

# Bedrock Friday 17 November 2017 Newsletter

Friday has arrived and we draw our pen to help us understand what we have seen. We had a couple of harrowing day where the equity markets trembled, and fell. Fear permeated the headlines, but in reality, even at the worst moments our almighty indices didn't fall beyond 1% from their all-time highs. But we are all on-edge as many worry about being at a high, fearing that what might follow is a fall. Well, this year we have had a sequence of some 50 new 'all time high closings' on the S&P500, so why not expect yet more? After all, on relative pricing basis, equities are still cheap in terms of bond yields... And Thursday revindicated this thought, as the markets reversed the sad Wednesday and NASDAQ hit yet a new such high. Let this be on the merits of earnings or, as some say, from the passage in the House of the Tax Reform Bill with 227 Yea to 205 Nay... After all, the "why" is less important than the observation itself!

Well, the US Commerce Department said on Wednesday retail sales increased 0.2% last month. Data for September was revised to show sales jumping 1.9% rather than the previously reported 1.6% advance. Retail sales increased 4.6% on an annual basis. Last month's increase in core retail sales indicated a healthy pace of consumer spending at the start of the fourth quarter.

Then, on Thursday the Federal Reserve says that manufacturing activity surged 1.3% last month. Many of the gains came from a sharp increase in the production of chemical and petroleum and coal products. Motor vehicles and metals also posted decent gains. Over the past year, industrial production has increased 2.9%. The euro rose to a 2-1/2 week high against the U.S. dollar on Tuesday and was on track for its largest percentage gain in more than two months, after data showed Germany's economy shifted into a higher gear in the third quarter. Germany's seasonally adjusted gross domestic product (GDP) rose by 0.8% on the quarter, ahead of expectations and followed by the ZEW institute saying that investor morale improved in November and prospects for the economy remained "encouragingly positive." Germany helped the euro zone economy expand by 2.5% in the September quarter compared with the same period in 2016, and more than the United States, data showed on Tuesday. So perhaps the markets haven't been wrong? We always say that the markets are the leading indicator for the economy- We repeatedly suggested that one should read the market to predict the headlines- not read the headlines and predict markets!

October marked the 12th month in a row of positive total returns for the U.S. and global stock markets. That type of run is remarkable, but not unprecedented. A review of the U.S. stock market going back to 1871 reveals six streaks where total returns were positive in 12 or more consecutive months, with the longest lasting 15 months between March 1958 and May 1959. The S&P 500 Index turned in positive total returns in just over 60% of the 1,762 months of the past 147 years. What are the odds that this streak will lengthen to be the longest in history? Well, in flipping a coin kind of predictions, its like getting 'Heads' 4 times in a row... possible whilst improbable, with odds of about 6%... But we already know that statistically, you can drown in a pool with an average depth of 2cm... So we prefer not to try and predict the future based on statistical observations and charts- We much prefer the economics of the world, and these appear to be firing on most, if not all available cylinders...

And lets not forget the US tax reform. Whilst the outcome of the next vote in the Senate has in truth, a binary outcome, i.e., we will like it or not, the odds of it passing have increased after the House vote... Is it a good thing? In the short run, probably yes. In the long run? Unclear, as possibly the most serious risk we are all facing lies in the issue of wealth and income distribution- The total wealth in the world grew by 6% over the past 12 months to \$280 trillion, marking the fastest wealth creation since 2012, according to the Credit Suisse report. More than half of the \$16.7 trillion in new wealth was in the U.S., which grew \$8.5 trillion richer. But that wealth around the world is increasingly concentrated among those at the top. The top 1% now owns 50.1% of the world's wealth, up from 45.5% in 2001. Remember what happened to the French Royalty, then to the Russian Czar? Like global warming, this is an issue trending inexorably towards disaster but no Paris Accord has yet been instigated to try and address this. Just a thought on risks ahead...

About global warming- The amount of carbon dioxide in the atmosphere reached its highest level in 800,000 years in 2016, the World Meteorological Organization (WMO) said Monday. Renewables? Yes, they are helping to slow the growth of emissions. But as a reminder, when Bedrock was established in 2004, the world was consuming 80 million barrels of oil per day. Now, with better efficiency for cars, boats and planes, with solar and wind added to the mix, we consume today 100 million barrels per day (25% up in 13 years). OPEC predicts oil consumption to rise towards 150M BpD by 2030... The IEA said this week that they expected a slowdown in the growth rate of consumption- But it is still a growth...

There's one key economic model that the Federal Reserve has struggled to understand, Charles Evans, the president of the Federal Reserve Bank of Chicago, told CNBC on Wednesday. "We don't have a great understanding of why it's gotten to be so flat," Evans said about the so-called Phillips curve. This model states that as the unemployment rate decreases, inflation should pick up with more people in work. However, despite decreases in the U.S. unemployment rate, which currently stands at about 4%, the inflation rate has kept falling since the start of the year. Clearly, Evans hasn't read our previous Newsletters explaining the "Amazon Effect... One that did understand us, gave support to our thinking - John Malone says Amazon is a 'Death Star' moving in 'striking range of every industry on the planet'. •"Jeff [Bezos] is gonna be the most disruptive. As [his] Death Star moves into striking range of every industry on the planet," Malone said.

We leave you with a reminder that the best way to make your dreams come true is to wake up ☺

## Market Weekly Highlights:

- The dollar lost some ground this week with DXY at 93.70 as we write. The EUR rose against the USD after the strong German growth data on Tuesday and hit 1.1861 and is currently at 1.1795. USDCHF traded lower this week to 0.9847 to finally stabilize around 0.9920. The Pound rallied to 1.3250 against the USD on hopes of Brexit Progress. The Japanese Yen stands at 112.54 against the USD stronger than last Friday.  
The Russian Ruble weakened against the USD on Wednesday reaching 60.61 and is now trading 1 figure higher at 59.62. The Brazilian Real followed a similar path hitting 3.3163 to only come off at 3.2775 as of yesterday's close.  
Crude oil WTI is down to almost \$56, whilst Brent stands some \$6 higher at just below \$62.
- 10Y U.S. Treasuries are marginally up in price with yields going down some 5 pbs to 2.36% after hitting 2.41% this week.  
The Japanese 10 year JGB yield has moved down this week at 0.036% continuing to offer POSITIVE yields.  
In Europe, the German Bund yield which hit almost 0.43% on Tuesday moved down and is trading at 0.387% lower for the week. The French 10Y Yield followed a similar path reaching 0.79% early this week and showing 0.73% now.  
In Peripheral Europe Italian 10Y yields are now below 2.0% trading at 1.836%, higher than where they started the year 1.73%, whilst the Spanish 10Y yields trade some 30bps lower than Italy at 1.54% but higher than where they started the year at 1.30%.
- Markets are mixed this week in the USA with two of three major indices trading higher and one of them reaching new all time highs again this week; the Nasdaq. Indeed DJIA is just at 23'458 down for the week a mere 0.02% , SP500 at just above 2'585, up for the week 0.04% and Nasdaq at about 6'793, adding 0.64%.  
In Europe markets are showing negative returns for the week with Eurostoxx50 down 0.88%, the DAX and CAC40 at respectively -0.60% and -0.83% while the peripheral Italian FTSE MIB lost -2.08%. The Swiss SMI is the only positive market with a +0.14% for the week.  
The Nikkei trades lower by -1.25% for the week but shows strong positive returns for the year of almost 17%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

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## MARKET INDICES PERFORMANCE

16/11/2017

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						
<b>EQUITY MARKET INDICES - BY REGION</b>															
<b>S&amp;P 500 INDEX</b>	USD	2,585.64	0.85	0.04	0.40	1.03	6.40	9.70	15.49	18.22	26.67	19.39	21.79		
DOW JONES INDUS. AVG	USD	23,458.36	0.86	-0.02	0.35	2.00	7.85	13.84	18.70	24.09	32.93	18.70	19.67		
NASDAQ COMPOSITE INDEX	USD	6,793.29	1.32	0.64	0.98	2.56	9.18	13.01	26.20	27.36	45.44	24.19	46.77		
<b>RUSSELL 2000 INDEX</b>	USD	1,486.88	1.57	0.80	-1.06	-0.71	9.41	9.66	9.56	13.55	27.71	32.98	48.29		
EURO STOXX 50	EUR	3,564.80	0.54	-0.73	-2.89	-1.11	3.05	-0.48	8.42	17.29	15.65	15.43	18.58		
EURO STOXX 600	EUR	384.93	0.81	-0.91	-2.55	-1.36	2.19	-1.53	6.56	13.08	14.20	16.06	20.32		
CAC 40 INDEX	EUR	5,336.39	0.66	-0.82	-3.03	-0.46	3.69	0.35	9.75	17.86	26.28	15.66	18.32		
DAX INDEX	EUR	13,047.22	0.55	-0.40	-1.17	0.61	7.14	3.51	13.88	22.36	40.49	14.74	19.12		
FTSE 100 INDEX	GBP	7,386.94	0.39	-0.73	-1.53	-1.83	-0.12	-1.66	3.30	8.59	10.59	14.92	20.94		
SWISS MARKET INDEX	CHF	9,146.82	0.63	0.36	-0.81	-1.11	2.48	1.84	11.52	15.10	2.69	18.54	24.14		
NIKKEI 225	JPY	22,351.12	1.47	-1.25	1.75	4.97	13.67	13.03	17.17	25.38	31.95	19.09	19.14		
<b>HANG SENG INDEX</b>	HKD	29,018.76	0.58	0.27	3.38	1.75	6.78	15.44	32.72	31.16	22.70	13.24	13.73		
SHANGHAI SE COMPOSITE	CNY	3,399.25	-0.10	-1.45	-0.31	0.32	3.50	8.97	9.00	5.44	36.74	14.83	17.04		
S&P BSE SENSEX INDEX	INR	33,106.82	1.06	0.42	0.73	2.59	5.22	9.12	25.65	27.56	18.73	21.88	24.03		
<b>RUSSIAN RTS INDEX \$</b>	USD	1,126.52	0.89	-2.51	1.28	-1.65	9.05	2.12	-2.14	13.23	12.30	7.31	8.14		
BRAZIL IBOVESPA INDEX	BRL	72,511.79	2.38	-2.49	-2.42	-4.84	6.67	7.36	20.40	21.32	41.47	13.85	18.20		
MSCI WORLD	USD	2,035.81	0.76	-0.22	-0.05	0.42	5.14	8.14	16.25	19.26	18.71	17.86	20.80		
MSCI WORLD HEDGED	USD	911.27	0.74	-0.49	-0.09	0.88	4.88	6.69	15.78	20.61	30.27	-	-		
MSCI WORLD LOCAL	-	1,545.18	0.75	-0.31	-0.23	0.63	5.46	7.08	13.26	17.21	22.07	17.86	20.80		
MSCI AC WORLD	USD	496.74	0.82	-0.22	0.02	0.36	5.22	8.53	17.75	20.70	18.38	17.32	20.02		
<b>MSCI EM</b>	USD	1,125.36	1.28	-0.28	0.58	-0.03	5.83	11.57	30.51	32.83	14.15	14.06	15.65		
MSCI AC ASIA x JAPAN	USD	700.70	0.91	-0.27	1.26	1.43	7.63	14.58	36.23	35.70	23.40	14.70	15.38		
MSCI EM LATIN AMERICA	USD	2,737.67	2.24	-1.73	-2.55	-6.60	-1.82	0.86	16.96	20.46	-5.79	15.28	17.93		
MSCI EM Eur, ME & Africa	USD	268.89	1.29	-0.12	0.22	-2.41	0.42	1.88	9.85	18.64	-10.68	11.82	13.28		
<b>EQUITY MARKET INDICES - BY SECTOR</b>															
<b>MSCI ENERGY</b>	USD	208.34	-0.35	-3.72	-1.57	-0.99	8.98	2.41	-4.86	2.39	-19.21	25.74	32.15		
MSCI MATERIALS	USD	267.06	0.83	-1.12	-0.64	0.53	6.76	13.21	20.36	23.49	16.87	16.96	19.05		
MSCI INDUSTRIALS	USD	249.69	0.84	-0.81	-1.50	-0.87	4.86	8.23	17.51	19.52	25.40	18.19	20.30		
MSCI CONS DISCRETIONARY	USD	227.62	0.80	0.19	0.20	0.82	4.82	6.34	15.87	17.97	26.51	17.71	19.68		
MSCI CONS STAPLES	USD	229.57	1.20	0.61	1.69	-0.19	-0.01	0.42	10.61	13.31	14.54	20.62	22.56		
MSCI HEALTH CARE	USD	223.07	1.04	0.46	-0.04	-2.61	2.67	4.81	15.68	14.22	11.85	17.46	23.09		
MSCI FINANCIALS	USD	121.12	0.23	-0.06	-1.15	-0.44	3.82	10.14	14.07	19.21	17.93	14.18	16.38		
<b>MSCI INFO TECH</b>	USD	221.57	1.36	0.34	1.36	5.30	12.84	18.29	37.42	38.94	58.59	20.07	25.87		
MSCI TELECOMS	USD	67.28	1.18	0.40	-1.14	-2.98	-3.58	-2.59	-3.23	3.51	-6.07	14.23	16.33		
MSCI UTILITY	USD	132.45	-0.09	0.14	0.40	1.22	1.36	6.39	15.22	20.64	9.23	17.21	20.44		
MSCI WORLD REAL ESTATE	USD	211.26	0.38	-0.78	2.55	1.27	3.18	5.86	11.14	14.74	8.90	24.82	18.38		
<b>HEDGE FUND INDICES</b>															
<b>HRFX GLOBAL HEDGE FUND</b>	USD	1,253.61	-0.20	-0.64	-0.94	-0.63	1.21	1.72	4.17	5.70	2.68	-	-		
HRFX EQUAL WEIGHTED	USD	1,261.19	-0.12	-0.39	-0.53	-0.29	0.87	1.42	3.62	5.00	5.66	-	-		
HRFX GLOBAL EUR	EUR	1,105.30	-0.20	-0.64	-1.05	-0.80	0.62	0.51	2.08	3.33	-1.97	-	-		

## MARKET INDICES PERFORMANCE

16/11/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								1Y	3Y	Yield to Worst
			1D	5D	MTD	1M	3M	6M	YTD				
<b>LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)</b>													
US 3 MONTH	USD	1.25	0.00	3.33	12.23	16.57	25.74	36.44	75.61	82.72	-	-	-
US 2 YEAR	USD	1.72	0.90	6.31	11.75	17.09	42.16	47.14	52.89	67.11	-	-	-
<b>US 10 YEAR</b>	USD	2.36	-1.23	-3.54	-1.63	6.32	17.77	13.87	-8.13	6.04	-	-	-
US LIBOR 3M	USD	1.42	0.29	1.21	4.07	6.86	10.77	24.25	42.40	51.57	-	-	-
EUR LIBOR 3M	EUR	-0.38	-0.04	-0.07	0.03	-0.34	-0.10	-1.21	-4.21	-4.71	-	-	-
GBP LIBOR 3M	GBP	0.53	0.03	0.11	8.67	15.25	24.66	21.10	15.96	12.85	-	-	-
CHF LIBOR 3M	CHF	-0.75	-0.30	-0.40	-1.82	-1.86	-1.96	-1.80	-1.58	-0.98	-	-	-
<b>FIXED INCOME INDICES - BY TYPE OF ISSUER</b>													
GLOBAL AGG TR HEDGED	USD	512.81	-0.05	0.15	0.04	0.07	0.38	1.25	2.69	2.83	9.17	1.63	-
<b>GLOBAL HY TR</b>	USD	1,294.10	0.37	0.21	-0.71	-0.74	1.11	3.19	9.11	11.33	18.45	5.39	-
US GOVERNMENT TR	USD	2,164.00	-0.15	0.21	0.10	-0.19	-0.46	0.40	2.23	1.76	5.06	1.63	-
US CORPORATE TR	USD	2,869.93	-0.07	0.23	-0.34	-0.46	0.38	1.92	5.25	5.61	12.02	3.26	-
US HIGH YIELD TR	USD	1,933.17	0.50	-0.04	-0.82	-0.73	1.05	2.27	6.58	9.25	17.34	5.82	-
EU GOVERNMENT TR	EUR	251.86	-0.02	0.21	-0.08	0.27	0.75	1.46	0.63	1.45	7.39	0.46	-
EU CORPORATE TR	USD	271.60	0.04	-0.03	-0.17	0.32	1.25	2.80	4.29	5.17	11.39	0.68	-
EU HIGH YIELD TR	EUR	315.96	0.29	-0.25	-0.63	-0.09	1.14	3.00	6.66	8.97	17.78	2.93	-
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	236.63	0.37	-0.39	-0.89	-0.57	0.98	1.39	6.32	8.53	10.78	-	-
GLOBAL EM TR (HEDGED)	USD	381.18	0.13	0.27	-0.54	-0.58	0.79	2.23	7.16	8.17	16.88	4.25	-
S&P/LSTA U.S. LEV LOAN	USD	98.08	-0.02	-0.23	-0.46	-0.52	-0.40	-0.81	-0.55	0.62	0.86	4.99	-
<b>COMMODITY INDICES - BY TYPE OF ISSUER</b>													
GSCI INDEX TOTAL RETURN	USD	2,415.68	-0.44	-2.78	0.02	2.66	10.69	8.11	-0.07	10.42	-40.28	-	-
GSCI ENERGY TR	USD	428.10	-0.53	-3.61	1.35	5.66	18.35	13.69	-1.54	15.98	-51.15	-	-
GSCI INDUSTRIAL METALS TR	USD	1,348.74	-0.59	-1.28	-2.61	-3.79	1.06	15.73	20.16	19.54	-0.55	-	-
GSCI PRECIOUS METALS TR	USD	1,546.12	0.10	-0.55	0.85	-1.78	-0.02	2.89	9.79	3.13	5.13	-	-
GSCI AGRICULTURE TR	USD	379.79	-0.05	-0.80	-0.23	-1.25	-1.17	-8.73	-11.89	-13.51	-30.26	-	-
GENERIC 1ST 'CL' FUTURE	USD	55.36	0.40	-2.43	1.80	5.95	15.50	9.15	-4.19	7.91	-45.52	-	-
GOLD SPOT \$/OZ	USD	1,282.16	0.27	0.52	0.87	-0.19	-0.46	1.66	11.27	5.40	8.06	-	-
<b>CURRENCIES</b>													
<b>DOLLAR INDEX SPOT</b>	USD	93.93	-0.18	-0.67	-0.84	0.29	0.15	-3.91	-8.27	-7.07	6.64	-	-
Euro Spot	EUR	1.18	0.19	1.09	1.25	0.22	0.59	5.67	12.12	10.97	-5.29	-	-
<b>Japanese Yen Spot</b>	JPY	113.06	0.43	0.84	0.94	-0.34	-2.67	-1.55	3.89	-2.19	3.62	-	-
British Pound Spot	GBP	1.32	0.30	0.29	-0.37	0.33	2.84	2.04	7.24	6.58	-15.39	-	-
Swiss Franc Spot	CHF	0.99	0.28	0.48	0.64	-1.30	-2.85	-1.25	2.79	1.59	-2.66	-	-
Brazilian Real Spot	BRL	3.28	1.15	-0.82	-0.19	-3.30	-3.82	-5.51	-0.68	4.54	-20.62	-	-
China Renminbi Spot	CNY	6.63	-0.07	0.09	0.00	-0.17	0.61	3.67	4.68	3.67	-7.65	-	-
Singapore Dollar Spot	SGD	1.36	-0.01	0.27	0.46	-0.04	0.74	2.50	6.65	4.73	-4.28	-	-
Russian Ruble Spot	RUB	59.69	-0.03	-0.92	-2.29	-3.95	-0.82	-4.34	3.06	8.65	-20.95	-	-
<b>Norwegian Krone Spot</b>	NOK	8.21	0.03	-0.89	-0.47	-3.20	-2.89	2.41	5.28	4.07	-17.34	-	-
<b>VOLATILITY / LIQUIDITY INDICES</b>													
<b>CBOE SPX VOLATILITY INDEX</b>	USD	11.76	-10.43	4.16	15.52	14.06	-24.37	-24.57	-16.24	-11.91	-15.94	-	-
USD SWAP SPREAD SEMI 2YR	USD	17.81	-	-13.13	-21.20	-32.85	-37.13	-21.54	-31.86	-24.50	-18.24	-	-
TED SPREAD	USD	18.48	-	-2.74	-26.08	-37.42	-40.46	-34.02	-63.08	-58.64	-18.59	-	-

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