

Bedrock Friday 03 March 2017 Newsletter

It is Friday again. It was an interesting and good week. We could get used to this quite easily...

The highlight of the week for us was listening to Warren Buffet, arguably one of the greatest investors of all times. Listening to him was like music to our ears; He actually explained to the audience what we have been touting for a very long time- Equities are relatively cheap, even when trading at all-time highs and the S&P 500 with a P/E ratio of about 19X. The Oracle of Omaha as he is called, reiterated our own measure, using the ten year US Treasury yield as a reference, saying that when it yields 2.50% (where it is now), this is an effective P/E ratio of 40X, making the S&P cheap at 19X. It was as if he was reciting from our earlier newsletters (☺) when he said that if the bond yields were to go to 6%, then the S&P would appear expensive (at that yield level, the Bond P/E equivalent would be 12.5X. And then the markets continued to break new highs... And Snap had its IPO yesterday. Priced at \$17/share it opened up almost 50%. Should we applaud this? Not really, as it was clearly under-priced at \$17... But it will add optimism to the next IPOs... There must be many in the wings...

Then we have Europe. Whilst many are concerned about the political future of the old continent, corporate profit growth in Europe is outpacing earnings from U.S. companies for the first time in a year and a half, with strategists predicting further outperformance in 2017. With the fourth-quarter earnings season drawing to a close, Stoxx Europe 600 Index members have recorded an 11% rise in profits from a year earlier -- the strongest in two years -- versus a 5% growth in S&P 500 companies, according to data from JPMorgan Chase & Co. Among factors seen boosting them further in 2017 are a weaker euro, rising commodity prices and a recovery in the previously battered banking sector. But many fret about the outlook, clouded by political risks- With the French far right "FN" lead by Marine Le Pen gaining in polls, fears of European Union breakup are rising. But then, others brush this aside (Trump would have called the polls "Fake News")- Those concerned that far-right leader Marine Le Pen will become France's next president might be worrying too much, according to one political analyst. Thomas Guénolé from the Paris-based institute Sciences Po told CNBC Thursday: "I want to be perfectly clear for foreigners and for investors in particular, a goat, literally a goat, at the second round against Marine Le Pen, the goat is elected."

Guénolé added that there are many French voters who are "allergic" to the far right and would unite in the second round of the election to prevent Le Pen from winning. We would add that if we read the tea-leaves of the markets, rising equities in Europe are telling us that the economic outlook is improving, inspite of the politics. Citi's political analysts say there's a 20% chance that Le Pen wins on May 7 and is not its base case scenario. However, the prediction is not too far away from similar predictions it gave President Donald Trump ahead of the U.S. elections. Citi did give Trump a 30% chance of winning before last November, but these figures fluctuated as the race tightened. Put aside the dark clouds of Greece's debts and the French elections: Economic confidence at the highest level since 2011 suggests that the euro-area economy is in better shape than it's been for years. Capturing the shift in tone, Bundesbank President Jens Weidmann said market expectations for an interest-rate increase in 2019 didn't sound "absurd." The index on Monday showed a measure of economic sentiment rose to 108 from 107.9, a sixth straight increase, and figures later this week may also confirm the improvements in the 19-country bloc. It will be the last major batch of statistics for ECB officials to consider before their March 9 policy decision, when they'll also unveil their latest forecasts. A broad measure of euro-area economic activity unexpectedly rose to the highest level in almost six years in February, with national Purchasing Managers' Indexes showing that France outpaced Germany for the first time since 2012. This could signal growth in the euro region is becoming more broad-based. Against that backdrop, ECB Executive Board member Peter Praet stressed the recovery is still reliant on accommodative policy. "We cannot see the situation as fully satisfactory," he said in London on Feb. 23. Euro zone annual inflation rose to a four-year high of 2% in the month of February, flash estimate data has shown Thursday. However, some analysts say that core inflation remains too weak. It was unchanged at 0.9%

Unemployment in the 19-member area was at 9.6% for the month of January. This is unchanged from the levels seen in December, but it represents a 0.8% decrease from a year ago. This is the lowest level since May 2009.

So we conclude that interest rates on the Euro are likely to remain where they are for a while, and we look across the puddle to America's Federal Reserve... On Wednesday the Fed's "Beige Book" showed that business was generally optimistic if slightly less so than in its previous report. Just as Washington is gearing up to goose the economy, the Federal Reserve could be teeing up an interest rate increase that could put a damper on things. The chances that the Fed will hike rates at its March 14-15 meeting have been creeping higher in recent days. By at least one estimate, the probability is now at 50%, after being in the teens just last week. "This is what the Fed wanted," said Peter Boockvar, chief market analyst at The Lindsey Group. "Now, the Fed may not raise, but they wanted at least the flexibility to do it." The Fed's current short-term rate target is 0.5 to 0.75%, which would make the midpoint 0.625%. The April funds contract indicates a 0.75% funds rate. Given that the contract is exactly half way to another quarter-point move that would put the chances at 50 percent! Well, this may be the explanation for the rise in the US Dollar over the last few days and the "normal" reaction in the price of Gold (slipping downwards as the US\$ rises)...

If history is any indication, the Trump rally is just getting started, according to one veteran technician. Ralph Acampora, director of tactical investments at Altaira Capital Partners, sees similarities between the Dow's climb during the Reagan administration and its current rally under Donald Trump. The so-called godfather of the charts says that the current Dow advance is essentially going through a similar "honeymoon period" that followed Reagan's election. Just how high could the Dow go? Acampora believes that Dow 22'000 is just a few short months away, maybe 6% gain by the summer...

All this makes us hold our Dollars and our equities. We worry somewhat when we see that Sweden plans to bring back conscription, as their concerns of Russia's Baltic intentions mount... Well, nothing endures but change... Heraclitus.

Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY reached 103.80 and has lost some ground so far this year to trade now just at about 102. The USD is trading around 1.05 against the EUR and at 1.01 against the CHF. The Pound is back where it started the year at 1.2250, losing all the nice rebound seen in the first month of the year. The Japanese Yen is trading a little lower for the week against the USD at 114.30, remaining up strongly vs the Dollar year to date.
The Russian Rubble is trading down against the USD for the week at 58.76 but remains stronger for year. The Brazilian Real has also lost some ground against the USD this week trading at 3.15. Gold is now back at \$1'226 losing almost \$40 on the week, but is up about \$80 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 \$52.71.
- Inflation figures trended up and concerns are rising. As a result, central banks are adopting a more hawkish tone. The yield on 10Y U.S. Treasuries are slightly lower than the year-end levels, having bounced in a rather tight range and now are trading at 2.48%. The Japanese 10 year JGB is almost where it was since the end of last year and continues to offer POSITIVE returns trading at 0.078% having climbed from last week's levels.
In Europe, over the first month of year we saw the German Bund trading higher in yield almost every day reaching almost 0.50% to finally reverse the trend the next month and trade down below 0.20%. This week is up again yielding now at 0.31%. The French 10Y Yield is at 0.93% unchanged for the week, reaching the high spread-levels of 2014 against the German Bund yield, reflecting some investors worries on French Presidential election in May this year. In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 2.14% while the Spanish 10Y yields trade 44bps lower having started the year at 1.30% and currently trading at 1.70%.
The Swiss 10 year bond yield is also down to Negative 0.17% after the "rally" since the Trump election.
- Since January 1st, all markets are up globally with the MSCI World Index up 6% reaching new all-time highs. In the USA, all the major indices also are marking all new time highs with DJIA trading above 21'000, having gained 0.93% for the week so far, NASDAQ showing 8.88% for the year and posting a 0.44% gain for the week. The SP500 also was up for the week showing +0.77% and over 6% for the year.
In Europe, stocks have been up so far for the week with Eurostoxx50 up 2.23%, UK FTSE up 1.59%, as was the CAC40 (+2.28%) and the Swiss SMI (+1.38%). The Peripheral Spanish IBEX and Italian MIB were up respectively 2.70% and 4.65%. The Nikkei is up about 0.96% for the week.
In LATAM and ASIA, markets were the BOVESPA at +4.63%, Hang Seng down 1.72% Shanghai Composite down 1.80% and Indian Nifty 50 down 0.53%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

02/03/2017

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	2,381.92	-0.58	0.77	0.77	3.68	8.67	9.26	6.39	19.49	29.05	18.29
DOW JONES INDUS. AVG	USD	21,002.97	-0.53	0.93	0.92	4.64	9.56	13.58	6.28	23.96	29.90	17.50
NASDAQ COMPOSITE INDEX	USD	5,861.22	-0.72	0.44	0.61	3.43	11.52	11.64	8.88	24.51	37.03	19.87
RUSSELL 2000 INDEX	USD	1,395.67	-1.27	0.07	0.65	1.29	6.19	11.49	2.84	29.70	18.64	19.54
EURO STOXX 50	EUR	3,384.71	-0.16	2.18	1.70	3.15	11.98	9.63	2.60	12.06	10.55	14.40
EURO STOXX 600	EUR	375.61	0.08	1.13	1.07	2.78	10.26	6.78	3.53	10.24	13.27	15.30
CAC 40 INDEX	EUR	4,963.80	0.06	2.24	1.96	2.66	9.38	9.06	1.88	12.18	15.45	14.58
DAX INDEX	EUR	12,059.57	-0.06	1.70	1.43	3.03	14.18	12.36	4.56	23.10	28.27	13.88
FTSE 100 INDEX	GBP	7,382.35	0.02	1.58	1.30	2.36	9.32	6.72	3.01	20.02	9.68	14.83
SWISS MARKET INDEX	CHF	8,661.63	1.00	1.24	1.00	3.36	10.89	4.06	5.01	8.56	4.23	17.42
NIKKEI 225	JPY	19,564.80	0.88	0.96	1.83	2.91	5.66	15.03	1.86	14.79	32.88	17.81
HANG SENG INDEX	HKD	23,728.07	-0.20	-1.72	-0.79	1.83	4.38	1.23	7.06	18.11	4.68	11.80
SHANGHAI SE COMPOSITE	CNY	3,230.03	-0.52	-1.08	-0.72	2.49	-0.79	4.92	3.69	12.54	55.08	13.45
S&P BSE SENSEX INDEX	INR	28,839.79	-0.50	-0.44	0.08	1.86	9.66	0.82	8.03	16.90	37.33	20.03
RUSSIAN RTS INDEX S	USD	1,099.82	-0.86	-2.94	-0.33	-7.94	4.34	12.99	-4.90	37.22	-1.72	6.13
BRAZIL IBOVESPA INDEX	BRL	65,854.93	-1.69	-4.63	-1.21	1.39	9.18	10.46	9.34	39.54	39.84	12.59
MSCI WORLD	USD	1,848.84	-0.38	0.44	0.55	2.40	8.19	6.59	5.57	15.68	11.68	17.07
MSCI WORLD HEDGED	USD	831.43	-0.25	0.76	1.09	4.08	9.07	10.21	5.63	20.76	28.23	-
MSCI WORLD LOCAL	-	1,436.15	-0.27	0.89	1.06	3.23	8.54	9.10	5.27	17.50	21.97	-
MSCI AC WORLD	USD	446.69	-0.36	0.31	0.49	2.35	8.35	6.31	5.89	16.12	10.28	16.42
MSCI EM	USD	936.37	-0.21	-0.76	0.00	1.90	9.77	4.09	8.59	20.02	-1.50	12.46
MSCI AC ASIA x JAPAN	USD	564.50	-0.02	-0.37	0.03	2.85	8.21	3.65	9.75	17.85	5.37	13.06
MSCI EM LATIN AMERICA	USD	2,582.50	-1.23	-3.22	-0.68	0.68	14.87	5.31	10.33	31.64	-11.54	14.14
MSCI EM Eur, ME & Africa	USD	252.82	-0.11	-1.11	1.14	-0.57	11.03	5.37	3.29	17.41	-14.76	10.65

EQUITY MARKET INDICES - BY SECTOR												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
MSCI ENERGY	USD	208.61	-0.54	1.26	0.87	-2.70	-2.37	3.15	-4.74	15.64	-23.15	21.91
MSCI MATERIALS	USD	236.10	-0.56	0.20	0.58	-0.32	7.37	9.77	6.41	28.71	-3.01	14.89
MSCI INDUSTRIALS	USD	224.83	-0.55	0.73	0.50	2.61	6.28	7.34	5.81	18.43	13.48	18.25
MSCI CONS DISCRETIONARY	USD	206.76	-0.19	0.23	0.60	2.01	6.99	6.09	5.25	11.56	15.18	16.96
MSCI CONS STAPLES	USD	219.62	-0.21	-0.23	-0.03	3.32	9.27	-2.15	5.82	4.86	17.66	20.50
MSCI HEALTH CARE	USD	209.37	0.12	0.94	0.68	5.03	10.91	2.03	8.58	8.22	15.12	16.43
MSCI FINANCIALS	USD	112.01	-0.75	0.92	1.03	1.93	8.62	17.58	5.49	26.18	12.31	13.38
MSCI INFO TECH	USD	177.25	-0.59	0.16	0.62	3.65	13.50	11.77	9.94	26.68	43.03	18.73
MSCI TELECOMS	USD	69.65	-0.19	-1.05	-0.03	1.04	6.25	-3.49	0.17	-1.07	0.24	14.48
MSCI UTILITY	USD	119.94	0.74	0.43	-0.03	4.09	8.91	-0.27	4.33	5.29	4.78	16.59
MSCI WORLD REAL ESTATE	USD	197.18	-0.35	-0.81	-0.72	2.48	6.28	-4.45	3.73	4.95	11.13	25.33

HEDGE FUND INDICES												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
HFRX GLOBAL HEDGE FUND	USD	1,228.00	0.40	0.48	0.40	1.38	2.94	3.75	2.04	7.52	-1.12	-
HFRX EQUAL WEIGHTED	USD	1,238.15	0.27	0.40	0.27	1.10	2.39	3.35	1.73	7.85	1.99	-
HFRX GLOBAL EUR	EUR	1,100.63	0.35	0.43	0.35	1.23	2.40	2.68	1.65	5.47	-4.32	-

MARKET INDICES PERFORMANCE

09/02/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									
			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	0.53	-0.51	3.56	2.03	2.54	6.61	25.32	3.56	22.78	-	-
US 2 YEAR	USD	1.19	0.83	-1.14	-1.89	-0.01	27.04	50.35	-0.28	49.95	-	-
US 10 YEAR	USD	2.41	1.43	-5.57	-4.40	3.34	25.90	90.17	-3.52	74.10	-	-
US LIBOR 3M	USD	1.03	-0.45	-0.08	-0.08	2.36	15.14	22.72	3.58	41.27	-	-
EUR LIBOR 3M	EUR	-0.35	0.13	-0.47	-0.47	-0.69	-1.69	-3.26	-1.19	-15.77	-	-
GBP LIBOR 3M	GBP	0.36	0.18	0.28	0.28	-1.09	-4.27	-3.79	-0.80	-23.18	-	-
CHF LIBOR 3M	CHF	-0.73	0.06	0.30	0.30	0.36	1.36	2.64	0.36	2.34	-	-

FIXED INCOME INDICES - BY TYPE OF ISSUER												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	Yield to Worst
GLOBAL AGG TR HEDGED	USD	499.23	-0.06	0.43	0.34	-0.04	-0.46	-2.52	-0.03	1.92	11.25	1.62
GLOBAL HY TR	USD	1,212.46	-0.01	-0.04	0.36	1.13	3.48	3.73	2.22	20.09	13.06	5.52
US GOVERNMENT TR	USD	2,127.89	-0.29	0.50	0.29	0.12	-0.67	-3.63	0.53	-1.65	6.05	1.62
US CORPORATE TR	USD	2,745.49	-0.34	0.60	0.38	0.13	0.21	-2.22	0.69	5.95	11.84	3.33
US HIGH YIELD TR	USD	1,848.95	0.00	0.08	0.48	0.78	4.29	5.45	1.94	24.47	15.60	5.76
EU GOVERNMENT TR	EUR	246.61	0.23	0.52	0.44	-0.78	-1.17	-4.48	-1.47	-0.01	13.55	0.58
EU CORPORATE TR	USD	260.86	0.00	0.40	0.58	0.37	0.53	-0.43	0.17	6.18	13.50	0.90
EU HIGH YIELD TR	EUR	299.28	0.05	0.14	0.30	0.54	2.44	3.28	1.03	13.63	16.41	3.68
BARCLAYS GLOBAL CONVERT.	USD	228.47	0.22	0.66	1.24	1.52	4.93	3.97	2.65	15.61	9.51	-
GLOBAL EM TR (HEDGED)	USD	362.66	0.02	0.39	0.81	1.09	1.78	0.18	1.96	12.10	18.13	4.38
S&P/LSTA U.S. LEV LOAN	USD	98.67	-0.02	-0.08	-0.17	-0.33	1.37	6.66	0.05	13.71	0.17	4.76

COMMODITY INDICES - BY TYPE OF ISSUER												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
GSCI INDEX TOTAL RETURN	USD	2,398.73	0.48	-0.49	0.65	1.38	9.17	9.86	-0.77	27.03	-50.54	-
GSCI ENERGY TR	USD	415.56	0.88	-1.09	0.25	0.18	12.72	14.53	-4.42	45.59	-63.15	-
GSCI INDUSTRIAL METALS TR	USD	1,207.23	-0.85	-0.29	-0.80	5.42	6.14	16.94	7.55	29.88	-8.69	-
GSCI PRECIOUS METALS TR	USD	1,515.53	-0.17	1.48	2.00	4.42	-3.35	-8.82	7.62	3.31	-5.01	-
GSCI AGRICULTURE TR	USD	456.44	0.35	0.67	2.36	2.77	1.64	1.46	5.89	5.13	-26.12	-
GENERIC 1ST 'CL' FUTURE	USD	53.00	0.13	-1.41	0.49	2.81	12.25	16.64	-2.66	36.85	-54.07	-
GOLD SPOT \$/OZ	USD	1,228.37	-0.40	0.27	1.06	3.01	-2.81	-9.14	6.18	2.20	-4.02	-

CURRENCIES												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
DOLLAR INDEX SPOT	USD	100.65	0.17	0.95	1.31	-1.17	2.06	5.41	-1.36	5.14	25.02	-
Euro Spot	EUR	1.07	-0.17	-1.35	-1.49	0.79	-2.35	-4.82	1.14	-5.80	-22.05	-
Japanese Yen Spot	JPY	113.25	-0.43	-0.99	-0.83	1.78	-6.08	-10.95	2.83	-0.34	-10.09	-
British Pound Spot	GBP	1.25	-0.18	-0.07	-0.83	2.45	-0.64	-4.11	1.09	-14.10	-23.95	-
Swiss Franc Spot	CHF	1.00	-0.12	-0.99	-1.37	1.41	-1.61	-2.78	1.61	-2.91	-10.58	-
Brazilian Real Spot	BRL	3.13	-0.37	-0.18	0.68	2.32	3.14	0.58	4.09	24.83	-23.92	-
China Renminbi Spot	CNY	6.87	-0.19	-0.22	0.03	0.57	-1.11	-3.58	0.91	-4.47	-11.94	-
Singapore Dollar Spot	SGD	1.42	-0.17	-0.91	-0.92	0.93	-0.79	-5.71	1.68	-2.19	-10.69	-
Russian Ruble Spot	RUB	58.92	0.03	0.17	2.19	2.13	11.53	10.23	4.48	34.56	-40.99	-
Norwegian Krone Spot	NOK	8.34	-0.50	-2.07	-1.60	2.68	-0.18	-1.31	3.11	1.59	-26.87	-

VOLATILITY / LIQUIDITY INDICES												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
CBOE SPX VOLATILITY INDX	USD	10.88	-4.98	-0.82	-9.26	-5.31	-26.19	-9.71	-22.51	-58.62	-28.70	-
USD SWAP SPREAD SEMI 2YR	USD	31.08	-	2.73	7.80	9.27	23.05	12.26	22.47	541.27	158.96	-
TED SPREAD	USD	50.07	-	-7.52	-4.06	-1.28	10.02	-6.62	0.04	58.80	227.68	-

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