Etsior Monthly Opinion

15 January 2007 – Still Upbeat

Etsior selects strategies and funds that can bring an edge in asset allocation and portfolio construction.

Etsior focuses on funds that:

- Have an original strategy or approach
- Bring a real diversification
- Offer a good performance coupled with an acceptable risk
- Emerge from a strong idea, a forceful manager's personality or both

Etsior connects Fund Managers (Single Hedge Funds, Funds of Funds managers, Private Equity as well as Long only Funds) with Institutional Investors.

Well introduced in the Geneva area, we are focused on an unparalleled level of service.

Through our website, Etsior offers an easy access to reliable, up to date and accurate information on the funds we introduce as well as on third party funds.

Our selection is always put in the macro-economical perspective to exploit the short to medium market trends.

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It is interesting to see that different opinions emerge for 2007: some people are constantly convinced there will be a hard landing in the U.S., if not a recession. Most people reckon there will be a soft landing.
As for me, I stay on the same judgement I expressed in the October 2006 "Etsior Monthly Opinion": I am rather optimistic.

One first reason is the strong, powerful interconnection of the world economies. Powered by technological innovation, the on-going decrease of information cost, the each day stronger participation of China, South-east Asia countries, India and other emerging countries to the world economy, in other words globalisation, it means a strong integration of services, goods, trade and capital.
This globalisation involves:

- a decrease of inflation in western countries by the use of low cost work, as China is becoming the factory of the world
- access of these emerging economies to wealth
- the simple fact that no one of the big creditors has an interest to allow the dollar fall

Just look at the very political choice of China, who preferred to buy its new nuclear plants from the U.S. rather than from France: this is a gesture to cut the vast trading imbalance between the two countries.

It further means the capital available is growing in the world, which may be a result of a lower need of capital in such strong industrial economies as Germany and Japan.

Another reason for optimism is the success of the reforms in Germany: they restored competitiveness to German companies by reducing social withholdings and helped reduce the budget deficit. Germany is leading the way and will pull growth in Europe. Even France, who ever wins the presidential race, won't have another choice than carrying out the same type of reforms.
This good German health will certainly comfort the ECB in its policy of raising interest rates.

Third factor: although the economies are more and more interdependent, there is a possible divergence in the growth between Asia (6 to 9% annual, and the U.S. (1.5% to 3%). The U.S. will benefit from this Asian growth.

The housing slowdown effect varies a lot from a place to another and should not be to high a cost for the GDP. The rest of the economy, with its high reactivity, will be drawn by the rest of the world and I would not be surprised to see the Fed not lowering, but raising interest rates.

Two factors may go against this opinion:
The first would be a major and serious geo-political event. The second would be a more subtle and medium term trend towards challenging globalisation and free trade. Some signs, both in the U.S. and in Europe, show a tendency to forget all the benefits linked to the globalisation to consider only the disadvantages.

We care for you.