Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

March 1, 2016

March 1st 2016

Voters in 11 states square off for Super Tuesday, Trump seen as likely Republican victor – Clinton for Democrats – Will US ask East German experts for advice on building walls? This is scary!

Chinese manufacturing continues to slide, while experts and markets square off. Is Barclays a grim harbinger for the future? Migrants are being gassed - EU is running out of options. New York Federal Reserve sees US GDP 2016 at two per cent – may be optimistic. Europe regains its allure as boring but safe – forget net present value this is about cash today!

Chinese manufacturing continues to slide – so what?

Chinese manufacturing continues to slide – hitting the lowest level since February 2009 – and the head of the Federal Reserve Bank of New York warns of downside risks. Never mind stock markets are up blithely, with investors preferring to focus on the prospect of further central bank easing as opposed to economic fundamentals.

A cut in bank reserve requirements in China has unleashed "animal spirits" in the emerging markets and their camp followers. Will it last and what shall be the consequences of more bad bank debts and overproduction?

A key fault line is emerging – who is right experts or the markets?

We are seeing a key fault line emerging, with the guiding lights of the economy veering towards caution and investors disregarding warnings. For the latter any distinctions on the global profit and loss statement between operating and non-operating profit is now moot! Endless rounds of monetary support have now blended into the fundamentals.

This is frighteningly reminiscent of the zai-tech finance practiced with disastrous results by Japanese companies in the 1980's! Eventually, this game comes unstuck and there is hell to pay.

China reserve ratio shall not re-create commodity super-cycle

There is some enthusiasm in the market for China's reserve ratio reduction, seen as spurring the economy. While oil and commodities have benefited, this is not the prelude to another commodity super-cycle but a slight lift from depressed conditions.

We see commodities as an excellent indicator of growth prospects and the auspices are not brilliant. The key issue is whether investors shall be ready to plough money into stocks when they are manifestly not buttressed by rising earnings or revenues.

Never thought we would see this – another icon gets pummeled!

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

We were staggered to see another icon of pre- 2008 capitalism subject to ritual humiliation by investors, with Barclays shares being suspended in London. This follows disclosure of plans for massive contraction and focusing on core segments. One is puzzled to read that capital voracious investment banking shall be retained. The rationale being that it is a countercyclical hedge to a consumer driven expansion. Does this mean that that distressed assets are the next big thing?

Barclays shall not be a bank for all countries!

It shall not go unnoticed that assets in the emerging markets are being cheerily dumped – so much for the markets of tomorrow! Barclays CEO has sided with Keynes and opted for cash today as opposed to the "long run". Still investors have once again expressed their skepticism as to the banking sector. This shall raise the cost of capital, force de-risking via balance sheet reductions and reduce the flow of credit to the economy.

Will we see the migrants shot at? Starting to look like the Europe of desperation in 1939

With regard to the European arena, we are starting to see a recrudescence of what we feared. Migrants being pushed back with force at the Greek – Macedonian border, with tear gas being used. Meanwhile, the rift between the erstwhile "Good Companions" within the EU continues to widen.

Merkel is under attack and with some regional elections coming up in Germany, we shall soon have a barometer as to the government's resilience.

European crisis is about "States rights" - who shall be South Carolina?

Merkel has launched a warning that lack of unity on key issues, such as the migrant crisis, could eventually put the Euro in jeopardy. We see the issue in broader terms. The principal pressures in the EU stem from a latter day version of "States rights", with the effect being compounded in the single currency area by a scarcely disguised return to a de-facto gold standard. With Brexit possibly on the agenda, the critical underpinnings of the European project are under siege.

Europe starting to be seen as an oasis of stability

Notwithstanding , there is a revival of interest by large global groups for the European market – seen as an oasis of stability as compared to the EM. We see investors retail, institutional and direct as veering towards cash pay back as the key metric, as opposed to Complex non cash in hand net present value – IRR.

Returns shall be adjusted for both cash and risk – political and economic, with the developed economies looking attractive.

As regards the US economy, we are awaiting data on the manufacturing sector, where a further contraction is expected. We remain cautious on the segment and do not see it stepping up to the plate to "pinch hit" for a still prudent US consumer. The head of the Federal Reserve Bank of New York is envisaging two per cent growth for the US economy in 2016 – this may be somewhat optimistic.

Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Ernest Williams
Institutional Sales & Trading
(646) 862-2912 Direct
ewilliams@tigressfp.com

About Jean:

Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB,SIPC) based in New York City.

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women’s Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.