

Bedrock Friday 10 November 2017 Newsletter

Another Friday has arrived. The week has been interesting yet again! Wednesday gave us new all-time highs on the DJIA, The S&P500 and the NASDAQ. Even bonds rose some in price. We were happy in being right, but just for a day... Thursday made us commensurate with Job (the guy in the whale, not the fellow from the Apple!), as our beliefs were tested- The tax reform shenanigans in Washington DC and Trump's crossed messages in the far east confounded the markets. The DJIA dropped some 250 points before rebounding to "only" 100 points down. Even the Nikkei fell almost 1% ahead of our wakeup alarm. And now, as our pen scratches the paper we see that the European markets are giving back some 0.40% and the US futures are following with a similar down of 0.40% It wasn't easy for Job... We know the feeling.

Not easy, yes, but we remain believers. We believe that inflation is low and is likely to remain so for a very long time. At the risk of being repetitive, we see the root-issue here as being the process of disintermediation via the price-discovery afforded by the "Amazon-Effect". This 'effect' is only in its starting-blocks as there is much margin to be squeezed-out of the global commerce. In itself, this view leads us to believe that the low interest environment we are living in will remain in spite of Central Banks' chatter to the contrary. Yes, for honour-sake they will raise short rates a little in the USA, then in a year's time the ECB may add a 0.25% cost to the Euro and yet another year later so will the Swiss National Bank. Japan may or may not as they have a different way of thinking. But we doubt we will see a flaming-up of the cost of money for a very, very long time. This suggests to us that the bond market will be volatile in a very narrow price band and that interest rate curves will remain more or less as they are today, possibly flattening somewhat.

The trading in the FX markets which had been buying the Dollar against everybody have reversed trend since yesterday, skimming some of the recent gains. The excuse being the appearance of discords on the US tax reform bill in Congress. We try to see through the mist of DC- The tax reform is necessary and will happen, in one form or another, imminently. Clearly the self-imposed deadline of Thanksgiving wasn't realistic, so markets fluctuate on perceived delays. Now it may only happen in early next year, maybe retroactive to January first... Does it really matter? We are confident that what needs to happen will come to be. And when it does, or even just when we will know what exactly and when, all will come back to order- Dollar back up, equities up and bond yield up as their prices decline some. It is coming, it is yet another Job-like belief...

Our core outlook was reinforced with a read of a headline "America's Retail Apocalypse is Really Just Beginning"- The so-called retail apocalypse has become so ingrained in the U.S. that it now has the distinction of its own Wikipedia entry. The industry's response to that kind of doomsday description has included blaming the media for hyping the troubles of a few well-known chains as proof of a systemic meltdown. There is some truth to that. In the U.S., retailers announced more than 3,000 store openings in the first three quarters of this year. But chains also said 6,800 would close. And this comes when there's sky-high consumer confidence, unemployment is historically low and the U.S. economy keeps growing. Those are normally all ingredients for a retail boom, yet more chains are filing for bankruptcy and rated distressed than during the financial crisis. That's caused an increase in the number of delinquent loan payments by malls and shopping centers. Toys "R" Us Inc. served as an early sign of what might lie ahead. It surprised investors in September by filing for bankruptcy—the third-largest retail bankruptcy in U.S. history—after struggling to refinance just \$400 million of its \$5 billion in debt. The coming wave of risky retail debt maturities doesn't take into account that companies currently considered stable by ratings agencies also have loads of borrowings. Just among the eight publicly-traded department stores, there is about \$24 billion in debt, and only two of those—Sears Holdings Corp. and Bon-Ton Stores Inc.—are rated distressed by Moody's. "A pall has been cast on retail," said Charlie O'Shea, a retail analyst for Moody's. "A day of reckoning is coming." Stay away from this sector, own Amazon... And what happens in America often gets replicated in the rest of the world...

We are closing-down Q3 earnings' season and see that of the S&P 500 companies, 457 have reported- we see that about 65% beat on sales and 75% beat on earnings. Broad beats, across all sectors but two- utilities and telecoms which disappointed on revenues and earnings. Technology, financials and basic materials rewarded the most. In chart form it is a pleasing picture as we roll into Q4...

Optimism aside, the "Elephant in the Room" is actually a camel... In Saudi Arabia, Bin Salman, who is widely expected to soon become king, is trying to generate growth by transforming the Saudi economy. Selling off a stake in state oil giant Saudi Aramco next year is the cornerstone of the plan, called Vision 2030. And then, the Camel road- A large purge of the Saudi elite has occurred. In his power-play, the Crown Prince has jailed a broad spectrum of the rich and powerful of the Kingdom, including Bin Tallal... This scary, as there is little to no visibility into the true workings in this zone of the world. Saudi Arabia is the ally of the USA and the West in its altercations with Iran. Oil prices have been drifting up, trading around \$60/bbl and are more likely to rise toward \$70 a barrel than sink back to \$50 in the wake of the biggest political shakeup in Saudi Arabia in decades, according to Roberto Friedlander, head of energy trading at Seaport Global Securities. As oil has risen, OPEC ministers' assessments of a "fair price" for their crude have probably increased too, and that could put them at odds with their chief non-OPEC partner: Russia. Some technical signs though suggest the oil rally is close to peaking and might fall flat. We also must keep an eye on Brexit. We read of troubles in the UK house prices already, May is troubled into December and there is no visible solution for the inter-Irish border issue. We are closing-in to the Christmas period and remain optimistic... But then, the place where optimism most flourishes is the lunatic asylum...

Market Weekly Highlights:

- The dollar has marked a pause this week with DXY showing 94.44. The EUR is trading almost unchanged against the USD currently at 1.1642 the same level as where it opened the week. USDCHF is at almost 0.9950. The Pound has fluctuated this week around 1.314 after last week's interest rate hike of BOE in a decade. The Japanese Yen shows 113.43 against the USD slightly higher for the week.
The Russian Ruble and Brazilian Real have traded sideways against the USD for the week showing respectively about 59.25 and 3.2575 as we write.
Crude oil WTI is up trading above \$57, whilst Brent stands some \$7 higher at just \$64.
- 10Y U.S. Treasuries are trading down in price with yields moving higher from 2.30% to actually 2.377%.
The Japanese 10 year JGB yield has moved down this week at 0.043% continuing to offer POSITIVE yields.
In Europe, the German Bund yield which hit almost 0.50% last month moved down to go back up again is trading at 0.40% higher for the week. The French 10Y Yield followed a similar path reaching 0.67% on Wednesday to only go back up at 0.77%.
In Peripheral Europe Italian 10Y yields are now below 2.0% trading at 1.80%, almost where they started the year 1.73%, whilst the Spanish 10Y yields trade some 30ps lower than Italy at 1.52% but higher than where they started the year at 1.30%.
- Equity markets are mixed this week in the USA with Nasdaq and SP500 trading higher, whilst DJIA trading lower and coming off the all time highs touched on Wednesday. The DJIA is above 23'460 down about 0.23% for the week, SP500 at just below 2'585, 0.18% higher for the week and Nasdaq just above 6'750, up some 0.52% as we watch.
In Europe markets are showing mostly negative returns for the week with Eurostoxx50 down 2.29%, the DAX and CAC40 at respectively -2.15% and -2.28% for the week as are the peripheral Spanish IBEX35 down a big 2.43% and FTSE MIB down 1.66% as we watch.

The Nikkei trades higher by +0.63% for the week and shows strong positive returns for the year of almost 19% possibly on the back of the Yen weakening..

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

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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	2,584.62	-0.35	0.18	0.36	1.33	6.00	7.71	15.45	19.25	26.81	19.38	21.81	
DOW JONES INDUS. AVG	USD	23,461.94	-0.34	-0.23	0.36	2.76	7.41	12.03	18.72	24.75	33.20	18.70	19.71	
NASDAQ COMPOSITE INDEX	USD	6,750.05	-0.57	0.52	0.33	2.47	8.58	10.13	25.39	29.59	45.11	23.93	47.08	
RUSSELL 2000 INDEX	USD	1,475.02	-0.45	-1.44	-1.85	-2.19	7.47	5.39	8.69	17.85	25.05	32.45	47.80	
EURO STOXX 50	EUR	3,612.50	-1.16	-1.97	-1.54	0.51	5.35	-0.78	9.93	18.73	16.89	15.62	18.79	
EURO STOXX 600	EUR	390.07	-1.08	-1.37	-1.16	0.12	3.88	-1.47	8.08	15.27	15.67	16.22	21.03	
CAC 40 INDEX	EUR	5,407.75	-1.16	-1.86	-1.60	0.97	5.87	0.28	11.38	19.52	28.24	15.88	18.70	
DAX INDEX	EUR	13,182.56	-1.49	-2.00	-0.15	2.01	9.95	3.55	15.06	24.27	41.25	14.83	19.21	
FTSE 100 INDEX	GBP	7,484.10	-0.48	-0.89	0.00	-0.60	1.40	1.46	4.91	9.75	13.34	15.14	22.60	
SWISS MARKET INDEX	CHF	9,177.82	-0.95	-1.51	-0.66	-0.93	2.58	1.00	11.69	15.79	3.53	18.57	24.45	
NIKKEI 225	JPY	22,868.71	-0.20	0.63	3.04	8.92	14.96	13.98	18.66	30.77	35.17	19.37	19.37	
HANG SENG INDEX	HKD	29,136.57	0.79	1.81	3.10	2.21	6.11	16.41	32.36	27.50	22.64	13.21	13.75	
SHANGHAI SE COMPOSITE	CNY	3,427.80	0.36	1.81	1.16	1.47	5.24	12.44	10.60	8.24	38.77	14.86	17.29	
S&P BSE SENSEX INDEX	INR	33,250.93	0.10	-1.19	0.21	4.26	5.56	10.03	25.00	20.95	19.40	21.74	24.00	
RUSSIAN RTS INDEX \$	USD	1,161.38	0.96	4.12	4.61	2.63	13.16	4.77	1.07	17.19	11.40	7.59	8.24	
BRAZIL IBOVESPA INDEX	BRL	72,930.69	-1.93	-1.21	-1.85	-5.16	8.86	8.29	21.09	19.17	38.32	13.90	21.32	
MSCI WORLD	USD	2,042.36	-0.38	-0.15	0.27	1.03	5.26	7.72	16.63	20.05	19.12	17.97	20.99	
MSCI WORLD HEDGED	USD	915.71	-0.44	0.01	0.40	1.97	5.27	7.63	16.34	22.51	31.81	-	-	
MSCI WORLD LOCAL	-	1,553.95	-0.43	-0.27	0.34	1.66	5.92	6.19	13.90	18.95	23.03	17.97	20.99	
MSCI AC WORLD	USD	498.59	-0.34	-0.05	0.39	1.13	5.50	8.42	18.19	21.09	18.69	17.43	20.30	
MSCI EM	USD	1,133.78	-0.07	0.68	1.31	1.91	7.34	13.94	31.49	29.48	13.64	14.19	16.28	
MSCI AC ASIA x JAPAN	USD	704.43	0.16	0.70	1.80	3.35	8.58	16.57	36.96	31.79	23.33	14.81	15.86	
MSCI EM LATIN AMERICA	USD	2,785.79	-1.22	-0.44	-0.84	-6.06	1.12	4.09	19.02	19.99	-7.86	15.44	19.90	
MSCI EM Eur, ME & Africa	USD	271.37	-0.19	1.33	1.14	0.40	1.74	3.83	10.87	17.25	-9.41	11.96	13.39	
EQUITY MARKET INDICES - BY SECTOR														
MSCI ENERGY	USD	217.58	0.13	1.65	2.79	3.36	10.25	6.38	-0.64	6.67	-17.17	27.09	33.93	
MSCI MATERIALS	USD	270.37	-0.88	-0.39	0.60	2.09	8.63	14.39	21.86	22.70	18.87	17.27	19.35	
MSCI INDUSTRIALS	USD	252.26	-1.03	-0.82	-0.48	0.51	5.74	8.22	18.72	20.33	25.56	18.37	20.67	
MSCI CONS DISCRETIONARY	USD	226.92	-0.32	-0.20	-0.11	0.35	3.88	4.42	15.52	19.86	27.62	17.73	19.66	
MSCI CONS STAPLES	USD	226.93	-0.02	0.50	0.52	-0.71	-0.81	0.45	9.34	11.54	13.72	20.41	22.31	
MSCI HEALTH CARE	USD	223.19	-0.26	-0.38	0.01	-2.14	3.01	4.80	15.75	12.41	11.90	17.50	23.07	
MSCI FINANCIALS	USD	121.29	-0.08	-1.19	-1.01	-0.72	3.18	8.31	14.23	21.47	17.58	14.28	16.41	
MSCI INFO TECH	USD	220.94	-0.83	0.13	1.07	6.31	13.51	16.66	37.03	40.72	59.94	20.06	25.85	
MSCI TELECOMS	USD	67.10	0.22	-0.78	-1.41	-4.51	-4.94	-2.67	-3.49	3.41	-4.15	14.21	18.33	
MSCI UTILITY	USD	132.98	-0.12	0.74	0.80	2.36	2.37	7.55	15.67	20.25	7.65	17.13	20.47	
MSCI WORLD REAL ESTATE	USD	212.71	0.20	2.43	3.25	2.97	3.87	6.62	11.90	14.82	9.79	25.15	18.76	
HEDGE FUND INDICES														
HFRI GLOBAL HEDGE FUND	USD	1,265.15	-0.28	-0.02	-0.02	0.37	1.67	2.82	5.13	7.41	3.51	-	-	
HFRI EQUAL WEIGHTED	USD	1,269.11	-0.21	0.07	0.09	0.33	1.21	2.19	4.27	6.09	6.17	-	-	
HFRI GLOBAL EUR	EUR	1,115.72	-0.28	-0.04	-0.11	0.18	1.08	1.59	3.05	4.97	-1.17	-	-	

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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	1.23	0.24	5.61	9.41	15.30	19.49	33.62	72.79	75.84	-	-	-
US 2 YEAR	USD	1.64	0.86	2.74	4.22	12.96	31.73	28.71	45.36	72.68	-	-	-
US 10 YEAR	USD	2.37	3.19	4.10	-0.58	1.28	17.60	-4.06	-7.08	22.34	-	-	-
US LIBOR 3M	USD	1.41	0.72	2.50	2.86	5.95	10.04	22.53	41.19	52.75	-	-	-
EUR LIBOR 3M	EUR	-0.38	0.00	-0.03	0.10	-0.14	-0.52	-1.36	-4.14	-4.64	-	-	-
GBP LIBOR 3M	GBP	0.53	0.20	7.44	8.56	18.17	24.18	20.56	15.86	12.39	-	-	-
CHF LIBOR 3M	CHF	-0.74	-0.40	-0.62	-1.42	-1.50	-1.54	-0.90	-1.18	-0.18	-	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER													
GLOBAL AGG TR HEDGED	USD	513.36	-0.18	0.01	0.15	0.53	0.53	1.98	2.80	2.35	9.45	1.61	1.61
GLOBAL HY TR	USD	1,290.62	-0.24	-0.76	-0.98	-0.83	1.00	3.57	8.81	10.15	17.61	5.31	5.31
US GOVERNMENT TR	USD	2,167.50	-0.07	0.07	0.26	0.20	-0.18	1.58	2.40	1.17	5.40	1.61	1.61
US CORPORATE TR	USD	2,878.00	-0.18	-0.22	-0.06	0.16	0.87	3.56	5.55	5.05	12.36	3.20	3.20
US HIGH YIELD TR	USD	1,934.25	-0.38	-0.75	-0.76	-0.57	1.14	2.55	6.64	9.10	16.87	5.74	5.74
EU GOVERNMENT TR	EUR	251.74	-0.45	-0.16	-0.12	0.89	0.58	1.62	0.58	0.89	7.63	0.46	0.46
EU CORPORATE TR	USD	272.10	-0.26	-0.11	0.01	1.02	1.41	3.04	4.48	4.86	11.73	0.64	0.64
EU HIGH YIELD TR	EUR	317.51	-0.29	-0.42	-0.14	0.82	1.69	3.42	7.19	8.68	18.39	2.80	2.80
BARCLAYS GLOBAL CONVERT.	USD	237.56	-0.26	-0.19	-0.50	-0.26	0.91	2.22	6.74	9.10	11.38	-	-
GLOBAL EM TR (HEDGED)	USD	380.67	-0.13	-0.52	-0.67	-0.39	0.96	2.68	7.02	6.83	16.25	4.25	4.25
S&P/LSTA U.S. LEV LOAN	USD	98.31	-0.07	-0.22	-0.22	-0.18	-0.43	-0.55	-0.31	1.00	1.14	4.93	4.93
COMMODITY INDICES - BY TYPE OF ISSUER													
GSCI INDEX TOTAL RETURN	USD	2,484.84	0.25	2.73	2.88	8.76	10.05	14.97	2.79	13.09	-40.22	-	-
GSCI ENERGY TR	USD	444.13	0.70	5.15	5.14	14.16	17.30	24.40	2.15	20.47	-51.74	-	-
GSCI INDUSTRIAL METALS TR	USD	1,366.16	-0.77	-2.23	-1.35	0.06	5.30	18.33	21.71	20.11	0.29	-	-
GSCI PRECIOUS METALS TR	USD	1,554.68	0.16	0.57	1.40	0.27	0.86	5.47	10.40	-0.85	7.41	-	-
GSCI AGRICULTURE TR	USD	382.84	-0.69	-0.26	0.57	-0.10	-6.60	-7.53	-11.18	-14.75	-27.69	-	-
GENERICE 1ST 'CL' FUTURE	USD	57.11	-0.10	2.64	5.02	11.35	15.54	16.60	-1.16	13.00	-44.76	-	-
GOLD SPOT \$/OZ	USD	1,284.06	-0.08	1.13	1.02	-0.31	-0.18	5.32	11.44	2.00	11.52	-	-
CURRENCIES													
DOLLAR INDEX SPOT	USD	94.44	0.17	-0.35	0.06	1.41	1.29	-5.08	-7.44	-4.23	7.74	-	-
Euro Spot	EUR	1.16	-0.04	0.25	-0.08	-1.45	-1.15	7.08	10.65	6.83	-6.31	-	-
Japanese Yen Spot	JPY	113.47	-0.06	0.47	0.09	-0.96	-3.82	0.65	3.01	-5.91	1.16	-	-
British Pound Spot	GBP	1.31	0.00	0.52	-1.04	-0.44	1.29	1.60	6.52	4.70	-17.02	-	-
Swiss Franc Spot	CHF	0.99	-0.03	0.64	0.33	-1.92	-3.19	1.47	2.48	-0.75	-2.63	-	-
Brazilian Real Spot	BRL	3.25	0.00	0.48	0.64	-1.91	-2.92	-1.88	0.14	-0.77	-21.28	-	-
China Renminbi Spot	CNY	6.64	0.01	-0.01	-0.07	-0.99	0.11	3.97	4.60	2.50	-7.83	-	-
Singapore Dollar Spot	SGD	1.36	-0.11	0.32	0.17	-0.32	0.23	3.68	6.34	3.76	-5.10	-	-
Russian Ruble Spot	RUB	59.29	0.16	-0.22	-1.43	-2.05	1.58	-2.92	3.97	10.99	-22.94	-	-
Norwegian Krone Spot	NOK	8.13	0.00	0.54	0.45	-2.22	-2.23	6.03	6.25	2.86	-16.24	-	-
VOLATILITY / LIQUIDITY INDICES													
CBOE SPX VOLATILITY INDX	USD	10.50	7.36	17.94	5.89	6.94	-32.79	5.58					

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