Benjamin A. Pace is the firm's Chief Investment Officer and leader of the Investment Committee. He has more than 25 years of experience in investment management. Prior to joining HPM Partners, he was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has been featured in the Wall Street Journal and Reuters, and is a frequent commentator on Bloomberg TV and radio, Fox TV and CNBC, appearing regularly on network programs such as Power Lunch, The Closing Bell, Squawk Box, and Worldwide Exchange.

ECONOMIC INSIGHTS /

What Part Of "No" Do You Not Understand?

As everyone knows by now, Greece voted "No" by a margin of 61% to 38% in the July 5 referendum. The media is characterizing Sunday's Greek referendum as a resounding rejection of the troika's (European Commission, European Central Bank and International Monetary Fund) demands for further austerity in exchange for additional bailout funds. However, there was considerable confusion over exactly what the Greeks were voting for, since the austerity terms that they were supposedly voting on had lapsed once the Greek government missed its scheduled payment to the IMF. Since everyone is loathe to use the "d word" to describe the missed payment, Greece is now officially "in arrears" to the IMF and will receive no additional funds from the IMF until this is rectified.

Rather than a rejection of continued membership in the Eurozone, we view the outcome of the referendum as primarily a rejection of further austerity by the beleaguered Greeks and secondarily a vote of confidence in the Tsipras government. Going into the referendum, Tsipras claimed a "No" vote would give him more negotiating leverage with the troika in his ultimate quest to keep Greece in the Eurozone. In a letter to the creditors prior to the vote, he has indicated that Athens might be amenable to the creditors' demands for tax reform in exchange for better terms. The opposing side is understandably skeptical as they have previously seen similar promises made and not kept.

In effect, the referendum was a wager that a resounding "No" vote would soften the troika's demands. However, if the troika agrees to any austerity or debt relief, Portugal, Italy, and Spain are likely to seek comparable concessions, putting tremendous pressure on Germany and France to finance further bailouts. We note that French President Hollande is taking a more conciliatory tone than German Chancellor Merkel; perhaps because the French economy is more comparable to the peripherals in terms of debt and competitiveness issues than it is to the structurally strong German economy. But it has likely dawned on the Germans that they are the ultimate guarantor of Eurozone solvency.

Greece has requested a three year bailout program from the European Stabilization Mechanism. In return, it has promised to deliver a concrete proposal to the troika and to begin implementing tax and pension reform measures by next week. The troika has set a Sunday deadline for receiving the Greek proposal. So far, the troika is standing firm on the need for credible reforms before any more money is disbursed. The European Central Bank has announced it will leave the emergency liquidity assistance program for Greek banks unchanged through the weekend. As a result, the bank closures and capital controls installed last week will be extended through the weekend. Although the referendum rejected additional austerity, the Greek population has begun to feel the pain of the potential collapse of the banking system.

Before this crisis re-emerged, the Eurozone economy had demonstrated signs of meaningful improvement, with annualized GDP growth of 1.5%. European commercial banks have very little Greek debt on their balance sheets and the ECB continues to provide liquidity through its quantitative easing program of purchasing the sovereign debt of member nations. Thus, we believe the fallout from a Greek default and exit from the Eurozone is containable and will not necessarily lead to similar crises among the other heavily indebted European peripherals. Under this scenario, the European economy would see slow growth, but this could be offset by additional monetary easing, which would help to bolster the confidence of equity market participants.

US equity markets have been affected by the events in Greece, pulling back almost 4% from their May highs. Given the heightened volatility and uncertainty, it may be a little premature to commit more money to equities just yet. With the US economy gaining momentum in job and wage growth, retail sales, and housing, we will view further price weakness as a buying opportunity for US equities, which are actually down in price year to date. We maintain our current position in European equities in anticipation of further central bank easing moves and better earnings growth expected from many companies in the region. We continue to stress the need to hedge the currency risk in these positions as the euro and pound sterling are likely to weaken as the result of further monetary policy expansion.

As our readers can appreciate, the situation remains very fluid. We will provide further updates as necessary, but if you have any questions or concerns, please do not hesitate to contact your HPM Partners investment advisor. We thank you for your continued trust and confidence in our firm.

Sincerely,

Benjamin A. Pace
Chief Investment Officer

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