

# Bedrock Friday September 23<sup>rd</sup> Newsletter

Another week has gone by and this one was clearly under the sign of Central Bankers. Many market participants had been trembling ahead of the Bank of Japan and the Federal Open Market Committee meetings. Will they or won't they? And if they do, what will it be? But looking in our Friday's rear-view mirror we see that the fearful "sign" under which we live is no different to any other of the classic twelve "signs" of the Zodiac- Many look at them, they say much of nothing and life goes on as if they hadn't said anything. Clearly, the modern Zodiac has thirteen signs...

Well, the BOJ told us it keeps its deposit rate at negative 0.1%, setting a target of zero-rate on its ten year bonds (JGB) and gave us many words on policy modifications. Wow. The Yen bounced around somewhat and is now at 100.9 for a Dollar. A 1% rally, if you care to call it that. And the Nikkei gained about 1.60% since this talk (still some 200pts down for September!)

We were now primed to hear Janet Yellen... Amazingly, the FOMC decided to keep interest rates unchanged! Much as everyone (or nearly everyone) expected. This meeting has really been about setting the stage for a December hike and what happens after that. The fact that three voters dissented is interesting, and it is pretty clear that the Fed plan on hiking in December this year as things stand. Another three months of worries as to will they or wont they... Why do today what you can defer to later? In reaction to the Janet's words, the US equity markets caught the wind in their sails- The DJIA is up by 1.45% since the close the night before the speech, and the NASDAQ index has had two consecutive all-time-highs at the close. The 10 year Treasury is now at 1.61% slightly down from 1.69% before the announcement. The US Dollar index [DXY] is down almost 0.6% since the "news" as investors in the Green Back were disappointed in not getting their expected increased "carry". At least for the next three months...

Bill Gross became emotional after the announcement- "I'm choked with emotion and hardly able to speak," the portfolio manager at Janus Capital Management said. He believes the contradiction between what Fed officials have said leading up to the meeting and the outcome of the gathering is leaving investors "very confused." The Federal Reserve now sees rates at 0.6% by the end of 2016, instead of the 0.9% it forecast in June. The U.S. central bank is now looking for the federal funds rate to rise to 1.1% in 2017, as opposed to the 1.6% estimate in June.

A number of gloomy indicators might be pointing to a downturn in the U.S., but Deutsche Bank has detailed the case for optimism, suggesting looking back at the year 1986 might offer some reasons to be confident. The German bank states that weak data on corporate profit margins, the Federal Reserve's labour market condition index, lacklustre growth in capital expenditure and rising death rates all point to rising risks of a U.S. recession. The bank has a 30 percent U.S. recession probability over the coming 12 months, but highlights that the economy might not be all that bad. "The counter-argument is that the deterioration in these four indicators might be due to temporary factors ... namely, U.S. dollar strength and the drop in the oil price." a team at the German lender, led by Sebastian Raedler, said in a new note Tuesday. "There is, in fact, a precedent: in 1986, all four signals were in place, yet the U.S. avoided a recession." We add that the US deficit will be reduced by \$14Billion from the new fines imposed on this same bank for its mortgage wrongdoings... (Deutsche Bank stock is down 13.80% for September).

Some interesting thoughts can be extracted from the usually guarded Bank for International Settlements ("BIS") quarterly review published this week; Stock prices are buoyant despite weak earnings, while comparisons between bond yields and economic growth rates across the world's major economies suggest government bond markets are extremely overvalued. Defining overvaluation for bonds is an inexact science, but over the past 65 years 10-year U.S., Japanese, German and UK yields have broadly tracked nominal growth rates in these countries. Bond yields have been well below growth rates in all four for some time, as per the BIS. We wonder if we should we read this observation back-to-front? Are bond yields telling us that growth rates will be lower into the future?

Well, if you were wondering about equity-market valuations do consider this event- Allergan [AGN] announced this week that it is buying for \$1.7 billion a listed company Tobira Therapeutics [TBRA]. A banality perhaps, until you see that the market-cap of TBRA was \$89 million the day before... Was the market undervaluing this biotech? This isn't a small mispricing... makes one wonder if anyone really knows how to value a business? Clearly, using market prices for "price discovery" may be naïve...

Well, at least the issue of an appropriate "discounting factor" has been set for another few months now that the interest rates have been set for a little longer. But don't take a vacation quite yet- believe it or not, Q3 earnings' season is about to be upon us in days, the US Presidential debate will clearly astonish and likely amuse us on Monday night... But in truth, it isn't a funny situation at all as it is likely to affect us all, substantially. And here is the proof- Hillary Clinton once said "If I want to knock a story off the front page, I just change my hairstyle".

## Market Weekly Highlights:

- The dollar lost ground versus almost all of its peers as the Federal Reserve scaled back its plans for interest-rate increases in 2017. The USD Index (DXY) trading at round 95.43 or -0.70% WTD, bringing the YTD performance to -3.24%. The dollar is now trading at about \$1.1209 against the EUR and at 0.9695 against the Swiss Franc. The GBP is currently trading at 1.3042 against the USD, up 0.31% for the week. The Yen gained 1.48% over the week and is trading at 100.80 at the time we write. The Russian Ruble moved higher by 2.2% against the USD this week, at 63.81. The Brazilian Real is up for the week to trade at around 3.22. Gold benefitted from the gold weaknesses and gained 1.88% this week to 1'334.95. Oil prices rallied above the \$45 level after better than expected U.S. inventories. WTI crude is trading at \$45.98, a five day rise of 6.86%, and the Brent is trading at \$47.41/Bbl.
- Big swings in the Bond markets as well, with most of the benchmark yield down for the week. The US 10 year yield moved lower by 7.4Bp to stabilize at the 1.62% mark. The yield on 10-year JGBs moved 1Bp lower to currently offer negative 0.03%. The German Bund fell back into negative yield territories after a -8.6Bp move since last Friday and is currently offering -0.09%. The Swiss 10 year bond yield continues to trade deeply into negative territories at -0.48%. The Italian 10Yr and the Spanish 10Yr yields plunged by 14 and 14.7 Bp to offer 1.20% and 0.93% respectively. The largest move comes from the 10Yr Uk Gilt yield which collapsed by 18.4Bp after the BoE damped prospect of further stimulus.
- Loose monetary policies in the U.S., Europe and Asia have helped drive gains in stocks, bonds and commodities this year and the latest signals from central bankers suggest the era of cheap money has further to run. All three major US indices are up this week, with the DOW gaining 1.48%, the S&P500 +1.78 and the NASDAQ +1.81%. Europe also benefitted from the central banks accommodative tone, as well as from the rally in oil prices which helped main indices to rise with the Eurostoxx 50 up 2.62% for the week, the CAC +3.12% and the DAX +2.33%. Futures are however pointing south for today's session. In Asia, the Shanghai Composite is also up for the week, gaining +1.17% while the Hang Seng closed up 1.82% and the Nikkei +0.84%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE												22/09/2016
INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
<b>EQUITY MARKET INDICES - BY REGION</b>												
S&P 500 INDEX	USD	2,177.18	0.65	1.39	0.29	-0.44	3.02	6.90	6.52	12.30	27.93	17.95
DOW JONES INDUS. AVG	USD	18,392.46	0.54	0.99	-0.05	-0.83	2.12	5.08	5.55	12.98	19.42	17.28
NASDAQ COMPOSITE INDEX	USD	5,339.52	0.84	1.71	2.42	1.51	8.75	11.97	6.63	12.35	41.81	19.65
RUSSELL 2000 INDEX	USD	1,263.44	1.48	2.97	1.90	1.19	7.78	17.45	11.23	10.82	17.84	18.25
EURO STOXX 50	EUR	3,051.69	2.33	3.43	0.43	1.41	-0.06	-0.21	-7.08	-1.43	4.46	14.70
EURO STOXX 600	EUR	347.86	1.58	2.34	0.64	0.62	-0.18	1.66	-5.49	-0.36	10.59	16.19
CAC 40 INDEX	EUR	4,509.82	2.27	3.46	0.99	1.37	0.36	1.32	-3.34	1.11	7.43	14.79
DAX INDEX	EUR	10,674.18	2.28	3.74	0.64	0.64	3.93	6.36	-0.77	10.90	23.45	13.75
FTSE 100 INDEX	GBP	6,911.40	1.13	2.64	1.56	0.28	8.67	11.11	10.34	14.18	5.04	17.50
SWISS MARKET INDEX	CHF	8,307.63	0.99	1.42	0.54	0.54	2.78	4.46	-6.49	-2.39	2.35	17.98
NIKKEI 225	JPY	16,807.62	1.91	0.84	-0.79	0.94	4.28	-1.73	-11.98	-7.28	13.64	16.36
HANG SENG INDEX	HKD	23,759.80	0.38	1.46	3.05	2.95	13.46	14.85	8.04	11.14	1.31	12.66
SHANGHAI SE COMPOSITE	CNY	3,042.31	0.54	1.03	-1.67	-1.81	4.91	0.80	-14.28	-2.63	36.60	13.93
S&P BSE SENSEX INDEX	INR	28,773.13	0.93	0.52	1.04	2.71	6.47	13.46	10.08	11.33	44.46	18.09
RUSSIAN RTS INDEX \$	USD	1,002.13	2.36	3.05	4.26	1.90	5.27	14.48	30.86	26.68	-31.74	7.09
BRAZIL IBOVESPA INDEX	BRL	58,994.17	1.03	1.87	1.89	1.68	14.42	18.72	36.09	30.11	8.04	14.57
MSCI WORLD	USD	1,740.55	1.10	2.61	1.22	0.12	2.88	6.70	4.68	9.01	11.73	17.13
MSCI WORLD HEDGED	USD	755.14	0.80	1.93	0.85	0.85	5.50	6.94	4.95	10.42	25.46	-
MSCI WORLD LOCAL	-	1,316.19	0.79	2.21	0.74	0.39	3.63	6.08	3.01	8.00	18.75	-
MSCI AC WORLD	USD	422.53	1.17	2.76	1.42	0.28	3.64	7.28	5.80	9.79	9.34	16.65
MSCI EM	USD	920.92	1.69	4.01	3.05	1.59	10.23	12.07	15.96	16.31	-9.39	13.56
MSCI AC ASIA x JAPAN	USD	559.84	1.12	3.14	3.06	2.72	11.32	11.56	11.98	15.42	2.35	13.98
MSCI EM LATIN AMERICA	USD	2,428.73	2.58	4.20	1.13	-0.88	9.54	15.93	32.73	29.83	-29.28	16.30
MSCI EM Eur, ME & Africa	USD	247.32	2.95	4.88	5.06	-1.45	4.15	8.51	17.65	6.70	-26.71	11.66
<b>EQUITY MARKET INDICES - BY SECTOR</b>												
MSCI ENERGY	USD	200.05	1.22	2.23	0.04	-2.30	-2.88	8.69	12.17	9.68	-23.36	30.52
MSCI MATERIALS	USD	215.76	1.69	4.09	1.59	-0.88	5.17	13.58	16.84	19.59	-7.46	19.37
MSCI INDUSTRIALS	USD	209.66	1.16	3.00	0.84	-0.32	3.42	6.98	9.31	15.27	11.85	17.44
MSCI CONS DISCRETIONARY	USD	194.81	1.07	2.60	0.78	-0.78	2.40	3.55	0.61	4.37	15.54	16.64
MSCI CONS STAPLES	USD	222.54	1.40	2.44	0.70	-0.85	0.56	4.10	6.79	14.08	21.14	21.66
MSCI HEALTH CARE	USD	208.59	0.92	2.01	1.87	-0.94	2.44	7.78	-0.77	1.70	31.07	16.96
MSCI FINANCIALS	USD	94.94	0.97	3.02	0.59	1.74	2.18	5.12	-2.14	1.61	-1.33	12.35
MSCI INFO TECH	USD	161.59	0.70	1.79	2.68	2.26	10.15	11.77	10.39	18.62	44.83	18.79
MSCI TELECOMS	USD	72.14	1.44	2.91	0.87	-0.96	-1.85	1.14	6.20	10.47	9.95	14.66
MSCI UTILITY	USD	122.75	1.26	3.44	3.47	1.48	0.56	3.88	9.92	13.48	12.20	17.05
MSCI WORLD REAL ESTATE	USD	205.52	1.61	3.36	0.12	-1.05	1.93	5.99	8.27	13.17	14.08	23.76
<b>HEDGE FUND INDICES</b>												
HFRX GLOBAL HEDGE FUND	USD	1,184.73	0.15	0.31	0.13	-0.13	1.90	3.17	0.91	-1.37	-1.30	-
HFRX EQUAL WEIGHTED	USD	1,199.24	0.13	0.27	0.13	0.04	2.09	4.07	2.26	0.50	1.79	-
HFRX GLOBAL EUR	EUR	1,072.23	0.14	0.29	0.00	-0.28	1.43	2.29	-0.28	-2.79	-3.67	-
MARKET INDICES PERFORMANCE												22/09/2016
INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Yield to Worst
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
<b>FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)</b>												
US 3 MONTH	USD	0.17	0.00	-11.16	-16.24	-13.19	-11.67	-13.27	0.47	16.23	-	-
US 2 YEAR	USD	0.77	0.21	1.03	-3.29	3.06	-0.64	-7.96	-27.53	7.31	-	-
US 10 YEAR	USD	1.62	-0.16	-7.59	3.67	7.09	-12.91	-26.19	-65.27	-53.30	-	-
<b>FIXED INCOME INDICES - BY TYPE OF ISSUER</b>												
GLOBAL AGG TR HEDGED	USD	510.36	0.33	0.51	-0.20	-0.34	1.61	3.12	6.24	6.42	16.17	1.17
US GOVERNMENT TR	USD	2,194.54	0.21	0.40	-0.30	-0.41	0.98	2.13	4.76	4.26	10.49	1.17
US CORPORATE TR	USD	2,799.93	0.36	0.78	-0.47	-0.51	2.46	5.35	8.96	8.23	17.98	2.86
US HIGH YIELD TR	USD	1,774.31	0.51	0.75	0.20	0.36	4.66	10.57	14.58	10.00	15.74	6.27
EU GOVERNMENT TR	EUR	257.27	0.64	0.86	0.09	-0.17	2.16	3.12	6.00	6.61	22.67	0.15
EU CORPORATE TR	USD	262.15	0.38	0.32	0.02	0.02	2.60	4.34	6.97	7.84	17.15	0.65
EU HIGH YIELD TR	EUR	290.86	0.35	0.36	-0.47	-0.09	2.37	5.08	7.15	7.30	18.99	3.99
BARCLAYS GLOBAL CONVERT.	USD	221.06	0.57	0.80	0.67	0.32	4.20	5.17	3.86	3.57	9.79	-
GLOBAL EM TR (HEDGED)	USD	364.90	0.87	1.19	0.30	0.22	4.31	8.43	12.52	12.68	20.67	4.12
S&P/LSTA U.S. LEV/LOAN	USD	92.21	0.09	0.01	-0.28	-0.11	1.23	3.39	5.13	0.17	-5.84	5.19
<b>COMMODITY INDICES - BY TYPE OF ISSUER</b>												
GSCI INDEX TOTAL RETURN	USD	2,250.46	1.12	2.70	2.54	-2.01	-6.37	1.90	3.68	-14.27	-54.01	-
GSCI ENERGY TR	USD	385.67	1.65	2.84	2.28	-2.53	-7.58	5.12	4.72	-22.86	-65.90	-
GSCI INDUSTRIAL METALS TR	USD	1,041.86	2.24	2.95	3.06	0.77	4.09	4.43	9.12	3.11	-23.26	-
GSCI PRECIOUS METALS TR	USD	1,661.92	1.08	2.45	3.13	0.78	6.47	8.84	27.95	20.43	-1.91	-
GSCI AGRICULTURE TR	USD	450.11	-0.39	3.38	6.16	-0.71	-8.37	-1.46	0.00	-0.47	-30.07	-
GENERIC 1ST 'CL' FUTURE	USD	46.32	-1.27	4.79	0.93	-6.12	-11.87	2.12	-3.42	-21.30	-61.09	-
GOLD SPOT \$/OZ	USD	1,337.08	-0.15	1.90	2.00	-0.18	6.23	9.43	25.78	18.12	0.93	-
<b>CURRENCIES</b>												
DOLLAR INDEX SPOT	USD	95.45	0.05	-0.64	-0.55	1.01	2.10	-0.58	-3.18	-0.60	18.70	-
Euro Spot	EUR	1.12	-0.05	0.42	0.39	-0.91	-1.61	0.19	3.13	0.14	-16.98	-
Japanese Yen Spot	JPY	100.76	-0.28	1.24	2.37	-0.79	5.07	11.22	18.98	19.04	-2.17	-
British Pound Spot	GBP	1.31	-0.48	0.10	-0.94	-1.39	-12.52	-7.81	-11.68	-14.63	-18.87	-
Swiss Franc Spot	CHF	0.97	-0.21	1.00	1.36	-0.76	-1.31	0.46	3.23	0.93	-6.16	-
Brazilian Real Spot	BRL	3.22	-0.43	2.55	0.19	-0.62	4.88	11.17	22.98	25.76	-31.36	-
China Renminbi Spot	CNY	6.66	-0.08	0.07	0.14	-0.43	-1.34	-2.45	-2.64	-4.29	-8.23	-
Singapore Dollar Spot	SGD	1.36	-0.22	0.65	0.24	-0.57	-1.59	0.55	4.36	4.91	-8.04	-
Norwegian Krone Spot	NOK	8.13	0.04	2.22	2.43	1.03	0.19	4.29	8.76	1.72	-27.25	-
<b>VOLATILITY / LIQUIDITY INDICES</b>												
CBOE SPX VOLATILITY INDX	USD	12.02	-9.62	-20.49	-8.94	-1.29	-29.16	-18.21	-32.89	-44.78	-14.61	-
USD SWAP SPREAD SEMI 2YR	USD	25.27	-	2.20	4.84	-0.12	92.62	143.85	115.32	167.85	70.53	-
TED SPREAD	-	-	-	20.40	33.95	26.15	83.18	106.81	53.18	107.87	187.81	-

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