



*July 20<sup>th</sup> 2016*

***A bit of sunshine in the cold water? Thank you Françoise Sagan! Turkey – this was not the Keystone cops! – Earnings targets are bereft of meaning or financial dignity! Euro Zone output gap at Depression levels – this is structural not cyclical – Immigration for UK exit contingent basis of their ideology!***

***Market not focused on earnings but on “solvent-insolvent” binary paradigm***

*Are we off to the races again? Are we seeing a timid ray of sunshine seeping through the clouds? Stock markets are once again marching to the tune of “the worst hasn’t happened” three cheers for the status quo! US companies are beating earnings forecasts set so low that they are meaningless. The “gate” is not earnings but a binary “solvent-insolvent” paradigm.*

***Are tech companies a counter-cyclical indicator?***

*What about tech companies? Does their performance reflect the need for companies to seek to wring all possible efficiency out of their operations in a stagnant revenue environment? Should we interpret outsourcing or “desperately seeking killer app” as a counter-cyclical indicator?*

***At what point shall tech driven efficiency gains reduce capital expenditure and allow earnings retention to drive company re-capitalizations?***

***Turkey – this was not the Keystone cops!***

*On the political risk front – we see a “The band played on” situation. Turkey – 80 million people astride all major political fault lines- is almost taken over by a military coup! This is now being widely depicted as a “Keystone cops” venture. It was anything but – there are hundreds of dead and the government is carrying out a massive crackdown on all and imagined opponents.*

***The Turkish crisis is being discussed in terms of FX spot rates. We are hearing less about the risk of further power concentration in the hands of a government that remains unpredictable.***

***Bottom line is NATO!***

*We continue to see the “bottom line” as NATO and security – with the fate of the Turkish lira a minor distraction. This was the concern in 1980 and 1997 through massive economic upheaval. The “last stand” US pressure tactic shall be to stop weapon sales or cease defense cooperation.*

***Getting real on the Euro Zone output gap!***

*We are finally seeing some more accurate estimates of the output gap in the Euro Zone -6 per cent. This is seen as explaining the immobile nature of inflation and inflation expectations in the single currency area.*

*We have two comments in this regard:  
We see this as still being a too conservative estimate  
This does not reflect the extent to which capital assets are by now obsolete!  
Companies can produce – but can they do so profitably?*

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***Will we see a thaw following May-Merkel summit?***

*Will we see a “Thaw” following the meeting between the UK Prime minister Theresa May and the German Chancellor Angela Merkel? We doubt it and view the new policy of “Out of the EU but in Europe” as referred to defense policy. The key driver of the UK vote was immigration and labor mobility.*

***This for the exit contingent is comparable in ideological intensity to clause 4 “Nationalization of the means of production” of “Old Labor” in the UK. We still see the exit movement as dominated by the “Stalinists”.***

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## Research Highlights

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