16 February 2015

Atul Lele
alele@deltecinv.com
+1 242 302 4135

David Munoz
dmunoz@deltecinv.com
+1 242 302 4106

David Frazer
dfrazer@deltecinv.com
+1 242 302 4156

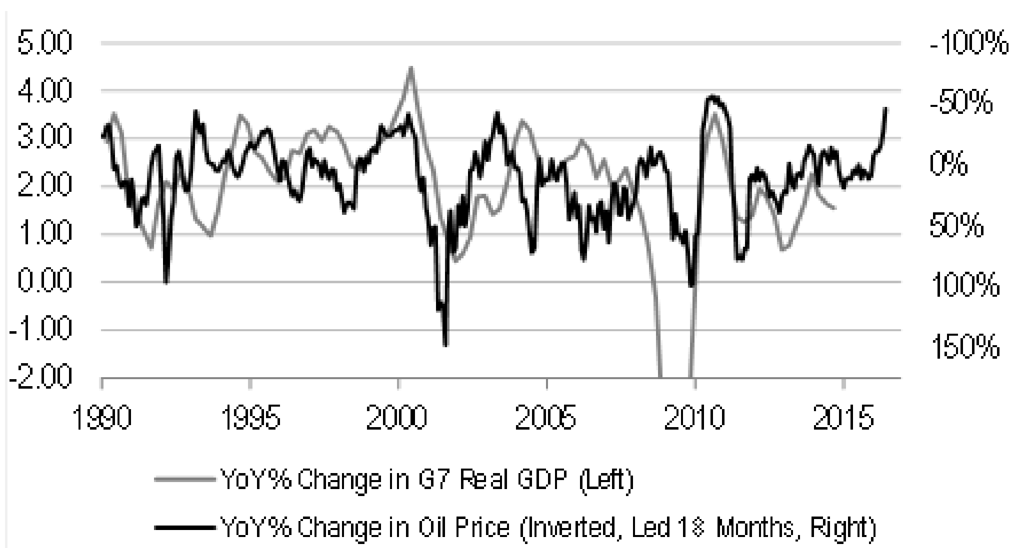
Vivienne Watts
vwatts@deltecinv.com
+1 242 302 4155

Grease Is More Important Than Greece

- **Declining oil prices have significant negative implications for selected Emerging Markets, and selected sectors within Developed Markets**
- **Ultimately, lower oil prices are unequivocally positive for Developed World growth**
- **Investment markets should improve from Q2 2015 in anticipation of the continued global economic recovery.**

This view has Tactical Investment Implications for Asset Allocation and Country Allocation.

Lower oil prices are unequivocally positive for Developed Markets…



Sources: Bloomberg; Deltec International Group

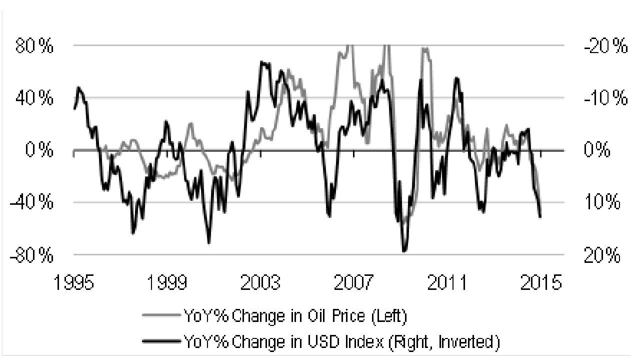
The Negative Impact of Lower Oil Prices

With oil prices having declined by approximately 50% over the past year, there are significant negative implications across the world. The areas which feature most heavily in consensus arguments are oil producing Emerging Markets and energy capex exposed sectors in Developed Markets.

As discussed in our recent Investment Research, An Emerging Crisis, in addition to the declining USD liquidity growth, which negatively impacts Emerging Markets, the resultant stronger USD also has a negative impact on Emerging Markets who are commodity exporters, given the negative impact of a rising USD on commodity prices.

Refer to Figure 1, showing the change in the USD Index (inverted) vs. the change in oil prices:

Figure 1: Inverted USD Index vs. Oil Price Changes



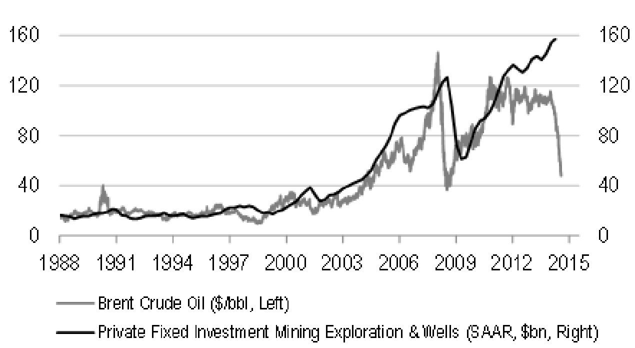
Sources: Bloomberg, Deltec International Group

Whilst there is no doubt that Emerging Market economies such as China, India, South Korea, Taiwan, Thailand, Turkey and Indonesia – all large net importers of oil – will benefit from lower oil prices, several oil producing Emerging Markets will be significantly negatively impacted, as lower trade balances and national income removes a further level of support for already challenged economies. Those economies that are significant net exporters of oil are significantly negatively impacted – particularly where government budgets require oil prices significantly above the current level to remain in balance. This dangerous dynamic has amplified our concerns for Emerging Markets. Analyzing a selected set of countries that require oil prices above current levels to balance their budgets, we identify those economies most negatively impacted.

From a Developed Market perspective, there are a number of sectors that are negatively impacted by lower oil prices. Most acutely, capital spending on energy exploration and production will be negatively impacted as capex plans are postponed or cancelled. Indeed, the decline in oil prices to date suggests that further cuts to resources capex is highly likely.

Refer to Figure 2, showing Resources Capital Investment vs. Oil Prices:

Figure 2: Oil Prices vs Resources Capital Investment



Sources: Bloomberg, Deltec International Group

Notwithstanding the clear downside risk that exists to resources capital investment due to lower oil prices, it is important to put this into context in the broader US economy. Energy capex comprises approximately 1% of US nominal GDP, with spending on Mining Equipment and Mining Exploration of approximately $183bn, within US Nominal GDP of approximately $17,555bn.

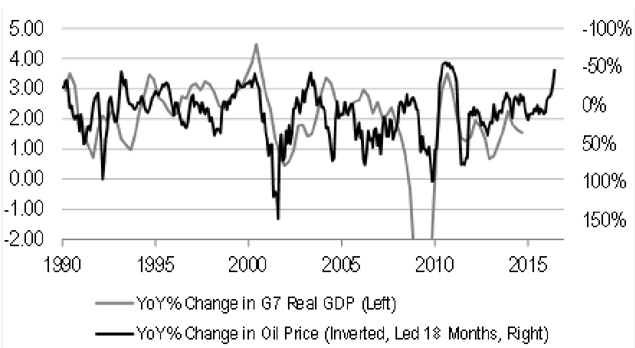
This sole statistic obviously masks the ancillary beneficiaries of energy production in areas such as financial services, real estate and other trades in oil producing states within the economy, however it also masks the benefits of lower oil prices to the overall economy via the positive impact of lower gasoline prices on consumer spending, which impacts the overall economy and is a larger part of the economy.

The Positive Impact of Lower Oil Prices

Lower oil prices are unequivocally positive for developed market growth. Despite these highly specific negative impacts from lower oil prices, there is a clear, broad positive impact on Developed Market GDP growth. Through time, changes in oil prices lead G7 real GDP growth by approximately 18 months. At present the approximately 50% decline in oil prices over the past year is consistent with G7 real GDP growth rising to almost 4% over the next 18 months, well above the approximate 1.5% rate of growth currently being achieved.

Refer to Figure 3, showing the change in Oil Prices (inverted) vs G7 Real GDP Growth through time:

Figure 3: YoY% Change in Oil Prices (inverted) vs G7 Real GDP Growth



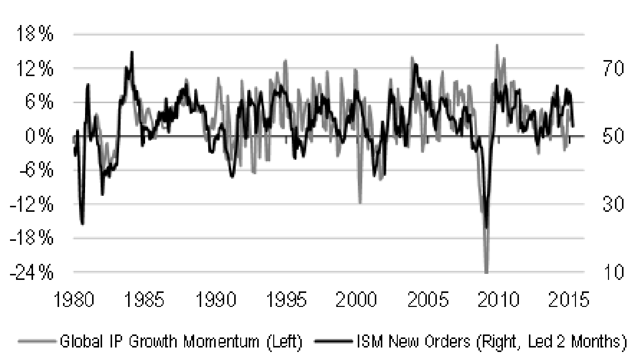
Sources: Bloomberg, Deltec International Group

Global Growth and Investment Markets

At present, global industrial production growth momentum has peaked and is set to experience a mild cyclical slowdown, as evidenced by the US ISM New Orders index, which leads global industrial production growth momentum (growth in the rate of growth, calculated as 3M / 3M % Change in Global Industrial Production) by 2 months through time.

Refer to Figure 4, showing US ISM New Orders Index vs. Global Industrial Production growth momentum through time:

Figure 4: ISM New Orders vs. Industrial Production Momentum

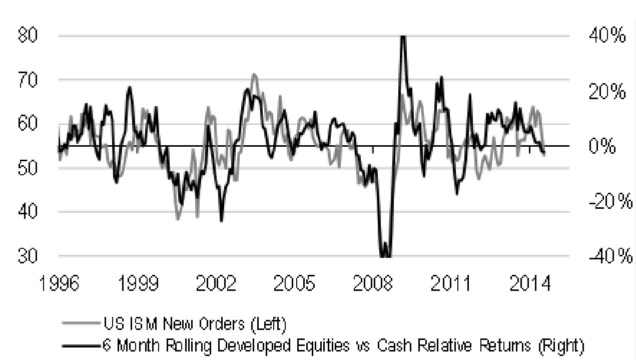


Sources: Bloomberg, Deltec International Group

In recent months, Equities have underperformed Government Bonds and slightly underperformed Cash, in anticipation of this typical cyclical slowdown. This growth momentum decline is not yet over, however in the coming months, we expect global growth momentum will trough and then increase in response to the benefits of lower oil prices. As this occurs, we would expect Equities to rise, outperforming both Bonds and Cash.

Refer to Figure 5, showing Equities to Cash relative performance vs US ISM New Orders through time:

Figure 5: Equities Relative Performance vs. ISM New Orders



Sources: Bloomberg, Deltec International Group

Positioning for the Benefit of Lower Oil Prices

Our current Tactical Investment Positioning reflects the current declining global growth momentum, and the coming recovery in developed market growth – we have a preference for selected Developed Market Equities and Cash over Fixed Income. Within Developed Market Equities, we have a preference for the US, increasingly Europe on a currency hedged basis, and Japan.

As global growth momentum troughs and increases, and as lower oil prices lead to a strong Developed Market economic growth recovery, we anticipate increasing exposure to Developed Market Equities. In this regard, allocations to US Consumer Discretionary, European Consumer Discretionary and Japan Exporters and Technology will be selectively increased and exposure to Cash will be reduced.

Conclusions

Whilst lower oil prices are negative for Emerging Markets and specific sectors within Developed Markets, they are unequivocally positive for Developed Market growth. Lower oil prices are likely to assist in a Developed Market growth momentum troughing and recovery in the coming months. As this process occurs, Developed Market Equities will benefit, significantly.

Tactical Investment Implications and Opportunities

This view has Tactical Investment Implications for Asset Allocation and Country Allocation.

- **Asset Allocation: Preference for Developed Market Equities and Cash over Fixed Income.** As global growth momentum troughs and increases, Equities will likely recover sharply, outperforming Cash and Fixed Income.

- **Country Allocation: Preference for Developed Markets over Emerging Markets.** Whilst Emerging Market Equities have declined significantly in recent months and will therefore experience a sharp rebound, Developed Market Equities are likely to offer more attractive risk adjusted returns, with greater longevity and lesser idiosyncratic risk. Within Developed Market Equities, we have a preference for the US, increasingly Europe on a currency hedged basis, and Japan. As Equities become more attractive, allocations to US Consumer Discretionary, European Consumer Discretionary and Japan Exporters and Technology will be selectively increased. We continue to actively avoid those economies that are heavily exposed to Commodity prices, including Australia, Canada, Brazil and oil producing Emerging Markets.

Should you have any queries regarding this Deltec Investment Research, or require any further information, please contact your Deltec representative.

Disclosures:

This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Deltec International Group (its subsidiaries, affiliates and successors including, but not limited to, Deltec Bank & Trust Limited, Deltec Investment Advisers Limited, Deltec Capital Limited, Deltec Capital Asset Management Limited, Deltec Capital Group Limited, Deltec Wealth Management) ("DIG")) to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to DIG. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of DIG. The information, tools and material presented in this report are provided to you by DIG for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. DIG may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. DIG will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. DIG does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Information and opinions presented in this report have been obtained or derived from sources believed by DIG to be reliable, but DIG makes no representation as to their accuracy or completeness. DIG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to DIG. This report is not to be relied upon in substitution for the exercise of independent judgment. DIG may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and DIG is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. DIG may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by DIG, or an associate of DIG or DIG may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by DIG and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of DIG, DIG has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or DIG's website shall be at your own risk. Please note that this research was originally prepared and issued by DIG solelyfor distribution to their market professionals and institutional investor customers. Recipients who are not market professionals or institutional investor customers of DIG should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. If this report is being distributed by a financial institution other than Deltec Investment Advisers Limited, or its affiliates, that financial institution is solely responsible for distribution. This report does not constitute investment advice by DIG to the clients of the distributing financial institution, and neither Deltec Investment Advisers Limited, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. This research may not conform to relevant U.S. or Canadian disclosure requirements. or to the relevant requirements of any other jurisdiction, many of which have their own disclosure requirements. Further, this research report may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FCA or in respect of which the protections of the FCA for retail clients and/or the Financial Services Compensation Scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. DIG may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services DIG provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. DIG is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and DIG for DIG to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by DIG. In addition, DIG is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality.