

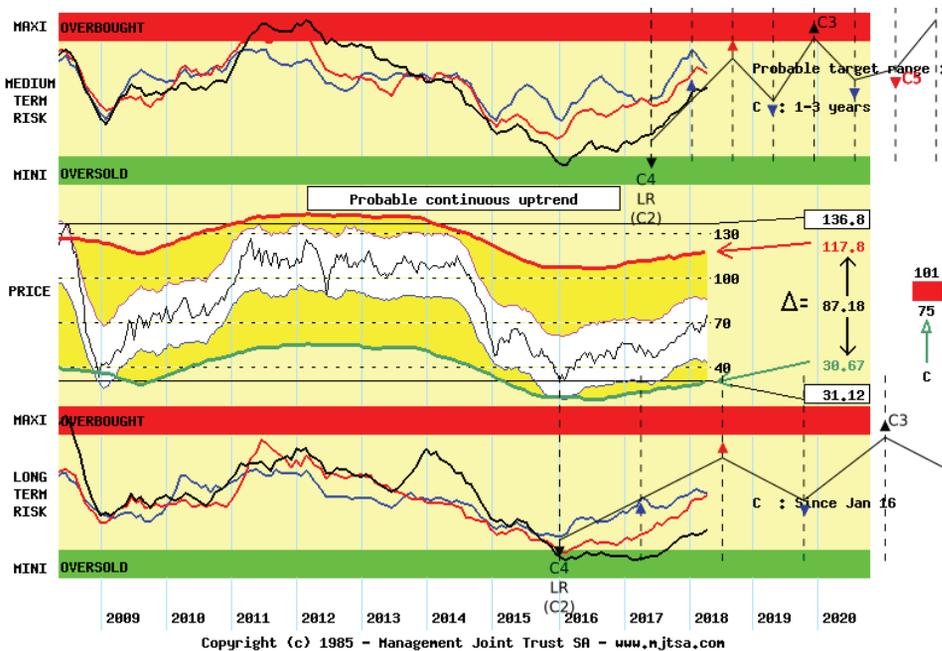
17 / MJT - TIMING AND TACTICAL INSIGHT

Oil and Energy should continue higher until mid Summer

And this week, the US withdrew from the Iran nuclear deal. The decision was widely anticipated, and over the last few weeks, it had probably been fully priced in. Now that the withdrawal is behind us, the market may return to some normality. The risks of an escalation in the Middle East remains and a political risk premium is certainly warranted, yet supply and demand dynamics should regain focus as the current late cycle commodity rally meets a maturing business cycle. In such a complex environment, it's often best to focus on the graphs and this is what we attempt to do below.

Brent Oil

Bi-monthly graph or the perspective over the next 1 to 2 years

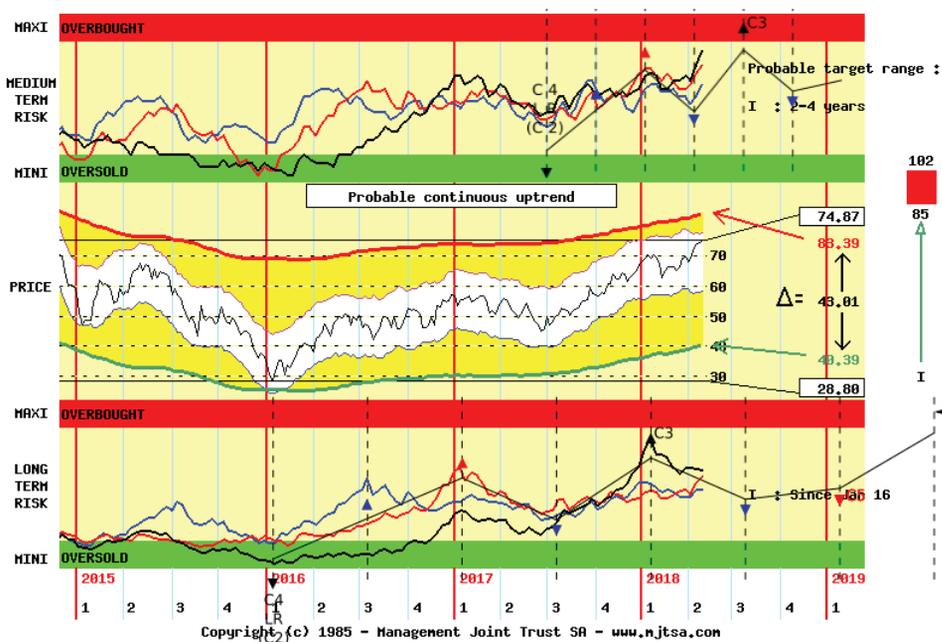


Oil's bottom in early 2016 marked the beginning of the reflation trade. The move has been underway for some 27 months and according to both our oscillator series, it should reach an important intermediate top between mid-year and the Summer. Following that, we would expect it to correct to the downside for several quarters at least (medium term oscillators; upper rectangle) or perhaps even into late 2019 (long term oscillators; lower rectangle). In the meantime, price could push higher in the C Corrective price target

zone up, between 75 and 101 USD/barrel before they start to reverse.

Brent Oil

Weekly graph or the perspective over the next 2 to 4 quarters

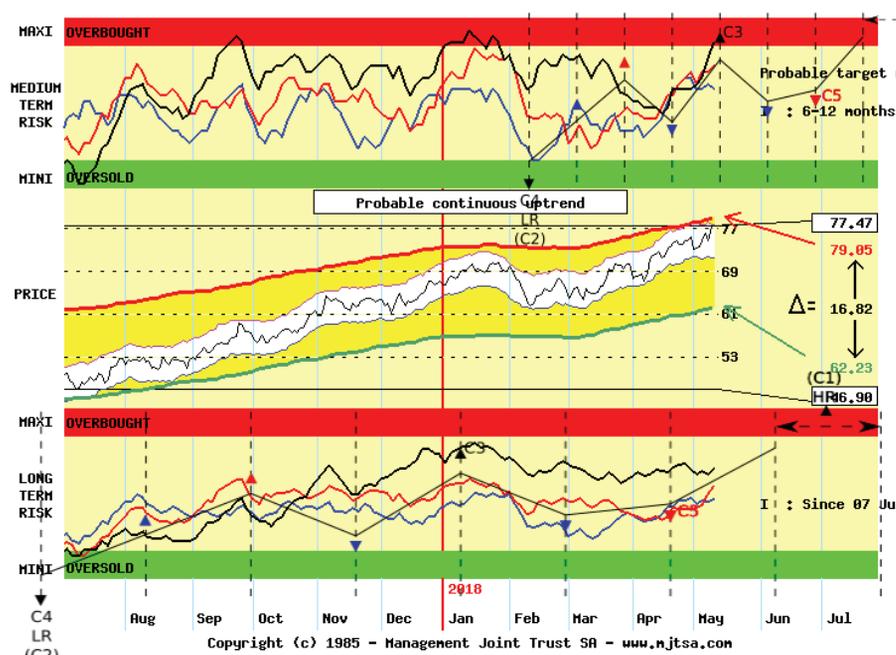


On our long term term oscillators (lower rectangle), oil completed an initial sequence up, which started in Q1 2016 and ended early this years. That said our medium oscillators (upper rectangle), are more in line with our projections on the bi-monthly graph above: **Oil could now extend up further into the Summer, possibly until late July/August.** Our I Impulsive price targets on this Weekly graph would suggest similar price targets as the one above, with **oil possibly reaching the 85 – 102 USD/barrel zone before it tops out**

and eventually starts to reverse into the Fall.

Brent Oil

Daily graph or the perspective over the next 2 o 3 months

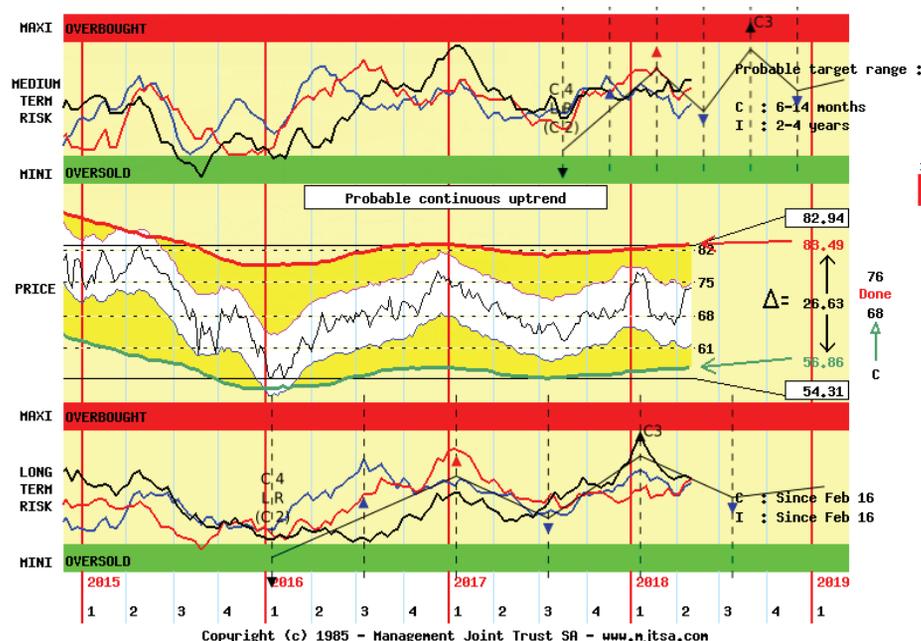


On our medium term oscillators (upper rectangle), there are several short term oscillator sequences that we can identify. **Whichever we choose, they seem to indicate that Oil may see a slight correction lower at some point between now and early June.** This scenario is corroborated by the fact that for now, our I Impulsive targets to the upside (right-hand scale) have been achieved, signaling some temporary exhaustion in this uptrend. **Following that, possibly from early June, Oil should then re-accelerate up**

towards mid Summer on both our oscillator series (lower and upper rectangles). I2 Impulsive 2 extended price targets we can calculate to the upside would imply an 86- 92 \$/barrel target range.

XLE - Energy Select Sector SPDR Fund

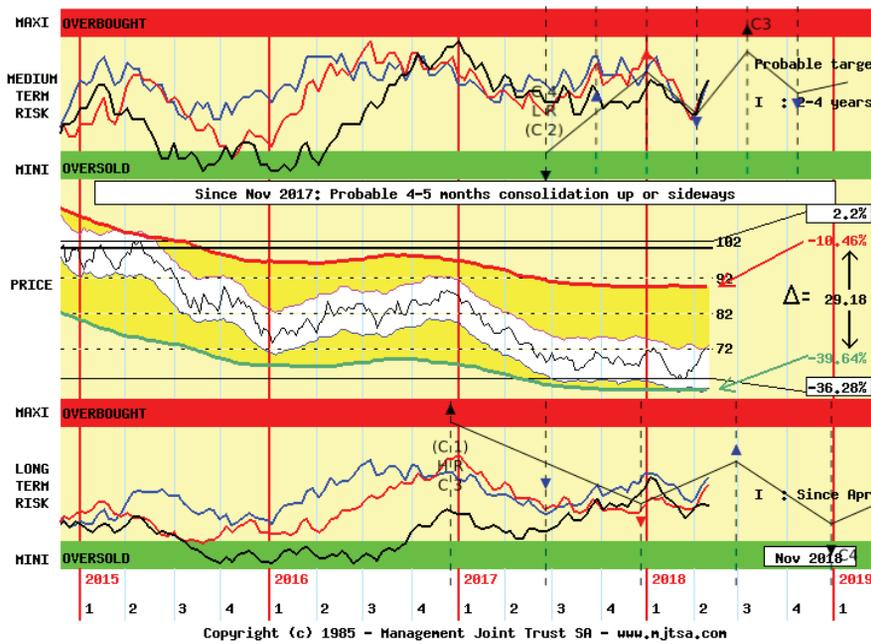
Weekly graph or the perspective over the next 2 to 4 quarters



The Weekly graph of Energy shows similar timing that the one above on Oil. It also reached an intermediate top on our long term oscillators earlier this year (lower rectangle), yet on our medium term oscillators (upper rectangle) **could extend up further into mid Summer.** Since, it started up in early 2016, the sector has pretty much remained within the resistance zone of our C Corrective targets to the upside between 68 and 76 (right-hand scale). If XLE manages to break above these over the next couple of months, the next levels of targets (I Impulsive targets to the upside) is much higher, somewhere towards the 89-100 zone.

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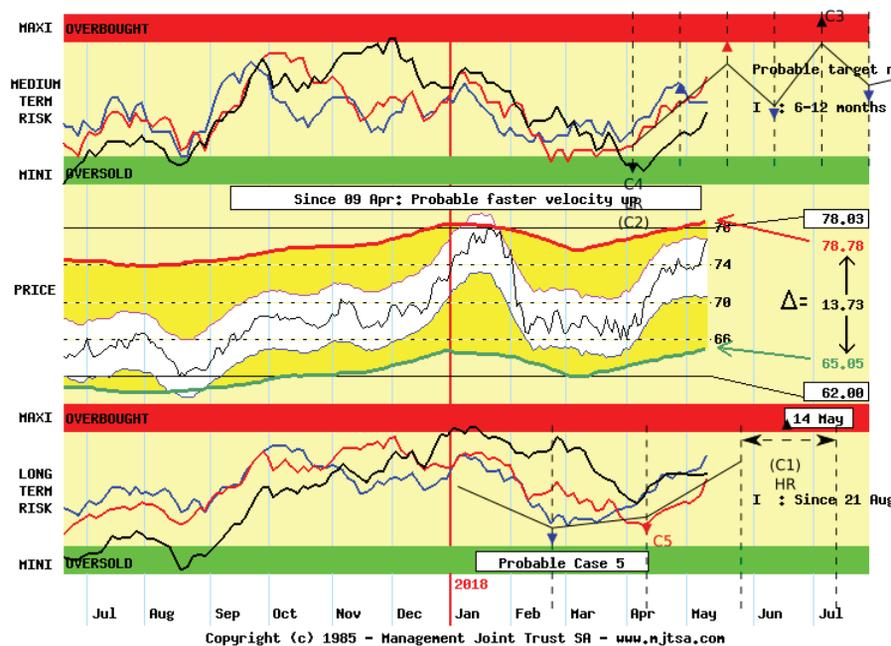
XLE - Energy Select Sector SPDR Fund / SPY - SPDR S&P 500 Weekly graph or the perspective over the next 2 to 4 quarters



The sector widely underperformed the S&P500 in 2017, as Growth trades have performed better than Value and especially Energy. Indeed, as shown on page 38 of this document, the yield curve has struggled to steepen favoring long dated cash flow streams vs more cyclical ones. Going forward, the situation should remain the same, although a slight pick up in Energy vs the S&P500 is probably still expected between now and early/mid Summer. Following that, we would expect Energy to underperform again into the

Fall and towards year-end.

XLE - Energy Select Sector SPDR Fund Daily graph or the perspective over the next 2 to 3 months

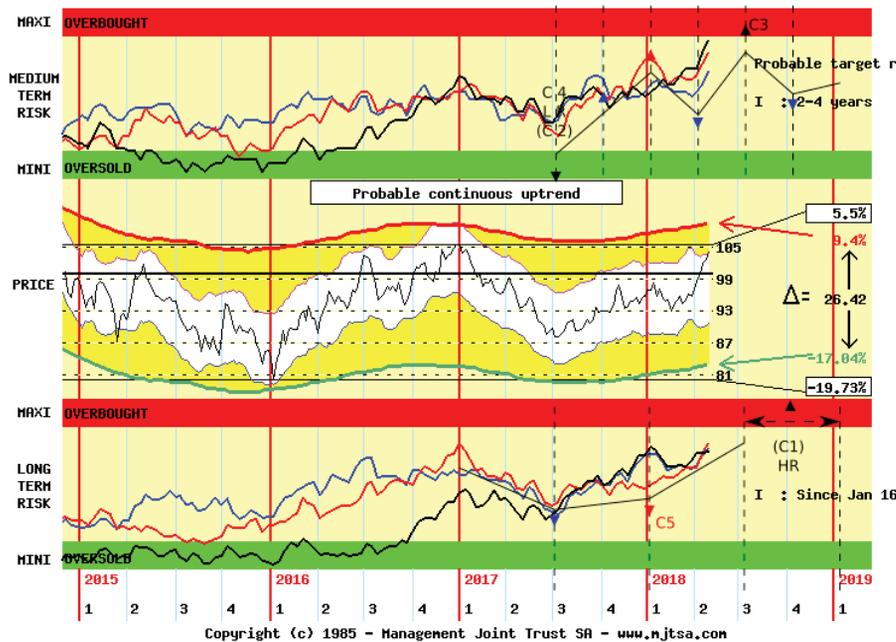


Shorter term, on an absolute basis, the sector has already started to accelerate up on both oscillator series (lower and upper rectangle). XLE may enter a slight correction between mid May and early June, but in general, the move should continue higher into mid-year, possibly even towards mid Summer. Our I Impulsive price targets to the upside would suggest price potential towards the 80 - 85 range by then (right-hand scale), or towards the lower end of the I Impulsive price targets mentioned on the Weekly

graph on the previous page.

ENERGY - Dow Jones STOXX / Dow Jones STOXX

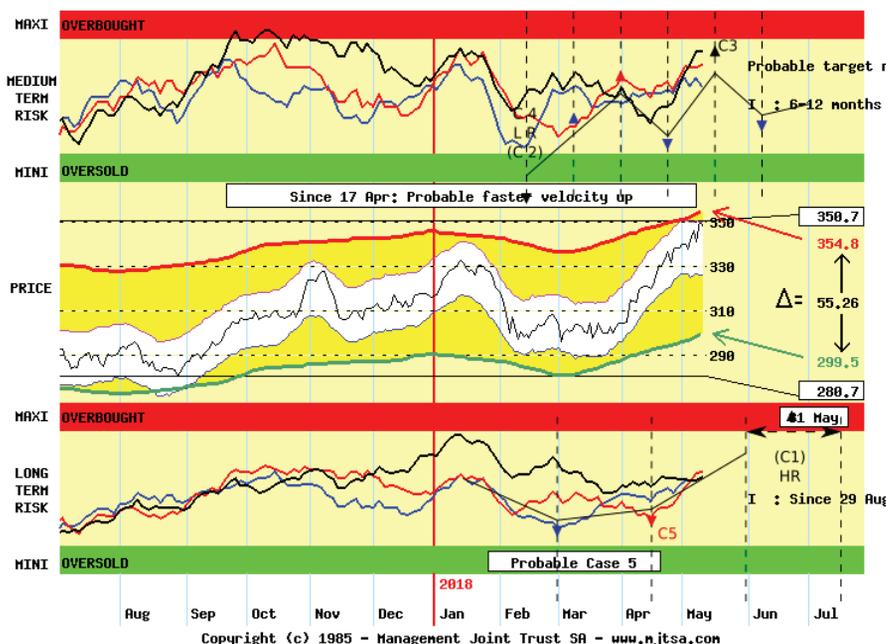
Weekly graph or the perspective over the next 2 to 4 quarters



In Europe, the potential for the Energy sector vs the market seems even more promising over the next few months. On both oscillator series (lower and upper rectangles), **European Energy should outperform the Europe Stoxx 600 at least into the Summer**, possibly even late Summer. According to our Impulsive targets to the upside (right-hand scale), Energy could beat the markets by a further 10 to 20% by then.

ENERGY - Dow Jones STOXX

Daily graph or the perspective over the next 2 to 3 months

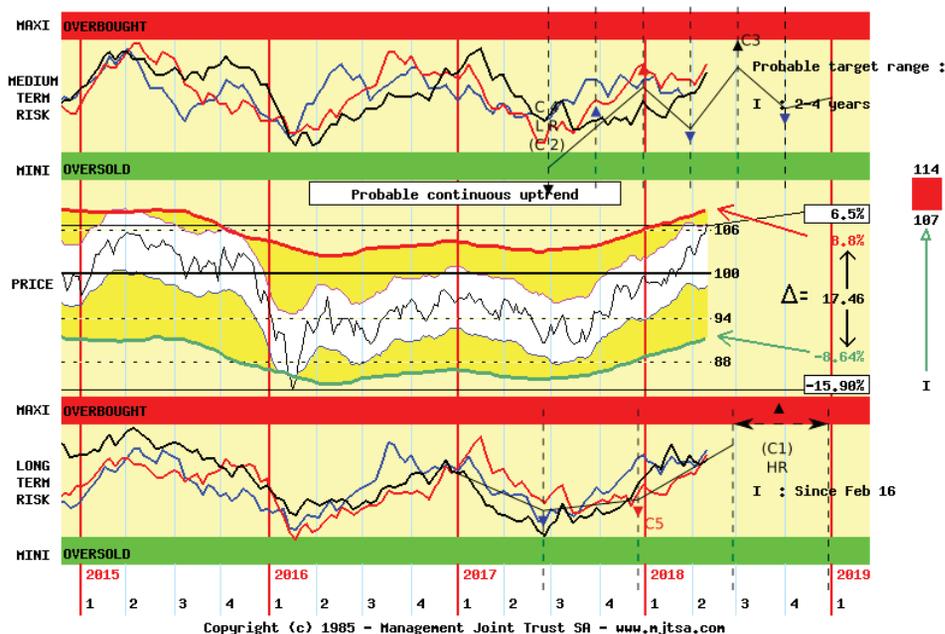


Shorter term (Daily graph), on an absolute basis, the European Energy sector shows similar dynamics as in the US. On both oscillator series (lower and upper rectangles), **it broadly continues higher until the Summer**, while our medium oscillators (upper rectangle) would also suggest a slight period of consolidation from mid May to early June. On the price target front the upside seems somewhat limited (I Impulsive targets up between 353 and 375; right-hand scale), yet on our longer term Weekly graph (not shown here), prices have

the potential to extend up above 400 until the Summer.

IEO - iShares Oil & Gas Exploration & Production ETF / XLE - Energy Select Sector SPDR Fund

Weekly graph or the perspective over the next 2 to 4 quarters

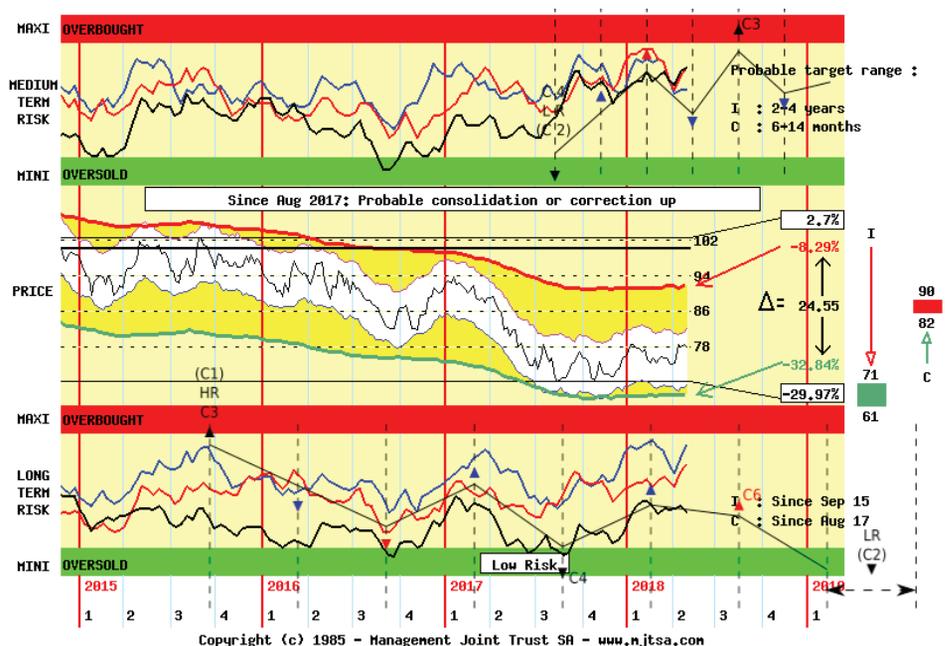


Oil & Gas Exploration & Production represents the more dynamic segment of the US Energy sector, and probably the one that shows the most elasticity in terms of valuation when Oil prices are moving quickly (as opposed to for example to the larger Integrated producers). Its uptrend vs the sector is still very strong and should extend up into the Summer on both our oscillator series (lower and upper rectangles). Price potential for the segment could extend up another 5 to 10% above the broader sector over the next few

months (right-hand scale).

OSX - PHLX Oil Service Sector / XLE - Energy Select Sector SPDR Fund

Weekly graph or the perspective over the next 2 to 4 quarters

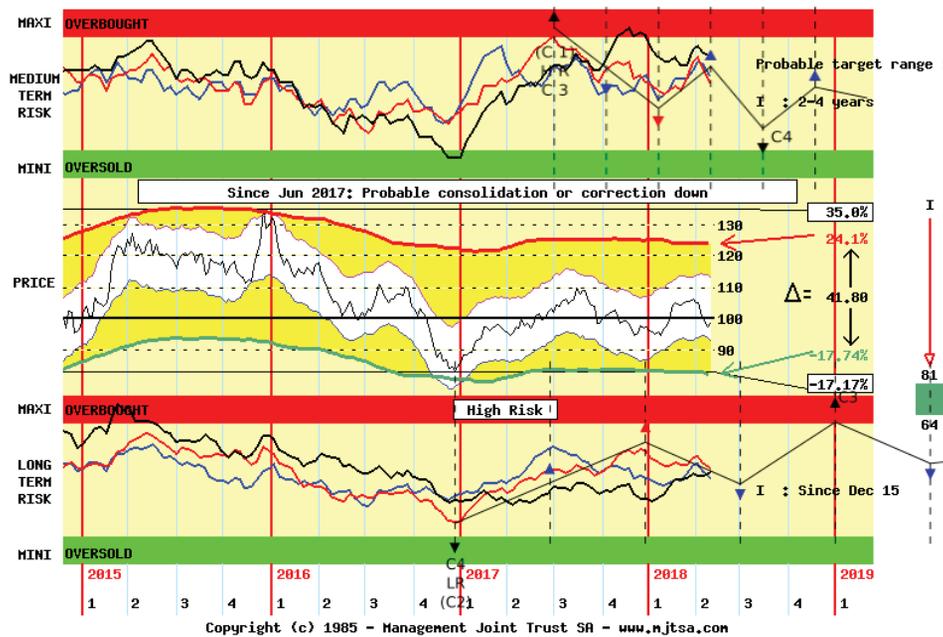


Oil services on the other hand represent the deep value end of the Energy sector. Our medium term oscillators (upper rectangle) would suggest that it may push up until mid Summer, possibly outperforming the sector by 5 to 15% (right-hand scale). Yet, a lot may depend on general market conditions, and especially the potential for further rotation from Growth into Value. Our analysis of the yield curves on page 38 suggest that from the Summer at the latest, the yield curve should flatten again. This would then favor Growth over

Value, and hence the time window for any Oil services outperformance vs the Energy sector is probably quite short (from now into mid Summer). Our long term oscillators (lower rectangle) suggest a more negative scenario, where the ratio stalls until the Summer before it moves lower again until year-end.

ICLN - iShares S&P Global Clean Energy Index Fund / IXC - iShares Global Energy ETF

Weekly graph or the perspective over the next 2 to 4 quarters

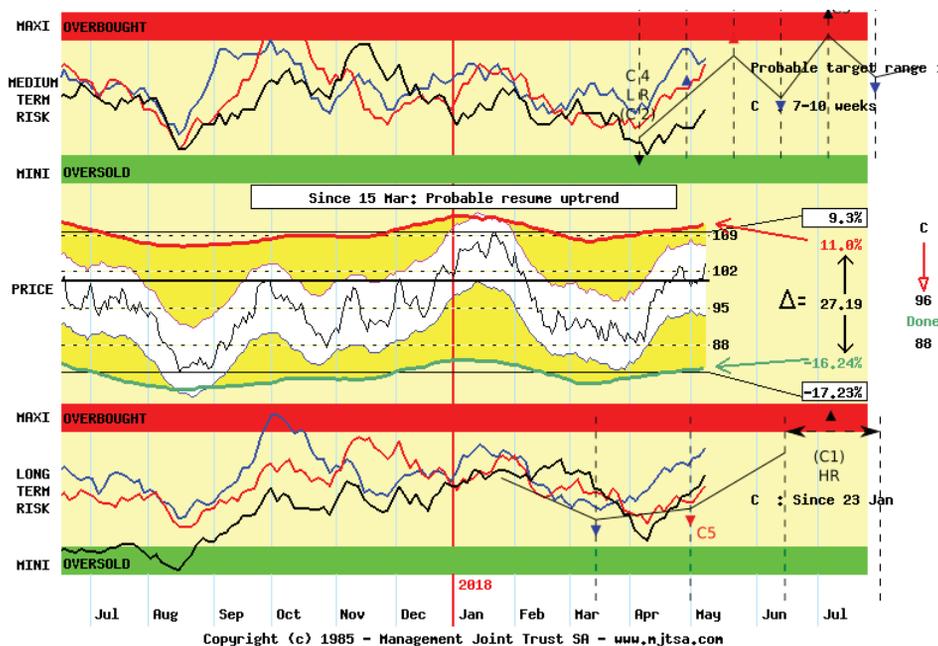


At the other end of the Value/Growth spectrum, Alternative Energy represents the more Growth oriented, even the Defensive side, of the Energy sector. Since the Summer of 2017, the ratio has been moving sideways in a range. On our medium term oscillators (upper rectangle) we present the sequence as a weak downtrend, while on our long term oscillators (lower rectangle), we would view it as an uptrend, which has stalled. Both suggest that **Alternative Energy should continue to move sideways vs the broader**

Energy sector, possibly until mid-year, perhaps mid-Summer, before it starts to outperform again until year-end. This suggests a more defensive environment for Energy from late Summer into the Fall.

OSX - PHLX Oil Service Sector / ICLN - iShares S&P Global Clean Energy Index Fund

Daily graph or the perspective over the next 2 to 3 months

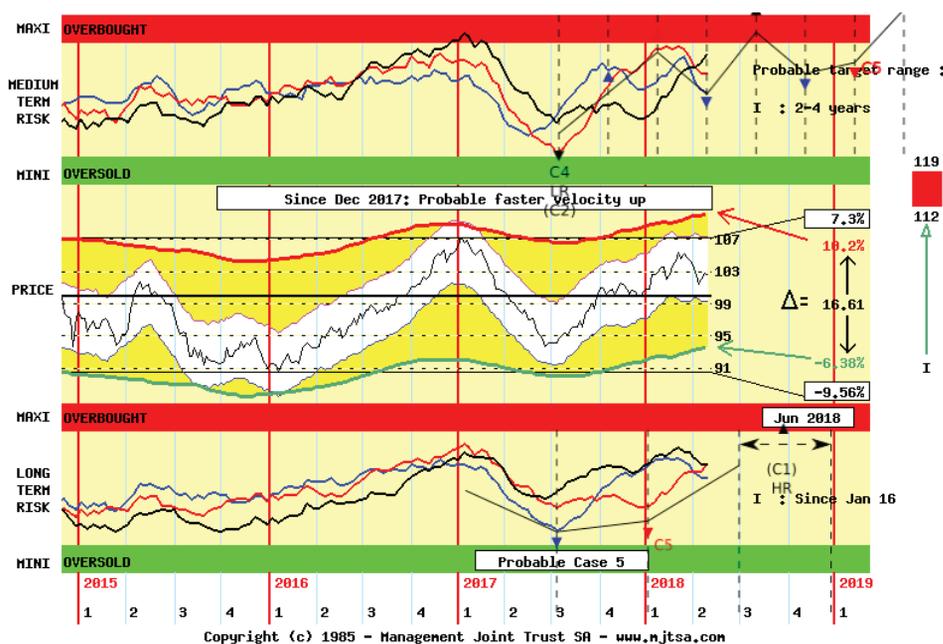


Taking the above relations to an extreme, we compare Oil Services vs Alternative Energy on a Daily basis. This ratio should allow to capture the Value/Growth dynamics over the next few months. Generally, on both oscillator series (lower and upper rectangles), we expect that Oil Services (Value) should outperform Alternative Energy (Growth) probably until early, perhaps mid Summer. On our medium oscillators (upper rectangle), we show that a slight counter-trend is possible between mid May and

early June. This is in line with our projections on the Energy sector as a whole.

Oil exporting countries vs Oil importing countries – relative Equity basket comparison

Weekly graph or the perspective over the next 2 to 4 quarters

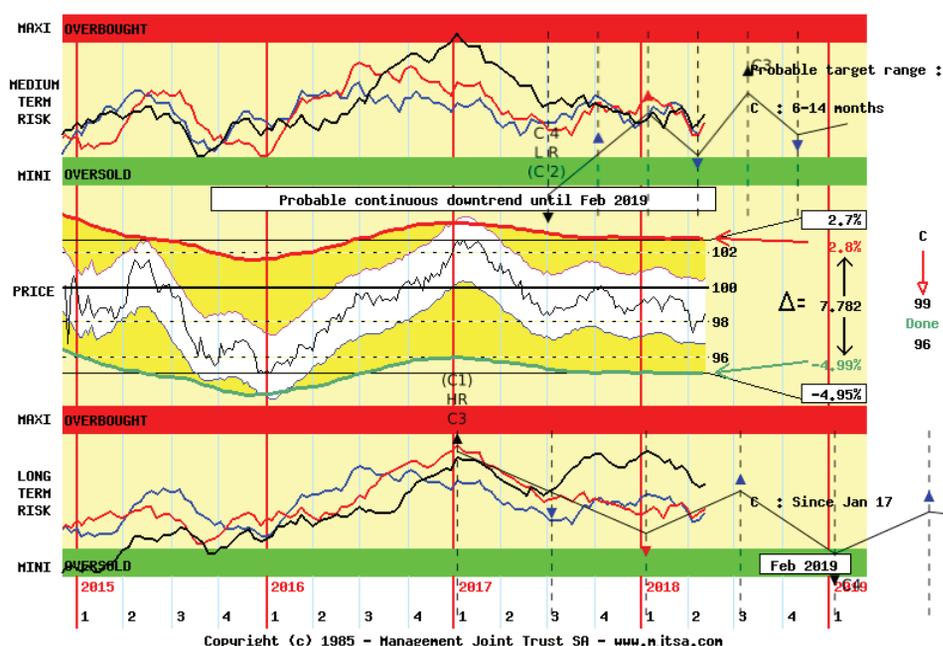


As we have done in many previous issues, we like to corroborate our projections on Oil with the dynamics inherent to Oil related geographies (importers vs exporters, or countries more or less levered to rises in the price of Oil). In this graph we compare two basket of equity markets, one including Norway, Brazil, Russia, China (the more levered one to rising oil prices), the other including Denmark, Mexico, Poland and India (less levered, even negatively correlated to rising oil prices). On both oscillator series (lower

and upper rectangles), countries which are more correlated to Oil prices do seem to outperform the others until early/mid Summer, which confirms our general view on Oil prices and the Energy sector.

Oil exporting countries vs Oil importing countries – relative Currency basket comparison

Weekly graph or the perspective over the next 2 to 4 quarters



We now perform the same analysis on the currency front by comparing two baskets of currencies, one more positively correlated to oil prices (NOK, BRL, RUB and CNY) to the other less sensitive to Oil prices (DKK, MXN, PLN and INR). The picture is similar, yet somewhat weaker as the current USD rebound is probably acting as a headwind on the more volatile Oil related currencies (BRL and RUB especially). That said, both oscillator series (lower and upper rectangles) still suggest than the currency basket more cor-

related to Oil outperforms the other until early Summer, before it resumes lower until year-end.

Concluding remarks

Oil prices, the Energy sector as well as the related segments, geographical and currency comparisons, would suggest that the Oil nexus continues higher, possibly until early, perhaps mid Summer. By then, oil prices may have reached into the higher 80s USD/barrel, perhaps even higher. Following that, we would expect this move to retrace, starting late Summer, probably throughout the Fall and until year-end. Shorter term, a slight counter-trend move lower may materialize between mid May and early June, which could provide one last/late "Buy the Dip" opportunity.