

WORST IS NOT FOR SURE

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- 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.

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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 term market trends.

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Let's face it: almost everybody you meet these days is at least nervous, has quite often a gloomy outlook for the US, and by extension, the world economy. If we were to follow what is heard all around, the situation is dramatic, the US economy on the verge of dislocation, the subprime crisis spreading to all the other credit sectors, all credit related funds due to collapse whatever their strategy.

This could have been right if drastic measures had not been taken. The Fed have been extremely reactive and risk taking by lowering drastically the interest rates and being ready to do it again. Now actual interest is negative, in the US, and in all the dollar pegged countries. This is to be followed by the fiscal package of 150 b\$ (or 1% of the US GDP).

This may help wrong doing banking and insurance companies to survive the crisis, but it will prevent the US and the world economy to dive into a recession, as it is very likely the Fed will succeed in stopping the recession.

Though the European Central Bank did not lower its interest rate, it has kept wide open the flow of credit.

Take the example of Spanish banks: they doubled their share of the ECB's weekly funding auctions in the final quarter of last year, taking their borrowing up to €44bn (average €20bn over the previous 15 months). This extra lending from the ECB of almost €24bn outstrips the quarterly amounts raised previously by Spanish banks from securitization markets, which is an important comparison because the banks have increasingly used mainly mortgage-backed securities as collateral with the ECB. The Spanish banking system is second only to the UK in Europe in its use of mortgage-backed bond markets and other securitizations to fund lending and the market for securitized debt and for mortgage-backed bonds in particular has been almost entirely shut since the credit crunch hit last summer .

It is also interesting that the main American banks have joined to propose a refinancing to their subprime borrowers threaten of house repossession.

Regulators have urged banks to provide lines of credit to the municipal bonds insurers so they do not lose their rating and ignite further credit disturbance. This is a topic of concern as the confidence crisis has left US municipalities, as well as students, facing skyrocketing interest rates (up to 20%) only because the insuring companies, which guarantee these loans, could lose their AAA rating with serious consequences.

What can we anticipate from this policy:

We will probably have no recession in the US, may be a slowdown in the next few months. Also, this is an election year and nobody wants a recession.

As credit facilities will be wide open, at least during a part of the year, inflation will be higher and higher. Interest rates are negative. What do you do when you have negative interest rates and inflation: you buy real estate!

Inflation will probably culminate in 2009 or 2010. The Fed will then raise dramatically the interest rates, but we are talking long term. There will be no incentive to increase the US saving rate, as credit becomes again widely available, increases consumption, imports and current trade deficit. The dollar will probably suffer, but not in the short term: one can expect the US economy to pick up again quicker, so people are moving assets to the US. We may well see another round of bubbles and credit expansion. The current credit crisis is a direct consequence of past Fed laxity.

So risks are high, but you never fight the Fed; and politically there is no other way of doing in the short term. Risk would be lower if this could lead China and other emerging countries with huge surplus, to increase their domestic consumption. The developed world economies would be pulled by their growth rate; trade deficit would be lower, as

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well as inflation and pressure on the dollar.

Finally, I would like to wish **Kung Hei Fat Choi!** (Happy Chinese New Year) to our Asian readers.

We care for you.

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