

Market Sentiment & Oil Prices

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We can see some interesting developments in the markets by this mid-May:

- First sentiment is that the credit / confidence crisis has reached its bottom, thanks to the action of the Central banks who will not accept the collapse of any major financial institution and consequently have brought all necessary liquidities to the market
- Confidence is slowly coming back: after all, recession is not certain in the U.S., inflation remains moderate for now, as a consequence of the stalling economy; Interest rates have stabilized in the U.S., even decreased as fear of inflation has lowered
- Europe, though protected by the still high level of the euro, is not doing too bad; inflation seems to stabilize, though on the high side, preventing the ECB to lower its interest rates
- Though a lot of cash seems to be available, investors are on the reserve and still very cautious to start investing again
- We have the feeling that investors are in the starting blocks, ready to jump in the band wagon, and when the re-allocation movement has started, it will be very strong
- Investments returning stable, honest performances are searched for as well as opportunities in high grade battered credit paper
- One point of concern, but also of hope, is oil price. We believe it is only amplified by speculation, which sort of appears like the messenger for this movement. We believe oil price will remain high and leads us to the following thinking:
 - The growth of the emerging countries triggers oil consumption, but these countries should not be blamed for it. This is our own best interest these countries and their people are a part of the world economy, contribute to it and benefit from it
 - High oil prices will lead to a better efficiency in oil consumption, especially where energy waste is important. With a gallon of gas around 3.75 US dollars, the American consumer will be quick to switch to smaller cars and energy saving behaviors. Enormous energy saving reserves do exist in developed countries, though they will not be enough to compensate the consumption increase in emerging countries
 - The same high oil energy price will without any doubt generate a better exploitation of existing oil fields and the re-opening of previously abandoned ones, increasing existing reserves
 - We do not believe transforming cereals in oil is sustainable at the cost of hunger for a large part of the world population
 - We strongly believe these high oil prices will generate new technologies, new products, new opportunities and new behaviors and we believe we are on the verge of major changes in our ways of life
 - We are confident Man will adapt to this new economical environment and will progress from it

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