It is already the before-last Friday of July. Deep into Q2 earnings and the skies are blue. With 84 of the 500 S&P companies reporting, over 75% beat on the top-line (sales) and a similar number beat on the earnings, on average by 7.55% (Bloomberg). The biggest "beats" were from the technology sector (19.61% over expectations) followed by the financials with an average beat of 6.18%. A solid support for the recent all-time highs on the three main US stock indices. We are pleased to see that our long-standing bullishness on equities is sustained by reality.
In the bond markets, our reasoning has been cautious rather than bearish, as we felt that the probable rewards were low and the inherent risks were not sufficiently rewarded. We have also touted our belief that the motor for interest rates is fueled by inflation and have been believers that the latter will not be rising anytime soon. Hence, the 2.24% yield on the benchmark US 10 year Treasury remains in a minuscule range since Trump's election. We reiterate here our core view that Amazon and its ilk are out-gunning the Fed, BOJ, ECB and their kind… Logic thinking is revendicated yet again! We have been touting the return to reason and normality since quite some time, The dislocations of 2008 are in fact finally fading into textbooks and both the fixed-income and equity markets are behaving rationally.
One market however has been acting strangely- The FX world appears to have a life of its own. We had been believers in the relative strength of the US Dollar and have been proven wrong by the market- The DXY (the trade weighted exchange rate of the US$ vs. its main trade counterparts) is at 94 now, down from 103.80 in January of this year. And this, in the face of the expected and realized widening of the "carry" in favour of the Dollar, negative rates on the main counterparties being the Euro, Yen and Swissy… Some will comfort us in our error by pointing-out the political disarray in the District of Columbia, others may say it is the ECB which will be tightening soon (no rate rises quite yet, just QE reductions) and then some might admonish our misguided faith in America. Indeed, misguided faiths of all kinds and denominations have caused damages at different times. We apologise for having been wrong here, especially as our mistake was fundamental- we forgot our own mantra on currencies- The FX world is driven purely by supply and demand. We forgot that the USA is a net importing economy and as its GDP grows, so does the trade imbalance of the country: In May this year the US trade deficit was $67.5 billion, growing steadily since September 2016 when it was below $60 Billion… The meaning of the trade deficit is simple- For the month of May this year, people bought "stuff" from other countries by almost $70 billion more than people elsewhere bought from America. This means that American businesses had to buy other currencies against Dollars in increasing amounts, i.e., sell the Dollar… We were blind-sided by the talk of lower oil prices and the reduction of US imports of the black gunk. Expecting a reduction of said trade deficit… It didn't happen… The interest rate differential grew, but clearly by "not enough". The US Trade Deficit is like a constant in the world and Trump isn't fixing it (yet)…
We are watching the Euro rebound strongly to $1.1650 and recall that when it was first issued as a new "Accounting Currency" back on January 1st 1999 it was fixed at $1.17 and became a proper coin and bills currency in January 2002 when it traded at about $0.90 and spiked to $1.60 in July 2008. As we said above, the world has normalized even here, in the FX world. It is just us who have been wrong.
Should we modify our beliefs here? Difficult… We believe in the "carry", we cant accept paying for the pleasure of owning a currency, we know from experience that if and when something goes seriously wrong in the geopolitics of our world the Dollar is the refuge. So we hold our belief and our Dollars, at least for the time being… We must be having an ingrained FX issue- The US$ is down about 10% this year and then the Bitcoin currency keeps rising- Traded at $2'948.51 on Thursday night, just shy of its record high of 3'025.47 on June 11th. And it is up some 29% from its opening price yesterday morning. We are stuck in our possibly short-sighted view- If it looks like a tulip, smells like a tulip and grows like a tulip, it probably is a tulip… It is a cryptocurrency… Another technological marvel which we find hard to comprehend. We learned that the best hedge is comprehending a risk. With Bitcoin and its brethren techno-monies, we fail to understand. We stand back and watch… the price-movements here make us feel good for missing a 10% move on the USD which we think we understand ☺

Back into the realm of the comprehensible- China reported second quarter growth data Monday that topped expectations.The country said its second-quarter GDP growth was 6.9% against the prior year, and that comes as investors watch the world's second-largest economy for any signs of slowdown amid concerns over high debt levels. Closer to home (is it really?), the UK is having problems in its Brexit discussions with the EU. Some think May's government will fall- According to Joan Hoey, the Economist Intelligence Unit's regional director for Europe, there is "considerable risk of the (U.K.'s) government collapsing." May's slender 13-seat majority, forged only through a compromising, expensive deal with the Democratic Unionist Party, could well "disappear quickly as a result of by-elections that will occur," Hoey explained.

What else should we focus on? We favour the equity world- keep our eyes peeled on the US tax reform as the next important catalyst- With the focus shifting from repeal and replace of "Obamacare", it is moving into the tax reform domain- maybe here Trump can get something done? It would be worth significant percentage points on our equity books… And then some more if indeed the earnings continue to please. Morgan Stanley's end-year S&P target of 2'700 (at 2'473 now) is the most bullish among 20 strategists surveyed by Bloomberg News last month. And Morgan Stanley reiterate that their prediction has no tax effects baked-in… They do expect an expansion of P/E from 17.5X to 19X New highs are not to be feared, just welcomed… Another strategist at BTIG expects a 3-5% fall in the S&P in August, but remains bullish with a target of 2'640 within weeks thereafter… Clever reputational hedge, will most likely be right of something… For a smile, the IMF says that The US economy needs tax reform, infrastructure spending and better regulations to make sure the benefits of expansion hits everyone… We didn't know Christine Lagarde was a Republican or Trump groupie…

Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY which had reached 103.80 and then lost ground to trade now down at almost 94.00.
  The USD is trading at 1.1650 against the EUR as we write and at 0.95 against CHF. The Pound is trading higher at $1.30 while the Japanese Yen is trading strongly against the USD at just above 111.50.
  The Russian Ruble has weakened a little against the USD at about 58.9 following the oil-price pattern. The Brazilian Real is now trading higher for the week against the USD at just above 3.11 as we write.
  Crude oil WTI reached $55.24 a barrel on the first day of trading on January 1st and droped as low as $42 last month, only to trade back up at $46.50 as we write, while Brent is trading at just at $50.00.

- The yield on 10Y U.S. Treasuries are trading at 2.24% as we write. The Japanese 10 year JGB is trading almost unchanged for the week and continues to offer POSITIVE returns trading at 0.078%. The German Bund has broken its trading range, touching almost 0.62%, the highest in terms of yield since the start of the year; Now it trades back down some at 0.55%. The French 10Y Yield hit 1.10% before the elections, then went down as low as 0.56% last month to jump back at 0.96% and now is trading back down at 0.74%. The Swiss 10 year bond yield traded this month in positive territory for the last two weeks and is now at -0.008%. In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 1.82% while the Spanish 10Y yields trade 40bps lower having started the year at 1.30% and currently trading at 1.44%.

- Markets are up this week in the USA with the DJIA trading at about 21'600, SP500 at just above 2'470 and Nasdaq at about 6'390. In reality, we are at or near the all time highs. For the week through yesterday, DJIA is up 0.27% Nasdaq up almost 2% and SP500 up 1.05%
  In Europe Eurostoxx50 remains down for this week (-1.12%). The DAX remains up above 9.30% for the year but stll down for the week at -1.40%. The CAC40 has lost 1.04% this week as did other European indices with the exception of FTSE 100 which is up 1.76% for the week.
  This week Nikkei trades flat after gaining almost 5.00% for the year. In Latam the Bovespa is showing a strong positive 3.24% for the month so far but a negative 0.37% for the week bringing the yearly performance to 7.82%. While in Asia the Hang Seng is up over 21.00% for the year and Shanghai Composite at a mere +4.33%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE — 20/07/2017

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	2,473.45	-0.01	1.05	2.06	1.55	5.31	8.90	10.48	14.24	25.32	18.96	21.70
DOW JONES INDUS. AVG	USD	21,611.78	-0.13	0.27	1.23	0.94	5.18	9.00	9.36	16.71	26.74	17.90	18.84
NASDAQ COMPOSITE INDEX	USD	6,390.00	0.08	1.84	4.06	2.50	8.11	15.02	18.70	25.94	44.42	24.08	34.32
RUSSELL 2000 INDEX	USD	1,442.35	0.04	1.17	1.91	3.08	4.53	6.69	6.28	19.81	25.79	30.00	47.73
EURO STOXX 50	EUR	3,499.49	-0.02	-1.02	1.40	-1.81	1.45	5.78	6.07	17.57	11.25	14.91	19.44
EURO STOXX 600	EUR	384.07	-0.38	-0.94	1.01	-1.37	1.34	5.68	6.02	12.51	13.39	15.92	24.38
CAC 40 INDEX	EUR	5,199.22	-0.32	-0.93	1.29	-1.66	2.52	6.92	6.67	18.52	20.48	15.43	19.17
DAX INDEX	EUR	12,447.25	-0.04	-1.73	0.72	-2.82	3.03	6.74	8.12	22.23	29.15	13.69	19.99
FTSE 100 INDEX	GBP	7,487.87	0.77	1.52	2.44	0.58	5.29	4.06	4.87	11.81	11.33	15.42	32.37
SWISS MARKET INDEX	CHF	9,027.37	0.05	0.00	1.44	0.55	5.62	9.18	9.91	10.42	6.12	18.20	25.12
NIKKEI 225	JPY	20,144.59	0.62	0.00	0.33	-0.19	7.94	5.03	5.16	19.57	32.10	17.24	19.17
HANG SENG INDEX	HKD	26,740.21	0.26	1.20	3.65	3.93	11.08	16.69	21.38	21.38	14.19	12.84	14.36
SHANGHAI SE COMPOSITE	CNY	3,244.87	0.45	0.48	1.43	2.59	2.04	3.68	4.33	6.55	57.61	14.23	17.36
S&P BSE SENSEX INDEX	INR	31,904.40	-0.14	-0.17	3.38	2.18	8.85	18.24	20.05	15.35	24.31	19.67	23.65
RUSSIAN RTS INDEX $	USD	1,038.54	-0.44	-1.00	3.28	6.21	-4.65	-9.24	-10.29	9.16	-16.57	6.54	7.25
BRAZIL IBOVESPA INDEX	BRL	64,938.02	-0.37	-0.37	3.24	6.87	1.85	0.65	7.82	14.65	12.67	12.22	17.47
MSCI WORLD	USD	1,963.31	0.25	0.78	2.45	2.26	6.58	10.13	12.11	15.12	12.83	17.59	21.81
MSCI WORLD HEDGED	USD	870.90	0.12	0.76	1.95	1.00	5.49	9.09	10.65	17.08	27.89	-	-
MSCI WORLD LOCAL	-	1,487.70	0.12	0.41	1.86	1.04	4.83	7.60	9.05	14.43	20.29	17.59	21.81
MSCI AC WORLD	USD	477.70	0.21	0.83	2.71	2.59	6.98	11.04	13.24	15.83	11.46	16.99	20.96
MSCI EM	USD	1,059.40	-0.06	1.18	4.81	5.26	10.15	18.60	22.86	21.61	-0.36	13.41	16.09
MSCI AC ASIA x JAPAN	USD	649.22	-0.09	1.12	3.81	3.92	11.38	21.20	26.22	23.30	10.85	14.05	15.97
MSCI EM LATIN AMERICA	USD	2,735.81	0.18	1.80	7.53	10.31	5.12	11.45	16.88	14.29	-22.62	14.51	19.36
MSCI EM Eur, ME & Africa	USD	267.61	-0.05	1.32	5.86	6.55	5.52	7.80	9.33	11.78	-18.20	11.49	13.58
EQUITY MARKET INDICES - BY SECTOR												P/E	P/E
MSCI ENERGY	USD	199.45	0.16	1.08	2.27	3.63	-0.83	-8.15	-8.92	-2.40	-34.53	25.28	48.98
MSCI MATERIALS	USD	251.49	-0.16	0.59	4.46	5.88	7.44	8.40	13.34	21.42	-1.05	16.94	21.59
MSCI INDUSTRIALS	USD	241.09	-0.06	-0.17	1.61	1.32	6.44	10.89	13.46	17.95	17.99	17.97	22.60
MSCI CONS DISCRETIONARY	USD	220.69	0.13	0.96	1.93	1.64	4.83	9.40	12.35	15.23	21.83	17.44	19.57
MSCI CONS STAPLES	USD	230.72	0.34	0.82	1.11	-0.18	3.98	9.77	11.17	3.36	15.97	20.76	23.83
MSCI HEALTH CARE	USD	225.04	0.66	1.06	1.57	0.83	9.30	15.45	16.70	6.41	19.57	17.70	23.89
MSCI FINANCIALS	USD	118.02	0.33	0.32	2.34	4.85	8.89	9.95	11.15	30.05	13.84	13.65	16.57
MSCI INFO TECH	USD	198.60	0.15	1.26	5.23	3.12	10.33	19.13	23.18	30.95	48.06	19.83	25.63
MSCI TELECOMS	USD	69.16	0.92	1.64	1.02	-0.21	0.96	-2.22	-0.54	-4.77	-4.60	14.50	19.02
MSCI UTILITY	USD	127.70	0.46	1.49	1.71	-1.13	4.86	10.72	11.08	2.45	4.52	16.57	20.93
MSCI WORLD REAL ESTATE	USD	204.38	-0.12	0.91	1.20	0.29	1.68	6.82	7.52	-2.25	5.89	24.78	19.82
HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,244.15	0.16	0.12	0.80	0.74	1.87	2.93	3.38	5.68	0.12		
HFRX EQUAL WEIGHTED	USD	1,252.64	0.09	0.11	0.54	0.63	1.47	2.49	2.92	5.37	2.85		
HFRX GLOBAL EUR	EUR	1,105.52	0.16	0.10	0.67	0.53	1.27	1.82	2.10	3.41	-3.88		

MARKET INDICES PERFORMANCE — 20/07/2017

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	1.13	-0.52	10.19	12.22	15.27	36.15	63.61	63.61	82.40	-	
US 2 YEAR	USD	1.35	-0.37	-0.72	-3.33	0.03	16.82	15.99	16.01	67.06	-	
US 10 YEAR	USD	2.25	-0.90	-8.20	-5.38	8.65	0.19	-21.69	-19.44	69.39	-	
US LIBOR 3M	USD	1.31	0.03	0.33	0.81	2.70	15.16	26.60	30.93	61.01	-	
EUR LIBOR 3M	EUR	-0.38	-0.03	-0.41	-0.44	-0.36	-1.57	-3.57	-4.00	-7.29	-	
GBP LIBOR 3M	GBP	0.29	0.00	-0.63	-1.83	-0.84	-4.84	-6.68	-7.82	-23.73	-	
CHF LIBOR 3M	CHF	-0.73	0.00	-0.22	0.14	0.20	0.36	0.08	0.06	3.30		
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	508.11	0.02	0.37	0.32	-0.38	0.54	2.11	1.75	-0.21	10.08	1.59
GLOBAL HY TR	USD	1,276.00	0.20	0.67	1.05	1.58	3.48	6.19	7.58	10.42	13.44	5.21
US GOVERNMENT TR	USD	2,162.56	0.04	0.36	0.30	-0.29	0.52	2.07	2.16	-1.66	6.31	1.59
US CORPORATE TR	USD	2,852.56	0.07	0.58	0.79	0.27	2.16	4.46	4.61	2.11	11.81	3.11
US HIGH YIELD TR	USD	1,919.91	0.12	0.58	0.87	1.16	2.56	4.69	5.85	10.36	15.83	5.45
EU GOVERNMENT TR	EUR	248.45	0.09	0.59	0.17	-1.22	0.22	0.65	-0.74	-2.81	8.79	0.60
EU CORPORATE TR	USD	266.21	0.03	0.40	0.73	0.04	1.08	2.66	2.22	2.40	11.80	0.83
EU HIGH YIELD TR	EUR	310.20	0.09	0.38	0.48	0.29	2.41	4.00	4.72	8.16	16.36	3.12
BARCLAYS GLOBAL CONVERT.	USD	238.37	0.13	0.83	1.72	1.74	3.57	5.81	7.10	9.91	10.49	-
GLOBAL EM TR (HEDGED)	USD	375.56	0.05	0.41	0.65	0.44	1.48	4.72	5.58	4.92	14.75	4.25
S&P/LSTA U.S. LEV LOAN	USD	98.69	0.04	0.10	0.34	0.23	-0.06	-0.22	0.08	6.56	-0.08	4.70
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,203.15	-0.27	1.84	1.54	5.91	-3.17	-8.37	-8.86	-2.32	-55.10	
GSCI ENERGY TR	USD	360.85	-0.57	2.29	2.20	7.94	-7.77	-13.81	-17.01	-5.97	-68.36	
GSCI INDUSTRIAL METALS TR	USD	1,207.42	-0.31	-0.07	-0.49	4.08	2.10	1.21	7.57	15.47	-13.95	
GSCI PRECIOUS METALS TR	USD	1,506.17	0.27	2.49	0.05	0.09	-3.87	2.01	6.95	-8.05	-9.00	
GSCI AGRICULTURE TR	USD	429.84	1.07	2.74	1.96	4.66	4.25	-5.27	-0.28	-5.04	-24.45	
GENERIC 1ST 'CL' FUTURE	USD	46.96	0.09	0.62	1.71	10.08	-6.88	-15.60	-17.53	-7.85	-62.16	
GOLD SPOT $/OZ	USD	1,247.43	0.24	1.52	0.47	0.07	-2.86	3.04	8.26	-6.29	-4.96	
CURRENCIES												
DOLLAR INDEX SPOT	USD	94.31	-0.21	-1.10	-1.59	-3.54	-5.87	-6.59	-7.93	-2.98	16.81	
Euro Spot	EUR	1.16	0.16	1.57	1.96	4.32	8.59	8.22	10.77	5.66	-13.86	
Japanese Yen Spot	JPY	111.91	0.10	0.65	0.53	-0.38	-2.42	0.81	4.62	-5.35	-9.30	
British Pound Spot	GBP	1.30	0.09	-0.86	-0.31	2.48	1.31	3.59	5.23	-1.87	-23.96	
Swiss Franc Spot	CHF	0.95	0.11	1.39	0.80	2.34	4.84	4.86	7.23	3.73	-5.50	
Brazilian Real Spot	BRL	3.12	0.88	2.89	5.99	6.60	0.83	1.70	4.29	4.44	-28.68	
China Renminbi Spot	CNY	6.76	-0.09	0.14	0.22	0.94	1.77	1.29	2.64	-1.34	-8.23	
Singapore Dollar Spot	SGD	1.37	0.10	0.51	0.83	1.79	2.37	3.88	6.00	-0.69	-9.17	
Russian Ruble Spot	RUB	58.90	-0.01	0.18	-0.06	2.34	-3.80	1.10	4.47	9.19	-40.22	
Norwegian Krone Spot	NOK	8.05	0.09	1.85	3.84	6.11	7.86	3.85	7.49	5.65	-22.90	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	9.58	-2.15	0.11	-14.85	-11.44	-34.93	-17.50	-32.19	-25.27	-25.68	
USD SWAP SPREAD SEMI 2YR	USD	24.59	-	3.96	5.57	26.93	-29.42	-23.35	-3.43	-10.54	24.68	
TED SPREAD		17.36	-	-36.22	-39.58	-34.17	-52.88	-68.21	-65.31	-54.55	-21.63	

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