

For technical reasons we are composing your Friday's News on Thursday. It is likely that some of today's thoughts and views will be stale by the time you read us. In order to reduce such asynchrony, we chose to concentrate on a timeless subject - The meaning of Risk!

For the purpose of this exposé, we chose to use uncertainty of outcome as the definition of risk. The greater the uncertainty the greater the risk; the broader the distribution of possible outcomes to an event, the higher the uncertainty of any particular outcome to occur and therefore the greater the risk we face. We also state that humans in general and investors in particular are risk-averse, i.e., we don't like risk and only agree to take-on risk in exchange for compensation. This said, we can explain how a perception of risk affects asset prices- As we worry about the future, we require higher expected returns to induce us to part with our money. As Risk Perception rises, prices drop to raise the asset's yield and as perception of risk abates, required yields drop causing prices to rise, all else held equal. To exemplify this idea, we ask - what is a riskier proposition - Jumping off the Empire State Building or jumping out of your second floor window? Well, the riskier act is clearly the latter, as the former has a certain outcome... Let's not confuse a subjectively "bad outcome" with a "risky" one...

Now we will bring this theoretical argument into today's reality; the headlines are Greek and we are all curious as to what might happen - Will Greece and the EU find a compromise that will keep them in the EU, in the Euro? Or perhaps they will not - Greece might default, might exit the Euro currency and could leave the EU. Then what? Will they join the CEE? Will they simply disintegrate as a political entity? We are facing a binary outcome; and then, each of these two base possibilities has its own broad set of sub-outcomes. Indeed, a very broad distribution of outcomes and therefore we perceive much risk. This state of being drives us to demand a discount on anything we buy.

What will happen with Greece? Like yourselves and most others, we don't know. But we do know one thing - there will be a conclusion to this saga. And we postulate that no matter which ending is to be set, once it is set, we will have certitude, i.e., no risk! If perception of risk goes down, prices will rise!

Well, there are 5 days (four from your reading) left for the IMF debt maturity... So in less than a week, we expect this risk to go away. Now what will the effects be? Well, like with earthquakes, there is an epicentre and effects which decline with distance... We therefore postulate that prices will rise (from whatever levels they will be at just before) in inverse proportion to their "distance" from Athens; The Greek stock market, then the European ones, Euro denominated bonds, then the Euro itself, followed by the US equities and bonds, etc., etc.

We now look at some information which should support the suggested upswing; U.S. home resales surged to a 5-1/2-year high in May as first-time buyers piled into the market, the latest indication that housing and overall economic activity were gathering steam in the second quarter. The National Association of Realtors said on Monday that existing home sales increased 5.1% to an annual rate of 5.35 million units; the highest level since November 2009. May's sturdy home sales report added to last week's data on building permits in portraying an upbeat picture of the housing market. It joined strong retail sales, consumer sentiment and employment data reports in suggesting a building up of momentum in the economy after output contracted at the start of the year.

Then the US Commerce Department said on Wednesday that gross domestic product fell at a 0.2% annual rate in the January-March quarter instead of the 0.7% pace of contraction it reported last month. With personal savings increasing at a robust \$720.2 billion pace, consumer spending could accelerate in the second quarter.

Well, then there are statistics - The S&P 500 is currently less than 1.3% from its all-time high of 2,134.72 set May 20, and according to Krinsky's work, in the last 86 years the index has made its calendar-year high only once in the month of June and twice in the month of May. "This suggests that even if there is weakness into the summer, a higher high should be made by year-end," said Krinsky, chief market technician at MKM Partners. "We're seeing some very good reading under the surface. We're seeing new all-time highs from the small caps, the micro caps and the mid-caps. And more importantly, we're seeing the highest reading of stocks at one-month highs that we've seen since March." The dollar is biding its time and should resume its climb once the euphoria over a possible Greek debt deal dies down and focus returns to higher U.S. interest rates. The dollar index peaked this year at just over 100 in March and was trading back at 94.16 on Monday. The dollar is still up about 20% against the euro since last summer, and the euro has been trading between \$1.10 and \$1.14 since early June after hitting a low of \$1.05 in March. It is reasonable to expect improvements in U.S. data to lift the dollar and that it will resume its uptrend.

Well, this is the last weekend in June and the last before the Greek Saga reaches a conclusion. And as you seek information, remember that getting information off the Internet is like taking a drink from a fire hydrant (Mitch Kapor).

This Week's Highlights:

- The Dollar turned marginally positive this week with the USD Index (DXY) moving from 94.00 to 95.00. The US\$ is now trading at about \$1.1200 against the EUR and at 0.9340 against the Swiss Franc. The Pound had a poor week now trading at 1.57. We maintain our belief in the fundamental strength of the US\$ and consider this pullback to be an opportunity to add Dollar exposures to portfolios. Again, this view 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 1223.80. Gold turned lower and we are now trading at 1,177. We note that Oil is unchanged, with WTI at \$60.30/Bbl and Brent at \$63.50/Bbl. The Russian Ruble has steadied and is trading at 54.30 per USD along with the Brazilian Real which is steady at 3.10 - 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 as the USD strengthened. The German 10Yr Bund has followed the news flows from Greece, with the yield moving higher on the expected Greek deal at the start of the week and the yields sliding as the news seems to talk about no imminent deal, the Bunds are trading at 0.85% at the moment. The Spanish 10Yr dropped significantly, sliding from 2.27% at the end of last week to remain at or around 2.10% for week so far. Italian 10Yr notes followed a similar trajectory, dropping from 2.28% and finally settling lower at 2.14%. In the UK, the yields moved higher from 2.01% to settle closer to 2.12%. Swiss 10Yr yields remained stable at 0.13%.
- In general the US equity markets are higher on the week. Both the Dow and the S&P500 closed Wednesday night respectively at -0.28% and flat for the week; and the NASDAQ being +0.11% - with the futures indicating a marginally higher open on Thursday across the three indices. Europe really has had a mixed week with the DAX +4.1%, CAC40 at +4.6%, IBEX +3.8% and the UK FTSE at -1.9%. With the Shanghai dropping heavily by 5.4% but the Nikkei was up 3.0%. The Greek stock exchange is currently up 12.7% for the week.

Bedrock Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

24/06/2015

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	2108.58	-0.73	0.39	0.06	-0.82	2.31	1.28	2.41	7.61	60.50	17.63
DOW JONES INDUS. AVG	USD	17986.07	-0.98	0.17	-0.25	-1.46	1.40	-0.36	0.80	6.51	43.70	16.02
NASDAQ COMPOSITE INDEX	USD	5122.414	-0.73	1.14	1.03	0.86	5.04	7.31	8.16	16.96	80.61	19.44
RUSSELL 2000 INDEX	USD	1283.917	-0.91	1.23	3.00	2.53	4.06	6.39	6.58	8.56	68.52	19.31
EURO STOXX 50	EUR	3810.95	-0.41	4.42	0.90	-1.43	-2.20	13.14	14.51	10.78	69.10	15.52
EURO STOXX 600	EUR	397.32	-0.38	3.08	-0.95	-2.58	-0.47	15.17	15.63	15.83	63.11	16.07
CAC 40 INDEX	EUR	5045.35	-0.24	4.62	0.35	-1.79	0.09	16.98	17.61	12.66	66.31	16.28
DAX INDEX	EUR	11471.26	-0.62	3.28	0.44	-2.97	-3.38	15.54	16.92	16.18	66.95	14.36
FTSE 100 INDEX	GBP	6844.8	0.15	1.85	-2.19	-2.84	-2.28	3.36	4.05	1.46	25.34	16.46
SWISS MARKET INDEX	CHF	9081.81	-0.61	1.81	-2.13	-3.34	-1.61	0.21	0.64	5.35	52.09	17.65
NIKKEI 225	JPY	20888.03	0.28	3.90	1.01	1.75	5.19	16.64	19.03	36.06	137.81	19.65
HANG SENG INDEX	HKD	27404.97	0.26	1.90	-0.81	-2.83	10.90	16.50	15.24	18.96	43.94	13.07
SHANGHAI SE COMPOSITE	CNY	4860.15	2.49	8.86	-1.82	-5.04	23.69	47.36	39.98	123.54	103.58	17.91
S&P BSE SENSEX INDEX	INR	27729.67	-0.27	2.70	0.07	0.74	-0.94	2.35	1.26	10.01	64.65	16.20
RUSSIAN RTS INDEX \$	USD	951.45	-1.33	-3.08	-1.78	-8.64	7.88	12.73	20.34	-31.20	-24.59	6.13
BRAZIL IBOVESPA INDEX	BRL	53842.54	0.13	1.12	2.05	-1.40	3.83	5.80	7.67	0.78	0.07	12.32
MSCI WORLD	USD	1785.7	-0.57	0.29	0.36	-1.00	1.66	3.45	4.45	2.74	50.28	17.25
MSCI WORLD HEDGED	USD	756.422	-0.50	1.47	-0.13	-0.90	0.87	6.13	7.10	11.45	67.88	-
MSCI WORLD LOCAL	-	1353.01	-0.50	1.45	-0.21	-1.01	0.23	5.06	6.05	9.54	58.38	-
MSCI AC WORLD	USD	435.41	-0.48	0.42	0.21	-1.33	1.67	3.54	4.38	1.92	45.02	16.59
MSCI EM	USD	993.31	0.28	1.61	-1.09	-4.06	1.76	4.43	3.87	-4.65	9.86	12.52
MSCI AC ASIA x JAPAN	USD	602.36	0.14	2.01	-1.91	-4.00	2.57	7.86	6.85	5.64	29.49	13.01
MSCI EM LATIN AMERICA	USD	2563.96	0.20	1.21	2.71	-2.02	2.79	-5.91	-6.00	-24.11	-23.88	14.65
MSCI EM Eur, ME & Africa	USD	278.94	0.44	1.47	0.81	-4.56	0.79	2.00	3.02	-10.94	-7.39	11.33
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	230.17	-0.09	0.53	-0.84	-3.23	0.31	-4.45	-3.21	-26.47	7.94	22.38
MSCI MATERIALS	USD	230.7	-0.88	-0.35	-0.85	-2.86	0.09	3.20	3.43	-8.12	13.25	17.66
MSCI INDUSTRIALS	USD	205.08	-0.74	0.00	-0.07	-1.95	0.15	1.66	2.89	-0.16	51.36	17.11
MSCI CONS DISCRETIONARY	USD	202.3	-0.72	0.66	1.31	-0.15	2.44	8.52	8.64	11.78	75.79	18.28
MSCI CONS STAPLES	USD	205.59	-0.35	0.02	0.18	-1.22	0.14	1.52	2.84	3.46	39.00	20.48
MSCI HEALTH CARE	USD	222.96	-0.77	0.32	1.04	0.27	2.99	11.07	11.54	18.24	92.06	19.19
MSCI FINANCIALS	USD	106.92	-0.53	0.75	1.62	0.05	2.46	3.20	4.05	2.78	59.01	13.94
MSCI INFO TECH	USD	147.4	-0.51	-0.22	-0.93	-1.47	2.72	2.43	4.33	12.87	59.96	17.58
MSCI TELECOMS	USD	72.37	-0.59	1.54	1.43	-0.06	2.83	4.07	5.87	0.44	31.25	16.07
MSCI UTILITY	USD	114.51	-0.60	-1.40	-3.42	-4.03	-2.22	-8.25	-8.95	-7.59	15.96	15.59
MSCI WORLD REAL ESTATE	USD	192.35	-0.45	-0.89	-2.34	-4.18	-5.61	-1.88	-1.06	1.18	26.40	24.62
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1252.11	0.33	0.65	0.21	0.03	0.57	3.10	2.77	0.33	11.64	-
HFRX EQUAL WEIGHTED	USD	1220.78	0.20	0.29	0.06	-0.03	0.56	2.73	2.49	0.11	10.01	-
HFRX GLOBAL EUR	EUR	1148.01	0.27	0.33	-0.17	-0.36	-0.05	2.54	2.09	-0.63	9.78	-

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0051	0.01	0.01	0.01	-0.01	-0.02	0.00	-0.03	-0.02	-	-
US 2 YEAR	USD	0.6841	0.00	0.05	0.08	0.07	0.08	-0.06	0.02	0.20	-	-
US 10 YEAR	USD	2.3853	0.02	0.05	0.26	0.18	0.46	0.12	0.21	-0.17	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	473.12	0.10	-0.05	-1.36	-0.87	-2.38	-0.11	-0.51	3.15	10.04	1.78
US GOVERNMENT TR	USD	2073.43	0.20	-0.23	-1.09	-0.40	-1.90	0.30	-0.17	2.39	2.64	1.78
US CORPORATE TR	USD	2562.58	0.29	-0.36	-1.88	-1.04	-3.44	-0.39	-0.96	1.07	10.20	3.36
US HIGH YIELD TR	USD	1673.13	-0.08	0.29	-0.83	-0.66	0.91	3.36	3.22	0.19	23.43	6.34
EU GOVERNMENT TR	EUR	236.4	-0.02	0.28	-2.27	-1.90	-4.51	-0.81	-1.13	4.60	20.82	0.95
EU CORPORATE TR	USD	242.26	0.01	-0.02	-1.86	-1.68	-2.44	-1.15	-1.35	2.22	18.14	1.41
EU HIGH YIELD TR	EUR	274.73	-0.06	0.86	-1.07	-1.06	-0.49	2.30	2.22	2.27	36.56	4.27
JACI GLOBAL	USD	251.853	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	25.72	-
GLOBAL EM TR (HEDGED)	USD	329.8153	0.12	0.66	-1.09	-1.19	0.71	3.04	2.96	1.09	15.50	4.89
S&P/LSTA U.S. LEV LOAN	USD	95.47067	0.01	0.02	-0.95	-1.05	-0.72	0.17	0.13	-3.44	2.73	4.96
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	3185.612	-0.83	-0.29	-1.37	-2.00	6.42	-4.54	-1.46	-38.41	-25.25	-
GSCI ENERGY TR	USD	651.145	-1.13	-0.83	-1.94	-2.01	13.02	-1.40	3.36	-46.05	-28.27	-
GSCI INDUSTRIAL METALS TR	USD	1147.452	-0.62	-0.14	-3.87	-6.48	-6.26	-9.47	-9.30	-16.00	-20.25	-
GSCI PRECIOUS METALS TR	USD	1446.885	-0.20	-0.36	-1.84	-3.15	-2.29	-0.22	-0.95	-13.36	-28.39	-
GSCI AGRICULTURE TR	USD	483.9247	0.08	2.68	4.23	1.23	-3.70	-12.79	-10.83	-23.87	-28.05	-
GENERIC 1ST 'CL' FUTURE	USD	80.27	0.03	-1.41	-1.18	-0.22	15.96	0.45	4.94	-43.09	-26.68	-
GOLD SPOT \$/OZ	USD	1175.47	0.08	-2.13	-1.19	-2.20	-1.59	0.13	-0.72	-10.83	-25.76	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.28401	-0.05	1.25	-1.74	-0.83	-1.81	5.84	5.48	18.69	15.42	-
Euro Spot	EUR	1.1205	-0.02	-1.37	1.98	2.05	2.12	-8.36	-7.40	-17.80	-10.40	-
Japanese Yen Spot	JPY	123.85	0.06	-0.65	0.31	-1.79	-3.46	-2.97	-3.22	-17.69	-35.64	-
British Pound Spot	GBP	1.5708	-0.02	-1.11	2.69	1.51	5.53	0.93	0.81	-7.54	0.83	-
Brazilian Real Spot	BRL	3.0984	-0.74	-1.35	2.59	-0.04	1.33	-12.99	-14.23	-28.19	-33.30	-
China Renminbi Spot	CNY	6.2072	-0.02	0.00	-0.17	-0.10	0.08	-0.12	-0.04	0.43	2.50	-
Singapore Dollar Spot	SGD	1.3434	0.03	-0.66	0.36	-0.05	2.08	-1.51	-1.30	-6.94	-4.68	-
Norwegian Krone Spot	NOK	7.852	0.16	-0.55	-0.86	-2.49	0.00	-5.16	-4.94	-21.79	-23.41	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	13.26	9.50	-8.55	-4.19	9.32	-14.12	-7.72	-30.94	14.41	-34.94	-
USD SWAP SPREAD SEMI 2YR	USD	21.94	2.83	-14.87	-6.00	-14.87	-3.22	21.95	-1.66	77.78	-4.00	-
TED SPREAD	USD	28.08	1.85	-1.72	-1.06	2.33	10.46	9.43	27.58	31.65	-27.12	-

All data is compiled from Bloomberg

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