

# Bedrock Friday 27 October 2017 Newsletter

At last a truly fascinating week... Q3 earnings keep coming and yesterday was a big one! Some 3 trillion's worth of market cap reported- Amazon, Microsoft, Intel and the like. With huge beats on earnings per share (EPS) and top-lines... Wow... expect an up-day for today 😊

Again, the analysts missed broadly... For an anecdotal smile, last week Citigroup analysts cut their price target on Anadarko Petroleum [APC] from \$60 to \$58, just as Barclays raised their outlook from \$35 to \$37 and Stifel analysts raised their views from \$76 to \$77. The stock was trading at \$48 where it has remained since. Follow them if you want, but choose your source carefully...

We say it is an interesting week, watching China setting their political and economic course for the next five years. President Xi gained power and plans to open-up the economy further. Sounds good for the global economy and friendly to our outlook on global equity markets. Yes, he wants the Yuan to gain power and take some away from the US Dollar. For starters, he wants oil to be priced and traded in Yuan. After all, China is the biggest consumer of the black stuff. We liked the dovish political stance and the strong economic implications. But that wasn't all we heard- The European Central Bank (ECB) decided Thursday to cut the level of bonds it purchases every month, but extend the length of time that its stimulus program. "Only" 30 billion Euros per month now (down from 60), but for more months than previously planned, now "at least" through September 2018. "Today's decision is a sea change but a very gentle one; not a big-bang u-turn in ECB monetary policy," Carsten Brzeski, a chief economist at ING, said in a research note. "In fact, the QE recalibration the ECB has announced illustrates that the ECB wants to start the exit as cautiously as possible, ideally without seeing the euro appreciate or bond yields increase. It is a very dovish tapering." The bank's main interest rates were unchanged and are set to remain in place "well past" the monetary stimulus program.

The immediate effect of this dovish outlook was a fall in the Euro and a widespread buying of the US Dollar now at 1.1630 for an Euro. Maybe, just maybe we have seen the turning point for the Greenback? The Swiss Franc which is tied to the Euro via an ongoing balancing act by the Swiss Central Bank [SNB] traded today at Parity (1x1) against the Dollar. Does it have further room to rise? Well, the Fed is hinting repeatedly at a December rate hike and the ECB just told us it won't. Neither will the BoJ... So think, your Swiss Francs cost you 0.75% per year to hold, the Euro pays zero and the Dollar pays 1.25% and rising... And the US economy is purring along nicely with historical lows in unemployment, no inflation and fair GDP progress. Better late than never, we have been waiting all year for this turn...

From mid-2011 to late 2016, the U.S. dollar strengthened close to 30 percent against developed and emerging currencies. Maybe we are to experience a similar trend now? Some think so, others are saying that this week's move will register as a blip on a long chart and that the Dollar will resume its decades-long decline. We remain with the view that says "go with the carry" and we now have a learner view as to the sustainability of the "spread". We stay with the Dollar.

Then there is the question of the Fed Chairmanship... Jerome Powell likely will be the next Federal Reserve chairman, according to a slim majority of economists in a Reuters poll - but most of them said current Fed Chair Janet Yellen would be the best option. Just over half the 40 economists who participated in the survey, taken in the past few days, tipped Fed Governor Powell to be appointed chair by U.S. President Donald Trump when Yellen's current four-year term ends on Feb 1, 2018. There is little daylight between his and Yellen's thinking and none of the economists polled said Powell would implement the most radical change in policy. Powell, a lawyer and former investment banker, has served as a member of the Fed's Board of Governors since May 2012. Well, markets like stability and now, the views are condensing on change with stability at the Fed. Yet another chink off perceptions of risk... The VIX is steady below 11...

And we add to the comfort as The House on Thursday narrowly approved a Senate version of the 2018 federal budget, clearing the way for the GOP-controlled Senate to pass a massive set of tax cuts later this year. With the budget vote out of the way, Republicans must now move on to the brass tacks phase of reforming the tax code. Shortly after the vote on Thursday, House Ways and Means Committee Chairman Kevin Brady, R-Calif., announced that a tax reform bill would be formally introduced on Wednesday, with a markup in his committee slated to begin Nov. 6. Maybe, just maybe, the quagmire in the DC Pond is clearing? More to cheer for.

Sales of new U.S. single-family homes unexpectedly rose in September, hitting their highest level in nearly 10 years, offering hope that the housing market was regaining speed after appearing to stall in recent months. The Commerce Department said on Wednesday new home sales surged 18.9%. At September's robust sales pace it would take 5.0 months to clear the supply of houses on the market, down from 6.0 months in August. A six-month supply is viewed as a healthy balance between supply and demand. New orders for key U.S.-made capital goods increased more than expected in September and shipments rose for an eighth straight month, suggesting business spending on equipment remained robust in the third quarter, up 3.8% year on year. So good news here too...

Oh yes, yesterday Amazon told us that they are making BIG money... So did Google, Microsoft and Intel Equities might not be as "expensive" as some worry... We saw an interesting snippet about predicting the future- The doctors that told Stephen Hawking he had two years to live in 1953 are probably dead..

## Market Weekly Highlights:

- The dollar has climbed this week against most of the currencies on the back of tapering in EU and steady growth figures in US. DXY is showing 94.87 higher for the week. The EUR is trading down this against the USD after Draghi's dovish speech, currently at 1.1635 two figures down whilst USDCHF is stronger at almost 1.00. The Pound also is off the highs of last month and now trades down at 1.3080 as is the Japanese Yen, which followed the same path and shows 114.00. The Russian Ruble has traded sideways against the USD at about 58 whilst the Brazilian Real is down against the USD for the week showing 3.30. Crude oil WTI is at almost \$52.60, slightly up, whilst Brent stands at just 8.50\$ above at \$59.25.
- 10Y U.S. Treasuries are trading down in price with yields going up to 2.45% after last week's closing at 2.30%.  
The Japanese 10 year JGB yield has moved sideways this week at 0.073% continuing to offer POSITIVE yields.  
In Europe, the German Bund yield hit almost 0.50% this week and has moved down since trading at 0.40%. The French 10Y Yield followed a similar path reaching 0.90% early this week to finally trade down at 0.80% as we write.  
In Peripheral Europe Italian 10Y yields are now below 2.0% trading at 0.93%, having started the year at 1.73%, whilst the Spanish 10Y yields trade some 40bps lower than Italy at 1.55% but higher then where they started the year at 1.30%.
- Markets are mixed this week in the USA with DJIA trading higher and reaching new all time highs while NASDAQ and SP500 down as of yesterday's closing. The DJIA is just at 23'400 up about 1.03% for the week, SP500 at just above 2'560, slightly lower for the week and Nasdaq at about 6'556, off some 0.73%.  
In Europe markets are showing mostly positive returns for the week after Draghi's speech yesterday afternoon, with Eurostoxx50 up 1.55%, the DAX and CAC40 at respectively +1.84% and +2.34% for the week while the peripheral Spanish IBEX 35 is up 0.70% and FTSE MIB at +1.92% as we watch. The Swiss SMI and FTSE 100 are the only markets down at respectively -0.07% and -0.15% for the week.  
The Nikkei trades higher by +2.57% for the week and shows strong positive returns for the year of 15.14% possibly on the back of the weakening of the Yen .



# Bedrock Friday 27 October 2017 Newsletter

Visit [www.bedrockgroup.ch](http://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.