

# PITRE

WEALTH MANAGEMENT GROUP

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Negotiations between Greece and its creditors over the weekend of June 27 ended without a deal, which will lead Greece to default on its 1.6 billion euro loan payment due to the International Monetary Fund (IMF) today (June 30). The decision by the Greek government to reject the latest offer by the so-called Troika—comprised of the IMF, European Central Bank (ECB), and European Commission—of reforms in exchange for fresh rescue funds or a bailout extension has made a Greek exit from the Eurozone a real possibility. In response, the Greek government has instituted capital controls, closed banks and stock exchanges, and limited ATM withdrawals to keep deposits from leaving the country. However, this unfortunate development leaves Greece's future in the Eurozone currency union in question, something that is understandably of concern to investors and markets.

The financial woes of Greece are not a new development, as the country has been the epicenter of Europe's debt crisis starting with the Great Recession in 2008. Since then, efforts have been made to mitigate Greece's financial problems: Private bank holders of Greek debt agreed to a 50% reduction in the face value of that debt in 2011 and the Troika created two sizable bailout programs. These bailout efforts required Greece to make meaningful fiscal and monetary structural changes, including deep budget cuts and steep tax increases. After years of harsh austerity measures and a troubled economy, Greece appeared to be reversing course in January 2015 when Greek voters elected an anti-austerity party led by Prime Minister Alexis Tsipras. The recent stalemate, which caused negotiations to fall apart and the consequent default, has unfolded primarily as a result of Greece still requiring bailouts and financial relief, and its new political leadership being unwilling to accept the terms of austerity and responsibility upon which that financial aid is contingent.

A referendum has been called for July 5 to allow the Greek people to have their voices heard. This could ultimately provide clarity if the will of the people is to stay in the Eurozone and accept the conditions that come with that decision. Regardless, there is no easy or quick path to a resolution here. Bottom line: The situation in Greece is tenuous and, at this point, the odds that the country can find a way to stay in the Eurozone may be no higher than 50/50.

The most important question is: What does this mean for markets? Stock and credit market volatility is likely to be elevated this week and potentially next, depending on how the Greek people vote and how European policymakers react. Regardless of which direction the referendum goes, the impact from Greece defaulting is expected to be relatively short term and manageable. Over the years, the market

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has had to digest other default scenarios by countries such as Cyprus and Argentina, which have typically resulted in short-term spikes in market volatility and a modest pullback in stocks.

The good news about all of the Troika's efforts to prop up Greece since its initial wave of significant debt downgrades in December of 2009, is that the market, and more importantly, private sector banks, are more prepared to handle the impacts of a default or even Greece's exit from the Eurozone. There are better central bank safeguards and the private market exposure to Greek debt has been reduced dramatically over the years. Due to a combination of the modest size of the Greek economy (less than 2% of Eurozone gross domestic product as of March 31, 2015), a meaningful improvement in the overall health of the global economy, and bold monetary policy actions by the ECB—including its willingness to “do whatever it takes” to keep the Eurozone together and its aggressive bond buying programs—it's expected there will be limited market impact because of Greece over the intermediate to long term.

In other words, regardless of which path Greece takes, its default, or potential exit from the Eurozone, is not likely to lead to the end of the U.S. economic expansion or the bull market. Greece is not another Lehman Brothers moment; simply put, Greece's problems remain Greece's problems. A default by Greece or even its exit from the Eurozone will potentially have limited ripple effects given the years that central banks, regulators, private business, and investors have had to prepare for this drawn-out, but inevitable, outcome.

The situation in Greece is a fluid one and could offer markets continued concern over the short run. But it is times like these that showcase the value of a sound, disciplined, and diversified investment strategy. As always, if you have questions, I encourage you to contact me.

Best regards,



Leo A. Pitre, MBA,CFP®,CEP®

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