Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

July 1, 2016

July 1st 2016

Markets poised between relief and angst! – Why are central banks giving reassurances? – We shall soon have the mid-term for "Economics for the delusional 101!" – Expect pound to tank – Is prosperity around the corner?

Markets either breathing a sigh of relief – or is this the calm before the storm - who is buying safe haven debt?

Markets are either breathing a sigh of relief or this is the calm before the storm. While stocks appear to be stabilizing before the US July 4th week-end safe-haven government debt is pointing to Fahrenheit 451!

Liquidity is not a put option!

We continue to see some investors confusing liquidity with support for asset prices. Central banks may be the lenders of last resort but nowhere is it written that they shall be the buyer of the last stock!

Stock markets remain festive! Will central banks step in as buyers of last resort?

Why are central banks putting out reassurances?

Stock markets have nevertheless remained in a firmly festive mood – preferring to focus on central banks repeated assertions of willingness to extend support, as opposed to why they might feel the need to do so in the first place!

Fixed income – "Love minus zero"!

The UK 10 year bond is at a record low and German bunds are echoing the famous Bob Dylan song – "Love minus zero"! On this side of the pond – Brexit has succeeded in producing QE without QE as the US 10 year moves towards its lows.

Fixed income trading at levels last seen in antiquity!

Top rated fixed income continued to trade at levels last seen possibly when the ancients used banks to store grains and beasts! For the first time UK government debt – 2 year – is trading on a negative yield. Who's next? We see many once again in the absence of top line growth focusing on financing costs.

Interest rates have been low for years and companies have been buying their stock – why are we in an earnings recession?

What if the bond market is not a false positive?

We continue to believe that bond yields plunging signal mounting economic pressures coupled with expectations of persistent deflationary pressures. Chinese manufacturing data showed a slowing in the key sector of the world's second largest economy and the currency is falling!

ECB running out of bonds, time or both?

The fixed income sector rally is being abetted by rumors that the ECB shall widen the range of bonds that it can purchase. This prompts the question of whether the single currency central bank is running out of bonds, running out of time or both. While selected Euro Zone data points to the economy holding, this predates the recent shock-waves.

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

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Be careful of the government safe haven debt "value trap"

One is once again hearing that stocks are cheap when measured against government bond yields. Is this a "value trap"? Like one may well ask why a stock is trading at a P/E of 3 a sentient being is entitled to wonder why government bonds are trading at Depression levels. We see investors as taking an asymmetrical view of financial metrics – "cherry picking" taken to the limit!

Do not expect a second referendum!

Turning to the UK – the political struggle continues with Theresa May the current favorite in the polls. No is no were the key words of her allocution! The will of the people shall be respected and the UK shall leave the EU. While we are still hearing voices of denial they are getting progressively feebler.

Is this "Economic Analysis for the delusional 101"?

We are also seeing continued optimism as to a "Happy End" to the UK – EU vote. This is scenario analysis for the deluded – with both outcomes very positive.

12 million voters – just kidding!

The first is that 12 million voters "were just kidding" – this is all a brilliant deception and there shall never be a Brexit. This is matched by the "bad" scenario – the UK shall strike a Norway deal – EU without EU.

We see two minor problems!

We see two problems – not respecting the will of the voters may provoke "some unpleasantness". The second is that a EU on the fjords deal shall require acceptance of labor mobility. This is tantamount to ripping up the "leave" campaign manifesto!

The UK shall be challenged!

With characteristic British understatement, Osborne – the UK equivalent of the US Treasury secretary – referred to the challenges facing the UK and stated that the vote is already starting to impact the domestic economy. We see this as being the appetizer of what shall prove to be a long and heavy meal.

Bank of England injects a note of humor

Osborne follows on the Bank of England that has injected some liveliness into the proceedings. The governor of the Bank – who is still – unlike some others of his confraternity – on nodding terms with reality – spelt it out as it is!

Try selling half of a supply chain!

There shall be a downturn and the instability and uncertainty shall cause both domestic and foreign companies to stop dead in their tracks! There is nothing as illiquid as attempting to sell part of a supply chain!

Sterling – bad moon rising!

Growing skepticism as to the UK's economic prospects are reflected in sterling's lurch downwards, which we expect shall continue. This is notwithstanding the unflinching optimism of the exit camp that prosperity – as in the words of the "deacon" of modern economic thought - Herbert Hoover – is around the corner!

Last exit to "cable" at 1.20!

We continue to see "The Rake's Progress" as unidirectional. There are no supports for sterling unless the central bank opts to play "hardball" and raises rates to limit the risk of imported inflation! One doubts that this shall be the route taken! The Bank of England shall not step in the way of the FX market! Let it rip!

Not all shall benefit equally from a crashing pound

This exit camp "ebullience" has not stopped the UK mid-cap sector from taking it on the snout! Their exposure to currency is one way – higher import prices and little seller power in an economy about to take a tumble!

The large groups can reap the depreciation benefit – assuming that global growth holds up – from lower sales prices and translation profits – the minnows cannot!

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing's excess of SIPC coverage is provided by Lloyd's of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women's Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.