Macro Outlook June 2015

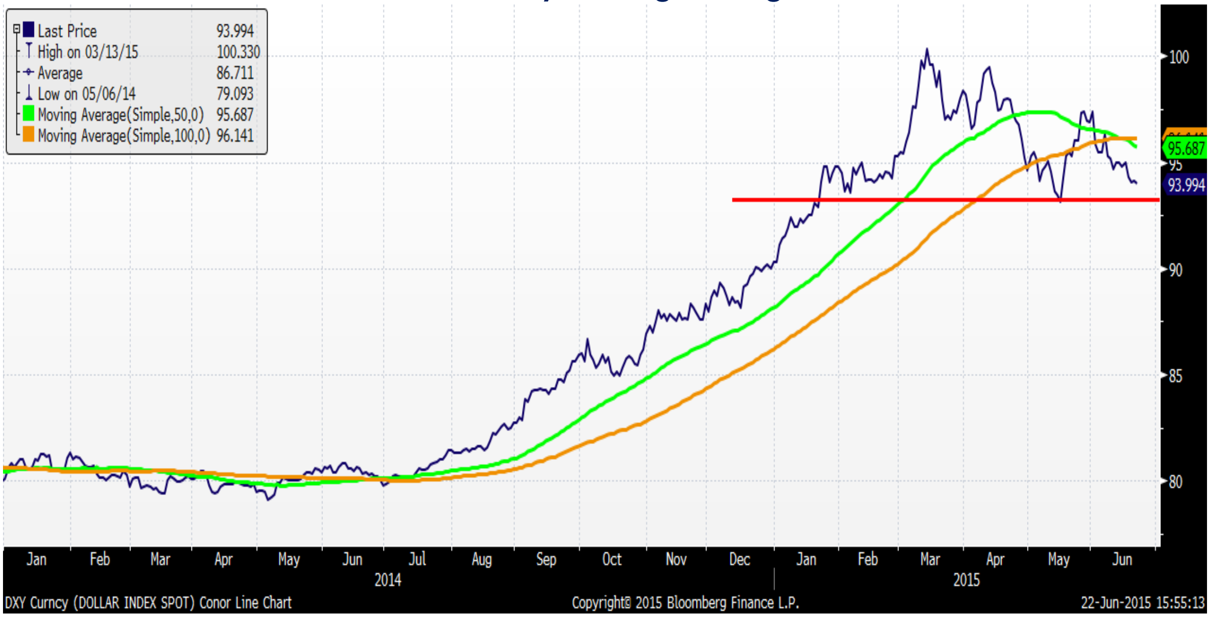
Global Monetary Policy and Opportunity

At Three Rock, we trade based on a consideration of macro-economic and price indicators with a view towards identifying trend potential.

Foreign Exchange - Structurally USD positive. Near term USD positive.

The forces driving the USD higher since the summer of 2014 are not short term in nature. In particular explicit and concerted efforts on the part of the European Central Bank and the Bank of Japan to weaken their respective currencies in order to combat deflationary pressures. At the same time the US Federal Reserve is preparing to begin a monetary tightening cycle, albeit tentatively. Furthermore, a commodity bear market constitutes a negative terms of trade shock for commodity exporting countries, undermining their currencies. From its low point last May the USD Index rose 27% to its peak on March 13th. Thereafter it began a period of consolidation prompted in large part by the FOMC indicating that USD strength had become an important policy consideration. Over the following nine weeks the USD index gave back approximately one third of its prior gains, before recovering strongly. Having maintained a 'near term neutral' stance on the USD since the March 18th FOMC, we now believe the USD is unlikely to trade very much under its recent lows and have again adopted a 'near term positive' stance. We are of the opinion that the US Dollar (USD) is in a multi-year bull market.

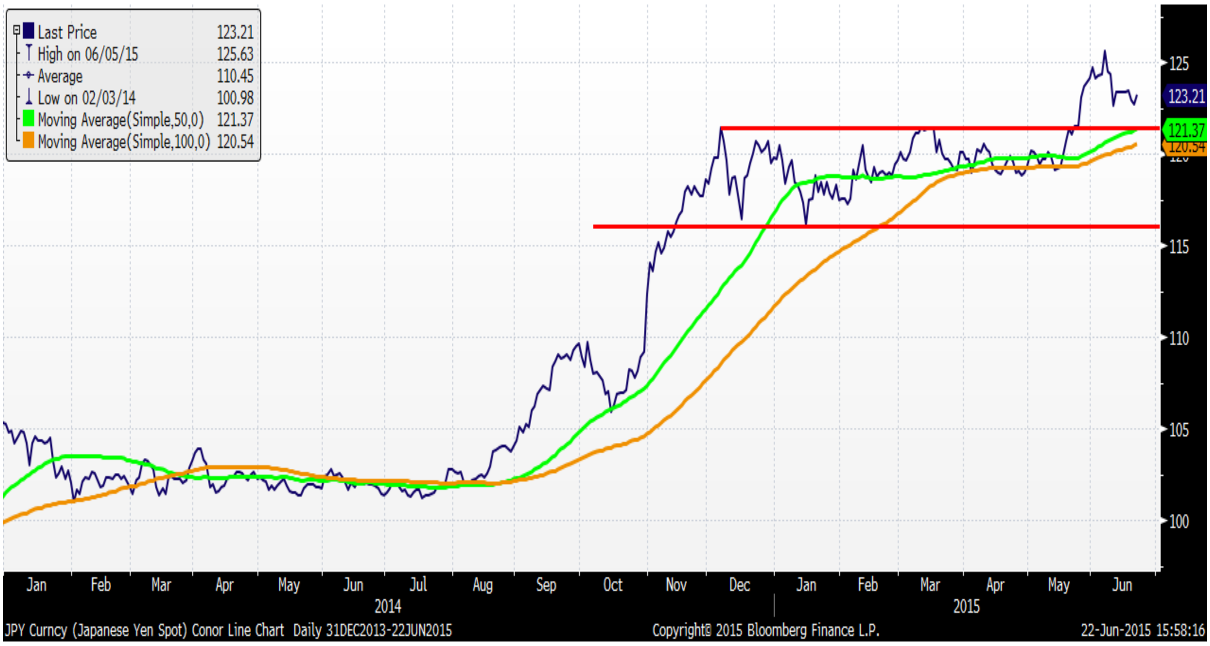
Chart 1: USD Index with 50 and 100 day moving averages



Source: Bloomberg, Three Rock Capital Management

Most immediately our focus is on USDJPY, which appears to have begun the next leg of its uptrend pushing out of a narrow six month consolidation range. The macro drivers for this trade remain powerful. Ultimately, we anticipate USDYEN will reach the 1998 highs close to 150.00.

Chart 2: USDJPY with 50 and 100 day moving averages



Source: Bloomberg, Three Rock Capital Management

Interest Rates - Structurally negative. Near term negative.

We believe it likely that government bond yields have bottomed and that a secular bear market in fixed income has commenced. Globally yields have risen sharply since April 29th. This likely reflects the passing of deflationary fears and improving global growth prospects. We see the potential for a positive feedback loop where upside surprises in China and Europe brighten prospects globally. A period of co-ordinated growth may be in prospect for the first time since the financial crisis. Bond markets, in bubble territory, are not prepared and have reacted sharply. Against this developing background we have adopted a structurally bearish perspective on interest rate markets.

Equity Indices - Structurally positive. Near term positive.

We remain constructive on equities as an asset class with a preference for markets where monetary policy is most supportive. While the main US indices have been subdued in 2015, Europe and Japan have performed very strongly. In the near term, as Europe consolidates, our focus is on the Nikkei. The macro drivers are well known and we expect Japanese government and Bank of Japan policy to continue to drive the index higher in the years ahead. Recently, the Nikkei has pushing decisively above 20,000 and looks well positioned for further progress.

Precious Metals - Structurally neutral. Near term neutral.

Precious metals have not been of interest to us in 2015. Currently we see little sign of that changing. We are conscious that a China reflation scenario, in particular, could help the commodity sector to recover improving the background environment for gold and silver. However, at this point we see little evidence of that in the price behaviour.

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