

Bedrock Friday 14 July 2017 Newsletter

Due to technical seasonal reasons, we are composing this week's Friday Newsletter on Thursday. Last week we rambled-on about central banks appearing to be concerted in closing the door on easy money. This week we got the leader of this pack-of-bankers, Janet Yellen, giving her 'House Testimony'... Global stocks hit a record high after Janet Yellen signaled the Federal Reserve won't rush to tighten monetary policy, while a gauge of the dollar fell to a 10-month low. The markets were (and are) upbeat as Yellen's comments suggest a slower pace of rate increases and that bodes well for liquidity conditions, which in itself, drives stocks. The Fed chair's gradualist tone on policy came after signals from central banks around the world that accommodative policies may no longer be needed as the global economy strengthens.

We are in the beginning of Q2 earnings' season and the market is expecting stellar improvements. Not from cost-cutting but rather from top-line improvements. Friday we expect results from the key financials in the USA- JPMorgan, Citigroup and Wells Fargo. These results will combine with the US CPI reading and the follow-on day two of Yellen's testimony. This week we also got data from China- exports rose 11.3% in June, up from an 8.7% rise in May and beating forecasts for 8.9% growth. Imports rose 17.2%. Clearly there is a strong rise in economic activities, fuelling markets and giving reason to the continuing record-breaking stock indices worldwide. Yes, the music will stop eventually, but we remain optimistic here and repeat yet again that "all-time-high" isn't scary or bad, when there is a sound economic reasoning. Low interest rates which we are assured won't rise by much anytime soon and may be rising into growth. Even Oil has found some footings above \$45/Bbl and gold prices are soft. Yields on the benchmark US ten year Treasury are steady at about 2.30% so no significant change in the discounting factor for the expected improved earnings. Remember Goldilocks? Clearly enjoying her porridge whilst the bears are hurting with their "shorts" which may be appropriate for the hot weather...

No, this isn't a crazy period with silly valuations (albeit there certainly are some specifics which are ridiculous). We are not in the equivalent craziness of the Dutch "Tulipmania" during 1636-1637, at least not in the context of general equity valuations. Beyond the Chinese expansion of trade, in the USA, the economy grew at a "slight to moderate" pace over the last several weeks across all regions of the country, with wage pressures reported for both low- and high-skilled jobs, the Federal Reserve reported in its latest compendium of regional economic activity (Beige Book). The report is consistent with recent Fed policy statements and the testimony on Capitol Hill on Wednesday by Fed Chair Janet Yellen, who told Congress the central bank remained on track to continue raising rates and to soon start reducing the size of its asset holdings. Federal Reserve Chair Janet Yellen emphasized Wednesday that the central bank is closely watching tepid inflation data but that she still expects to begin shrinking its \$4.5 trillion bond portfolio later this year. The real message in these words is that the economy is out at last from the danger-zone and normalisation is happening, at last. The market's fearmongers keep harking about the Fed's balance sheet and the inevitable perils of its unwinding. Yes, a big and complex task for our central bankers, but still, Yellen said she anticipates the balance sheet will remain larger than it was before the 2008 financial crisis. Several officials have said the Fed likely will maintain a portfolio that will exceed \$2 trillion. We must assume they will manage this "unwind" carefully if not wisely. "The committee would be prepared to use its full range of tools, including altering the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate," she said. On a Dollar bill it is printed "in God We Trust". We here trust the Fed, without implying that any divinity whatsoever can or should be attributed therein... Others seem to share our views, as they put their Dollars to work, pushing the main indices to new highs. Money talks, B/S walks it is said...

Global technology stocks have had a great run—so great, in fact, that share prices for tech companies are closing in on levels last seen during the dot-com bubble. (And we all know how that ended.) BlackRock thinks this time is different, which is always a bold call to make. The difference between then and now, the asset manager says, is that tech companies earn a lot more money today. BlackRock's Belinda Boa acknowledged that gains have been so extreme that there could be more sudden price swings in store. Still, it's noteworthy that the world's biggest asset manager thinks tech stocks may have even better days ahead, whether that makes you more confident or generates a scary feeling of déjà vu. The Federal Reserve likely will act "soon" to begin running off its \$4.5 trillion bond portfolio as long as the economy cooperates, central bank Governor Lael Brainard said in a speech Tuesday. Brainard, however, added a dovish note to her prediction for balance sheet normalization — that the Fed may "not have much more" to do in terms of rate hikes. Traders currently are assigning about a 50% chance that the Fed will hike again in December. "In my view, the neutral level of the federal funds rate is likely to remain close to zero in real terms over the medium term," Brainard said. "If that is the case, we would not have much more additional work to do on moving to a neutral stance." Well well well... at last a public official that openly supports our long-standing view whereby the lack of inflationary pressures anywhere remove the reason for rates to rise! Well, we didn't believe they would "see the light" and advocated for a rising Dollar on the back of expected rate rises. Well, maybe the rug under our argument has been pulled some... The Dollar is showing weakness...

Oh, back to Tulips... \$12 billion were wiped off the value of the cyber currency since its high some 30 days ago. And you could do something with a tulip... Education is a progressive discovery of our own ignorance!

Market Weekly Highlights:

Data as of Thursday afternoon!

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY had reached 103.80 and then has lost ground to trade down at 95.94. The USD is trading around 1.14 against the EUR and at 0.9670 vs. the CHF . The Pound is trading firmly at \$1.2925 and the Japanese Yen is steady against the USD at 113.40. The Russian Rouble is following the oil-price pattern, moving slightly higher this week against the USD at 60.08. The Brazilian Real is now trading at almost 3.20, up some since the decision on ex-President Lula. Crude oil WTI is oscillating. Having reached \$55.24 a barrel on the first day of trading on January 1st then falling back to \$44 in the first trading days of May, only to trade back up at \$52 and down again to almost \$42.00; it is now trading again at \$45.86 while Brent is trading at \$48.10 as we write.
- The yield on 10Y U.S. Treasuries are trading at 2.35% off some 3Bp for the week. The Japanese 10 year JGB is trading almost unchanged for the week and continues to offer POSITIVE returns trading at 0.07%. In Europe, since the start of year we saw the German Bund trading in a range from 0.20% to 0.50% in yield during this first half of the year, yesterday it seems to have broken this trading range and now shows almost 0.60%, the highest in terms of yield since the start of the year.
- Equity markets are up so far this week in the USA, DJIA is trading at about 21'530, SP500 at just above 2'444 and Nasdaq at about 6'265. In reality, we are basically back at or near the all time highs, or within a couple of percentage points thereof. In Europe Eurostoxx50 is up for first days of the month 2.32%. The DAX is up at almost 10.04% for the year and up for the month by 2.5% as we write. The CAC40 has gained 2.14% for July, as did other European indices. Nikkei has gained 0.33% for July and for the year is up 5.16%. In Latam the Bovespa is showing a positive 3.10% for the month bringing the yearly performance at 7.65%. While in Asia the Hang Seng is up almost 18.00% for the year and Shanghai Composite at a mere +3.69%.

Data as of Wednesday close of business

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MARKET INDICES PERFORMANCE

12/07/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								1Y	3Y	Fwd P/E	T12m P/E	
			1D	5D	MTD	1M	3M	6M	YTD						
EQUITY MARKET INDICES - BY REGION															
S&P 500 INDEX	USD	2,443.25	0.74	0.44	0.82	0.12	4.91	7.41	9.13	13.51	24.18	18.74	21.60		
DOW JONES INDUS. AVG	USD	21,532.14	0.57	0.25	0.85	0.95	5.27	8.28	8.95	17.20	27.08	17.85	18.93		
NASDAQ COMPOSITE INDEX	USD	6,261.17	1.10	1.79	1.97	0.66	7.86	12.33	16.31	25.08	41.80	23.61	34.31		
RUSSELL 2000 INDEX	USD	1,424.32	0.80	0.29	0.63	-0.12	5.88	3.81	4.95	18.58	22.79	29.26	47.24		
EURO STOXX 50	EUR	3,515.23	1.46	1.73	2.32	-1.01	2.14	5.94	7.03	20.36	11.56	15.00	19.69		
EURO STOXX 600	EUR	384.90	1.52	1.38	1.66	-0.79	1.34	5.39	6.71	14.84	14.47	15.94	24.69		
CAC 40 INDEX	EUR	5,222.13	1.59	1.50	2.13	-0.60	3.13	6.25	7.56	20.64	21.16	15.49	19.36		
DAX INDEX	EUR	12,626.58	1.52	2.04	2.50	-1.03	4.33	8.64	10.04	27.22	30.70	13.92	20.30		
FTSE 100 INDEX	GBP	7,416.93	1.19	0.95	1.29	-1.24	1.09	0.95	3.70	11.05	10.72	15.15	32.18		
SWISS MARKET INDEX	CHF	9,015.60	1.59	1.38	1.16	1.61	4.41	6.60	9.61	10.65	6.39	18.06	25.26		
NIKKEI 225	JPY	20,098.38	-0.48	0.53	0.33	1.01	9.08	4.21	5.16	23.83	32.55	17.47	19.18		
HANG SENG INDEX	HKD	26,043.64	0.64	3.47	2.27	1.92	8.60	14.87	19.76	23.57	13.41	12.73	14.19		
SHANGHAI SE COMPOSITE	CNY	3,197.54	-0.15	0.18	0.81	2.04	-1.76	3.39	3.69	5.15	57.22	14.12	17.26		
S&P BSE SENSEX INDEX	INR	31,804.82	0.18	2.16	3.64	3.04	8.78	17.66	20.36	15.22	28.07	19.63	23.93		
RUSSIAN RTS INDEX \$	USD	1,025.68	2.45	1.12	2.21	-0.76	-6.08	-11.66	-11.21	7.43	-26.03	6.55	7.13		
BRAZIL IBOVESPA INDEX	BRL	64,835.55	1.57	2.66	3.08	4.86	3.20	1.86	7.65	18.75	18.34	12.06	17.45		
MSCI WORLD	USD	1,932.86	0.90	1.25	0.86	0.21	5.44	8.09	10.37	14.07	11.34	17.42	21.61		
MSCI WORLD HEDGED	USD	862.61	0.70	0.49	0.98	0.52	4.35	8.05	9.59	17.45	27.49	-	-		
MSCI WORLD LOCAL	-	1,473.93	0.70	1.19	0.92	-0.07	4.22	6.15	8.04	14.54	19.64	17.42	21.61		
MSCI AC WORLD	USD	469.62	0.93	1.37	0.97	0.41	5.61	8.82	11.33	14.74	9.86	16.81	20.72		
MSCI EM	USD	1,029.90	1.17	2.36	1.89	1.99	6.96	14.95	19.44	20.26	-2.72	13.18	15.68		
MSCI AC ASIA x JAPAN	USD	632.96	0.66	1.73	1.21	1.35	8.20	17.81	23.06	22.39	8.62	13.82	15.62		
MSCI EM LATIN AMERICA	USD	2,661.33	1.83	4.49	4.61	5.73	2.14	9.80	13.70	14.88	-22.48	14.30	18.96		
MSCI EM Eur, ME & Africa	USD	257.18	2.77	2.40	1.73	-0.16	1.55	2.38	5.07	8.37	-23.33	11.25	13.01		
EQUITY MARKET INDICES - BY SECTOR														P/E	P/E
MSCI ENERGY	USD	195.21	0.81	0.96	0.10	-2.95	-5.41	-10.50	-10.86	-5.46	-35.72	23.95	47.90		
MSCI MATERIALS	USD	247.10	1.20	2.07	2.64	1.61	5.57	7.08	11.37	18.90	-2.36	16.69	21.25		
MSCI INDUSTRIALS	USD	240.07	0.81	1.34	1.18	0.70	7.24	10.48	12.98	18.09	17.60	18.03	22.68		
MSCI CONS DISCRETIONARY	USD	217.37	0.88	1.36	0.40	-0.74	4.92	7.39	10.65	14.48	19.70	17.31	19.31		
MSCI CONS STAPLES	USD	226.68	1.06	0.34	-0.66	-2.36	1.91	8.88	9.22	0.60	13.56	20.52	23.60		
MSCI HEALTH CARE	USD	221.52	1.11	0.91	-0.01	1.64	7.02	12.02	14.88	5.62	17.17	17.51	23.56		
MSCI FINANCIALS	USD	116.94	0.37	0.20	1.41	2.68	9.06	7.66	10.14	30.69	13.27	13.68	16.55		
MSCI INFO TECH	USD	193.98	1.29	3.52	2.78	1.13	9.55	16.53	20.31	30.94	46.67	19.44	25.31		
MSCI TELECOMS	USD	67.61	0.83	-0.10	-1.24	-4.05	-1.74	-4.20	-2.76	-8.01	-6.15	14.31	18.76		
MSCI UTILITY	USD	125.26	0.93	0.88	-0.24	-2.52	2.37	8.78	8.96	0.54	2.52	16.33	20.58		
MSCI WORLD REAL ESTATE	USD	199.36	0.91	0.32	-1.28	-2.86	-0.74	3.85	4.88	-3.84	4.17	24.50	19.74		
HEDGE FUND INDICES															
HFRIX GLOBAL HEDGE FUND	USD	1,237.35	0.09	0.33	0.25	0.23	1.16	2.23	2.82	5.41	-0.27				
HFRIX EQUAL WEIGHTED	USD	1,247.97	0.06	0.20	0.17	0.25	0.98	2.03	2.53	5.28	2.60				
HFRIX GLOBAL EUR	EUR	1,099.00	0.16	0.12	0.07	-0.06	0.42	1.17	1.50	3.22	-4.24				

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			1D	5D	MTD	1M	3M	6M	YTD					
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)														
US 3 MONTH	USD	1.04	0.00	1.02	3.06	4.58	23.94	51.91	54.45	74.18	-			
US 2 YEAR	USD	1.34	0.01	-5.14	-3.87	-2.03	13.77	14.99	15.47	67.79	-			
US 10 YEAR	USD	2.31	-0.71	-5.53	0.69	9.97	7.32	-8.58	-13.37	83.63	-			
US LIBOR 3M	USD	1.30	-0.06	0.14	0.43	6.71	14.84	28.17	30.56	63.44	-			
EUR LIBOR 3M	EUR	-0.37	0.00	-0.14	-0.01	0.00	-1.14	-3.14	-3.57	-7.06	-			
GBP LIBOR 3M	GBP	0.30	0.06	-0.43	-0.96	0.72	-4.26	-6.30	-6.95	-20.51	-			
CHF LIBOR 3M	CHF	-0.73	0.00	0.26	0.36	0.42	0.68	-0.12	0.28	4.98	-			
FIXED INCOME INDICES - BY TYPE OF ISSUER														Yield to Worst
GLOBAL AGG TR HEDGED	USD	506.23	0.20	0.25	-0.05	-0.42	0.19	1.38	1.37	-1.03	9.94	1.64		
GLOBAL HY TR	USD	1,263.64	0.29	0.30	0.07	0.12	2.83	5.29	6.54	9.65	11.73	5.40		
US GOVERNMENT TR	USD	2,154.92	0.21	0.27	-0.06	-0.17	0.20	1.40	1.80	-2.52	6.04	1.64		
US CORPORATE TR	USD	2,834.32	0.28	0.41	0.14	0.32	1.52	3.35	3.94	0.99	11.38	3.18		
US HIGH YIELD TR	USD	1,904.15	0.21	0.09	0.05	-0.12	1.85	3.77	4.98	9.95	14.26	5.69		
EU GOVERNMENT TR	EUR	247.29	0.36	0.33	-0.30	-1.43	-0.37	-0.45	-1.20	-3.66	8.93	0.64		
EU CORPORATE TR	EUR	265.15	0.25	0.37	0.32	-0.25	0.44	1.98	1.81	2.16	11.55	0.88		
EU HIGH YIELD TR	EUR	308.61	0.22	0.03	-0.03	0.01	2.02	3.64	4.18	8.13	15.80	3.22		
BARCLAYS GLOBAL CONVERT.	USD	236.02	0.43	0.49	0.71	0.78	2.57	4.79	6.04	9.89	9.35	-		
GLOBAL EM TR (HEDGED)	USD	373.52	0.33	0.52	0.10	-0.29	1.18	4.00	5.01	4.16	13.84	4.33		
S&P/LSTA U.S. LEV LOAN	USD	98.58	0.02	0.07	0.23	-0.17	-0.17	-0.46	-0.03	7.09	-0.40	4.71		
COMMODITY INDICES - BY TYPE OF ISSUER														
GSCI INDEX TOTAL RETURN	USD	2,161.41	0.05	0.26	-0.39	0.65	-8.08	-10.52	-10.59	-7.04	-55.92			
GSCI ENERGY TR	USD	348.95	0.46	0.60	-1.17	-0.82	-14.95	-17.78	-19.74	-12.17	-69.35			
GSCI INDUSTRIAL METALS TR	USD	1,206.62	0.19	0.10	-0.56	3.65	2.49	1.75	7.50	15.43	-14.83			
GSCI PRECIOUS METALS TR	USD	1,473.50	0.42	-0.18	-2.12	-4.14	-5.73	0.30	4.63	-11.27	-12.89			
GSCI AGRICULTURE TR	USD	430.47	-2.08	-1.31	2.11	5.28	1.77	-4.05	-0.13	-8.76	-24.16			
GENERIC 1ST 'CL' FUTURE	USD	45.27	-0.48	-0.55	-1.67	-3.15	-16.63	-18.37	-20.31	-12.34	-62.34			
GOLD SPOT 5/OZ	USD	1,223.12	0.22	-0.18	-1.48	-3.43	-5.03	2.13	6.15	-8.91	-8.63			
CURRENCIES														
DOLLAR INDEX SPOT	USD	95.76	-0.08	-0.13	0.05	-1.34	-4.79	-5.44	-6.39	-0.56	19.32			
Euro Spot	EUR	1.14	-0.02	-0.11	-0.14	1.78	7.51	7.21	8.49	2.89	-16.15			
Japanese Yen Spot	JPY	113.17	0.15	0.19	-0.54	-2.59	-3.46	1.32	3.50	-7.53	-10.35			
British Pound Spot	GBP	1.29	0.38	-0.29	-0.70	1.41	3.45	6.17	4.81	-1.62	-24.43			
Swiss Franc Spot	CHF	0.97	0.28	-0.24	-0.50	0.64	4.50	4.75	5.85	2.35	-7.32			
Brazilian Real Spot	BRL	3.21	1.44	2.52	3.11	3.44	-2.58	-0.67	1.46	2.72	-30.78			
China Renminbi Spot	CNY	6.79	0.08	0.28	-0.02	0.25	1.59	1.74	2.40	-1.38	-8.53			
Singapore Dollar Spot	SGD	1.38	0.04	0.38	-0.05	0.30	1.56	3.73	5.08	-2.19	-9.87			
Russian Ruble Spot	RUB	59.98	-0.39	-0.13	-2.23	-5.35	-6.53	-1.06	2.19	6.19	-43.17			
Norwegian Krone Spot	NOK	8.28	0.19	1.01	0.95	1.99	3.85	2.81	4.51	1.90	-25.26			
VOLATILITY / LIQUIDITY INDICES														
CBOE SPX VOLATILITY INDX	USD	10.30	-5.42	-20.10	-10.38	-3.84	-37.22	-10.77	-28.63	-23.16	-17.05			
USD SWAP SPREAD SEMI 2YR	USD	25.31	-	-0.36	7.56	26.27	-24.55	-14.96	-1.62	53.21	49.78			
TED SPREAD		27.18	-	4.46	-5.40	8.50	-20.60	-47.14	-45.69	-29.11	24.45			

All data is compiled from Bloomberg

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