

# With Apologies to my Greek Friends (and Hesiod)

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“A BAD NEIGHBOUR IS AS GREAT A PLAGUE AS A GOOD ONE IS A GREAT BLESSING; HE WHO ENJOYS A GOOD NEIGHBOUR HAS A PRECIOUS POSSESSION. NOT EVEN AN OX WOULD DIE BUT FOR A BAD NEIGHBOUR. TAKE FAIR MEASURE FROM YOUR NEIGHBOUR AND PAY HIM BACK FAIRLY WITH THE SAME MEASURE, OR BETTER, IF YOU CAN; SO THAT IF YOU ARE IN NEED AFTERWARDS, YOU MAY FIND HIM SURE.” HESIOD’S “WORKS AND DAYS”

Our collective inboxes are right now overflowing with analysis of the implications of the Greek election. The results, with a bit of uncertainty as to the exact number of seats, is a victory for the Syriza party. The party may even obtain a majority in the Greek Parliament, which would allow them to form a government without the support of one of the smaller parties. Now the outstanding questions are who the next finance minister will be, how the Euro group meeting will react, if the ECB will continue to fund the Greek banks through emergency loans, where the depositors will go (because they have and will continue to flee) and if Greece ultimately will be able to make loan re-payments to the IMF and be included in ECB sovereign QE? A decision is going to be taken in July at the latest. And you thought the Greek focus would be over after this weekend? But, alas, no such luck; there are still lots of good events for strategists and pundits to write about in the coming months. I forecast plenty of references to Odysseus’s lengthy travel home after the Trojan War. That’s a bad thing. The good thing is: this hardly matters for anybody but the Greeks. By and large, most private sector exposure to Greece has been translated into public sector exposure; and despite the bad

shape of public sector balance sheets in general, this transfer creates, for better or worse, a very effective form of burden sharing. Add to that the recent introduction of sovereign QE by the ECB, which significantly lowers the redenomination risk in the Euro area, in general, and we are left with a situation where contagion through normal financial channels is limited. For the new Greek government, this is bad news. The financial leverage has decreased significantly. That said, the Greeks’ political leverage may have increased. Austerity measures are hardly ever popular, and the win for Syriza makes that point abundantly clear across Europe.

All in all, the election results should, therefore, have limited impact on European (and even more so global) assets. Knee-jerk reactions from pundits will be to forecast weakness in peripheral European stock and bond markets and a move to safety in German Bunds. Such an effect, should it actually materialize at all, should be short lived. The impact for the euro is negative, but again, compared to the potential impact from the trillion plus euro QE program, minimal. (The good thing about predictions like the ones above is that they are notoriously difficult to validate quantitatively even after the fact; so we are all,

Past performance is no guarantee of future results. Potential for profit is accompanied by possibility of loss.



regardless of view, on safe ground here!). Of course, the outcome(s) matter, and matter a lot for the (few) private investors that directly hold Greek debt or equity exposure. But they are few and far between and they, too, don't matter for broader financial stability.

In our portfolios, we do not hold Greek debt or equity exposure. We, therefore, see little or no direct impact of the election. However, we believe our small short bund position would suffer, on the margin, while we may benefit from our short euro position in the currency portfolios, and the slight overall negative tilt we have to European equity markets.

Where the election outcome may have a more lasting impact is through a general increase in risk aversion and market volatility. Episodic "noise" from the south eastern most part of the European Union is not going to help calm markets. The

coming months will see an increased focus on Grexit, and implications for the wider European experiment. This has to be "good" for the Swiss Franc, which now again has been put on the table as a risk sensitive currency. Who in Greece with access to a bank account in Zurich cares about a negative deposit rate when there is real re-denomination risk of holding assets at home? Even Euro notes under the mattress may seem increasingly attractive (and with the existence of the €500, one of the largest denominations on a note in the world, you don't need to hide too many). However, in the end, it may be worthwhile for the Greeks to heed Hesiod's advice and use some of the (limited) assets to create goodwill among neighbors?

