

Bedrock Friday 15 December 2017 Newsletter

It is Friday yet again. Another week full of information and action, and the world kept spinning, the trends of the previous weeks pursued their tendencies unabated- The S&P 500 equity index rose almost 0.60%, the DJIA 1.25%, NASDAQ gained some 0.65%, European stocks eroded some of the confidence analysts had been clinging to and fell some 0.50% to 1% excepting the FTSE and Swiss SMI which gained like the Americans. The much loved and recommended Nikkei also disappointed in losing some 1%. The Emerging markets index gained a percent or so. Yes, another week much like the previous many, broadly speaking pursuing an apparent inexhaustible pursuit of new highs (the MSCI World index rose about 0.25%). The fixed income universe also kept creeping up in price, whilst so many "experts" have been predicting and warning of an ongoing imminent rise in interest rates (exactly the opposite).

We heard Janet Yellen giving her last news conference and closing her Chairmanship with an announcement of an increase in rates by 0.25% as expected, but then adding that her successor is likely to raise only 3 times next year (market participants were expecting four). So bond prices rised some, globally.

Then the Swiss National Bank told us that they will be making no changes in their policy and base rates forever, or thereabouts. The ECB said much the same, holding rates and assuring us that they support the European accelerating growth. Even the Bank of England, faced with certain inflationary pressures and a future clouded with uncertainty, chose to hold rates, unanimously.

With these decisions behind us, we note the volatility across all asset classes (Bitcoin and other Cryptosomethings aside) has further abated. Yes, it is the time for the Santa Claus rally- All the stars are aligned here- Low inflation, tiny volatility, low interest rates and a synchronized global growth picture. Full employment in the USA, improving work data and prospects in Europe and in Japan. So maybe the lyrics of Bobby McFerrin "Don't Worry, Be Happy" are our new reality? But these are unusual times; strange things can happen- the Mouse ate the Fox... (Disney buying Fox) and the US Congress seems to have agreed on a new Tax structure, even if it isn't truly a real "reform".

The changes in the US Corporate taxation should benefit American small cap stocks more than others. Here is an interesting thought- Many are worried about equity prices being high, Price Earning (P/E) ratios being elevated, but are they? Steve Liesman on CNBC suggested that the P/E ratio of the Russel 2000 after taking count of the tax rate drop computes to 14X. That is historically cheap... Very cheap even when compared to interest rates...

This we understand and support. Much else we don't though, from the metaphysical question of the meaning of life to the more mundane US Dollar. The latter has declined this year- The DXY being the trade weighted exchange rate index is now at 93.50, down some 0.40% to the week and 8.50% for the year, is incomprehensible to us, who grew-up on the mantra of "The Carry sets the relative values of Currencies". The Euro, CHF, GBP and JPY are set to keep their rates low or negative, the FOMC set to raise further. The US\$ should rise. It is falling.

In the same universe of currencies, we see the exponential rise of Bitcoin and its Crypto-bretherns in the face of a growing list of sceptics- From the respected bankers such as Jamie Dimon, Nobel laureates and central bankers. On Monday, SEC Chairman Jay Clayton issued a warning to investors putting money into cryptocurrencies. The SEC warning came hours after the regulator stopped an "initial coin offering" (ICO) from restaurant review app Munchee. ICOs allow startups founded on cryptocurrency technologies such as blockchain to quickly raise capital by issuing virtual tokens to investors. Such offerings have become more common in the past year, but little data about them is available because the market has been largely unregulated. Today this list added Andrew Bailey, chief executive of the Financial Conduct Authority, told BBC's "Newsnight" on Thursday, "If you want to invest in bitcoin, be prepared to lose all your money". Bitcoin's meteoric price rise has stunned critics and enthusiasts alike, leaving investors scrambling to understand the driving factors for the digital currency's runaway rally- Bitcoin traded at \$17,159 on Friday morning, according to CoinDesk's bitcoin price index.

As we said above, this is just another currency (or not a real currency) which is baffling us. We learned earlier-on in our professional lives that if you don't understand something, stay away. We thought we understood the US\$ and have been proven wrong this year, having held some in the expectation that the widening "carry" will drive the price upwards. We were correct in our prediction of the spread widening, but wrong in our expectation of this leading to a relative rise. With Bitcoin and its ilk, there is no carry at all, we can't quite grasp what it really is, nor why it has price at all, never mind a rising one. But then, we don't quite know why we are here in the first place... (Metaphysics).

Back to the comprehensible zone- China's economy will expand by 6.8% in 2017 but growth will slow to 6.4% in 2018, according to the Asian Development Bank and Developing Asia growth is expected at 6.0% in 2017 — better-than-expected due to improved trade. We don't have a problem with this, but the headline was "China's economy set to slow sharply in 2018, ADB warns". You must recall that towards the end of 2015 and then towards the close of 2016 similar words were scaring everyone away from China. The header is scary, the details are comforting- slowing to 6.4% imagine what would happen if the US grew even at half this figure? Besides having Trump re-elected, a huge bonanza on every investment...

Let's not forget that some things are so unexpected that no one is prepared for them...

Market Weekly Highlights:

- The dollar lost some ground this week giving back the gains made during the first weeks of December probably on the back of Fed' outlook of a more tempered view on growth and Inflation. The DXY is at 93.50, slightly down for the week after reaching 94.12 on Monday. It still is down almost 8.50% for the year. The USD is slightly down against the Euro for the week at 1.18 and against the CHF at 0.9883. The Pound is trading higher at 1.3423 as is the Japanese Yen moving from 113.75 to 112.18. The Russian Ruble, which traded slightly down against the USD for weeks and reaching about 60.50 despite the gains in oil, has now gained some ground trading at 58.80. The Brazilian Real is lower against the USD for the week at just above 3.335. Crude oil WTI is unchanged for the week to \$57.37 a barrel; while Brent is trading at about \$63.40.
- 10Y U.S. Treasuries are trading in a range this last quarter, with yields from 2.30% to 2.40%. The US yield curve is flattening, Yellen confirmed it as well early this week telling investors not to worry. The Japanese 10 year JGB yield is trading sideways this week and continues to offer a POSITIVE yield, at 0.046%. In Europe German Bund yield seems to have found a floor around 0.30%, almost unchanged for the week, while the French 10Y Yield have followed a similar path marking 0.63%. In Peripheral Europe Italian 10Y yields are now below 2.0% trading at 1.77%, almost where they started the year at 1.73%, whilst the Spanish 10Y yields trade some 30bps lower than Italy at 1.41% but higher then where they started the year at 1.30%.
- Equity Markets in US are positive with all three major indices up and with DJIA and SP500 reaching new all time highs this week. The DJIA is above 24'508, up 1.23% for the week, SP500 at just above 2'650, 0.57% higher for the week and Nasdaq just above 6'856, up some 0.64% as of yesterday's close. In Europe markets are showing negative returns with the exception of FTSE 100 which is up 0.64% this week. Indeed Eurostoxx50 is lower by 1.18%, the DAX and CAC40 both at roughly -1% and the Italian FTSE MIB at a strong -3.10%. The Nikkei trades also down by 1.13% for the week but still showing strong positive returns for the year of almost 18% 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

14/12/2017

			PRICE CHANGE IN % (unless indicated)											
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y			
EQUITY MARKET INDICES - BY REGION														
Fwd P/E														
T12m P/E														
S&P 500 INDEX	USD	2,652.01	-0.39	0.57	0.17	3.41	6.07	9.03	18.46	17.24	33.29	19.83	22.32	
DOW JONES INDUS. AVG	USD	24,508.66	-0.30	1.23	0.97	5.32	10.06	14.74	24.02	23.46	42.65	19.52	20.59	
NASDAQ COMPOSITE INDEX	USD	6,856.53	-0.27	0.64	-0.25	2.24	6.33	11.21	27.37	25.65	48.89	24.23	56.29	
RUSSELL 2000 INDEX	USD	1,506.95	-1.12	-0.89	-2.41	2.93	5.26	6.87	11.04	10.29	32.15	33.16	49.05	
EURO STOXX 50	EUR	3,556.22	-0.71	-1.15	-0.55	0.13	0.99	0.70	7.89	9.25	19.02	15.39	18.49	
EURO STOXX 600	EUR	388.91	-0.46	-0.31	0.35	1.59	1.93	0.52	7.37	8.16	20.03	16.15	20.71	
CAC 40 INDEX	EUR	5,357.14	-0.78	-1.07	-0.58	0.76	2.45	2.39	9.86	10.84	33.36	15.68	18.35	
DAX INDEX	EUR	13,068.08	-0.44	-0.91	0.07	0.44	4.11	2.69	13.52	14.67	39.63	14.72	19.11	
FTSE 100 INDEX	GBP	7,448.12	-0.64	0.63	1.55	0.92	3.12	0.28	4.17	6.31	20.34	15.08	22.09	
SWISS MARKET INDEX	CHF	9,383.02	-0.12	0.86	0.86	3.41	4.11	6.17	14.35	14.43	7.88	19.38	24.74	
NIKKEI 225	JPY	22,694.45	-0.28	-1.13	-0.76	2.38	13.28	13.72	17.99	17.01	31.89	19.00	19.34	
HANG SENG INDEX	HKD	29,166.38	-0.19	0.73	-1.13	-0.01	3.74	12.84	31.12	30.77	25.27	12.90	13.42	
SHANGHAI SE COMPOSITE	CNY	3,292.44	-0.32	-0.73	-1.54	-4.01	-2.61	4.27	5.24	4.76	10.59	14.41	16.54	
S&P BSE SENSEX INDEX	INR	33,246.70	0.59	0.73	1.04	2.24	3.78	7.78	25.79	26.30	22.60	21.90	24.06	
RUSSIAN RTS INDEX \$	USD	1,153.32	1.04	2.33	1.24	2.60	1.97	15.49	-0.59	0.66	59.48	7.17	7.29	
BRAZIL IBOVESPA INDEX	BRL	72,428.93	-0.67	-0.08	0.64	2.26	-4.39	16.97	20.26	24.03	54.04	13.88	18.01	
MSCI WORLD	USD	2,077.55	-0.31	0.20	0.01	2.80	4.52	8.40	18.63	18.41	25.57	18.19	21.27	
MSCI WORLD HEDGED	USD	929.99	-0.42	0.65	0.34	2.18	5.96	8.04	18.16	18.14	35.59	-	-	
MSCI WORLD LOCAL	-	1,574.81	-0.42	0.00	0.28	2.64	5.46	7.31	15.43	14.87	28.26	18.19	21.27	
MSCI AC WORLD	USD	505.51	-0.25	0.28	0.01	2.58	4.19	8.77	19.83	19.69	25.25	17.56	20.38	
MSCI EM	USD	1,121.22	0.22	0.94	0.04	0.91	1.73	11.72	30.03	30.58	21.34	13.84	15.43	
MSCI AC ASIA x JAPAN	USD	697.37	0.11	0.93	0.20	0.43	3.91	12.35	35.59	34.28	26.02	14.53	15.32	
MSCI EM LATIN AMERICA	USD	2,706.15	-0.96	0.49	-0.48	1.06	-9.43	6.75	15.62	20.00	6.80	15.08	17.58	
MSCI EM Eur, ME & Africa	USD	275.54	1.05	1.68	-0.65	3.80	1.18	9.23	12.57	16.36	6.71	11.67	12.78	
EQUITY MARKET INDICES - BY SECTOR												P/E	P/E	
MSCI ENERGY	USD	214.27	-0.23	0.37	0.18	2.22	4.95	9.50	-2.16	-1.83	-1.41	25.42	32.56	
MSCI MATERIALS	USD	269.75	-0.25	0.56	-0.29	1.85	3.86	13.58	21.58	21.94	26.69	16.91	19.25	
MSCI INDUSTRIALS	USD	256.58	-0.36	-0.14	-0.41	3.58	4.56	7.80	20.76	20.77	33.42	18.69	20.88	
MSCI CONS DISCRETIONARY	USD	236.48	0.18	0.61	0.82	4.72	6.48	8.88	20.38	19.33	31.36	18.41	20.56	
MSCI CONS STAPLES	USD	235.18	-0.38	0.04	0.66	3.63	1.97	1.12	13.32	14.28	20.72	21.12	23.14	
MSCI HEALTH CARE	USD	226.60	-0.75	0.39	-0.58	2.62	-0.44	3.80	17.51	17.73	14.16	17.84	23.52	
MSCI FINANCIALS	USD	125.28	-0.58	-0.22	0.31	3.68	6.50	10.77	17.99	16.67	25.69	14.66	17.01	
MSCI INFO TECH	USD	220.46	-0.05	0.49	-0.18	0.84	8.35	16.07	36.74	34.94	60.42	20.00	25.80	
MSCI TELECOMS	USD	70.93	-0.75	0.68	0.68	6.66	2.52	1.54	2.01	3.95	5.48	15.00	18.87	
MSCI UTILITY	USD	130.02	-0.48	-1.69	-2.82	-1.99	-1.60	0.51	13.10	14.82	9.46	16.71	18.61	
MSCI WORLD REAL ESTATE	USD	212.26	0.17	0.94	0.53	0.86	1.60	3.07	11.67	13.92	11.41	25.11	18.47	

HEDGE FUND INDICES

HFRI GLOBAL HEDGE FUND	USD	1,265.16	-0.16	-0.06	-0.09	0.43	1.05	2.52	5.13	5.06	5.32		
HFRI EQUAL WEIGHTED	USD	1,268.08	-0.12	-0.10	-0.07	0.25	0.67	1.95	4.18	4.24	7.61		
HFRI GLOBAL EUR	EUR	1,113.98	-0.16	-0.06	-0.14	0.30	0.53	1.35	2.89	2.71	0.46		

MARKET INDICES PERFORMANCE

14/12/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)											
US 3 MONTH	USD	1.30	0.25	3.32	4.84	6.62	27.79	30.33	80.70	80.70	-
US 2 YEAR	USD	1.82	0.84	2.49	3.74	13.60	43.91	46.80	63.11	54.56	-
US 10 YEAR	USD	2.35	0.54	-2.13	-5.50	3.25	15.24	19.10	-8.96	-24.20	-
US LIBOR 3M	USD	1.59	1.50	6.59	10.11	17.26	26.85	34.29	59.06	62.51	-
EUR LIBOR 3M	EUR	-0.39	0.00	-0.71	-0.47	-0.84	-1.19	-1.50	-5.00	-5.21	-
GBP LIBOR 3M	GBP	0.52	-0.28	-0.04	-0.18	-0.91	21.74	22.97	15.30	14.28	-
CHF LIBOR 3M	CHF	-0.75	-0.20	0.12	-0.28	-1.28	-2.88	-2.42	-2.56	-1.76	-

FIXED INCOME INDICES - BY TYPE OF ISSUER

Yield to Worst

GLOBAL AGG TR HEDGED	USD	515.68	0.05	0.16	0.45	0.51	0.89	1.29	3.27	4.22	8.81	1.61
GLOBAL HY TR	USD	1,303.15	0.01	0.14	-0.05	1.07	0.37	3.34	9.87	10.88	23.74	5.31
US GOVERNMENT TR	USD	2,170.00	0.03	0.28	0.51	0.13	-0.25	0.24	2.51	3.34	4.33	1.61
US CORPORATE TR	USD	2,901.61	0.11	0.50	0.91	1.03	1.21	2.27	6.41	7.81	12.29	3.21
US HIGH YIELD TR	USD	1,946.08	-0.05	0.05	0.10	1.17	0.77	2.13	7.29	7.87	22.63	5.73
EU GOVERNMENT TR	EUR	253.18	0.02	-0.34	0.18	0.51	1.44	1.00	1.16	1.94	6.56	0.43
EU CORPORATE TR	USD	272.99	-0.05	-0.05	0.35	0.55	1.74	2.82	4.82	5.59	11.59	0.65
EU HIGH YIELD TR	EUR	316.28	-0.05	-0.04	-0.15	0.39	0.96	2.42	6.77	7.30	17.94	3.01
BARCLAYS GLOBAL CONVERT.	USD	236.87	-0.13	0.32	-0.48	0.26	-0.03	1.03	6.42	6.75	11.81	-
GLOBAL EM TR (HEDGED)	USD	384.14	0.01	0.18	0.32	0.91	0.45	2.45	8.00	9.10	21.73	4.15
S&P/LSTA U.S. LEV LOAN	USD	98.18	-0.03	-0.12	-0.08	0.08	-0.17	-0.52	-0.44	-0.20	3.85	4.99

COMMODITY INDICES - BY TYPE OF ISSUER

GSCI INDEX TOTAL RETURN	USD	2,418.54	0.71	0.55	-1.23	-0.61	5.34	14.69	0.05	1.88	-30.13
GSCI ENERGY TR	USD	433.69	0.84	0.73	-0.70	0.31	9.97	26.83	-0.25	3.65	-37.42
GSCI INDUSTRIAL METALS TR	USD	1,345.97	1.09	2.73	0.36	-0.48	2.22	16.20	19.91	13.57	2.20
GSCI PRECIOUS METALS TR	USD	1,508.02	0.66	0.40	-1.67	-2.77	-6.05	-2.50	7.08	5.22	-0.62
GSCI AGRICULTURE TR	USD	371.58	-0.09	-1.29	-2.90	-2.46	-4.84	-9.13	-13.79	-14.83	-33.10
GENERIC 1ST 'CL' FUTURE	USD	57.40	0.63	0.07	0.00	3.13	12.84	24.67	-1.22	1.85	-29.96
GOLD SPOT \$/OZ	USD	1,256.77	0.31	0.66	-1.43	-1.67	-4.80	0.23	9.07	11.36	5.33

CURRENCIES

DOLLAR INDEX SPOT	USD	93.49	0.03	-0.41	0.50	-0.32	1.79	-4.02	-8.51	-9.23	5.71
Euro Spot	EUR	1.18	0.08	0.13	-0.97	-0.03	-1.31	5.77	12.09	13.19	-5.22
Japanese Yen Spot	JPY	112.39	0.24	1.21	0.37	0.68	-1.15	-1.06	4.32	5.40	5.08
British Pound Spot	GBP	1.34	0.04	0.34	-0.66	2.01	-1.16	5.31	8.88	8.20	-14.08
Swiss Franc Spot	CHF	0.99	0.09	0.46	-0.47	0.02	-2.82	-1.31	3.12	4.23	-2.29
Brazilian Real Spot	BRL	3.34	-0.54	-1.26	-2.01	-0.60	-6.43	-1.80	-2.40	1.09	-20.42
China Renminbi Spot	CNY	6.61	0.01	0.18	0.00	0.23	-0.85	3.01	5.09	5.11	-6.29
Singapore Dollar Spot	SGD	1.35	-0.01	0.54	0.14	0.81	-0.04	2.82	7.50	7.18	-2.44
Russian Ruble Spot	RUB	58.87	0.02	0.46	-0.72	2.31	-2.25	-1.71	4.55	4.99	9.14
Norwegian Krone Spot	NOK	8.30	0.18	0.14	0.43	-0.46	-5.21	2.69	4.32	4.63	-9.65
Bitcoin	XB1	16,503.72	3.45	9.13	76.85	134.13	358.61	623.01	1,693.33	2,098.07	4,803.86
Vontobel Bitcoin Cert.	USD	16,595.00	2.44	2.09	71.70	140.86	340.77	-	-	-	-

VOLATILITY / LIQUIDITY INDICES

CBOE SPX VOLATILITY INDEX	USD	10.49	3.05	5.43	-10.46	-23.08	-0.69	-7.34	-28.06	-21.03	-50.54
USD SWAP SPREAD SEMI 2YR	USD	19.57	-	-2.62	2.59	12.23	-23.94	3.31	-23.53	-21.42	-17.02
TED SPREAD		30.36	-	14.65	29.80	72.89	7.77	16.90	-39.34	-30.59	33.33

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