Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

July 12, 2016

July 12th 2016

Stocks putting best foot forward – May appointment cold comfort-- Euro Zone finance ministers want rapid resolution – Do not get fingers caught in London building doors! – Buy stocks and hedge with bonds – is this the new trade?

Stocks putting best foot forward – "kindness of strangers" rules!

Stocks are once again putting their best foot forward, with the expected "kindness of strangers – central banks", a first step forward for the UK and better than expected earnings from Alcoa. We are seeing a slight bounce in sterling with the appointment of Theresa May as interim prime minister granting some comfort.

Some comforted by Theresa May breaking impasse and becoming PM – we see this as "cold comfort"

We are of the view that this comfort shall be of the "cold" variety. There shall be no turning back and with the mobility of labor the key constraint – discussions shall not be pleasant.
The issue of the status of the EU residents in the UK shall be critical to forcing the EU to pre-negotiations.

As ultimate threat the revoking of residence permits for people who have been in the UK shall be unpleasant but not unthinkable.

Euro Zone finance ministers not interested in "the waiting game"

Meanwhile – the Euro Zone finance ministers want the UK to "get on with it" and commence divorce proceedings! Up to now they have shown little proclivity to do so. Might we surmise that May shall leverage the potential to also keep economic uncertainty high to force "informal" negotiations?

UK commercial property – this might not be a false bottom but a "trap door"!

We are intrigued to read that investors are eyeing UK commercial property as "cheap" and see a "bottom" for sterling. There are two caveats with this argument:
Property prices do not "bottom" this quickly – buyers shall need to gird themselves for further volatility
The entry point for the "currency" buyers is likely still some ways off

US rates low – for a reason!

As concerns the US, we are – following the UK political jolt- starting to once again hear from the Federal Reserve. The head of the Federal Reserve Bank of Kansas City has stated that rates are too low! This is in macro terms likely correct – we are globally seeing levels not even seen during the Great Depression. However, given the wish to avoid rocking the boat – upward potential shall be limited.

Market observers are stunned by the "negative yield' epidemic. However – with deflation expectations at levels last seen in the US in 1890's - despite the massive duration risk, this is unlikely to change in the very short term.

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.

Greed – fear trade going strong in financial markets

On the financial markets front, we are still seeing the greed – fear trade. Stocks and selected sovereign debt are rising simultaneously – indicating in our view investors:
1 – riding a short term boost from expected central bank generosity – stocks
2 – longer term, hedging against economic stagnation and deflation – fixed income

We see the "analytical money" as lending scant credibility to central bank efforts to revive growth and inflation. Stocks are benefiting from a lessening of risk of higher financing costs as opposed to a growing top line.

Focus on the UK

At the end there was one! Theresa May new UK PM – no point in dithering!

And at the end there was one and Theresa May got the job! As we had foreseen, Cameron chose discretion over valor and decided to go before September. No doubt aware of the fact that with UK economic downgrades raining from the skies – dithering was not going to help.

Gentle hints from Obama may have helped!

With the once mighty pound at 1.30 to the US Dollar and the pride of London commercial property being readied for sale at discount rates – this was no time to play the hero. We do not wish to be arrogant but believe that the "encouragement" given by the US president at the NATO conference to "get on with it" –may have played a role.

Was the Brexit vote a vote of no-confidence in the UK government?

What do we make of these changes? The first question is whether there shall be a general election in the UK and who will win it. The Conservatives erstwhile allies the Liberal – Democrats view the Brexit vote as a vote of no-confidence in the UK government. This is a view shared by many.

Forget about a UK budget surplus – as May said – "facing difficult times"

The second issue – assuming that there are no general elections – is what kind of cabinet shall emerge. Osborne is expected to not be renewed as Chancellor of the Exchequer and there are no further commitments as to a budget surplus by 2020. The UK shall be wallowing in its new found sovereignty and deeper in debt.

We expect UK to trigger article 50 before year end – pressure building from all sides

The focal policy questions remain when article 50 shall be invoked – the "out" from the EU – and immigration policy, the key to the whole mess. Notwithstanding her reiterated statements that the UK shall not trigger the exit procedure before end 2016, we expect pressure to start building from both the EU and the US administration.

Key issue remains mobility of people – this shall be the deal breaker

With regard to the economics of the "new UK", we see these as being driven by the issue of labor and people mobility. The "primacy of politics" in this regard understood as "The boat is full" shall triumph over economics. We expect a very tough line on this issue with regard to both future arrivals and the status of those already in the country.

We see little chance for any EU – decaf light solution

This shall limit the chances for any EU decaf – light solution and force the bilateral trade agreement – WTO route. A harbinger in this regard is the expected hiring of vast numbers of trade negotiators – not as urgent in the case of a move towards a Norway status.

We see the future uncertain and expect that the process shall be cumbersome and full of gaps. This is "year zero" for the UK economy!

See EC estimates of UK impact on domestic economy and Euro Zone as very conservative

The European Commission is forecasting a decline of 1.00 to 1.25 per cent for the UK economy this year. We view this as conservative and not taking into account the repercussions of a sharp move down in property prices. This could well be imminent.

As regards the Euro Zone, the impact is assessed at – 0.25 per cent to - 0.5 per cent. The best case analysis indicates a sharp step back for the single currency area.

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

Lily Li
Managing Director
Global Wealth Management
(646) 780-8903 Direct
lilyli@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.