Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

June 21, 2016

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UK poll continues to be talk of the town – Who shall have the last dance? – Campaign harbors strong class struggle overtones worsened by widening income gaps – Not holding our breath for the Federal Reserve! – If remain wins, shall they raise rates?

Can we rely on polls? Are we witnessing the end of an era?

Can we rely on markets trading on polls? Or does this reflect the desperate plight of investors desperately seeking some good news – that the UK shall not leave the EU? Hoping that 60 years of European integration is not about to go into reverse looks like a meager consolation prize in an increasingly dismal talent show.

Remain – Macro 101 – Leave – "The Other"

Now that campaigning has recommenced - we are again seeing the two sides hammering away at their favorite themes. The "remain" camp is delivering Macro 101 lectures and the partisans of the "split" camp blasting out their "boat is full" speech – echoes of neutral Europe in the Second World War, rather depressing.

Leave now on the back foot!

We continue to see the struggle as *far from over – although the brutal murder of a prominent pro-remain UK MP is forcing the "leave" camp to moderate some of their incendiary rhetoric. It is easy to blame "The other" – harder to come up with concrete strategies as to move forward.*

UK Poll – strong class struggle overtones – sub – proletariat prominent

We caution that the underlying theme is immigration – which is turning the poll into an exercise into "The Class Struggle" – whatever the outcome social tensions shall worsen. The UK poll is a symptom of a much deeper malaise as Europe needs to rethink both its economic and social model.

Should the "split" camp triumph – divorce proceedings shall take place against a backdrop of potential political turmoil in Europe – elections and populist advance.

Today's action!

Markets are continuing to firm – although part of the thrill is gone!

Markets are continuing to firm on hopes that the "remain" camp shall crack the resistance of the "obscurantists". However the advance has slowed, with the polls sending out mixed signals. What is significant is the relative weighting being attributed to the polls.

Investors now over weighting "remain" advantage polls!

While previously the leave victory polls were the barometer, we have now shifted from a glass is half empty to a glass is half – if not three quarters full stance. Hopefully, this shall not be a case of fools rush in where angels fear to tread! The battle shall be decided on the extent to which Cameron can hammer the economic "shock" message home.

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Risk is not decline but systemic shock!

We are not talking about the drawn out post Empire decline – which the author of these notes witnessed in the 1960's and 1970's. This is about a body blow to housing prices, which are the principal support of an over leveraged economy with a scary current account deficit. No wonder the Bank of England is concerned!

Foreign personalities charge unto the breach!

In this context, we are seeing increasing direct intervention by foreign political and business personalities in the UK – EU vote. This includes taking out ads in UK papers and also via leading weeklies. The take – away is that the "remain" vote is not in the bag!

We are impressed to see that "remain" appeals are also coming from groups not known to be friendly to the EU – such as Podemos in Spain. The focal strategy is to re-negotiate and not to cause a debacle.

How do you trade the poll- should we try non-directional strategies?

The hedge funds – many of whom lost a considerable amount this year – are abstaining from direct bets – seeking to exploit volatility following the result. This shall allow them either to snap up assets cheap – the leave hypothesis – or to short overvalued assets when a "remain" vote momentarily lifts all boats!

Not holding our breath for Federal Reserve testimony before Congress

With regards to the US, the head of the US central bank shall start her testimony before congress. We expect little of new, apart from a confirmation that we should lower our expectations as to growth!

Macro 101 – what do we do with the books?

We are slowly seeing the Federal Reserve admit that links previously seen as the "building block" equations of economics are now obsolete. The shift to a service economy and towards IT non labor intensive capital investment in the advanced economies shall exercise long term pressure on wages and inflation.

Will Federal Reserve change tack if "remain" campaign wins?

Should the "remain" camp win, one of the key "shock" systemic event risks shall have been resolved. As we have often stated, this shall do little to re-kindle the "animal spirits" of the global economy. Will the Federal Reserve stick to its new found "central banker to the world" or shall they raise rates, basing themselves on a new business cycle, with lower long term growth potential?

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