



WEALTH MANAGEMENT GROUP

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The Greek people had their voices heard on July 5 and decisively voted “no” on the Greek referendum to accept the latest bailout deal from creditors. This outcome, which was surprising to many, will potentially raise the level of economic and financial market volatility in the weeks ahead, as global investors assess the risks associated with an increasingly likely Greek exit (Grexit) from the Eurozone and from the Eurozone’s common currency, the euro.

Here in the U.S., the uncertainty surrounding the possibility of a Grexit may lead to:

- Slower global economic growth, which may hurt U.S. export growth at the margin
- A delay in the Federal Reserve (Fed) raising interest rates, and a slower pace of rate hikes
- A stronger U.S. dollar for longer, as the European Central Bank (ECB) will likely speed up its bond buying program, i.e., quantitative easing (QE)
- An overall increase in economic and market uncertainty

The longer the uncertainty, the greater the potential impact. The market and economic disruption ahead of a potential Grexit may modestly slow U.S. economic growth and could push the first Fed rate hike into early 2016. But ultimately, the Fed will make the decision on when—and by how much—to raise rates based on the U.S. economy’s progress. For now, the Fed remains on track to potentially hike rates for the first time in this cycle in late 2015; but the longer the uncertainty around Greece lingers, the greater the odds that the Fed doesn’t hike rates until early 2016.

We all know the stock market does not like uncertainty, but the risk of contagion is expected to be manageable and, for the U.S. market, the impact to be relatively short term. The economic backdrop in Europe has improved, and peripheral European countries such as Italy, Spain, and Portugal—where contagion risks are centered—are in much better shape than they were when the Greek debt crisis began five years ago. In addition, the vast majority of Greece’s debt is owned by supranational entities like the ECB and the International Monetary Fund (IMF), and not by private investors, as was the case with Lehman Brothers.

Safety nets are a big reason why market impact from Greece is likely to be limited. The ECB’s long-term bank lending facility remains largely unutilized but has 300 billion euros of capacity; and the European Union’s rescue fund, the European Stability Mechanism (ESM), is now fully operational and has several hundred billion euros of capacity. Finally, last week the ECB added several corporate bond issuers to its list of eligible issuers for its QE program. By widening the pool of available bonds to purchase, the ECB increases its ability to fight off the spread of Greece-related debt fears across the Eurozone. These safety nets were gradually put in place in recent years and represent a key difference from 2008 and 2011.

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Greece's latest crisis is not expected to lead to the end of the U.S. economic expansion or the bull market. Heightened uncertainty may be setting up an attractive buying opportunity, particularly in Europe. But regardless of whether Greece remains in or exits the Eurozone, patience is recommended. Market volatility may potentially remain high over the next several weeks and months as we await further information on Greece's path.

As always, if you have questions, please contact me.

Sincerely,



Leo A. Pitre, MBA, CFP®, CEP®

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Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Quantitative easing (QE) refers to a central bank's current and/or past programs whereby the bank purchases a set amount of Treasury and/or mortgage-backed securities each month from private banks. This inserts more money in the economy (known as easing), which is intended to encourage economic growth.

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