

It is Friday and we are back for our weekly chore of sifting through the data and noise to uncover and identify information. We're now deep into earnings season and so far 72% of the S&P 500 stocks have "beaten" expectations. And yet, year-to-date the S&P has risen barely 2% and the DJIA is flat. The tech-heavy NASDAQ though is up about 8.50%, having (at last) clawed back its highs of 15 years ago. Amazingly, the Greek agreement, derided by all its parties, has been ratified by all governments concerned. Clearly the ridiculous and the impossible do happen!

The big surprise this week was all the positive news, though it may not seem so initially - The CBOE Volatility Index, commonly known as the market's fear gauge, has reached a record low for the year. The VIX dropped 29% over the week ending a week ago to 12.04 and now at 12.64, the lowest level since December 2014. The fear index, which measures implied volatility based on options and signals investor uncertainty, reached its peak in October 2008 at 89.53. This is welcome news for the stock market, as prices are inversely sensitive to perceived risk! Is this to continue? Well, we're only 2.5 years into this period of low volatility and historically, these periods tend to last five years. We can make the argument that there is another 2 or 2.5 years of a low volatility environment which could correspond with an ongoing bull market. And yet, the S&P 500 and Dow Jones Industrial Average have been bouncing around in a tight range for the better part of 2015. But according to top technician Ralph Acampora, if the market doesn't make new highs soon, it could lead to major problems down the road. For Acampora, who is unofficially called the Godfather of 'Technical Analysis', these failed rallies have brought about a lack of leadership. "While the Dow is going sideways and attempting to make new highs, transportation is rolling over. That's not a good sign". Despite his concerns, Acampora is sticking to his year-end target of 2,250 to 2,300 "I have to stress, we need new highs or I'll have a problem later on," he added.

After a strong rebound over the past week, stocks look primed to make fresh all-time highs. However, that's not necessarily an indication of bubbly inclinations. In fact, despite what may be the public's perception to the contrary, market valuations have actually fallen from recent peaks. *That means shares prices have gotten cheaper per dollar of expected earnings.* As of last Friday's close, the S&P 500's forward price-to-earnings ratio (a measure of valuation that divides the S&P 500's price by the earnings that analysts expect companies to report over the coming year) sat at 16.8, according to FactSet. That's substantially below the recent peak for forward P/E logged in the beginning of March, which was then 17.3 and a drop in this ratio suggests a decline in valuation as the prices rise!

Every time it looks like the economic field of vision is clearing, something seems to happen to blur it up again. As the Federal Reserve looks for a clear-cut sign to raise rates, last Friday's inflation report brought a little something to both sides of the debate: Signs of upward pressure in the headline numbers, but no persistent wage pressures in the underlying mix. The 0.3% rise in the consumer price index was in line with market expectations. In fact, real average hourly earnings actually fell 0.4% from May to June, according to the Bureau of Labour Statistics. Real average weekly earnings fell 0.3%. Bond guru Jeff Gundlach of DoubleLine Capital said this week that GDP growth was well below the levels that would merit a rate hike. "If you had just come from Mars and looked at that one chart you might have thought, 'I wonder if the Fed's going to ease?'. I can see why the Fed wants to get off zero ... I really don't think it's going to be able to." Perhaps Janet Yellen was just testing the markets' reactions when she suggested a rate hike was coming?

On Wednesday, Gold marked its 10th straight day of losses, the longest losing streak for the precious metal in almost 20 years. And some traders say the collapse isn't over yet. The commodity fell as low as \$1,080 on Wednesday, reaching new five-year lows. Gold is down 5% on the week and has lost 8% on the year. If gold were to finish the year at its current level, it would mark the first time it has posted three straight years of losses since 1996. Arguably, this move down is in-line with the strong US Dollar and the street's expectations for US\$ interest rates to rise soon.

Last year's theme was that the drop in oil prices and consequently in petrol would release disposable income for spending on everything else - Well, Americans are not spending much of the money they're saving at the pump. While consumer spending has picked up since Q1, results for the year so far have fallen short of expectations. Prices at the pump are still 30% lower than they were a year ago, according to AAA. This mystery turned into something more akin to the 'Hound of the Baskervilles,' where the central clue was the absence of a barking dog. As is now painfully obvious, the American consumer took their gas savings, bypassed the mall, and just went home.

The Chinese Band (the currency, not music!) is playing live... The sounds of silence it would seem, as the CNY/USD exchange rate is locked at 6.20 and therefore appreciating against just about all others. Well, as per the Big Mac Index, the Yuan is still cheap, as the Mac costs there \$2.74 vs. 4.79 in America, \$4.05 in the Euro zone, \$2.99 in Japan and \$6.82 in Switzerland (where one should eat cheese, not burgers)... We go into next week thinking of Bertrand Russell's thought that "The fact that an opinion has been widely held is no evidence whatever that it is not utterly absurd"...

This Week's Highlights:

- The Dollar had turned negative this week with the USD Index (DXY) moving from 98.00 to 97.20. The US\$ is now trading at about \$1.0930 against the EUR and at 0.9615 against the Swiss Franc. The Pound had a bad week now trading at 1.5470 having been as high as 1.5670. We maintain our belief in the fundamental strength of the US\$. 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 was steady versus the USD and is trading 124.00 having started the week at 124.27. Gold turned lower and we are now trading at 1,082. We note that Oil is lower, with WTI at \$48.65/Bbl and Brent at \$55.38/Bbl. The Russian Ruble has weakened and is trading at 58.19 per USD along with the Brazilian Real which is now at 3.28 - 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 lower throughout the week as the USD strengthened, seeing the yield move from 2.34% to hit 2.27%. The German 10Yr Bund has followed the news flows from Greece, but is now lower on the week at a shade above 0.73% - having been as high as 0.81% on Monday. The Spanish 10Yr yield was stable at a little above 1.95%. Italian 10Yr notes dropped from 2.01% on Monday to 1.89%. In the UK, the yields moved lower from 2.08% to 1.97% this morning. Swiss 10Yr yields were slightly negative this morning, moving down from 0.08% at the beginning of the week, and are now at about 0.00%.
- In general the US equity markets are lower on the week. The Dow and the S&P500 are now respectively at -2.14% and -1.05% for the week; and the NASDAQ being -0.32%. Europe followed the same pattern this week with the EuroStoxx50 -1.03%, DAX -1.81%, CAC40 at -0.79%, IBEX -0.76% and the UK FTSE at -1.90%. With the Shanghai bouncing by 2.87% but the Nikkei was down by -0.27%. The Greek stock exchange is currently still shut – we await its reopening after the cautious relaxation of capital controls.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

23/07/2015

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	2102.15	-0.56	-1.04	1.89	-0.30	-0.73	2.45	2.10	5.74	57.07	17.53
DOW JONES INDUS. AVG	USD	17731.92	-0.87	-2.14	0.84	-1.30	-1.93	0.34	-0.51	3.79	40.54	15.87
NASDAQ COMPOSITE INDEX	USD	5148.409	-0.48	-0.32	3.20	0.47	1.07	8.17	8.86	15.08	79.76	19.36
RUSSELL 2000 INDEX	USD	1244.971	-1.06	-2.19	-0.72	-3.03	-1.78	4.71	3.34	7.67	62.16	18.67
EURO STOXX 50	EUR	3834.84	-0.03	-1.13	5.88	0.50	-2.29	7.29	15.34	12.70	88.67	15.58
EURO STOXX 600	EUR	398.1	-0.53	-1.91	4.38	0.18	-2.56	7.45	18.18	15.57	58.82	16.74
CAC 40 INDEX	EUR	5086.74	0.08	-0.73	6.19	0.82	-2.21	9.61	19.05	15.33	65.44	16.40
DAX INDEX	EUR	11512.11	-0.07	-1.58	4.98	0.16	-2.72	7.89	17.17	17.31	79.79	14.39
FTSE 100 INDEX	GBP	6855.01	-0.15	-1.83	1.99	-2.83	-5.94	-2.66	1.29	-2.50	20.95	16.16
SWISS MARKET INDEX	CHF	9381.57	0.99	-0.66	8.86	3.32	0.88	14.98	4.46	8.64	51.96	18.43
NIKKEI 225	JPY	20883.95	0.44	-0.27	1.53	-1.55	2.62	17.32	17.73	34.41	142.04	19.37
HANG SENG INDEX	HKD	25398.85	0.46	-1.20	-4.35	-8.38	-10.52	1.04	6.37	4.01	32.83	12.11
SHANGHAI SE COMPOSITE	CNY	4123.923	2.44	2.87	-4.82	-13.20	-7.35	21.46	25.85	93.39	89.65	16.62
S&P BSE SENSEX INDEX	INR	28370.84	-0.45	-0.68	1.76	1.95	3.03	-3.44	2.80	7.61	67.10	16.89
RUSSIAN RTS INDEX \$	USD	894.47	-1.90	-4.46	-7.25	-8.38	-15.98	6.18	10.25	-31.18	-33.67	5.80
BRAZIL IBOVESPA INDEX	BRL	49806.63	-2.18	-6.15	-6.17	-7.50	-11.99	2.11	-0.40	-14.09	-5.38	11.41
MSCI WORLD	USD	1762.8	-0.21	-1.01	1.57	-1.28	-2.06	3.22	3.11	0.37	46.55	17.15
MSCI WORLD HEDGED	USD	751.885	-0.27	-1.04	2.43	-0.99	-0.92	5.64	6.57	9.70	65.52	-
MSCI WORLD LOCAL	-	1345.522	-0.28	-1.06	2.39	-1.05	-1.38	4.51	5.47	7.86	56.40	-
MSCI AC WORLD	USD	427.18	-0.27	-1.11	0.87	-1.89	-3.26	2.14	2.41	-1.32	40.66	16.44
MSCI EM	USD	923.56	-0.79	-1.92	-5.01	-7.02	-12.91	-8.79	-3.42	-14.55	1.55	11.95
MSCI AC ASIA x JAPAN	USD	563.37	-0.35	-1.07	-4.06	-6.47	-11.92	-4.05	-0.06	-5.54	20.19	12.46
MSCI EM LATIN AMERICA	USD	2325.87	-2.37	-6.90	-7.61	-9.29	-14.91	-14.54	-14.73	-34.70	-32.48	13.82
MSCI EM Eur, ME & Africa	USD	267.69	-0.51	-2.01	-3.38	-4.03	-9.22	-4.67	-1.14	-19.89	-12.06	11.01
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	210.06	-0.34	-2.51	-5.66	-8.74	-14.00	-8.89	-11.87	-32.16	-7.23	20.17
MSCI MATERIALS	USD	212.26	-0.93	-3.13	-4.55	-7.99	-9.53	-4.08	-4.84	-17.42	5.16	17.16
MSCI INDUSTRIALS	USD	198.59	-0.42	-1.63	-0.31	-3.16	-4.28	-0.03	-0.37	-3.18	44.76	16.89
MSCI CONS DISCRETIONARY	USD	201.71	-0.16	-0.32	2.10	-0.29	-0.33	8.97	8.32	10.57	76.00	18.11
MSCI CONS STAPLES	USD	209.56	-0.04	-0.30	4.88	1.93	0.61	1.84	4.82	5.08	37.43	20.85
MSCI HEALTH CARE	USD	228.91	0.21	-0.24	4.07	1.73	2.33	9.28	13.47	19.34	92.11	19.57
MSCI FINANCIALS	USD	108.38	-0.27	-0.41	2.48	-0.51	0.48	6.69	3.52	1.34	57.95	14.06
MSCI INFO TECH	USD	146.33	-0.12	-1.65	2.69	-0.73	-1.65	3.38	3.57	7.86	58.54	17.40
MSCI TELECOMS	USD	71.1	-0.08	-1.66	0.62	-1.75	-2.25	1.63	4.01	-2.28	28.29	16.47
MSCI UTILITY	USD	114.03	-0.72	-1.52	2.23	-0.42	-4.91	-8.46	-7.34	-7.24	16.63	15.54
MSCI WORLD REAL ESTATE	USD	192.18	-0.51	-0.92	2.44	-0.09	-5.62	-8.74	-1.17	-0.99	20.47	24.65
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1240.23	-0.07	0.04	0.51	-0.62	-1.04	2.01	1.79	-0.36	9.77	-
HFRX EQUAL WEIGHTED	USD	1214.58	-0.08	-0.02	0.44	-0.31	-0.47	2.25	1.97	-0.44	8.87	-
HFRX GLOBAL EUR	EUR	1140.17	-0.07	0.03	0.44	-0.68	-1.27	1.69	1.39	-1.00	8.25	-

MARKET INDICES PERFORMANCE

23/07/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Yield to Worst
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0305	0.00	0.02	0.03	0.03	0.02	0.02	0.02	-0.01	0.01	-
US 2 YEAR	USD	0.6945	0.00	0.03	0.05	0.01	0.19	0.21	0.03	0.20	-	-
US 10 YEAR	USD	2.2696	0.00	-0.08	-0.08	-0.10	0.36	0.47	0.10	-0.23	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	478.49	0.11	0.40	0.59	0.81	-1.65	-1.26	0.20	3.17	9.35	1.73
US GOVERNMENT TR	USD	2087.11	0.22	0.38	0.41	0.87	-1.04	-1.29	0.49	2.51	2.06	1.73
US CORPORATE TR	USD	2575.35	0.29	0.50	0.46	0.79	-2.92	-2.58	-0.47	0.83	7.72	3.39
US HIGH YIELD TR	USD	1648.99	-0.07	-1.11	-0.90	-1.62	-2.11	1.28	1.80	-0.85	19.41	6.82
EU GOVERNMENT TR	EUR	239.3	0.08	0.61	1.39	1.21	-3.56	-1.85	0.09	4.74	21.34	0.83
EU CORPORATE TR	USD	244.28	0.01	0.49	0.95	0.85	-2.02	-1.26	-0.53	2.53	16.06	1.32
EU HIGH YIELD TR	EUR	278.13	0.01	0.25	1.41	0.46	-0.57	1.57	2.74	3.46	35.03	4.31
BARCLAYS GLOBAL CONVERT.	USD	224.58	-0.05	-0.41	0.08	-1.67	-1.79	3.80	4.82	3.78	36.70	-
GLOBAL EM TR (HEDGED)	USD	329.2603	-0.09	-0.08	0.24	-0.04	-1.34	2.13	2.78	0.33	11.91	5.00
S&P/LSTA U.S. LEV LOAN	USD	94.52756	-0.36	-0.52	-0.56	-0.99	-2.24	-1.10	-0.86	-4.30	0.35	5.21
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2863.609	-1.10	-3.73	-11.24	-10.85	-11.00	-1.73	-11.42	-41.92	-40.38	-
GSCI ENERGY TR	USD	557.13	-1.40	-3.27	-14.12	-15.40	-14.81	1.70	-11.56	-51.44	-45.08	-
GSCI INDUSTRIAL METALS TR	USD	1070.804	-1.46	-4.82	-5.62	-7.25	-11.32	-9.35	-15.36	-24.75	-25.94	-
GSCI PRECIOUS METALS TR	USD	1347.221	0.18	-4.17	-6.61	-7.07	-8.46	-16.18	-7.77	-18.41	-33.81	-
GSCI AGRICULTURE TR	USD	491.6603	-0.05	-5.36	-8.28	1.68	0.27	-4.69	-9.20	-13.06	-43.66	-
GENERIC 1ST 'CL' FUTURE	USD	48.45	0.56	-5.20	-18.76	-19.83	-17.54	-2.93	-15.93	-53.17	-46.83	-
GOLD SPOT \$/OZ	USD	1090.6	-0.53	-4.38	-7.47	-7.71	-8.02	-16.17	-8.44	-16.15	-31.38	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.11501	0.34	-0.42	2.06	2.29	0.54	2.84	7.95	20.50	16.00	-
Euro Spot	EUR	1.0984	-0.37	1.04	-1.83	-2.34	0.64	-2.63	-9.55	-18.72	-9.27	-
Japanese Yen Spot	JPY	123.93	0.02	0.15	-1.14	-0.05	-3.97	-4.40	-3.33	-17.83	-36.91	-
British Pound Spot	GBP	1.5514	-0.23	-0.78	-1.49	-1.45	1.91	2.65	-0.64	-8.88	-0.18	-
Brazilian Real Spot	BRL	3.2857	-1.91	-3.93	-5.56	-6.40	-9.59	-21.47	-19.12	-32.45	-37.95	-
China Renminbi Spot	CNY	8.2096	0.00	0.00	-0.14	-0.04	-0.24	0.74	-0.07	-0.25	2.84	-
Singapore Dollar Spot	SGD	1.3688	-0.18	-0.26	-1.74	-2.03	-2.88	-1.94	-3.34	-9.49	-7.93	-
Norwegian Krone Spot	NOK	8.1786	-0.44	-0.51	-4.40	-4.42	-5.37	-5.00	-9.29	-24.50	-25.55	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	12.64	4.29	4.38	-30.66	-4.68	2.85	-24.13	-34.17	6.76	-38.25	-
USD SWAP SPREAD SEMI 2YR	USD	25	0.00	-3.62	-3.14	13.95	-8.54	-2.91	8.98	25.00	11.11	-
TED SPREAD	USD	26.46	0.99	-2.65	-4.85	-4.03	3.08	9.84	20.22	23.76	-28.42	-

All data is compiled from Bloomberg

Bedrock Newsletter

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