

## Bedrock Newsletter Friday, February 27<sup>th</sup> 2015

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Another week of broken records! After Janet Yellen's dovish testimony to Congress on Tuesday, the DJIA at 18'214, the S&P 500 at 2'110.74, the DAX at 11'321 and so on... Even the NASDAQ 100 is getting close (now at 4'462) to its historic high of 4'816 on March 24th 2000. But we are a little weary of this one - The composition of the index today has little in common with that of the record high; only 31 of the 100 components of then are still in the index now.

As Federal Reserve Chair, Janet Yellen, testified before the Senate banking committee on Tuesday, bond prices surged and rates sank; with the 10-year Treasury yield falling below 2 percent. Traders clearly took her words to be more dovish (that is, more supportive of easy monetary policy) than anticipated. As a result of the testimony the federal funds futures have pushed expectations for the first rate hike further out in the year, so that the base case is now for an October rate hike, according to CME Group's FedWatch tool. (Never mind that no news conference is scheduled to follow the October statement, so the chance of a major policy change actually being enacted in October is small!) While Yellen's testimony held no great surprises, she did clarify in her prepared remarks that the Fed's insistence that it will stay "patient" in normalizing monetary policy means that the federal funds rate will not be raised "for at least the next couple of FOMC meetings." For us, this suggests that there is little risk of holding US\$ bonds at this time. The eventual rate rise by the Fed is not imminent and is likely to be gradual and small. The longer part of the yield curve may well remain intact, suggesting a flatter curve. The fact that the market is anticipating that the Federal Reserve will raise interest rates, yet the yields on the 10- and 30-year Treasury's are falling is an indication of how weak the overall global economy is. Former Fed Chairman Alan Greenspan said on Thursday, "In fact, effective demand is extraordinarily weak. The way I measure it, it's probably tantamount to what we saw in the later stages of the Great Depression,". Well, Alan is no longer the Chairman or at the Fed...

Many investors tend to worry when new highs are reached. Others consider this to be a buy signal. Carter Worth, chief market technician at Sterne Agee, has long maintained a bearish perspective on the market, even as stocks have soared. And as shares bounced back from their sudden lows in mid-October, Worth repeatedly called for the downdraft to worsen—a prediction that did not pan out. Worth now says that the September-to-October slide should serve as "a foreshadowing of what the next one's going to look like—which is worse, by all accounts. The further this goes without that kind of drawdown, the worse the inevitable drawdown will be," he said. "So we think we're not only going to visit 1,820, we're going to go below that."

On the other hand, investors don't seem to be overly optimistic about stocks, and that's a "very bullish" sign, long-time market bull Tom Lee told CNBC on Monday. Lee still thinks stocks will go higher in 2015. "I think double-digits sounds right from here into the end of the year." He sees the S&P at 2,325 by year end. In support of Tom Lee's views we note that after years of underperforming the market, hedge funds have gotten hot on stocks. Allocations in the \$3 trillion industry have turned to their most bullish positions ever, with a net-long exposure of 57% entering 2015, according to Goldman Sachs' analysis. There also has been indication that hedge funds are heading toward tech. Bank of America Merrill Lynch said fund managers have increased bullish positions on the Nasdaq index at the "strongest pace in more than a year."

Last Friday Moody's cut Russia's rating to Ba1 from Baa3, with a negative outlook. "Russia is expected to experience a deep recession in 2015 and a continued contraction in 2016," the ratings agency said in its statement. A week went by and the Ruble is trading at 61.1 to the Dollar, precisely unchanged week-on-week. Well, with WTI oil trading at \$49.35 (hardly different from last week), it seems reasonable. Perhaps if the Ukrainian accords hold, the Ruble may even gain some ground.

China's manufacturing sector expanded for the first time in four months in February, surprising investors who were expecting a contraction. The flash HSBC Purchasing Managers' Index (PMI) rose to 50.1 from January's 49.7 final reading, above the 50-mark which demarcates expansion from contraction and better than a Reuters' poll expecting a 49.5 print. China's economy grew 7.4% in 2014, its slowest pace in 24 years, hurt by a cooling property market, sluggish domestic demand and volatile exports.

U.S. consumer prices in January posted their biggest drop since 2008 as gasoline prices continued to tumble, which could give a cautious Federal Reserve ammunition to keep interest rates low a bit longer. The Labour Department said its Consumer Price Index fell 0.7% last month, the largest decline since December 2008, after slipping 0.3% in December. It was the third straight month of decline in the index. In the 12 months through January, the CPI fell 0.1%, the first decline since October 2009 and a sharp deceleration from November's 0.8% rise.

We close our news with the story from South Korea that they abolished their adultery laws... Condom makers' stocks are soaring... But remember it was Franz Kafka who said "Start with what is right rather than what is acceptable."

## This Week's Highlights:

- EURUSD was unchanged on the week until the US data was released yesterday, causing the US\$ to rally against most of its trading partners and sending the EUR to a low of 1.1188. USDCHF moved higher in line with the general Dollar strength, jumping from 0.94 to hit 0.9540 this morning. Cable is unchanged throughout the week at around 1.54 - briefly having touched 1.5550; however, the Pound hit another 7 year low against the EUR at 0.7260 today as the Central Banks' monetary policies continue to diverge. USDJPY was steady again, trading between 118.70 and 119.70 with the current level being 119.40. The Ruble recovered a little strength as oil stabilised and the cease-fire (although unsteady) seems to be helping the Ruble. The Ruble briefly touched 60.00 against the USD yesterday morning.
- US 10Yr Treasury yield moved lower until the US economic data yesterday, gradually dropping from 2.12% to hit 1.95% only to bounce to 2.05% as the US\$ turned positive again. The German 10 Yr Bund moved with a similar pattern to the US Treasury sliding from 0.38% to 0.28% only to slip back to 0.33% now, the Spanish 10Yr yield slid from 1.45% to 1.25% with the Italian 10Yr following a similar pattern, dropping from 1.52% to touch 1.30% by today. In the UK, the 10Yr Gilt moved to the beat of its own drum this week; unchanged on the week, the market briefly dropped from 1.82% to 1.67%; however, these moves were short lived and we are now back to 1.79%. Swiss 10Yr has moved from 0.11% to 0.01%, while the 5Yr yield remains negative at -0.38%.
- Equities have been positive this week and in some cases marking all-time highs (again). The major US and European indices show strong performance for the week. In the US, the S&P500 broke 2,119 and is up 0.6 %, while the NASDAQ is up 1.25% for the week. Eurostoxx50 is up 2.1% for the week, whilst the DAX is leading the European markets higher this week at +2.45%. In Asia, China was flat this week and Japan was up 2.54%.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

26/02/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								PIE
			1D	5D	MTD	1M	3M	6M	YTD	1Y	
EQUITY MARKET INDICES - BY REGION											
MSCI WORLD	USD	1,773.99	-0.15	0.33	5.75	4.01	1.68	1.33	3.76	6.33	17.17
MSCI WORLD HEDGED	USD	743.19	0.14	1.02	6.00	4.01	4.36	7.60	5.37	15.03	-
MSCI WORLD LOCAL	-	1,341.80	0.14	1.00	5.83	3.79	4.06	6.89	5.18	12.99	-
MSCI AC WORLD	USD	432.88	-0.12	0.40	5.50	3.62	1.30	0.15	3.78	5.98	16.47
MSCI EM	USD	993.82	0.10	0.95	3.35	0.40	-1.86	-9.14	3.92	3.18	12.19
S&P 500 INDEX	USD	2,110.74	-0.13	0.63	5.80	4.00	1.83	5.53	2.52	13.83	17.62
DOW JONES INDUS. AVG	USD	18,214.42	0.01	1.27	6.11	4.76	2.17	6.38	2.20	11.93	16.94
NASDAQ COMPOSITE INDEX	USD	4,987.89	0.42	1.28	7.61	6.54	4.19	9.15	5.32	15.49	19.16
RUSSELL 2000 INDEX	USD	1,239.11	0.34	0.91	6.33	3.72	4.07	5.66	2.86	4.31	18.88
<b>EURO STOXX 50</b>	EUR	3,574.94	0.94	2.49	6.67	6.00	10.17	11.91	<b>13.62</b>	14.04	15.52
<b>EURO STOXX 600</b>	EUR	390.69	1.03	2.43	6.44	5.96	12.43	13.79	<b>14.06</b>	15.86	16.54
<b>CAC 40 INDEX</b>	EUR	4,910.62	0.58	1.60	6.65	6.19	12.05	11.73	<b>14.93</b>	11.70	16.17
<b>DAX INDEX</b>	EUR	11,327.19	1.04	2.96	5.92	6.57	13.56	18.37	<b>15.52</b>	18.14	14.67
FTSE 100 INDEX	GBP	6,949.73	0.25	0.88	2.97	2.03	3.37	1.74	5.84	2.05	16.23
SWISS MARKET INDEX	CHF	9,049.49	0.80	1.68	7.92	7.70	-0.87	4.38	0.74	6.83	17.77
NIKKEI 225	JPY	18,785.79	1.08	2.54	6.36	5.79	8.98	21.01	7.72	25.97	19.63
HANG SENG INDEX	HKD	24,902.06	0.50	0.57	1.70	0.47	3.83	0.02	5.59	9.18	11.80
SHANGHAI SE COMPOSITE	CNY	3,298.36	2.15	3.32	3.11	-1.27	25.84	49.82	2.34	61.69	12.87
S&P BSE SENSEX INDEX	INR	28,746.65	-0.90	-0.49	-0.32	-1.63	2.29	9.52	5.78	38.60	19.05
<b>RUSSIAN RTS INDEX \$</b>	USD	911.98	3.18	-0.40	<b>22.45</b>	15.23	-10.29	-28.38	<b>14.19</b>	-28.40	6.05
<b>BRAZIL IBOVESPA INDEX</b>	BRL	51,760.54	-0.10	0.91	<b>10.35</b>	6.52	-5.41	-15.08	3.51	8.73	11.32
MSCI AC ASIA x JAPAN	USD	589.74	0.15	0.93	2.09	0.27	2.06	-2.49	4.61	9.34	12.63
MSCI EM LATIN AMERICA	USD	2,648.11	-0.07	0.35	3.63	-3.01	-14.16	-26.95	-2.92	-10.00	13.37
MSCI EM Eur, ME & Africa	USD	287.95	-0.16	0.38	6.21	3.57	-5.81	-13.66	6.34	-7.09	11.37
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	235.84	-1.60	-1.18	4.85	1.02	-7.21	-21.60	-0.83	-13.18	23.34
<b>MSCI MATERIALS</b>	USD	239.45	-0.37	0.43	<b>8.19</b>	7.43	3.06	-4.85	<b>7.35</b>	-2.31	17.44
MSCI INDUSTRIALS	USD	207.11	-0.39	-0.16	6.05	4.53	1.72	1.69	3.91	3.79	17.07
<b>MSCI CONS DISCRETIONARY</b>	USD	197.94	-0.23	0.50	<b>7.66</b>	6.36	6.82	8.57	<b>8.30</b>	9.46	18.02
MSCI CONS STAPLES	USD	209.03	0.32	1.11	3.29	1.78	3.00	5.78	4.56	11.54	20.71
MSCI HEALTH CARE	USD	213.84	0.19	1.04	4.63	2.74	4.63	10.59	6.98	16.26	18.95
MSCI FINANCIALS	USD	103.81	-0.20	0.16	6.49	4.00	-0.58	-1.41	1.02	3.16	13.60
<b>MSCI INFO TECH</b>	USD	147.85	0.55	0.43	<b>8.12</b>	7.54	3.31	7.97	4.65	17.97	17.52
MSCI TELECOMS	USD	71.96	0.24	0.81	4.26	2.95	-0.07	0.77	5.27	2.19	16.84
MSCI UTILITY	USD	119.18	-0.92	-0.21	-4.16	-5.24	-2.88	-1.39	-3.15	3.53	15.82
MSCI WORLD REAL ESTATE	USD	202.49	-0.61	-0.87	-0.35	-2.24	3.25	3.21	4.13	14.14	25.74

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HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,236.32	0.09	0.44	1.76	1.50	0.76	-0.79	1.47	-0.05	-
HFRX EQUAL WEIGHTED	USD	1,205.80	0.07	0.40	1.35	1.36	0.70	-1.10	1.23	-0.35	-
HFRX GLOBAL EUR	EUR	1,139.94	0.09	0.43	1.71	1.46	0.60	-1.10	1.37	-0.51	-
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.02	0.00	0.00	0.02	0.00	0.01	-0.01	-0.02	-0.02	-
US 2 YEAR	USD	0.64	-0.01	0.01	0.19	0.13	0.12	0.13	-0.03	0.32	-
US 10 YEAR	USD	2.02	-0.01	-0.10	0.37	0.19	-0.23	-0.34	-0.16	-0.62	-
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	481.51	-0.03	0.54	-0.60	-0.18	1.99	3.42	1.25	6.95	1.48
US GOVERNMENT TR	USD	2,095.42	-0.24	0.46	-1.57	-0.83	1.22	2.51	0.89	4.27	1.48
US CORPORATE TR	USD	2,637.59	-0.27	0.85	-1.06	-0.18	2.17	2.67	1.94	6.72	2.94
<b>US HIGH YIELD TR</b>	USD	1,669.15	0.21	0.77	<b>2.29</b>	2.53	1.30	-0.13	<b>2.97</b>	2.95	5.91
<b>EU GOVERNMENT TR</b>	EUR	245.95	0.41	0.99	0.73	0.84	4.34	5.74	<b>2.87</b>	12.67	0.52
EU CORPORATE TR	USD	249.38	0.06	0.35	0.65	0.92	2.15	3.59	1.55	7.93	0.83
<b>EU HIGH YIELD TR</b>	EUR	276.86	0.15	0.85	<b>1.93</b>	1.83	2.97	3.36	<b>3.01</b>	6.57	3.80
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	325.69	0.11	0.41	1.10	1.05	-0.66	-0.91	1.67	5.13	5.06
S&P/LSTA U.S. LEV LOAN	USD	96.45	0.08	0.13	1.12	1.04	-0.79	-1.83	1.16	-1.97	4.78
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,111.84	-1.60	-1.59	4.06	7.37	-22.16	-33.91	-3.74	-37.32	-
<b>GSCI ENERGY TR</b>	USD	617.41	-3.07	-2.02	<b>7.29</b>	14.03	-28.32	-43.20	-1.99	-46.20	-
<b>GSCI INDUSTRIAL METALS TR</b>	USD	1,202.51	1.15	0.89	0.64	-0.12	-11.63	-16.26	<b>-4.95</b>	-9.34	-
<b>GSCI PRECIOUS METALS TR</b>	USD	1,498.20	0.74	0.32	<b>-5.21</b>	-5.75	0.86	-7.05	2.57	-10.85	-
<b>GSCI AGRICULTURE TR</b>	USD	506.68	0.81	-2.15	1.15	-1.54	-7.49	-9.05	<b>-6.43</b>	-22.24	-
<b>GENERIC 1ST 'CL' FUTURE</b>	USD	48.17	2.43	-2.89	1.29	5.65	-34.08	-47.70	<b>-8.32</b>	-49.01	-
<b>GOLD SPOT \$/OZ</b>	USD	1,209.49	0.00	0.63	<b>-5.79</b>	-6.40	1.55	-5.70	2.08	-9.15	-
CURRENCIES											
<b>DOLLAR INDEX SPOT</b>	USD	95.29	-0.18	0.93	0.34	1.17	8.58	15.40	<b>5.38</b>	18.48	-
<b>Euro Spot</b>	EUR	1.12	0.14	-1.47	-0.68	-1.47	-10.05	-15.00	<b>-7.31</b>	-18.21	-
Japanese Yen Spot	JPY	119.41	0.13	-0.19	-1.48	-1.17	-1.30	-12.90	0.44	-14.36	-
British Pound Spot	GBP	1.54	0.20	0.25	2.51	1.59	-1.89	-6.87	-0.89	-7.49	-
<b>Brazilian Real Spot</b>	BRL	2.91	-1.27	-1.34	<b>-7.67</b>	-11.09	-13.92	-22.17	<b>-8.54</b>	-19.13	-
China Renminbi Spot	CNY	6.26	-0.17	-0.21	-0.30	-0.41	-2.08	-2.01	-1.01	-2.25	-
Singapore Dollar Spot	SGD	1.36	0.07	0.22	-0.22	-1.35	-4.27	-8.06	-2.34	-6.86	-
Norwegian Krone Spot	NOK	7.66	0.22	-1.51	1.14	1.17	-9.36	-19.13	-2.49	-20.97	-

All data is compiled from Bloomberg

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