

Bedrock Friday 08 December 2017 Newsletter

Friday. The sound of Christmas bells are ringing above the markets, signalling the arrival of the Santa-Rally... With much apprehension and nervousness it seems... Everything seems expensive and high, until we glance at Bitcoin and its crypto-brethrens which make all other price moves seem moot...

The big news of the week were about Brexit- A deal was sealed before dawn in Brussels after talks went through the night. While the EU said it had given ground, Prime Minister Theresa May conceded on all the main issues, bringing to Brussels an offer on the financial settlement, an agreement on Europeans living in the U.K. and a solution to keep open the border that divides the island of Ireland after the split. The U.K. has now won the prize it has been seeking since March -- the right to start discussing relations between the two when Britain parts ways with the bloc after 40 years. Crucially, the EU said it was ready to start talking about the transition deal that businesses are keen to pin down. But EU officials warned that the most difficult bit lies ahead. Amazingly, the markets all but ignored the deal... The Pound is trading at 1.3475 as we write, basically at the same level it ended November and the FTSE is a gnat's whisker higher. Last night was a busy one- On the other side of the pond the House of Representatives narrowly passed a stop-gap spending measure to continue funding the federal government for two weeks. Passing the short-term measure clears the way for more contentious negotiations on a longer-term funding package. The respite from the threat of a Federal Government 'shut-down' will be short lived, as once the two-week spending bill is signed, lawmakers will move on to the far more contentious task of passing a longer-term spending bill before December 22, when Thursday's bill expires. Who said that life in finance is boring? Lets add some Chinese spices- Chinese dollar-denominated exports rose 12.3%year-over-year for the month of November, easily topping the 5% expected by a Reuters poll. Similarly, November's dollar-denominated imports rose 17.7% against the year-ago period, compared to an 11.3%gain expected by a Reuters poll. Overall, China's November trade surplus was \$40.21 billion — above an expected surplus of \$35 billion, Reuters said. If this is an economic slowdown as so many analysts have been predicting, heavens help us all if and when they finally will have an expansion...

All this brings us back to our long-standing view that the world economies have finally turned and have rebounded at last from the 'Great Recession'. There is evidence of a synchronized, global economic recovery-true, the most recent market moves can cause apprehension given their powerful moves upwards, but then, we do have some ten years of catching-up to cover... The chief executive officer of Old Mutual Global Investors, Richard Buxton, predicted mid single-digit returns in global stocks next year as Europe joins the U.S. in a sustainable recovery. Still, he conceded that some sectors of the market had "the characteristics of a bubble," and said he understands why some investors are concerned. "But do I think that equity prices are ludicrously overvalued? Absolutely not," Buxton, who runs the 2.4 billion-pound (\$3.2 billion) Old Mutual U.K. Alpha Fund, said a media briefing in London on Wednesday. "This has been the most hated equity bull market ever. There's no euphoria in the market -- far from it. There is no overall bubble in equities."

For those of you who are worried about the level of stock indices being at all-time-highs or thereabouts, we point out that this year, the DJIA had 64 new 'All-Time-High' closes. Each of which scarier than the preceding one, and yet, just a precursor for the next one... And the Santa Rally is still ahead of us 😊

Yes, it was quite scary when the tech-sector sold off hard and fast this week, Investors wondering how long the distaste for technology stocks will last may be asking the wrong question. The popular narrative is that stock pickers are selling tech after the massive runup this year and are piling into companies set to benefit from U.S. tax cuts. But observers such as Andrew Laphorne of Societe Generale SA don't buy it. They look at the contours of the selloff over the past few days and have a different take: A few heavy hitters are dumping factor positions that incidentally hurt chipmakers and software companies and once they're done, the rally will resume. "We've seen this before," Laphorne said. "Everyone makes a song and dance that tech stocks have fallen, but then you scratch below the surface and it looks factor-led." The idea may have gotten some support Tuesday. The biggest companies recovered some of their losses, with pure momentum posting the best gain in more than two weeks. World equity index market capitalization is a whisker away from \$100 trillion. That surge in equity values has been accompanied by a drop in price swings. As Bloomberg News Wes Goodman pointed out last week, equity market volatility has dropped below that of bonds for the first time ever this year. In the U.S. Treasury market, the flattening of the yield curve is worrying some bond investors, including billionaire fund manager Bill Gross. These are all bricks in the proverbial "Wall of Worry" investors are constantly climbing... Investors who are tempted to book profit and get out of stocks after such a good year should think again, say equity strategists at JPMorgan Chase & Co. Growth momentum might start to lose steam but activity is still likely to remain above trend, which means corporate earnings should rise further after this year's brisk rebound, Mislav Matejka and Emmanuel Cau wrote in a research note Monday. "Granted, equity multiples do not look cheap in absolute terms," the strategists write. "But relative to both bonds and to credit, we find equities continue to offer an almost 300 basis-point valuation gap, and this is just to get to the fair value." Yes, we are already trembling when we think of our year-end Newsletter which usually offers predictions for the year to come. According to Acampora, the blue chip stock index could come close to hitting 25,000 by the end of 2017. The director of Altaira Research Partners' technical analysis has his official sights set on 24,986 on the Dow by year-end. We agree that it is likely to be higher by yearend, but prefer to remain vague of the end-figure, to be approximately right rather than precisely wrong (as he no doubt will be).

Market Weekly Highlights:

- The dollar extended this week's gains ahead of November job reports due later today. The DXY is at just about 94.00 up some 1% for the week but still down almost 8.00% for the year. The USD is trading higher against the Euro at 1.1743 and against the CHF at almost parity. The Pound is unchanged at 1.3485 bouncing back from yesterday's lows of 1.3320. The Japanese Yen is one figure lower against the USD at 113.54 moving from 112.45 early this week. The Russian Ruble which traded slightly up against the USD reaching about 58 last month is now losing some ground trading back at 59.30 as we write. The Brazilian Real hit 3.32 yesterday against the USD on the back of the latest decision of BCB to cut the interest rates by 50bps to a record low of 7.00% and bounced back at 3.29. Crude oil WTI trades unchanged for the week \$57.15 for a barrel; while Brent is trading at about \$62.50.
- 10Y U.S. Treasuries are trading higher in price this week with yields on the ten year note dropping to 2.3118% on Wednesday after opening the week 2.4187% only to trade back at 2.38%. The US yield curve is flattening. The Japanese 10 year JGB yield which hit 0.016% last week is trading higher and continues to offer a POSITIVE yield, showing 0.057%. In Europe German Bund yield is trading at 0.31% down for the week as is the French 10Y Yield marking 0.63%. In Peripheral Europe Italian 10Y yields are now below 2.0% trading at 1.66%, lower than where they started the year 1.73%, whilst the Spanish 10Y yields trade some 25bps lower than Italy at 1.41% but higher than where they started the year at 1.30%.
- Equity markets in US are all down for the week, with Nasdaq trading 0.89% lower, DJIA -0.25% and SP500 trading at -0.40%; however the latter two reaching new all time highs early this week. The DJIA is above 24'211 as of yesterday close having crossed 24'500 on Monday. The SP500 traded just above 2'665 on the same day and is now at 2636; however futures are pointing north for all of them this morning. In Europe markets are strongly up today, showing positive results for the week with Eurostoxx50 higher at +2.28% as is the Swiss SMI +0.35% while the DAX and CAC40 are respectively at positive 2.77% and 1.92% now. The Nikkei traded marginally lower by 0.03% for the week showing strong positive returns for the year of above 19%, 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

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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	2,636.98	0.31	-0.40	-0.40	1.64	7.13	8.35	17.78	17.40	27.99	19.71	22.21	
DOW JONES INDUS. AVG	USD	24,211.48	0.31	-0.25	-0.25	2.75	11.07	14.30	22.51	23.43	35.62	19.30	20.34	
NASDAQ COMPOSITE INDEX	USD	6,812.84	0.54	-0.89	-0.89	0.35	7.12	7.77	26.56	25.76	43.71	24.08	55.56	
RUSSELL 2000 INDEX	USD	1,520.47	0.78	-1.53	-1.53	2.61	8.65	7.41	12.04	9.67	30.27	33.37	49.34	
EURO STOXX 50	EUR	3,573.13	0.32	2.18	0.97	-1.38	4.55	1.14	9.54	13.15	10.98	15.63	18.78	
EURO STOXX 600	EUR	386.41	0.03	1.47	0.75	-1.23	3.75	0.12	7.80	10.69	11.76	16.23	20.80	
CAC 40 INDEX	EUR	5,383.86	0.18	1.90	0.84	-0.98	5.95	2.92	11.43	14.41	23.82	15.91	18.62	
DAX INDEX	EUR	13,045.15	0.36	2.54	1.26	-1.45	7.19	3.73	14.87	17.97	31.68	14.89	19.34	
FTSE 100 INDEX	GBP	7,320.75	-0.36	0.34	-0.02	-2.72	-0.71	-1.67	2.55	5.68	9.79	14.88	21.82	
SWISS MARKET INDEX	CHF	9,270.57	-0.42	0.21	-0.27	0.30	4.28	5.47	13.07	16.85	1.23	19.06	24.47	
NIKKEI 225	JPY	22,498.03	1.45	-0.03	0.38	-0.45	18.35	14.58	19.34	21.56	27.18	19.23	19.57	
HANG SENG INDEX	HKD	28,303.19	0.28	-1.49	-1.84	-0.93	3.51	9.89	30.18	25.27	19.10	12.81	13.33	
SHANGHAI SE COMPOSITE	CNY	3,272.05	-0.67	-0.83	-0.82	-3.67	-2.24	4.43	6.00	2.32	8.93	14.55	16.61	
S&P BSE SENSEX INDEX	INR	32,949.21	1.08	1.31	0.34	0.13	4.97	6.56	24.92	24.60	18.29	21.78	23.89	
RUSSIAN RTS INDEX S	USD	1,119.51	-1.02	-0.88	-0.72	-2.35	0.33	8.17	-2.51	2.37	29.07	7.14	7.12	
BRAZIL IBOVESPA INDEX	BRL	72,487.45	-1.07	0.72	0.72	-2.52	-0.81	15.51	20.36	19.47	44.18	13.86	18.04	
MSCI WORLD	USD	2,063.58	0.27	-0.28	-0.66	0.63	5.04	7.24	17.84	17.72	19.53	18.08	21.15	
MSCI WORLD HEDGED	USD	923.99	0.34	-0.31	-0.31	0.60	6.65	7.52	17.39	18.56	29.34	-	-	
MSCI WORLD LOCAL	-	1,565.11	0.35	-0.07	-0.34	0.25	6.24	6.41	14.72	15.16	21.87	18.08	21.15	
MSCI AC WORLD	USD	501.42	0.23	-0.41	-0.80	0.20	4.55	7.33	18.86	18.52	18.90	17.44	20.22	
MSCI EM	USD	1,100.54	-0.06	-1.38	-1.81	-3.01	0.86	8.00	27.63	25.16	12.66	13.62	15.13	
MSCI AC ASIA x JAPAN	USD	683.43	0.29	-1.50	-1.80	-2.82	2.98	8.42	32.87	28.10	19.85	14.25	15.00	
MSCI EM LATIN AMERICA	USD	2,692.88	-1.72	-0.97	-0.97	-4.56	-8.47	5.86	15.05	15.90	-3.73	14.97	17.53	
MSCI EM Eur, ME & Africa	USD	270.30	-0.79	-1.39	-2.54	-0.59	-2.05	4.98	10.43	13.03	-4.84	11.57	12.53	
EQUITY MARKET INDICES - BY SECTOR														
MSCI ENERGY	USD	212.38	0.10	-1.36	-0.70	-2.34	6.97	8.66	-3.02	-2.16	-8.51	25.27	32.27	
MSCI MATERIALS	USD	267.26	0.24	-0.51	-1.21	-2.03	3.57	11.31	20.45	17.14	17.91	16.74	19.09	
MSCI INDUSTRIALS	USD	256.20	0.58	0.41	-0.56	0.50	5.75	8.24	20.58	19.10	27.99	18.81	20.85	
MSCI CONS DISCRETIONARY	USD	233.93	0.35	0.07	-0.27	2.75	6.58	6.99	19.09	17.22	25.97	18.18	20.37	
MSCI CONS STAPLES	USD	235.14	-0.49	0.83	0.64	3.60	1.96	0.92	13.30	15.75	16.59	21.09	23.14	
MSCI HEALTH CARE	USD	223.60	-0.06	-1.60	-1.89	-0.15	-1.51	3.02	15.96	19.09	7.85	17.60	23.29	
MSCI FINANCIALS	USD	124.64	0.25	0.05	-0.20	2.63	8.59	11.21	17.39	15.15	19.22	14.59	16.92	
MSCI INFO TECH	USD	218.46	0.72	-0.43	-1.09	-1.96	8.91	10.99	35.49	35.42	54.30	19.81	25.60	
MSCI TELECOMS	USD	70.15	0.49	-0.16	-0.42	4.77	2.61	-0.15	0.89	3.47	-1.01	14.85	18.66	
MSCI UTILITY	USD	132.15	0.18	-0.61	-1.22	-0.77	-1.01	2.20	14.96	17.86	7.19	16.97	18.92	
MSCI WORLD REAL ESTATE	USD	209.73	0.30	-0.66	-0.67	-1.21	0.16	3.12	10.33	9.86	7.65	24.46	18.26	
HEDGE FUND INDICES														
HRFX GLOBAL HEDGE FUND	USD	1,257.25	-0.40	-0.64	-0.71	-1.03	0.60	1.74	4.47	5.10	2.86	-	-	
HRFX EQUAL WEIGHTED	USD	1,263.93	-0.25	-0.40	-0.40	-0.64	0.49	1.53	3.84	4.33	5.86	-	-	
HRFX GLOBAL EUR	EUR	1,106.98	-0.39	-0.63	-0.76	-1.19	0.05	0.56	2.24	2.72	-1.89	-	-	

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LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	1.28	0.50	2.29	2.54	5.85	24.47	29.04	78.40	77.89	-	
US 2 YEAR	USD	1.81	0.83	3.87	2.87	16.55	54.87	49.64	62.24	70.05	-	
US 10 YEAR	USD	2.38	1.62	1.81	-3.01	4.53	32.89	19.11	-6.47	-2.75	-	
US LIBOR 3M	USD	1.52	0.73	4.20	3.53	12.56	20.54	30.36	52.47	57.18	-	
EUR LIBOR 3M	EUR	-0.38	0.07	0.24	0.24	-0.14	-0.60	-0.93	-4.29	-4.22	-	
GBP LIBOR 3M	GBP	0.52	-0.19	-0.13	-0.13	-0.68	23.73	22.91	15.34	13.78	-	
CHF LIBOR 3M	CHF	-0.76	0.00	-0.40	-0.40	-1.90	-2.98	-2.64	-2.68	-1.58	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												
											Yield to Worst	
GLOBAL AGG TR HEDGED	USD	514.89	-0.08	0.03	0.29	0.12	0.16	1.29	3.11	3.54	9.02	1.61
GLOBAL HY TR	USD	1,301.77	-0.07	-0.08	-0.16	0.62	0.39	3.17	9.75	10.54	20.83	5.28
US GOVERNMENT TR	USD	2,163.82	-0.24	-0.09	0.23	-0.24	-1.22	0.18	2.22	2.22	4.69	1.61
US CORPORATE TR	USD	2,886.89	-0.33	-0.02	0.39	0.12	0.25	2.19	5.87	6.49	12.10	3.25
US HIGH YIELD TR	USD	1,944.58	-0.04	0.02	0.03	0.15	0.92	2.21	7.21	7.98	19.69	5.71
EU GOVERNMENT TR	EUR	254.06	0.07	0.11	0.52	0.47	1.15	1.64	1.50	2.66	7.15	0.38
EU CORPORATE TR	USD	273.27	0.04	0.17	0.45	0.17	1.48	2.83	4.93	6.02	11.82	0.62
EU HIGH YIELD TR	EUR	316.55	-0.04	-0.10	-0.06	-0.59	1.14	2.72	6.86	8.14	17.17	2.95
BARCLAYS GLOBAL CONVERT.	USD	236.11	0.16	-0.80	-0.80	-0.63	0.28	0.74	6.08	7.02	10.04	-
GLOBAL EM TR (HEDGED)	USD	383.36	-0.16	0.00	0.11	0.57	0.08	2.33	7.78	8.39	18.49	4.15
S&P/LSTA U.S. LEV LOAN	USD	98.29	-0.03	0.04	0.04	-0.09	-0.06	-0.52	-0.33	0.20	1.93	4.93
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,405.24	0.48	-1.77	-1.77	-3.17	5.08	12.05	-0.50	2.69	-34.84	
GSCI ENERGY TR	USD	430.55	1.09	-1.42	-1.42	-2.67	10.65	23.14	-0.98	4.97	-43.89	
GSCI INDUSTRIAL METALS TR	USD	1,310.27	-0.18	-2.31	-2.31	-4.83	-4.29	13.64	16.73	11.16	-1.52	
GSCI PRECIOUS METALS TR	USD	1,502.03	-1.02	-2.06	-2.06	-2.57	-7.88	-4.33	6.66	3.69	1.89	
GSCI AGRICULTURE TR	USD	376.44	-0.59	-1.63	-1.63	-2.02	-3.26	-8.83	-12.67	-14.00	-31.40	
GENERIC 1ST 'CL' FUTURE	USD	56.89	0.35	-2.52	-0.89	-0.44	17.40	20.48	-2.10	1.05	-36.14	
GOLD SPOT \$/OZ	USD	1,247.47	0.02	-2.58	-2.15	-2.64	-7.35	-2.39	8.26	6.54	3.65	
CURRENCIES												
DOLLAR INDEX SPOT	USD	93.80	0.18	1.16	0.98	-0.95	2.86	-3.05	-8.07	-7.06	5.53	
Euro Spot	EUR	1.18	-0.29	-1.32	-1.39	1.24	-2.47	4.68	11.62	10.59	-4.69	
Japanese Yen Spot	JPY	113.09	-0.41	-1.22	-0.90	0.27	-5.04	-3.12	2.99	0.42	6.28	
British Pound Spot	GBP	1.35	0.10	0.08	-0.27	2.84	2.18	4.11	9.30	7.17	-13.83	
Swiss Franc Spot	CHF	0.99	-0.22	-2.05	-1.30	0.35	-5.26	-2.95	2.25	1.98	-2.06	
Brazilian Real Spot	BRL	3.29	-1.76	-0.77	-0.77	-0.62	-5.86	-0.72	-1.16	3.01	-21.40	
China Renminbi Spot	CNY	6.62	0.03	-0.01	-0.12	0.16	-1.86	2.77	4.95	4.14	-6.74	
Singapore Dollar Spot	SGD	1.35	-0.11	-0.50	-0.40	0.64	-0.84	2.15	6.92	5.19	-2.48	
Russian Ruble Spot	RUB	59.17	-0.26	-0.74	-1.52	-0.16	-3.31	-4.08	3.72	6.72	-9.33	
Norwegian Krone Spot	NOK	8.32	-0.15	-0.52	-0.12	-1.95	-7.07	1.99	3.75	1.26	-14.01	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY (INDX)	USD	10.16	-7.80	-12.42	-11.26	2.35	-17.41	-1.48	-28.70	-20.81	-29.56	
USD SWAP SPREAD SEMI 2YR	USD	18.56	-	1.67	0.29	-3.17	-19.96	-10.13	-25.24	-17.02	-13.84	
TED SPREAD	-	26.48	-	13.21	13.21	29.11	-5.56	8.84	-47.09	-42.25	17.43	

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