

Bedrock Friday 19 May 2017 Newsletter

Yes, if we ever had a doubt as to the importance of politics, this week will have put this question to rest... Stock markets across Asia took their cues from Wall Street, where the S&P 500 suffered its biggest one-day drop in eight months on Wednesday. The dollar was also down and bank stocks were in retreat and all this on the coattails of new allegations that Trump tried to influence Comey to let go of Flynn's investigation. Talk of a Russia-Gate which could lead to the "I" word, impeachment... CNN even found Woodward to talk about the parallels with the Nixon story he had written. The US equity markets tanked, as did the US Dollar and Treasuries rose in price as a safe-haven should. Well, it all calmed a little as former FBI director Robert Mueller was named "Special Counsel" to lead an investigation into the Russian-meddling fiasco.

If this alone didn't convince you, look at Brazil, where it is alleged that Brazilian President Michel Temer gave his blessing to an attempt to pay a potential witness in the country's biggest-ever graft probe to remain silent, according to plea-bargain testimony by a powerful businessman. Protesters took to the streets in São Paulo and Brasília, calling for the president to resign. Well, the Brazilian market took a nosedive of close to 10% and the Real fell by 6% or so (Petrobras alone lost 17%)...

And then, there is the collapsing social order in Venezuela, somehow deemed to be relatively unimportant when there is all this he said / he said around the White House. But it is actually a very dangerous situation as it could lead to yet another "Failed State". We all know what happened in Sudan, in Libya, in Syria, Iraq, in the Balkans and Chechnya. Venezuela is not far from this... Social unrest can spill-over to neighbouring countries. Refugees closer to Wall Street?

These events in Latin America could have broad repercussions across the emerging markets' universe. We are apprehensive as we see how volatility can engulf these less-liquid investment areas. Just a few days ago we were seduced by the extremely low volatility across all markets and asset classes, and bought some cheap protection via put options on the S&P index. Well, On Wednesday the US politics ruptured the calm and the VIX (so-called "fear index") jumped from its historically low level below 10 to over 14.5. A huge jump! Since, we have drifted lower somewhat to the 13.45 level.

Amazing how euphoria can be fickle... Is the "Trump-Trade" turning into the "Trump-Fade"?

What is really happening? Arguably there is a sense of breakdown in confidence in the ability of the US administration to concentrate on matters of real importance- Health care, infrastructure rebuild, tax reform, the "Wall", Middle-East peace, North Korean missiles and the like issues of global importance. All this with the backdrop of *perceived* high prices for financial assets.

We mustn't forget the back pages of our journals where we can find that European Union leaders agreed to toughen their negotiating position for Brexit talks, specifically including language on any future transitional agreement, according to the latest draft directives. Then, as an immediate reaction we find that JPMorgan agreed to pay €125 million for office space in Dublin to accommodate 1,000 staff. That's again raised the prospect that Brexit could trigger an exodus of banks from London. Yes, Theresa May is still talking the tough talk, but her voice doesn't seem to carry across the Channel where she clearly isn't heard.

More "little troubles"; Over the weekend hackers used malware to infect more than 200,000 computers in at least 150 countries, and demanded ransom. Among those affected were the U.K.'s National Health Service, Russia's Ministry of Interior, and carmakers Nissan and Renault. Can we relax, as it seems to have fizzled away? Or should we fear this as a test? Like the failed North Korean missiles?

Another "little trouble" we may be facing with less macro-economic effects but even more nuisance value comes from the U.S. Department of Homeland Security who said last week it might expand to Europe the ban on laptops and other large electronics imposed on U.S.-bound flights from 10 Middle Eastern airports. The new security protocol could mean longer security lines, heightened delays, boarding gate confusion, and yet more hassles for fliers. We heard that the alleged security breach by Trump in disclosing intelligence information to the Russians concerns laptop computers and airplanes. We must wonder how can a laptop be safer in the hull than when it is in the cabin? If it were to explode, heavens forbid, the damage would surely be similar?

With all these annoying headlines, we are losing sight of the reality around us- France seems to be sorting itself out under the leadership of their new President, Macron. He appears to have pulled a rabbit out of his hat and created a credible, young and quite different government. It may work we say and hope. Next door, Angela Merkel's hold on Germany tightened following key state electoral victory. She is widely tipped to secure a fourth term. That is good, we think. Then the Wednesday market falls caused a loss of \$35 billion to the richest 500 people in the world- A step towards redistribution of wealth? Take from the rich... but here it was not given to the needy, just thrown away...

Separately, UBS economists are now pencilling in a rate hike by the Federal Reserve in June, followed by one in September, the financial services firm said in a note Wednesday as it updated its calls. If they are right with their call, why then, this fall in the US\$ is an opportunity to buy it... Go with the (expected) carry!

Remains the Trump issue which Nomura brushes away- The events have led some to start weighing the possibility of an impeachment, but according to Nomura this "still seems a distant prospect". It would take a 2/3 majority in the Senate to impeach- Highly unlikely in the current Republican dominated Senate. It is in a country where maybe 25% believe in impeachment and 51% believe in UFOs... And as said Zsa Zsa Gabor "Macho doesn't prove mucho"... We remain optimistic and vested.

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 then has a lot of ground this year to now trade down at 97.50. The USD is trading around 1.1145 against the EUR and at 0.9780 vs. the CHF. The Pound is trading firmly at \$1.2995. The Japanese Yen is trading strongly against the USD at just under 111.50, a big move from year-end levels of 117.50
The Russian Rouble is moving in a very narrow band against the USD at 57.00 following the oil-price pattern. The Brazilian Real is now at 3.37, a big drop for the week, following the new political scandals in Brazil.
Crude oil WTI reached \$55.24 a barrel on the first day of trading on January 1st and is now trading higher for the week at around \$49.95, possibly just the effect of the lower Dollar. Gold is stable at \$1'250.
- The yield on 10Y U.S. Treasuries is at 2.25% as we write. The Japanese 10 year JGB is trading steady for the week and continues to offer POSITIVE returns trading at 0.034%.
In Europe, since the start of year we saw the German Bund trading lower in yield almost every day reaching almost 0.15% and then after the French election bouncing back to almost 0.36% just now. The French 10Y Yield is now back below the 1% trading at about 0.85%
- All markets are down this week. In the USA, DJIA is trading at about 20'660 even after the "correction" of Wednesday, Nasdaq still above 6'050, and SP500 at about 2'360. In reality, we are basically at the all-time highs, or within a couple of percentage points thereof.
In Europe stocks remain slightly up for the month EUROSTOXX 50 up 0.40%. The DAX remains up almost 10% for the year, the Swiss SMI has gained 9.30% for the year as did most other European indices- EUROSTOXX 600 up 8% YTD. Not so bad then... Nikkei is trading slightly up for the year at 2.5%
The MSCI World Index is showing a healthy 7.41% gain YTD after a MTD gain(!) of 0.14% So things are still OK... **The Brazilian BOVESPA was destroyed yesterday falling almost 9% and is now up only 2.25% YTD. But this is a country-specific event, on the back of allegations of corruption of the President Michel Temer who supposedly paid witnesses to remain silent in a graft probe....**

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MARKET INDICES PERFORMANCE

18/05/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Fwd P/E	T12m P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
EQUITY MARKET INDICES - BY REGION													
S&P 500 INDEX	USD	2,365.72	0.37	-1.20	-0.78	1.18	0.62	8.42	5.67	15.96	25.50	18.23	21.07
DOW JONES INDUS. AVG	USD	20,663.02	0.27	-1.23	-1.33	1.27	0.19	9.51	4.56	18.51	25.14	17.07	18.18
NASDAQ COMPOSITE INDEX	USD	6,055.13	0.73	-0.99	0.12	3.28	3.71	13.79	12.48	28.49	46.76	23.09	32.23
RUSSELL 2000 INDEX	USD	1,361.08	0.39	-2.09	-2.81	-0.44	-2.77	3.45	0.29	24.32	22.13	27.40	43.58
EURO STOXX 50	EUR	3,562.22	-0.63	-1.75	0.40	4.47	8.01	18.31	8.61	22.43	12.75	15.19	20.01
EURO STOXX 600	EUR	389.19	-0.43	-1.31	0.87	3.50	5.46	15.04	8.03	16.93	15.34	15.98	25.49
CAC 40 INDEX	EUR	5,289.73	-0.53	-1.78	0.80	6.11	9.08	17.87	9.20	23.98	18.79	15.69	19.64
DAX INDEX	EUR	12,590.06	-0.33	-1.16	1.48	5.04	7.36	18.36	9.94	28.86	30.68	14.00	19.96
FTSE 100 INDEX	GBP	7,436.42	-0.62	0.42	3.64	4.95	2.28	10.19	4.53	23.34	9.08	15.21	34.29
SWISS MARKET INDEX	CHF	8,938.37	-0.70	-1.50	1.97	5.33	5.64	13.69	9.33	13.63	3.94	17.91	25.10
NIKKEI 225	JPY	19,553.86	-1.32	-1.47	2.05	6.29	1.85	9.03	2.49	17.69	39.87	17.16	18.76
HANG SENG INDEX	HKD	25,136.52	-0.50	0.25	2.46	5.85	4.93	12.87	14.63	28.06	11.08	12.48	14.14
SHANGHAI SE COMPOSITE	CNY	3,090.14	-0.45	0.23	-2.03	-2.52	-3.48	-3.20	-0.42	10.11	54.13	13.48	16.76
S&P BSE SENSEX INDEX	INR	30,434.79	-0.73	0.78	1.69	3.71	6.87	16.34	14.26	19.78	24.88	18.23	21.97
RUSSIAN RTS INDEX \$	USD	1,076.80	-2.49	-1.80	-3.09	1.07	-6.27	9.00	-6.28	21.97	-16.28	6.39	8.29
BRAZIL IBOVESPA INDEX	BRL	61,597.05	-8.80	-8.80	-5.82	-2.85	-9.08	2.73	2.27	22.87	15.45	11.64	16.65
MSCI WORLD	USD	1,880.96	-0.06	-0.63	0.14	2.50	2.42	10.82	7.41	15.57	11.57	17.11	21.22
MSCI WORLD HEDGED	USD	840.92	-0.07	-1.14	0.02	2.34	2.40	10.96	6.84	18.88	28.38	-	-
MSCI WORLD LOCAL	-	1,441.67	-0.05	-1.23	-0.27	2.06	1.53	9.56	5.67	16.79	20.46	17.11	21.22
MSCI AC WORLD	USD	456.29	-2.28	-0.72	0.24	2.64	2.73	11.47	8.17	16.66	9.83	16.44	20.28
MSCI EM	USD	988.38	-2.00	-1.40	1.07	3.72	5.25	17.03	14.62	26.42	-4.54	12.61	15.18
MSCI AC ASIA x JAPAN	USD	607.29	-0.69	-0.10	2.20	5.33	8.01	17.82	18.07	28.02	7.06	13.27	15.06
MSCI EM LATIN AMERICA	USD	2,460.96	-9.33	-8.11	-5.37	-5.48	-6.24	8.56	5.14	19.45	-26.83	13.37	17.64
MSCI EM Eur, ME & Africa	USD	260.23	-1.40	-0.69	0.21	3.02	1.74	15.51	6.31	19.40	-21.69	11.15	13.58
EQUITY MARKET INDICES - BY SECTOR											P/E	P/E	
MSCI ENERGY	USD	202.37	-0.36	-0.63	0.25	0.27	-3.00	-0.40	-7.59	4.87	-31.17	23.67	51.38
MSCI MATERIALS	USD	234.72	-0.50	-0.40	-1.26	0.80	-1.71	9.75	5.79	20.42	-4.78	15.83	20.66
MSCI INDUSTRIALS	USD	230.23	-0.20	-0.92	-0.74	2.47	3.06	10.68	8.35	18.10	14.21	17.69	22.02
MSCI CONS DISCRETIONARY	USD	214.38	0.16	-0.85	-0.67	2.69	4.20	11.41	9.13	16.19	22.99	17.11	19.05
MSCI CONS STAPLES	USD	227.70	-0.39	0.50	1.57	2.23	4.52	13.20	9.71	6.70	15.40	20.96	23.78
MSCI HEALTH CARE	USD	212.94	0.05	-0.47	0.56	3.34	3.68	10.49	10.43	8.29	17.24	16.79	22.37
MSCI FINANCIALS	USD	109.65	-0.19	-1.42	-1.29	1.97	-2.08	8.52	3.26	21.52	8.49	12.92	15.57
MSCI INFO TECH	USD	188.02	0.38	-0.89	1.77	5.34	7.00	18.12	16.61	33.89	50.95	19.37	25.06
MSCI TELECOMS	USD	69.07	0.00	-0.09	0.70	-0.01	0.00	6.94	-0.66	-1.68	-4.58	14.74	20.81
MSCI UTILITY	USD	124.76	0.22	0.74	1.95	2.36	7.08	14.62	8.53	6.91	5.06	16.94	20.45
MSCI WORLD REAL ESTATE	USD	199.12	-0.22	0.40	0.15	-1.26	1.83	8.45	4.75	3.48	6.29	24.83	19.85
HEDGE FUND INDICES													
HFRI GLOBAL HEDGE FUND	USD	1,227.88	-0.39	-0.22	-0.06	0.43	0.32	3.38	2.03	6.42	0.37	-	-
HFRI EQUAL WEIGHTED	USD	1,239.79	-0.25	-0.15	-0.09	0.39	0.44	3.04	1.86	6.39	3.12	-	-
HFRI GLOBAL EUR	EUR	1,095.61	-0.39	-0.22	-0.17	0.24	-0.21	2.29	1.19	4.30	-3.24	-	-

MARKET INDICES PERFORMANCE

18/05/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Yield to Worst	
			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	0.90	-0.51	3.57	11.21	10.69	39.18	47.31	40.70	60.43	-	-	-
US 2 YEAR	USD	1.28	1.44	-0.78	2.07	10.60	9.44	21.48	9.43	40.07	-	-	-
US 10 YEAR	USD	2.24	1.04	-8.59	-4.04	2.55	-17.49	-11.50	-20.45	39.11	-	-	-
US LIBOR 3M	USD	1.18	-0.28	-0.26	0.61	2.00	12.61	26.72	18.05	55.33	-	-	-
EUR LIBOR 3M	EUR	-0.37	-0.14	-0.36	-0.93	-1.43	-2.06	-4.29	-3.57	-9.11	-	-	-
GBP LIBOR 3M	GBP	0.31	-0.13	-0.34	-1.41	-2.81	-4.72	-8.65	-5.54	-27.58	-	-	-
CHF LIBOR 3M	CHF	-0.73	-0.20	-0.20	0.10	0.32	-0.26	0.22	0.02	0.60	-	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER													
GLOBAL AGG TR HEDGED	USD	506.43	-0.01	0.37	0.29	0.10	1.50	1.82	1.41	1.76	10.81	1.55	-
GLOBAL HY TR	USD	1,249.95	-0.33	0.09	0.40	1.43	2.90	7.89	5.38	12.69	12.13	5.36	-
US GOVERNMENT TR	USD	2,153.50	-0.08	0.53	0.36	-0.06	1.36	1.52	1.74	-0.10	6.12	1.55	-
US CORPORATE TR	USD	2,810.78	-0.18	0.61	0.76	0.48	2.35	3.85	3.08	4.26	11.10	3.18	-
US HIGH YIELD TR	USD	1,889.05	-0.07	0.05	0.25	1.00	1.90	6.90	4.15	14.23	14.51	5.66	-
EU GOVERNMENT TR	EUR	248.60	0.15	0.36	0.21	0.12	0.92	0.14	-0.68	-0.33	11.27	0.54	-
EU CORPORATE TR	USD	264.16	-0.02	-0.03	0.09	0.20	1.06	2.45	1.43	4.43	12.11	0.87	-
EU HIGH YIELD TR	EUR	306.06	-0.23	-0.30	0.34	1.11	1.89	5.77	3.32	9.01	15.40	3.40	-
BARCLAYS GLOBAL CONVERT.	USD	231.39	-0.03	-0.28	-0.47	0.78	0.77	6.01	3.96	9.82	8.43	-	-
GLOBAL EM TR (HEDGED)	USD	371.32	-0.42	-0.15	0.06	0.38	2.28	5.77	4.39	8.27	15.55	4.24	-
S&P/LSTA U.S. LEV LOAN	USD	98.85	-0.03	-0.01	0.09	0.01	0.11	1.40	0.24	8.97	0.17	4.46	-
COMMODITY INDICES - BY TYPE OF ISSUER													
GSCI INDEX TOTAL RETURN	USD	2,248.19	-0.06	1.56	0.06	-3.40	-6.06	2.15	-7.00	-5.39	-55.25	-	-
GSCI ENERGY TR	USD	380.89	0.42	2.51	0.54	-5.88	-7.92	2.31	-12.40	-7.69	-66.94	-	-
GSCI INDUSTRIAL METALS TR	USD	1,162.53	-0.53	0.41	-2.18	0.44	-5.17	3.45	3.57	20.67	-12.99	-	-
GSCI PRECIOUS METALS TR	USD	1,519.69	-0.57	2.35	-1.44	-3.84	-0.10	2.71	7.91	-2.98	-6.32	-	-
GSCI AGRICULTURE TR	USD	412.59	-1.57	-0.92	-0.58	-1.83	-8.92	-7.06	-4.28	-14.08	-39.77	-	-
GENERIC 1ST 'CL' FUTURE	USD	49.80	0.91	4.10	0.95	-2.12	-9.47	-0.24	-11.28	-11.12	-58.77	-	-
GOLD SPOT \$/OZ	USD	1,251.01	0.31	1.86	-1.36	-2.29	1.30	3.57	8.57	-0.29	-3.25	-	-
CURRENCIES													
DOLLAR INDEX SPOT	USD	97.88	-0.24	-1.62	-1.42	-2.10	-3.28	-3.53	-4.47	2.47	22.06	-	-
Euro Spot	EUR	1.11	0.34	1.92	2.26	4.01	4.97	4.81	5.93	-0.55	-18.73	-	-
Japanese Yen Spot	JPY	111.49	0.08	1.78	0.08	-2.28	1.53	-0.52	4.99	-1.29	-8.89	-	-
British Pound Spot	GBP	1.29	0.31	0.68	0.21	1.57	4.13	3.87	5.17	-11.18	-22.81	-	-
Swiss Franc Spot	CHF	0.98	0.14	2.29	1.65	2.03	2.48	3.10	4.14	1.25	-8.81	-	-
Brazilian Real Spot	BRL	3.38	-7.01	-6.99	-5.89	-7.93	-8.53	0.18	-3.57	5.62	-34.39	-	-
China Renminbi Spot	CNY	6.89	-0.04	0.11	0.02	-0.06	-0.20	0.01	0.77	-4.97	-9.50	-	-
Singapore Dollar Spot	SGD	1.39	0.09	0.89	0.40	0.50	1.90	2.34	3.97	-0.75	-10.15	-	-
Russian Ruble Spot	RUB	57.55	0.66	-0.15	-0.43	-1.08	1.41	11.90	7.64	16.78	-39.58	-	-
Norwegian Krone Spot	NOK	8.49	0.76	1.63	1.92	1.86	-1.00	1.44	2.58	-0.69	-29.57	-	-
VOLATILITY / LIQUIDITY INDICES													
CBOE SPX VOLATILITY INDX	USD	14.66	-5.97	36.54	31.24	-4.89	23.59	10.51	1.14	-13.04	14.33	-	-
USD SWAP SPREAD SEMI 2YR	USD	22.55	-	-8.35	-27.90	-30.43	-37.48	5.44	-12.35	67.42	47.16	-	-
TED SPREAD	USD	27.40	-	-9.27	-27.38	-22.99	-49.23	-43.49	-45.25	-19.55	28.40	-	-

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