

# Bedrock Friday February 26<sup>th</sup> Newsletter

Oooooof... What a relief... Equity markets seem to have decided to rally. Amazingly, equities have gone into a synchronous dance with oil prices, almost a 100% correlation, moving together percentage point for percentage point. This calls for a Friday reality-check;

Stocks may have rebounded from their recent lows, but the option market still implies a big chance that stocks plummet anew before the year is out. After falling as low as 1'810 two weeks ago, the S&P 500 Index bounced significantly in the prior week, closing last Friday at 1'918 and moving further upwards this week to 1'951 at the close of Thursday. But even as stocks somewhat regained their footing, the market's fear certainly has not dissipated. According to options market data from multiple providers, the December quarterly options expiring at the end of the year imply a 50% chance that the S&P 500 will touch 1'600 at some point in 2016. That would be a drop of nearly 18% from current levels and a full-year decline of 23%.

But options are only technical derivatives, their predictive powers, be as they may, we take them with a grain of salt and look beyond them at fundamentals - Since corporate profits turned negative in mid-2015, Wall Street has pondered whether it's just a passing phase or a signal of something worse. History strongly suggests the latter. Recessions have followed consecutive quarters of earnings declines 81% of the time, according to an analysis from JPMorgan Chase strategists, who said they combed through 115 years of records for their findings. Citigroup this week warned of escalating risks for a global recession. Despite the mounting problems, JPMorgan still only assigns a one-third chance of recession this year, though the probability seems to be rising. The firm said its Qualitative Macro Index measuring business conditions shows "a cycle that remains in contraction (weak and decelerating) over the coming months." JPMorgan said in a note this week "at 6.6 years old the current cycle appears to be suffering from age-related degeneration." Well, at multiples of this number, we know what they mean... ☹

The risk of the global economy falling into a recession is rising as fundamentals remain poor, analysts at Citigroup said in a note Wednesday. "We are currently in a highly precarious environment for global growth and asset markets after two to three years of relative calm," Citigroup said, noting that global growth was "unusually weak" in the fourth quarter at around 2.0% on-year. To be sure, Citigroup is defining a global recession as growth below 2%, differing significantly from the usual requirement of gross domestic product (GDP) falling for two consecutive quarters. The bank also doesn't expect a global recession by any definition as its base case, forecasting global growth at 2.5% this year. Citi's estimates are significantly below the International Monetary Fund's forecast for 3.4% global growth this year, up from its 3.1% expectation for 2015. In support of Citi's views, Fed officials in recent days have been talking down recession risks.

What will happen to equities from here? Let's not forget 'The Irony of Stocks' - when prices of 'things' fall we rush to buy. Except with stocks, where we wait with our buying until prices rise...

For some perspective though, since the close of year 2000 the MSCI world index is up 27% to yesterday and the S&P 500 has risen 48%. In compound figures though, these returns shrink to 1.60% and 2.64% pa...

Low interest rates are here to stay for the time being, and may even fall further, according to one prominent investor. Scott Miner, the global chief investment officer of Guggenheim Partners, said on Monday he sees the 10-year Treasury note yield falling to 1%, and perhaps even lower before the end of 2016. Miner said: "As low as rates are today, I expect further declines in short-term and long-term rates, both in Europe and Japan, and that ultimately the Bank of Japan and the European Central Bank will take their respective overnight rates to as low as -100 basis points." We have a serious concern here; our economies are largely driven by leverage and this is affected by the "money multiplier" - whereby the banking system creates money in multiples based upon the then prevailing reserve requirements. We wonder if negative rates don't destroy the multiplier. Is the shortage of liquidity a direct, unwelcome result of negative rates?

What is really happening? Does it matter? As Albert Einstein said "Reality is an illusion"...

Oil prices seem to be driving the markets; we note that this week the first ship carrying LNG from the US (to Brazil) left the USA. Harbinger of a 'sea change' in the global energy equation?

We leave you with Thomas Aquinas' words, "If the highest aim of a captain were to preserve his ship, he would keep it in port forever." And we accentuate his profound observation with our own trivial words, "The safe way to double your money is to fold it over once and put it in your pocket."

## Market Weekly Highlights:

- The Dollar has strengthened again over the past week; with the USD Index (DXY) trading at 97.50 up from 96.60 at the beginning of the week. The US\$ is now trading at about \$1.1010 against the EUR and at 0.9910 against the Swiss Franc. The Pound is now at 1.40 having been as low as 1.3880 mid-week. We maintain our belief in the fundamental relative strength of the US\$ - this view is driven by the outlook for interest rates to hold or rise further in the US and hold or decline elsewhere. The Japanese Yen had risen again, sending the USD down from 113.00 to be trade briefly at 111.00, only to reverse course to 113.00 now. Gold is almost unchanged at \$1,232. We note that WTI Oil has moved significantly higher again to \$33.50, whilst Brent has moved up to \$35.70/Bbl.  
The Chinese Yuan moved lower this week seeing the USD rise from 6.52 to 6.54. The Russian Ruble strengthened in line with oil price moves and is now at 75.00 per USD. The Brazilian Real has rallied a little this week from 4.02 to 3.95. We do not see a significant rally in the Real and our outlook remains for continued weakness.
- The yield for the US 10Yr Treasury is relatively unchanged for the week at 1.73%. The German 10Yr Bund yield dropped further from 0.20% to 0.13%. While the Spanish 10Yr yield moved in the same direction, moving from 1.71% to hit 1.58%. The Italian 10Yr yield moved lower but at a slower pace from 1.56% to 1.49% during the week. In the UK, the Gilts' yields resisted the move lower, with yields steady at 1.39%. The Swiss 10Yr yield is yet lower again at -0.40%!
- This week was quite volatile but generally ended to the upside. The S&P500 was up 1.77% for the week, and looking to open up about 0.8% on the open today. The Dow Jones was up 1.86% and NASDAQ at +1.73% with all markets looking to open positive today. The DAX is trading +1.75% for the week, the CAC40 is now +2.9%, with the SMI at +0.6%, the UK FTSE trading +2.3% and EuroStoxx50 at +2.6%. In Asia, the Nikkei has closed the week at +1.4%, whilst the Shanghai composite and the Hang Seng Index closed down 3.25% and up 0.4% respectively.

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Highlighted items are interesting data points for the week

## MARKET INDICES PERFORMANCE

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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	1951.7	1.16	1.77	0.59	2.53	-6.57	0.58	-4.51	-7.53	30.38	15.84
DOW JONES INDUS. AVG	USD	16697.29	1.30	1.73	1.40	3.28	-6.27	2.53	-4.18	-8.33	20.12	15.18
NASDAQ COMPOSITE INDEX	USD	4582.205	0.88	2.11	-0.69	0.32	-10.44	-2.46	-8.49	-8.13	46.41	17.08
RUSSELL 2000 INDEX	USD	1031.576	0.94	2.67	-0.37	1.34	-13.89	-8.89	-9.18	-16.75	14.61	15.80
<b>EURO STOXX 50</b>	EUR	2877.42	2.03	2.46	<b>-3.39</b>	-3.00	-15.92	-7.22	-9.97	-17.71	14.44	13.04
<b>EURO STOXX 600</b>	EUR	326.54	2.10	1.72	<b>-3.00</b>	-2.13	-13.63	-5.18	-9.25	-15.02	16.65	14.81
CAC 40 INDEX	EUR	4248.45	2.24	2.65	-1.86	-0.50	-12.36	-3.69	-6.52	-11.73	19.68	13.99
DAX INDEX	EUR	9331.48	1.79	1.65	-2.61	-2.85	-15.71	-4.55	-11.17	-15.76	25.61	11.97
FTSE 100 INDEX	GBP	6012.81	2.59	2.29	0.04	2.96	-4.80	1.79	-2.50	-12.42	-2.94	15.78
<b>SWISS MARKET INDEX</b>	CHF	7794.05	2.09	0.41	<b>-5.10</b>	-5.03	-11.96	-7.64	-10.46	-12.75	5.98	16.09
<b>NIKKEI 225</b>	JPY	16140.34	1.52	1.39	<b>-7.59</b>	-3.12	-18.83	-11.91	<b>-14.95</b>	-13.83	42.02	15.83
HANG SENG INDEX	HKD	18888.75	-1.58	0.41	-1.62	2.67	-13.89	-8.14	-11.64	-22.24	-14.01	9.96
<b>SHANGHAI SE COMPOSITE</b>	CNY	2741.245	-6.41	-3.25	1.08	0.63	-23.88	-5.47	<b>-21.81</b>	-16.10	20.66	11.15
<b>S&amp;P BSE SENSEX INDEX</b>	INR	22976	-0.49	-2.34	<b>-6.90</b>	-5.44	-10.80	-9.96	-11.35	-19.45	21.77	16.52
<b>RUSSIAN RTS INDEX \$</b>	USD	745.53	1.06	2.01	<b>3.05</b>	12.44	-12.19	1.77	1.45	-15.79	-49.83	6.34
<b>BRAZIL IBOVESPA INDEX</b>	BRL	41887.9	-0.47	0.99	<b>3.67</b>	11.71	-11.15	-9.01	-3.37	-19.07	-26.45	9.68
MSCI WORLD	USD	1553.9	1.30	1.02	-0.53	1.18	-8.80	-3.87	-6.55	-12.41	12.11	15.15
MSCI WORLD HEDGED	USD	671.73	1.36	0.90	-1.36	1.52	-8.73	0.12	-6.84	-9.49	27.09	-
MSCI WORLD LOCAL	-	1188.714	1.30	0.84	-1.57	1.28	-9.18	-0.92	-6.97	-11.28	20.00	-
MSCI AC WORLD	USD	372.88	1.16	0.85	-0.57	1.43	-9.14	-4.13	-6.63	-13.86	6.63	14.64
MSCI EM	USD	735.35	-0.15	-0.76	-0.95	3.81	-12.26	-6.60	-7.40	-29.01	-29.48	11.04
MSCI AC ASIA x JAPAN	USD	453.95	-0.69	-1.33	-1.67	1.94	-11.93	-4.65	-9.20	-23.03	-17.01	11.32
MSCI EM LATIN AMERICA	USD	1786.99	0.92	0.95	2.46	10.26	-11.76	-9.91	-2.34	-32.52	-52.58	12.85
MSCI EM Eur, ME & Africa	USD	202.52	1.18	0.02	0.61	8.88	-13.09	-13.20	-3.66	-29.67	-41.15	9.97
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	169.96	0.80	-0.04	-1.81	3.26	-14.49	-6.32	-4.70	-27.93	-30.38	23.03
<b>MSCI MATERIALS</b>	USD	174.42	1.28	0.29	<b>5.15</b>	6.50	-10.12	-7.44	-5.55	-27.16	-24.93	17.07
MSCI INDUSTRIALS	USD	184.83	1.22	1.19	2.48	4.61	-6.63	-0.06	-3.64	-10.76	13.43	15.51
MSCI CONS DISCRETIONARY	USD	179.66	1.03	1.48	-0.80	0.59	-10.09	-3.39	-7.21	-9.24	29.91	15.14
MSCI CONS STAPLES	USD	208.76	1.12	0.88	0.31	3.33	-0.04	6.98	0.17	-0.13	21.93	20.87
MSCI HEALTH CARE	USD	193.23	1.49	1.50	-0.19	-1.97	-7.73	-7.58	-8.08	-9.64	41.41	15.63
<b>MSCI FINANCIALS</b>	USD	84.08	1.62	0.39	<b>-3.81</b>	-1.89	-15.34	-12.68	<b>-13.34</b>	-19.01	-1.59	11.32
MSCI INFO TECH	USD	136.62	1.27	1.61	-0.89	0.97	-8.71	1.41	-6.67	-7.60	38.91	15.92
MSCI TELECOMS	USD	68.87	1.62	1.12	1.40	3.95	0.79	1.76	1.38	-4.29	20.13	15.27
MSCI UTILITY	USD	114.58	1.25	1.23	1.15	4.38	3.43	3.46	2.61	-3.86	13.33	15.00
MSCI WORLD REAL ESTATE	USD	181.27	1.29	1.49	0.20	1.52	-4.72	0.43	-4.51	-10.48	1.71	22.83
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1132.18	0.07	0.29	-0.83	-0.83	-4.72	-5.01	-3.57	-8.34	-3.58	-
HFRX EQUAL WEIGHTED	USD	1140.9	0.03	0.21	-0.88	-0.77	-3.59	-3.66	-2.72	-5.31	-0.40	-
HFRX GLOBAL EUR	EUR	1034.98	0.06	0.27	-0.88	-0.89	-5.00	-5.63	-3.75	-9.13	-5.16	-

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.3205	0.00	0.03	0.01	0.01	0.15	0.27	0.16	0.31	-	-
US 2 YEAR	USD	0.7421	0.02	0.00	-0.03	-0.10	-0.19	0.07	-0.31	0.10	-	-
US 10 YEAR	USD	1.7364	0.02	-0.01	-0.18	-0.26	-0.50	-0.44	-0.53	-0.29	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	491.95	0.16	0.49	0.93	1.56	2.21	2.96	2.40	2.14	11.31	1.45
<b>US GOVERNMENT TR</b>	USD	2163.97	0.24	0.30	<b>1.20</b>	1.58	3.18	3.05	<b>3.30</b>	3.27	6.72	1.45
US CORPORATE TR	USD	2600.64	0.41	0.61	0.85	1.10	0.51	1.60	1.20	-1.40	6.47	3.53
US HIGH YIELD TR	USD	1512.65	0.57	0.84	-0.72	0.05	-4.61	-6.10	-2.32	-9.38	1.11	9.40
EU GOVERNMENT TR	EUR	248.5757	0.04	0.41	0.56	1.22	1.41	3.87	2.42	1.07	20.11	0.46
EU CORPORATE TR	USD	247.34	0.09	0.34	0.26	1.02	0.26	1.73	0.93	-0.76	12.09	1.34
<b>EU HIGH YIELD TR</b>	EUR	265.27	0.12	0.31	<b>-1.07</b>	-0.46	-4.13	-2.39	-2.28	-4.04	13.84	5.88
<b>BARCLAYS GLOBAL CONVERT.</b>	USD	201.75	0.33	0.41	<b>-1.25</b>	-0.42	-6.95	-5.43	<b>-5.21</b>	-9.33	10.60	-
GLOBAL EM TR (HEDGED)	USD	327.6284	0.12	0.48	1.04	2.12	-0.56	1.37	1.03	0.70	4.84	5.58
S&P/LSTA U.S. LEV LOAN	USD	86.15977	0.09	0.09	-1.13	-1.12	-3.42	-6.81	-1.77	-10.67	-11.58	7.04
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	1997.456	0.96	0.52	-2.96	3.05	-17.77	-19.44	-7.98	-36.84	-59.70	-
<b>GSCI ENERGY TR</b>	USD	313.303	1.94	0.69	-6.30	4.58	-30.35	-30.53	<b>-14.93</b>	-50.81	-71.81	-
GSCI INDUSTRIAL METALS TR	USD	954.538	-0.87	1.25	1.57	5.14	3.34	-5.55	-0.03	-19.71	-37.93	-
<b>GSCI PRECIOUS METALS TR</b>	USD	1508.373	-0.11	0.74	<b>10.53</b>	11.49	14.91	8.23	16.13	1.42	-26.58	-
GSCI AGRICULTURE TR	USD	433.2085	0.00	-0.94	-2.81	-3.58	-5.59	-4.80	-3.75	-13.80	-39.28	-
GENERIC 1ST 'CL' FUTURE	USD	33.07	2.03	6.94	-5.04	1.14	-29.44	-26.91	-17.20	-43.80	-66.58	-
<b>GOLD SPOT \$/OZ</b>	USD	1233.03	0.00	0.55	<b>10.28</b>	10.11	15.01	9.58	<b>16.17</b>	1.95	-23.59	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.287	0.17	0.88	-2.16	-1.65	-2.35	2.47	-1.20	2.27	19.03	-
Euro Spot	EUR	1.1018	0.01	-1.00	1.74	1.37	3.85	-2.61	1.45	-1.60	-15.63	-
<b>Japanese Yen Spot</b>	JPY	113	-0.04	-0.37	<b>7.16</b>	4.75	8.42	6.08	<b>6.34</b>	5.63	-18.64	-
<b>British Pound Spot</b>	GBP	1.3962	0.23	-2.86	-1.76	-2.48	-7.34	-9.50	<b>-5.04</b>	-9.17	-7.48	-
<b>Swiss Franc Spot</b>	CHF	0.9904	-0.12	-0.12	<b>3.16</b>	2.54	3.24	-3.71	1.06	-3.92	-6.02	-
Brazilian Real Spot	BRL	3.9565	0.03	1.85	1.08	3.38	-5.33	-8.58	0.11	-27.48	-	-
China Renminbi Spot	CNY	6.5335	-0.08	-0.25	0.57	0.67	-2.28	-1.98	-0.69	-4.28	-4.73	-
Singapore Dollar Spot	SGD	1.4019	0.06	0.31	1.66	1.83	0.52	0.39	1.25	-3.06	-11.57	-
Norwegian Krone Spot	NOK	8.6292	-0.16	-0.99	0.42	0.69	0.23	-3.05	2.32	-11.39	-34.02	-
VOLATILITY / LIQUIDITY INDICES												
<b>CBOE SPX VOLATILITY INDX</b>	USD	<b>19.11</b>	-7.77	-11.69	-5.40	-15.07	25.81	-36.97	4.94	37.38	13.28	-
USD SWAP SPREAD SEMI 2YR		5.03	-	-23.90	-27.89	-28.11	-10.86	-65.49	-60.61	-80.92	-68.42	-
TED SPREAD		31.51	-	-3.99	<b>4.23</b>	-6.33	34.77	14.08	-29.98	28.25	85.35	-

All data is compiled from Bloomberg

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