

"Greece is the word..." well, John Travolta certainly got that right. However, here at Bedrock we think there are some other words that are just as interesting, Puerto Rico (ok, this is two words), China, M&A... But we won't hold it against Travolta and Newton-John; the 70's were a different era. As there does not seem to be anything intelligent to write about Greece, we thought it best to opine on other matters for now, Puerto Rico. Some of you may question the importance of Puerto Rican bonds as a subject, but the fact of the matter is that as of Tuesday it seemed unlikely that they would be able to repay the \$1.9Bn that was due. In fact the debt was serviced and the repayments made, but the comments made by the U.S. territory's governor, Alejandro García Padilla, to *The New York Times* are extremely telling and worrying. Padilla very succinctly explained that, as the situation stands now, Puerto Rico cannot pay its \$72 billion of outstanding debt. "This is not politics, this is math," García Padilla said. The debt to GDP ratio is not as high as some other countries, standing at only 68%. But the fact of the matter is that their income may not be sufficient to service their debts and their fiscal situation is not exactly what you would hope to see as a bondholder. But why does it even matter? Well, as Cramer put it on CNBC, "Everybody had it. Rich people had Puerto Rico. Mutual funds had Puerto Rico. A lot of hedge funds had levered up Puerto Rico because it was such a great trade. It turned out to be not so great." Quite. The repercussions of this were felt directly at the financial guarantee insurance houses, with MBIA dropping 23% on Monday and 13% on Tuesday. Their stock prices reflecting the possible massive financial impact that the guarantee insurance policies would suffer, should Puerto Rico default. As Padilla explained, it would appear to be a matter of when, not if, they will default as their income and fiscal troubles do not seem to point towards sufficient growth or debt servicing capabilities.

Meanwhile, the CDS market for insuring corporate bonds against default in Europe jumped by the largest single day move since Lehman. The Markit iTraxx Europe Senior Financial Index of CDS rose 20% in one day on Monday, hopping from 76 to 90 basis points. This move is a little more troubling when viewed on a slightly longer scale, as this market has based for over a year and fallen 80% from the highs of 2011. But as we mentioned last week, the risks in the market have decreased – regardless of the fact that insurance linked to bond defaults has gone up in price. There are less possible outcomes than a week ago, and whilst risking to sound like "we told you so", this is exactly what we wrote last week. Although the Greeks (sorry, we have to mention them now) have not made their payment to the IMF, this is not technically a default yet. We also wrote that last weekend would be the last weekend of the Greek Saga, well, we were wrong (it can happen!). As in any good fairytale the Greeks have added another piece to the puzzle with the political equivalent of hiding behind a rock and pointing to the big scary beast (The Troica) by the PM. Rather than take a stand, he has pushed the decision onto the people, with the rather confused standpoint of agreeing new bailout terms and whispering out the back of his hand to the Greek populous that they should vote against it. The Germans were not much better. Now that the Greeks are agreeing to play with the other children the Germans have declared an embargo on the sharing of toys until Monday – when we are pretty sure there will be some mud or sand that is likely to be thrown around. Thankfully politicians have mothers as well; otherwise we are pretty sure that no one loves them!

Let's return to (the new) normalcy. Developed nations' central banks are cutting rates or in a holding pattern for now at historically low rates. Meaning the cost of money is low, spurring borrowing (in theory) and hence providing the debt and capital markets with a boost that should in turn stimulate their economies. Simple; right? Well China is following the same path and has seen tremendous growth over the last 18 months, with local indices seen nearly 200% growth in a year. So it is therefore totally reasonable to expect a short breather as the markets normalise. We view the recent volatility as a good opportunity to stabilise the markets before the next up leg continues. The US however on a corporate front has in fact just had the largest year for M&A activity on record, ever, for any country! Seeing a whopping \$1 Trillion in M&A activity in the first half of 2015, which is 50% more than last year's transactions for the same period. But when we look at the S&P 500, this could be called the most boring year ever, with the lowest amount of time spent above or below 3.5% from its starting point – i.e. never this year. Yet the Dow Industrial Average has had more than 40% of its trading days as triple digit moves and the S&P has seen more than 25% of its trading days above 1%... nearly twice the amount from last year. A thrill ride to nowhere! If we then look at the other years that have seen the next lowest number of moves above or below 3.5% we see that EVERY year turned out to be positive with an average return of over 6%.

As Danny Zuko said, "I got chills, they're multiplying, and I'm losing control, 'cos the power your supplying, it's electrifying". Let's just hope that the Greeks don't lose control and that we have a happy ending with Tsipras floating off in a flying car. Have a happy weekend... hopefully with air con!

This Week's Highlights:

- The Dollar continued its way up this week with the USD Index (DXY) moving from 95.00 to almost 96.50, now trading at 96.00. The US\$ is now trading at about \$1.1100 against the EUR and at 0.9415 against the Swiss Franc. The Pound is now trading at 1.56 against the USD. We maintain our belief in the fundamental strength of the US\$ a view which is driven by the outlook for interest rates to hold or rise in the US and hold or decline elsewhere. The Japanese Yen resumed its weakening versus the USD and is trading 123.00 after reaching 123.73 yesterday. Gold quasi unchanged for the week and we are now trading at 1,168. We note that Oil has dropped this week, with WTI at \$56.60/Bbl and Brent at \$61.65/Bbl. The Russian Ruble has steadied around 55 and is now trading at 55.69 per USD along with the Brazilian Real which is steady at 3.096 - Until the reforms are firmly in place we do not see a significant rally in the Real and our worries would be for further downside movements.
- The US 10Yr Treasury yields moved higher throughout the week reaching 2.45% yesterday as the USD strengthened. The German 10Yr Bund follows the news flows from Greece, with the yield moving higher yesterday at 0.90% and now trading at 0.83% at the moment. The Spanish 10Yr are sliding at 2.25% after starting the week at 2.60% and dropping significantly during the week to finally oscillate around 2.30%. Italian 10Yr notes followed a similar trajectory, dropping from 2.72% to 2.21% and finally settling higher at 2.28%. In the UK, the yields moved back to their starting point 2.05% from this week's peak 2.18%. Swiss 10Yr yields remained stable at 0.138%.
- In general the US equity markets are lower on the week. Both the Dow and the S&P500 are respectively for the week at -0.90% and -1.21% as of the close of yesterday; and the NASDAQ being -2.01% - with the futures indicating a marginally higher open on Friday for across the three indices. Europe really has had a bad week with the DAX -3.65%, CAC40 at -4.57%, IBEX -5.18% and the UK FTSE at -2.12%. With the Shanghai dropping heavily by 12% and the Nikkei was down only 0.80%.

Bedrock Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

02/07/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2076.78	-0.03	-1.21	0.66	-1.76	0.48	0.90	0.87	4.80	51.15	17.27
DOW JONES INDUS. AVG	USD	17730.11	-0.16	-0.90	0.83	-1.91	-0.19	-0.58	-0.52	3.88	36.88	15.74
NASDAQ COMPOSITE INDEX	USD	5009.214	-0.08	-2.01	0.45	-1.77	2.50	5.97	5.77	11.67	68.32	18.80
RUSSELL 2000 INDEX	USD	1248.259	-0.65	-2.73	-0.45	-1.29	-0.59	4.13	3.62	3.32	52.51	18.78
EURO STOXX 50	EUR	3463.25	-0.92	-4.57	0.92	-3.57	-8.98	10.08	9.84	5.05	48.93	14.85
EURO STOXX 600	EUR	385.46	-0.40	-3.03	0.92	-2.80	-3.26	12.74	12.35	10.29	49.51	16.14
CAC 40 INDEX	EUR	4835.56	-0.93	-4.57	0.79	-4.10	-4.85	13.54	12.99	7.53	47.59	15.54
DAX INDEX	EUR	11099.35	-0.73	-3.67	1.15	-3.06	-7.49	13.37	12.90	10.38	68.29	13.86
FTSE 100 INDEX	GBP	6630.47	0.38	-2.01	1.49	-4.79	-3.15	1.07	0.79	-3.60	16.35	15.89
SWISS MARKET INDEX	CHF	8961.48	0.59	-0.92	1.63	-3.56	-2.26	-0.68	-0.66	2.65	44.08	17.36
NIKKEI 225	JPY	20522.5	0.95	-0.80	1.50	0.32	5.68	17.70	17.70	33.82	126.54	19.41
HANG SENG INDEX	HKD	26282.32	0.12	-3.67	-0.38	-5.45	3.46	9.60	10.78	11.12	32.50	12.47
SHANGHAI SE COMPOSITE	CNY	3912.767	-3.47	-12.07	-13.80	-24.91	-4.68	13.98	13.98	78.70	65.39	14.95
S&P BSE SENSEX INDEX	INR	27945.8	-0.20	0.87	0.98	4.53	-0.73	0.60	2.02	8.64	60.99	16.34
RUSSIAN RTS INDEX \$	USD	932.04	0.19	-1.51	-1.19	-1.96	-0.15	17.46	17.46	-33.22	-34.06	5.98
BRAZIL IBOVESPA INDEX	BRL	53108.19	0.68	-0.13	0.05	-0.78	-0.03	9.47	8.20	-1.43	-4.79	12.19
MSCI WORLD	USD	1747.25	0.01	-1.63	0.67	-2.38	-0.17	2.50	2.20	-0.96	36.62	16.84
MSCI WORLD HEDGED	USD	740.738	0.06	-1.64	0.94	-1.94	-0.08	5.01	5.02	8.33	60.33	-
MSCI WORLD LOCAL	-	1326.3	0.05	-1.66	0.92	-2.05	-0.63	3.96	3.96	6.50	51.48	-
MSCI AC WORLD	USD	426.01	0.01	-1.56	0.59	-2.39	-0.40	2.43	2.13	-1.79	34.65	16.21
MSCI EM	USD	971.47	0.00	-0.93	-0.08	-2.45	-2.30	1.88	1.59	-8.54	1.54	12.28
MSCI AC ASIA x JAPAN	USD	588.03	-0.15	-0.88	0.14	-3.38	-1.83	3.77	4.31	0.14	20.55	12.75
MSCI EM LATIN AMERICA	USD	2518.99	1.06	-0.43	0.06	-0.74	-1.13	-4.48	-7.65	-25.90	-30.23	14.46
MSCI EM Eur. ME & Africa	USD	275.82	0.64	-0.43	-0.44	0.82	-2.29	2.60	1.87	-17.68	-14.56	11.12
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	221.88	0.57	-2.38	-0.35	-4.46	-3.00	-6.79	-6.70	-28.71	-4.74	21.51
MSCI MATERIALS	USD	222.75	-0.03	-2.42	0.17	-5.08	-1.63	0.22	-0.13	-13.37	3.18	17.40
MSCI INDUSTRIALS	USD	200.13	-0.11	-1.63	0.47	-3.74	-1.62	0.75	0.41	-3.68	40.23	16.75
MSCI CONS DISCRETIONARY	USD	199.23	-0.08	-1.56	0.84	-1.18	0.67	7.85	6.99	7.77	66.96	17.87
MSCI CONS STAPLES	USD	201.98	-0.14	-1.44	0.89	-1.41	-1.91	1.85	1.03	0.42	30.01	20.00
MSCI HEALTH CARE	USD	216.64	-0.05	-1.29	0.78	-0.81	2.36	9.79	9.88	14.43	82.27	18.78
MSCI FINANCIALS	USD	104.72	-0.15	-1.75	0.88	-1.45	0.61	2.09	1.91	-0.70	46.85	13.88
MSCI INFO TECH	USD	143.45	0.03	-1.54	0.67	-3.91	0.27	1.72	1.54	7.58	49.40	16.92
MSCI TELECOMS	USD	71.1	0.20	-1.59	0.62	-1.28	1.22	4.34	4.01	-2.43	23.46	16.37
MSCI UTILITY	USD	113.06	1.18	-0.60	1.36	-3.79	-3.26	-8.03	-8.13	-8.28	9.85	15.28
MSCI WORLD REAL ESTATE	USD	189.84	0.23	-0.39	1.19	-2.67	-6.72	-3.09	-2.37	-0.62	17.91	24.23
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1235.17	0.10	-1.14	0.10	-1.37	-0.61	1.38	1.38	-1.17	9.99	-
HFRX EQUAL WEIGHTED	USD	1210.39	0.10	-0.72	0.10	-0.91	-0.25	1.62	1.62	-0.92	9.07	-
HFRX GLOBAL EUR	EUR	1135.85	0.06	-1.16	0.06	-1.41	-0.82	1.00	1.00	-1.79	8.49	-

MARKET INDICES PERFORMANCE

02/07/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0	0.00	0.00	-0.01	-0.01	-0.01	-0.02	-0.04	-0.01	-	-
US 2 YEAR	USD	0.627	0.00	-0.08	-0.02	-0.05	0.15	-0.04	-0.04	0.12	-	-
US 10 YEAR	USD	2.3823	0.00	-0.09	0.03	0.02	0.54	0.27	0.21	-0.26	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	472.35	-0.03	-0.08	-0.28	-0.82	-2.58	-0.88	-0.67	2.96	9.52	1.81
US GOVERNMENT TR	USD	2073.63	0.17	0.07	-0.25	-0.32	-1.86	-0.40	-0.17	2.51	2.19	1.81
US CORPORATE TR	USD	2558.91	0.21	-0.03	-0.18	-0.80	-3.57	-1.45	-1.10	1.26	9.16	3.38
US HIGH YIELD TR	USD	1686.16	0.04	-0.33	0.25	-1.12	0.17	2.76	2.79	-0.18	21.88	6.50
EU GOVERNMENT TR	EUR	234.95	-0.34	-0.55	-0.45	-1.77	-5.37	-2.13	-1.73	3.83	19.62	1.03
EU CORPORATE TR	USD	241.85	-0.06	-0.11	-0.05	-1.35	-2.89	-1.61	-1.52	1.94	17.25	1.45
EU HIGH YIELD TR	EUR	273.4	0.15	-0.44	0.40	-1.38	-1.39	1.65	1.72	2.21	34.64	4.46
BARCLAYS GLOBAL CONVERT.	USD	224.58	0.08	-1.32	0.08	-1.63	0.40	4.62	4.82	2.74	36.82	-
GLOBAL EM TR (HEDGED)	USD	328.8119	0.14	-0.19	0.10	-0.94	-0.25	2.59	2.64	0.72	14.38	4.95
S&P/STA U.S. LEV LOAN	USD	95.02983	0.00	-0.48	-0.03	-1.19	-1.25	-0.54	-0.33	-4.09	1.69	5.15
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	3175.726	0.27	-0.08	-1.56	-2.65	5.88	-1.02	-1.77	-37.42	-29.69	-
GSCI ENERGY TR	USD	832.232	0.27	-2.19	-2.54	-5.46	9.40	1.31	0.36	-46.38	-33.98	-
GSCI INDUSTRIAL METALS TR	USD	1148.227	0.07	-0.22	1.21	-4.00	-4.65	-8.61	-9.24	-18.50	-22.79	-
GSCI PRECIOUS METALS TR	USD	1433.302	-0.45	-0.82	-0.65	-3.15	-3.66	-2.14	-1.88	-14.82	-30.52	-
GSCI AGRICULTURE TR	USD	629.5489	0.40	7.31	-1.21	10.49	4.70	-0.89	-2.20	-13.12	-29.32	-
GENERIC 1ST 'CL' FUTURE	USD	56.93	-0.63	-5.13	-4.88	-8.25	8.96	-0.53	-1.53	-45.34	-37.62	-
GOLD SPOT \$/OZ	USD	1166.2	0.24	-0.55	-0.29	-1.35	-2.81	-1.70	-1.33	-11.40	-27.72	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	96.11301	-0.12	0.55	0.53	0.55	-0.57	5.39	6.34	19.67	17.38	-
Euro Spot	EUR	1.1084	0.18	-0.56	-0.39	-1.52	1.23	-6.95	-8.22	-18.41	-11.93	-
Japanese Yen Spot	JPY	123.07	0.00	0.63	-0.46	0.96	-3.33	-2.79	-2.67	-16.67	-35.17	-
British Pound Spot	GBP	1.5609	0.04	-0.83	-0.62	1.79	4.66	2.39	0.24	-8.98	-0.47	-
Brazilian Real Spot	BRL	3.0907	1.70	0.99	0.20	1.15	0.85	-13.00	-14.18	-28.19	-35.89	-
China Renminbi Spot	CNY	6.2045	0.00	0.08	-0.06	-0.12	-0.16	0.25	0.01	0.13	2.38	-
Singapore Dollar Spot	SGD	1.3479	-0.03	0.11	-0.07	-0.41	0.16	-0.96	-1.09	-7.53	-6.31	-
Norwegian Krone Spot	NOK	7.9832	-0.04	-1.63	-1.42	-2.74	-0.29	-4.12	-6.46	-22.31	-25.16	-
VOLATILITY / LIQUIDITY INDICES												
CBCE SPX VOLATILITY INDEX	USD	16.79	4.35	19.84	-7.90	22.91	14.45	-5.62	-12.55	62.69	0.78	-
USD SWAP SPREAD SEMI 2YR	USD	26.5	-2.83	13.79	-0.23	7.56	0.00	13.79	12.25	87.27	9.57	-
TED SPREAD	USD	28.35	5.67	0.53	1.94	3.62	7.51	17.93	28.81	29.22	-27.23	-

Bedrock Newsletter

All data is compiled from Bloomberg

Disclaimer

This document is for information purposes only and has been prepared by Bedrock SA, representing the opinions and investment views of Bedrock SA as applied in its investment advisory and management activities. It is a private publication intended for private circulation only. It does not constitute a company survey, a financial research, an offer, a solicitation or a personal recommendation to buy or sell specific products or securities. Bedrock SA disclaims all liability for any losses or damages of any kind relating to such information, which may be changed at any time without notice. The risks inherent in certain investments, particularly derivative products, may not be suitable for all investors. The contents of this publication may have been used for transactions by Bedrock SA prior to their communication. Distribution or dissemination of this document and/or the sale of certain products mention herein are subject to restrictions. Copyright 2015 All rights reserved. Approved for circulation in the UK to professional clients only by Bedrock Asset Management (UK) Ltd which is authorized and regulated by the Financial Conduct Authority. This presentation is being made to you solely for your information and must not be copied, reproduced, further distributed to any other person or published, in whole or in part for any purpose.

© 2015 Bedrock S.A. 4, ch. Des Vergers, 1208 Geneva, Switzerland, T: +41 (0)22 592 5455