

Bedrock Friday 29 September 2017 Newsletter

We are closing Q3 2017 today. Happy we didn't follow the old adage "Sell in May and Go Away"... Yes, we did have a few tremors, about a 2 on the open ended Richter Scale... enough to scare some, but we held steady. We had bad storms but they blew over, the devastation caused much pain to many but had little to no effect on our markets, possibly even helping future growth with reconstruction. Away from the disarray in DC, we may well see infrastructure investment coming on anyway. Healthcare reform is still in the starting blocks with Tax Reform grabbing the headlines. We believe its effects are not yet fully priced into the market and is likely to fuel the next leg of valuations! We are days away from Q3 earnings' reports which again are likely to come ahead of analysts' expectations, adding yet more fuel to the happy tone of markets. Many market strategists expect the smaller market capitalization stocks to benefit more than large-cap stocks from tax reform, and indeed, the Russell 2000 index of small-cap stock hit an all-time high yesterday. We are not fearful of all time highs, rather, feel encouraged when they occur... they tell us that the market is seeing a better future than they saw before. At the same time, the S&P 500 closed within 0.1% of its own all-time best! It truly is a broad-based optimistic market.

Yesterday we saw a new high in the Transport Index, usually considered to be a precursor for the rest of the market. Yes, the S&P 500 hit a new all-time high the day before and the DJIA a week earlier. And then, the European markets are also rising. Goldilocks is still here? We think so- The US gave us the final reading on Q2 GDP as up 3.1%, another notch higher than expected. Q3 is now expected to be slowed by the effects of the hurricanes but to rebound strongly into Q4 from the reconstruction investments. We may have found an explanation for the consistent under-estimation of earnings by said analysts- Much like a Doctor who in answering expecting parents' question as to the gender of the unborn baby asks what they would like it to be. Invariably, the doctor will "predict" the opposite gender. He knows that if his prediction proves wrong, the parents will be so happy to have what they wanted, they forget his mistake. If proven right, well, they remember how clever he is... Analysts clearly use the same technique... Under estimate, if wrong, investors are pleased and forget the erroneous prediction...

We heard Janet Yellen telling us that the FOMC remains hawkish and that we should all expect tightening, i.e., rate rises by year end. The US Dollar listened and ticked upwards against just about every other currency. Yields edged up somewhat as bonds drifted down in price all along the yield-curve. Financial stocks rose yesterday, with the SPDR S&P Bank ETF (KBE) posting its first 10-day win streak on record. The market seems to believe her this time. The 10-year yield traded near 2.31% after reaching 2.359 %, its highest since July 13. The 30-year Treasury yield briefly hit its highest since Aug. 1.

While the Fed is still busy figuring out why there is no inflation, or shall we say has outright admitted that they have no clue, Janet Yellen said that she was still holding on to her hawkish stance of gradual rate hikes and winding down the balance sheet. If, however, inflation were not to move up in the foreseeable future, she would be open to renewed easing. The recent hawkish saber-rattling expressed at the FOMC and this week's speech has all of a sudden given the dollar a new life. The weakening trend from the beginning for the year seems to be broken now, against the Euro, the Yen as well as a bunch of EM currencies. If this truly marks a Fed-induced dollar bottom and it continues to strengthen from here, then this in itself represents a tightening mechanism. What a conundrum... a rising Dollar will likely further restrain US inflation... The only reason we can see for a rate hike is to give the Fed the possibility of cutting it, should data turn sluggish. Maybe an Amazon in the Fed is the answer to the Amazon in cyberspace which is lowering prices of everything?

We are about to enter the month of October, notorious for its effects on equity prices. But history shows that when the S&P gains in August and September, often the worst months of the year, it typically rallies through the end of the fourth quarter for a 2% average gain. The S&P 500 is on track for a 3.5% gain for the third quarter, having dodged sell offs in the often weak months of August and September. The market's performance in those two months now bodes well for more gains in the fourth quarter, which begins Monday.

"Whenever the S&P 500 has been up in August and September, two months that are usually very challenging for stocks, the S&P has risen in price 13 of 16 times, or 81% of the time, for the remainder of the year," said Sam Stovall, chief investment strategist at CFRA. Stovall said his 12-month target for the S&P is 2,640, and he thinks the market could run into trouble around the second quarter of 2018.

On another note, the United States is now the second-most competitive economy in the world, climbing to an eight-year high in global rankings, according to an analysis published Tuesday by the World Economic Forum. The latest edition of the Global Competitiveness Report, an annual ranking of 137 economies based on data from international financial institutions, moved the United States up from the No. 3 position to second place, just behind Switzerland. And this with Trump at the helm... Is this "Fake News"? China crept up from 28th to 27th as India slipped from 39th to 40th.

We close our Q3 letter-writing with an obituary to the openness of Hugh Hefner and Playboy- Founded in 1953 he gave us transparency with an open minded look-see at the World. Two years ago he re-covered the truth with clothing, in tune with the politics of the World; Burkas, Fake News and dressed Bunnies. Clearly an end of an era...

When trying to predict markets, we are reminded of this quote: "It is a mistake to try to look too far ahead. The chain of destiny can only be grasped one link at a time." Sir Winston Churchill

Market Weekly Highlights:

- The DXY rebounded this week to 93.07 on the back of the Trump tax-cut plan. The EUR is trading lower against the USD for the week, currently just above 1.18, USDCHF is stronger somewhat at 0.97. The Pound, which jumped last week and hit 1.3657 has come off this week, and is now trading below 1.3385. The Japanese Yen is almost unchanged versus the USD for the week at about 112.42. The Russian Ruble has traded sideways against the USD at about 58. The Brazilian Real has lost some ground against the USD for the week, trading at just about 3.18. Crude oil WTI is at almost \$51.50, unchanged, whilst Brent stands at just above \$57.60.
- 10Y U.S. Treasuries are trading down in price with yields hitting yesterday 2.3568% and are now trading back down to almost 2.31% as we write. The Japanese 10 year JGB yield has jumped this week from 0.02% to 0.08% and continues to offer POSITIVE yields, actually trading at almost 0.068%. In Europe, we saw the German Bund yield hitting 0.518% yesterday to only trade back today at 0.45%, exactly where it started the week. The French 10Y Yield followed a similar path showing 0.74% now. In Peripheral Europe Italian 10Y yields had crossed the 2% level having started the year at 1.73% and now at 1.83%, whilst the Spanish 10Y yields trade some 20bps lower than Italy at 1.61% but higher than where they started the year at 1.30%.
- Markets had another positive week in the USA with the S&P hitting another new all-time high while DJIA and NASDAQ slightly lower from last week's all-time highs. The DJIA is trading just below 22'400 up about 0.10% for the week as of yesterday's close, SP500 at just above 2'510, up 0.38% and Nasdaq at about 6'450, adding another 0.48% positive return this week. In Europe the situation is similar with Eurostoxx50 up 0.75%, with the DAX, CAC40 and FTSE100 at respectively +1.16%, 0.24% and 0.76% for the week while the peripheral Spanish IBEX 35 is down 0.10%. The Nikkei trades slightly higher at +0.29% for the week and shows positive returns for the year at 6.50%.

Bedrock Friday 29 September 2017 Newsletter

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

28/09/2017

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	2,510.06	0.14	0.38	1.55	2.61	3.73	6.31	12.11	16.69	26.91	19.21	21.49
DOW JONES INDUS. AVG	USD	22,381.20	0.18	0.10	1.97	2.36	5.14	8.33	13.25	23.36	31.10	18.40	19.08
NASDAQ COMPOSITE INDEX	USD	6,453.45	0.02	0.48	0.39	2.41	5.03	9.43	19.88	22.48	43.22	29.32	-
RUSSELL 2000 INDEX	USD	1,488.79	0.31	3.09	5.94	7.60	5.13	8.54	9.70	20.28	33.18	32.60	53.60
EURO STOXX 50	EUR	3,563.64	0.24	0.69	4.22	5.25	2.73	2.61	8.37	19.20	11.89	15.20	18.29
EURO STOXX 600	EUR	386.36	0.20	0.80	3.32	4.85	1.48	2.05	6.88	12.71	13.28	16.00	21.42
CAC 40 INDEX	EUR	5,293.77	0.22	0.22	4.07	5.18	2.68	4.41	8.85	19.10	21.44	15.59	18.38
DAX INDEX	EUR	12,704.65	0.37	1.19	5.70	6.67	2.63	4.42	10.99	22.46	35.23	14.04	17.81
FTSE 100 INDEX	GBP	7,322.82	0.14	0.41	-1.21	0.04	-0.13	-0.45	2.77	6.09	10.44	15.17	24.77
SWISS MARKET INDEX	CHF	9,112.16	0.15	-0.37	1.99	3.28	1.78	5.10	10.75	11.50	3.72	18.08	24.22
NIKKEI 225	JPY	20,363.11	0.47	0.29	3.61	5.13	0.67	5.93	6.50	21.94	24.80	17.42	18.39
HANG SENG INDEX	HKD	27,421.60	-0.80	-1.40	-1.71	-0.99	5.88	12.71	24.96	15.80	18.35	12.60	13.69
SHANGHAI SE COMPOSITE	CNY	3,339.64	-0.17	-0.11	-0.35	-0.48	5.05	3.32	7.90	11.69	42.04	14.70	17.54
S&P BSE SENSEX INDEX	INR	31,282.48	0.39	-1.45	-0.86	0.22	1.98	6.53	18.15	13.05	18.28	20.23	23.21
RUSSIAN RTS INDEX \$	USD	1,125.56	-0.09	0.09	2.60	5.31	12.38	-0.06	-2.43	12.63	-0.17	7.14	7.79
BRAZIL IBOVESPA INDEX	BRL	73,567.25	-0.31	-2.69	3.86	3.14	18.20	12.27	22.15	26.08	34.68	14.15	22.96
MSCI WORLD	USD	1,992.36	0.24	-0.11	1.66	2.43	3.79	7.30	13.77	15.85	17.05	17.62	20.96
MSCI WORLD HEDGED	USD	885.86	0.18	0.50	1.97	2.92	2.76	6.83	12.55	17.97	29.10	-	-
MSCI WORLD LOCAL	-	1,505.87	0.18	0.33	1.78	2.92	2.95	5.11	10.38	15.60	21.31	17.62	20.96
MSCI AC WORLD	USD	484.63	0.14	-0.42	1.30	2.05	4.01	7.64	14.88	16.03	15.98	17.03	20.17
MSCI EM	USD	1,072.38	-0.57	-2.71	-1.41	-0.82	5.76	10.34	24.37	17.41	6.24	13.48	15.64
MSCI AC ASIA x JAPAN	USD	656.28	-0.68	-2.32	-0.98	-0.16	4.42	11.78	27.60	17.73	15.50	14.00	15.11
MSCI EM LATIN AMERICA	USD	2,884.35	-0.22	-3.18	0.39	0.28	13.92	8.27	23.23	20.14	-9.30	15.44	21.48
MSCI EM Eur, ME & Africa	USD	263.68	0.15	-2.96	-5.07	-4.63	3.92	2.34	7.73	8.28	-12.97	11.41	12.97
EQUITY MARKET INDICES - BY SECTOR													
MSCI ENERGY	USD	211.02	0.22	1.17	8.71	9.08	7.96	1.94	-3.64	3.44	-24.93	27.27	41.83
MSCI MATERIALS	USD	259.94	0.57	-0.58	1.41	2.23	7.85	9.94	17.16	20.24	10.45	17.05	18.74
MSCI INDUSTRIALS	USD	248.85	0.37	-0.12	3.44	4.14	5.14	10.02	17.12	19.78	25.92	18.00	21.09
MSCI CONS DISCRETIONARY	USD	222.06	0.03	-0.29	1.65	2.44	2.75	5.72	13.04	15.37	25.94	17.36	19.32
MSCI CONS STAPLES	USD	225.50	0.06	-0.24	-1.21	-1.19	-1.27	1.36	8.65	2.64	16.82	20.12	22.59
MSCI HEALTH CARE	USD	224.83	0.24	-0.62	0.63	2.33	1.10	7.72	16.60	10.64	15.27	17.60	23.76
MSCI FINANCIALS	USD	120.35	0.28	0.23	3.40	3.74	3.90	8.82	13.35	29.91	18.20	13.76	16.23
MSCI INFO TECH	USD	202.73	0.27	0.10	0.31	1.77	7.26	12.27	25.74	26.31	49.44	19.87	24.72
MSCI TELECOMS	USD	70.22	-0.01	-0.47	0.37	0.09	2.29	0.02	1.00	-1.87	-0.11	14.79	19.63
MSCI UTILITY	USD	128.26	0.13	-1.08	-2.73	-2.96	1.66	5.26	11.57	6.57	8.59	16.38	19.62
MSCI WORLD REAL ESTATE	USD	203.92	0.45	-0.54	-1.73	-0.78	0.62	3.79	7.28	0.03	10.93	23.94	18.22
HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,254.34	0.04	-0.12	0.40	0.80	1.59	2.87	4.23	5.66	0.87	-	-
HFRX EQUAL WEIGHTED	USD	1,261.08	-0.03	-0.13	0.31	0.62	1.22	2.41	3.61	4.97	3.70	-	-
HFRX GLOBAL EUR	EUR	1,109.55	0.04	-0.12	0.22	0.60	0.97	1.62	2.48	3.29	-3.48	-	-

MARKET INDICES PERFORMANCE

28/09/2017

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	1.04	-0.65	2.03	4.95	3.29	1.90	26.85	54.31	78.69	-	-
US 2 YEAR	USD	1.46	0.79	2.77	13.31	14.32	8.95	18.89	27.04	72.45	-	-
US 10 YEAR	USD	2.31	0.54	6.40	19.69	18.47	4.73	-6.26	-13.04	75.40	-	-
US LIBOR 3M	USD	1.33	0.20	0.97	1.50	1.50	3.77	18.09	33.49	47.90	-	-
EUR LIBOR 3M	EUR	-0.38	0.14	0.11	-0.57	-0.36	-0.47	-2.19	-4.11	-5.57	-	-
GBP LIBOR 3M	GBP	0.33	0.39	0.33	5.23	4.95	2.95	-1.50	-3.69	-4.62	-	-
CHF LIBOR 3M	CHF	-0.73	0.00	0.00	0.02	0.04	0.42	0.52	0.32	2.28	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	510.09	-0.02	-0.15	-0.53	-0.52	0.57	1.67	2.15	-0.38	9.63	1.61
GLOBAL HY TR	USD	1,296.69	0.17	-0.18	0.54	0.61	2.64	6.10	9.32	9.20	18.57	5.13
US GOVERNMENT TR	USD	2,165.49	0.04	-0.22	-0.79	-0.71	0.28	1.59	2.30	-1.80	6.12	1.61
US CORPORATE TR	USD	2,865.36	0.13	-0.03	-0.27	-0.11	1.10	3.74	5.08	1.76	12.53	3.15
US HIGH YIELD TR	USD	1,939.45	0.07	0.22	0.82	1.06	1.93	4.53	6.92	8.94	18.91	5.46
EU GOVERNMENT TR	EUR	249.19	-0.02	-0.12	-0.56	-0.60	0.37	0.83	-0.44	-3.20	7.09	0.55
EU CORPORATE TR	EUR	268.50	-0.06	0.00	-0.11	-0.26	1.54	2.49	3.10	2.32	11.16	0.79
EU HIGH YIELD TR	EUR	314.01	-0.01	0.03	0.51	0.57	1.67	4.17	6.01	7.95	17.83	3.00
BARCLAYS GLOBAL CONVERT.	USD	236.71	-0.03	0.15	0.57	1.20	0.57	3.34	6.35	7.48	10.74	-
GLOBAL EM TR (HEDGED)	USD	381.17	0.09	-0.14	0.00	0.31	2.04	3.84	7.16	4.49	16.98	4.13
S&P/LSTA U.S. LEV LOAN	USD	98.30	0.01	0.00	-0.01	-0.01	-0.06	-0.18	-0.32	6.53	1.36	4.83
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,331.59	-0.51	0.76	3.55	6.04	10.36	3.78	-3.55	3.22	-48.57	-
GSCI ENERGY TR	USD	404.14	-0.80	1.69	6.23	9.99	17.21	6.78	-7.05	3.35	-61.58	-
GSCI INDUSTRIAL METALS TR	USD	1,334.28	0.84	-0.67	-2.15	-0.01	10.99	8.69	18.87	27.12	-1.03	-
GSCI PRECIOUS METALS TR	USD	1,552.73	0.08	-0.51	-2.63	-2.14	2.54	0.75	10.26	-4.71	2.44	-
GSCI AGRICULTURE TR	USD	387.03	-0.53	-0.72	0.06	1.16	-2.85	-8.79	-10.21	-13.18	-22.19	-
GENERIC 1ST 'CL' FUTURE	USD	51.38	-0.35	1.42	8.15	9.97	12.85	0.29	-10.50	-4.03	-57.13	-
GOLD SPOT \$/OZ	USD	1,287.73	0.03	-0.75	-2.55	-1.65	3.39	2.73	11.78	-2.47	5.91	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	93.09	0.06	1.06	0.51	0.97	-2.60	-6.85	-8.87	-2.50	8.82	-
Euro Spot	EUR	1.18	0.08	-1.31	-0.97	-1.48	3.09	9.56	12.15	5.11	-7.02	-
Japanese Yen Spot	JPY	112.34	-0.18	-0.49	-2.27	-2.51	-0.32	-1.33	3.93	-10.23	-2.70	-
British Pound Spot	GBP	1.34	-0.31	-0.76	3.64	3.74	3.03	7.78	8.60	3.34	-17.49	-
Swiss Franc Spot	CHF	0.97	-0.09	-0.19	-1.28	-1.58	-1.57	2.62	4.93	-0.50	-2.04	-
Brazilian Real Spot	BRL	3.18	0.32	-1.40	-1.06	-0.50	3.04	-1.31	2.27	1.06	-23.97	-
China Renminbi Spot	CNY	6.66	-0.11	-1.17	-1.17	-1.07	1.78	3.33	4.15	-0.01	-7.72	-
Singapore Dollar Spot	SGD	1.36	-0.01	-0.88	-0.15	-0.21	1.57	2.67	6.55	0.47	-6.19	-
Russian Ruble Spot	RUB	57.92	-0.21	-0.93	-0.02	1.34	2.37	-2.45	6.02	8.68	-32.04	-
Norwegian Krone Spot	NOK	7.94	-0.10	-1.84	-2.34	-2.48	5.52	6.96	8.73	1.28	-18.84	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	9.55	-3.24	-0.21	-9.63	-18.21	-16.35	-16.20	-31.84	-31.74	-40.11	-
USD SWAP SPREAD SEMI 2YR	USD	25.06	-	-6.20	22.04	25.21	15.13	-24.75	-0.96	-1.04	3.35	-
TED SPREAD	USD	29.05	-	-3.71	-12.16	-7.13	-1.16	-22.49	-41.96	-48.47	30.27	-

Bedrock Friday 29 September 2017 Newsletter

Visit www.bedrockgroup.ch

The content of this document has been approved and issued by Bedrock S.A. and Bedrock Asset Management (UK) Ltd for information purposes only. The information and opinions contained in this document are for background information and discussion purposes only and do not purport to be full or complete. No information in this document should be construed as providing financial, investment or other professional advice. This information contained herein is for the sole use of its intended recipient and may not be copied or otherwise distributed or published without Bedrock's express consent. No reliance may be placed for any purpose on the information contained in this document or their accuracy or completeness. Information included in this document is intended for those investors who meet the Financial Conduct Authority definition of Professional Client or Eligible Counterparty.

Confidentiality

This presentation and the information contained herein are confidential. Each copy of this presentation is addressed to a specifically named recipient and shall not be passed on to a third party.

By its acceptance hereof, the recipient agrees to keep the presentation and its contents strictly confidential and may not disclose or divulge any information contained herein to any other person. This presentation cannot be published, copied, reproduced or distributed in any manner whatsoever. The recipient will use this presentation for the sole purpose of obtaining a general understanding of the business, operations and financial performance of Bedrock in order to make a decision as to whether the recipient should proceed with a further investigation of the Funds and this investment opportunity.

Bedrock reserves the right to request the return of this presentation at any time, without the retention of any copies by the prospective investor.

Investment Risks

The value of all investments and the income derived therefrom can fluctuate due to market movements and you may not get back the amount originally invested. In the case of overseas investments, values may vary as a result of changes in currency exchange rates. This may be due, in part, to exchange rate fluctuations in investments that have an exposure to currencies other than the base currency of the portfolio. Past performance is no guide to or guarantee of future performance.

Limitation of Liability and Indemnity

Bedrock expressly disclaims liability for errors or omissions in the information and data contained in this document. No representation or warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. Bedrock accepts no liability for any loss or damage arising out of the use or misuse of or reliance on the information provided including, without limitation, any loss of profits or any other damage, direct or consequential.

You agree to indemnify and hold harmless Bedrock and its affiliates, and the directors and employees of Bedrock and its affiliates from and against any and all liabilities, claims, damages, losses or expenses, including legal fees and expenses arising out of your access to or use of the information in this presentation, save to the extent that such losses may not be excluded pursuant to applicable law or regulation.

Any opinions contained in this presentation may be changed after issue at any time without notice.

Copyright and Other Rights

The copyright, trademarks and all similar rights of this presentation and the contents, including all information, graphics, code, text and design, are owned by Bedrock.