

Bedrock Friday 11 August 2017 Newsletter

Friday. It is the morning after a shocking Thursday... It was Goldilocks all the way, and just as we all started to enjoy our markets' porridge, three angry bears showed up. Well, maybe two- Trump and Kim Jong-un...

Scary bears indeed. Suddenly there is a perception that the said porridge (which has been brewing for some 25 years) is overflowing its pot. And it comes at a moment where equities are at their all time highs (albeit not necessarily expensive), yields at their lowest or thereabouts (definitely expensive) and as usual, it happens when markets are in their slim summer modes (thin). Yesterday we had a long awaited rout. NASDAQ fell some 2%. But it is still up over 15% year-to-date. The VIX, that infamous "fear-index" which had been languishing in complacent-land of ten, jumped by some 50% to almost 17, a historically "normal" level.

Just on Wednesday Donald Trump's words of "fire and fury" sent the S&P 500 Index to its biggest slide in a month on Tuesday. That is ... a 0.2 percent drop. the S&P 500 was on course for its calmest month since August 1965, as it posts an average 0.18% daily move. The only other month with smaller swings was February 1964, after which the index went on to see its most placid year on record (Bloomberg). But that was as of Wednesday. Then we heard rumblings of a fast arriving storm- Kim Jong-un's regime said late on Tuesday that it may strike Guam. That came shortly after Trump warned Pyongyang it would face "power, the likes of which this world has never seen before" if the renegade state continued to threaten the U.S. President Donald Trump appears to have painted himself into a corner: He must now follow up on his pledge of hitting North Korea with "fire and fury," or he risks further blowing U.S. credibility. A clap of thunder and the markets forgot their trajectory. Yes, the threat of nuclear-ammageddon is scary and the markets had a predictable knee-jerk reaction. Selling equities, buying gold and Treasuries.

Thunder-words.

Lets try to analyse our porridge under the gaze of the said bears-

What we see is that the fastest, hardest sales in this risk-off moment came in the stocks with the highest gains for the recent past. See the NASDAQ off over 2% with the S&P500 only 1.30% Yes, a mini-rout but as always, the nervous investor selling his or her winners... The classic investor error of throwing away the baby with the bath-waters. Yesterday, in after-hours this silliness was clearly visible with Nvidia [NVDA]- It reported Q2 earnings and beat hugely on all counts- Sales, EPS, outlook and then fell some 6% in late trading. It was their 8th straight reporting quarter of strong beats... But it was up some 3X for the year... there goes the baby...

Yes, the VIX spiked. But so what? We all knew yesterday morning that it has been compressed to its "10"level" because of the effects of passive investing by ETFs. The same passive investors in reversing their buying release the VIX. Clearly not an individual investors reaction.

Then, we all know from history that geopolitical flare-ups cause Dollar buying. A flight to safety, side with the Big Guy, the fellow with the "mother-of-all-bombs"... And it hasn't happened this time- The US Dollar which had been (at last!) edging-up since a week or so, actually took a slap and fell back as equities were falling, oil dipped and gold popped up. As did bond prices, pulling down yields to 2.20% on the benchmark 10 year US Treasury notes. Yes, the far eastern markets followed the American fall, and Europe is adjusting downwards in Friday's trading-DAX off 0.4%, FTSE, CAC and SMI down some 1% or so. But US Futures whilst indicating some red, it is minor. Perhaps reason will prevail this day? Maybe investors will realize that Kim, inspite of his hairstyle, is no Sissy...

We are concerned about Venezuela whose bonds are collapsing. Some say that they will be repaid as they continue to be current. Earning improbably high returns to their owners. The country is failing on all counts, but pays its debts. Some say that this will continue, as much of the nation's debt is held off-shore by the country's leaders... Credit Suisse bank just shut trading in Venezuelan bonds... Citing "reputational risks..."

Ten years ago Wednesday, French bank BNP Paribas blocked withdrawals from hedge funds that specialized in U.S. mortgage debt. That Aug. 9, 2007, marked the beginning of a credit crisis that caused investment bank Lehman Brothers to collapse a year later and usher in the Great Recession of 2008-09. "It's true that the subprime mortgage crisis in the U.S. started a little earlier, in February 2007, but the money markets did not notice until that day in August," said Alexis Stenfors, a former trader for Merrill Lynch who famously lost his company \$450 million on currency bets. He is now a business professor at Britain's University of Portsmouth. An old adage comes to mind; "When you fail at something, go teach it..."

On the bright-side of our hangover from yesterday we find that the US Labor Department said on Wednesday nonfarm productivity, which measures hourly output per worker, increased at a 0.9% annualized rate in the April-June period. First-quarter productivity was revised to show it edging up at a 0.1% pace instead of being unchanged as previously reported. That is good for the GDP, but then, The Labor Department said on Thursday its producer price index for final demand slipped 0.1% last month, reversing June's 0.1% gain. July's drop was the largest since August 2016. Clearly, inflation isn't a threat and possibly neither is the Fed...

And yes, we remain positive on equities as Tina is with us... TINA is the acronym for There Is No Alternative...

We enjoyed a CNN headline "Trump's credibility crisis has just gone nuclear..." – luckily, it is fake news!?

Market Weekly Highlights:

- The greenback remained in a range this week despite the North Korean threats. The Dollar Index remains around the 93.00 level, down some 8.55% YTD.
The USD is trading around 1.1756 against the EUR and at 0.9618 against the CHF. The Pound is trading higher against Dollar since the start of the year at \$1.2975 as is the Japanese Yen, trading at 109.10.
The Russian Ruble is trading sideways against the USD at 60.15 following the oil-price pattern. The Brazilian Real is trading slightly lower vs. USD for the week at just above 3.17.
Crude oil WTI is in the middle of this year's range, at around 48.50.
- The yield on 10Y U.S. Treasuries stands at 2.20% down some 2Bp for the week. The Japanese 10 year JGB is trading up slightly in price for the week and continues to offer POSITIVE returns at 0.054%.
In Europe, we see the German Bund trading at 0.38% down some 10bp 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 down this week in the USA; the DJIA is trading at about 21'844 off from its all-time high, the S&P500 at just above 2'438 off 1% or so for the week and Nasdaq at about 6'217 off yesterday close, also off some 2%. 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 2.70%, as is the DAX. The CAC40 has lost 2.40% this week and FTSE 100 lost some 2.40%.
The Swiss market lost 3.00% as the Swiss Franc gains some 1% against the US\$. And the Nikkei traded down 1.50% but remains up 3.22% for the year. .

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

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INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)							1Y	3Y	Fwd P/E	T12m P/E
			1D	5D	MTD	1M	3M	6M	YTD				
EQUITY MARKET INDICES - BY REGION													
S&P 500 INDEX	USD	2,438.21	-1.41	-1.37	-1.30	0.52	1.83	5.27	8.91	11.55	25.88	18.69	20.93
DOW JONES INDUS. AVG	USD	21,844.01	-0.88	-0.83	-0.22	2.03	4.42	7.77	10.53	17.36	31.83	17.92	18.71
NASDAQ COMPOSITE INDEX	USD	6,216.87	-2.09	-1.95	-2.07	0.38	1.65	8.42	15.49	18.91	41.25	23.43	32.29
RUSSELL 2000 INDEX	USD	1,372.54	-1.74	-2.33	-3.69	-2.87	-1.27	-1.17	1.14	11.67	20.20	29.29	46.63
EURO STOXX 50	EUR	3,433.54	-1.01	-2.70	-1.06	-1.50	-5.82	4.34	3.71	11.93	11.98	14.55	17.48
EURO STOXX 600	EUR	376.05	-0.87	-2.38	-1.18	-1.51	-5.32	1.64	3.32	7.72	13.37	15.59	20.99
CAC 40 INDEX	EUR	5,115.23	-0.59	-2.42	-0.32	-1.23	-5.69	5.16	4.42	12.73	20.96	14.98	18.12
DAX INDEX	EUR	12,014.30	-1.15	-2.72	-1.28	-3.81	-5.88	2.54	4.20	11.36	30.31	13.18	17.18
FTSE 100 INDEX	GBP	7,389.94	-0.89	-2.39	-0.54	0.03	-0.74	1.01	2.65	6.03	10.54	15.07	25.46
SWISS MARKET INDEX	CHF	8,949.86	-0.86	-2.98	-1.67	0.33	-1.78	5.29	8.32	7.32	6.89	17.79	23.83
NIKKEI 225	JPY	19,729.74	-0.05	-1.50	-0.98	-2.31	-1.16	1.81	3.22	17.89	30.40	16.82	17.86
HANG SENG INDEX	HKD	27,444.00	-1.13	-2.39	-1.54	3.96	7.07	14.12	22.28	19.14	9.16	12.72	14.00
SHANGHAI SE COMPOSITE	CNY	3,261.75	-0.42	-1.64	-1.97	0.17	4.80	0.37	3.38	6.86	44.23	14.23	17.23
S&P BSE SENSEX INDEX	INR	31,531.33	-0.84	-3.20	-3.76	-1.43	3.44	10.44	17.52	12.32	22.62	19.75	22.95
RUSSIAN RTS INDEX \$	USD	1,029.26	-0.55	-0.67	1.27	1.84	-7.77	-12.40	-11.49	7.04	-15.27	5.97	6.79
BRAZIL IBOVESPA INDEX	BRL	66,992.09	-1.00	0.32	1.63	4.95	-0.81	1.31	11.23	14.91	18.33	12.90	18.46
MSCI WORLD	USD	1,940.28	-1.04	-1.40	-1.06	1.28	2.59	6.92	10.80	11.78	14.03	17.28	20.59
MSCI WORLD HEDGED	USD	860.11	-1.13	-1.15	-0.79	0.35	0.93	6.02	9.28	14.88	29.66	-	-
MSCI WORLD LOCAL	-	1,467.05	-1.10	-1.50	-0.91	0.22	0.47	4.51	7.53	11.58	20.71	17.28	20.59
MSCI AC WORLD	USD	472.58	-1.06	-1.35	-1.05	1.56	2.93	7.65	12.03	12.30	12.50	16.72	19.91
MSCI EM	USD	1,056.21	-1.17	-1.03	-0.94	3.73	5.58	13.55	22.49	16.37	-0.49	13.37	15.87
MSCI AC ASIA x JAPAN	USD	648.78	-1.27	-1.20	-1.11	3.15	6.63	16.45	26.14	19.36	9.64	13.97	15.65
MSCI EM LATIN AMERICA	USD	2,754.92	-0.98	-0.89	0.11	5.36	2.86	5.98	17.70	9.63	-20.05	14.69	19.48
MSCI EM Eur, ME & Africa	USD	266.73	-0.30	0.36	0.17	6.58	2.10	5.38	8.97	5.78	-17.63	11.59	12.95
EQUITY MARKET INDICES - BY SECTOR											P/E	P/E	
MSCI ENERGY	USD	197.35	-0.87	-1.98	-2.28	1.91	-3.14	-7.09	-9.88	-2.00	-33.24	25.55	39.98
MSCI MATERIALS	USD	248.88	-0.56	-1.03	-1.14	1.93	5.46	4.68	12.17	15.56	-0.31	16.63	18.90
MSCI INDUSTRIALS	USD	238.56	-0.86	-1.24	-0.37	0.17	2.54	7.87	12.27	14.14	20.22	17.59	20.18
MSCI CONS DISCRETIONARY	USD	218.45	-0.98	-1.40	-1.14	1.38	0.96	7.03	11.20	11.27	22.94	17.07	19.07
MSCI CONS STAPLES	USD	228.79	-0.43	-0.50	-0.23	2.00	1.24	6.97	10.24	2.00	17.95	20.54	23.12
MSCI HEALTH CARE	USD	216.66	-1.04	-1.53	-2.23	-1.14	1.75	7.79	12.36	2.24	17.35	16.94	22.88
MSCI FINANCIALS	USD	117.55	-1.33	-1.92	-1.29	0.89	5.44	7.20	10.71	26.33	15.71	13.47	15.94
MSCI INFO TECH	USD	194.65	-1.84	-1.66	-0.92	1.64	2.94	12.68	20.73	23.67	46.79	19.42	23.97
MSCI TELECOMS	USD	70.59	-0.57	-1.21	-1.11	5.28	3.01	2.16	1.53	-5.12	0.83	14.64	19.78
MSCI UTILITY	USD	129.89	0.05	0.04	1.28	4.67	5.47	11.53	12.99	6.30	10.58	16.73	20.42
MSCI WORLD REAL ESTATE	USD	204.78	-0.68	-0.88	-0.43	3.64	2.89	4.92	7.73	-1.92	6.85	24.73	18.76
HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,241.22	-0.25	-0.27	-0.36	0.57	0.83	2.14	3.14	4.83	1.14	-	-
HFRX EQUAL WEIGHTED	USD	1,251.55	-0.19	-0.19	-0.26	0.49	0.74	1.96	2.83	4.61	3.66	-	-
HFRX GLOBAL EUR	EUR	1,101.03	-0.26	-0.29	-0.44	0.34	0.22	0.98	1.69	2.54	-3.00	-	-

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			1D	5D	MTD	1M	3M	6M	YTD				
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)													
US 3 MONTH	USD	1.04	0.50	-3.44	-3.70	-0.15	16.16	50.24	53.80	75.56	-	-	-
US 2 YEAR	USD	1.33	0.18	-2.45	-2.27	-4.87	-0.83	13.69	13.81	58.44	-	-	-
US 10 YEAR	USD	2.20	0.35	-6.10	-9.32	-15.95	-18.64	-20.63	-24.33	64.17	-	-	-
US LIBOR 3M	USD	1.31	-0.03	-0.36	-0.14	0.40	12.72	27.55	31.13	49.32	-	-	-
EUR LIBOR 3M	EUR	-0.37	0.00	0.46	0.46	0.23	-0.84	-2.37	-3.63	-5.41	-	-	-
GBP LIBOR 3M	GBP	0.28	-0.13	-0.59	-0.40	-1.63	-3.63	-7.90	-8.45	-10.41	-	-	-
CHF LIBOR 3M	CHF	-0.73	-0.06	-0.06	-0.06	0.02	0.28	-0.06	0.30	1.54	-	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER													
GLOBAL AGG TR HEDGED	USD	510.63	0.07	0.22	0.49	1.07	1.45	2.38	2.26	-0.16	10.32	1.54	-
GLOBAL HY TR	USD	1,277.80	-0.20	-0.44	-0.31	1.41	2.47	5.35	7.73	9.27	14.75	5.29	-
US GOVERNMENT TR	USD	2,171.34	0.14	0.33	0.53	0.97	1.71	2.12	2.58	-1.26	6.39	1.54	-
US CORPORATE TR	USD	2,853.28	0.06	-0.07	0.08	0.95	2.57	3.98	4.64	2.07	11.62	3.14	-
US HIGH YIELD TR	USD	1,912.38	-0.28	-0.66	-0.62	0.64	1.32	3.37	5.43	8.99	15.86	5.71	-
EU GOVERNMENT TR	EUR	250.29	0.02	0.25	0.70	1.58	1.26	1.86	0.00	-3.02	9.07	0.52	-
EU CORPORATE TR	USD	268.31	0.02	0.15	0.54	1.45	1.65	2.90	3.03	2.45	12.29	0.74	-
EU HIGH YIELD TR	EUR	312.23	-0.09	-0.21	0.16	1.40	1.66	4.27	5.40	7.69	18.23	2.97	-
BARCLAYS GLOBAL CONVERT.	USD	233.53	-0.80	-1.29	-1.76	-0.52	0.33	2.01	4.92	6.44	9.10	-	-
GLOBAL EM TR (HEDGED)	USD	377.05	-0.09	-0.03	0.22	1.27	1.60	3.87	6.00	4.25	16.01	4.21	-
S&P/LSTA U.S. LEV LOAN	USD	98.73	-0.05	-0.12	-0.13	0.17	-0.13	0.09	0.12	6.71	0.78	4.69	-
COMMODITY INDICES - BY TYPE OF ISSUER													
GSCI INDEX TOTAL RETURN	USD	2,227.79	-1.34	-0.58	-1.83	4.12	1.31	-8.26	-7.84	3.31	-53.60	-	-
GSCI ENERGY TR	USD	374.20	-1.17	-0.37	-1.92	9.29	1.90	-11.18	-13.94	5.38	-66.41	-	-
GSCI INDUSTRIAL METALS TR	USD	1,299.10	0.13	3.44	3.49	8.51	12.78	4.26	15.74	25.05	-8.07	-	-
GSCI PRECIOUS METALS TR	USD	1,555.09	0.89	1.40	1.38	6.19	5.18	2.55	10.43	-6.94	-5.51	-	-
GSCI AGRICULTURE TR	USD	395.11	-3.60	-2.93	-5.44	-10.08	-5.35	-14.08	-8.34	-11.58	-29.72	-	-
GENERIC 1ST 'CL' FUTURE	USD	48.33	-0.54	-2.52	-3.67	7.00	-0.64	-14.13	-15.12	-2.76	-59.60	-	-
GOLD SPOT \$/OZ	USD	1,285.68	-0.05	2.14	1.28	5.57	4.95	4.22	11.58	-3.96	-1.75	-	-
CURRENCIES													
DOLLAR INDEX SPOT	USD	93.40	0.08	-0.07	0.66	-2.29	-6.17	-7.27	-8.55	-2.48	14.74	-	-
Euro Spot	EUR	1.18	-0.15	-0.16	-0.74	2.50	8.22	10.91	11.76	5.54	-12.19	-	-
Japanese Yen Spot	JPY	109.20	0.06	1.42	1.03	4.40	4.32	4.21	7.17	-6.58	-6.37	-	-
British Pound Spot	GBP	1.30	0.02	-0.46	-1.78	1.03	0.73	3.62	5.19	0.19	-22.68	-	-
Swiss Franc Spot	CHF	0.96	0.03	1.08	0.48	0.15	4.73	4.51	5.89	1.37	-5.79	-	-
Brazilian Real Spot	BRL	3.18	-0.64	-1.93	-1.59	2.51	-0.27	-1.92	2.49	-1.53	-28.11	-	-
China Renminbi Spot	CNY	6.65	-0.30	0.92	0.89	2.03	3.55	3.19	4.17	-0.50	-7.70	-	-
Singapore Dollar Spot	SGD	1.36	-0.02	-0.21	-0.63	1.33	3.19	4.41	6.08	-1.51	-8.34	-	-
Russian Ruble Spot	RUB	60.13	-0.13	-0.39	-0.71	1.02	-5.21	-3.74	2.21	6.88	-40.30	-	-
Norwegian Krone Spot	NOK	7.95	-0.34	-0.42	-1.43	3.77	7.78	5.17	8.31	3.41	-22.50	-	-
VOLATILITY / LIQUIDITY INDICES													
CBOE SPX VOLATILITY INDX	USD	16.04	44.37	59.92	56.34	47.29	51.32	47.83	14.25	37.33	12.72	-	-
USD SWAP SPREAD SEMI 2YR	USD	25.54	-	0.89	3.00	2.91	0.04	-19.83	-0.16	-0.04	8.92	-	-
TED SPREAD	-	27.88	-	17.24	14.69	1.98	-4.81	-44.59	-44.30	-48.16	29.80	-	-

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