



April 1st 2016

US jobs data unleashes selling. European inflation prospects remain difficult. Oil resumes fall, rally not supported by changes in fundamentals. Are the European insurers the next systemic crisis point?

US jobs data – open to differing interpretations

The US jobs data has come out and is open to differing interpretations. While job creation was slightly higher than expected, there was job loss in the manufacturing sector – a source of high paid employment. In addition, we saw a rise in shadow unemployment indicating that statistical increases in employment shall have little impact on consumption

Labor force participation remains low

We have seen a slight increase in labor force participation. However, the level remains modest – despite some stating that this is due to demography. Increased labor force participation – in a context of stagnant and, for some, falling wages – shall be the pre-requisite to create the critical mass to push the economy forward.

Markets in Europe fall further on release of US jobs data

We are seeing markets in Europe lower this morning as investors react to both the drop in the oil price and the US jobs report. An added source of concern is the strengthening of the Euro, making it harder to both import inflation and increase exports. Notwithstanding the extensive cheering, Euro Zone growth remains well below any acceptable standards for an economic recovery.

We see many confusing avoiding systemic collapse with a turnaround. The car has not crashed but is stuck in first gear and pausing frequently.

Improvement in Chinese manufacturing not enough to mitigate weakness in financial markets

This scenario is playing out despite an improvement in Chinese manufacturing, which has after several months expanded. The rate of growth remains low, especially when viewed against a backdrop of monetary easing and fiscal stimulus. As in other economies, returns from government intervention are rapidly decreasing.

We see little enthusiasm for coming to grips with persistent issues of overcapacity, with China's leading export now deflation.

Oil price is slipping once again – we are not surprised!

The oil price is once again slipping and starting to sow renewed concerns. We often commented on the pivotal role of Iran in any agreement and these concerns have been proven correct. The Qatar meeting risks being a latter day re-play of the ill-fated League of Nations without the US. A production freeze with output at almost full capacity and demand growth seen as slowing both cyclically and structurally shall accomplish little.

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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.



We are cautious on European corporate earnings

We are continuing to see downward pricing pressures continuing in the Euro Zone, with producer prices posting their strongest fall since 2009. While the 2009 price collapse was caused by the sharp economic contraction in the wake of systemic shock, we are now seeing price declines despite some – albeit, weak – growth.

This does not bode well for corporate earnings as companies seek to boost sales by extensive discounting.

Expect further measures from the ECB

On the currency front, a resurgent Euro shall be causing some discomfort at the ECB. The rise in the single currency is being driven by lowered expectations as to US rate increases. An additional factor may be purchases of Euro denominated bonds ahead of the start of the ECB's expanded QE program. The strong Euro shall hinder efforts to rekindle inflation via increased import prices and kick start growth through exports.

We expect that this shall induce the ECB to increase its measures, prioritizing inflation over strains – now seen as manageable – in the banking system.

Pressure on European insurers – yield gap exploding

With regard to the European financial sector, we are seeing further pressure on the insurance sector. Insurance companies are being squeezed by a combination of low growth and collapsing fixed income returns. This is crushing returns on investments and making it more difficult to achieve necessary returns for investment linked products.



Research Highlights

April 1, 2016
Page 3 of 4

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.

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC

Research: (646) 780-8880 research@tigressfp.com

500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

Research Highlights

April 1, 2016
Page 4 of 4

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Research: (646) 780-8880 research@tigressfp.com

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