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Current Situation

The Western capital markets were moved in the past months due to the expectation of rising interest rates in the United States and due to the negotiations between Greece and the EU. Yields on government bonds continued to rise across all maturities and stock markets excluding Japan lost ground again, while the Euro was able to recover slightly against the Dollar. The anxiety of the markets, however, was particularly evident by the increased volatility.
The opinion in the US has intensified that it will be very likely that the Fed will raise rates in September for the first time in years, because of the slowly but steadily improving economy.
The rigidity and intransigence in which the Tsipras government and his game theorist Varoufakis has jumped round with the EU over the last six months has finally illustrated to all EU-Members that a solution to the crisis by compromise has been impossible. The ideas of the current Greek government in terms of community, state and currency finalizing in a political union, where liabilities and the distribution of wealth will be socialized, is so far apart from the other 18 states with regard to their values and principles. The Greek demands are completely absurd and therefore there is no negotiable common ground between the groups.
Greece has been strapped for decades of mismanagement, cliquism and corruption. For decades this country has been managed by a small group of family cliques of whatever political direction that have not been able to build a functional and corruption free administrative system for the wealth of their citizens. The finance minister publicly admitted that it is impossible to collect taxes in Greece, he disqualified not only himself and his ministry, but also the entire administration. Therefore, a write off of debt in connection with the exit of Greece from the monetary union should be the only viable solution and at the same time on a more serious note a message to all potential EU candidates to try to buy themselves into the currency union in the future.
Once again, the Greek elites have led the proud nation at the brink of a Lost Nation and not the EU. The real losers, as always in history, have been the Greek people. They have as Europeans our sympathy, and they should be able to count on humanitarian aid of the EU in the future. On the other hand Berlin, Paris and Brussels must have conceded during this nerving tug of war that the community in many cases has been unable to properly cope with the various social, financial and economic problems. The end will be bitter for both sides and there will be no winner in this shameful battle.

Outlook

The exit of Greece from the monetary union when it comes will not be an easy task for the EU, as the existing rules and regulations do not provide a currency exit. This painful process would, according to estimates, not only take months, but the

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insolvency of Greece would cost the German State alone at this point and time already up to 90 billion euros. In addition, it is currently unclear how the Greek government will then deal with the financial and fiscal situation to prevent the country from a possible social and economic collapse. In this context the upcoming referendum is a farce, as the average Greek citizen will not even understand the content of this referendum. It is supposed to merely serve the rulers to buy their way out of failure and from any blame of guilt. It is not conceivable that the government will survive the year.
Of course, the current situation for the continuity of the Euro will be a challenge for the EU again. The affront of the Greeks against the 18 members, however, has bolstered and pulled together the community. In addition, the EU with its enlarged facilities is much better equipped today to ensure the stability of the Euro as during the first Greek crisis in 2011/12. Therefore a renewed lasting fall of the Euro against other major currencies should not be assumed.
In the 2nd quarter the growth push in the world economy has failed to materialize, so the formula growth at any price is still very much on the table. This is especially true for Europe but also for China, which has since November lowered its interest rates for the fourth time in order to cushion its weak economic development. In Italy, the reform process in banking and the insolvency law continues to improve the financial competitiveness and strengthen its economic conditions. The relevant laws should be approved in the next 6 weeks by Parliament. This step should again be valued as another sign of improving economic conditions in Italy.

Financial Markets

Although Greece economically plays a subordinate role, the terrorist’s attacks in Africa and the weaker than expected growth numbers in the US, Europe and China have not failed to impact the capital markets. The latest strong stock market corrections have meanwhile reached technically critical points. This also is evident for the world market leader USA, where the Dow Jones transport index has recently triggered a sell signal – in terms of the Dow-Theory not very encouraging.
Growth of the world economy has been lethargic in the past quarter and therefore the earnings season not only in the USA but overall might not turn out to be that great despite the Dollar and oil price stabilization. Against this backdrop of political and economic uncertainty the risk of losses and increasing price volatility has increased considerably. The signs are there that the equity bull markets have entered a larger correction phase, so that a more defensive investment behavior in the coming weeks with the temporary build-up of cash positions or of index hedges could be appropriate.

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The next report will be released in September 2015.

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