Commentary

July 6, 2015

Greece Votes "No." Now What?

- Greek citizens voted to reject the most recent bailout conditions extended to the country by its official creditors.
- Opinions are plentiful, but it is not at all clear what the ultimate outcome of the "No" vote will be.
- While heightened volatility could persist, we continue to believe any damage will be contained.

Greek citizens voted overwhelmingly to reject the most recent conditions offered by the country's official creditors — the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF). The vote reflected widespread dissatisfaction with Greece's economy and a belief that the country's struggles are due in large part to conditions imposed in prior bailout agreements in 2010 and 2012.

Responses outside of Greece have ranged from support to consternation. However, the respondents whose opinions are most relevant politically — the EC, ECB, IMF and Germany — have initially taken what look like hard-line stances. For example, the Vice Chancellor of Germany stated that Greece had "torn down the last bridges across which Europe and Greece could move toward a compromise." A high-ranking EC member said that Greece had complicated matters and dramatically weakened its negotiating position. And the head of the Eurogroup (composed of the finance ministers of eurozone countries) released a very terse statement claiming, "This result is very regrettable for the future of Greece. For recovery of the Greek economy, difficult measures and reforms are inevitable. We will now wait for the initiatives of the Greek authorities."

Despite the hard rhetoric, that last sentence from the Eurogroup is telling; it implies that, as long as Greece is willing to return to the table, there could be renewed negotiations. The resignation of Greece's embattled Finance Minister, Yanis Varoufakis, appears to be an olive branch in that direction. And Christine Lagarde, head of the IMF, has said that her organization is "ready to assist Greece if requested to do so."

Unfortunately, negotiations could remain just as contentious as they were prior to the referendum (if not moreso), and it is impossible to know where things will go from here. A great deal has been invested in the success of the eurozone and the broader European Union (EU); behind closed doors, it is likely that only a small number of individuals would prefer to see Greece leave the currency area. However, it is not clear what the important actors within Europe will be willing to do in order to maintain the integrity of the currency area. And there are many difficult decisions to be made before the ultimate fate of Greece's eurozone membership is known. Funding for Greece's troubled banks is one of the most pressing.

Concerns for investors

Market volatility has increased in response to the latest chapter of the Greek saga, but to this point, it has not reached extreme levels, and most markets have held up relatively well. While Greece may be symbolically important for the eurozone and EU — and strategically important, as recent overtures from Russia attest — it does not pose a systemic risk to the European or world financial systems, in our view. Thus, any short-term selloffs may be viewed opportunistically by long-term investors.

Our strategies have minimal exposures to Greece, but we will continue to monitor the situation closely.