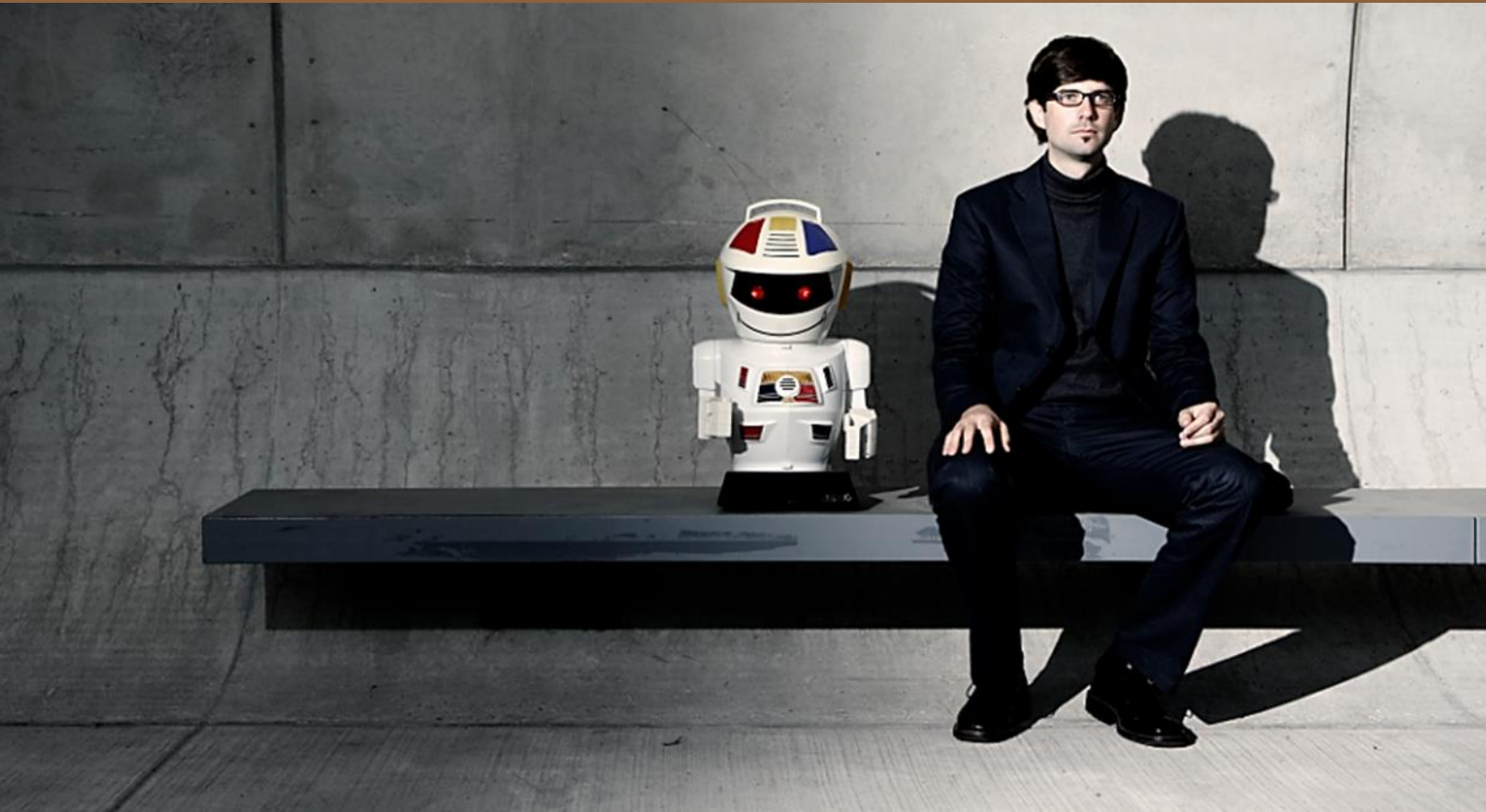


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Friday 23 February 2018

Interesting times... There are signs in the air that a three decades-long period of declining interest-rates may be ending at last. Investors are digesting \$258 billion of Treasury bill and bond supply this week, culminating in Thursday's \$29 billion seven-year auction. Normally, once a hefty belt of issuance is out of the way the market often retraces to lower yields.

Bond traders have been absolutely riveted to the U.S. 10-year and its hair-raising creep to 3%. While that note's not exactly a sideshow, they should really be diverting some of their focus to the 30-year bond. While both securities have risen 50 basis points this year, the 30-year is now within touching distance of highs reached in 2015, 2016 and 2017. This 3.24% level is the dividing line between a fairly orderly bond sell-off and a proper rout - the latter has the capacity to spill over into stocks and even potentially signal a credit crunch. The 30-year yield is right on its peaks of the past three years. A breach would point to a climb to 3.5%, then 4%. But, before we get to "bondageddon", there are some reasons to hope that, at least initially, the march higher in yields might take a breather. Month-end is approaching, when many funds rejig their asset allocation between stocks and bonds. This should benefit fixed income this month as it has been the clear underperformer. Barclays Bank analysts point out there is a large duration

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jump in most key U.S. Treasury indexes at the end of the month, which should spur more buying than usual at the long end to make sure funds maintain their maturity targets. Central bankers need to be careful not to increase interest rates too quickly this year because that could slow the economy too much, St. Louis Federal Reserve President James Bullard told CNBC on Thursday.

Wall Street expects the Fed to raise rates at next month's meeting, in the first of what's seen as at least three total hikes in 2018. The Fed increased the cost of borrowing money three times last year to the current range of 1.25 to 1.50% hiking rates by a total of 1 percent this year, which would signal four increases of the typical 0.25%, would be "priced for perfection," Bullard said. "The idea that we need to go 100 basis points in 2018, that seems like a lot to me," he said. "Everything would have to go just right. The economy would have to surprise on the upside a bunch of times during the year. I'm not sure that's a good way to think about 2018." While stocks were swinging all over the place, the 10-year Treasury yield was spiking to around four-year highs just below 3%. Bullard said the Fed does not have to hurry on rates because the bond market has been doing some of the heavy lifting. "I don't think we need to chase the 10-year up," he said. "If the long end is moving up in tandem with better growth prospects worldwide, then the bond market is doing our work for us." Goldman Sachs is all but certain the Federal Reserve will hike interest rates next month. Strong economic growth and an uptick in inflation have boosted confidence among Federal Reserve policymakers that the U.S. economy is ready for higher interest rates, according to an official account of the central bank's most recent meeting in late January. The minutes appeared to reinforce investor expectations that the Fed would raise rates at its next meeting in March. Shortly after the meeting minutes were published Wednesday, Goldman Sachs upwardly revised its probability of a March rate hike to more than 95 percent. On our side of the puddle, the European Central Bank may be a long way away from unwinding its bond-purchase program, but some investors are already worried. The US driven drift-up in interest rates has spilled across the waters and we see similar moves in European bonds.

Yes, this apparent end-of-an-era is disconcerting. For the past many years, no-one experienced losses in bonds and this might be changing in 2018... This in itself can destabilise equity markets and currency trades, as investors learn to adjust to the "new reality" whereby the "stable part" of their portfolio is likely to be the driver of overall volatility. Indeed, see this past couple of weeks as volatilities in equities saw the VIX triple in and fall back only to rise again - driven by moves in bond yields, not by events in the equities themselves. That said, we maintain our view that equities are the place to be, and we are not alone: BlackRock strategists have turned increasingly bullish on U.S. stocks, raising them to overweight because fiscal stimulus is "supercharging U.S. earnings growth expectations". Kate Moore, BlackRock's chief equity strategist, said that the firm thinks "the fundamental story is the best it's been, which is surprising given how far we are into this cycle". Even though the market has retraced much

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of its February losses, BlackRock's team believe the impact of tax law changes and company spending plans are still underappreciated by investors. They expect earnings growth and dividends to fuel returns, in a market that already has historically high valuations. Moore said analysts have been ratcheting up their earnings forecasts based on what companies said during earnings season. The expectation is that earnings growth this year could now be 19 percent. Sixty percent of S&P 500 companies provided guidance that exceeded expectations.

Strategist Jeff Saut, a Wall Street titan with more than 40 years in the industry, said Wednesday the stock market's new-found volatility is one for the history books: "I've never seen sentiment swing so fast... Going from euphoria, basically, at the end of January [to] a 12% correction " said Saut, chief investment strategist at Raymond James. Saut believes the secular bull market in stocks is still alive and well, which in his view tend to last about 14 years. He also believes the current bull market started in late 2008. He told CNBC on Wednesday the S&P 500 will crack 2,750. It would be nice if this happens today...

Lastly, this week we were pleased (for a day) to see the long-awaited rebound in the US Dollar... but it was brief... the DXY index remains at 89.75 yet we remain believers that it ought to rise. But then again, an optimist is a fellow who believes a housefly is looking for a way to get out (George Jean Nathan).

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Market Weekly Highlights

- The USD is trading up this week after a continuous drop since the year's start, with the Dollar Index DXY at 89.84.

The USD is gaining some ground against the Euro, which came off the highest levels from 1.2555 to actually 1.23, as is against the CHF, which shows 0.9342 now.

The Pound is trading also marginally lower this week at 1.3972, having reached 1.4145 last week, but still stronger for the year; as is the Japanese Yen marking 106.87.

The Russian Ruble trades higher against the USD for the year but unchanged for the week, reaching about 56.45.

The Brazilian Real, which opened the year at 3.3080 and reached almost 3.12 last month against the USD, is now back at 3.24 having lost some ground. The Crypto Currencies, which went through an important correction since the start of the year of about 60%, are now trading higher for the month - Bitcoin moved from 6'000 to almost 11'800 against the USD on Wednesday, before retreating to \$10'000.

Crude oil WTI trades up for the week to \$62.74 per barrel while Brent is trading at about \$66.35.
- 10Y U.S. Treasuries, which had traded in a range during the last quarter of 2017 with yields from 2.30% to 2.40%, have lost value in price with yields reaching 2.95% this week. The US yield curve is no longer flattening.

The Japanese 10-year JGB yield, which opened the year 2018 at 0.053%, reached 0.10% early this month to only trade back where it started at 0.053%, continuing to offer a POSITIVE yield.

In Europe, the German Bund yield nearly doubled this year, jumping from 0.40% to 0.80%, and seems to have marked a pause trading at around 0.66%. This is 26 bps higher than where it closed the year as the French 10Y Yield, which crossed the 1% and reached 2015 levels.

In Peripheral Europe, Italian 10Y yields are now just above 2%, trading unchanged for the year so far, whilst the Spanish 10Y yields trades some 40bps lower than Italy at 1.60%, almost where it started the year at 1.61%.
- Markets in US have all turned positive again for the Year 2018 after the overdue market correction with Nasdaq trading 4.44% higher, DJIA 0.98%, and SP500 trading at 1.14%; all having rebounded from the 10% drop from the all-time highs reached this January. The DJIA is at almost 25'120, the SP500 at just 2'722 while Nasdaq is trading some points above 7'200.

In Europe markets are showing negative results for the year so far with Eurostoxx50 down 1.83%, DAX at -3.30%, FTSE 100 at almost -6%, and Swiss Market SMI at -4.73%. Peripheral Italy is the only market up for the year with a positive 3.26%. In Asia, the Nikkei traded lower by 3.83% for this new year 2018 while the Hang Seng and Bovespa are positive respectively at 4.5% and 14%.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

22/02/2018

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)							2017	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	2,703.96	0.11	0.20	-4.24	-4.76	4.12	10.63	1.14	21.82	14.39	28.17	17.34	21.77
DOW JONES INDUS. AVG	USD	24,962.48	0.66	0.28	-4.54	-4.76	6.11	14.44	0.98	28.11	19.95	37.79	16.88	20.09
NASDAQ COMPOSITE INDEX	USD	7,210.09	-0.11	0.93	-2.72	-3.35	4.99	14.84	4.44	29.73	23.56	45.34	21.95	33.29
RUSSELL 2000 INDEX	USD	1,529.99	-0.11	0.52	-2.86	-5.01	0.87	11.70	-0.36	14.63	9.71	24.20	24.68	50.23
EURO STOXX 50	EUR	3,431.99	0.05	0.13	-4.94	-6.57	-3.95	-0.22	-2.08	9.95	2.91	-2.51	13.70	16.62
EURO STOXX 600	EUR	380.34	-0.12	-0.14	-3.88	-5.64	-1.81	1.65	-2.33	11.22	1.94	-1.29	14.65	16.81
CAC 40 INDEX	EUR	5,309.23	0.13	0.42	-3.25	-4.18	-1.40	3.69	-0.16	12.54	8.44	9.08	14.65	16.30
DAX INDEX	EUR	12,461.91	-0.07	0.18	-5.43	-8.01	-4.11	2.46	-3.44	12.51	4.40	12.06	12.94	16.99
FTSE 100 INDEX	GBP	7,252.39	-0.11	-0.74	-3.89	-6.36	-2.38	-1.93	-5.82	11.95	-0.43	4.75	13.76	14.42
SWISS MARKET INDEX	CHF	8,967.43	-0.24	-0.58	-4.29	-6.46	-4.09	-0.26	-4.77	17.88	4.26	-0.48	15.80	25.41
NIKKEI 225	JPY	21,736.44	-1.07	0.79	-5.22	-9.25	-2.80	12.65	-3.83	21.33	13.02	18.55	17.41	16.07
HANG SENG INDEX	HKD	30,965.68	-1.29	2.47	-4.92	-5.05	5.25	14.11	4.51	41.27	29.66	25.89	12.21	14.10
SHANGHAI SE COMPOSITE	CNY	3,268.56	2.17	5.09	-5.51	-7.26	-1.88	0.44	-0.55	8.75	1.16	1.30	12.80	16.72
S&P BSE SENSEX INDEX	INR	33,819.50	-0.07	0.38	-5.07	-5.53	1.65	8.15	0.25	29.56	18.16	17.83	22.16	23.28
RUSSIAN RTS INDEX \$	USD	1,301.01	0.76	3.07	1.45	1.34	12.29	24.50	12.70	5.88	13.53	42.90	6.72	8.43
BRAZIL IBOVESPA INDEX	BRL	86,686.45	0.74	2.84	2.09	7.45	16.38	23.00	13.46	26.86	28.50	69.04	13.64	21.00
MSCI WORLD	USD	2,117.17	-0.03	-0.97	-4.34	-5.06	3.11	9.01	0.65	23.10	14.73	19.59	16.21	19.78
MSCI WORLD HEDGED	USD	896.50	-0.07	-0.18	-3.83	-4.77	2.23	8.50	-0.13	19.13	13.45	26.75	-	-
MSCI WORLD LOCAL	-	1,579.12	-0.06	-0.59	-4.00	-5.26	1.65	7.59	-0.45	20.06	10.72	18.16	16.21	19.78
MSCI AC WORLD	USD	518.20	-0.11	-0.84	-4.33	-4.95	3.25	9.33	1.01	24.65	15.99	20.06	15.71	19.30
MSCI EM	USD	1,200.90	-0.72	0.10	-4.28	-4.11	4.21	11.65	3.66	37.75	26.13	22.11	12.84	16.42
MSCI AC ASIA x JAPAN	USD	726.52	-1.04	0.07	-5.30	-5.56	1.45	10.80	1.83	42.08	27.58	24.60	13.24	15.84
MSCI EM LATIN AMERICA	USD	3,140.30	0.66	0.97	-1.80	2.91	11.35	9.81	11.04	24.16	17.68	19.19	14.80	20.54
MSCI EM Eur, ME & Africa	USD	312.87	-0.20	-0.24	-0.39	-1.83	13.03	15.31	5.67	25.22	20.31	9.07	11.37	14.46
EQUITY MARKET INDICES - BY SECTOR														
MSCI ENERGY	USD	209.37	0.55	-1.03	-8.90	-11.91	-0.86	8.36	-6.34	5.93	0.49	-11.89	17.22	26.33
MSCI MATERIALS	USD	281.39	0.18	-0.58	-4.37	-4.67	3.82	11.48	0.31	29.51	18.22	18.32	15.38	18.31
MSCI INDUSTRIALS	USD	264.77	0.07	-0.55	-4.18	-4.64	5.06	11.13	1.19	25.87	18.40	27.68	17.19	19.77
MSCI CONS DISCRETIONARY	USD	250.15	-0.12	-0.68	-3.19	-3.60	8.23	15.41	4.46	24.24	21.24	26.81	16.91	19.98
MSCI CONS STAPLES	USD	226.26	0.10	-2.62	-6.38	-7.23	-1.98	-1.32	-4.84	17.81	2.81	8.72	18.40	16.93
MSCI HEALTH CARE	USD	229.48	-0.03	-1.52	-4.50	-4.96	2.16	5.37	0.82	20.42	10.85	7.61	16.46	23.95
MSCI FINANCIALS	USD	129.72	-0.51	-0.86	-3.90	-4.49	6.50	11.41	1.93	23.48	15.71	25.41	12.77	16.25
MSCI INFO TECH	USD	231.84	-0.01	-0.27	-2.23	-3.19	3.75	16.83	5.07	38.75	31.17	57.23	19.21	25.41
MSCI TELECOMS	USD	67.58	0.02	-1.68	-5.98	-5.98	-1.15	-3.67	-4.99	6.79	-3.76	-5.20	12.51	15.21
MSCI UTILITY	USD	119.70	0.52	-1.48	-4.80	-4.74	-9.00	-8.98	-5.88	14.82	0.96	-0.33	14.52	16.90
MSCI WORLD REAL ESTATE	USD	199.02	0.36	-1.12	-6.70	-6.77	-5.88	-3.36	-6.21	15.56	0.27	-3.10	23.13	17.12
HEDGE FUND INDICES														
HRFX GLOBAL HEDGE FUND	USD	1,291.59	0.09	-0.13	-1.16	-0.85	2.12	4.37	1.25	5.99	5.33	4.76	-	-
HRFX EQUAL WEIGHTED	USD	1,287.39	0.10	0.02	-0.73	-0.56	1.51	3.03	0.92	4.81	4.14	7.04	-	-
HRFX GLOBAL EUR	EUR	1,129.24	0.07	-0.17	-1.38	-1.14	1.32	2.93	0.78	3.49	2.67	-0.67	-	-

MARKET INDICES PERFORMANCE

22/02/2018

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)							2017	1Y	3Y	Yield to Worst	
			1D	5D	MTD	1M	3M	6M	YTD					
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)														
US 3 MONTH	USD	1.63	-0.02	4.35	17.85	19.88	34.95	63.88	25.79	87.83	112.60	-	-	-
US 2 YEAR	USD	2.24	-0.40	5.25	10.14	20.17	51.53	93.69	35.90	69.47	105.95	-	-	-
US 10 YEAR	USD	2.91	-1.45	3.13	20.12	29.31	58.75	74.02	50.08	-3.89	53.42	-	-	-
US LIBOR 3M	USD	1.92	1.58	6.98	14.20	17.53	46.58	60.53	22.55	69.64	86.63	-	-	-
EUR LIBOR 3M	EUR	-0.38	-0.64	-0.44	-0.74	-0.30	-0.49	-1.11	0.03	-4.83	-3.23	-	-	-
GBP LIBOR 3M	GBP	0.56	0.24	1.18	3.33	3.21	3.30	27.41	3.46	15.44	19.98	-	-	-
CHF LIBOR 3M	CHF	-0.75	0.00	0.00	-0.06	-0.36	0.54	-1.98	0.06	-1.70	-1.94	-	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER														
GLOBAL AGG TR HEDGED	USD	508.25	0.06	-0.08	-0.51	-0.83	-1.20	-0.68	-1.22	3.04	1.61	5.91	1.88	-
GLOBAL HY TR	USD	1,305.93	-0.11	-0.29	-1.48	-1.38	0.44	1.90	-0.30	10.43	7.00	21.18	5.64	-
US GOVERNMENT TR	USD	2,114.60	-0.15	-1.03	-1.42	-1.42	-2.50	-2.35	2.30	-0.66	1.10	1.88	-	-
US CORPORATE TR	USD	2,820.08	0.14	-0.22	-1.88	-1.97	-2.32	-1.54	-2.82	6.42	2.32	7.28	3.71	-
US HIGH YIELD TR	USD	1,939.69	-0.16	0.26	-1.12	-1.30	-0.04	1.35	-0.53	7.50	4.14	16.85	6.18	-
EU GOVERNMENT TR	EUR	249.15	0.00	-0.19	-0.25	-0.79	-1.45	-0.43	-0.66	0.20	0.96	2.01	0.70	-
EU CORPORATE TR	USD	271.47	0.03	0.03	-0.06	-0.52	-0.18	1.01	-0.15	4.39	3.44	9.12	0.86	-
EU HIGH YIELD TR	EUR	315.22	-0.10	-0.12	-0.84	-1.23	-0.47	0.99	-0.46	6.90	4.65	14.42	3.19	-
BARCLAYS GLOBAL CONVERT.	USD	238.83	-0.25	-0.13	-1.58	-2.57	0.26	2.27	0.11	7.19	3.76	7.53	-	-
GLOBAL EM TR (HEDGED)	USD	378.18	0.00	-0.16	-1.51	-1.63	-1.22	-0.20	-1.66	8.11	3.62	16.65	4.49	-
S&P/LSTA U.S. LEV LOAN	USD	98.79	-0.01	0.06	-0.31	-0.10	0.65	0.46	0.42	-0.24	-0.05	2.52	5.23	-
COMMODITY INDICES - BY TYPE OF ISSUER														
GSCI INDEX TOTAL RETURN	USD	2,586.61	0.97	1.69	-2.18	-1.24	4.49	17.51	1.17	5.77	8.47	-17.77	-	-
GSCI ENERGY TR	USD	467.13	1.47	3.05	-3.87	-2.81	5.89	26.56	0.99	6.39	13.77	-25.77	-	-
GSCI INDUSTRIAL METALS TR	USD	1,445.72	-0.06	-0.26	-0.34	0.37	4.86	8.33	-0.22	29.09	16.93	22.69	-	-
GSCI PRECIOUS METALS TR	USD	1,594.88	0.02	-1.61	-1.01	-0.41	2.10	2.52	1.13	11.98	5.33	7.08	-	-
GSCI AGRICULTURE TR	USD	392.22	0.44	-0.11	1.80	3.77	1.80	2.97	3.31	-11.92	-13.77	-23.25	-	-
GENERIC 1ST 'CL' FUTURE	USD	62.67	-0.16	2.35	-3.02	-2.63	7.88	26.71	3.78	3.80	8.35	-15.77	-	-
GOLD SPOT S/OZ	USD	1,328.61	-0.27	-1.37	-1.23	-0.94	2.89	2.92	1.96	13.09	6.31	10.57	-	-
CURRENCIES														
DOLLAR INDEX SPOT	USD	89.74	0.22	0.93	0.89	-0.22	-3.53	-3.45	-2.38	-9.87	-11.00	-4.91	-	-
Euro Spot	EUR	1.23	-0.21	-0.82	-0.89	0.04	3.82	4.21	2.49	14.15	16.27	8.55	-	-
Japanese Yen Spot	JPY	106.75	-0.09	-0.60	-2.19	3.24	4.09	2.05	5.47	-3.65	5.39	11.19	-	-
British Pound Spot	GBP	1.40	-0.04	-0.53	-1.69	-0.35	4.82	8.99	3.24	9.51	11.11	-9.74	-	-
Swiss Franc Spot	CHF	0.93	-0.22	-0.86	-0.40	2.43	5.01	3.23	4.20	-4.39	7.63	1.58	-	-
Brazilian Real Spot	BRL	3.25	0.45	-0.62	-1.97	-1.47	-0.83	-2.73	1.87	1.76	-5.75	-	-	-
China Renminbi Spot	CNY	6.35	0.24	0.07	-0.76	1.07	3.89	5.08	2.68	-6.31	8.35	-1.27	-	-
Singapore Dollar Spot	SGD	1.32	-0.29	-0.89	-0.82	-0.42	1.69	2.89	0.98	-7.66	6.30	2.77	-	-
Russian Ruble Spot	RUB	56.48	-0.11	-0.23	-0.63	-0.29	3.38	4.45	2.02	-6.25	2.17	12.66	-	-
Norwegian Krone Spot	NOK	7.85	-0.21	-1.13	-2.05	-0.59	3.39	-0.02	4.24	-5.05	5.96	-3.22		

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