Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Stock markets fall but stay open! – Big money shall start to move next week – watch out for falling pounds, expect sterling to hit 1.30 - We are anxiously watching the EU banks – Before "End of the Euro" now "End of the EU" – Will Scotland and Northern Ireland go their own way?

UK property sector overleveraged and overvalued – shall we see a US 2008 situation as "greater fool" strategy no longer applicable?

Stock markets take a body blow but still open for trading

We are nearing the end of the first day of the AR – After Referendum Era – with stock markets having taken a body blow but still open for trading. Currency, stock and fixed income markets have – as expected – effected a "step function" adjustment to the new circumstances. We expect that the "adjustment" process is far from over.

Big money has not yet made its major move

We see the current selling as still being "The weak hands". The move to look for shall be the asset allocation repositioning of the large institutional investors. The market adjustment shall play out over a question of months and shall be driven by weight of money flows impacting currencies and asset classes.

European banks slammed by exit vote – political uncertainty is added to negative rates, slow growth and increasing regulatory constraints

Today's events have once again highlighted the weak position of the European banks, with once again massive falls. Lloyds and RBS now posting declines comparable to those normally associated with banks in the European periphery does not bode well for next week. We see a return to stability in equities as not possible without a stabilization of the banking sector.

Back to square one – sovereign debt bund buying reminiscent of the 2012 Euro Zone crisis

As regards fixed income we have seen the expected shift to the top rated sovereign debt and the widening of spreads with the periphery. We have returned to the situation at the peak of the Euro Zone sovereign crisis.

2012 crisis centered on the "End of the Euro" – are we now contemplating the "End of the EU"? French want to get on with it!

The added element is that while the 2012 crisis centered on an "End of the Euro" scenario, the current commotion is focusing on a possible unfolding of the EU. To this point the French president has expressed the wish that the UK start exit negotiations in short order, that the others "might get on with it".

Euro Zone crisis central banks supported by governments – now governments driving policy

The Euro Zone sovereign risk crisis was managed by the ECB and central banks with the "external" support of the governments. Now, with the driver of the crisis not threatened insolvency but a prospective secession, the primacy of politics is uncontested.

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See UK pivot to emerging markets as "The Great Illusion" in the style of the classic French film masterpiece

The UK shall need to start adapting to its new role as still bound economically to the EU while unable to influence the decision making process. We see the idea that the UK economy shall rapidly find a new axis in the emerging markets as not grounded in reality.

Current exports to China are a fraction of trade with the EU and the vestiges of Empire now scant support in commercial negotiations.

Spanish elections loom – shall the hard left advance?

As regards the impact on other EU countries, we see the "leave" victory as fueling the populist wave and stoking demands for more flexible terms within both the EU and / or Euro Zone. This weekend there shall be a general election in Spain, with attention centered on the far left. Will voters be emboldened by the UK ballot?

Austerity has run its course!

Austerity has run its course and agreement on politically sensitive issues, such as the migrant crisis, shall be the bargaining pawn for a return to higher deficits and fiscal stimulus. Ultimately, we see the primacy of politics upon which the EU was predicated carrying the day.

Euro Zone countries shall be given more leeway in the economic sphere in return for commitments with regard to foreign policy and security considerations.

Beware the "Ides of March" and the UK property sector!

Moving to the UK economy we see the current crisis as simply adding a "shock" factor to an economy resting on home equity boosted consumption to offset slowing exports and scant capital investment. The "soft underbelly" and detonator of further pressure in the banking sector shall be the property sector, in particular in London.

Marking houses to market may prove painful!

While we are starting to see weakness in UK office property rental companies we see this as the appetizer in what shall prove a bad meal. UK property is both overvalued and overleveraged and with liquidity likely to fall "marking to market" may prove painful!

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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.

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