

Bedrock Friday 16 June 2017 Newsletter

We are closing yet another interesting week. Three significant topics- Since Friday a week ago the market suddenly got the jitters in connection with the high-flying technology stocks and in particular the so-called FANG set- We saw a sudden sell-off on Friday and a further decline at the start of the week. Why? What happened? We will see if we can find an explanation and decide if we think this is a fresh buying opportunity or conversely, become worried.

The second event is based on the information that the "Special Counsel" Mueller is now looking into Trump himself for possible obstruction of justice. Every day there was another leak, a further story to be regurgitated ad nauseam by the media. True allegations or not, all this doesn't help an already dysfunctional White House to get to working on their program of tax reform, infrastructure investments, health care reform and some international issues like North Korea and the like matters of some importance. A discombobulated governance of the world's most powerful and important country is not conducive to investor confidence.

The third big story came from the Federal Reserve- The Federal Reserve approved its second rate hike of 2017 even amid expectations that inflation is running well below the central bank's target. As financial markets had anticipated, the policymaking Federal Open Market Committee increased its benchmark target a quarter point. The new range will be 1 percent to 1.25% for a rate that currently is 0.91%. We do wonder about this, as their statement also noted that inflation in the next 12 months "is expected to remain somewhat below 2% in the near term" but to stabilize. The big news was found elsewhere in their statement whereby on top of the rate hike, the committee said it will begin the process this year of reducing its balance sheet, which it expanded by buying bonds and other securities to fight the housing crisis. Just like the rate hike this too is an act of tightening. Several Fed officials have said publicly they expect the runoff program to continue until the balance sheet declines to about \$2 trillion to \$2.5 trillion.

Wow. The Fed increased its anticipation for GDP growth in 2017, bumping it up to 2.2% from the 2.1 forecast in March. Unemployment also is expected to decline more this year than anticipated, with the new forecast at 4.3% against the previous 4.5%. And nothing happened. Bond yields even dipped a little... The Dollar rose as it should have, equities stabilized.

A good friend wrote to us "Okay. So, the Fed balance sheet is about \$4.5 trillion, and it was about \$1 trillion in 2008. The difference is primarily increases in Treasury and MBS holdings. It also means that the Fed has injected about \$3.5 trillion of liquidity into the US economy starting in 2008. What is a bit alarming about all of this is that U.S. M2 (the money stock) is currently about \$13.5 trillion. It was about \$8 billion in 2008. That means the Fed could directly affect only about 12% of the money stock in 2008. It's policies today directly effects over 33%. So, won't a \$1.1. trillion contractionary monetary policy through 2020 inevitably lead to a significant recession. If that is the case, isn't the Fed kinda stuck with a significant part of the Treasury and MBS market now and forever?"

We gave this comment some thought. With our Swiss perspective, we got an idea- Our central bank, the SNB, is a publicly traded company, listed on the SMI. Maybe Trump, who last week announced his plan to privatize air-traffic control, should consider an IPO of the Federal Reserve? Imagine, fund the US deficit whilst avoiding the need to sell this portfolio... Now that would be a Unicorn x 1'000 😊

Other little tidbits of information to add to our broth- China's May industrial production up 6.5% on year, beats expectations, Germany says it granted citizenship to 2,865 U.K. nationals last year, up from about 600 in 2015. With Brexit coming up in March 2019, the record number of Britons rushing for a German passport suggests many are unwilling to wait and see what kind of Brexit the U.K. eventually pulls off. Should we worry even more about the UK? Then a modern version of the Dutch Tulips- Bitcoin suddenly plummeted Monday, amid increased worries that the young digital currency system is growing too quickly. It fell 16% on Monday from its high of \$3'041... We still can't get our heads around the meaning or the value of Bitcoin and its other electronic brethren. Oh, we must not ignore that Euro zone finance ministers have agreed on a 8.5 billion euro loan to Greece, according to a euro zone official. One less risk of summer volatility... The best came last night when Putin, live on TV, offered Comey (deposed FBI Director) political asylum in Russia...

And you thought you have got your mind around the problems facing the UK, think again- The Queen's Speech -- the presentation of Theresa May's new government's program -- may be postponed, and the fallout goes from the sublime to the ridiculous- The reason being that it needs to be written on goatskin paper, which takes a few days to dry and it's not ready... How could she possibly read it off paper???

Back to the top now... The rout in U.S. technology shares that has helped send global equities to record levels this year continued as investors debated whether the drops represent merely a pause or a more fundamental crack in the bull market. The Nasdaq Composite Index had its biggest two-day plunge since the start of December, falling 0.52% Monday to add to Friday's 1.80% drop. Yes, that's scary-sounding until you realize that just five names account for almost 75% of the Nasdaq's decline. "The fact that the Nasdaq could sell off 2% but leave the broader S&P 500 essentially flat is a good sign that money is not leaving equities, but simply repositioning," said Morgan Stanley. We see in our future much Artificial Intelligence, "AI" as it is known. This requires Big Data and clever chips. Both are in the hands of the big techs. Buy them on dips we say, certainly on falls...

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 97.40. The USD is trading around 1.1180 against the EUR and at 0.9740 vs. the CHF. The Pound is trading weaker at \$1.2770. The Japanese Yen is weakening also against the USD at 111.31. The Russian Rouble is following the oil-price pattern, moving slightly lower this week against the USD at 57.70. The Brazilian Real is now trading higher at 3.2740 after hitting almost 3.33 yesterday against the USD. 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 \$44.70, while Brent is trading at \$47.30 as we write.
- The yield on 10Y U.S. Treasuries is trading at 2.1740% as we write. The Japanese 10 year JGB is trading almost unchanged for the week and continues to offer POSITIVE returns trading at 0.056%. 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 0.50%, now is trading back at 0.31%. The French 10Y Yield hit 1.10% before the elections is now back trading at almost 0.65%. 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 -0.14% as we write. In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at almost the same level at 1.67% while the Spanish 10Y yields trade 20bps lower having started the year at 1.30% and currently trading at 1.46%.
- Markets are mixed this week in the USA, DJIA is trading at about 21'360, Nasdaq at almost 6'160 even after the "correction" of this week (-2.47%), and SP500 at just above 2'430 (almost flat for the week at -0.05%). In reality, we are basically at the all-time highs, or within a couple of percentage points thereof. In Europe stocks are turned negative for the month with the correction of this week, with the exception of DAX which is up 1.05% and Italian FTSE MIB up 1.23%. Eurostoxx50 is down -0.27% for the month, the Swiss SMI has lost 0.90% as did the other European indices: the worst performer being the Spanish IBEX 35 at -1.02%. Nikkei is trading up for the year at 4.34% and for the month at 1.47%. In Latam the Bovespa is showing a weak +2.82% while in Asia the Hang Seng is up above 16% and Shanghai Composite at a mere +0.63%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

15/06/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Fwd P/E	T12m P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
EQUITY MARKET INDICES - BY REGION													
S&P 500 INDEX	USD	2,432.46	-0.21	-0.05	0.86	1.32	2.14	7.72	8.65	17.06	25.53	18.73	21.62
DOW JONES INDUS. AVG	USD	21,359.90	-0.04	0.84	1.67	1.81	2.03	7.64	8.08	20.45	27.29	17.65	18.79
NASDAQ COMPOSITE INDEX	USD	6,165.50	-0.47	-2.47	-0.53	-0.07	4.49	13.40	14.53	27.26	42.68	23.49	32.70
RUSSELL 2000 INDEX	USD	1,410.08	-0.52	-0.39	2.91	1.10	1.74	3.36	3.90	22.81	20.85	28.62	44.89
EURO STOXX 50	EUR	3,525.46	-0.61	-1.20	-0.32	-2.71	3.00	8.71	7.68	25.67	8.64	15.04	19.84
EURO STOXX 600	EUR	386.05	-0.38	-0.61	-0.51	-2.00	2.72	7.77	7.35	20.76	12.29	15.93	24.89
CAC 40 INDEX	EUR	5,216.88	-0.50	-0.79	-0.49	-2.75	4.87	8.78	8.13	26.60	16.58	15.51	19.44
DAX INDEX	EUR	12,691.81	-0.89	-0.63	0.95	-0.55	5.39	11.67	10.92	33.34	28.84	13.99	19.95
FTSE 100 INDEX	GBP	7,419.36	-0.70	-1.13	-1.04	-1.06	0.35	6.14	4.19	25.07	10.18	15.04	32.32
SWISS MARKET INDEX	CHF	8,853.01	0.04	1.03	-0.88	-2.09	3.11	8.62	8.73	17.06	3.16	17.90	25.20
NIKKEI 225	JPY	19,831.82	-0.26	-0.35	1.49	0.12	1.80	2.79	4.34	29.22	33.55	17.44	19.07
HANG SENG INDEX	HKD	25,565.34	-1.18	-1.63	-0.21	1.07	5.43	16.29	16.39	27.79	9.90	12.38	13.79
SHANGHAI SE COMPOSITE	CNY	3,132.49	0.08	-1.12	0.19	0.33	-4.46	0.01	0.63	8.71	49.72	13.69	16.77
S&P BSE SENSEX INDEX	INR	31,075.73	-0.25	-0.51	-0.14	1.70	5.13	17.41	16.81	17.26	23.47	18.95	22.89
RUSSIAN RTS INDEX \$	USD	991.96	-2.15	-4.07	-5.42	-10.49	-9.13	-12.27	-13.55	11.31	-26.63	5.94	6.82
BRAZIL IBOVESPA INDEX	BRL	61,922.93	0.15	-1.98	-1.26	-9.57	-6.51	6.04	2.82	26.59	12.98	11.50	16.70
MSCI WORLD	USD	1,916.52	-0.71	-0.33	0.25	0.54	2.81	9.22	9.44	17.71	10.97	17.33	21.49
MSCI WORLD HEDGED	USD	857.82	-0.34	-0.18	0.48	0.49	2.87	8.57	8.99	21.83	27.22	-	-
MSCI WORLD LOCAL	-	1,467.53	-0.34	-0.34	0.37	0.17	1.87	7.04	7.57	19.22	19.54	17.33	21.49
MSCI AC WORLD	USD	464.74	-0.74	-0.45	0.20	0.35	2.96	10.05	10.17	18.51	9.36	16.64	20.56
MSCI EM	USD	1,003.64	-0.98	-1.43	-0.17	-1.12	4.20	17.19	16.40	25.49	-4.08	12.63	15.28
MSCI AC ASIA x JAPAN	USD	620.71	-0.75	-1.38	0.36	1.13	6.88	19.76	20.68	27.23	8.00	13.42	15.25
MSCI EM LATIN AMERICA	USD	2,534.94	-0.54	-0.34	0.10	-8.20	-3.42	13.04	8.30	22.32	-25.24	13.75	18.12
MSCI EM Eur, ME & Africa	USD	252.25	-2.69	-2.61	-2.90	-5.13	-2.63	6.81	3.06	15.13	-24.41	10.25	12.74
EQUITY MARKET INDICES - BY SECTOR													
												P/E	P/E
MSCI ENERGY	USD	195.68	-1.02	-1.56	-1.16	-4.60	-5.03	-11.09	-10.65	0.84	-36.14	23.13	49.52
MSCI MATERIALS	USD	237.49	-1.89	-1.99	0.05	-0.29	-0.12	7.55	7.04	21.66	-4.04	15.69	20.39
MSCI INDUSTRIALS	USD	238.03	-0.41	0.32	1.03	1.85	5.32	11.92	12.02	22.29	15.84	18.07	22.70
MSCI CONS DISCRETIONARY	USD	217.19	-1.00	-0.18	-0.69	0.39	3.74	9.67	10.56	18.15	21.21	17.31	19.29
MSCI CONS STAPLES	USD	232.59	-0.46	0.14	-0.51	1.76	4.77	12.60	12.07	8.15	17.33	21.29	24.19
MSCI HEALTH CARE	USD	218.31	-0.39	0.29	1.14	1.56	3.78	13.17	13.21	9.76	18.02	17.33	23.25
MSCI FINANCIALS	USD	113.09	-0.86	-0.22	2.67	0.72	-0.30	5.76	6.51	29.25	8.78	13.27	16.00
MSCI INFO TECH	USD	189.94	-0.64	-1.13	-1.74	-1.02	5.42	16.96	17.81	31.94	46.26	19.21	24.74
MSCI TELECOMS	USD	69.85	-1.04	-0.99	-1.67	0.49	-1.41	1.96	0.46	-0.20	-3.38	14.81	19.35
MSCI UTILITY	USD	129.36	-0.12	0.43	0.14	4.15	8.00	13.43	12.52	8.32	6.02	17.08	21.27
MSCI WORLD REAL ESTATE	USD	205.94	-0.14	1.17	2.11	3.59	5.58	9.66	8.34	4.75	9.67	25.47	20.38
HEDGE FUND INDICES													
HFRI GLOBAL HEDGE FUND	USD	1,234.60	0.04	0.01	0.24	0.33	1.22	2.82	2.59	6.31	-0.62	-	-
HFRI EQUAL WEIGHTED	USD	1,244.57	0.06	-0.02	0.27	0.23	1.03	2.44	2.25	6.03	2.36	-	-
HFRI GLOBAL EUR	EUR	1,099.50	0.04	-0.01	0.12	0.13	0.63	1.67	1.55	4.11	-4.35	-	-

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15/06/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Yield to Worst	
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)													
US 3 MONTH	USD	1.00	0.00	0.51	3.05	10.18	28.00	50.88	50.37	74.68	-	-	-
US 2 YEAR	USD	1.36	0.86	2.53	7.82	6.13	2.78	10.76	17.17	67.46	-	-	-
US 10 YEAR	USD	2.17	0.68	-3.00	-3.23	-15.52	-36.97	-42.11	-27.38	59.17	-	-	-
US LIBOR 3M	USD	1.25	0.48	2.93	4.03	7.08	11.30	27.99	25.24	59.55	-	-	-
EUR LIBOR 3M	EUR	-0.37	0.00	-0.14	-0.14	-0.50	-1.71	-4.07	-3.50	-8.81	-	-	-
GBP LIBOR 3M	GBP	0.29	0.00	-0.03	-0.39	-2.41	-5.27	-8.57	-7.67	-28.23	-	-	-
CHF LIBOR 3M	CHF	-0.73	0.00	-0.10	-0.10	-0.36	-0.26	0.68	-0.14	3.58	-	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER													
GLOBAL AGG TR HEDGED	USD	509.13	-0.15	0.14	0.24	0.87	2.19	2.84	1.95	0.82	11.15	1.54	-
GLOBAL HY TR	USD	1,260.98	-0.31	0.02	0.03	0.56	3.63	7.28	6.31	12.65	12.04	5.18	-
US GOVERNMENT TR	USD	2,164.86	-0.10	0.25	0.25	1.02	2.35	3.20	2.27	-1.29	6.97	1.54	-
US CORPORATE TR	USD	2,837.29	-0.11	0.44	0.55	1.43	3.74	5.48	4.05	3.29	12.16	3.14	-
US HIGH YIELD TR	USD	1,905.43	-0.10	0.12	0.25	0.69	2.98	5.67	5.05	13.85	14.50	5.49	-
EU GOVERNMENT TR	EUR	250.69	-0.31	0.22	0.52	1.27	2.44	0.79	0.16	-0.53	11.08	0.48	-
EU CORPORATE TR	USD	265.50	-0.28	-0.08	0.06	0.60	1.83	2.52	1.94	3.92	12.10	0.84	-
EU HIGH YIELD TR	EUR	308.79	-0.07	0.21	0.34	0.59	2.65	4.68	4.24	9.77	15.18	3.22	-
BARCLAYS GLOBAL CONVERT	USD	233.94	-0.22	-0.34	0.61	0.33	2.06	5.44	5.11	10.58	7.79	-	-
GLOBAL EM TR (HEDGED)	USD	374.95	-0.15	0.09	0.32	0.66	3.05	6.41	5.41	7.97	15.54	4.18	-
S&P/LSTA U.S. LEV LOAN	USD	98.68	-0.05	-0.13	-0.23	-0.18	-0.28	0.26	0.07	8.49	-0.16	4.68	-
COMMODITY INDICES - BY TYPE OF ISSUER													
GSCI INDEX TOTAL RETURN	USD	2,107.59	-0.06	-1.95	-4.73	-5.89	-6.62	-10.79	-12.81	-12.11	-58.84	-	-
GSCI ENERGY TR	USD	342.11	0.05	-2.01	-7.32	-9.48	-10.13	-17.89	-21.32	-16.35	-71.37	-	-
GSCI INDUSTRIAL METALS TR	USD	1,153.40	-0.43	-0.91	-1.89	-1.10	-4.82	-2.64	2.76	16.41	-12.83	-	-
GSCI PRECIOUS METALS TR	USD	1,519.58	-1.76	-2.16	-1.86	1.68	3.50	9.80	7.91	-3.99	-5.26	-	-
GSCI AGRICULTURE TR	USD	411.31	0.58	-1.15	0.80	-1.30	-5.30	-5.26	-4.58	-19.57	-35.69	-	-
GENERIC 1ST 'CL' FUTURE	USD	44.63	0.38	-2.62	-7.64	-9.03	-11.61	-19.99	-21.05	-17.08	-64.46	-	-
GOLD SPOT \$/OZ	USD	1,254.56	0.05	-0.95	-1.13	1.41	2.29	10.55	8.88	-1.87	-1.36	-	-
CURRENCIES													
DOLLAR INDEX SPOT	USD	97.43	0.01	0.18	0.54	-0.67	-2.90	-5.35	-4.66	3.04	21.09	-	-
Euro Spot	EUR	1.11	0.13	-0.32	-0.76	0.69	3.65	6.77	6.10	-0.59	-17.79	-	-
Japanese Yen Spot	JPY	110.93	-0.23	-0.78	-0.37	1.74	1.91	6.06	5.19	-6.23	-8.42	-	-
British Pound Spot	GBP	1.28	0.13	0.23	-0.89	-1.10	3.36	2.23	3.53	-10.05	-24.78	-	-
Swiss Franc Spot	CHF	0.98	0.10	-0.50	-0.67	1.19	2.28	5.32	4.59	-0.95	-7.92	-	-
Brazilian Real Spot	BRL	3.28	1.20	-0.17	-1.47	-5.06	-3.24	2.94	-0.61	6.32	-32.09	-	-
China Renminbi Spot	CNY	6.81	-0.07	-0.21	0.08	1.09	1.26	2.19	1.95	-3.24	-8.63	-	-
Singapore Dollar Spot	SGD	1.38	-0.04	0.01	-0.09	0.77	1.22	4.41	4.51	-2.57	-9.66	-	-
Russian Ruble Spot	RUB	57.85	0.16	-1.25	-1.97	-2.04	0.09	7.46	6.55	13.76	-40.01	-	-
Norwegian Krone Spot	NOK	8.51	0.22	0.15	-0.60	-0.32	0.27	2.19	1.81	-1.14	-29.42	-	-
VOLATILITY / LIQUIDITY INDICES													
CBOE S&P VOLATILITY INDX	USD	10.90	2.44	-0.47	2.31	0.00	-5.00	-12.70	-24.15	-45.02	-15.81	-	-
USD SWAP SPREAD SEMI 2YR	USD	18.88	-	-7.56	-15.48	-16.91	-42.14	-25.96	-24.51	30.43	29.41	-	

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