce juggernaut. But his follow-up move into the profitable cloud-computing business was his best idea yet. And there's plenty more in the works: drones, grocery stores, in-house freight, apparel making. Maybe even the moon? Quite promising for Evan Spiegel, Snapchat founder, who became the youngest public company CEO when Snap began trading in March 2017 and one of the youngest Billionaire's with a fortune of 4.9 Bio US\$ at just 26 years old! Who said there was no more room for new Tech bellwethers!

## Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY reached 103.80 and has lost some ground so far this year to trade now at 100.50 as we write and gaining almost 1% this week. The USD is trading around 1.069 against the EUR and at parity against the CHF. The Pound has strengthened against the USD trading this week at roughly \$1.2460 above its starting level of this year. The Japanese Yen is higher for the week against the USD at 111.79, remaining up strongly vs the Dollar YTD.  
The Russian Ruble continues to strengthen against the USD and is trading up at 55.93. The Brazilian Real is now at 3.15, slightly lower for the week. Crude oil WTI reached \$55.24 a barrel on the first day of trading on January 1st to reach almost 47USD last week and now is back up again trading at above \$50. Brent is also slightly up at 52.89\$ narrowing the gap with the crude WTI.
- The yield on 10Y U.S. Treasuries is slightly lower than the year-end level, having bounced in a rather tight range and is now trading at 2.42%. The Japanese 10 year JGB is higher for the week and continues to offer POSITIVE returns trading at 0.070%.  
In Europe, since the start of the year we saw the German Bund trading in a range from 0.20% to 0.50% during this first quarter and is now at 0.34% as we write. The French 10Y Yield crossed the 1% level, reaching the high spread-levels of 2014 against the German Bund, reflecting some investors worries on French Presidential election in May this year; now at 0.96%  
The Swiss 10 year bond yield traded for the first time in positive territory since 2015 and this for several days, to only slide down at -0.097% after the status quo announced by the SNB a couple of weeks ago.  
In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 2.14% while the Spanish 10Y yields trade 50bps lower having started the year at 1.30% and currently trading at 1.64%.
- All markets are up globally this week as they are since the start of the year despite last week's correction. In the USA, all the major indices have marked all new time highs this month with DJIA trading just below 21'000, having gained 0.35% for the week, Nasdaq + 9.87% for the year after posting +1.66% for the week. The SP500 also was up for the week at +0.94% and over 5.75% for the year.  
In Europe stocks have been also up for the week so far with Eurostoxx50 positive 0.89%, pushed higher thanks to DAX at 1.50% and CAC 40 at 1.13% for the week as we write. The Peripheral Italian MIB is also up at 0.77% and Spanish IBEX at 0.69% for the week so far.  
In LATAM and ASIA, Bovespa is up 2.73% for the week being among the best performers with a yearly return of 8.37% as is the Hang Seng with a return of 9.67% despite the negative performance of the week at -0.98%. The Nikkei was down about 1.83% for the week.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE											30/03/2017	
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	2,368.06	0.30	0.94	0.19	0.19	5.77	9.21	5.77	14.97	26.48	18.23
DOW JONES INDUS. AVG	USD	20,728.49	0.33	0.35	-0.40	-0.40	4.89	13.22	4.89	17.21	25.95	17.30
NASDAQ COMPOSITE INDEX	USD	5,914.34	0.29	1.66	1.53	1.53	9.87	11.34	9.87	21.45	40.85	20.07
RUSSELL 2000 INDEX	USD	1,382.35	0.79	2.14	-0.31	-0.31	1.86	10.44	1.86	24.09	17.84	19.39
EURO STOXX 50	EUR	3,481.58	0.32	0.85	4.64	4.64	5.56	15.70	5.56	15.60	9.87	14.89
EURO STOXX 600	EUR	380.46	0.60	0.84	2.55	2.55	5.05	10.72	5.05	12.48	13.57	15.60
CAC 40 INDEX	EUR	5,089.64	0.41	1.12	4.50	4.50	4.42	14.14	4.42	15.78	15.61	15.03
DAX INDEX	EUR	12,256.43	0.44	1.54	3.51	3.51	6.70	16.55	6.70	22.93	28.20	14.05
FTSE 100 INDEX	GBP	7,369.52	0.01	0.13	1.14	1.14	2.85	6.48	2.85	18.97	11.33	14.87
SWISS MARKET INDEX	CHF	8,704.39	0.49	0.54	1.34	1.34	5.36	6.41	5.36	10.92	2.44	17.57
NIKKEI 225	JPY	19,063.22	-0.80	-1.83	-1.10	-1.10	-1.07	14.95	-1.07	12.83	27.53	17.19
HANG SENG INDEX	HKD	24,301.09	-0.37	-0.95	1.62	1.62	9.66	3.56	9.66	16.12	8.92	12.00
SHANGHAI SE COMPOSITE	CNY	3,210.24	-0.96	-1.44	-0.59	-0.59	3.83	7.25	3.83	7.28	58.49	13.56
S&P BSE SENSEX INDEX	INR	29,647.42	0.39	0.58	2.95	2.95	11.14	6.19	11.14	16.77	32.19	20.69
RUSSIAN RTS INDEX \$	USD	1,137.26	1.10	0.80	3.12	3.12	-1.62	14.41	-1.62	29.39	-7.54	6.23
BRAZIL IBOVESPA INDEX	BRL	65,265.98	-0.40	2.73	-2.09	-2.09	8.37	11.82	8.37	30.39	29.46	12.28
MSCI WORLD	USD	1,859.95	0.19	0.77	1.16	1.16	6.21	7.78	6.21	12.85	11.12	17.10
MSCI WORLD HEDGED	USD	832.71	0.16	1.02	1.24	1.24	5.80	10.95	5.80	17.49	29.01	-
MSCI WORLD LOCAL	-	1,434.66	0.14	0.85	0.95	0.95	5.16	9.78	5.16	15.15	20.48	-
MSCI AC WORLD	USD	450.79	0.14	0.68	1.41	1.41	6.86	7.73	6.86	13.19	9.67	16.46
MSCI EM	USD	969.47	-0.24	0.04	3.53	3.53	12.43	7.31	12.43	15.85	-2.53	12.64
MSCI AC ASIA x JAPAN	USD	585.11	-0.34	0.14	3.68	3.68	13.76	6.20	13.76	15.27	7.24	13.26
MSCI EM LATIN AMERICA	USD	2,658.55	-0.21	2.59	2.25	2.25	13.58	11.67	13.58	22.60	-16.77	14.33
MSCI EM Eur, ME & Africa	USD	258.61	0.39	-1.33	3.46	3.46	5.65	7.13	5.65	9.75	-19.58	10.68
<b>EQUITY MARKET INDICES - BY SECTOR</b>												
MSCI ENERGY	USD	207.65	0.32	2.32	0.41	0.41	-5.18	1.16	-5.18	11.71	-25.53	22.12
MSCI MATERIALS	USD	237.25	0.38	0.76	1.06	1.06	6.93	9.80	6.93	23.72	-2.28	16.53
MSCI INDUSTRIALS	USD	226.86	0.31	0.69	1.40	1.40	6.77	8.77	6.77	14.92	13.04	18.20
MSCI CONS DISCRETIONARY	USD	210.10	0.11	1.05	2.22	2.22	6.95	8.72	6.95	9.78	18.53	17.22
MSCI CONS STAPLES	USD	222.07	-0.18	0.06	1.09	1.09	7.00	0.58	7.00	2.41	16.62	20.68
MSCI HEALTH CARE	USD	208.79	0.04	0.47	0.40	0.40	8.28	2.22	8.28	7.27	15.55	16.56
MSCI FINANCIALS	USD	111.32	0.69	1.13	0.41	0.41	4.84	19.62	4.84	23.25	9.14	13.26
MSCI INFO TECH	USD	180.72	0.09	0.98	2.59	2.59	12.09	12.02	12.09	22.64	44.57	18.91
MSCI TELECOMS	USD	70.17	-0.06	-0.51	0.72	0.72	0.92	-1.31	0.92	-2.80	-1.03	14.55
MSCI UTILITY	USD	121.27	-0.47	-0.69	1.08	1.08	5.49	1.51	5.49	0.56	2.28	16.68
MSCI WORLD REAL ESTATE	USD	196.40	-0.03	-0.09	-1.11	-1.11	3.32	-3.42	3.32	-0.73	10.69	25.11
<b>HEDGE FUND INDICES</b>												
HFRX GLOBAL HEDGE FUND	USD	1,222.83	0.18	0.19	-0.02	-0.02	1.63	2.98	1.61	6.29	-1.02	-
HFRX EQUAL WEIGHTED	USD	1,234.23	0.11	0.11	-0.04	-0.04	1.33	2.71	1.40	6.85	1.83	-
HFRX GLOBAL EUR	EUR	1,094.75	0.17	0.17	-0.18	-0.18	1.14	1.92	1.11	4.28	-4.32	-

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