Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Three steps forward – four steps back?

Markets are once again hesitant ahead of the Federal Reserve meeting and decision on September 17th, as to whether we shall move from a "state of emergency" to "business as usual" in the monetary – and by implication, monetary sphere. After 6 years of zero interest rates, markets have still not reverted to focusing on micro economic company specific fundamentals, with equity markets mutating into a leveraged proxy for the bond markets. With margin debt at record levels, the financial markets disruption theme may weigh on the US central bank's decisions with regard to the way forward. Still, should the Federal Reserve not move, at the latest by the end of this year, this shall hardly be a sign of confidence in the global economy.

German enthusiasm wanes

While US investors fret about the financial economy, their German cohorts appear increasingly concerned by the slowdown and incipient systemic risk in China. With a large part of German exports going to the emerging markets and considerable direct investment in the areas, German corporates are open to the dual risk of a marked decline in export sales and write downs on the value of local investments. Due to amateur extrapolation from an economic moment centered on a one –off "development block" and a lack of data transparency, there has been considerable over investment and we expect foreign direct investors to be wrestling with lower sales growth and return on investment going forward.

The key to operating in emerging markets is to know when and how to cross the thin and often treacherous line between export sales and direct investment. Many corporates may now find themselves with joint venture investments saddling them with operating leverage and reduced profitability.

Chinese stock market no end of a lesson

With regard to the financial economy, China continues to crater. With economic worries now acting as a trigger to further selling. The debacle is rapidly moving from the impossibility of finding "the greater fool" to the realization that the Chinese economic model has simply stopped working! Endless rate cuts and stimulus measures have failed to lift the flagging fortunes of the economy. We read that growth estimates for the Chinese economy are being reduced to 6 per cent. We see this as still too high and deem it necessary to strip out from any GDP data the value of redundant investment and the amount of the increase in bad debts.

US retail sales disappoint

As concerns the US, retail sales have disappointed , raising further questions as to the robustness of US consumers in the light of weak – if any – wage growth – and a labor force participation ratio reminiscent of the 1930;s. We do not buy all of the arguments advanced by the apologists centering on seasonal "back to school" adjustments. The US economy needs more people working and higher wages. We see this as no easy task, with the US labor force more and more resembling the landless laborer phenomenon of early stage emerging markets – an infinite supply of labor depressing wages and skewing the benefits towards capital.

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He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M.Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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