Bedrock Friday 12 May 2017 Newsletter

Yes, another week has passed and yet again, we find Donald Trump holding the headlines (well, some at least). This time inadvertently- As the House turned down the funding of The Wall, Trump can reiterate that he did get Mexico to pay for it… Well, if no funding, it will not be built, so Mexico may well agree to pay the bill of zero…

On the more serious side of the Atlantic, the French Presidential elections gave Emmanuel Macron, the centrist candidate, victory with 66% of votes to far-right Marine Le Pen's 34% as voters turned out to have their final say in the second round of voting last Sunday. The result comes as a relief to international observers who have been watching the election closely to discover the fate of the euro zone's second-largest economy. Maybe, just maybe France will find its way out of the bogged-down system it has found itself in. Macron at 39, is the youngest President France has elected. Hope grows as he is trying to define his government and "his" candidates for the Parliamentary elections in June. Yes, a possibly younger group of people may manage to shake-up France into combative form. Looks good you say? Well, the previous youngest leader of France was Napoleon and we know where his combativeness led… (May is no Lord Nelson, so who knows where this goes…). Well, the French Parliamentary elections are likely to result in an ungovernable system- there are five factions vying for power, and they are roughly "worth" 20% each, and are likely to pull in opposing directions. We do expect significant unrest as a result. We wish "good luck" to Macron and think that shorting Air France stock could be a hedge… Then, some expect a significant "rapprochement" between France and Germany, especially as Macron has a clear attraction to older women

We must keep our eyes focussed now on the upcoming German elections. The political arena in Europe may well have pulled-back from the extreme right risk, but it can still turn messy. All this doesn't bode all that well for Teresa May and the UK, as the rhetoric banding around on the Continent is centred on the wellbeing of Europeans and the Euro zone.

Well, America, ex the District of Columbia ("DC"), seems to have found its course into the future- Unemployment is down, interest rates are steady whilst poised for further increases on the short-end of the curve. Inflation? Well, not really there, yet. Since the financial crisis, the economy has never been called robust, but it may be in the longest expansion on record, with a couple more years to go. The current expansion has already lasted 95 months, now the third-longest in U.S. history in 33 business cycles going back to 1854, said Goldman Sachs economists. They also say the medium-term risk of a recession is rising, "mainly because the economy is at full employment and still growing above trend."

Where to look for guidance into the future? Volatility has basically evaporated across the financial markets, creating an eerie quiet that could be the calm before the storm. The barometers that traders look at for stocks, bonds and foreign exchange are all signalling super-low levels of volatility, or a high level of complacency that there's no bad news about to bombard markets. The lack of volatility, at least for stocks, suggests that there are few investors betting that the S&P 500 will make any big moves, not just for a month out but for months to come, according to market futures.
"It's not normal. That's for sure. We're having an extended period of time without a 1% move. I'm just amazed that with enough geopolitical stuff going on, people are so blasé about what's happening," said Art Cashin, director of floor operations at UBS. What will jolt markets back to more normal moves is hard to say, but the volatility sank even lower after the French election.
We are not zoologists here at Bedrock and as such, are hard pressed to understand the development of Black Swans which by their natures are unpredictable … the unknown unknowns…
Even Goldman Sachs CEO Lloyd Blankfein warned Tuesday that the low volatility is worrisome and that it is not a "normal resting state" for markets. In the stock market, the VIX, the CBOE's Volatility Index, is trading at a decade low at just around 10. A measure of volatility for the euro is at its lowest level since 2014. In the bond market, rates are quiet and the low volatility is keeping a lid on activity. The volatility is low across markets, but it is lowest in U.S. stocks, experts said. while the VIX only goes back to 1990, the realized volatility of the S&P would have been lower only 3% of the time going back to 1928. "It's very unusual statistically speaking.
This year so far, our portfolios have performed well. Given the low volatility, the cost of buying insurance against a sudden drop is rather cheap, so we decided to buy some- we chose to buy put options on the S&P 500 index for about half of our long-equity positions, to take us over the upcoming summer. Better be safe than sorry we say…
We are glad we didn't panic on the fall of the Dollar as the Euro rose on the backside of the French elections, and we remain positive the Green Back into this near future. We should have gone "long" Bitcoin though… it has had an amazing run up above $1'800.

We heard Pascal Lamy, retired head of the WTO, comparing Brexit to removing an egg from an omelette… Wise man we say…

Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY had reached 103.80 and then has lost some ground this year to now trade back up just below 100 this week, at 99.64. The USD is trading around 1.086 against the EUR and just above parity against the CHF. The Pound is trading steady at almost 1.2868 after the big jump last month. The Japanese Yen is trading lower for the week against the USD at almost 114, remaining still up vs. YTD.
  The Russian Ruble is trading higher against the USD at 57.15 for the week following the oil pattern. The Brazilian Real is now trading at almost 3.14 slightly higher for the week. Crude oil WTI reached $55.24 a barrel on the first day of trading on January 1st and is now trading higher for the week at around $48 after reaching $44 last Friday. Brent is trading at $50.82.

- The yield on 10Y U.S. Treasuries are trading at 2.37% as we write. The Japanese 10 year JGB is trading higher for the week and continues to offer POSITIVE returns trading at 0.045%.
  In Europe, since the start of year we saw the German Bund trading lower in yield almost every day reaching almost 0.15% and then after the French election bouncing back to almost 0.415% just now.
  The French 10Y Yield is now back below the 1% trading at almost 0.86%
  The Swiss 10 year bond yield traded this week around -0.045%, having bounced from -0.20% lows of last month.
  In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 2.26% while the Spanish 10Y yields trade 50bps lower having started the year at 1.30% and currently trading at 1.62%.

- All markets are up globally this week marking new all-time highs for some of them. In the USA, DJIA is trading just below 21'000 even after the short correction of the last month, Nasdaq at above 6'100, and SP500 at almost 2'400.
  So far for the week DJIA is slightly down at 0.15%, Nasdaq up at 0.67%, while SP500 is up at 0.21%.
  In Europe stocks are mixed for the week with Eurostoxx50 down at -0.81% as is CAC 40 at – 0.78 as we write and IBEX 35 in Spain which is down 2.38% for the week. DAX is slightly positive at + 0.10% for the week together with FTSE 100 at +1.30% and the Swiss market up 0.49%.
  In Latam the Bovespa is showing a strong 4.12% while in Asia the Hang Seng is up 2.74% and Shanghai Composite bucking the trend losing 0.63%. Nikkei is trading strongly higher for the week showing a gain of 2.25%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE — 11/05/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2,394.44	-0.18	0.21	0.43	2.11	3.38	10.63	6.95	16.00	26.25	18.31
DOW JONES INDUS. AVG	USD	20,919.42	-0.08	-0.15	-0.10	1.59	3.21	10.99	5.85	18.05	25.30	17.29
NASDAQ COMPOSITE INDEX	USD	6,115.96	-0.17	0.67	1.13	4.79	6.66	16.78	13.61	29.10	47.59	20.56
RUSSELL 2000 INDEX	USD	1,390.20	-0.66	0.10	-0.73	2.28	0.10	8.41	2.44	25.40	22.63	19.50
EURO STOXX 50	EUR	3,623.55	-0.53	-0.78	1.99	4.67	10.99	19.81	10.33	23.67	13.20	15.42
EURO STOXX 600	EUR	394.39	-0.42	0.13	2.06	3.45	7.53	17.05	9.31	18.60	15.87	16.08
CAC 40 INDEX	EUR	5,383.42	-0.32	-0.76	2.35	5.69	11.66	20.09	10.88	25.58	19.98	15.87
DAX INDEX	EUR	12,711.06	-0.36	0.16	2.41	4.80	9.18	19.40	10.95	29.16	31.28	14.00
FTSE 100 INDEX	GBP	7,386.63	0.18	1.49	2.80	0.77	2.03	10.04	3.68	21.32	8.09	15.07
SWISS MARKET INDEX	CHF	9,064.88	-0.27	0.61	2.94	4.71	7.28	15.12	10.36	15.04	6.16	18.05
NIKKEI 225	JPY	19,961.55	0.31	2.25	3.58	7.18	2.61	14.44	4.03	19.45	40.53	17.36
HANG SENG INDEX	HKD	25,125.55	0.44	2.69	2.11	3.37	6.61	11.55	14.24	26.20	12.90	12.46
SHANGHAI SE COMPOSITE	CNY	3,061.50	0.29	-0.63	-2.26	-5.81	-3.54	-3.52	-0.65	8.73	50.20	13.42
S&P BSE SENSEX INDEX	INR	30,250.98	0.01	0.96	0.76	1.69	6.39	12.40	13.21	16.88	28.00	18.07
RUSSIAN RTS INDEX $	USD	1,105.83	-0.52	0.32	-1.31	1.96	-5.53	13.37	-4.55	20.08	-10.89	6.45
BRAZIL IBOVESPA INDEX	BRL	67,537.62	0.28	4.12	3.26	5.71	2.14	14.12	12.14	26.85	24.95	12.53
MSCI WORLD	USD	1,891.21	-0.20	-0.29	0.69	2.62	4.22	11.45	7.99	14.63	11.58	17.16
MSCI WORLD HEDGED	USD	850.60	-0.19	0.61	1.17	2.58	4.85	13.41	8.07	19.85	30.10	-
MSCI WORLD LOCAL	-	1,460.11	-0.17	0.06	1.01	2.62	4.01	12.04	7.03	17.30	21.35	17.16
MSCI AC WORLD	USD	459.11	-0.12	-0.01	0.87	2.81	4.58	12.12	8.84	15.59	10.22	16.52
MSCI EM	USD	1,000.35	0.53	2.26	2.29	4.40	7.55	17.81	16.01	24.01	-1.52	12.74
MSCI AC ASIA x JAPAN	USD	608.46	0.69	2.25	2.40	4.36	9.22	16.60	18.30	25.64	9.99	13.29
MSCI EM LATIN AMERICA	USD	2,678.21	0.07	3.31	2.98	2.58	3.03	21.41	14.42	21.05	-20.87	14.32
MSCI EM Eur, ME & Africa	USD	261.26	-0.03	1.64	0.61	4.43	3.21	16.64	6.74	15.07	-20.10	11.14
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	203.74	-0.25	0.71	0.93	-2.70	-4.09	1.84	-6.96	4.46	-31.21	22.33
MSCI MATERIALS	USD	236.00	-0.08	-0.69	-0.72	0.13	-0.74	8.43	6.36	19.31	-4.97	15.89
MSCI INDUSTRIALS	USD	232.64	-0.17	-0.80	0.31	3.37	5.19	11.15	9.49	17.23	14.46	17.93
MSCI CONS DISCRETIONARY	USD	216.38	-0.41	-0.30	0.25	3.97	6.01	13.80	10.15	14.62	23.27	17.14
MSCI CONS STAPLES	USD	225.99	0.05	-0.06	0.81	1.32	5.66	11.28	8.89	3.11	14.79	20.85
MSCI HEALTH CARE	USD	212.93	0.02	-0.51	0.56	2.71	5.93	8.56	10.43	7.52	17.31	16.63
MSCI FINANCIALS	USD	111.49	-0.43	-1.01	0.37	3.04	1.68	11.16	5.00	22.80	9.06	13.24
MSCI INFO TECH	USD	189.09	-0.07	0.72	2.35	6.37	9.46	20.04	17.28	34.54	51.74	19.36
MSCI TELECOMS	USD	68.53	-0.56	-0.54	-0.09	-0.95	-0.83	6.36	-1.44	-5.32	-5.57	14.61
MSCI UTILITY	USD	123.16	-0.22	-0.59	0.64	0.33	5.75	11.94	7.13	2.44	2.98	16.75
MSCI WORLD REAL ESTATE	USD	199.03	-0.24	-0.18	0.11	-0.82	1.98	7.76	4.70	0.30	6.99	25.10
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1,231.17	0.02	0.05	0.21	0.60	1.01	3.80	2.30	6.60	0.47	
HFRX EQUAL WEIGHTED	USD	1,242.67	0.03	0.07	0.15	0.51	1.04	3.47	2.10	6.67	3.18	
HFRX GLOBAL EUR	EUR	1,098.81	0.01	0.03	0.12	0.40	0.49	2.70	1.48	4.47	-3.13	

MARKET INDICES PERFORMANCE — 11/05/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	0.88	0.51	-0.50	8.66	7.63	34.59	41.20	38.15	61.44	-	
US 2 YEAR	USD	1.33	-0.37	2.08	6.91	12.95	14.15	41.59	14.27	57.70	-	
US 10 YEAR	USD	2.37	-1.42	2.45	9.30	13.40	-3.41	22.31	-7.11	62.16	-	
US LIBOR 3M	USD	1.18	-0.11	0.97	0.86	2.53	14.47	27.89	18.31	55.28	-	
EUR LIBOR 3M	EUR	-0.37	-0.43	-0.64	-0.57	-0.79	-1.96	-3.71	-3.21	-9.11	-	
GBP LIBOR 3M	GBP	0.31	-0.38	-0.72	-1.06	-2.35	-4.74	-8.72	-5.20	-27.77	-	
CHF LIBOR 3M	CHF	-0.73	0.20	0.50	0.30	0.58	-0.26	0.82	0.22	0.62		
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	503.32	-0.01	-0.17	-0.33	-0.20	0.92	0.49	0.79	0.87	10.60	1.64
GLOBAL HY TR	USD	1,246.98	0.07	0.09	0.16	1.54	2.80	6.50	5.13	11.92	11.96	5.29
US GOVERNMENT TR	USD	2,134.93	0.05	-0.22	-0.50	-0.41	0.40	-0.35	0.86	-1.40	5.76	1.64
US CORPORATE TR	USD	2,781.68	0.09	-0.05	-0.28	-0.03	1.37	1.53	2.01	2.70	10.71	3.31
US HIGH YIELD TR	USD	1,887.46	0.07	0.27	0.17	0.96	2.02	6.46	4.06	13.96	14.61	5.64
EU GOVERNMENT TR	EUR	247.18	-0.22	-0.31	-0.36	-0.34	0.59	-0.48	-1.24	-0.89	10.86	0.60
EU CORPORATE TR	USD	263.97	-0.04	0.18	0.02	0.08	1.23	1.94	1.36	4.23	12.31	0.87
EU HIGH YIELD TR	EUR	307.12	0.04	0.32	0.69	1.55	2.57	5.45	3.68	9.41	15.60	3.31
BARCLAYS GLOBAL CONVERT.	USD	232.03	-0.31	0.27	-0.19	0.57	1.35	6.72	4.25	10.30	8.70	-
GLOBAL EM TR (HEDGED)	USD	371.10	0.10	0.13	0.00	0.71	2.23	4.23	4.33	7.63	16.10	4.23
S&P/LSTA U.S. LEV LOAN	USD	98.86	0.01	0.01	0.11	0.09	0.22	1.43	0.25	8.96	0.27	4.43
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,213.76	0.68	2.52	-1.47	-6.13	-8.84	3.03	-8.42	-4.68	-55.52	
GSCI ENERGY TR	USD	371.56	1.18	5.07	-1.93	-9.71	-11.81	4.30	-14.54	-6.90	-67.13	
GSCI INDUSTRIAL METALS TR	USD	1,157.84	0.52	-0.47	-2.58	-2.95	-7.08	1.35	3.15	18.18	-12.73	
GSCI PRECIOUS METALS TR	USD	1,484.79	0.43	-0.33	-3.71	-4.72	-2.09	-1.25	5.44	-5.38	-8.00	
GSCI AGRICULTURE TR	USD	416.41	-0.25	0.16	0.34	-1.38	-9.45	-6.36	-3.39	-10.98	-41.17	
GENERIC 1ST 'CL' FUTURE	USD	47.96	0.27	3.76	-2.78	-10.44	-13.54	0.67	-14.56	-12.11	-59.62	
GOLD SPOT $/OZ	USD	1,228.67	0.30	0.58	-3.12	-4.53	-0.40	0.07	6.63	-2.77	-5.18	
CURRENCIES												
DOLLAR INDEX SPOT	USD	99.62	0.05	1.04	0.63	-1.10	-1.12	0.62	-2.49	5.86	24.74	
Euro Spot	EUR	1.09	-0.03	-1.27	-0.34	1.81	2.45	1.13	3.24	-4.56	-21.07	
Japanese Yen Spot	JPY	113.86	0.21	-0.80	-1.87	-4.04	0.11	-4.58	2.94	-4.05	-10.11	
British Pound Spot	GBP	1.29	-0.25	-0.99	-0.75	2.50	2.62	2.91	4.17	-11.05	-23.80	
Swiss Franc Spot	CHF	1.01	-0.04	-2.03	-1.35	-0.54	-0.25	-1.00	1.07	-3.74	-11.94	
Brazilian Real Spot	BRL	3.14	0.88	1.55	1.18	-0.08	-0.94	8.36	3.67	9.93	-29.53	
China Renminbi Spot	CNY	6.90	-0.01	-0.02	-0.16	-0.19	-0.35	-0.64	0.59	-5.61	-9.67	
Singapore Dollar Spot	SGD	1.41	-0.04	-0.21	-0.77	-0.90	1.14	0.50	2.76	-2.48	-11.15	
Russian Ruble Spot	RUB	57.07	-0.14	1.37	-0.39	-0.96	1.40	15.48	7.67	13.57	-38.60	
Norwegian Krone Spot	NOK	8.60	-0.08	-0.14	-0.23	-0.65	-2.49	-1.52	0.42	-5.50	-31.20	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	10.60	3.82	1.42	-0.92	-32.02	-1.20	-27.27	-23.65	-25.61	-12.35	
USD SWAP SPREAD SEMI 2YR	USD	25.45	-	-14.82	-19.52	-22.12	-21.44	5.05	-2.16	87.41	77.42	
TED SPREAD		30.20	-	1.55	-19.96	-13.22	-39.98	-31.18	-39.66	-18.88	48.18	

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