Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Waiting for the "final" verdict – Will the Federal Reserve take into account jobless claims and strong housing permits? We are concerned as increasing clamor from great and mighty pleading for status quo – Who runs monetary policy, Federal Reserve or Wall Street? – China growth rates keep getting downgraded, fasten your seat belts!

Federal Reserve rate rise – is this a financial "Waiting for Godot"?

We are still in the – hopefully not deadly - thrall of tomorrow's Federal Reserve meeting and the prospect of the first increase in US interest rates since 2006. Forecasts seem to be evenly divided over whether today shall be D- Day.

Shall the invasion fleet set sail? If US raises rates vast majority shall not follow!

Shall the Federal Reserve invasion fleet set sail or shall the return to conventional monetary policy once again be postponed? We however do not see any US moves as triggering a series of rate increases in the other major economies. Global growth is slowing and deflationary pressures are building.

While credit spreads have been increasing and market volatility has risen, we still believe that there shall be an impact if the Federal Reserve moves to raise rates.

If no rate increase, start worrying! Systemic concerns to the fore

Should the Federal Reserve endlessly postpone raising rates, this shall indicate macro and possibly systemic concerns regarding the global economy. This may be positive for those who insist on seeing stocks as a proxy for bonds and welcome artificial increases in earnings per share. However, no stock market can survive without growth. We cannot survive on value alone!

Is the US situation more fragile than commonly believed?

The crescendo of clamoring for the Federal Reserve to not raise rates is now deafening and looking increasingly worrying. Why we may ask does the CEO of Goldman Sachs believes the Federal Reserve should not raise rates, while the investment banks are pointing to relatively positive economic fundamentals? Rarely have so many feared so little – can a 1 / 4 per cent increase in the Federal Funds rate knock US corporates for six?

Is the high yield market the source of all of this anxiety? Never have so many undeserving companies been able to borrow so much!

Is this finally the shoot-out at the OK Corral for high yield issuers who had a double bet on: Forced migration to lower rated credits assuring ability to raise financing An increase in inflation enhancing pricing power, while reducing the real cost of debt?

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High yield companies shall need to fend off a double punch!

The heat is now on as these issuers may need to simultaneously contend with a flat pricing power environment and be forced to pay more and / or borrow for shorter maturities – heightening pressure on cash flow in the advent of company specific or macro negative developments.

What is key to remember is that the zero interest rate environment, while putting savers through Dante's inferno, put money in the hands of companies which could never borrowed at such generous terms under normal circumstances.

US inflation – keeping a low profile

With regard to economic data, US inflation remains – to say the least – muted, at both the core and non-core level. We see this as further confirmation that external and domestic deflationary pressures are alive and well.

Great inventory liquidation has just begun!

The great inventory liquidation is barely underway, abetted internally by little pressure on wages.
We are in a hybrid 1930's- imported deflation – and emerging market, unlimited supplies of labor - scenario. We expect this situation to continue.

We are amused to see that the OECD has finally caught up with reality and downgraded its growth forecasts. We did this long ago! Also pleased to see that China growth estimates keep being marked down – fasten your seat belts!

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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.

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