

# Bedrock Friday 15 September 2017 Newsletter

It is mid September already, just a couple of weeks ahead of Q3 earnings reports. Time flies, and Cassini no longer does- Today Cassini's space mission ends with a dive into Saturn. Whilst scientifically important and definitely interesting, it is likely to have a smaller impact on our lives than said upcoming Q3 reports...

In our markets we saw a pretty unusual "closing" on Tuesday, where all the major US stock indices (DJIA, S&P 500 and NASDAQ) close simultaneously at new all-time-highs... We must be blasé or something, as we didn't bat an eyelid when this happened again on Wednesday's close. Hmm... Amazingly, Thursday's trading gave us yet one more all-time-high for the DJIA whilst the two others gave back a small fraction of a percentage point. What does it all mean? W.E.B. Dubois said in his time "When you have mastered numbers, you will in fact no longer be reading numbers. You will be reading meanings." Not bad for an American sociologist, poet and historian of a century ago... We thought we had mastered numbers and yet, we still ask what it is we are seeing?

We see that we are not the only ones with a question or two on our minds- On Wednesday at midday this week Barclays issued a research note on Tesla [TSLA] in which they raised their "Price Target" to \$210/Share from \$165.00 Bizarre, as TSLA was and is trading at \$378. Go figure... Cost cutting at Barclays surely didn't remove data-feeds... Or does this snippet reaffirm our long-standing cynicism about the value of these research reports? Earnings' estimates? Economic predictions? All crystal balls and other voodoo... We repeat this mantra of ours whereby no-one has mastered a vision of the future. Bear this fact in mind when you read analysts predicting companies' earnings. Invariably they are off, and then say that the reporting company in question "missed". It isn't the company that "missed"- they report a reasonably true past, it is the analysts who missed in predicting said numbers...

Many participants in the markets have been apprehensive if not outright scared of these continuing highs. Maybe we are about to find reason to these highs- let it be the upcoming earnings which are likely to red-face analysts yet again, then get further comfort from hope that tax reform could still happen this year. Treasury Secretary Steven Mnuchin told CNBC on Tuesday that the administration would pass tax reform before 2018, adding the administration is thinking about backdating reform to Jan. 1 2017. Backdating "is still something we are considering and it would be a big boon for the economy." Now this is a reason to add a few points to any valuation of an equity you are watching... Consider the latest price data from China. They indicated a surge in inflation that suggests global growth is on the march and should prolong the rebound in commodities. At the same time, loose financial conditions -- from persistently low interest rates to record equity prices and a weak dollar -- have created a feedback loop that's intensified the hunt for yield. European equities marched toward their longest winning streak in five months Tuesday after both the S&P 500 Index and MSCI's World Index posted record highs a day earlier. "We have solid global growth and some of the easiest financial conditions in history," Andrew Sheets, Morgan Stanley's chief cross-asset strategist, wrote in a client note. "Hooray." Goldman analysts, who have been skittish about market values all year, believe the streaks will continue. One of two key factors the firm cites is that investors now are fearful, thus negating any worries about the kind of euphoria that can kill a bull market. "Investors today are situated between skepticism and optimism," David Kostin, Goldman's chief U.S. equity strategist, said in a report for clients. "Tormented bulls' best describes investor mentality." However, he said the factors converging into a correction is a "low-probability event" because of subdued market sentiment and strong consumer spending, which accounted for 69% of GDP as of the second quarter. Kostin is not alone in believing that the market is being supported by a solid base. "While most are focused on the modest tightening moves being implemented by the Federal Reserve, investors should take note of the significant economic stimulus being provided by a much weaker U.S. dollar and much lower bond yields since year-end," said Jim Paulsen, chief investment strategist at the Leuthold Group. "Undoubtedly, the stock market will decline at some point, but most likely only when its underlying economic fundamentals falter."

Hurricanes Harvey and Irma actually will lead to increased economic activity over the long run, New York Fed President William Dudley said in an interview. "The long-run effect of these disasters unfortunately is it actually lifts economic activity because you have to rebuild all the things that have been damaged by the storms." Dudley added that he didn't think the near-term economic damage would have much effect on Fed policy. He still believes the central bank will begin unwinding its \$4.5 trillion balance sheet "relatively soon" though he acknowledged that the timing of the next rate hike is up in the air.

The word "bubble" has crept back in much of the lingo around equities. But not everyone thinks it is the case- Mario Draghi said on Thursday that the ECB doesn't see any signs of an increase in leverage, the "component of a bubble" that accompanied the period prior to the global financial crisis.

We there's been a major shift in investor psychology. It has been about capital preservation, low volatility. People are now saying, 'where am I going to get a return from?', adding that the cause could be "an element of fear of missing out." Clearly, an underlying shift in risk preferences, which is actually largely about the memory of '08 decaying. The Labor Department said on Thursday its Consumer Price index rose 0.4% last month after edging up 0.1% in July. August's gain as the largest in seven months and lifted the year-on-year increase in the CPI to 1.9% from 1.7% in July.

The cryptocurrency "won't end well," Jamie Dimon told an investor conference in New York on Tuesday, predicting it will eventually blow up. "It's a fraud" and "worse than tulip bulbs." We are not alone... Ooof...

## Market Weekly Highlights:

- The DXY is trading lower losing almost 9.50% YTD showing 91.89 as we watch. The USD is trading currently at 1.1938 against the EUR and at 0.9608 against the CHF. The Pound soared to highest levels against the USD on BOE hawkish message and rate increase bets, now trading at 1.3535. The Japanese Yen weakened sharply this week, now at 111.25.  
The Russian Ruble has traded somewhat stronger against the USD at about 57.60 following the oil price higher. The Brazilian Real is trading almost unchanged against the USD for the week at just above 3.12. Crude oil WTI trades just below \$50.00 a barrel while Brent is at just below \$55.50.
- The yield on 10Y U.S. Treasuries is down in price with yields rising to 2.18%. The Japanese 10 year JGB has traded in POSITIVE territory throughout the week reaching 0.050% and today offering returns at 0.029%.  
In Europe, we see the German Bund yield trading at 0.40%, higher by 5Bp for the week. The French 10Y Yield is up slightly as well showing 0.69% returns as we watch. The Swiss 10 year bond yield started September in NEGATIVE territory at -0.14% and is up for the week trading at -0.083 as we write.  
In Peripheral Europe Italian 10Y yields have again crossed the 2% level having started the year as high as 1.73% whilst the Spanish 10Y yields trade 40bps lower than Italy at 1.60%; they are higher than where they started the year : 1.30%.
- Markets are up this week in the USA with the three main indices DJIA, S&P and NASDAQ all hitting new all-time highs on Tuesday and again on Wednesday. The DJIA is trading at about 22'200 up about 2% for the week as is SP500 at just above 2'495, +1.20% and Nasdaq at about 6'430 ; +0.50% for the week as of yesterday closes.  
In Europe the situation is similar with Eurostoxx50 +2.33% for the week, the DAX + 1.93% and the CAC40 at +2.25%. The peripheral Spanish IBEX 35 and the Italian FTSE MIB are also showing positive weekly returns above 2%. The only negative performer of this week remains the FTSE 100 hit by the strong currency move, down 1.77%.  
The Nikkei trades higher +3.29% for the week and remains positive for the year at 4.16%. In Asia Hang Seng is also positive for the week 0.50% and showing strong performances for the year: +26.39% YTD.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

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## MARKET INDICES PERFORMANCE

14/09/2017

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	2,495.62	-0.08	1.24	0.97	1.26	2.60	4.63	11.47	16.22	25.78	19.10	21.35	
DOW JONES INDUS. AVG	USD	22,203.48	0.23	1.92	1.16	0.93	3.95	5.98	12.35	21.91	30.37	18.24	18.91	
<b>NASDAQ COMPOSITE INDEX</b>	USD	6,429.08	-0.47	0.49	0.01	1.52	4.28	8.97	<b>19.43</b>	22.47	42.27	24.07	40.64	
RUSSELL 2000 INDEX	USD	1,425.02	-0.10	1.88	1.41	3.02	1.06	3.05	5.00	16.14	24.29	30.79	47.85	
<b>EURO STOXX 50</b>	EUR	3,526.48	0.09	<b>2.21</b>	<b>3.00</b>	1.79	-0.04	3.36	7.09	18.50	9.04	15.00	18.04	
EURO STOXX 600	EUR	381.79	0.12	1.52	1.96	1.25	-1.25	1.63	5.48	12.01	10.85	15.91	21.16	
CAC 40 INDEX	EUR	5,225.20	0.15	2.15	2.71	1.62	0.12	4.77	7.42	19.44	17.94	15.43	18.61	
DAX INDEX	EUR	12,540.45	-0.10	1.92	4.02	2.98	-1.20	4.42	9.22	20.22	29.82	13.77	17.47	
FTSE 100 INDEX	GBP	7,295.39	-1.14	-1.50	-2.21	-1.59	-2.06	-1.38	1.73	7.97	6.80	15.07	24.58	
<b>SWISS MARKET INDEX</b>	CHF	9,071.43	0.19	1.46	1.30	0.33	2.13	4.06	<b>10.00</b>	10.47	2.79	18.05	24.20	
NIKKEI 225	JPY	19,807.44	-0.29	<b>3.29</b>	1.34	0.79	0.39	1.70	4.16	21.36	24.84	17.11	17.99	
<b>HANG SENG INDEX</b>	HKD	27,777.20	-0.41	0.33	-0.75	2.15	8.59	16.68	<b>26.18</b>	18.96	13.97	12.57	13.79	
SHANGHAI SE COMPOSITE	CNY	3,371.43	-0.37	-0.35	-0.21	3.15	7.06	3.45	8.05	11.68	43.37	14.76	17.58	
S&P BSE SENSEX INDEX	INR	32,241.93	0.17	1.62	1.48	2.39	3.62	9.53	20.93	13.33	20.08	20.92	23.71	
RUSSIAN RTS INDEX \$	USD	1,125.69	0.73	0.15	2.33	9.14	13.04	5.53	-2.69	15.49	-6.14	6.98	7.71	
<b>BRAZIL IBOVESPA INDEX</b>	BRL	74,656.68	-0.18	1.69	<b>5.40</b>	9.22	20.56	12.72	23.96	28.92	28.83	14.39	23.31	
MSCI WORLD	USD	1,983.42	-0.14	0.96	1.21	1.75	3.49	6.97	13.26	16.34	14.86	17.49	20.86	
MSCI WORLD HEDGED	USD	877.67	-0.14	1.30	1.03	1.40	1.96	5.87	11.51	19.29	27.16	-	-	
MSCI WORLD LOCAL	-	1,493.56	-0.12	1.39	0.95	1.08	1.77	3.76	9.48	15.63	19.36	17.49	20.86	
MSCI AC WORLD	USD	484.14	-0.12	0.94	1.20	2.07	4.17	8.02	14.77	17.17	13.82	16.94	20.15	
MSCI EM	USD	1,099.89	0.05	0.80	1.12	4.50	9.59	16.57	27.56	23.72	4.18	13.68	16.04	
<b>MSCI AC ASIA x JAPAN</b>	USD	669.95	-0.04	0.95	1.08	<b>3.81</b>	<b>7.93</b>	17.47	<b>30.26</b>	23.45	13.83	14.17	15.41	
<b>MSCI EM LATIN AMERICA</b>	USD	2,958.36	<b>0.05</b>	<b>0.17</b>	<b>2.97</b>	6.67	16.70	14.28	<b>26.39</b>	26.92	-13.66	15.66	22.00	
MSCI EM Eur, ME & Africa	USD	273.81	0.07	-0.78	-1.43	3.57	8.55	9.48	11.87	14.47	-14.21	11.63	13.49	
EQUITY MARKET INDICES - BY SECTOR													P/E	P/E
<b>MSCI ENERGY</b>	USD	203.67	0.46	<b>2.99</b>	<b>4.92</b>	5.03	4.09	-0.72	-6.99	3.05	-29.34	26.45	40.50	
MSCI MATERIALS	USD	259.73	-0.27	0.45	1.32	4.77	9.36	10.66	17.06	24.37	6.99	17.05	18.67	
MSCI INDUSTRIALS	USD	244.72	0.17	1.01	1.72	2.29	2.81	8.99	15.17	19.46	21.81	17.63	20.70	
MSCI CONS DISCRETIONARY	USD	221.76	-0.33	1.04	1.51	1.53	2.10	6.54	12.89	16.28	23.43	17.23	19.26	
MSCI CONS STAPLES	USD	229.78	-0.40	-0.36	0.66	-0.08	-1.21	4.17	10.72	5.17	16.90	20.46	22.95	
MSCI HEALTH CARE	USD	227.99	-0.02	0.43	2.04	4.46	4.43	8.03	18.23	11.57	17.77	17.81	24.07	
MSCI FINANCIALS	USD	117.36	-0.24	2.25	0.83	-0.43	3.77	4.35	10.53	26.06	12.89	13.30	15.81	
<b>MSCI INFO TECH</b>	USD	202.78	-0.32	1.10	0.33	1.89	<b>6.76</b>	<b>13.03</b>	<b>25.77</b>	<b>27.34</b>	<b>48.73</b>	<b>19.98</b>	<b>24.90</b>	
<b>MSCI TELECOMS</b>	USD	68.51	-0.55	<b>0.21</b>	<b>-2.09</b>	-2.71	-1.93	-2.33	-1.47	-2.64	-2.99	14.27	19.12	
MSCI UTILITY	USD	131.92	0.25	-1.18	0.04	1.06	1.98	10.19	14.75	11.45	10.43	16.81	20.14	
MSCI WORLD REAL ESTATE	USD	208.28	0.18	-0.54	0.37	1.67	1.13	7.51	9.57	4.55	10.69	24.56	18.54	
HEDGE FUND INDICES														
<b>HRFX GLOBAL HEDGE FUND</b>	USD	1,251.97	-0.10	0.13	0.21	1.25	1.45	2.46	4.03	6.01	0.24			
HRFX EQUAL WEIGHTED	USD	1,259.68	-0.07	0.06	0.20	0.93	1.28	2.17	3.49	5.37	3.18			
HRFX GLOBAL EUR	EUR	1,108.08	-0.11	0.11	0.09	1.04	0.82	1.23	2.34	3.64	-4.06			
MARKET INDICES PERFORMANCE														
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)														
<b>US 3 MONTH</b>	USD	1.04	-0.14	<b>0.51</b>	5.08	2.28	4.07	32.06	<b>54.44</b>	75.77	-			
US 2 YEAR	USD	1.36	-0.16	9.79	3.43	1.34	0.85	6.05	17.16	63.41	-			
<b>US 10 YEAR</b>	USD	2.18	-0.18	<b>13.22</b>	6.59	-8.99	1.92	-31.01	<b>-26.14</b>	49.22	-			
US LIBOR 3M	USD	1.32	0.08	0.28	0.22	0.50	7.44	18.88	32.21	46.97	-			
EUR LIBOR 3M	EUR	-0.37	0.11	-0.13	-0.27	0.31	-0.31	-2.03	-3.81	-5.44	-			
GBP LIBOR 3M	GBP	0.30	0.99	1.94	2.48	2.13	1.23	-4.16	-6.44	-7.72	-			
CHF LIBOR 3M	CHF	-0.73	0.00	0.02	0.02	0.02	0.46	-0.50	0.32	1.14	-			
FIXED INCOME INDICES - BY TYPE OF ISSUER													Yield to Worst	
GLOBAL AGG TR HEDGED	USD	511.43	-0.06	-0.51	-0.27	0.26	0.45	2.61	2.42	0.77	10.42	1.56		
GLOBAL HY TR	USD	1,295.89	0.01	-0.06	0.47	1.36	2.77	7.10	9.26	10.26	16.87	5.11		
<b>US GOVERNMENT TR</b>	USD	2,176.08	0.00	-0.66	-0.30	0.45	0.52	2.77	2.80	-0.46	7.14	1.56		
US CORPORATE TR	USD	2,864.91	0.10	-0.51	-0.29	0.66	0.97	4.69	5.07	3.16	12.94	3.13		
US HIGH YIELD TR	USD	1,931.03	0.06	0.21	0.39	0.90	1.34	4.84	6.46	9.59	16.76	5.52		
<b>EU GOVERNMENT TR</b>	EUR	249.79	-0.08	-0.55	-0.32	-0.06	-0.36	1.75	-0.20	-1.96	8.02	0.53		
EU CORPORATE TR	USD	268.60	-0.03	-0.25	-0.08	0.16	1.17	2.91	3.14	2.86	11.33	0.77		
EU HIGH YIELD TR	EUR	313.27	-0.01	0.09	0.28	0.35	1.45	4.32	5.76	7.98	16.87	3.02		
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	<b>236.93</b>	<b>-0.04</b>	<b>0.63</b>	<b>0.67</b>	<b>1.11</b>	<b>1.06</b>	<b>3.73</b>	<b>6.45</b>	<b>8.41</b>	<b>9.30</b>	-		
GLOBAL EM TR (HEDGED)	USD	<b>382.31</b>	<b>0.00</b>	<b>-0.20</b>	<b>0.30</b>	<b>1.31</b>	<b>1.96</b>	<b>5.35</b>	<b>7.48</b>	5.93	17.11	4.05		
S&P/LSTA U.S. LEV LOAN	USD	98.25	-0.05	-0.10	-0.06	-0.25	-0.44	-0.68	-0.36	6.57	0.47	4.86		
COMMODITY INDICES - BY TYPE OF ISSUER														
GSCI INDEX TOTAL RETURN	USD	2,295.85	0.42	0.30	1.96	4.17	8.87	2.99	-5.03	5.68	-49.63			
<b>GSCI ENERGY TR</b>	USD	<b>394.39</b>	<b>0.76</b>	<b>1.35</b>	<b>3.66</b>	<b>7.34</b>	<b>15.34</b>	<b>5.35</b>	<b>-9.29</b>	6.71	-62.42			
GSCI INDUSTRIAL METALS TR	USD	1,316.71	-0.64	-3.82	-3.44	2.26	13.67	9.89	17.31	29.36	-5.21			
GSCI PRECIOUS METALS TR	USD	1,605.09	0.04	-1.56	0.65	3.14	3.77	9.17	13.98	-1.60	3.95			
GSCI AGRICULTURE TR	USD	390.47	0.50	0.34	0.95	-1.42	-4.51	-9.65	-9.41	-10.12	-24.82			
<b>GENERIC 1ST 'CL' FUTURE</b>	USD	<b>49.60</b>	<b>-0.58</b>	<b>4.47</b>	<b>5.02</b>	<b>3.90</b>	<b>10.08</b>	<b>-3.13</b>	<b>-13.18</b>	-0.70	-57.71			
<b>GOLD SPOT \$/OZ</b>	USD	<b>1,327.16</b>	<b>-0.19</b>	<b>-1.43</b>	<b>0.44</b>	<b>4.38</b>	<b>5.84</b>	<b>8.81</b>	<b>15.18</b>	0.94	7.61			
CURRENCIES														
<b>DOLLAR INDEX SPOT</b>	USD	92.12	-0.07	0.78	-0.65	-1.91	-5.51	-8.61	<b>-9.93</b>	-3.38	9.26			
Euro Spot	EUR	1.19	0.05	-0.92	0.13	1.62	7.00	11.10	13.39	6.06	-7.84			
Japanese Yen Spot	JPY	110.24	-0.45	-2.62	-0.69	-0.06	0.17	2.38	5.62	-7.80	-3.21			
<b>British Pound Spot</b>	GBP	1.34	<b>0.27</b>	<b>1.78</b>	<b>3.91</b>	<b>4.40</b>	<b>5.31</b>	<b>9.31</b>	<b>8.87</b>	1.48	-17.24			
<b>Swiss Franc Spot</b>	CHF	0.96	0.04	<b>-1.93</b>	-0.43	1.01	1.30	3.88	5.84	0.93	-2.87			
Brazilian Real Spot	BRL	3.12	0.46	-0.66	0.90	2.22	4.94	1.54	4.30	7.17	-25.05			
China Renminbi Spot	CNY	6.56	0.17	-0.77	0.70	2.15	4.02	5.66	6.12	1.99	-6.16			
Singapore Dollar Spot	SGD	1.35	0.07	-0.31	0.74	1.55	2.81	4.10	7.49	1.29	-6.11			
Russian Ruble Spot	RUB	57.51	0.10	-0.14	1.02	3.93	0.70	7.12	12.68	-33.28				
Norwegian Krone Spot	NOK	7.87	0.07	-1.62	-1.36	1.22	8.11	7.99	9.82	4.63	-18.74			
VOLATILITY / LIQUIDITY INDICES														
<b>CBOE SPX VOLATILITY INDX</b>	USD	<b>10.44</b>	<b>-0.57</b>	<b>-13.28</b>	<b>-0.76</b>	<b>-12.71</b>	<b>-3.58</b>	<b>-9.63</b>	<b>-25.14</b>	-35.52	-25.57			
USD SWAP SPREAD SEMI ZYR	USD	24.76	-	3.91	19.59	-4.55	31.13	-26.96	-2.94	-5.25	1.54			
TED SPREAD		28.17	-	0.46	-14.82	-6.04	8.47	-21.79	-43.72	-47.28	25.48			

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