



**March 28<sup>th</sup> 2016**

***Equities appeared last week to have hit a short term top, with uncertainties as to monetary policy partially offset by higher oil prices, seen as reducing systemic risk. We see political risk on multiple fronts in the ascendant and believe that the full impact of the migrant “Apple of discord” and the terrorist attacks has yet to fully play out.***

***This week shall be intense with regard to US economic news, with the major data point the employment data on April 1<sup>st</sup>.***

***Today’s action impacted by closure of major European markets***

***US futures are pointing to higher open, following the release of revised US GDP data on March 25<sup>th</sup>. This is allaying fears that the economy may be edging closer to recession, with investors having substantially lowered the bar. However, be grateful for small mercies, we have moved from a systemic – non – systemic dichotomy to growth – no growth.***

***We may well be easing into a lower US potential growth rate. Statements by Federal Reserve officials that the US economy is quite strong are somewhat disconcerting.***

***US consumers not going overboard***

***Concerns as to the future march of the US economy may be rekindled by data released this morning on personal income and consumption. Wages fell, increases in retail sales were weak and inflationary pressures are scarce on the ground. We do not see this per se as forcing the US central bank to recant with regards to its hawkish pronouncements.***

***Improvement came from services – will this continue?***

***This is a modest to moderate growth economy supported by consumer spending on services. Service growth has been relatively weak, in line with falling consumer sentiment. Retail sales have disappointed, with even a slight increase in gas prices inducing caution.***

***Major impetus from lower income segment – highly sensitive to gas prices, even for modest use of “oil dividend”***

***The sensitivity to fluctuations in fuel highlights that any increased consumption is coming from the lower income segment. It is not to be excluded that a rapid pass-through of any oil price increases to consumers, could constrain further spending.***

***Key news out of Europe centered on anti-terrorist measures***

***With the major European markets closed, the key news from the Old World centers on the continued terrorist emergency. There appears to be a more coordinated response – as highlighted by arrests in different countries. Whether this is indicative of a greater willingness to cooperate in the longer term remains uncertain, however it may be a start.***

***Ignore terrorism in Pakistan at your own peril!***

***The terror wave shows however no signs of abating with a horrific attack in Pakistan. The Economist once described Pakistan as the most dangerous country in the world – massive popular for extremist groups combined with nuclear weapons. We see the relative lack of concern by investors as short sighted.***

**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

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research@tigressfp.com.



### ***Will the US go socialist? Are we on the cusp of a historical event?***

*In the US the major news over the long Easter weekend was the “tour de force” by Bernie Sanders in three primaries. What does this imply for the presidential campaign and for US economic policy? The key message is that we are seeing a seismic shift in a large number of people’s perception of both their life chances and of free and unfettered markets.*

### ***We shall enter a new protectionist age***

*This shall be a major influence on virtually anybody who wins the presidency, with calls for protectionist trade policies growing louder by the minute. Should this trend continue the emerging markets supply chains could come under massive pressure.*

### ***Assad has won – Palmyra enormous symbolic significance***

*We read with interest that Assad’s troops have reconquered the ancient city of Palmyra – one of antiquity’s most spectacular sites. We see this military advance against ISIS as consolidating the Syrian regime’s position. Assad remains a force to be reckoned with and the opposition is in tatters.*

### ***Deflation shall remain principal Chinese export***

*China’s efforts to get its economy moving appear to have borne some results, with an increase in industrial profits offsetting continued weakness in the property sector. We do not see this as a game changer and see the problem of massive overcapacity as still not tackled.*

***A stabilization of commodity prices shall not suffice to reduce deflationary pressures, which are a result of long term dumping strategies.***

### ***Are we in a new paradigm – the primacy of politics?***

### ***Political risk once again in the headlines – can the EU define a common policy?***

*Last week saw a dramatic recrudescence in political risk with the dreadful terrorist attacks in Brussels. This has highlighted both the ability of ISIS to strike with a disconcerting quasi impunity and the continued inability of the EU countries to agree a common concerted anti-terrorist policy.*

### ***Anti-terrorism shall be the litmus test for EU cooperation***

*Together with the migrant crisis, anti-terrorism may prove to be the litmus test for the capacity of the EU nations to coalesce around a common objective. The partisans of the European idea hitherto focused on the longer term economic advantages of integration, shall now have to counter well-grounded fears as to personal security.*

### ***Many argue that “collective security” is not working***

*The terrorist assaults are providing rich fodder for the motley band of “separatists” within the EU, and in particular in the UK. The Brexit band have seized upon these tragic events as proof that the policy of collective security is simply not working.*

***Whether this shall lead to the closing of the Belgian –French border as demanded by the National Front in France is not clear. However, we see Fortress Europe under siege on multiple fronts.***

***Financial markets have proven resilient – still counting on “The kindness of strangers”!***



*Financial markets showed a remarkable resilience, with equity markets – following an initial pullback in Europe, rapidly regaining their footing. Markets have remained firmly in the thrall of central banks in the advanced economies and continued hopes of government stimulus programs in China.*

### ***Will we see continued divergence in monetary policy?***

#### ***Federal Reserve – The “Lion’s voice” of dissent from the dominant opinion***

*In this regard, the dissenting “lion’s voice” has been that of the Federal Reserve. Several high ranking officials coalescing around the idea – quaint as it may seem – that the US economy is steaming ahead. This is seen as justifying an almost doctrinaire adherence to the view that “inflation” is around the corner and that a gradual continued rise in interest rates is warranted.*

#### ***Others unlikely to follow in US central bank’s footsteps***

*Despite the loud growls from the US central bank – their cohorts in the other major economies are unlikely to follow step. In the Euro Zone, deflation is already entrenched in several economies and the overall growth picture remains weak. We are therefore expecting further easing by the ECB, with the bottom in negative rates still some ways off.*

## Research Highlights

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### Contacts

**Jean Ergas**  
Chief Economist  
(917) 551-6533 Direct  
[jergas@tigressfp.com](mailto:jergas@tigressfp.com)

**Ivan Feinseth**  
Chief Investment Officer  
(646) 780-8901 Direct  
[ifeinseth@tigressfp.com](mailto:ifeinseth@tigressfp.com)

**Philip Van Deusen**  
Director of Research  
(646) 862-2909 Direct  
[pvandeusen@tigressfp.com](mailto:pvandeusen@tigressfp.com)

**Ernest Williams**  
Institutional Sales & Trading  
(646) 862-2912 Direct  
[ewilliams@tigressfp.com](mailto: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.

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**Research: (646) 780-8880 [research@tigressfp.com](mailto:research@tigressfp.com)**

500 Fifth Avenue New York, NY 10110 (212) 430-8700 [www.tigressfinancialpartners.com](http://www.tigressfinancialpartners.com)

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**Research: (646) 780-8880 [research@tigressfp.com](mailto:research@tigressfp.com)**

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