

Bedrock Friday October 23rd Newsletter

We are advancing towards winter and collecting more Q3 results - So far, of 146 S&P 500 releases, 73% beat on average by 10.6% and the "other" 27% missed on average by 11%. The results shown last night by the elephants of the internet Microsoft, Amazon and Google (sorry, "Alphabet") were powerful and comfortably ahead of expectations. All three popped up after hours by 7% for MSFT, 9% for AMZN and 9.3% for Google. As usual, we note yet again the poor quality of the analysts. Of the said 146 releases only one was as expected...

We did see a monster rally across the equity markets yesterday on the back of the ECB press conference in which the ECB said it is holding interest rates steady. Mario Draghi told the listeners that the "degree of policy accommodation will need to be re-examined in December" as inflation remains stubbornly low amid emerging market weakness. This was widely interpreted as a sign that the bank's trillion euro (\$1.1 trillion) quantitative easing (QE) program could either be expanded or extended beyond its original September 2016 end. Draghi said the ECB was open to a "whole menu" of policy instruments. The euro slumped to a three-week low against the dollar, falling around 1.3% to \$1.11. Analysts now believe a "perfect storm" could be brewing if the ECB eases further in December and the U.S. Federal Reserve chose that month to hike interest rates. These conditions would strengthen the dollar further against the euro, just as the single currency was weakened by the prospect of more ECB stimulus. It is an important negative development for the euro as the combination of potentially deeper negative rates and expanded QE should prove more effective at weakening the euro. The ECB appears very sensitive to recent euro strength which was clearly highlighted as a downside risk to the inflation outlook, and has actively increased their efforts to encourage a weaker euro. We maintain our long-term bullish outlook for the US Dollar. But be careful and don't go "all-in" on this view as this FX outlook favours improved growth in Europe and may drive investment flows into the zone, pushing up European equities and creating a counter demand for the currency. It could get volatile again, given the high level of shorts on the euro. We did hear Draghi saying that the ECB does not target the exchange rates, **absolutely not**... yeah... right!

Again, the key ingredient in assessment of the future is heavily weighted towards central bank activity. Clearly, these fellows are in the driver's seat... As we believe that these same drivers are set on a clear course of stimulus, we remain optimistic on the outlook for global equities. We were pleased to find unexpected support from the eternal bear, Marc Faber who said yesterday "I'm most gloomy about the prospects of the global economy, but it doesn't mean that markets will go down," Faber said thanks to "mad professors at central banks" who could implement another round of quantitative easing in the near future. In fact, he says that U.S. stock indices could make new highs, driven by select outperformers such as GE and General Motors. Coming from Dr. Doom, this is bullishness!

Get ready: This year could end with a bullish bang, as the S&P 500 climbs 15% in just over two months. So suggests Oppenheimer's chief market strategist John Stoltzfus, who is sticking with his 2,311 price target for 2015. We like it when the big guys finally re-join Bedrock's own projected 2'229 for year end. The strategist hearkens back to 2011, when the S&P enjoyed a rally of nearly 15% from its closing low in the beginning of October to New Year's. He sees this summer's market slide as an overreaction to bearish news in China, and argues that "the market is notorious for climbing walls of worry." As long as domestic economic indicators look decent, he remains bullish.

Optimism seems to have returned as mysteriously as it vanished. With no clear catalyst, riskier assets have enjoyed one of the fastest revivals since the collapse of Lehman in 2008. After a punishing summer, the main question for investors is whether this revival can last. With a few caveats, we believe it can. The MSCI All Country index, the broadest gauge of global equities, jumped 7% since sentiment suddenly turned on Sept. 29. The VIX measure of S&P volatility declined for 10 consecutive days, the most consistent fall since 2009 - only the third such stretch over the past decade. We see little danger that inflation will force central bankers to remove the punch bowl. Equity valuations are nowhere near bubble territory. *The MSCI World index is valued at less than 16 times predicted earnings versus an 18-year average of 17 times.* Overall, the drop in riskier assets reflected excessive pessimism for the global outlook. The rebound suggests that markets may be returning to a more realistic assessment of fundamentals. But we should still expect volatility and temporary setbacks.

One of the scary dragons over the horrid summer months was Chinese, but into Q4 it appears to be tame, no longer spewing its fire. The Chinese economy expanded by 6.9% in the July-September quarter, slowing from a 7% increase in the previous quarter. The numbers were still better than market expectations (again, those analysts...). We should not forget that the world's largest economy will be applauded if it realises a 2.5% growth for 2015...

Some storm clouds refuse to dissipate - Let it be Puerto Rico's impending collapse (An American Greece?), horrors in Syria and thousands of refugees overwhelming Europe. And to offset the "bads", we find smiles in the US Presidential electoral process. We suggest they vote for the one who promises least; He or she will be the least disappointing...

Market Weekly Highlights:

- The US Dollar has soared this week against the majors as Mario Draghi sent the EUR lower during the news conference after the ECB meeting. The Dollar Index (DXY) sprung to life, having been languishing at 94.50, peaking this morning at over 96.50 and is settling at the 96.25 level. The US\$ is now trading at about \$1.1130 against the EUR and at 0.9720 against the Swiss Franc. The Pound has slightly weakened against the USD and is at 1.5400. We maintain our belief in the fundamental strength of the US\$ in the longer term. 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 has dropped over the last three days and is trading at 120.40. After the initial weakness in the Gold it has rallied back to almost where it started the week at \$1,175. WTI slid throughout the week, finding a footing at \$45/Bbl. and is now at \$45.50/Bbl. With Brent trading at \$48.40/Bbl. The Russian Ruble has slipped a little this week as the price of oil has dropped sending the Ruble to 62.00 against the dollar, with the Brazilian Real steady at 3.90.
- The US 10Yr Treasury yield has moved higher throughout the week and is trading at 2.05%. We are now marginally lower than where we started the year after the rate rise has been postponed and the market has positioned for a rise later than previously expected. The German 10Yr Bund has also moved significantly lower during the week slipping from 0.58% to 0.48% this morning after the ECB's news conference confirmed that QE will continue "until it works" in Europe. The Spanish 10Yr yield has followed the move and is trading around 1.62% having started the week as high as 1.83%. Italian 10Yr yield moved with a similar pattern to the Spanish yield and is trading at 1.49% this morning. In the UK, the yield on the Gilts has drifted sideways and is at 1.83% as we write. The Swiss 10Yr yield moved from negative 0.20% to negative 0.34%.
- Equity Markets were generally all positive on the week as the earnings season continues to upwardly surprise and the ECB announced likely reviews of its QE program. The S&P500 closed last night at +0.95% for the week. The Dow Jones moved higher and closed last night at +1.59% for the week and with the futures pointing to a higher open. The DAX is currently trading at +6.0% for the week; the CAC40 remains positive at +4.0%, SMI +1.9%, the UK FTSE trading at +1.17% and the EuroStoxx 50 at +4.6%. The Shanghai composite closed the week on another positive note of +0.6% whilst the Hang Seng Index was up +1.15% for the same period. In Japan the Nikkei was up by 2.92% for the week.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

22/10/2015

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	2052.51	1.67	1.42	6.90	5.87	-2.36	-2.86	-0.31	5.21	45.25	17.03
DOW JONES INDUS. AVG	USD	17489.16	1.90	2.03	7.40	7.43	-1.37	-3.15	-1.87	4.86	33.48	15.90
NASDAQ COMPOSITE INDEX	USD	4920.05	1.65	1.03	6.49	3.52	-4.40	-2.69	3.89	10.49	64.52	18.18
RUSSELL 2000 INDEX	USD	1154.524	0.84	-0.71	4.89	1.27	-7.27	-9.20	-4.16	3.41	41.45	17.35
EURO STOXX 50	EUR	3353.11	2.47	3.35	8.82	9.55	-7.16	-8.75	7.24	10.84	36.17	15.00
EURO STOXX 600	EUR	369.99	2.07	2.41	6.93	7.18	-6.59	-8.67	8.56	13.29	38.55	16.10
CAC 40 INDEX	EUR	4802.18	2.28	3.05	8.78	9.33	-4.73	-6.42	13.42	16.56	42.27	15.68
DAX INDEX	EUR	10491.97	2.48	3.84	8.61	9.15	-8.86	-10.51	7.00	15.97	46.26	13.61
FTSE 100 INDEX	GBP	6376.28	0.58	0.54	5.79	6.30	-3.65	-9.09	-2.34	-0.11	10.60	15.95
SWISS MARKET INDEX	CHF	8788.92	2.17	0.84	3.24	4.04	-6.32	-5.88	-2.16	2.84	32.63	17.34
NIKKEI 225	JPY	18435.87	-0.84	2.92	8.27	4.18	-8.99	-6.75	7.88	24.35	108.84	17.87
HANG SENG INDEX	HKD	22845.37	-0.51	1.14	11.05	8.67	-8.86	-16.81	-1.93	-0.79	6.69	11.56
SHANGHAI SE COMPOSITE	CNY	3368.739	1.45	0.64	11.81	9.54	-17.23	-22.68	5.52	48.24	61.42	13.95
S&P BSE SENSEX INDEX	INR	27287.66	-0.06	1.81	5.14	7.20	-3.53	-1.40	0.00	2.66	46.32	17.62
RUSSIAN RTS INDEX \$	USD	860.75	0.46	-0.68	10.82	11.91	-1.05	-14.90	10.68	-15.52	-39.92	5.86
BRAZIL IBOVESPA INDEX	BRL	47772.14	-	1.30	6.02	5.36	-4.08	-14.21	-4.47	-5.80	-17.19	10.53
MSCI WORLD	USD	1689.33	1.00	0.34	6.79	5.80	-4.17	-5.75	-1.19	1.77	29.95	16.42
MSCI WORLD HEDGED	USD	721.875	1.33	1.42	6.60	5.56	-4.22	-4.71	2.34	9.01	47.39	-
MSCI WORLD LOCAL	-	1285.756	1.33	1.44	6.50	5.36	-4.71	-5.65	0.78	7.08	39.35	-
MSCI AC WORLD	USD	408.14	0.89	0.23	6.94	6.05	-4.46	-7.16	-2.15	0.19	24.13	15.82
MSCI EM	USD	858.17	-0.11	-0.82	8.35	8.38	-7.08	-18.57	-10.26	-12.59	-13.91	11.86
MSCI AC ASIA x JAPAN	USD	525.91	-0.41	-0.64	8.83	8.42	-6.65	-17.42	-6.71	-6.24	1.35	12.27
MSCI EM LATIN AMERICA	USD	2030.9	1.55	-0.19	7.20	8.57	-12.68	-24.26	-25.55	-31.69	-44.43	14.17
MSCI EM Eur, ME & Africa	USD	248.38	0.53	-1.65	7.98	7.16	-7.21	-15.06	-8.27	-16.71	-25.08	10.70
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	204.37	1.36	-1.16	12.96	12.04	-2.71	-16.69	-14.06	-21.86	-15.35	19.83
MSCI MATERIALS	USD	197.66	1.53	0.52	11.37	9.56	-8.88	-14.74	-11.38	-12.44	-12.10	17.14
MSCI INDUSTRIALS	USD	195.12	1.32	1.87	8.23	7.27	-1.75	-5.89	-2.11	1.36	32.42	16.57
MSCI CONS DISCRETIONARY	USD	196.56	0.69	0.52	6.60	5.31	-2.55	-1.81	5.56	13.71	57.79	17.58
MSCI CONS STAPLES	USD	210.95	1.23	1.28	7.04	8.14	0.66	1.58	5.52	10.28	33.31	21.21
MSCI HEALTH CARE	USD	199.81	-0.44	-2.87	1.45	-2.58	-11.90	-9.91	-0.04	3.80	56.82	17.06
MSCI FINANCIALS	USD	99.14	0.86	0.41	6.03	6.10	-6.81	-6.06	-3.52	-0.91	27.89	13.11
MSCI INFO TECH	USD	145.4	1.97	1.37	7.85	6.73	-0.64	-1.52	2.92	10.41	52.24	17.14
MSCI TELECOMS	USD	68.46	1.68	2.33	6.42	4.84	-3.71	-5.49	0.15	1.18	18.46	15.36
MSCI UTILITY	USD	117.57	0.67	0.75	6.00	8.69	3.10	-0.58	-4.46	-1.38	14.51	15.69
MSCI WORLD REAL ESTATE	USD	194.84	0.94	1.04	6.87	7.28	1.38	-3.99	0.20	3.05	15.82	24.35
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1187.09	-0.27	-0.11	0.49	-1.17	-4.35	-5.31	-2.57	-2.31	4.16	-
HFRX EQUAL WEIGHTED	USD	1187.95	-0.10	0.25	0.67	-0.45	-2.27	-2.67	-0.27	-0.50	6.16	-
HFRX GLOBAL EUR	EUR	1089.34	-0.27	-0.12	0.44	-1.24	-4.53	-5.69	-3.13	-2.99	2.69	-

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	-0.0051	-0.01	-0.01	0.02	-0.01	-0.04	-0.03	-0.04	-0.01	-	-
US 2 YEAR	USD	0.6086	0.01	0.00	-0.02	-0.09	-0.09	0.08	-0.06	0.22	-	-
US 10 YEAR	USD	2.0316	0.01	0.00	-0.01	-0.12	-0.24	0.07	-0.14	-0.24	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	482.66	0.18	0.20	0.57	0.58	1.41	-0.34	1.49	2.90	9.98	1.60
US GOVERNMENT TR	USD	2119.75	0.06	0.02	0.27	0.71	1.56	0.50	2.06	2.71	4.72	1.60
US CORPORATE TR	USD	2612.47	0.16	0.35	1.07	0.98	1.44	-1.52	0.97	1.38	7.09	3.31
US HIGH YIELD TR	USD	1621.53	-0.09	0.32	2.55	0.53	-1.55	-3.62	0.03	-2.04	12.58	7.52
EU GOVERNMENT TR	EUR	244.0003	0.57	0.53	1.00	1.12	1.97	-1.67	2.05	4.95	19.92	0.64
EU CORPORATE TR	USD	244.5	0.35	0.38	1.20	0.46	0.10	-1.92	-0.44	0.97	13.27	1.42
EU HIGH YIELD TR	EUR	273.42	0.07	0.57	2.17	0.76	-0.97	-1.47	1.73	3.05	23.27	4.79
BARCLAYS GLOBAL CONVERT.	USD	214.31	0.32	-0.28	2.19	0.41	-4.62	-6.21	-0.16	2.51	22.48	-
GLOBAL EM TR (HEDGED)	USD	328.7966	0.15	0.24	2.47	1.26	-0.23	-1.31	2.64	0.46	5.85	5.26
S&P/LSTA U.S. LEV LOAN	USD	90.77143	-0.05	0.05	-0.40	-1.39	-3.97	-6.10	-4.80	-6.11	-5.58	5.92
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2584.554	0.23	-1.81	-0.73	-1.54	-10.74	-18.07	-20.05	-37.96	-47.59	-
GSCI ENERGY TR	USD	478.802	0.48	-2.67	-2.37	-4.23	-15.27	-24.81	-24.00	-48.09	-54.90	-
GSCI INDUSTRIAL METALS TR	USD	1013.304	0.32	-3.01	-0.83	0.29	-6.75	-16.43	-19.90	-24.68	-33.49	-
GSCI PRECIOUS METALS TR	USD	1436.036	0.01	-1.83	5.04	4.06	6.79	-1.86	-1.69	-7.12	-36.11	-
GSCI AGRICULTURE TR	USD	465.641	-0.52	-0.97	-0.30	2.97	-5.34	-4.38	-14.00	-11.54	-42.86	-
GENERIC 1ST 'CL' FUTURE	USD	45.38	0.75	-4.75	-0.24	1.11	-8.38	-25.20	-23.03	-48.69	-49.55	-
GOLD SPOT \$/OZ	USD	1166.07	0.66	-0.30	5.27	3.85	7.63	-1.69	-0.93	-4.71	-31.26	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	96.37801	-0.07	1.87	-0.04	0.25	-0.83	-1.00	6.69	12.19	20.42	-
Euro Spot	EUR	1.1109	0.00	-2.11	-0.61	-0.69	1.14	2.63	-8.17	-12.15	-14.46	-
Japanese Yen Spot	JPY	120.69	0.25	-0.79	-0.42	-0.09	2.94	-0.67	-0.51	-10.07	-33.67	-
British Pound Spot	GBP	1.5394	0.05	-0.23	1.81	1.03	-0.72	2.29	-1.12	-3.92	-3.45	-
Swiss Franc Spot	CHF	0.9732	0.06	-1.94	0.07	0.73	-1.30	-1.84	2.23	-1.90	-4.12	-
Brazilian Real Spot	BRL	3.9064	0.87	-2.74	1.05	3.68	-17.50	-22.93	-31.97	-36.33	-48.18	-
China Renminbi Spot	CNY	6.3581	0.03	-0.04	0.00	0.43	-2.31	-2.49	-2.37	-3.72	-1.65	-
Singapore Dollar Spot	SGD	1.3944	0.55	-0.19	2.56	2.82	-1.30	-3.25	-4.42	-7.91	-11.66	-
Norwegian Krone Spot	NOK	8.3338	0.56	-2.13	2.76	-0.20	-1.31	-5.53	-10.08	-20.63	-30.88	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	14.45	-13.47	-9.97	-41.02	-34.70	14.32	15.79	-24.74	-12.58	-23.26	-
USD SWAP SPREAD SEMI 2YR		12.63	-2.38	3.61	5.66	29.11	-50.68	-53.14	-46.25	-52.23	14.70	-
TED SPREAD		31.99	1.11	-0.12	-7.36	-3.53	22.10	24.38	45.34	47.01	42.49	-

All data is compiled from Bloomberg

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