We are in a heat-wave. It was so hot (48°C) that flights were cancelled in Phoenix Arizona as jets don't function well in such high temperatures (loss of lift). It is hot in Mosul too, as the end of the ISIS Caliphate is in sight. And it is hot over Syria where American and Russian jets (which do fly in high temperatures) have come close to each other in 'near misses'… And then, the equity markets are rising like hot air… a breath of fresh air in all this heat? Wednesday was the summer solstice. Some celebrate this day by taking their clothes off and dance around Stonehenge in the golden rays of dawn singing some pagan tunes. Others remember that on such a day some 2'300 years ago Eratosthenes of Cyrene who was the chief librarian at the great library of Alexandria in the third century BC, calculated the circumference of our planet, realizing it was a sphere way before Galileo… He calculated a distance which was very close to reality as we know it today. Talking about calculations, we revert to our world of investments and note that this week, China finally gets long sought-after endorsement as MSCI adds China stocks to the emerging markets index. A day before our solstice, MSCI said Tuesday it plans to add 222 China A Large Cap stocks to its benchmark emerging markets index on a gradual basis beginning next year. Reality hasn't changed, we just got yet another measure for it… Roughly $17 billion or more could now flow into Chinese stocks, an MSCI exec says. The Deutsche X-trackers Harvest CSI 300 China A-Shares ETF (ASHR) traded more than 2% trading higher after hours on Tuesday. Yes, the markets are hot… The average annualized total return for the S&P 500 index over the past 90 years is 9.8%. For 2017, in just under half a year, the S&P 500's total return is 9.7%. Looking at these facts side by side, it might seem the market has been twice as generous as usual so-far this year, tempting a wary investor to back away from stocks or expect next to nothing over the coming six months. But do remember that on average, we didn't have Trump… One of the market's more intriguing and mischievous traits is that it rarely produces the long-term "average" return in any given calendar year. When the S&P 500 was up at least 7.5% on its 100th trading day of a year, as it was this year, it added to those gains through year-end 20 out of 23 times. And since 1950, when the S&P 500 has made at least 15 new all-time highs through May, it was far more likely to keep rising through December, and the average further gain over the final seven months was 7.7%! Yes, these statistics support our bullish sentiment, but beware of statistics and remember the professor of statistics who drowned in a pool with an average depth of 2 centimeters? Well, but we have Trump… And for the sceptics among us, let's not forget that the motor for asset-price inflation is liquidity- And as we write these words, we remind ourselves that we are all on an IV-drip of liquidity coming into the markets from the central banks everywhere…

We tend to remind ourselves of little truths from time to time, and often share these reminders with our readers. Case in point came this week when Argentina sold $2.75 billion of a hotly demanded 100-year bond in U.S. dollars on Monday, just over a year after emerging from its latest default, according to the government. The South American country received $9.75 billion in orders for the bond, as investors eyed a yield of 7.9% in an otherwise low yielding fixed income market where pension funds need to lock in long-term returns. Though the bond appeared to be well oversubscribed, some investors questioned the wisdom of investing for a such a long term in a country as volatile as Argentina. Volatile is perhaps too soft a term when we talk of Argentina, a 'serial defaulter'. We are not sure we can find a 20-year period where Argentina has not defaulted, and this is a 100-year bond… Just a little reminder…

Let's think about and focus a little on inflation; It is defined as a process of rising prices. It is viewed as bad but like a poison, in small doses it can be useful and hence, the Fed and others target a 2% level. We here have been in the small camp which thought and believed that we are in a period of disinflation, i.e., a time of falling prices. Without the said IV-drip of the central bankers, prices would have fallen by more. Our belief here is anchored in the effects of e-commerce (the Amazons of this universe) which disintermediate. And there is a long way to go here…
Let us dwell on some basic algebra-The commerce which sells a widget at $100 which they acquired at $50 say they have a 'margin' of 50%. Not right, as the margin is 100%. There is much to disintermediate here… As the e-commerce increases its part of the distribution-chains, more price falls can be expected. We were pleased to find implicit support to our thinking from Charles Evans, a voting FOMC member, who says he is less confident than most of his colleagues that inflation will soon rise to their 2% target. A big reason for his ambivalence: Deflationary competitive pressures could have become more important for the overall trend in prices than the so-called Phillips Curve relationship, which links inflation to the state of the labor market. That model, coined almost 60 years ago, is the basis for the Fed's outlook for continued gradual rate increases. "That's one of the things that makes me nervous, that I think there's something possibly going on, some secular trend, that isn't just a U.S. story," Evans said. And just as he finished speaking, Amazon announced its buyout of Whole Foods… Disinflation into basic food stuff may well come into play now… But this won't have an effect on the CPI that is mostly followed in its "Ex food and energy" form… Well, energy is falling for other reasons- Now 'officially" in a bear market West Texas Intermediate crude, the U.S. benchmark, fell more than 20% from its highest close this year, meeting the common definition of a bear market. Maybe after all, the 2 point nothing yield on ten year treasuries is not so silly? The Dollar will retain its value, so why buy Bitcoin and Ethereum cyber money? The latter fell from $320 to 10 cents yesterday… A week ago we reminded ourselves of Dutch Tulips… Enjoy the heat ☺

Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY had reached 103.80 and then has lost ground to trade down at 97.33.
  The USD is trading around 1.1188 against the EUR and at 0.9687 vs. the CHF. The Pound is trading weaker at $1.2739. The Japanese Yen is weakening also against the USD at 111.13.
  The Russian Rouble is following the oil-price pattern, moving lower this week against the USD at 59.55 on the back of the potential sanctions from US. The Brazilian Real is now trading lower at 3.3422.
  Crude oil WTI reached $55.24 a barrel on the first day of trading on January 1st and dropped to $44 in the first trading days of May, only to trade back up at 52 and fall back now to around $42.91, while Brent is trading at $45.29 as we write.

- The yield on 10Y U.S. Treasuries is trading at 2.1630% as we write. The Japanese 10 year JGB is trading almost unchanged for the week and continues to offer POSITIVE returns trading at 0.057%.
  In Europe, since the start of year we saw the German Bund trading lower in yield almost every day reaching almost 0.15% and then after the French election bouncing back to almost 0.50%, now is trading back at 0.26%. The French 10Y Yield hit 1.10% before the elections is now back trading at almost 0.60%
  The Swiss 10 year bond yield traded this month at around -0.019%, having bounced from -0.20% lows of last month and now is trading back at -0.15% as we write.
  In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently lower at 1.61% while the Spanish 10Y yields trade 23bps lower having started the year at 1.30% and currently trading at 1.38%.

- Markets are up this week in the USA, DJIA is trading at just below 21'400, with a +0.18% for the week, Nasdaq at just above 6'230 after posting this week a positive 1.15%, and SP500 at just above 2'430 (almost flat this week at +0.08%). In reality, we are basically at the all time highs, or within a couple of percentage points thereof.
  In Europe, Eurostoxx50 turned negative for the month at -0.13% with the correction of last week, while DAX remains positive for the month at 1.18% together with the Italian FTSE MIB up 0.70%. The Swiss SMI also is showing a mere positive 0.08%. The worst performer is the Spanish IBEX 35 at -2.14%. Nikkei is trading up for the year at 5.33% and for the month at 2.45%. In Latam the Bovespa is showing a negative 2.30% for the month and a weak +1.73% for the year while in Asia the Hang Seng is up above 16.50% for the year and Shanghai Composite at a mere +1.75%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE 22/06/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
			PRICE CHANGE IN % (unless indicated)										
EQUITY MARKET INDICES - BY REGION												Fwd P/E	T12m P/E
S&P 500 INDEX	USD	2,434.50	-0.04	0.08	0.94	1.50	3.77	7.54	8.74	15.20	24.04	18.74	21.61
DOW JONES INDUS. AVG	USD	21,397.29	-0.06	0.18	1.85	2.19	3.59	7.34	8.27	18.80	26.33	17.69	18.82
NASDAQ COMPOSITE INDEX	USD	6,236.69	0.04	1.15	0.62	1.60	7.20	14.17	15.86	27.02	42.76	23.78	33.19
RUSSELL 2000 INDEX	USD	1,404.54	0.38	-0.39	2.51	1.71	3.78	2.41	3.49	19.82	18.53	28.52	44.63
EURO STOXX 50	EUR	3,555.76	0.04	0.21	-0.09	-1.21	2.88	8.48	7.93	16.91	8.19	15.06	19.88
EURO STOXX 600	EUR	388.53	0.01	-0.11	-0.47	-0.98	2.91	7.83	7.40	12.08	12.09	15.93	24.89
CAC 40 INDEX	EUR	5,281.93	0.15	0.24	-0.15	-1.35	4.83	9.01	8.50	18.14	16.84	15.55	19.53
DAX INDEX	EUR	12,794.00	0.15	0.22	1.31	0.96	6.15	11.62	11.32	24.60	28.82	14.06	20.53
FTSE 100 INDEX	GBP	7,439.29	-0.09	-0.78	-1.52	-1.07	0.88	4.77	3.68	16.84	8.90	14.99	32.15
SWISS MARKET INDEX	CHF	9,051.27	0.73	0.62	0.02	-0.48	4.52	9.55	9.72	12.41	4.33	18.03	25.28
NIKKEI 225	JPY	20,110.51	-0.14	0.95	2.45	2.65	5.49	3.63	5.33	23.98	30.99	17.58	19.52
HANG SENG INDEX	HKD	25,674.53	0.34	0.29	0.16	1.18	5.65	19.13	16.82	23.16	12.70	12.46	13.84
SHANGHAI SE COMPOSITE	CNY	3,147.45	-0.24	1.11	1.31	3.13	-2.79	1.53	1.75	9.19	55.99	13.90	16.89
S&P BSE SENSEX INDEX	INR	31,290.74	0.05	0.36	0.07	2.64	6.26	19.69	17.06	15.43	24.52	19.06	23.23
RUSSIAN RTS INDEX $	USD	978.45	0.85	-1.88	-7.37	-11.05	-13.22	-12.72	-15.33	3.67	-28.74	6.04	6.80
BRAZIL IBOVESPA INDEX	BRL	61,272.21	0.84	-1.05	-2.30	-2.22	-3.56	5.76	1.73	18.84	13.03	11.30	16.52
MSCI WORLD	USD	1,921.54	0.08	-0.09	0.51	0.78	4.15	9.23	9.73	13.58	10.04	17.40	21.54
MSCI WORLD HEDGED	USD	861.06	0.03	0.38	0.86	1.32	4.60	8.77	9.40	20.30	26.32	-	-
MSCI WORLD LOCAL	-	1,472.71	0.03	0.11	0.72	0.97	3.58	7.15	7.95	15.95	18.73	17.40	21.54
MSCI AC WORLD	USD	466.09	0.11	-0.02	0.49	0.74	4.16	10.32	10.49	14.32	8.64	16.74	20.61
MSCI EM	USD	1,008.81	0.33	0.57	0.35	0.43	4.22	19.87	16.99	20.75	-3.22	12.86	15.33
MSCI AC ASIA x JAPAN	USD	626.63	0.41	1.07	1.32	2.19	7.20	23.92	21.83	24.60	10.21	13.57	15.38
MSCI EM LATIN AMERICA	USD	2,484.86	0.19	-1.98	-1.87	-2.06	-4.11	9.70	6.16	12.07	-26.89	13.40	17.64
MSCI EM Eur, ME & Africa	USD	251.07	0.03	-0.73	-3.36	-6.24	-4.03	6.72	2.57	5.73	-25.53	10.86	12.65
EQUITY MARKET INDICES - BY SECTOR												P/E	P/E
MSCI ENERGY	USD	192.48	0.02	-3.17	-2.77	-6.09	-5.61	-12.44	-12.10	-6.56	-38.53	22.88	48.74
MSCI MATERIALS	USD	237.87	0.15	-0.31	0.21	-0.27	0.75	7.89	7.21	15.95	-6.02	15.81	20.39
MSCI INDUSTRIALS	USD	237.68	-0.10	-0.83	0.88	1.61	5.53	11.06	11.86	17.24	14.74	18.01	22.65
MSCI CONS DISCRETIONARY	USD	217.18	0.02	-0.20	-0.70	0.47	4.77	9.62	10.56	14.15	20.13	17.36	19.29
MSCI CONS STAPLES	USD	229.90	-0.54	-0.99	-1.67	-0.49	3.54	10.93	10.77	3.89	14.99	21.13	23.99
MSCI HEALTH CARE	USD	226.08	1.30	3.20	4.74	5.36	8.82	17.08	17.24	11.03	20.54	17.91	24.03
MSCI FINANCIALS	USD	112.32	-0.21	-1.05	1.96	0.71	2.05	5.04	5.78	20.89	7.07	13.22	15.90
MSCI INFO TECH	USD	192.89	0.16	1.60	-0.22	1.04	7.96	18.22	19.64	31.48	47.52	19.63	25.32
MSCI TELECOMS	USD	69.30	-0.01	-1.47	-2.45	-1.42	-1.63	-0.49	-0.33	-5.72	-4.34	14.70	19.21
MSCI UTILITY	USD	128.65	-0.38	-1.18	-0.41	1.14	5.78	12.08	11.91	5.39	3.94	16.89	21.15
MSCI WORLD REAL ESTATE	USD	203.62	-0.05	-1.16	0.96	1.50	3.68	8.28	7.12	0.99	7.05	25.15	20.15
HEDGE FUND INDICES													
HFRX GLOBAL HEDGE FUND	USD	1,234.68	0.00	0.06	0.25	0.43	1.19	2.47	2.59	6.19	-1.07		
HFRX EQUAL WEIGHTED	USD	1,244.92	-0.04	0.06	0.30	0.38	0.97	2.21	2.28	5.97	2.06		
HFRX GLOBAL EUR	EUR	1,099.18	-0.01	0.04	0.09	0.22	0.58	1.31	1.52	3.98	-4.85		

MARKET INDICES PERFORMANCE 22/06/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	0.96	1.01	-4.59	-1.54	5.08	19.34	44.76	45.78	67.11	-	
US 2 YEAR	USD	1.35	0.86	3.36	6.69	4.55	9.67	14.71	16.04	56.99	-	
US 10 YEAR	USD	2.16	1.37	1.00	-4.14	-11.85	-25.80	-37.59	-28.29	41.56	-	
US LIBOR 3M	USD	1.29	0.22	3.91	7.94	10.30	13.32	29.18	29.16	64.76	-	
EUR LIBOR 3M	EUR	-0.37	0.00	-0.14	-0.29	0.00	-1.72	-3.93	-3.64	-8.93	-	
GBP LIBOR 3M	GBP	0.29	-0.10	-0.39	-0.78	-1.83	-5.71	-7.61	-8.06	-30.18	-	
CHF LIBOR 3M	CHF	-0.73	0.00	0.00	-0.10	-0.14	-0.26	0.82	-0.14	3.54		
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	510.24	0.04	0.19	0.46	0.83	1.97	2.58	2.18	1.58	11.34	1.53
GLOBAL HY TR	USD	1,256.04	-0.01	-0.46	-0.36	-0.01	3.17	6.35	5.90	10.32	11.01	5.33
US GOVERNMENT TR	USD	2,169.39	0.02	0.15	0.46	0.97	1.93	3.04	2.49	-0.18	7.28	1.53
US CORPORATE TR	USD	2,845.14	0.01	0.22	0.83	1.42	3.30	5.11	4.34	4.12	12.50	3.12
US HIGH YIELD TR	USD	1,897.12	-0.04	-0.41	-0.19	0.04	2.90	4.84	4.59	11.91	13.61	5.66
EU GOVERNMENT TR	EUR	251.61	0.04	0.40	0.89	1.32	2.41	0.49	0.53	-0.08	11.42	0.44
EU CORPORATE TR	USD	266.20	0.03	0.15	0.32	0.86	2.01	2.39	2.22	4.19	12.30	0.81
EU HIGH YIELD TR	EUR	309.06	-0.07	0.02	0.43	0.67	2.68	4.48	4.34	8.77	15.04	3.26
BARCLAYS GLOBAL CONVERT.	USD	235.17	0.32	0.53	1.14	0.88	3.36	5.83	5.66	10.86	7.69	-
GLOBAL EM TR (HEDGED)	USD	373.92	0.00	-0.29	0.05	0.49	2.26	5.57	5.12	6.89	14.79	4.25
S&P/LSTA U.S. LEV LOAN	USD	98.42	-0.05	-0.27	-0.50	-0.47	-0.20	-0.06	-0.20	8.05	-0.46	4.76
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,053.66	-0.05	-2.56	-7.17	-10.88	-8.14	-13.68	-15.04	-14.56	-60.39	
GSCI ENERGY TR	USD	329.72	0.56	-3.62	-10.67	-16.02	-11.79	-22.52	-24.17	-20.98	-72.77	
GSCI INDUSTRIAL METALS TR	USD	1,177.11	0.44	2.06	0.13	-0.59	-3.61	3.25	4.87	17.61	-13.26	
GSCI PRECIOUS METALS TR	USD	1,512.18	0.35	-0.49	-2.34	-1.45	-1.02	9.25	7.38	-3.12	-9.11	
GSCI AGRICULTURE TR	USD	398.61	-1.53	-3.09	-2.31	-4.98	-6.65	-5.72	-7.52	-18.85	-38.20	
GENERIC 1ST 'CL' FUTURE	USD	42.78	0.09	-4.98	-11.98	-17.33	-12.37	-23.76	-24.70	-24.95	-65.93	
GOLD SPOT $/OZ	USD	1,253.27	0.23	-0.03	-1.23	0.17	0.64	10.52	8.77	-0.28	-4.87	
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.59	-0.23	0.21	0.46	0.02	-2.40	-5.48	-4.74	4.10	21.30	
Euro Spot	EUR	1.12	0.22	-0.20	-0.60	-0.06	3.64	6.89	6.27	-1.84	-17.85	
Japanese Yen Spot	JPY	111.33	-0.01	-0.41	-0.50	0.40	-0.36	5.38	5.05	-4.65	-8.45	
British Pound Spot	GBP	1.27	0.40	-0.39	-1.22	-1.76	1.69	3.67	3.18	-14.41	-25.22	
Swiss Franc Spot	CHF	0.97	0.14	0.30	-0.27	0.58	2.37	5.78	5.01	-1.28	-7.84	
Brazilian Real Spot	BRL	3.34	-0.19	-2.00	-3.45	-2.26	-7.61	-1.51	-2.60	1.06	-33.28	
China Renminbi Spot	CNY	6.83	-0.05	-0.41	-0.30	0.69	0.70	1.58	1.56	-3.77	-8.95	
Singapore Dollar Spot	SGD	1.39	0.22	-0.30	-0.28	0.25	0.89	4.34	4.30	-3.57	-9.98	
Russian Ruble Spot	RUB	59.99	0.42	-3.53	-5.23	-5.72	-4.00	2.75	3.01	6.56	-42.82	
Norwegian Krone Spot	NOK	8.49	0.24	-0.14	-0.37	-1.10	0.27	2.76	2.05	-3.79	-27.86	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	10.48	-2.51	-1.25	-1.54	-4.38	-21.88	-10.40	-26.99	-40.58	-6.65	
USD SWAP SPREAD SEMI 2YR	USD	19.08	-	-8.37	-15.01	-19.76	-47.24	-35.21	-24.09	45.76	25.39	
TED SPREAD		32.90	-	24.43	39.23	14.59	-15.62	-33.48	-34.27	-12.57	49.21	

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