GREYCOURT

Monday June 29th, 2015

Outlined below is a brief note from Greycourt's Chief Investment Officer, Jim Foster, addressing the recent actions taking place in Greece.

As many of you know, Greece imposed capital controls on its banks last night in advance of what appears to be an imminent debt default by Greece. The markets were little surprised by this news and we have seen increased volatility and global stock markets falling by a few percentage points this morning. What we have not seen is the broad-based, sell-off experienced in 2011 when Greece last was on the brink. Then, as now, Greece is inconsequential to the world's GDP – Greece has a GDP about the size of Rhode Island's. The concern in such a default is not the impact on Greece; what worries financial markets is the prospect for contagion. Will Greece's exit from the European Monetary Union place pressure on other distressed countries such as Spain, Portugal, and Italy to follow suit? Will the default by Greece imperil the financial stability of European banks? In both cases, the evidence suggests, "no." Unlike 2011, Europe has been preparing for this eventuality for years: banks are better capitalized; much of the Greek debt carried on banks' balance sheets has already been written down to near zero; most outstanding Greek debt is now held on more stable sovereign balance sheets and the ECB is in the midst of injecting massive amounts of liquidity into the European markets. Of course with equity and bond valuations already stretched, some amount of correction following this news is expected and a healthy pull back would represent an opportunity to add to equity positions, especially to export-oriented European stocks and US stocks. Our sense is that we are likely in for high mark-to-market volatility in anything that touches Eurozone equities.

In our view, a potentially more troubling development is occurring several thousand miles to the west of Greece as Puerto Rico's governor Alejandro Garcia Padillo pronounced that, "the island's debt is not payable." While the credit troubles of Puerto Rico are also well known, this pronouncement by the governor came as a bit of a surprise and might roil the municipal bond markets somewhat. Our clients have very little exposure to Puerto Rican debt through our recommended managers and we continue to monitor the situation closely.

In light of today's events, if you would like to discuss markets in general or your portfolio in particular, please do not hesitate to give me a call.

Jim Foster
Managing Director
Chief Investment Officer