The first week of October brought us yet another tragedy. The biggest mass shooting in the modern history of America hit the usually happy city of Las Vegas. Lots of dead, an incredible number of wounded… the World is truly going crazy, and our thoughts are with the victims and their families.
Markets wise, things look very, very different. Markets in general are in levitation, and nothing seems to derail the prevailing happy and good mood. This week, the US markets have hit record high after record high, and we closed Q3 on a bright note. Indeed, The Dow Jones index posted quarterly gains of 4.9 percent, its eighth straight quarter of gains for the first time since 1997! The S&P 500 rose nearly 4 percent in the quarter, also its eighth straight quarter of gains. The Nasdaq composite gained almost 5.8 percent for the quarter, its fifth straight positive quarter since 2015…
So while a lot of people look at this with amazement, there might be good reasons for these rising markets. Christine Lagarde, the head of the International Monetary Fund said Thursday that "the long-awaited global recovery is taking root" and that three-quarters of the globe is enjoying an economic upswing in "the broadest-based acceleration since the start of the decade."
Then, the World Bank said that it now expects China's economy to grow 6.7 percent in 2017 and 6.4 percent in 2018. Its previous forecasts were for China to grow 6.5 percent in 2017 and 6.3 percent next year. Finally, the US House narrowly passed a $4.1 trillion budget on Thursday, formally initiating a process that Republicans hope will result in the enactment of major tax reform later this year.
The Senate Budget Committee was expected to pass a similar budget later in the day, with a vote in the full Senate slated for the week of Oct. 16. By passing a budget resolution through both GOP-controlled chambers, Republicans would trigger a legislative process known as reconciliation, during which they could pass the long awaited sweeping tax reform bill with a simple majority of 51 votes in the Senate, instead of the usual 60-vote requirement.
The US Fed also seems to agree with the positive economic mood, warning again this week that rates will need to go up and that they will start their long awaited wind down of their QE program. US 10 year yields now stand at 2.35%, compared to the low hit on September 8th of 2.03%. the US dollar also recovered quite a bit since the lows hit in September as it rebounded by 5% against the JPY, 4% against the CHF, and about 4% against the GBP.
However, legendary investor Howard Marks says that he remains concerned. He sees growing complacency in the financial markets, high valuations and investors mindlessly shouldering bigger and bigger risks. He warns that central banks have distorted the risk curve and that we have no idea about what's going to happen next, when they start to unwind their extreme policy measures. He then cited examples of deals like Argentina being able to sell 100-year debt at a yield of 8%. Netflix selling debt at 3,625% and Softbank raising a private equity fund worth $100 billion, deals that are all indicative of the mindless shouldering of risk that arises when investors are eager to put money to work.
More risky behaviour can be seen also from the fact that the average yield of a European corporate junk bond index just reached an all-time low of 2.30%. Junk debt of European companies is trading with a lower yield than the safest security in the world, the US 10 year treasury Note! This is clearly non sense, even allowing for the currency spread between the EUR and the USD.
But all is not rosy in the markets. Some things take a beating some time, when risk is not properly assessed; Puerto Rican bonds took a huge hit on Wednesday following President Donald Trump's comments on the island's massive debt.The island's general obligation bonds, which yield 8 percent, dropped to just 37 cents on the dollar. Just last month, the bonds were trading at around 56 cents to the dollar. Trump visited the hurricane-devastated U.S. territory on Tuesday. On Tuesday night, he Trump said that Puerto Rico's debt will have to be wiped out. "They owe a lot of money to your friends on Wall Street and we're going to have to wipe that out. You're going to say goodbye to that, I don't know if it's Goldman Sachs, but whoever it is you can wave goodbye to that," (…!...)
and an economics blogger at Time. He has also covered finance and the housing market.
Bitcoin traders can breathe a sigh of relief. If JPMorgan Chase & Co.'s CEO Jamie Dimon fires them for trading the cybercurrency, Goldman Sachs Group could welcome them with open arms, Bloomberg reported. Goldman is reportedly considering a new operation dedicated to buying and selling digital currencies. Goldman would be the first large Wall Street firm to explicitly have a bitcoin trading desk, and the news seemed to legitimize the currency less than a month after Dimon called it a "fraud" and said that he would fire anyone stupid enough to trade it. Indeed, prices of bitcoin, which many people already thought were in a bubble, rose $193 on Monday to $4,365 each. That's up from $952 at the beginning of the year, for a staggering 360 percent return in 2017 alone. The S&P 500 is considered to be having a great year. It's up 15 percent, including dividends.But traders may be reading too much into Goldman's cybercurrency move. Remember mortgage-backed credit-default swaps? Goldman had a dedicated unit to trading those as well… Trading bitcoins could produce high returns. Wall Street trading operations thrive on volatility. And with the VIX, which measure equity market volatility, in the single digits, bitcoin is one of the few areas where prices are still jumping around. So bitcoin it is, at least for Goldman, even if the digital currency is by any reasonable measure in a bubble, and closer to popping than ever…
Do not dwell in the past, do not dream of the future. Concentrate the mind on the present moment". Buddha.

Market Weekly Highlights:

- The DXY rebounded this week to 94 bouyed by confidence in economy. The EUR is trading lower against the USD for the week, currently just below 1.17, USDCHF is stronger somewhat at almost 0.98. The Pound, which hit 1.3657 two weeks ago has come off this week, and is now trading at 1.3078. The Japanese Yen is losing ground against the USD at 113.
  The Russian Ruble has traded sideways against the USD at about 58. The Brazilian Real strengthened somewhat against the USD to trade almost unchanged for the week, at just about 3.1540.
  Crude oil WTI is at almost $50.60, unchanged, whilst Brent stands at just above $56.80.

- 10Y U.S. Treasuries are trading down in price with yields hitting nearly 2.37%.
  The Japanese 10 year JGB yield has moved down this week from 0.08% to 0.04% yesterday and continues to offer POSITIVE yields, actually trading at 0.062%.
  In Europe, we saw the German Bund yield moving sideways this week at around 0.45%. The French 10Y Yield followed a similar path trading just below 0.74% now.
  In Peripheral Europe Italian 10Y yields crossed the 2% level again hitting yesterday 2.22%, having started the year at 1.73% and now are at 2.15%, whilst the Spanish 10Y yields trade some 40bps lower than Italy at 1.74% but higher then where they started the year at 1.30%.

- Markets had another positive week in the USA with all three indices S&P, NASDAQ and DJIA hitting another new all-time highs. The DJIA is at 22'775 up about 1.76% for the week as of yesterday's close, SP500 at just above 2'550, up 1.67% and Nasdaq at about 6'585, adding another 2.04% positive return this week.
  In Europe the situation is similar with Eurostoxx50 up 0.36%, with the DAX, CAC40 and FTSE100 at respectively +2.26%, 0.79% and 1.98% for the week while the peripheral Spanish IBEX 35 is down 1.83%. The Nikkei trades slightly higher at +1.64% for the week and shows positive returns for the year at 8.25%.

Bedrock Friday 06 October 2017 Newsletter

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE 05/10/2017

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	2,552.07	0.58	1.67	1.30	3.51	5.91	8.25	13.99	18.11	29.89	19.33	21.85
DOW JONES INDUS. AVG	USD	22,775.39	0.53	1.76	1.65	4.44	6.83	10.22	15.24	24.67	34.04	18.43	19.45
NASDAQ COMPOSITE INDEX	USD	6,585.36	0.78	2.04	1.38	3.00	8.14	12.02	22.33	24.09	47.83	23.93	41.45
RUSSELL 2000 INDEX	USD	1,512.09	0.29	1.57	1.42	7.84	7.94	10.82	11.42	21.33	38.13	32.68	53.66
EURO STOXX 50	EUR	3,613.54	0.52	0.42	0.42	5.13	4.27	3.45	9.71	19.47	15.02	15.47	18.51
EURO STOXX 600	EUR	391.03	0.18	0.67	0.67	4.50	2.72	2.63	8.12	13.99	16.30	16.17	21.63
CAC 40 INDEX	EUR	5,379.21	0.30	0.82	0.82	5.33	4.29	4.92	10.51	19.94	25.36	15.81	18.66
DAX INDEX	EUR	12,968.05	-0.02	2.18	1.19	6.28	4.85	6.13	13.07	22.83	40.95	14.37	18.14
FTSE 100 INDEX	GBP	7,507.99	0.59	1.93	1.93	2.19	2.42	2.90	5.21	7.36	14.49	15.31	25.09
SWISS MARKET INDEX	CHF	9,262.66	-0.23	1.34	1.34	4.75	4.42	7.43	12.90	13.58	6.38	18.38	24.69
NIKKEI 225	JPY	20,628.56	0.01	1.64	1.64	6.88	3.48	11.26	8.25	22.44	30.20	17.80	18.91
HANG SENG INDEX	HKD	28,379.18	0.73	2.68	3.01	2.31	11.21	16.32	29.01	19.31	23.06	13.01	14.13
SHANGHAI SE COMPOSITE	CNY	3,348.94	0.28	-0.11	0.00	-0.54	4.90	3.92	7.90	11.46	41.67	14.67	17.55
S&P BSE SENSEX INDEX	INR	31,592.03	-0.25	1.56	1.56	0.34	1.28	6.16	19.32	13.04	19.58	20.42	23.44
RUSSIAN RTS INDEX $	USD	1,144.05	0.61	0.51	0.51	3.24	12.92	-0.54	-0.85	13.77	1.99	7.23	7.91
BRAZIL IBOVESPA INDEX	BRL	76,617.53	0.03	4.15	3.13	4.37	22.65	19.30	27.21	26.34	34.14	14.75	23.91
MSCI WORLD	USD	2,016.15	0.27	0.78	0.78	2.91	5.61	9.18	15.13	17.33	20.02	17.77	21.20
MSCI WORLD HEDGED	USD	899.16	0.44	1.50	1.12	4.08	4.74	8.56	14.24	19.54	32.84	-	-
MSCI WORLD LOCAL	-	1,528.06	0.45	1.10	1.10	3.70	4.91	7.10	12.01	16.72	24.38	17.77	21.20
MSCI AC WORLD	USD	491.33	0.25	0.91	0.91	2.78	6.06	9.77	16.47	17.67	18.97	17.20	20.44
MSCI EM	USD	1,102.76	0.08	1.94	1.94	1.81	9.60	14.48	27.89	20.25	9.15	13.83	16.07
MSCI AC ASIA x JAPAN	USD	673.44	0.08	1.89	1.89	2.46	8.24	15.11	30.93	20.29	19.31	14.36	15.50
MSCI EM LATIN AMERICA	USD	3,000.00	0.06	4.01	2.86	2.07	18.62	13.68	28.17	22.76	-8.72	16.03	22.26
MSCI EM Eur, ME & Africa	USD	268.28	0.17	0.83	0.83	-2.91	6.82	6.97	9.61	11.71	-11.76	11.48	13.18
EQUITY MARKET INDICES - BY SECTOR												P/E	P/E
MSCI ENERGY	USD	211.10	0.29	0.05	0.05	5.91	9.18	1.16	-3.60	1.86	-22.01	27.27	41.80
MSCI MATERIALS	USD	264.47	0.18	1.44	1.44	2.72	9.25	11.70	19.19	23.27	16.08	17.12	19.04
MSCI INDUSTRIALS	USD	250.68	-0.16	0.49	0.49	4.23	5.82	11.09	17.98	20.65	29.23	18.18	21.18
MSCI CONS DISCRETIONARY	USD	225.63	0.29	1.13	1.13	2.58	5.21	8.42	14.86	16.53	29.57	17.55	19.65
MSCI CONS STAPLES	USD	227.32	0.14	0.57	0.57	-1.14	0.63	2.97	9.53	4.63	18.24	20.28	22.61
MSCI HEALTH CARE	USD	228.73	-0.19	1.13	1.13	2.21	4.20	10.29	18.62	12.74	18.16	17.89	24.25
MSCI FINANCIALS	USD	121.69	0.52	0.67	0.67	5.82	4.27	11.30	14.61	29.10	20.31	14.05	16.43
MSCI INFO TECH	USD	206.42	0.86	1.12	1.12	2.82	10.16	15.05	28.03	27.94	53.53	19.52	25.17
MSCI TELECOMS	USD	70.48	0.04	-0.01	-0.01	2.43	4.15	1.99	1.37	2.21	1.47	14.85	19.67
MSCI UTILITY	USD	128.53	0.15	0.08	0.08	-2.49	3.52	5.14	11.81	11.94	9.37	16.43	19.64
MSCI WORLD REAL ESTATE	USD	205.43	0.05	0.45	0.45	-0.82	3.37	3.74	8.07	5.62	12.57	24.38	18.32
HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,262.30	0.11	0.44	0.44	0.90	2.25	3.32	4.89	6.08	2.08		
HFRX EQUAL WEIGHTED	USD	1,266.42	0.06	0.24	0.24	0.61	1.68	2.62	4.05	5.25	4.64		
HFRX GLOBAL EUR	EUR	1,115.59	0.10	0.38	0.38	0.70	1.62	2.09	3.03	3.69	-2.37		

MARKET INDICES PERFORMANCE 05/10/2017

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	1.06	-0.14	1.78	1.78	0.36	2.66	25.57	56.09	73.78	-	
US 2 YEAR	USD	1.50	0.87	1.33	1.33	19.39	10.16	25.81	30.77	64.64	-	
US 10 YEAR	USD	2.35	0.37	1.81	1.81	24.71	-1.42	1.09	-9.26	61.45	-	
US LIBOR 3M	USD	1.35	0.42	1.39	1.28	3.06	4.46	19.68	34.88	48.23	-	
EUR LIBOR 3M	EUR	-0.38	0.00	-0.03	0.16	-0.46	-0.43	-1.86	-4.14	-5.73	-	
GBP LIBOR 3M	GBP	0.34	0.38	0.96	0.44	6.26	3.79	0.41	-2.73	-4.34	-	
CHF LIBOR 3M	CHF	-0.73	0.00	0.00	0.00	0.02	0.30	0.36	0.32	1.74		
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	510.39	-0.03	-0.01	-0.01	-0.58	1.08	1.47	2.21	0.36	9.34	1.63
GLOBAL HY TR	USD	1,299.24	-0.03	0.05	0.05	0.41	3.12	5.88	9.54	9.17	18.35	5.08
US GOVERNMENT TR	USD	2,161.51	-0.10	-0.13	-0.13	-1.06	0.57	1.13	2.11	-0.95	5.56	1.63
US CORPORATE TR	USD	2,869.85	-0.10	0.06	0.06	-0.13	1.67	3.59	5.25	2.84	11.94	3.16
US HIGH YIELD TR	USD	1,944.18	0.06	0.17	0.17	0.86	2.19	4.09	7.19	8.63	17.74	5.41
EU GOVERNMENT TR	EUR	249.31	0.09	-0.06	-0.06	-0.60	1.15	0.57	-0.39	-2.34	6.79	0.58
EU CORPORATE TR	USD	268.93	-0.04	0.09	0.09	-0.02	1.80	2.25	3.26	2.84	11.09	0.78
EU HIGH YIELD TR	EUR	314.61	0.05	0.14	0.14	0.57	1.98	4.15	6.21	8.00	17.83	2.95
BARCLAYS GLOBAL CONVERT.	USD	238.53	0.06	0.77	0.59	1.45	1.56	3.70	7.17	8.19	12.77	-
GLOBAL EM TR (HEDGED)	USD	382.24	0.00	0.17	0.17	0.05	2.86	3.89	7.46	4.99	17.30	4.13
S&P/LSTA U.S. LEV LOAN	USD	98.40	0.05	0.10	0.10	0.06	-0.13	-0.37	-0.22	6.48	1.37	4.79
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,323.34	1.27	-0.35	-0.13	2.12	7.77	0.57	-3.89	-0.34	-47.23	
GSCI ENERGY TR	USD	399.42	1.66	-1.17	-0.83	3.78	15.16	0.16	-8.14	-3.39	-60.41	
GSCI INDUSTRIAL METALS TR	USD	1,371.57	1.23	2.80	3.37	0.33	13.78	11.43	22.19	30.91	3.02	
GSCI PRECIOUS METALS TR	USD	1,534.31	-0.24	-1.19	-0.81	-5.44	3.94	0.30	8.95	-1.35	3.40	
GSCI AGRICULTURE TR	USD	384.80	0.37	-0.57	-0.65	-1.70	-11.78	-8.19	-10.73	-14.83	-23.55	
GENERIC 1ST 'CL' FUTURE	USD	50.55	-0.47	-2.17	-2.17	2.25	9.61	-5.37	-11.95	-9.97	-56.28	
GOLD SPOT $/OZ	USD	1,268.74	0.10	-0.89	-0.89	-4.91	3.55	1.34	10.11	1.14	5.09	
CURRENCIES												
DOLLAR INDEX SPOT	USD	93.96	0.15	1.11	1.11	1.97	-1.77	-6.52	-7.93	-2.75	9.52	
Euro Spot	EUR	1.17	-0.19	-1.06	-1.06	-1.91	2.33	9.82	11.14	4.82	-7.63	
Japanese Yen Spot	JPY	112.82	-0.15	-0.42	-0.42	-3.34	0.20	-1.93	3.51	-8.00	-3.73	
British Pound Spot	GBP	1.31	-0.31	-2.39	-2.39	0.27	0.82	4.88	5.98	3.66	-18.69	
Swiss Franc Spot	CHF	0.98	-0.16	-1.18	-1.18	-2.37	-1.99	2.56	3.99	0.09	-2.20	
Brazilian Real Spot	BRL	3.15	-0.60	0.92	0.27	-1.16	4.29	-1.06	3.21	2.14	-22.05	
China Renminbi Spot	CNY	6.65	0.12	-0.94	0.00	-0.84	2.02	3.57	4.39	0.22	-7.51	
Singapore Dollar Spot	SGD	1.36	-0.18	-0.67	-0.67	-1.24	1.13	2.60	5.85	0.42	-6.65	
Russian Ruble Spot	RUB	57.73	-0.07	-0.37	-0.37	-0.69	4.10	-2.53	6.52	7.46	-31.06	
Norwegian Krone Spot	NOK	8.01	-0.33	-0.86	-0.86	-2.84	3.98	7.39	7.58	0.32	-19.39	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	9.19	-4.57	-2.94	-2.94	-20.64	-26.40	-25.50	-34.26	-28.12	-40.30	
USD SWAP SPREAD SEMI 2YR	USD	27.18	-	4.39	4.39	16.56	6.24	-20.90	4.90	14.29	-1.61	
TED SPREAD		28.89	-	-0.55	-1.53	-3.92	11.03	-18.00	-42.28	-47.22	27.55	

Visit www.bedrockgroup.ch