

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

We are all back, "Waiting for Jackson Hole"... Unlike Godot, Janet will arrive and speak shortly after we complete and send our letter. Whilst we, together with most, do not expect any earth-shattering revelations to emanate from the said Hole the risk that the Fed will make a surprising statement does exist. The VIX, the classic measure of risk-perception has risen somewhat into this Friday.

Q2 earnings' reports are in for just about the entire S&P 500 and we find that 54% beat expectations on top-line (sales) and 77% beat on bottom-line (profits). For those who had felt that the market had risen too much and too fast we say that these results affirm yet again that the market is usually right.

Amazingly, despite an increasing regulatory burden and amid lacklustre share performance, the banking industry logged record profits for the period, topping the second quarter of 2015, according to figures from S&P Global Market Intelligence. Profits for the three-month period totalled \$43.6 billion, compared to the \$43.01 billion in Q2 of 2015, a 1.4% beat. On a sequential basis, the April-to-June period topped the previous quarter by \$4.56 billion, an 11.7% rise. American banks spent the second quarter crying all the way to the, well, bank. As a broad category, S&P 500 financials have been the worst-performing sector with a return of just 0.43% heading into Thursday trading. The KBW NASDAQ Bank index specifically has lost nearly 4% for 2016, though it is up 8.25% in the third quarter.

Well, in our letter of December 23<sup>rd</sup> 2015 we predicted a 2016 close for the S&P 500 at 2'127. Whilst we may yet be proven right, yesterday's S&P close was at 2'172.47 already 2% above where we expected this year's close. Some seven years after the last recession ended, economists are keeping an eagle eye on the latest data looking for signs that another downturn may be approaching. No one knows how long the current economic expansion will continue. "The outlook is so muddled by political and global factors that it is hard to expect a major recovery" in business investment this year, the Credit Suisse economists said. Still, they note that the risks to that forecast "are to the upside," largely because business investment could stage a rebound once the uncertainty of the election is over.

Whilst we like to be right, we would much rather be wrong here and find a year-end closing above current levels and way above our predictions of last December.

We find some support for the pleasing thought that we had erred on the side of caution earlier this week in Jim Paulsen, chief investment strategist and economist, Wells Fargo Capital Management who believes that the first synchronization of economic policies in this recovery is likely to produce a rare global synchronized economic bounce. While the U.S. has persistently employed stimulus, other developed and emerging economic policies have often been in conflict. Today, though, Japanese policy officials are no longer hesitant but rather are implementing full-out Bernanke stimulus. Likewise, the Eurozone, which earlier adopted fiscal tightening, is now also fully embracing central bank balance sheet expansion. Moreover, the oil crisis has forced energy-based economies like Canada and Australia, which earlier felt sheltered from many ongoing global struggles, to boost accommodation recently. Finally, China is no longer attempting to moderate its recovery as it was until 2015 but rather is using all weapons (a collapse in its sovereign bond yield, a surge in the growth of its money supply and a more aggressive Yuan devaluation) to quicken growth. While few may expect it, economic policies around the world are finally attuned suggesting the odds of a synchronized global economic bounce may be far greater than widely perceived. While we are not forecasting strong economic growth any time soon, we do suggest investors consider an outcome which few expect – a synchronized global economic bounce. This would certainly force a change in the consensus view, boost earnings expectations, quicken the exit strategy by the U.S. Federal Reserve and suddenly make the recent stock market move appear much more fundamentally supported.

Not everybody agrees here... It might seem hard to imagine, but Jim Cramer wouldn't be surprised if the bears declare the "end of the world" on Friday if Janet Yellen takes a hawkish tone when she speaks. "If she even mentions putting a rate hike on the table in September, it is entirely possible we will be talking about how ugly next Monday will be, not unlike the down 1,000 point Monday a year ago". Unlikely? Well, during this week last year, fear of a meltdown sent the Dow 2,000 points lower over the span of five days. It was a record-breaking event that had not occurred since the dark days of the Great Recession of 2008. On Tuesday, new home sales data showed the strongest levels since 2007. The second-quarter earnings were remarkably good. The NASDAQ composite recently hit all-time highs, and many stocks continue to rise. Cramer does hedge his warnings saying "It's almost like no one believes the move is real, even as the methodical, resilient way that this market has advanced is textbook bullish". Well, the 2015 "crash" was effaced within 3 months and new highs came shortly after... Today will pass, Monday will be as it may and market liquidity will rise as the summer will be over. Now that is the sad bit...

As the pilot said on our last flight- "tighten your seat belts, some significant turbulence is expected in a few hours..." – "The techniques I developed for studying turbulence, like weather, also apply to the stock market". Benoit Mandelbrot

## Market Weekly Highlights:

- Dollar is slightly up this week with the USD Index (DXY) trading at round 94.5570 or +0.05% WTD, bringing the YTD performance to -4.13%. The USD is now trading at about \$1.1298 against the EUR and at 0.9655 against the Swiss Franc. The GBP is currently trading above the 1.30 level at 1.3217 against the USD, posting a 1.1% weekly gain supported by signs the British economy is proving resilient in the wake of the Brexit vote with the U.K. consumer confidence rose the most in more than three years this month. The Yen remains strong and continues around the 100 level at 100.45 at the time we write. The Russian Ruble weakened almost 1% against the USD this week, at 64.51. The Brazilian Real also weakened against the greenback currency declining 0.9% to trade at or around 3.23. Gold is lower this week at \$1'3234.25 per ounce. Oil suffered from the latest weekly inventory statistics that were higher than expected. WTI is down -2.8% WTD to currently trade at \$47.17/barrel and the Brent is currently back below the \$50 mark at \$49.41 a barrel.
- Big swings in the Bond markets as well- Over the week, the US 10 year yield lost 2Bp to stabilize at the 1.56% mark. The yield on 10-year JGBs is unchanged on a week to date basis and remains trading at negative 0.08%. After falling as low as -0.10% earlier this week, the German Bund slightly recovered to finally abandoned 4.2Bp to negative 0.07% . The Swiss 10 year bond reiterated its leadership within the “Negative Yielder club”, losing an additional 4.5Bp to trade at -0.53%. The Italian 10Yr is almost unchanged loosing 0.2Bp to trade at 1.13%, whilst the Spanish 10Yr yield lost 3.5Bp and is trading around its lowest historical level at 0.92%. In the UK, the 10Yr Gilts yields declined to 0.57%.
- Global Equity market had a mixed week with European main indices mostly up and the rest of the world mostly down this week. The global equity index, MSCI World Index lost -0.26%, whilst the European markets represented by the Eurostoxx50 were up +0.66%. The DAX was the only main European market down (-0.14%) after the release of weaker than expected economic data. The UK FTSE100 is down -0.61% week-to-date. SMI is up +0.17%. Within the US, the three major indices are consolidating ahead of the Jackson Hole Economic Policy Symposium later today. The DOW is down -0.56%, the NASDAQ -0.50% and the S&P500 -0.52% for the week. Futures are slightly pointing south however all market participants are awaiting Yellen's speech to decide which direction to go. In Asia Shanghai Composite was down 1.14% for the week while Hang Seng closed the week down -0.29% and the Nikkei closed down -1.12%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

## MARKET INDICES PERFORMANCE

25/08/2016

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												
<b>S&amp;P 500 INDEX</b>	USD	2172.47	-0.13	-0.67	<b>-0.05</b>	0.15	3.94	11.52	<b>6.29</b>	11.95	31.13	<b>17.84</b>
DOW JONES INDUS. AVG	USD	18448.41	-0.18	-0.80	0.09	-0.14	3.48	10.87	5.87	13.28	23.43	17.42
<b>NASDAQ COMPOSITE INDEX</b>	USD	5212.204	-0.10	-0.53	<b>0.97</b>	2.00	6.33	13.54	<b>4.09</b>	10.96	42.50	<b>19.32</b>
RUSSELL 2000 INDEX	USD	1240.005	0.22	0.26	1.64	1.90	8.80	19.56	9.17	9.52	19.41	17.96
<b>EURO STOXX 50</b>	EUR	2987.69	-0.69	0.79	<b>0.03</b>	0.43	-2.59	2.13	<b>-8.44</b>	-5.65	6.03	<b>14.11</b>
EURO STOXX 600	EUR	342.02	-0.83	0.62	0.11	0.29	-1.91	3.23	-6.44	-2.25	12.41	16.13
CAC 40 INDEX	EUR	4406.61	-0.65	0.22	-0.66	0.35	-2.27	2.22	-4.89	-2.01	8.44	14.62
DAX INDEX	EUR	10529.59	-0.88	-0.05	1.95	2.84	2.59	10.78	-1.90	5.42	24.94	13.70
FTSE 100 INDEX	GBP	6816.9	-0.24	-0.67	1.32	1.32	8.74	11.76	9.14	13.95	4.94	17.56
SWISS MARKET INDEX	CHF	8141.28	-0.71	-0.02	-0.02	-1.24	-1.26	3.15	-7.85	-4.95	1.29	17.70
NIKKEI 225	JPY	16555.95	-0.25	-1.12	-1.26	-0.14	-2.45	1.06	-14.04	-10.97	19.98	16.42
HANG SENG INDEX	HKD	22814.95	-0.01	0.03	4.80	3.88	12.48	18.48	4.69	8.84	4.26	12.41
SHANGHAI SE COMPOSITE	CNY	3068.329	-0.57	-1.22	3.05	0.66	8.78	10.95	-13.25	4.89	46.45	13.96
S&P BSE SENSEX INDEX	INR	27835.91	-0.80	-1.07	-0.98	-0.71	5.35	19.97	6.35	8.02	49.68	17.36
RUSSIAN RTS INDEX \$	USD	966.29	0.86	0.14	4.25	4.57	5.25	27.67	27.74	28.15	-26.99	5.71
<b>BRAZIL IBOVESPA INDEX</b>	BRL	57722.14	0.01	-2.44	<b>0.72</b>	1.65	16.65	38.78	<b>33.15</b>	25.38	12.24	14.19
MSCI WORLD	USD	1727.3	-0.22	-0.26	0.32	1.25	3.30	11.12	3.88	6.86	14.82	16.97
MSCI WORLD HEDGED	USD	747.282	-0.23	-0.35	0.25	0.56	3.66	11.25	3.86	11.38	28.14	-
MSCI WORLD LOCAL	-	1304.406	-0.24	-0.21	0.04	0.30	2.97	9.37	2.09	6.46	21.01	-
MSCI AC WORLD	USD	418.52	-0.18	-0.38	0.58	1.45	4.16	12.13	4.80	7.60	12.78	16.45
<b>MSCI EM</b>	USD	898.1	0.15	-1.34	<b>2.82</b>	3.14	11.85	21.36	<b>13.09</b>	14.07	-3.72	13.11
MSCI AC ASIA x JAPAN	USD	543.04	0.23	-0.51	3.06	2.76	11.42	18.15	8.62	14.06	7.29	13.49
MSCI EM LATIN AMERICA	USD	2424.34	0.16	-2.89	1.38	2.74	16.77	36.39	32.49	22.23	-21.83	15.94
MSCI EM Eur, ME & Africa	USD	242.87	-0.37	-3.42	0.37	1.73	7.34	20.38	15.54	4.10	-21.97	11.39

## EQUITY MARKET INDICES - BY SECTOR

P/E

<b>MSCI ENERGY</b>	USD	203.14	-0.32	-1.22	1.71	1.27	2.82	18.25	<b>13.91</b>	11.97	-19.78	<b>30.89</b>
<b>MSCI MATERIALS</b>	USD	214.97	-0.04	-0.73	1.85	3.57	7.72	22.34	<b>16.41</b>	14.08	-4.87	<b>18.49</b>
MSCI INDUSTRIALS	USD	209.35	-0.29	-0.14	1.62	2.40	5.21	13.19	9.14	13.20	17.61	17.38
MSCI CONS DISCRETIONARY	USD	195.07	-0.37	-0.27	0.37	1.88	3.19	8.49	0.75	4.89	20.67	16.59
<b>MSCI CONS STAPLES</b>	USD	223.27	-0.21	-0.34	-0.11	0.21	2.82	8.01	<b>7.14</b>	14.42	25.20	<b>21.72</b>
MSCI HEALTH CARE	USD	206.21	-0.89	-1.51	-3.64	-2.83	1.94	6.80	-1.90	-1.37	31.90	16.70
MSCI FINANCIALS	USD	93.31	-0.02	0.71	1.73	2.81	0.05	10.17	-3.82	-3.09	0.46	13.18
MSCI INFO TECH	USD	157.4	0.11	-0.11	1.72	3.10	7.74	15.40	7.53	16.83	45.67	18.33
MSCI TELECOMS	USD	72.67	0.07	0.28	-1.64	-0.25	1.52	6.03	6.98	7.37	16.37	14.97
<b>MSCI UTILITY</b>	USD	120.8	0.13	0.24	-3.58	-3.46	1.89	7.26	<b>8.18</b>	9.07	14.62	<b>16.75</b>
MSCI WORLD REAL ESTATE	USD	207.15	0.25	0.55	-2.22	-1.43	5.48	14.49	9.12	14.77	21.39	23.39
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1184.64	-0.21	-0.04	0.28	0.31	2.51	4.63	0.90	-0.60	-0.64	-
HFRX EQUAL WEIGHTED	USD	1198.26	-0.10	0.10	0.37	0.54	2.74	5.03	2.17	1.18	2.27	-
HFRX GLOBAL EUR	EUR	1073.76	-0.21	-0.06	0.18	0.13	2.08	3.75	-0.14	-2.10	-2.92	-

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25/08/2016

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
<b>US 3 MONTH</b>	USD	0.3145	-1.60	0.02	<b>0.06</b>	0.01	0.03	0.00	<b>0.15</b>	0.26	-	-
US 2 YEAR	USD	0.7776	-1.49	0.03	0.12	0.02	-0.09	-0.02	-0.27	0.11	-	-
<b>US 10 YEAR</b>	USD	1.5612	-0.01	-0.02	<b>0.11</b>	0.00	-0.27	-0.20	<b>-0.71</b>	-0.61	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
<b>GLOBAL AGG TR HEDGED</b>	USD	511.6573	-0.05	0.14	<b>0.00</b>	0.40	2.54	4.17	<b>6.51</b>	7.16	17.25	1.13
US GOVERNMENT TR	USD	2200.29	-0.12	0.07	-0.57	0.06	1.93	2.12	5.04	4.78	11.44	1.13
US CORPORATE TR	USD	2810.12	-0.14	0.19	0.09	0.63	3.85	8.37	9.35	9.78	19.42	2.79
<b>US HIGH YIELD TR</b>	USD	1769.25	0.02	0.23	<b>2.00</b>	1.76	5.88	16.11	<b>14.25</b>	9.83	17.18	6.30
EU GOVERNMENT TR	EUR	257.4442	-0.04	0.10	-0.11	0.50	2.78	3.54	6.07	7.58	23.41	0.15
EU CORPORATE TR	USD	261.9629	-0.04	0.15	0.31	0.60	3.28	5.83	6.90	7.58	17.91	0.64
EU HIGH YIELD TR	EUR	291.5782	0.07	0.29	1.38	1.53	3.22	9.48	7.42	7.12	20.77	3.85
BARCLAYS GLOBAL CONVERT.	USD	219.75	-0.11	-0.51	0.52	1.14	3.21	8.92	3.24	3.00	12.04	-
<b>GLOBAL EM TR (HEDGED)</b>	USD	363.3689	-0.12	-0.11	<b>1.30</b>	1.62	5.85	10.88	<b>12.05</b>	12.60	22.92	4.15
S&P/LSTA U.S. LEV LOAN	USD	92.34734	0.02	-0.06	-0.18	-0.28	1.50	6.94	5.29	-0.12	-5.44	5.28

## COMMODITY INDICES - BY TYPE OF ISSUER

GSCI INDEX TOTAL RETURN	USD	2288.686	0.45	-2.05	6.13	4.36	-3.88	14.58	5.44	-7.70	-53.83	-
GSCI ENERGY TR	USD	398.763	1.15	-1.81	12.28	9.15	-4.70	27.28	8.27	-11.58	-65.18	-
GSCI INDUSTRIAL METALS TR	USD	1016.977	-0.04	-2.75	-2.67	-1.66	6.23	6.54	6.52	0.63	-27.72	-
GSCI PRECIOUS METALS TR	USD	1624.811	-0.38	-2.86	-3.21	-0.85	8.14	7.72	25.09	16.58	-8.86	-
GSCI AGRICULTURE TR	USD	443.9365	-0.67	-2.15	-1.27	-1.88	-7.49	2.48	-1.37	-2.44	-31.53	-
GENERIC 1ST 'CL' FUTURE	USD	47.33	-0.04	-3.21	12.75	9.31	-8.40	22.03	1.22	-9.28	-60.35	-
GOLD SPOT \$/OZ	USD	1321.94	0.23	-1.21	-1.93	0.36	8.82	8.37	24.83	17.74	-5.67	-

## CURRENCIES

DOLLAR INDEX SPOT	USD	94.772	-0.15	0.13	-0.94	-2.60	-0.56	-3.58	-4.05	-0.49	16.25	-
Euro Spot	EUR	1.1285	0.09	-0.26	1.08	2.81	0.90	3.30	3.99	-0.17	-15.51	-
Japanese Yen Spot	JPY	100.53	0.08	-0.23	1.80	4.19	9.27	13.49	19.68	19.38	-1.93	-
British Pound Spot	GBP	1.3192	0.30	1.19	0.01	0.77	-9.81	-4.61	-10.21	-14.43	-15.06	-
Swiss Franc Spot	CHF	0.9677	0.17	-0.58	0.35	2.72	2.40	3.18	3.73	-1.17	-4.45	-
Brazilian Real Spot	BRL	3.2345	-0.30	0.15	0.45	1.59	10.79	22.32	22.45	11.82	-27.38	-
China Renminbi Spot	CNY	6.8595	-0.07	-0.16	-0.44	0.12	-1.58	-1.85	-2.56	-3.82	-8.15	-
Singapore Dollar Spot	SGD	1.3535	0.10	-0.41	-0.92	0.47	1.58	4.13	4.90	4.02	-5.27	-
Norwegian Krone Spot	NOK	8.2201	0.11	0.10	2.86	4.37	0.82	5.77	7.70	2.05	-26.46	-

## VOLATILITY / LIQUIDITY INDICES

<b>CBOE SPX VOLATILITY INDX</b>	USD	13.63	1.34	20.19	<b>14.83</b>	4.44	1.49	-31.20	<b>-25.15</b>	-55.05	-9.07	-
USD SWAP SPREAD SEMI 2YR	USD	22.4	-	-10.11	1.70	5.52	63.67	478.88	91.50	67.77	24.86	-
TED SPREAD	-	-	-	-1.37	0.83	13.42	49.47	61.76	13.27	84.54	115.24	-

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