

# Bedrock Friday 04 August 2017 Newsletter

Friday, Hot. DJIA broke another level, at 22'026... Yes, yet again a new high. Should we worry? It is natural to feel ill-at-ease when in a new place/zone/environment.

It took the Dow just 107 trading days to surge to 22,000 from 21,000. Boeing shares have had the biggest points impact on the price-weighted Dow, contributing 380.29 points since March 1, followed by McDonald's and UnitedHealth Group with 171.14 and 166.35 points, respectively.

We all know how easy it is to manipulate information- Trump doesn't stop talking of "Fake News", misleading words and partial truths. The DJIA is a classic example which, whilst misleading, doesn't give Trump any support- It is an index of 30 shares, which are market-price-weighted in an algorithm that defines the number of the DJIA- it is up 11.45% year to last night and 20.02% for the past year. But strangely, if you were to remove 2 stocks from the index, Boeing and Apple, the revised index of 28 shares would only have "produced" some 2.5% for 2017... Not so scary then?

On Wednesday, after showing us its earnings for Q2, Apple stock rose some 5.5% and gained in market capitalisation ANOTHER Ford Motor Corp- Ford is worth circa \$41Bn and Apple gained some \$48Bn in "value". Amazing you say... So the issue isn't the Dow itself, it must be Apple which is overvalued. But is it really? At its last price of \$155.57 per share, the company is valued at some \$811 billion of which \$263 are in cash. Clearly a lot of money, but that in itself doesn't mean expensive- Jim Cramer said this week "Apple trades at 14 times earnings versus Clorox. Now, is that ridiculous? Even though its products are every bit as beloved as bleach?" Cramer said, comparing it to Clorox's 23-times-earnings valuation. "Not only does Apple's move up make sense, doesn't it seem like it should be much higher?" Yes, it is up 35% this year- does that mean it is expensive now or does it mean it was cheap at Christmas 2016?

Similar arguments hold for Boeing- Up 52% this year. Cramer argues "The airlines have never been this flush. They're lining up for planes. Airline traffic is in secular growth mode because of the great middle-class-ification occurring all over the globe. In short, [the move is] merited"... Yes, there is nothing in this to scare us... To quote Cramer further "I'll just put it this way. It's not hard to imagine these stocks going higher. It's also relatively easy to argue that almost every single one of them is worth owning right here, and certainly on any dip. What more could you ask for?"

The DJIA is just a number; It is *data*. It hides many other numbers; These are *information*...

The truth is that for calendar second quarter, 72% of the S&P companies that had reported as of Wednesday morning beat bottom-line expectations and 68% on the top line, according to data from Thomson Reuters. We would say that the markets are going up for the right reason, which is earnings. That is supportive of valuations. At the same time, the feared rise in interest rates isn't materialising. Bond yields have dropped during the past few weeks, reducing the discounting factor in the equations used to define present value or prices- As the said factor falls, the resulting valuation rises. The stars are aligned...

This week we were further comforted in our views about the world by Alan Greenspan. The former Federal Reserve chairman who has a knack for saying memorable things about the markets, is warning of a bond bubble. "By any measure, real long-term interest rates are much too low and therefore unsustainable," Greenspan told Bloomberg News in an interview. "When they move higher they are likely to move reasonably fast. We are experiencing a bubble, not in stock prices but in bond prices. This is not discounted in the marketplace." As Bloomberg puts it: "Using Greenspan's reference of 10-year inflation-adjusted bond yields, currently around 0.47%, the gap with the S&P 500's earnings yield at around 4.7%, is 21 percent higher than the 20-year average. That justifies records in major equity benchmarks and P/E ratios near the highest since the financial crisis."

Veteran market watcher Edward Yardeni believes investors who succumb to stock market jitters could miss out on another wave of big gains. Yardeni noted the most recent record highs for the Dow Jones, Nasdaq and S&P 500 indices aren't being driven by a surge in valuation multiples. Rather he says the activity is "more like a melt-up in earnings." And, that's a bullish sign for the rally. Here (S&P 500) we are coming down on 2'500," said Yardeni. "I think by the middle of next year we'll be looking at 2'600-2'700." If he's right, that range would be a five to nine percent increase for the S&P 500's current levels.

But, it's a viewpoint that's not shared by other esteemed financial market veterans. Nobel laureate and Yale University Economics Professor Robert Shiller told CNBC last week that he will "lie awake worrying" about the stock market. "We have seen phenomenal earnings growth right now. Analysts are forecasting a continuation of that. So, I don't know what is driving earnings," said Shiller. "I would be skeptical that they would continue at such a blistering pace. History shows that big earnings increases like this have a tendency to revert to trend." We like Yardeni here, even Greenspan... We look at the VIX, the so-called "Fear Index" which in spite of these all-time-highs, remains languishing at around its all-time lows of 10. Looking good we say, Trump and North Korea notwithstanding- The former causing grid-lock in DC which markets love (no change is always good) and the latter is less worrisome than the situation in Pakistan (have the Bomb and delivery systems) which is losing stability. And let's keep an eye on Venezuela. Its bonds are collapsing in price, yields rising to default levels. Unrest can explode.

We end our summer days' ramblings with a quote for Trump from Calvin Coolidge "I have never been hurt by what I have not said..."

## 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 has lost ground to trade now down at almost 92.84 down some 9.25% YTD.  
The USD is around 1.1885 against the EUR and at 0.9675 against the CHF as we write. The Pound is trading higher against Dollar since the start of the year at \$1.3140 as is the Japanese Yen, trading at 110.10  
The Russian Ruble is trading sideways against the USD at 60.25 following the oil-price pattern. The Brazilian Real is slightly higher vs. USD for the week 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 dropped as low as \$42 last month, only to trade back up at \$48.70 now.
- The yield on 10Y U.S. Treasuries is trading at 2.22% down some 10Bp for the week. The Japanese 10 year JGB is trading up slightly in price for the week and continues to offer POSITIVE returns at 0.061%.  
In Europe, we see the German Bund trading at 0.458% down slightly for the week. The French 10Y Yield which hit 1.10% before the elections went down as low as 0.56% last month and now is trading back up at 0.80%. 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 in POSITIVE territory at 0.07%.  
In Peripheral Europe Italian 10Y yields had crossed the 2% level having started the year at 1.71% and are currently at 1.80% whilst the Spanish 10Y yields trade 24bps lower than Italy, having started the year at 1.30% and currently trading at 1.56%.  
Across the board, fixed income is steady with a slight upwards price tilt, i.e., a slight decline in yields.
- Equity markets are mixed this week in the USA; the DJIA is at about 22'026 a new all-time high, the S&P500 at just above 2'472 (off a fraction for the week) and Nasdaq at about 6'340 of yesterday close, also marginally off. In reality, we are basically still at or near the all time highs, or within a couple of percentage points thereof.  
In Europe Eurostoxx50 is down for this week 0.20%, as is the DAX. The CAC40 has lost 0.09% this week (exactly as it did the week before) and FTSE 100 gained some 1.40%.  
The Swiss market gained 1.1% as the Swiss Franc tumbles. This week Nikkei traded down 0.04% but remains up almost 4.40% for the year. .

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

03/08/2017

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	2,472.16	-0.20	-0.13	0.08	1.78	3.46	7.61	10.42	14.23	27.50	18.94	21.21
DOW JONES INDUS. AVG	USD	22,026.10	0.05	1.05	0.62	2.55	5.13	9.74	11.45	20.02	32.93	18.08	18.85
NASDAQ COMPOSITE INDEX	USD	6,340.34	-0.34	-0.66	-0.12	3.77	4.36	11.89	17.78	22.73	44.63	23.89	33.50
RUSSELL 2000 INDEX	USD	1,405.23	-0.54	-1.98	-1.40	-1.50	1.18	1.99	3.54	15.77	24.93	29.54	46.67
EURO STOXX 50	EUR	3,466.37	0.23	-0.21	0.32	-0.55	-4.61	5.73	5.17	18.01	12.70	14.79	18.23
EURO STOXX 600	EUR	378.93	0.12	0.04	0.17	-0.99	-3.44	3.97	4.73	12.04	14.30	15.84	21.92
CAC 40 INDEX	EUR	5,130.49	0.46	-0.09	0.65	-0.93	-4.57	6.25	5.44	17.98	21.57	15.24	18.27
DAX INDEX	EUR	12,154.72	-0.22	-0.23	0.14	-2.43	-4.05	4.15	5.70	18.65	32.56	13.40	18.73
FTSE 100 INDEX	GBP	7,474.77	0.97	1.40	1.35	1.55	3.08	3.94	4.60	10.85	11.89	15.45	27.46
SWISS MARKET INDEX	CHF	9,136.61	0.15	1.11	0.70	1.64	1.54	9.19	10.93	12.83	9.80	18.14	24.47
NIKKEI 225	JPY	20,029.26	-0.25	-0.04	0.14	-0.40	2.61	5.47	4.38	22.75	28.94	17.10	18.13
HANG SENG INDEX	HKD	27,531.01	-0.17	2.01	0.72	8.40	11.49	18.99	25.09	26.06	11.87	13.11	14.35
SHANGHAI SE COMPOSITE	CNY	3,272.93	-0.37	0.27	-0.33	2.49	4.31	3.88	5.11	9.38	46.72	14.48	17.54
S&P BSE SENSEX INDEX	INR	32,237.88	-0.74	-0.43	-1.06	3.08	6.79	13.92	20.82	16.08	25.06	20.06	23.79
RUSSIAN RTS INDEX \$	USD	1,029.41	0.78	0.96	1.69	0.65	-5.27	-13.96	-11.12	10.43	-15.51	6.01	6.87
BRAZIL IBOVESPA INDEX	BRL	66,777.13	-0.53	2.30	1.30	5.61	2.95	2.81	10.88	15.94	17.95	12.74	18.35
MSCI WORLD	USD	1,968.72	-0.06	0.43	0.39	2.60	4.36	9.04	12.42	15.29	15.12	17.53	21.03
MSCI WORLD HEDGED	USD	870.08	-0.06	-0.05	0.36	1.44	3.12	8.25	10.54	18.05	30.10	-	-
MSCI WORLD LOCAL	-	1,485.19	-0.05	0.26	0.32	1.37	2.23	6.75	8.86	14.82	21.66	17.53	21.03
MSCI AC WORLD	USD	479.11	-0.11	0.39	0.32	2.94	4.83	9.77	13.58	15.96	13.46	16.95	20.30
MSCI EM	USD	1,064.07	-0.54	0.10	-0.20	5.70	8.57	15.80	23.40	21.46	-0.49	13.48	16.04
MSCI AC ASIA x JAPAN	USD	654.43	-0.63	0.28	-0.25	5.50	9.35	19.24	27.24	24.23	9.71	14.10	15.88
MSCI EM LATIN AMERICA	USD	2,779.74	-0.02	1.60	1.01	8.64	7.23	8.37	18.76	15.72	-19.61	14.88	19.77
MSCI EM Eur, ME & Africa	USD	266.22	0.05	-0.63	-0.03	5.43	4.11	4.70	8.76	9.48	-18.35	11.57	13.03

EQUITY MARKET INDICES - BY SECTOR												P/E	P/E
MSCI ENERGY	USD	201.08	-0.84	-0.16	-0.44	1.52	1.24	-6.21	-8.18	1.80	-32.61	25.91	39.82
MSCI MATERIALS	USD	251.69	-0.20	0.25	-0.02	3.64	7.06	6.26	13.44	19.88	0.87	16.84	19.66
MSCI INDUSTRIALS	USD	241.74	0.29	0.93	0.96	1.72	3.73	10.33	13.77	18.53	22.10	17.85	21.59
MSCI CONS DISCRETIONARY	USD	221.66	0.02	0.37	0.32	2.56	2.77	9.37	12.84	15.56	24.61	17.35	19.41
MSCI CONS STAPLES	USD	230.33	0.21	0.10	0.44	1.39	2.30	8.36	10.98	3.99	19.62	20.60	23.32
MSCI HEALTH CARE	USD	220.82	-0.03	-0.28	-0.36	-0.19	3.23	10.77	14.51	3.79	18.08	17.25	23.34
MSCI FINANCIALS	USD	119.79	-0.15	1.03	0.59	2.72	6.66	9.01	12.82	32.05	16.79	13.69	16.03
MSCI INFO TECH	USD	197.70	-0.25	0.22	0.64	5.68	5.73	15.61	22.62	27.56	48.65	19.71	24.40
MSCI TELECOMS	USD	71.43	0.10	0.23	0.06	4.29	4.82	3.62	2.73	-2.56	-0.36	14.80	19.66
MSCI UTILITY	USD	130.23	0.47	1.99	1.54	4.32	5.71	13.02	13.28	5.70	9.95	16.95	21.94
MSCI WORLD REAL ESTATE	USD	206.35	0.00	0.19	0.34	1.98	3.91	7.24	8.55	-0.84	7.60	25.05	18.93

HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,246.87	0.03	0.12	0.09	1.02	1.36	2.94	3.61	5.82	1.15	-	-
HFRX EQUAL WEIGHTED	USD	1,256.03	0.05	0.15	0.10	0.81	1.16	2.52	3.19	5.31	3.73	-	-
HFRX GLOBAL EUR	EUR	1,106.49	0.03	0.07	0.05	0.75	0.74	1.78	2.19	3.50	-2.96	-	-

MARKET INDICES PERFORMANCE

03/08/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)										
			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	1.07	0.24	-0.26	0.25	5.35	20.11	57.75	57.75	82.13	-	-	-
US 2 YEAR	USD	1.34	-0.01	-0.83	-1.02	-7.12	3.30	14.20	15.06	69.59	-	-	-
US 10 YEAR	USD	2.22	0.17	-6.60	-7.13	-12.70	-13.12	-24.19	-22.14	72.21	-	-	-
US LIBOR 3M	USD	1.31	0.22	-0.11	0.22	1.36	13.91	27.91	31.49	54.52	-	-	-
EUR LIBOR 3M	EUR	-0.38	0.00	0.06	0.00	-0.53	-1.52	-3.34	-4.09	-7.30	-	-	-
GBP LIBOR 3M	GBP	0.29	0.26	0.09	0.19	-1.86	-3.56	-6.66	-7.86	-20.54	-	-	-
CHF LIBOR 3M	CHF	-0.73	0.00	0.30	0.00	0.44	0.64	0.30	0.36	2.64	-	-	-

FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst	
GLOBAL AGG TR HEDGED	USD	510.07	0.16	0.39	0.37	0.77	1.17	2.61	2.14	-0.08	10.40	1.55	-
GLOBAL HY TR	USD	1,286.21	0.15	0.44	0.35	1.91	3.23	6.05	8.44	11.13	15.70	5.07	-
US GOVERNMENT TR	USD	2,168.76	0.20	0.41	0.41	0.78	1.39	2.43	2.46	-1.80	6.53	1.55	-
US CORPORATE TR	USD	2,863.75	0.18	0.42	0.45	1.38	2.96	4.93	5.02	2.43	12.37	3.09	-
US HIGH YIELD TR	USD	1,925.23	-0.04	0.05	0.05	1.10	2.23	4.20	6.14	10.93	17.43	5.40	-
EU GOVERNMENT TR	EUR	249.96	0.14	0.67	0.57	0.76	0.82	1.88	-0.13	-2.94	9.12	0.53	-
EU CORPORATE TR	USD	268.01	0.10	0.46	0.43	1.23	1.61	3.15	2.91	2.61	12.27	0.74	-
EU HIGH YIELD TR	EUR	312.70	0.10	0.38	0.31	1.20	2.11	4.63	5.56	8.61	17.79	2.93	-
BARCLAYS GLOBAL CONVERT.	USD	236.59	-0.40	-0.73	-0.47	0.84	2.12	3.76	6.30	8.60	10.32	-	-
GLOBAL EM TR (HEDGED)	USD	377.68	0.24	0.42	0.39	1.26	1.84	4.55	6.18	5.16	15.94	4.16	-
S&P/LSTA U.S. LEV LOAN	USD	98.85	-0.01	0.00	-0.01	0.37	-0.01	0.16	0.24	7.08	0.62	4.65	-

COMMODITY INDICES - BY TYPE OF ISSUER													
GSCI INDEX TOTAL RETURN	USD	2,240.87	-0.67	-0.18	-1.25	1.80	0.77	-7.04	-7.30	4.71	-53.34	-	-
GSCI ENERGY TR	USD	375.59	-0.76	0.45	-1.56	4.53	1.70	-10.79	-13.62	6.99	-66.24	-	-
GSCI INDUSTRIAL METALS TR	USD	1,255.85	-0.13	0.03	0.05	3.08	7.09	4.90	11.89	20.67	-10.99	-	-
GSCI PRECIOUS METALS TR	USD	1,533.60	-0.34	0.62	-0.02	3.95	1.32	2.55	8.90	-9.14	-6.03	-	-
GSCI AGRICULTURE TR	USD	407.04	-1.03	-2.59	-2.59	-5.95	-3.91	-10.04	-5.57	-8.03	-27.20	-	-
GENERIC 1ST 'CL' FUTURE	USD	48.98	-0.10	-1.47	-2.37	3.77	5.72	-12.92	-13.98	1.74	-59.13	-	-
GOLD SPOT \$/OZ	USD	1,269.39	0.07	-0.02	0.00	3.77	3.36	4.03	10.16	-6.74	-1.47	-	-

CURRENCIES													
DOLLAR INDEX SPOT	USD	92.84	-0.10	-0.55	-0.13	-3.61	-6.13	-7.13	-9.26	-3.15	14.04	-	-
Euro Spot	EUR	1.19	0.08	1.10	0.32	4.71	8.15	10.51	12.96	6.74	-11.49	-	-
Japanese Yen Spot	JPY	110.05	-0.04	0.54	0.15	2.90	2.15	1.50	6.24	-8.06	-6.83	-	-
British Pound Spot	GBP	1.31	0.08	0.09	-0.51	1.76	1.74	5.45	6.55	0.31	-22.03	-	-
Swiss Franc Spot	CHF	0.97	0.06	0.07	-0.11	-0.26	1.90	2.40	5.27	0.63	-6.33	-	-
Brazilian Real Spot	BRL	3.11	-0.03	1.16	0.35	6.01	1.66	0.27	4.51	3.98	-27.51	-	-
China Renminbi Spot	CNY	6.72	-0.02	0.28	0.12	1.23	2.64	2.15	3.37	-1.14	-8.02	-	-
Singapore Dollar Spot	SGD	1.36	0.13	-0.01	-0.13	1.91	3.21	3.85	6.62	-1.11	-8.17	-	-
Russian Ruble Spot	RUB	60.35	0.03	-1.28	-0.92	-1.49	-3.23	-2.32	2.00	8.87	-40.61	-	-
Norwegian Krone Spot	NOK	7.91	0.28	0.37	-0.25	5.99	10.06	4.69	9.60	7.05	-20.49	-	-

VOLATILITY / LIQUIDITY INDICES													
CBOE SPX VOLATILITY INDX	USD	10.44	1.56	1.75	2.05	-6.68	0.10	-4.56	-25.43	-15.70	-30.75	-	-
USD SWAP SPREAD SEMI ZYR	USD	24.65	-	1.96	-0.74	6.67	-15.33	-24.74	-3.79	-8.20	16.83	-	-
TED SPREAD	USD	23.78	-	10.14	-2.18	-14.40	-23.29	-55.68	-52.49				

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