Bedrock Friday 02 June 2017 Newsletter

It is Friday, arguably this one in particular is the “morning after” … May is over and the usual “Sell in May and go away” proved to be a sloppy adage at best. Yet again, statistical correlations can be very misguided when there is little or no explaining reason…
We entered the month of June and have been warned that Europe might suffer a very hot weather period. And then Donald Trump announced his repudiation of the Paris Accord on climate…
The National Oceanic and Atmospheric Administration predict “sea levels will rise as much as three feet in Miami by 2060. By the end of the century some 934,000 existing Florida properties, worth more than $400 billion, are at risk of being submerged.” Ironically, this could include Trumps Mar-a-Lago resort.
Yes, The Donald has kept his promise to exit this accord and support coal production and employment therein. Wonderfully stupid, as job creation in renewable energy dwarfs coal, which was an obsession with Trump on the campaign trail. A Department of Energy report in January that noted the coal industry employs about 160,000 in the U.S., and is shrinking, while jobs are growing in the areas of energy-efficiency (2.2 million), natural gas (400,000), solar (374,000) and wind (102,000) … Laughable, if only it were funny… Crazy hot weather ahead…Hot indeed…

Strangely, the markets rose some more after the sad and disturbing announcement- but we did learn in high school the hot air rises… Well, looking through the political hoopla we ask what does this really mean?
No, Trump didn’t kill the Paris Accord-He set the U.S. on a course to withdraw from the deal. Almost 200 countries remain in the pact, which remains in effect regardless of the U.S. position. And Trump said he is open to negotiating new terms under Paris or a new accord, one that is better for American workers and force other nations to do more. Well, Merkel and Macron and many other leaders were quick to state (within minutes!) that this accord is NOT re-negotiable. Wonderful verbose unity of Chinese, Indians and Europeans. Canada, the European Union and China have said they will honour their commitments to the pact, with the United States, or without it.
The United States is the second biggest carbon-dioxide polluter after China, according to the latest data available from the World Bank. The U.S. is the biggest producer of carbon emissions on a per-person basis though. Maybe, just maybe, this silly act will be seen in the future through the eyes of history as a turning point where America’s global hegemony commenced its decline?

Looking away from the long-term, lets rejoice in and enjoy the pleasures of the moment- Yesterday, the three major US stock indexes all notched record closes. The S&P and Nasdaq also hit new all-time intraday highs. This after the ADP Moody’s Analytics National Employment Report indicated that private payrolls surged by 253,000 in May, easily topping a consensus estimate of 185,000. The ISM manufacturing index for May came in at 54.9, just below an estimate of 55.0 but it is still an expansionary figure. Looking good then…
The Fed is set to meet June 13 and 14, with market expectations for a rate hike at 95.8%, according to the CME Group's FedWatch tool. The Dow, S&P and Nasdaq are coming off solid monthly performances in May. S&P and Nasdaq posted monthly gains of 1.16% and 2.5%, respectively, while the Dow rose about a third of a percent on the back of a subdued volatility environment. The CBOE Volatility Index (VIX), widely considered the best gauge of fear in the market, broke below 10 six times last month, hitting levels not seen in more than 20 years.
Well, many investors worry about the levels of the markets. We hear many saying that buying at all-time highs is risky. Are they right? One day this view will prove to be right, but in the interim, it has been very, very wrong! Yesterday’s new record high for the S&P 500 index was its 21st “all time high” in the past year… Just like in athletics, records are there to be broken… ☺

And it is looking smiley elsewhere as well- Brazil's economy emerged from its worst recession on record with its fastest growth rate in nearly four years, data showed on Thursday. Brazil's economy shrank more than 3% in each of the past two years, the deepest and longest downturn since records began in 1901. And it is not just there where economic matters are improving- As Italy moves toward possible early elections, a surprise acceleration in economic growth and a preliminary deal on the rescue of the country’s third-biggest bank provided the government with some much-needed good news. First-quarter expansion was revised up to the fastest in six years, according to a report on Thursday. The upward revision suggests that 2017 annual GDP growth may exceed 1% with similar quarterly performances in the rest of this year. And let’s not forget that Italy is the Euro zone’s third largest economy. This comes in support of a bullish call on Europe by Blackrock’s Larry Fink “Europe will grow as fast as the U.S. if not faster this year, which is a big surprise,” Fink, chief executive officer of the world’s largest asset manager, said Tuesday during an investing conference in New York. U.S. growth in the “mid-2s is not happening,” while Europe will likely grow at the mid-2.5% rate this year, he said.

In another week in which the S&P 500 Index hit new all-time highs, PNC Asset Management's global chief investment strategist Bill Stone says that he expects the markets to move even higher. "We'll still likely see good [earnings] growth rates for the rest of the year," he said. “In addition, the U.S. economy "is probably going to be picking up here." China's yuan climbed to its highest levels since the fourth quarter of last year, despite a weak economic reading, as authorities reportedly tinker with currency policies. The offshore yuan, or CNH, rose, with the dollar fetching as little as 6.82 yuan today, the weakest for the greenback since October. And then, with some normalisation of financial thinking, the fall of WTI oil to below $47/Bbl will further turbo-charge the economy.
This and the steady low yield on the US benchmark 10 year at 2.21% tells us to smile. And maybe the market is right in staying away from the US$? Let’s wait for the Fed before changing views here…

Science is organised knowledge. Wisdom is organised life.’ Immanuel Kant

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 ground to trade down at 97.20.
  The USD is trading around 1.1222 against the EUR and at 0.9712 vs. the CHF. The Pound is trading firmly at $1.2860. The Japanese Yen is trading strongly against the USD at just above 111.50, a big move from year-end levels of 117.50
  The Russian Rouble is moving in a very narrow band against the USD at 56.65 following the oil-price pattern. The Brazilian Real is now trading up for the week against the USD at just above 3.25 as we write.
  Crude oil WTI reached $55.24 a barrel on the first day of trading on January 1st and dropped to $44 in the first trading days of May, only to trade back up at 52 and fall back now to around $47, while Brent is trading at $49.

- The yield on 10Y U.S. Treasuries is trading at 2.21% as we write. The Japanese 10 year JGB is trading almost unchanged for the week and continues to offer POSITIVE returns trading at 0.055%.
  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 0.29% just now. The French 10Y Yield is now back below the 1% trading at almost 0.717%.
  The Swiss 10 year bond yield traded this month at around -0.019%, having bounced from -0.20% lows of last month and now is trading back at -0.176% as we write.
  In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 1.96% while the Spanish 10Y yields trade 40bps lower having started the year at 1.30% and currently trading at 1.54%.

- Equity markets are slightly up so far this week; in the USA, DJIA is trading at about 21'140, Nasdaq at almost 6'250, and SP500 at above 2'430. We are basically at the all-time highs!
  In Europe stocks for the first day of trading in June are positive. The DAX remains up above 11% for the year, the Swiss SMI has gained 10% as did most of the other European indices. Not so bad then… Nikkei is trading is up for the year at 5.56%.
  In Latam the Bovespa is showing a relatively weak +3.42% while in Asia the Hang Seng is up almost 18% and Shanghai Composite basically flat at 0.06%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE — 01/06/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
			PRICE CHANGE IN % (unless indicated)										
EQUITY MARKET INDICES - BY REGION												Fwd P/E	T12m P/E
S&P 500 INDEX	USD	2,430.06	0.77	1.07	0.76	1.63	2.02	10.86	8.54	15.43	26.24	18.69	21.57
DOW JONES INDUS. AVG	USD	21,144.18	0.68	0.63	0.65	0.93	0.67	10.30	6.99	18.53	26.28	17.44	18.60
NASDAQ COMPOSITE INDEX	USD	6,246.83	0.78	1.36	0.78	2.48	6.58	18.86	16.04	25.66	47.43	23.82	33.06
RUSSELL 2000 INDEX	USD	1,396.06	1.89	0.98	1.89	-0.24	0.03	6.22	2.87	19.26	23.67	28.31	44.16
EURO STOXX 50	EUR	3,567.02	0.43	0.58	1.27	0.60	6.35	19.38	9.39	18.65	10.83	15.29	20.16
EURO STOXX 600	EUR	391.66	0.48	0.71	1.06	1.18	4.93	16.13	9.04	14.45	14.21	16.17	25.59
CAC 40 INDEX	EUR	5,318.67	0.66	0.48	1.48	1.09	8.02	18.40	10.28	20.06	18.74	15.85	19.83
DAX INDEX	EUR	12,664.92	0.40	1.37	1.27	2.14	5.93	21.51	11.27	25.15	28.39	14.05	20.01
FTSE 100 INDEX	GBP	7,543.77	0.38	1.03	1.00	4.76	2.89	12.85	6.34	22.79	10.65	15.36	33.00
SWISS MARKET INDEX	CHF	9,024.92	0.09	0.39	0.67	2.36	4.80	16.62	10.43	10.62	4.47	18.14	25.59
NIKKEI 225	JPY	19,860.03	1.07	2.49	2.68	3.76	3.13	9.50	5.56	21.82	35.09	17.66	19.34
HANG SENG INDEX	HKD	25,809.22	0.61	1.10	0.98	4.92	9.20	14.83	17.78	24.22	12.26	12.68	14.32
SHANGHAI SE COMPOSITE	CNY	3,102.62	-0.47	1.35	-0.37	-1.21	-3.85	-4.26	0.06	6.16	52.29	13.72	16.66
S&P BSE SENSEX INDEX	INR	31,137.59	0.08	0.81	0.43	4.54	8.46	19.24	17.47	16.52	26.71	19.01	23.02
RUSSIAN RTS INDEX $	USD	1,045.63	-0.73	-3.90	-2.10	-7.94	-6.24	-1.81	-10.51	16.40	-22.03	6.00	7.02
BRAZIL IBOVESPA INDEX	BRL	62,288.52	-0.67	-1.48	-0.67	-6.64	-5.42	3.27	3.42	24.86	20.70	11.61	16.86
MSCI WORLD	USD	1,923.10	0.62	0.57	0.59	1.96	4.02	12.53	9.81	14.90	11.99	17.43	21.60
MSCI WORLD HEDGED	USD	859.87	0.72	0.51	0.72	2.09	3.16	12.64	9.25	18.80	28.56	-	-
MSCI WORLD LOCAL	-	1,472.37	0.73	0.48	0.70	1.39	2.52	11.28	7.92	16.00	20.39	17.43	21.60
MSCI AC WORLD	USD	466.40	0.58	0.41	0.56	1.97	4.41	13.14	10.56	15.88	10.50	16.73	20.62
MSCI EM	USD	1,008.47	0.33	-0.84	0.31	2.05	7.70	18.22	16.96	24.60	-2.04	12.80	15.31
MSCI AC ASIA x JAPAN	USD	620.60	0.37	-0.07	0.34	3.59	9.94	18.97	20.66	25.35	8.91	13.51	15.33
MSCI EM LATIN AMERICA	USD	2,542.62	0.41	-0.33	0.41	-4.50	-1.54	13.09	8.63	23.27	-21.61	13.79	18.13
MSCI EM Eur, ME & Africa	USD	260.17	0.15	-2.64	0.15	-0.65	2.91	14.26	6.29	16.40	-21.65	11.00	12.98
EQUITY MARKET INDICES - BY SECTOR												P/E	P/E
MSCI ENERGY	USD	199.19	0.63	-0.85	0.61	-1.04	-4.52	-6.78	-9.04	2.12	-32.68	23.36	50.41
MSCI MATERIALS	USD	238.71	0.58	0.40	0.56	0.37	1.10	8.55	7.58	20.81	-3.50	15.76	20.50
MSCI INDUSTRIALS	USD	237.03	0.61	0.95	0.60	1.78	5.43	12.05	11.55	19.26	15.41	18.04	22.61
MSCI CONS DISCRETIONARY	USD	220.44	0.84	1.10	0.80	1.77	6.62	14.07	12.22	16.10	22.67	17.55	19.60
MSCI CONS STAPLES	USD	234.80	0.43	0.78	0.43	5.12	6.91	16.82	13.14	8.11	18.17	21.52	24.46
MSCI HEALTH CARE	USD	217.81	0.92	1.38	0.91	2.31	4.03	15.39	12.96	5.82	17.90	17.27	23.19
MSCI FINANCIALS	USD	110.87	0.66	-0.34	0.65	-0.67	-1.01	7.52	4.42	19.42	7.22	13.02	15.69
MSCI INFO TECH	USD	194.08	0.40	0.50	0.40	3.77	9.50	24.28	20.37	32.22	51.52	19.93	25.63
MSCI TELECOMS	USD	70.99	0.15	0.87	-0.07	3.48	1.93	8.30	2.10	-0.28	-2.69	15.04	19.66
MSCI UTILITY	USD	129.73	0.54	1.32	0.43	5.86	8.16	17.80	12.85	9.34	6.49	17.45	21.32
MSCI WORLD REAL ESTATE	USD	202.80	0.55	0.59	0.55	1.07	2.85	9.31	6.69	3.10	6.75	25.27	20.23
HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,231.62	0.09	-0.04	0.24	0.24	0.70	3.22	2.34	5.98	-0.33		
HFRX EQUAL WEIGHTED	USD	1,241.24	0.01	-0.05	0.03	0.03	0.52	2.74	1.98	5.91	2.53		
HFRX GLOBAL EUR	EUR	1,097.23	-0.13	-0.19	-0.03	-0.03	0.04	1.99	1.34	3.75	-4.09		

MARKET INDICES PERFORMANCE — 01/06/2017

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	0.97	-0.01	4.59	-0.01	12.72	31.04	50.87	47.31	69.66	-	
US 2 YEAR	USD	1.29	0.41	0.02	1.21	3.59	-1.45	19.82	10.56	40.70	-	
US 10 YEAR	USD	2.21	0.17	-3.34	1.03	-6.72	-26.48	-17.00	-23.12	41.42	-	
US LIBOR 3M	USD	1.21	0.82	1.24	3.77	3.77	14.60	27.58	21.21	52.42	-	
EUR LIBOR 3M	EUR	-0.37	-0.07	0.00	-0.71	-0.71	-1.71	-4.50	-3.36	-8.81	-	
GBP LIBOR 3M	GBP	0.29	-0.27	-0.86	-3.14	-3.14	-6.27	-9.08	-7.28	-29.44	-	
CHF LIBOR 3M	CHF	-0.73	0.00	-0.04	0.04	0.04	-0.34	1.94	-0.04	0.56		
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	507.53	-0.08	0.07	-0.08	0.53	1.63	2.01	1.63	1.55	10.86	1.55
GLOBAL HY TR	USD	1,261.37	0.06	0.28	0.06	1.16	3.21	8.13	6.35	12.72	12.74	5.17
US GOVERNMENT TR	USD	2,157.73	-0.08	0.25	-0.08	0.61	1.97	1.93	1.94	-0.16	6.34	1.55
US CORPORATE TR	USD	2,819.35	-0.08	0.33	-0.08	1.10	2.66	4.15	3.39	4.01	11.38	3.17
US HIGH YIELD TR	USD	1,902.74	0.11	0.21	0.11	0.84	1.68	6.73	4.90	13.80	14.92	5.46
EU GOVERNMENT TR	EUR	249.01	-0.15	0.10	-0.15	0.41	0.73	0.08	-0.51	-0.68	10.91	0.53
EU CORPORATE TR	EUR	265.21	-0.05	0.32	-0.05	0.47	1.34	2.80	1.84	4.35	12.36	0.82
EU HIGH YIELD TR	EUR	307.82	0.02	0.17	0.02	0.77	1.93	5.94	3.92	8.73	15.68	3.29
BARCLAYS GLOBAL CONVERT.	USD	234.16	0.70	0.43	0.70	0.18	1.61	7.31	5.21	9.27	8.29	-
GLOBAL EM TR (HEDGED)	USD	373.84	0.03	0.19	0.03	0.66	2.58	6.58	5.10	8.41	15.30	4.18
S&P/LSTA U.S. LEV LOAN	USD	98.90	-0.01	-0.02	-0.01	0.06	-0.31	1.18	0.29	8.70	0.20	4.49
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,209.49	-0.13	-1.48	-0.13	-1.38	-7.74	-6.17	-8.60	-7.45	-55.81	
GSCI ENERGY TR	USD	368.60	-0.14	-2.31	-0.14	-1.60	-10.53	-11.66	-15.22	-11.32	-68.03	
GSCI INDUSTRIAL METALS TR	USD	1,173.80	-0.15	-1.14	-0.15	-1.24	-6.17	-0.53	4.57	20.91	-13.05	
GSCI PRECIOUS METALS TR	USD	1,541.42	-0.45	0.80	-0.45	1.14	0.28	7.64	9.46	3.71	-1.40	
GSCI AGRICULTURE TR	USD	405.07	-0.73	-1.50	-0.73	-4.86	-10.77	-5.81	-6.02	-16.94	-38.95	
GENERIC 1ST 'CL' FUTURE	USD	47.45	-1.88	-2.97	-1.80	-1.27	-12.70	-14.60	-16.06	-16.43	-60.83	
GOLD SPOT $/OZ	USD	1,262.06	-0.31	-0.38	-0.54	0.55	2.25	7.20	9.53	4.22	1.46	
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.20	0.04	-0.21	0.33	-1.75	-4.85	-3.50	-4.86	1.75	20.58	
Euro Spot	EUR	1.12	0.12	0.39	-0.15	2.72	6.85	5.28	6.75	0.68	-17.43	
Japanese Yen Spot	JPY	111.37	-0.21	-0.24	-0.73	0.35	2.52	1.71	4.80	-2.45	-8.26	
British Pound Spot	GBP	1.29	-0.16	0.45	-0.22	-0.60	4.85	1.04	4.23	-10.82	-23.19	
Swiss Franc Spot	CHF	0.97	0.11	0.38	-0.27	2.18	4.43	4.19	5.01	2.06	-7.39	
Brazilian Real Spot	BRL	3.25	-0.72	0.76	-0.72	-2.26	-4.82	6.59	0.15	10.80	-31.04	
China Renminbi Spot	CNY	6.81	-0.09	0.60	0.05	1.19	1.11	0.96	1.92	-3.38	-8.31	
Singapore Dollar Spot	SGD	1.39	0.03	-0.30	-0.21	0.57	1.93	2.42	4.38	-0.74	-9.32	
Russian Ruble Spot	RUB	56.41	-0.45	-0.26	-0.07	0.67	3.88	12.59	8.61	18.12	-38.38	
Norwegian Krone Spot	NOK	8.45	-0.04	-0.92	-0.24	1.60	0.32	-0.41	2.18	-1.43	-29.10	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	9.89	-5.00	0.90	-3.17	-4.82	-14.65	-28.61	-28.21	-26.05	-12.95	
USD SWAP SPREAD SEMI 2YR	USD	23.35	-	0.32	4.06	-22.15	-31.55	11.66	-7.06	61.30	73.14	
TED SPREAD		24.45	-	-18.04	3.47	-28.97	-48.35	-47.37	-51.15	-37.64	24.11	

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