Bedrock Newsletter Friday, February 13th 2015

Friday the 13th! A nasty omen for some, and then, a lucky date for others… US equity indices closed Thursday's trading close to their all-time highs, probably to rise through them in today's trading (as the futures indicate), European stock markets are on fire led by the German DAX which broke intra-day 11'000, oil pursuing its rebound trading now at $52.50 for a barrel of WTI. The currencies appear to have stabilized with the Euro even showing some strength on the combined backs of an apparent settlement around the Russia/Ukraine debacle, and then Greece showing some behavioural constraint amplified by some pleasant economic data on the Euro-zone Q4 GDP. Nice. Well, it is hard to comprehend our new-world- Apple's market value now exceeds the GDP of Switzerland; we have difficulties in computing present values when we apply negative discounting factors as our benchmark yields have fallen into below zero figures. What does this tug-of-war between deflationary pressures and inflationist central banks' aspirations do to perceived values of our future?
This week, Sweden issued for the first time a 4 year bond with negative yield. Denmark has cut its rates four times in 18 days to consecutive record lows. The Swiss sold 10Year bonds at a record low of 0.01% – and Apple sold negative yield CHF bonds on Tuesday – good for Apple, but for investors it is crazy! Or is it? Are we wiser than these investors? Somehow, with the Greek situation being negotiated, as is the war in Ukraine, the European stocks have gained over 9% year to date… Even the ECB, the nemesis of Greece has agreed to increase its holdings of Greek debt by 5 billion Euros above the 60Bn they already own. Well, investors in European equities clearly are looking at the results of the US quantitative easing and are inferring a similar outcome in Europe.

The "BIG THEMES" of recent have been the stellar rise of the US Dollar and the collapse of commodity prices, oil in particular. Are they fading into the dust-bin of historical chart wiggles? The Dollar has eased some, as oil has stabilized. Much damage has been inflicted in parts of the economies; some anticipated offsetting gains are yet to materialize- The much touted consumer spending of their energy costs savings are nowhere to be seen… The US Commerce Department said on Thursday that retail sales fell 0.8% in January. Excluding automobiles, gasoline, building materials and food services they edged up 0.1% last month after a 0.3% drop in December. Wall Street had expected core retail sales to increase 0.4% last month. Where is the effect from lower gas???
We are seeing a growing flow of analysis on oil prices- some calling this recent move a "dead-cat-bounce" whilst others are quick to point out certain Fibonacci cycles demonstrating that the bottom was reached on January 29th, further stating smooth sailing upwind to $70 for WTI. What we are observing though is an increased level of interest in oil stocks, depressed energy companies' debt and huge capital raisings by private equity firms for this pained sector. There are always conflicting views on everything- that is the nature of this unnatural animal called markets.
To the point, senior officials at the $25 billion hedge fund Elliott Management, for instance, recently argued that current stock prices around the world "cannot possibly reflect the best analysis of millions of investors" that long-term bond prices were "reductio ad absurdum and beyondum," and that owning the debt of developed countries today was "quite nutty." Yet, clearly, many well healed investors; some smart ones too, keep buying…
Other bits of information of interest came in-
Brazil's economy contracted 0.55% in December, after showing zero growth for November. Not good, but slightly better than had been expected.
Global gold demand slumped to its lowest level in five years in 2014, as bar and coin buying plunged and jewellery purchases cooled, according to the World Gold Council (WGC). Overall demand totalled 3,924 tonnes, down 4% year on year at its lowest level since 2009. This data may help understand the softness in the yellow metal's price?
Worried about equity valuations? FundStrat Global Advisors co-founder Tom Lee's stringently bullish view on stocks has proven prescient time and time again in recent years. Now, he says the gains for the market are just getting started. I'm "bullish, and I think it's an up year, in a horizon where I think we'll have several more years of gains," Lee said Friday on CNBC's "Options Action." The strategist, who has a year-end S&P 500 target of 2,325, says the already-long length of the bull market has caused considerable investor angst. But that doesn't mean the run is done.

Clearly, as many views as you have the time to read. If one were to consider money as a commodity, well, the fall in its cost (interest rates) has been absolutely in-line with most-all other commodities. What we need to do here is adjust our thinking to this newly-shaped environment. But then, we suggest we retain our belief in the classic valuation methodology from Finance 101- The World has NOT changed, reason still prevails. Bonds are expensive and equities are not. ☺
Albert Einstein had said "Not everything that counts can be counted and not everything that can be counted counts". Have a quiet weekend.

This Week's Highlights:

- EURUSD moved higher this week pushed by the silver lining in the horizons of both Ukraine and Greece. The pair moved from a low of 1.1290 to hit 1.1443 today. As the dust settles around Greece and the Russia story has subsided the EUR has steadied at 1.1380. USDCHF has moved between 0.92 and 0.9338 all week and seems to be settling where it opened in the beginning of the week at 0.9278. Cable continued to move higher this week reaching 1.5420 by this morning. USDJPY started the week at 119.13 and reached 120.48 by Wednesday before dropping back at 118.85 this morning. The Rouble recovered a little strength as oil rebounded on the accords reached with Ukraine, sending the USDRUB from 66.87 to 63.90 today (the sanctions against Russia are not abating, and we remain cautious on Rouble holdings).
- In the US, yields moved slightly higher for the week with the US 10Yr Treasury moving from 1.88% to 2.04%. Europe this week was under the bull sign for Equities and therefore all major European yields started their slow way up. The German 10 Year Bund moved from 0.32% to 0.355% as we write, Spanish 10 Year from 1.49% to 1.67% and is now is trading back at 1.550%, the UK 10 year GILT from 1.578% to 1.75% and Italian 10Yr from 1.6253% to 1.58%. Swiss 10 Year has moved from the negative territory of -0.08% to -0.036% while the 5 year yield remains at -0.43%
- Equities have broadly been positive this week and in some cases marking all-time highs. The major US and European indices show strong performance for the week. In the US, S&P500 is up 1.5% while Nasdaq is up 1.9% for the week and should open higher today. Eurostoxx50 up 1.5% for the week, while Italian equities are up more than 2%. In Asia, China finished the week flat and Japan + 2.34%. Russia is in focus again with the MICEX being +4.0% and the RTS Index +7.0%. (MICEX being in Roubles and the RTS is in USD).

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

12/02/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	
			PRICE CHANGE IN % (unless indicated)								
EQUITY MARKET INDICES - BY REGION											P/E
MSCI WORLD	USD	1,741.22	1.17	1.20	3.80	3.76	1.46	1.90	1.85	5.97	16.75
MSCI WORLD HEDGED	USD	727.36	0.92	1.09	3.74	4.40	4.32	8.98	3.12	14.45	-
MSCI WORLD LOCAL	-	1,314.15	0.89	1.03	3.65	4.32	4.05	8.23	3.01	12.40	-
MSCI AC WORLD	USD	424.69	1.16	1.00	3.50	3.48	1.07	0.63	1.81	5.60	16.06
MSCI EM	USD	971.19	1.04	-0.75	1.00	1.18	-2.17	-9.31	1.56	2.68	11.82
S&P 500 INDEX	USD	2,088.48	0.99	1.26	4.69	3.24	2.41	7.28	1.44	14.14	17.37
DOW JONES INDUS. AVG	USD	17,972.38	0.66	0.49	4.70	2.04	1.81	7.93	0.84	12.13	16.62
NASDAQ COMPOSITE INDEX	USD	4,857.61	1.18	1.94	4.80	4.21	3.79	9.55	2.57	14.55	18.64
RUSSELL 2000 INDEX	USD	1,216.27	1.23	0.63	4.37	3.02	3.48	6.52	0.96	5.97	18.46
EURO STOXX 50	EUR	3,417.61	1.29	1.38	2.79	9.93	12.70	12.72	9.49	11.20	14.88
EURO STOXX 600	EUR	374.83	0.80	0.83	2.55	9.17	12.07	14.05	9.88	13.55	15.87
CAC 40 INDEX	EUR	4,726.20	1.00	1.51	3.43	11.00	13.71	13.52	11.45	10.42	15.56
DAX INDEX	EUR	10,919.65	1.56	1.27	2.71	10.49	18.76	19.40	12.02	14.45	14.21
FTSE 100 INDEX	GBP	6,828.11	0.34	0.36	1.91	5.14	3.66	3.33	4.76	3.29	15.77
SWISS MARKET INDEX	CHF	8,611.03	0.39	0.63	3.06	-6.93	-3.49	3.02	-3.80	3.08	16.98
NIKKEI 225	JPY	17,979.72	1.85	2.34	1.35	4.83	2.99	17.75	2.65	23.25	18.74
HANG SENG INDEX	HKD	24,422.15	0.44	0.01	0.72	1.93	2.76	-0.83	4.56	11.36	11.51
SHANGHAI SE COMPOSITE	CNY	3,173.42	0.50	4.16	-0.20	-0.97	28.90	44.13	-0.95	52.68	12.36
S&P BSE SENSEX INDEX	INR	28,805.10	0.95	1.09	-0.52	5.85	3.90	12.01	5.57	43.76	18.79
RUSSIAN RTS INDEX $	USD	861.93	3.56	7.08	20.01	19.92	-12.57	-27.51	11.91	-33.04	5.96
BRAZIL IBOVESPA INDEX	BRL	49,532.72	2.68	0.61	5.60	3.10	-4.46	-10.88	-0.95	3.60	10.83
MSCI AC ASIA x JAPAN	USD	576.90	-0.02	-0.96	-0.14	1.24	0.83	-3.55	2.34	9.64	12.25
MSCI EM LATIN AMERICA	USD	2,595.46	3.24	-2.17	1.57	-1.63	-12.00	-24.31	-4.85	-11.38	12.89
MSCI EM Eur, ME & Africa	USD	282.11	2.60	-0.15	4.05	3.33	-5.90	-13.93	4.19	-8.24	11.19
EQUITY MARKET INDICES - BY SECTOR											P/E
MSCI ENERGY	USD	239.03	1.57	0.21	6.27	8.29	-6.95	-18.68	0.51	-9.77	22.83
MSCI MATERIALS	USD	232.67	1.92	1.55	5.12	6.38	2.08	-7.02	4.31	-3.87	16.84
MSCI INDUSTRIALS	USD	202.39	1.31	1.13	3.64	4.08	1.07	1.58	1.54	3.06	16.66
MSCI CONS DISCRETIONARY	USD	193.03	1.51	1.94	4.99	5.56	7.26	8.46	3.66	8.72	17.49
MSCI CONS STAPLES	USD	206.19	0.43	0.98	1.89	2.79	2.62	6.14	3.14	11.71	20.23
MSCI HEALTH CARE	USD	206.69	0.53	0.66	1.13	1.14	3.21	11.10	3.40	15.44	18.28
MSCI FINANCIALS	USD	102.08	1.27	0.71	4.72	2.79	-0.73	-0.35	-0.66	1.76	13.29
MSCI INFO TECH	USD	144.40	1.67	3.25	5.59	4.03	3.60	8.10	2.21	16.66	17.10
MSCI TELECOMS	USD	71.40	0.44	0.37	3.45	4.68	-0.06	1.65	4.45	3.27	16.64
MSCI UTILITY	USD	119.86	0.18	-0.99	-3.61	-1.08	-0.85	1.54	-2.60	6.04	15.85
MSCI WORLD REAL ESTATE	USD	203.96	0.89	0.09	0.37	1.31	4.86	5.47	4.89	15.93	25.87

MARKET INDICES PERFORMANCE

12/02/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	
			PRICE CHANGE IN % (unless indicated)								
HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,224.12	0.10	0.45	0.76	0.61	0.21	-0.64	0.47	-0.22	
HFRX EQUAL WEIGHTED	USD	1,196.03	0.11	0.29	0.53	0.50	0.09	-1.20	0.41	-0.53	
HFRX GLOBAL EUR	EUR	1,128.88	0.10	0.44	0.72	0.58	0.06	-0.93	0.38	-0.68	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.01	0.00	-0.01	0.01	-0.02	0.01	-0.02	-0.03	-0.01	
US 2 YEAR	USD	0.64	0.01	-0.01	0.19	0.10	0.12	0.22	-0.03	0.32	
US 10 YEAR	USD	1.99	0.01	0.04	0.35	0.09	-0.35	-0.42	-0.18	-0.74	
FIXED INCOME INDICES - BY TYPE OF ISSUER											Yield to Worst
GLOBAL AGG TR HEDGED	USD	480.34	0.09	-0.43	-0.84	0.15	2.44	3.78	1.01	7.30	1.52
US GOVERNMENT TR	USD	2,096.76	0.03	-0.84	-1.51	-0.39	1.92	2.81	0.95	4.84	1.52
US CORPORATE TR	USD	2,628.07	0.06	-0.74	-1.42	-0.03	2.60	2.99	1.57	7.38	2.98
US HIGH YIELD TR	USD	1,650.26	0.11	0.43	1.14	1.62	-0.28	-0.18	1.81	2.86	6.18
EU GOVERNMENT TR	EUR	244.02	0.18	-0.08	-0.06	1.54	4.23	6.22	2.06	12.57	0.63
EU CORPORATE TR	USD	248.44	0.11	0.28	0.27	0.91	1.90	3.90	1.16	8.13	0.89
EU HIGH YIELD TR	EUR	273.17	0.09	0.30	0.57	1.36	1.67	3.27	1.64	6.02	4.07
JACI GLOBAL	USD	251.85	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	-
GLOBAL EM TR (HEDGED)	USD	322.91	0.32	-0.13	0.23	1.07	-1.40	-0.72	0.80	5.15	5.19
S&P/LSTA U.S. LEV LOAN	USD	96.00	0.09	0.31	0.64	0.45	-1.27	-1.93	0.68	-2.56	4.91
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,151.57	2.87	1.64	5.39	6.41	-23.18	-33.85	-2.51	-35.14	
GSCI ENERGY TR	USD	626.69	4.36	2.91	8.91	14.34	-30.16	-43.26	-0.52	-44.46	
GSCI INDUSTRIAL METALS TR	USD	1,206.50	1.65	-1.02	0.97	-1.85	-11.61	-14.99	-4.63	-9.15	
GSCI PRECIOUS METALS TR	USD	1,511.97	0.10	-3.22	-4.34	-0.79	5.39	-8.08	3.51	-7.52	
GSCI AGRICULTURE TR	USD	516.12	0.22	0.13	3.04	-3.76	-4.94	-7.51	-4.68	-16.82	
GENERIC 1ST 'CL' FUTURE	USD	51.21	1.62	0.68	7.88	13.20	-30.77	-45.20	-2.46	-44.68	
GOLD SPOT $/OZ	USD	1,222.15	0.37	-0.59	-4.45	-0.33	5.52	-6.57	3.53	-5.85	
CURRENCIES											
DOLLAR INDEX SPOT	USD	94.09	-0.08	-0.72	-0.83	1.85	7.24	15.23	4.15	17.05	
Euro Spot	EUR	1.14	0.25	1.02	1.24	-2.91	-8.38	-14.46	-5.51	-16.45	
Japanese Yen Spot	JPY	119.11	0.19	0.20	-1.17	-0.80	-2.62	-13.85	0.76	-14.06	
British Pound Spot	GBP	1.54	0.03	0.95	2.18	1.50	-2.06	-7.79	-1.21	-7.63	
Brazilian Real Spot	BRL	2.82	1.56	-2.78	-4.99	-5.32	-9.05	-19.36	-5.89	-14.09	
China Renminbi Spot	CNY	6.25	0.08	0.07	0.16	-0.66	-1.83	-1.38	-0.56	-2.83	
Singapore Dollar Spot	SGD	1.36	0.03	-0.22	-0.13	-1.67	-4.73	-7.85	-2.25	-6.72	
Norwegian Krone Spot	NOK	7.64	0.58	0.47	1.77	2.15	-10.56	-18.90	-1.88	-19.62	

All data is compiled from Bloomberg

Disclaimer