

Bedrock Friday 24 February 2017 Newsletter

We are about one month into the Trump presidency. Somehow, the new President has managed to remain in the headlines. We heard a commentator say that in reality, the Trump-Bannon team see the world as nails and themselves as a hammer... fascinating outlook... It is said that "The neurotic is nailed to the cross of his fiction".

We also have read of a new mental problem arising- Eloquently named Post-Election Stress Disorder or "PESD" - Mental health professionals around the country, especially those working in Democratic strongholds, report a stream of patients coming in with anxiety and depression related to -- or worsened by -- the blast of daily news on the new administration. Recommended therapy is to stay engaged but limit the time they spend on Facebook or watching the news. Focus instead on other things you enjoy, like the rising markets and their lack of volatility...

So we will plunge back into our domain and seek our pleasures. We would start with Tony Blair who, from the sidelines where he resides these days (used to be 10 Downing Street), made a call for a new vote to reverse Brexit. At the same time we hear Marine Le Pen proposing a vote for Frexit, should she take up residency at the Elysée. These comments aside, Growth in euro zone business activity surged in February to its highest level in almost six years, according to the latest survey of the services and manufacturing sectors by IHS Markit. The results showed robust upturns for the French and German economies despite political uncertainty in both countries due to elections this year. Both Germany and France witnessed their sharpest respective increases in new orders since May 2011 which then boosted employment in each country. The key difference between the two leading economies was that Germany's growth was buoyed by the manufacturing sector, whereas France had been driven by its services sector. However, inflationary pressures continued with prices accelerating in both services and manufacturing. This comes in support of our views that the world is mending from the Great Recession, with Europe at last finding the scent of growth. This said, we would not advocate taking on European exposures, as the political uncertainty surrounding the Euro zone is real. Whilst carrying only a small, not to say tiny probability that France will leave the European Union, if it does happen the outcome could dwarf the Lehman default. Hidden under the surface of European bond markets, traders are placing bets that will pay out if the risks in the euro zone severely escalate. Markets across the continent have started to price in the increased potential for anti-euro candidates to win elections in France and Italy. Recent positioning in German and Italian bonds are hedges against a blow-up in the risk of a breakup in the common currency. The front end of the German yield curve has outperformed over the past three weeks, with 6-month and two-year yields dropping 10-14 basis points, while open interest in two-year futures has jumped by more than 100,000 contracts. Moves in the relative value of Italian and French bonds also show signs of hedging.

On the western side of the Atlantic, Goldman Sachs (whose alumni are arguably running the world) say the surge in confidence following Donald Trump's November victory is reaching an inflection point. "Financial market reconciliation lies ahead," David Kostin, Goldman's chief U.S. equity strategist, wrote in a note. The "S&P 500 Index will give back recent gains as investors embrace the reality that tax reform is likely to provide a smaller, later tailwind to corporate earnings than originally expected." It's not just stock markets that have turned sanguine. Measures of confidence that started shooting higher in December have either continued climbing or held most of their gains. According to the National Federation of Independent Businesses' monthly survey, executives have the strongest outlook in more than a decade. And the most recent survey of consumer confidence from the University of Michigan shows optimism is still sitting near 13-year highs. The average year-end price target for the S&P 500 on Wall Street is 2,364, according to data compiled by Bloomberg. That's right where the index is trading today.

Since these views were published earlier in the week, the main indices have recorded a sequence of new all-time highs, but at a decreasing rate of appreciation, with Thursday's trading giving a gain solely to the DJIA whilst shaving some 0.50% off the roaring NASDAQ.

Oh, perhaps it was the publication of the FOMC minutes? Rather hawkish, we'd say. Federal Reserve officials want investors to believe that every meeting is a live one; with the possibility always there that the central bank will hike interest rates in response to financial conditions. The market, though, is unconvinced, particularly as it concerns the March meeting, which in some sense could be the Fed's most important of the year. Chatter lately from Federal Open Market Committee members is that March is on the table for the first hike since December. "A March hike would be markedly hawkish as it would drive markets to price in up to four hikes this year from two-and-change today, more than the three hikes even relatively hawkish FOMC participants are indicating as their baseline for 2017; among other things, this would risk a renewed dollar surge," Krishna Guha, head of global policy and central bank strategy at Evercore ISI, said in a note to clients.

Fears of a jump in the greenback have served as an ominous backdrop for the market ever since the post-election stock rally began. However, the dollar actually has edged lower against its global competitors in 2017.

Mohamed El-Erian, chief economic advisor at Allianz, told CNBC that a rise in the dollar would threaten the rally. An unexpected move by the Fed could jolt currency markets and reverse the business optimism that has prevailed since Donald Trump won the presidency. We remain "Old School" here, believing that FX markets are driven primarily by interest-rate differentials and as we believe that US rates are poised to rise whilst others to hold, we still favour the US Dollar.

On the optimist side of the world we find the 7.48 trillion Norwegian krone (\$903 billion) fund – the largest sovereign fund by assets under management, currently targets an equity allocation of around 60% but Prime Minister Erna Solberg's government hopes to see this dialled up to 70%. We like to find support for our views from wise and big investors... □

And we say that if you want a guarantee, buy a toaster... Try to enjoy the next Trump chapters...

Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY had reached 103.80 and has lost some ground so far this year to trade now just at below 101. The USD is trading around 1.059 against the EUR and just above parity against the CHF. The Pound is trading this week at roughly \$1.2550, a nice 3 figure rebound for the year. The Japanese Yen is trading a little lower for the week against the USD at 112.45, remaining up strongly vs the Dollar YTD.
The Russian Ruble is up against the USD at 57.86. The Brazilian Real is now almost unchanged for the week and back at 3.06. Gold is up for the week, now at \$1'256, up about \$130 since the start of the year. Crude oil WTI reached \$55.24 a barrel on the first day of trading on January 1st and is now trading at about \$54.22.
- The yield on 10Y U.S. Treasuries are slightly lower than the year-end levels, having bounced in a rather tight range around unclear tweets and talk from Trump. The Japanese 10 year JGB is up in yield since the end of last year and continues to offer POSITIVE returns trading at 0.068%.
In Europe, over the last month we saw the German Bund trading higher in yield almost every day reaching almost 0.50% and now it is trading down, losing almost half of it in a week yielding now 0.37%
The Swiss 10 year bond yield is also down to Negative 0.16% after the "rally" since the Trump election. In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 2.12% while the Spanish 10Y yields trade 60bps lower having started the year at 1.30% and currently trading at 1.58%.
- Since January 1st, all equity markets are up globally with the MSCI World Index up 5.38% reaching new highs. In the USA, all the major indices were up with Nasdaq reaching new all-time highs to show +8.4% for the year and the DJIA trading above 20'800. The NASDAQ gained for the week +0.28% and the DJIA rose by +0.96%. The SP500 also was up for the week showing +0.62% and almost 5.60% for the year.
In Europe, Eurostoxx50 is up for the week at 0.34% thanks to German and Swiss stocks which were also up for the week respectively 1.33% and 0.31%. The rest of European markets are down with the Italian FTSE MIB at -1.55%, followed by the UK FTSE at -0.60% and IBEX at -0.32%.
In LATAM and ASIA, markets had mixed results for the week with Nikkei up 0.25%, Shanghai Composite up 1.60% and Indian Nifty 50 up 1.84% while the BOVESPA and Hang Seng down respectively -0.62% and 0.28%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

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	2,363.81	0.05	0.62	3.73	3.67	7.22	8.66	5.58	22.49	27.94	18.13
DOW JONES INDUS. AVG	USD	20,810.32	0.18	0.96	4.76	4.51	9.05	12.60	5.30	26.24	28.40	17.35
NASDAQ COMPOSITE INDEX	USD	5,835.51	-0.43	0.28	3.93	4.19	8.45	11.84	8.40	28.46	35.93	19.82
RUSSELL 2000 INDEX	USD	1,394.62	-0.65	-0.68	2.41	1.86	3.91	12.72	2.76	36.45	18.74	19.51
EURO STOXX 50	EUR	3,333.96	-0.16	0.56	2.99	1.39	9.43	10.59	1.11	17.98	5.38	14.22
EURO STOXX 600	EUR	372.85	-0.04	0.56	3.38	2.87	8.91	7.94	3.01	16.26	10.09	15.23
CAC 40 INDEX	EUR	4,891.29	-0.09	0.22	2.73	1.00	7.39	9.99	0.33	17.40	10.39	14.38
DAX INDEX	EUR	11,947.83	-0.42	1.35	3.30	2.77	11.48	12.17	3.79	29.98	22.73	13.80
FTSE 100 INDEX	GBP	7,271.37	-0.07	-0.48	2.33	1.60	6.38	6.28	1.71	23.82	5.81	14.83
SWISS MARKET INDEX	CHF	8,569.36	-0.19	0.52	3.13	3.69	9.65	4.28	4.03	11.20	0.77	17.26
NIKKEI 225	JPY	19,371.46	-0.04	0.25	1.27	2.64	5.18	16.18	0.89	21.16	29.96	17.87
HANG SENG INDEX	HKD	24,114.86	-0.11	-0.28	2.59	4.43	6.00	5.02	8.93	24.87	7.04	12.04
SHANGHAI SE COMPOSITE	CNY	3,251.38	-0.30	1.60	2.98	3.53	0.36	5.43	4.83	11.08	56.66	13.65
S&P BSE SENSEX INDEX	INR	28,892.97	0.10	2.09	4.47	5.54	11.73	2.97	8.51	25.14	38.83	20.13
RUSSIAN RTS INDEX \$	USD	1,146.01	-1.35	-3.14	-2.14	0.13	12.02	17.17	-1.14	49.60	-13.41	6.38
BRAZIL IBOVESPA INDEX	BRL	67,461.39	-1.64	-0.52	4.32	2.46	9.88	16.88	12.01	60.30	42.34	13.02
MSCI WORLD	USD	1,845.35	0.19	0.48	2.95	3.06	7.71	6.60	5.38	20.24	10.61	17.04
MSCI WORLD HEDGED	USD	825.18	-0.03	0.57	3.45	3.82	7.90	9.87	4.84	24.05	28.23	-
MSCI WORLD LOCAL	-	1,426.18	-0.07	0.44	3.27	3.13	7.24	9.08	4.54	21.54	19.95	-
MSCI AC WORLD	USD	446.75	0.19	0.58	3.14	3.25	8.14	6.55	5.91	21.15	9.44	16.42
MSCI EM	USD	952.12	0.12	1.39	4.72	4.79	11.75	6.17	10.42	29.27	-0.66	12.63
MSCI AC ASIA x JAPAN	USD	569.44	0.06	1.28	4.26	4.99	9.75	5.10	10.71	24.57	7.21	13.18
MSCI EM LATIN AMERICA	USD	2,668.48	-0.41	0.23	6.05	5.26	16.06	10.24	14.01	50.67	-10.17	14.52
MSCI EM Eur, ME & Africa	USD	260.05	1.32	1.67	4.09	2.62	14.00	6.67	6.24	29.87	-17.54	10.81
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	208.36	0.63	-0.13	-1.89	-4.16	-0.17	2.24	-4.85	23.57	-23.90	22.40
MSCI MATERIALS	USD	238.01	-0.37	-0.33	0.49	-0.04	8.59	10.67	7.27	38.02	-3.15	16.97
MSCI INDUSTRIALS	USD	223.63	-0.04	0.11	2.46	2.29	6.15	6.51	5.25	22.35	12.15	18.16
MSCI CONS DISCRETIONARY	USD	206.33	-0.33	0.29	1.58	1.64	5.65	5.38	5.03	16.01	15.03	16.88
MSCI CONS STAPLES	USD	220.07	0.52	1.02	4.37	4.02	8.96	-1.64	6.04	6.56	17.70	20.69
MSCI HEALTH CARE	USD	207.02	0.61	0.80	5.11	7.19	8.60	-0.50	7.36	8.57	12.79	16.26
MSCI FINANCIALS	USD	112.10	0.15	0.12	3.38	3.87	9.77	20.10	5.58	35.47	10.90	13.36
MSCI INFO TECH	USD	176.75	-0.06	0.59	4.87	4.95	10.36	12.42	9.63	31.01	41.76	18.64
MSCI TELECOMS	USD	70.22	0.80	1.66	0.75	1.04	6.60	-3.30	0.99	3.62	-0.69	14.65
MSCI UTILITY	USD	118.56	0.80	1.76	2.54	3.06	8.45	-1.72	3.13	4.77	2.45	16.40
MSCI WORLD REAL ESTATE	USD	198.48	0.74	1.50	3.63	3.07	7.14	-3.96	4.41	10.87	11.76	25.27
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1,224.94	-0.10	0.08	1.28	1.34	2.95	3.20	1.78	8.15	-0.75	-
HFRX EQUAL WEIGHTED	USD	1,235.95	-0.02	0.13	1.11	1.12	2.52	3.07	1.54	8.33	2.32	-
HFRX GLOBAL EUR	EUR	1,098.63	-0.11	0.07	1.16	1.14	2.40	2.12	1.47	6.12	-3.90	-

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	0.51	0.00	-0.50	-0.51	0.51	1.53	19.30	1.02	17.69	-	-
US 2 YEAR	USD	1.18	0.20	-0.37	-1.99	-0.79	6.17	42.27	-0.38	43.06	-	-
US 10 YEAR	USD	2.37	-0.17	-4.44	-8.28	-9.49	2.05	80.92	-7.40	62.19	-	-
US LIBOR 3M	USD	1.05	0.06	1.22	1.94	1.06	12.92	22.86	5.61	42.94	-	-
EUR LIBOR 3M	EUR	-0.35	0.00	-0.20	-0.86	-1.14	-2.14	-3.19	-1.57	-13.64	-	-
GBP LIBOR 3M	GBP	0.35	-0.16	-0.38	-0.16	-0.53	-4.41	-3.32	-1.23	-23.57	-	-
CHF LIBOR 3M	CHF	-0.73	-0.20	-0.38	0.04	0.12	1.72	1.04	0.10	5.40	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	500.22	0.20	0.25	0.54	0.39	0.62	-2.28	0.17	1.84	11.44	1.61
GLOBAL HY TR	USD	1,220.49	0.23	0.48	1.03	1.31	4.98	3.44	2.90	19.86	12.53	5.40
US GOVERNMENT TR	USD	2,128.61	0.15	0.33	0.33	0.47	0.49	-3.38	0.56	-1.40	6.26	1.61
US CORPORATE TR	USD	2,756.19	0.21	0.50	0.77	0.90	1.89	-2.06	1.08	6.41	12.12	3.29
US HIGH YIELD TR	USD	1,862.64	0.15	0.48	1.22	1.50	4.88	5.30	2.69	23.84	15.19	5.63
EU GOVERNMENT TR	EUR	246.78	0.22	0.18	0.51	-0.26	-0.52	-4.19	-1.41	-0.68	13.46	0.59
EU CORPORATE TR	USD	262.43	0.17	0.40	1.19	1.04	1.55	0.14	0.77	6.20	13.90	0.80
EU HIGH YIELD TR	EUR	301.21	0.07	0.28	0.95	0.92	3.79	3.38	1.68	13.68	16.19	3.57
BARCLAYS GLOBAL CONVERT	USD	229.87	-0.13	0.06	1.86	2.18	4.73	4.02	3.28	14.44	7.94	-
GLOBAL EM TR (HEDGED)	USD	364.96	0.18	0.53	1.45	1.58	3.87	0.31	2.60	11.52	18.08	4.30
S&P/LSTA U.S. LEV LOAN	USD	98.84	0.04	0.15	0.00	-0.07	1.31	7.05	0.23	14.81	0.43	4.67
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,397.54	0.54	0.02	0.60	-0.13	5.54	3.65	-0.82	22.58	-51.80	-
GSCI ENERGY TR	USD	416.83	1.52	0.80	0.55	0.16	7.37	3.82	-4.13	38.44	-63.87	-
GSCI INDUSTRIAL METALS TR	USD	1,210.04	-2.13	-2.12	-0.57	0.77	2.21	17.21	7.80	26.10	-9.56	-
GSCI PRECIOUS METALS TR	USD	1,535.41	1.40	0.73	3.33	3.06	5.41	-7.09	9.03	2.95	-8.66	-
GSCI AGRICULTURE TR	USD	450.12	-1.04	-1.63	0.94	-1.44	0.90	-0.23	4.43	3.30	-30.13	-
GENERIC 1ST 'CL' FUTURE	USD	54.45	-0.51	1.01	2.05	1.35	8.12	7.33	-1.13	29.47	-54.38	-
GOLD SPOT \$/OZ	USD	1,249.78	0.35	1.55	3.59	3.75	5.88	-5.29	8.84	2.06	-6.20	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	101.05	-0.14	-0.04	1.40	0.56	-0.78	6.46	-1.27	3.54	25.82	-
Euro Spot	EUR	1.06	-0.07	-0.39	-2.07	-1.45	0.20	-6.12	0.55	-3.98	-23.01	-
Japanese Yen Spot	JPY	112.61	-0.03	0.18	0.14	1.02	0.61	-10.82	3.84	-0.41	-8.99	-
British Pound Spot	GBP	1.26	-0.22	0.93	-0.41	0.06	0.62	-5.32	1.52	-10.05	-24.78	-
Swiss Franc Spot	CHF	1.01	-0.05	-0.42	-1.75	-0.58	0.94	-3.95	1.21	-1.79	-11.70	-
Brazilian Real Spot	BRL	3.06	0.05	0.87	2.79	3.31	10.68	5.62	6.27	29.24	-23.42	-
China Renminbi Spot	CNY	6.87	-0.12	-0.11	0.14	-0.22	0.69	-3.13	1.03	-4.99	-11.30	-
Singapore Dollar Spot	SGD	1.41	0.09	0.95	0.33	1.15	1.92	-3.59	2.96	0.01	-10.13	-
Russian Ruble Spot	RUB	57.77	-0.32	0.57	3.85	2.26	11.27	12.59	6.17	30.72	-38.80	-
Norwegian Krone Spot	NOK	8.34	0.02	0.06	-1.09	0.18	3.13	-1.42	3.64	3.95	-27.61	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDEX	USD	11.71	-0.26	0.51	-1.42	6.78	-4.91	-12.12	-15.81	-42.95	-16.94	-
USD SWAP SPREAD SEMI 2YR	USD	35.13	-	-0.69	23.40	16.45	83.33	60.75	40.20	663.89	163.64	-
TED SPREAD	-	54.47	-	1.10	4.37	0.78	24.42	3.54	8.83	76.51	173.17	-

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