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Friday 23 March 2018

We are a week away from closing Q1. Amazing, this regularity, isn't it? We barely finish analysing a quarter's results, and we sweat our expectations for the next one. Well, this last week gave us a hint about the financial future... Federal Reserve officials, meeting for the first time under Chairman Jerome Powell, raised the benchmark lending rate a quarter-point and forecast a steeper path of hikes in 2019 and 2020, citing an improving economic outlook. Policy makers continued to project a total of three increases this year.

U.S. stocks fell, while the Dollar tumbled and Treasuries gained after the Federal Reserve's decision came in less hawkish than some investors had been anticipating. Initially though, stocks went up, the Dollar gained (as it should have). Yet, we ended the day of Wednesday on a broad-based whimper - the DXY or the trade weighted US Dollar index slipped to 89.37. A year ago, we were at around 102! Arguably, the US Administration doesn't inspire confidence in the Dollar... Economics and interest rates suggest that the Dollar should appreciate. Earlier this year, the Administration (Menchin) let it slip that they don't really want a strong Dollar, then the President appoints Larry Kudlow, the enduring "Strong Dollar" advocate to the role of senior economic advisor, implying that the President favours a strong currency. We no longer have a clear, or even muddy understanding of where "they" want to go. A

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little like Alice in Wonderland, who when lost asked which way she ought to turn; to which she was told that the answer depends on where she wanted to get to. To this Alice said that she didn't know where she was going... Lewis Carrol gave her the wonderful answer "Why then my dear, it makes no difference which way you go". Don't you get the impression that DC doesn't know where they want to go either?

Anyway, the Fed does seem to know where it wants to go, i.e into a world of higher interest rates. But why, that we can't quite fathom. Remember when Fed officials were saying that they must raise rates, reason invoked being that they must be higher so that if a recession comes, there will be room to cut. Think about it for a moment and you can read two glaring errors of reason. Raising the rates to assist with a cut? Then, why do rates need to be high or even positive to allow for a cut? Didn't the Fed know what the ECB, BOJ and SNB were doing? There is no law or reason that imposes positive interest rates. Well, the new Fed Chairman must be raising rates as a precaution against the recession that will come as a result of rising rates. But then he will be ready to cut... Lewis Carrol could have written new books around this idea.

And just as you started to question the meaning of the word "collusion" in connection with elections and Russians, we get news of Facebook giving access to personal data of American voters to a UK company. Wow.

Facebook stock saw some \$60 billion of its value evaporate and, as if you didn't have anything to watch on TV, do expect a long stretch of congressional hearings... Soon there will be talks between the USA and the North Koreans. It will be the Donald leading this as the Secretary of State Rex Tillerson was fired; the new guy, Mike Pompeo, won't upstage the President...

Whilst all that is and isn't going on in the States, the Russians appear to have been involved in rather nasty activities on British soil and SURPRISE! Putin was re-elected and is staying for another stretch. We better get used to these shenanigans - did you ever wonder what the Russians were meddling in Syria for? The short answer might be a defensive, commercially driven intervention: Qatar was going to run a gas pipeline through Syria towards Europe, this being the captive market for Russian natural gas. Basically, the same storyline for the old presence in Afghanistan - oil pipelines to the sea...

All that be as it may, a true explanation, fact or fiction, the world economy is doing well despite the various political machinations all around us. The global sell-off in stock markets earlier this year has made some investors nervous that the bull run is ending but Credit Suisse said that time has yet to come: the Swiss banking giant has been adding stocks to its portfolio and still has an "overweight" position on the asset class, global chief investment officer Michael Strobaek said Tuesday. "We've bought equities and feel very well about it... We don't see the end of this bull market as yet " he said at the Credit Suisse Asian Investment Conference in Hong Kong. The bank favoured eurozone and

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emerging markets stocks the most, Strobaek said, as well as the energy, financials, information technology and telecommunications sectors. While the bull is indeed "ageing," there's still factors that are positive for stocks, added Credit Suisse's head of global equity strategy, Andrew Garthwaite. And, in an environment where inflation is rising, investing in stocks can be a good hedge, Garthwaite said in a presentation on Tuesday. "Remember that equities are an inflation hedge and bonds are a deflation hedge until inflation rises above 3%" Garthwaite said. When that happens, "something of an asset allocation shift" could occur, he added. These guys are not alone: the current pullback in the markets is only temporary and, in fact, is a good buying opportunity chief market strategist Tony Dwyer at financial services firm Canaccord Genuity told CNBC on Monday. "The entire market is fine... Corrections are only natural, normal and healthy until you actually get one. That's the situation we've been in" Dwyer said on "Fast Money."

Yet, none of these minds saw the Thursday tariff bombshell coming - the Trump administration unveiled tariffs designed to punish China for intellectual property theft, imposing about \$60 billion in retaliatory charges. The markets didn't like this one little bit. Illustratively, Boeing dropped by more than 5% as the DJIA left 724 points in the dust. Are we truly going to a global trade war? Or will Trump now grant exceptions and exclusions again, like the steel and aluminium tariffs? Well, if the real purpose was/is to bring back volatility, the VIX rose Thursday by over 30%... If indeed this was the purpose, they succeeded. Perhaps we can release Lewis Carroll from writing another book. We doubt it was a thought out plan... We didn't calculate it, but it is likely that the announcement of these \$60 billion of new tariffs is already "out of the money" as the drop in US market cap was clearly a larger number. The aforementioned is on the back of Facebook alone dropping that amount on Wednesday.

Hence, between metal tariffs, Chinese tariffs and some other miscommunicated views on currencies, the Trump Administration is destroying the values it claims to have created. Indeed, on Thursday the 10-year Treasury yield posted its biggest one-day yield drop since September of last year as investors bid up bond prices. Arguably, Trump's actions reversed all the Fed had to say just yesterday. This is now clearly in Monty Python class. Big difference though, John Cleese says in order to make us laugh. Trump had no such intent... And yes, Amazon has passed Alphabet (Google) to become the world's second most valuable company (after Apple). We believe that Bezos is in reality a new Paul Volker, slayer of inflation... This week we also saw a surge in oil prices to above \$65.50 (drifted back down a dollar or so). Cynics say it might be a manipulation by Saudi Arabia to maximize the price they will get from the IPO of Saudi Aramco. Well, Quantum Physics tell us that anything and everything is possible... As Aristotle said, probable impossibilities are to be preferred to improbable possibilities.



Market Weekly Highlights

- The USD is trading unchanged this week against some currencies after a continuous drop since the start of the year, with the Dollar Index DXY at 89.70.

The USD gained some ground against the Euro, which came off the highest levels from 1.2555 to 1.2150 early this month, retested 1.2446 during Draghi's last speech two weeks ago to only trade back at a steady 1.2330 since. Same for the CHF, which shows 0.9475.

The Pound is trading higher this week at 1.4089, having reached 1.4219 yesterday, remaining still stronger for the year as is the Japanese Yen at 104.90.

The Russian Ruble trades almost where it started the year against the USD and slightly higher for the week, at 57.20.

The Brazilian Real, which opened the year at 3.3080, reaching almost 3.12 last month against the USD, is now back at 3.3147 lower for the week.

The Crypto Currencies, which went through an important correction since the start of the year of about 60%, traded higher for the month of February and now are down again, with Bitcoin moving from 6'000 to almost 11'800 against the USD, only to go on to drop drastically to 8480 today.

Crude oil WTI trades higher for the week to \$64.58 per barrel; while Brent is trading at about \$69.00 .

- 10Y U.S. Treasuries, which had traded in the 2.30% to 2.40% yield range during Q4 of 2017; lost value in price, with yields reaching 2.93% on Wednesday and now back to 2.83%. 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 February to only trade lower at 0.024% but continuing to offer a POSITIVE yield.

In Europe, the German Bund yield nearly doubled this year jumping from 0.40% to 0.80%, but started to trade down at around 0.54%, 12 bps higher than where it closed 2017. The French 10Y Yield crossed the 1% to trade at 0.78%.

In Peripheral Europe, Italian 10Y yields are now just above 1.90%, trading almost where they started the year so far, whilst the Spanish 10Y yields trade some 60 bps lower than Italy at 1.30%, down from where the year's start at 1.61%.

- Markets in the US have turned negative again for the Year 2018 with the exception of Nasdaq, which is still up at 3.81%. DJIA is down 3.08% and SP500 -1.12%; having dropped from the strong rebound of last month. The DJIA is at almost 23'957, the SP500 at just 2'2643 while Nasdaq is trading some points above 7'160.

In Europe, markets are showing negative returns for the year so far with Eurostoxx50 down 5.64%, DAX at -7.99% , FTSE 100 at almost -10% and Swiss Market SMI at -8.50%. Italy is the only market up for the year at +2.08%.

In Asia, the Nikkei traded lower by 9.43% for this new year 2018 while the Hang Seng and Bovespa are positive respectively at 1.30% and 10.95%.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

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INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)										Fwd P/E	T12m P/E
			1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y		
EQUITY MARKET INDICES - BY REGION														
S&P 500 INDEX	USD	2,643.69	-2.51	-3.77	-2.58	-3.77	-1.48	5.65	-1.12	21.82	12.69	25.63	16.95	21.33
DOW JONES INDUS. AVG	USD	23,957.89	-2.93	-3.88	-4.28	-5.34	-3.22	7.20	-3.08	28.11	15.98	32.25	16.23	19.35
NASDAQ COMPOSITE INDEX	USD	7,166.68	-2.43	-4.21	-1.46	-2.33	2.97	11.51	3.81	29.73	23.19	43.02	21.86	31.12
RUSSELL 2000 INDEX	USD	1,543.87	-2.24	-2.08	2.08	-0.34	0.06	6.42	0.54	14.63	14.07	22.07	25.69	49.02
EURO STOXX 50	EUR	3,348.19	-1.55	-2.60	-2.64	-2.71	-5.77	-5.46	-4.45	9.95	-3.01	-9.48	13.40	14.97
EURO STOXX 600	EUR	369.15	-1.50	-2.27	-2.76	-3.15	-5.41	-3.67	-5.15	11.22	-2.13	-8.00	14.25	15.56
CAC 40 INDEX	EUR	5,167.21	-1.38	-2.19	-2.88	-2.82	-3.68	-2.16	-2.74	12.54	2.67	2.23	14.25	16.08
DAX INDEX	EUR	12,100.08	-1.70	-2.34	-2.70	-3.07	-7.44	-3.91	-6.33	12.51	0.50	1.72	12.59	13.85
FTSE 100 INDEX	GBP	6,952.59	-1.14	-2.95	-3.86	-4.03	-8.43	-8.90	-9.56	11.95	-5.29	-1.21	13.22	12.87
SWISS MARKET INDEX	CHF	8,637.87	-1.66	-2.75	-3.01	-3.47	-8.05	-5.46	-7.93	17.88	0.11	-7.78	15.21	28.78
NIKKEI 225	JPY	21,591.99	0.99	-5.44	-6.57	-5.82	-9.98	1.58	-9.43	21.34	8.03	4.37	15.41	15.13
HANG SENG INDEX	HKD	31,071.05	-1.09	-3.79	-1.74	-3.07	2.46	8.70	1.29	41.27	24.58	23.73	11.80	12.80
SHANGHAI SE COMPOSITE	CNY	3,263.48	-0.53	-3.58	-3.27	-4.14	-4.38	-5.96	-4.67	8.75	-2.95	-14.51	12.28	16.05
S&P BSE SENSEX INDEX	INR	33,006.27	-0.37	-1.53	-4.43	-4.31	-3.75	2.34	-4.07	29.56	11.38	15.88	21.53	22.29
RUSSIAN RTS INDEX \$	USD	1,258.89	-0.88	0.02	-2.41	-3.57	10.46	11.69	8.67	5.88	11.58	46.02	6.42	7.78
BRAZIL IBOVESPA INDEX	BRL	84,767.88	-0.25	-0.19	-0.69	-2.89	12.74	12.44	10.95	26.86	33.43	63.30	12.85	22.01
MSCI WORLD	USD	2,072.94	-1.71	-2.86	-2.13	-3.17	-1.27	3.73	-1.45	23.10	12.36	16.59	15.82	19.10
MSCI WORLD HEDGED	USD	918.90	-1.87	-2.88	-2.25	-1.88	-2.24	4.15	-2.00	19.13	11.63	22.22	-	-
MSCI WORLD LOCAL	-	1,545.82	-1.85	-3.06	-2.42	-3.19	-2.85	2.99	-2.55	20.06	8.72	14.18	15.82	19.10
MSCI AC WORLD	USD	508.48	-1.63	-2.68	-1.85	-2.98	-0.55	4.48	-0.89	24.65	13.63	17.45	15.38	18.63
MSCI EM	USD	1,196.73	-1.06	-1.35	0.13	-1.62	4.88	8.57	3.30	37.79	23.64	22.69	12.80	15.84
MSCI AC ASIA x JAPAN	USD	733.34	-0.99	-1.66	0.66	-0.47	4.10	9.15	2.79	42.12	25.45	25.06	13.37	15.21
MSCI EM LATIN AMERICA	USD	3,029.01	-0.61	-0.63	-1.26	-4.20	8.92	1.53	7.10	24.16	16.88	21.37	14.18	20.44
MSCI EM Eur, ME & Africa	USD	300.94	-1.47	-0.25	-2.36	-4.66	4.57	10.75	1.64	25.22	15.03	9.56	10.97	13.30

EQUITY MARKET INDICES - BY SECTOR														
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y	P/E	P/E
MSCI ENERGY	USD	208.58	-1.50	-0.25	0.45	-1.94	-5.73	0.00	-6.69	5.93	2.28	-8.76	17.22	26.26
MSCI MATERIALS	USD	268.47	-1.68	-2.23	-2.23	-5.25	-3.03	2.68	-4.29	29.52	13.71	15.67	14.61	17.55
MSCI INDUSTRIALS	USD	256.14	-1.80	-2.42	-2.72	-3.84	-1.69	2.80	-2.12	25.87	13.72	23.85	16.66	18.26
MSCI CONS DISCRETIONARY	USD	245.06	-1.39	-2.07	-1.69	-2.89	2.24	10.03	2.34	24.24	18.22	22.42	16.38	18.87
MSCI CONS STAPLES	USD	219.57	-0.23	-2.48	-2.23	-3.74	-7.07	-2.86	-7.65	17.81	-1.10	6.02	17.84	16.40
MSCI HEALTH CARE	USD	223.77	-2.07	-3.76	-2.33	-3.49	-1.50	-1.08	-1.69	20.42	7.71	1.22	16.10	23.82
MSCI FINANCIALS	USD	125.43	-2.40	-2.93	-3.32	-4.07	-1.26	4.46	-1.44	23.48	13.96	19.25	12.36	15.74
MSCI INFO TECH	USD	230.77	-2.32	-4.75	-2.35	-2.32	3.64	13.94	4.58	38.75	29.16	56.66	18.92	24.93
MSCI TELECOMS	USD	66.49	-0.96	-2.91	-1.77	-2.79	-6.46	-5.76	-6.52	6.79	-5.62	-6.10	11.88	15.02
MSCI UTILITY	USD	121.90	0.06	-1.06	1.89	-0.35	-3.69	-6.00	-4.15	14.82	0.23	3.08	14.83	16.02
MSCI WORLD REAL ESTATE	USD	201.59	-0.21	-1.44	1.11	-0.19	-3.85	-1.67	-4.99	15.56	2.64	-1.84	23.79	16.69

HEDGE FUND INDICES														
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y	P/E	P/E
HFRX GLOBAL HEDGE FUND	USD	1,277.47	0.22	0.00	0.18	-1.09	0.26	1.76	0.15	5.99	4.70	2.55	-	-
HFRX EQUAL WEIGHTED	USD	1,273.08	0.10	-0.03	-0.07	-1.11	-0.06	0.85	-0.20	4.81	3.26	4.83	-	-
HFRX GLOBAL EUR	EUR	1,113.92	0.21	-0.04	0.01	-1.36	-0.65	0.30	-0.59	3.49	1.93	-3.02	-	-

MARKET INDICES PERFORMANCE

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INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)											
			1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y		
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)														
US 3 MONTH	USD	1.71	0.23	-5.63	6.10	7.41	39.06	69.26	33.71	87.83	95.10	-	-	-
US 2 YEAR	USD	2.28	-0.20	-1.43	2.66	3.86	38.60	84.56	39.36	69.47	102.46	-	-	-
US 10 YEAR	USD	2.82	-0.54	-2.55	-4.16	-4.70	33.80	56.91	41.36	-3.89	39.96	-	-	-
US LIBOR 3M	USD	2.27	2.29	12.61	25.39	35.13	59.64	94.28	57.68	69.64	111.49	-	-	-
EUR LIBOR 3M	EUR	-0.39	0.00	-1.00	-1.00	-0.49	-0.46	-1.06	-0.46	-4.83	-3.36	-	-	-
GBP LIBOR 3M	GBP	0.64	1.14	3.06	5.39	7.99	11.86	30.61	11.44	15.44	29.24	-	-	-
CHF LIBOR 3M	CHF	-0.74	0.00	0.46	0.72	0.82	2.24	-1.14	0.88	-1.70	-0.94	-	-	-

FIXED INCOME INDICES - BY TYPE OF ISSUER													
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y	Yield to Worst
GLOBAL AGG TR HEDGED	USD	512.10	0.31	0.15	0.47	0.57	-0.25	0.25	-0.47	3.04	2.34	5.74	1.86
GLOBAL HY TR	USD	1,303.57	-0.02	-0.23	-0.26	-0.16	-0.06	0.35	-0.48	10.43	7.08	21.53	5.78
US GOVERNMENT TR	USD	2,129.20	0.37	0.12	0.39	0.45	-1.18	-1.89	-1.67	2.30	0.04	0.93	1.86
US CORPORATE TR	USD	2,815.00	0.28	-0.19	-0.44	-0.41	-2.29	-1.79	-2.99	6.42	2.20	6.35	3.83
US HIGH YIELD TR	USD	1,933.39	-0.11	-0.26	-0.60	-0.31	-0.64	-0.09	-0.85	7.50	4.87	16.74	6.26
EU GOVERNMENT TR	EUR	252.99	0.40	0.46	1.11	1.31	0.48	1.40	0.87	0.20	2.97	2.05	0.55
EU CORPORATE TR	EUR	272.20	0.23	0.02	0.06	0.14	0.12	1.38	0.12	4.39	4.31	9.53	0.88
EU HIGH YIELD TR	EUR	315.15	-0.12	-0.29	-0.19	0.06	-0.41	0.39	-0.48	6.90	4.71	14.11	3.31
BARCLAYS GLOBAL CONVERT.	USD	240.24	-0.69	-0.87	0.41	0.59	0.73	1.59	0.70	7.19	5.59	6.70	-
GLOBAL EM TR (HEDGED)	USD	378.27	0.08	-0.22	-0.25	-0.07	-1.41	-0.90	-1.63	8.11	3.45	15.75	4.59
S&P/LSTA U.S. LEV LOAN	USD	98.81	-0.01	-0.05	0.01	0.03	0.63	0.51	0.45	-0.24	0.20	2.83	4.81

COMMODITY INDICES - BY TYPE OF ISSUER													
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y	
GSCI INDEX TOTAL RETURN	USD	2,596.51	-0.69	2.07	1.59	0.38	4.68	11.99	1.56	5.77	16.14	-12.82	
GSCI ENERGY TR	USD	480.29	-0.99	4.76	4.71	2.82	7.77	20.37	3.83	6.39	28.49	-16.29	
GSCI INDUSTRIAL METALS TR	USD	1,352.84	-1.13	-1.95	-3.98	-6.43	-4.42	1.74	-6.63	29.09	10.78	11.42	
GSCI PRECIOUS METALS TR	USD	1,588.75	0.39	0.67	0.74	-0.39	3.38	1.63	0.79	11.98	3.99	7.90	
GSCI AGRICULTURE TR	USD	389.89	0.28	-2.54	-3.35	-2.60	3.71	-0.29	2.69	-11.92	-8.70	-22.31	
GENERIC 1ST 'CL' FUTURE	USD	85.00	1.09	4.03	5.21	2.06	10.96	26.04	7.38	3.80	29.15	-9.33	
GOLD SPOT \$/OZ	USD	1,339.24	0.77	1.89	1.58	0.79	5.02	3.22	2.78	13.09	7.54	12.59	

CURRENCIES													
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	2017	1Y	3Y	
DOLLAR INDEX SPOT	USD	89.86	-0.19	-0.61	-1.02	-0.22	-3.92	-2.70	-2.65	-9.87	-10.10	-7.57	
Euro Spot	EUR	1.23	0.18	0.28	1.07	0.24	3.82	4.02	2.66	14.15	14.29	12.59	
Japanese Yen Spot	JPY	105.28	0.20	0.89	1.53	1.73	7.79	6.34	7.25	-3.65	5.59	13.95	
British Pound Spot	GBP	1.41	0.06	1.16	2.50	0.95	5.48	4.74	4.37	9.51	12.64	-5.67	
Swiss Franc Spot	CHF	0.95	0.24	0.54	-0.24	-1.14	4.55	2.08	2.89	-4.39	4.91	2.04	
Brazilian Real Spot	BRL	3.31	-1.26	-0.86	-2.03	-1.90	0.69	-5.72	-0.07	1.76	-6.84	-2.53	

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