Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Growth plays second fiddle to "event risk" – Chinese economy basic – it's the government! – Be careful when bargain hunting! UK poll still "top of the pops" – Federal Reserve meeting – shall we hear anything new?

Growth now takes a back seat to systemic risk

We see other concerns, such as growth as being subordinated to the UK referendum event risk – in the event of a major financial shock capital investment is likely to be placed on hold in the EU. The pendulum is tilting towards the containment of market volatility as opposed to cyclical management

Growth drivers - Chinese economy simple – government pulling the levers

We are continuing to see attempts at dissecting the data from China. The situation is very simple. China is growing but not fast enough to act either singly or with the US as a "locomotive". Growth is driven by government munificence with the state as capitalist stepping into the breach for a private sector who cannot discern profitable investment opportunities.

Post vote stock valuations may need to be adjusted for increased uncertainty

Some investment managers see the possibility of a leave victory as a buying opportunity. This may be valid but is subject to the caveat that while stock values may fall- this shall not automatically imply that they are inexpensive. Valuations shall need to be re-adjusted to the increased uncertainty – the UK is a G-7 economy and not to be taken lightly!

The Tempest revisited!

"The Tempest" shows a group of hapless travelers stranded on an island following a horrific storm. Will this be the fate of the UK should the UK electorate decide to pull the "leave" switch?

Voters could not care less!

From the polls, we gather the impression that most could not care less. Better marooned and free than prosperous and subject to the whim of bureaucrats in Brussels.

The UK voters have remained unimpressed by the repeated interventions by leading global figures. This has simply reinforced the view that "monopoly capital" is ganging up against those who cannot defend themselves.

Two key moves today! Sub and phone polls!

We have seen two key moves today.

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The first is "The Sun" the voice of the UK's lower income group coming out in favor of "splitting". The second is that phone polls are showing a "leave" majority – signaling that a "leave" fifth column is now coming out of the shadows. We are seeing the "split" option rapidly acquiring a substantial degree of acceptability.

Elites of the world unite!

Nowhere is this more evident in a leading Labor opposition party figure arguing for a "remain" vote but criticizing the EU's immigration policy. This is starting to increasingly look like the elites on both sides of the houses of parliament trying to steal the exit camp's thunder.

"Remain" vote = exit lite?

The implication is that a "remain" vote may be followed by a "leave" lite review of immigration policies. We see this chance as slim and misleading voters. The maintaining of the critical trade links may be made contingent on labor mobility remaining. There is no going back to the author of these notes first arrival in the UK – when the line for foreigners was called "aliens"!

Is Cameron a latter day James Dean?

There is increasing criticism of Cameron's James Dean like "Rebel without a cause" brinkmanship. Will he drive the car off the cliff? From Sweden – EU but non-Euro we are starting to hear rumbles of discontent with both the UK government and the EU. Others will soon follow!

Federal Reserve shall focus on US labor market

As regards the Federal Reserve meeting starting today – investors shall be focused on the US central bank's analysis of the US labor market, inflation prospects and international affairs. The press is telling us that there is nobody left to hire! This is depressing news with regard to the prospects for wage increases and consumption!

Are some aware of the share of US profits generated in Europe?

The immediate key shall be the importance assigned to foreign "entanglements". We are hearing remarks that a UK exit shall not impact the US market – have they looked at the share of US corporate profits generated in "The Old World"?

Deflationary forces going strong!

Will prices – like the Sun – rise? We continue to see deflationary forces as robust – with even a recent increase in oil prices having a scant effect. Considering that oil prices were historically seen as the major driver of inflation, this is telling as to the changes within economic dynamic – inexpensive labor trumps all!

German 10 year bond "crosses the Potomac"!

The German 10 year bond yield has now "crossed the Potomac" and gone negative. This sees our view of an ambient fear among investors as confirmed as well as muted expectations of inflation rising in the Euro Zone. We see the Euro Zone as plodding along in its slow growth – a race against time with rising social tensions.

Focus on the UK poll

Will an exit by the UK be "The end of history"?

Market is still trading largely on the UK-EU referendum and digesting the grim warnings of the EU Council President Donald Tusk! The UK leaving the EU might well be "The End of History" postwar version as we know it.

Are we turning away from the post-war European economic integration model?

Since the apocalypse of the long war to redefine the global political structure from 1914 to 1945, progress was viewed as synonymous with economic integration. Are we at the turning point?

UK government talks about economics but voters concerned about immigration

In a further sign of desperation, the UK government is asking business people to speak up for continued EU membership. While these appeals rest on sound economic foundations they are wide of the mark. The focus is on immigration, which has been a key issue in the UK since the 1960's and has always proven a valid rallying call.

More rationalization about a UK exit – world will keep turning – turned after Lehman also!

We are also continuing to see a rationalizing of the impact of a UK exit. Some are now starting to point out that the departure shall not be immediate and that the UK shall not disappear. We have two comments regarding the above:

Economic exposure key and watch out for separatism!

This is not about transaction exposure but about economic exposure – what impact on direct investment and willingness to enter into long term supply chain agreements shall this have?

The second is that a leave vote shall likely trigger another wave of Scottish separatism – which shall further de-stabilize investors.

We continue to however see speculation as to the "day after" as superfluous. We shall need our strength to navigate June 23rd and the morning of June 24th!

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