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I Greece remains Greece

For the time being we have reached the last act of this Greek drama, and the situation has become even more messy and difficult. We would therefore like to take a step back and share some thoughts with you, focusing on medium to long-term relevance.

The Greek Government is a Failure

Once in a while a radical politician turns out to be a successful reformer, and so quite a few hopes were pinned on the newly elected Greek government. However, Prime Minister Tsipras and Finance Minister Varoufakis have totally failed. And it has unfortunately become clear that this Greek government consists largely of irresponsible prima donnas, old style ideologues and demagogues, undisciplined amateurs, and bad gamblers. Reading the CVs of the Cabinet members, this can come as little surprise.

Greece Remains Greece

There is a lot of news and noise, particularly this week with the upcoming referendum. But for much of the past 150 years, Greece has been a state with weak and unheeded institutions, a large black economy, and endemic clientelism and corruption. Greece has also constantly been living beyond its means, and just like Argentina has been a serial defaulter. And most interestingly, it hasn't made any difference to the country whether there was a right-wing military regime, mainstream democratic parties, or left-wing radicals in charge.

Eurozone in Need of Reform

That said, it is also a very sad fact that the Greek population is indeed stuck between a worsening humanitarian crisis and failing Greek institutions. In an ideal world, the response to such a crisis would entail an expansive monetary policy and loose fiscal policy combined with deep structural reform. And in that respect Mr Tsipras could rightly have challenged the Eurozone's persistence with unreasonable austerity policies. However, he failed utterly by turning the wheel back on fiscal policy and not delivering on structural reform.

Referendum or No Referendum - That is the Question

Once cornered, Tsipras broke off negotiations and called a referendum. A key feature of next Sunday's vote is that it sees a national government waging a campaign against European institutions. And, of course, the question for the population is whether to leave or remain in the Eurozone (even the Greek Central Bank sees the question like this). Until then, we are very much in 'no-man's land'. And only time will tell whether a referendum is held at all.

Troika to Support Greek Population

I expect Greece to vote to remain in the Eurozone, and the Tsipras government will then be finished. The Troika will subsequently support the Greek population unconditionally until a new national unity government has negotiated a deal including fiscal austerity, structural reform, debt restructuring, privatizations, and investment. If deemed helpful or necessary, the Troika can call a moratorium at any time, but they want to see this government gone first.

Eurozone's Integrity Secured

No matter which way the Greek population votes on Sunday, there is absolutely no question of the integrity of the Eurozone and the single currency being at risk. It is grotesque to watch Mr Tsipras talking about the Eurozone being dismantled in the event of a 'Grexit'. And Greece is in no way whatsoever comparable to countries such as Spain or Italy, so we can forget about contagion risk.

Remaining Bullish on Equities

We are still keenly positive on equities on both sides of the Atlantic. Any weakness in European risk assets, particularly financials, would represent another attractive opportunity to take exposure. And from a global perspective, the great rotation from fixed income to equity investments has finally started in earnest.

Beat Wittmann