SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

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SPECIAL ANNOUNCEMENT

Young Finance Scholars' Conference

The conference provides an opportunity for junior scholars that have little (or no) experience with publishing in academic journals to share their research, debate their methodology and results, network with their peers from other institutions and, primarily,to receive expert comment and advice on publication from leading finance academics.

Schedule: **http://bit.ly/1iWEtVd**

To register follow the link or the logo: **http://bit.ly/1gzMYlP**

USA

Q1 round–up (Part 2 – Economics)

From an economic perspective the last quarter was far from spectacular and last week just reiterated that view. Blame it on the weather, the Fed or whatever else, but it is evident that Q3 2013 was the peak in economic growth, which slowed significantly in the last quarter of the year and definitely slowed further in Q1 2014.

Industrials	1.57%
Energy	1.24%
Materials	1.22%
Utilities	1.10%
Consumer Discretionary	0.58%
Healthcare	0.52%
Consumer Staples	0.47%
Financials	0.27%
Technology	-0.42%

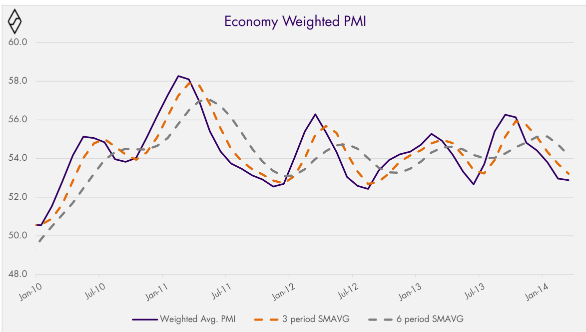
By the way, let's not forget the elephant in the room i.e. tech/high beta/high multiple stocks. Following our Q1 report on market dynamics last week, when we discussed the threat coming from that end of the market, that particular style factor has continued to s**k.

Dow Jones Ind. Avg.	0.55%
S&P 500	0.40%
Russell 2000	0.14%
Nasdaq	-0.67%

It is evident from the weekly performance of the NASDAQ and the tech sector. It is also evident from the individual performance of the companies we mentioned last time (go on and check them out, the graphs are quite amusing). Following that logic, it might be worth checking the iShares MSCI USA Momentum Factor ETF ($MTUM). It is a basket of 125 stocks with good price momentum and it is down 7.5% since the beginning of March. More interestingly, it rebalances every six months, so it might be poised to decline a lot more if it is not going to rebalance soon.

...the economy is still slowing, even though the ISM numbers for March were better than those in January and February.

Anyway, back to economics. We will focus briefly on 3 things, which we consider most important for the economy. Starting with the good old ISM reports, measuring overall economic activity (split into manufacturing

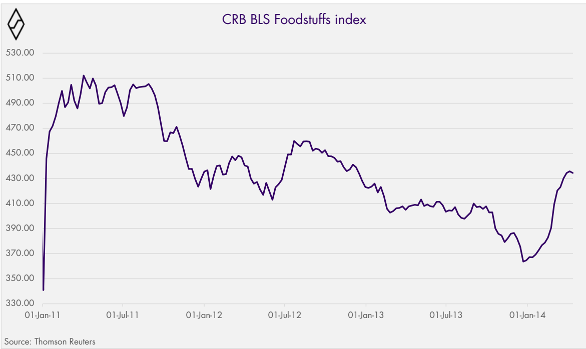


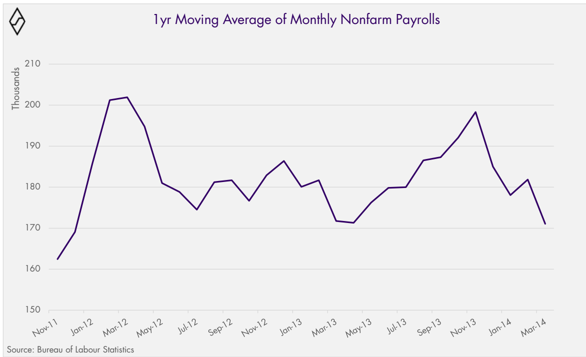
Source: Institute of Supply Management

and services), we see an awful quarter. The March reports missed the elevated expectations and so the hope that better weather will equal better data is starting to look flawed. We measure overall economic activity by taking a weighted average of the 3-month moving averages of the manufacturing and services indices. Then we use 3- and 6-month moving averages of the newly built index to smooth the results further. Evidently, the economy is still slowing, even though the numbers for March were better than those in January and February.

One thing that has done quite well this quarter is inflation. Of course we do not track prices with the headline print, which uses ridiculous weightings like the 40% (roughly) housing component, dominated by the public view about rent. other indicators of rising prices. The Thomson Reuters CRB index (19 commodities) is up 8.8% so far this year, while the CRB BLS Foodstuffs index (10 food commodities) is up 19.5% in the same time period. The graph of the latter index looks scary, considering the down trend since 2011.

Lastly, let's look briefly at employment. Once again, just like with other economic indicators, we are interested in the trend, not in the single monthly print. Having that in mind, the nonfarm payrolls number on Friday was not good enough to break the deceleration of the job market, which peaked in November 2013. Moreover, the improvement (year-on-year) in initial jobless claims (leading indicator) slowed significantly this year and in fact one of the readings at the end of February had no change from a year ago.





Instead, the commodity market and the ISM reports provide quite a good picture about prices that consumers are facing. The price indices in the ISM reports have boomed (especially manufacturing) in the first quarter of the year with a long list of commodities that have an upward price momentum of (1-3) months. One does not have to look hard to find

One glimmer of hope might be the month of March, when the drop in initial claims accelerated significantly from a year ago. However, it is still too early to tell. Meanwhile, continued jobless claims are still struggling to get below the number reported at the end of December, reiterating our bearish view on jobs.

Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United States	ISM Manufacturing Index	53.7	54.0	53.2
Wednesday		Durable goods orders (MoM)	2.2%	1.0%	-1.3%
Thursday		Initial Jobless Claims	326K	317K	310K
		Continuing Jobless Claims	2,836K	2,840K	2,814K
		ISM Non-manufacturing index	53.10	53.50	51.60
Friday		Nonfarm payrolls	192K	200K	197K
		Unemployment rate	6.7%	6.6%	6.7%
		Average hourly earnings	0.0%	0.2%	0.4%

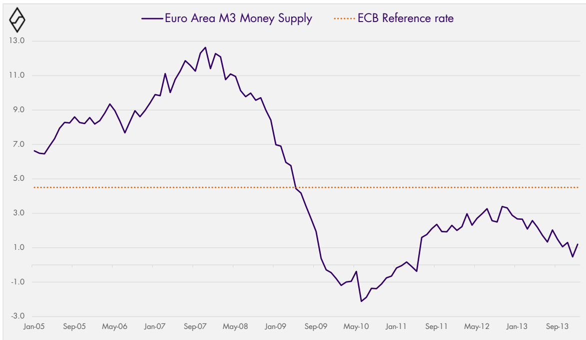
EUROPE

Get Lucky

Probably the most interesting event from the last week was the ECB conference and the economic condition of the European Union. In the face of falling inflation and weakening financial conditions, despite the end of the economic contraction, the ECB stands pat and only offers a reiteration of its threat of some unspecified action if needed. Mr. Draghi did tweak his remarks a little, such as committing to swift action if needed and the unanimous agreement about the unconventional policies.

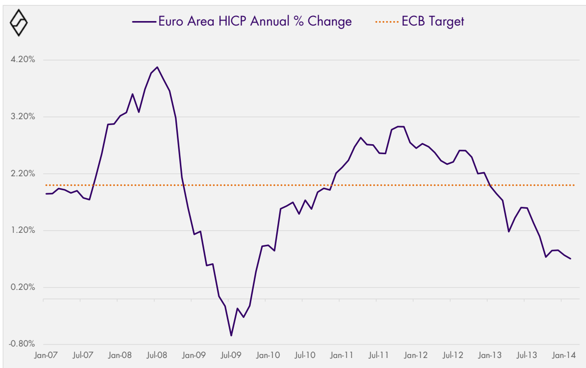
...the PMI's numbers provide the European Central Bank with justification to refrain from monetary easing in the near future.

According to David Powell, in his book "The trade's guide to the Euro Area", the ECB pursues its goal of price stability through a two-pillar strategy. The two pillars are economic analysis and monetary analysis. The analysis from the first pillar suggests spare capacity in the economy should continue to weigh on inflation. The jobless rate remained at 11.9 % in January, just a tick below the record high reading of 12.1 %. The OECD estimates the non-accelerating inflation rate of unemployment to be 10.2 percent.
Monetary trends from the second pillar paint a similar picture. The three-month average of M3 money supply growth stands at 1.2 %. That is well below the central bank's "reference rate" of 4.5 %.



Source: FRED

We believe that a greater deceleration in HICP inflation might have to be reported before the ECB implements additional easing. A drop of the core reading below the record low of 0.7 % YoY would probably make the ECB act.



Source: Eurostat

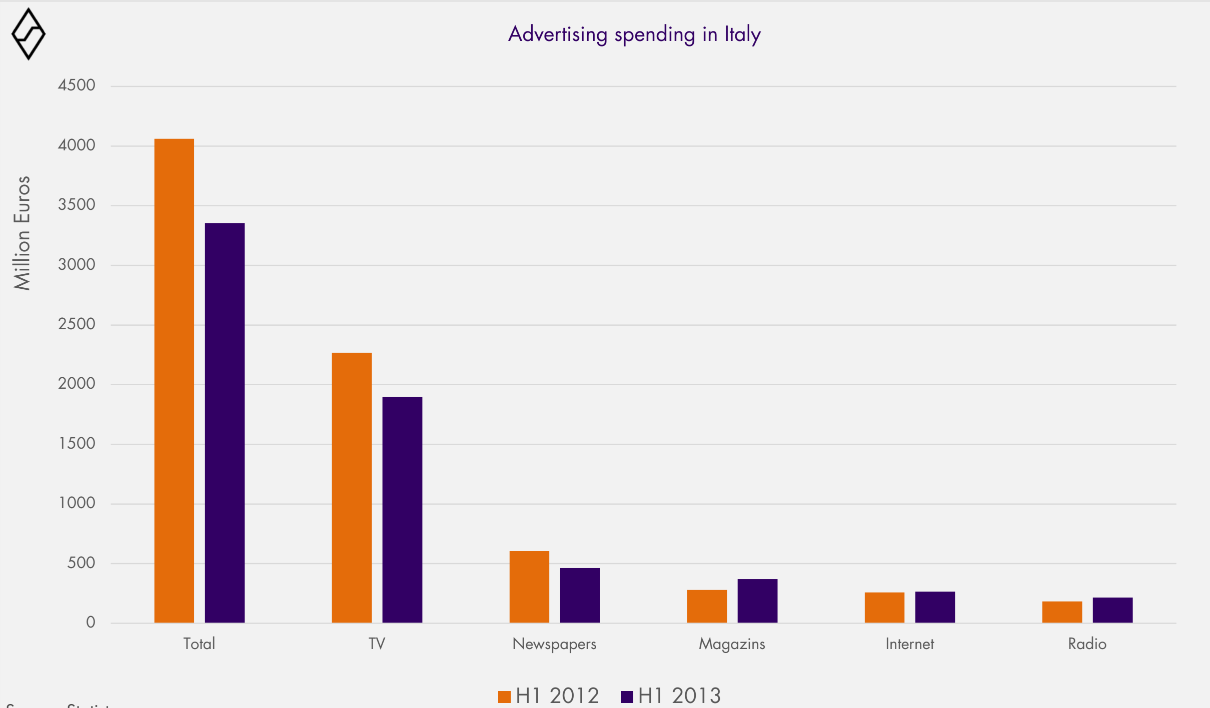
On the flip side, if you take a quick look at the PMIs' numbers, it provides the European

Central Bank with justification to refrain from monetary easing in the near future. The final headline reading on the manufacturing survey was unrevised at 53. The figure, which is only a tick below the recent high of 54 in January, suggests the euro-area economy continues to expand. The first reading on the service sector painted a similar picture. The headline reading of 52.4 in March was just below the recent high of 52.6 posted in the previous month. Generally, the economists wait for 3 consecutive months of decline before announcing a changing trend. So, if we follow these numbers we might understand why the ECB does not push itself to ease anytime soon. We believe that changing the trend of the PMI indicators will make Mario Dragi accelerate the monetary stimulus for the economy.

ITALY INVESTMENT OPPORTUNITIES

Looking back at issue 12 of Sierra, we were discussing the current fiscal changes taking place in Italy. We know that there is a tax cut of 10% for personal income and corporate income. As a result of the personal income tax cut, the extra amount of money consumers will have to spend is on average 1800 Euro, yearly. Knowing this, it would be extremely hard to track which sector might attract that extra cash, and therefore advantage from that. However, looking at the corporate tax cut, this definitely would put some extra power into corporate spending. We believe that the sector which might attract that extra 10% of corporate wealth will be the Advertising business it Italy, with the aim of using their extra cash to attract the extra cash of customers.

Looking at the graph below, the biggest slice of the pie, in the advertising industry, belongs to TV commercials. Having said that, we propose 2 companies: Mediaset SpA (BIT:MS), RCS MediaGroup (BIT:RCS). The investment topic is relevant assuming that the economic situation in Italy is becoming increasingly better.



Source: Statista

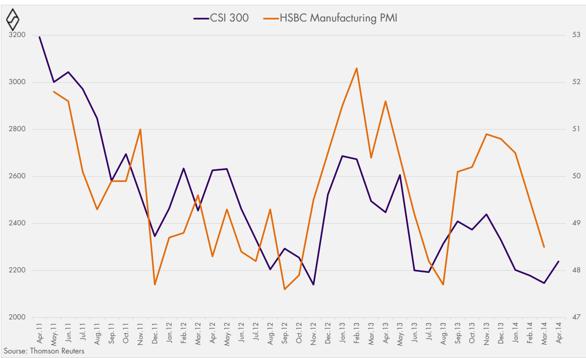
Day	Country	Indicator	Actual	Forecast	Previous
Monday	EU	CPI Flash Estimate y/y	0.5%	0.6%	0.7%
Tuesday	Italy	Unemployment Rate	13.0%	12.9%	12.9%
	EU	Unemployment Rate	11.9%	12.0%	11.9%
Wednesday	United Kingdom	Construction PMI	62.5	63.1	62.6
Tuesday	United Kingdom	Services PMI	57.6	58.2	58.2
	EU	Retail Sales m/m	0.4%	-0.3%	1.0%

ASIA & OCEANIA

PMI down, so… we BUY?

CHINA

Even though the business conditions abroad are improving and companies are expanding, China's manufacturing sector took a hit for a third consecutive month. The weight on the PMI index came mainly from output and new orders, as they contracted at faster rates. On the other hand, cited by a number of surveys, Europe and the US exhibit stronger demand and as a result, new export orders have returned to growth. In order to adjust for the overall weaker demand (and expectations), suppliers cut output charges and input costs fell sharply. However, this decrease suggests that Q1 GDP growth is likely to fall short of the 7.5% target unless Beijing approaches with some policy changes sooner and get back on target.



However, the last couple of weeks, investors have been increasingly bullish on the Chinese market even though bearish on the Chinese economy. Presumably, the idea is that if the economy is going in the wrong direction, stimulus should come and save us all (you don't have this kind of theory in the finance books). The main investments for this theme seem to be financials, railways (China Railway Group (390:HKG) has been one of the favourite picks) and cement stock (Anhui Conch (814:HKG) has been the biggest two-week gainer on the Hang Seng China Enterprises Index). We conclude this by extrapolating from previous rounds of stimulus and looking at their most recent performance.

It's worth mentioning that stimulus policy from Beijing will indeed be good (and somewhat addictive for market players recently), however in this case, this seems like a misalignment with China's long term goals of managing down debt. As a conclusion, any policy will be a short term change however nothing major fundamentally. In such markets we cannot tell how much that short term can be with regards to index gains/ declines.

Regarding one of our themes: short Chinese REIT, recently there has been reports that cities in China may loosen the current restriction on home purchases (made to temper the home price appreciation). This gave equity developers a boost and as a result the Guggenheim China REIT ETF (TAO) increased as well, so we have closed our positions for now.

AUSTRALIA

Mr. Glenn Stevens began the month with the Monetary Policy Decision statement. The general format is as usual, with minor changes. According to us the highlights of his speech were that the RBA is expecting a solid expansion in housing construction and a continual increase in the short term in the unemployment rate as a result of weaker labour demand. He also noted that wage growth has had a "noticeable" decline and concluded by saying:
"On present indications, the most prudent course is likely to be a period of stability in interest rates."
It paints quite a rosy picture, even without avoiding the negative news (unemployment and wage growth). We would have trusted more in his worlds, however the statement was made on 1 April, so we're accounting for sum extra risk premium as a result of this coincidence.
Finally, an interesting release by the RBA for the ones curious on their fiscal policy and inflation target: **http://bit.ly/1jrmUtB**

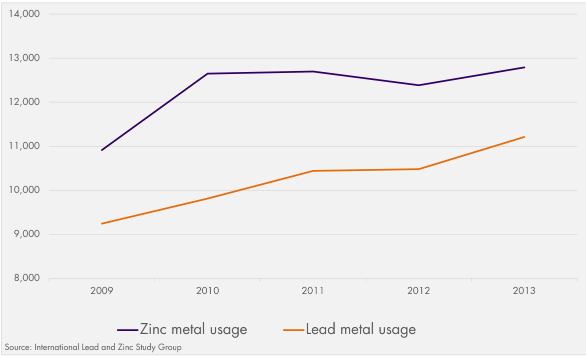
Day	Country	Indicator	Actual	Forecast	Previous
Monday	Japan	Manufacturing PMI	53.9		55.5
		Prelim Industrial Production m/m	818M	595M	286M
	Australia	HIA New Home Sales m/m	4.60%		0.50%
	New Zealand	ANZ Business Confidence	3.60%	3.40%	4.40%
Tuesday	Japan	Tankan Manufacturing Index	17	19	16
		Tankan Non-Manuf. Index	24	24	20
	China	Manufacturing PMI	50.3	50.1	50.2
		HSBC Final Manufacturing PMI	48	48.5	48.5
Wednesday	Australia	Building Approvals m/m	-5.00%	-1.70%	6.90%
Thursday	Australia	Retail Sales m/m	0.20%	0.40%	1.20%
		Trade Balance	1.20B	0.82B	1.39B
	China	Non-Manufacturing PMI	54.5		55

COMMODITIES

The lead-Zinc spread

METALS

The global market for refined zinc is expected to be in deficit by 117,000 tonnes this year and refined lead in deficit by 49,000 tonnes, according to the International Lead and Zinc Study Group (ILZSG). Both zinc and lead demand and refined supply are expected to rise by 4.5%, 4%, 4.4%, and 4.3% respectively. This is largely due to Chinese production of refined zinc, which having remained relatively stable for the last four years, is expected to rise by 7.3% and is the main factor behind the anticipated overall increase in global demand. As can be seen above Zinc has outperformed Lead. This outperformance has narrowed the spread to the lowest level in 18 months ($247 to $31), but may reverse in coming months as zinc stocks weigh on the market. This is because recent data has shown that an oversupply of zinc has flipped into a shortage, adding fuel to the bulls' case for zinc, the top performing industrial metal over the past three months. Furthermore, over the past three months, benchmark zinc prices on the LME have gained almost 10% whilst lead has only risen 1.5%. Despite this, in the short term the reversal may not happen due to investors' enthusiasm for zinc, partly based on the pending closure of big mines that are expected to create shortages. The new zinc-lead mines that are coming on stream have less amounts of lead than the old operations: this is likely to have consequences, in that the lead market is likely to become tight just like zinc.



ENERGY

Russia has raised its gas prices to the Ukraine by 80 percent almost doubling it in three days and piling on the pressure on a neighbour on the brink of bankruptcy. Alexiei Miller, head of Gazprom has said the increase was due to an introduction of an export duty on gas. The increase has pushed the price up to $485 per 1,000 cubic meters. However, given the recent annexation of Crimea it could be viewed that Russia is raising gas prices as a political tactic, in an attempt to gain more of the Ukraine. This begs the question: what can Ukraine do? One solution is to apply to the International court for settlement. The reason for this is because Gazprom has had to agree to cut gas prices and improve contractual terms for its European clients including those who successfully challenged the Russian company in courts. Thus, if Ukraine won its case it would be in a much better position.

Total has secured rights to explore three-hard to recover oil blocks in West Siberia.

They will be joining Exxon, Statoil and Royal Dutch Shell, to develop Russian Shale Oil, a key driver in Moscow's efforts to at least maintain its oil output at more than 10 million barrels per day. The US EIA estimates possible resources at 75 billion barrels, more than the 58 billion held by the USA. Total has licences for the Vostochno-Kovensky, Tashinsky, and Lyaminsky-3 blocks In Khanty-Manssiisk district, Russia's main oil producing region. With all the other competition one may ask why is Total joining in? Apart from the obvious reason of more oil Total has signed a memorandum to develop shale oil in Russia with Lukoil; 2nd largest oil producer in Russia, thereby giving them an edge against its competitors.

AGRICULTURE

China cancelled purchases of 221,400 tonnes of US corn last week the USDA said, bringing the total to more than 1 million tonnes of corn rejected since November by the 3rd largest buyer of US corn. Trade reports suggest China is also suspending approval of shipments of dried distiller's grains, DDGs, a corn-based ethanol by-product used in animal feed. China is rejecting all corn and DDGs that contained Syngenta AG's MIR 162 variety, a genetically modified seed designed to protect plants from crop-damaging insects. Other reasons China cancelled its corn purchases are due to: Ample stocks, high grain prices, reduced demand due to bird flu, and a slowing economy.

South Korea may start shifting away from a quota system on rice imports to ease pressure from the WTO to open its markets for the grain, according to the agricultural industrial and government officials. Although they suggested switching to a system of high tariffs that would still curb shipments into the country, removing caps would mark a key physcological shift in a politically-sensitive sector and could potentially pave the way for a lower duty in future. Rice exporters including China and the USA have been closely watching South Korea's import policy, hoping to ship more grain to the fourth largest Asian economy.

South Korea may start shifting away from a quota system on rice imports to ease pressure from the WTO to open its markets for the grain

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3751	1.3701	-0.36%	-0.49%	-0.32%
USD/JPY	102.8	103.25	0.44%	0.03%	-1.95%
USD/CHF	0.8865	0.8916	0.58%	0.80%	-0.13%
USD/CAD	1.1058	1.0978	-0.72%	-0.63%	3.37%
AUD/USD	0.9246	0.9287	0.44%	0.26%	4.20%
NZD/USD	0.8652	0.8591	-0.71%	-0.90%	4.69%
USD/CNY	6.2122	6.2123	0.00%	0.09%	-1.49%
GBP/USD	1.6638	1.6569	-0.41%	-0.55%	0.08%

PORTFOLIOS

MAVERICK

CORTEZ

UNDER CONSTRUCTION

EVENTS

USA

- FOMC meeting minutes
- PPI
- Michigan Consumer Sentiment

EUROPE

- EU: Sentix Investor Confidence
- Germany: Trade Balance
- UK: Trade Balance

ASIA & OCEANIA

- Japan: Current Account
- Australia: NAB Business Confidence
- Australia: Employment Change
- China: Trade Balance

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, Thomson Reuters, Markit ,Eurostat, ECB, Bloomberg, Reuters, Berenberg, Seeking Alpha

DISCLAIMER


LOOK MICKEY, I'VE HOOKED A BIG ONE!!