At Times Like These - A Storm in a Tea Cup (June 29th)

The latest chapter in the Greek saga; a July 5th referendum, capital controls and bank/stock exchange closures, has unsurprisingly triggered a sell-off in global risk assets (as well as a slew of email commentaries). Equities have been hardest hit; European bourses are down c.1.5% to 5.1% on the day; not insignificant but not disastrous. Emerging markets (where Greece sits) have fallen close to 2%. Importantly, outside Greece, peripheral bond spreads (the additional return you are paid over German bunds for investing in the likes of Spanish, Italian and Portuguese debt) are showing relatively little sign of stress. This reflects the market's perspective that the global economy, in particular Europe, has the tools necessary to deal with this.

Whilst markets will likely remain nervous near-term, it is worth keeping in mind that;

- The systematic importance of a Greek default or exit is less than it would have been at the beginning of the Eurozone crisis in 2011. Greece accounts for <2% of European GDP.
- Greek debt (and there is a lot of it, $400 billion for a population of 11 million people) is almost exclusively held by official creditors – not European banks.
- Keeping the country in the Eurozone is a top priority for all parties but it is time to stop sending good money after bad – no more funds without structural reforms.
- The ECB can front-load its large QE programme to provide additional support to other peripheral sovereign bond markets should spreads rise.
- Greece's problems may actually reinforce pro-euro sentiment in other peripheral countries.

For the time-being, your portfolios have very limited direct exposure to Greece. The summary below is based on communications with some of our equity managers earlier today;

	Exposure to Greece within fund	**Maximum exposure in your portfolio**
Mirabaud Global Emerging Markets	None	None
BlackRock Emerging Markets Absolute Return	2.30%	0.14%
Fidelity FAST Emerging Markets	0.50%	0.02%
Charlemagne emerging Markets Dividend	None	None
Lazard Global Equity Income (1/3rd EM)	None	None

By way of an example, Fidelity have exposure to Greek refineries. The companies held are amongst the cheapest in their industry in Europe and generate strong free cash flow, aided by tightly managed costs. Their revenues are priced in dollars, whilst costs are mainly local. If the Greeks reverted to the Drachma - profits would actually be bolstered.

The longer the uncertainty and risk aversion persists, the more likely it is to translate into air pockets of volatility, particularly in the summer months. Near-term, defensive trades will work best. However, panics usually lead to opportunities. Our base case is that the crisis remains contained and markets will recover relatively quickly due to stronger economic fundamentals and the supportive technical position built up ahead of this event. Timing the bottom is nigh on impossible, but we could well put some money to work (cash balances across portfolios range between c4.5% and c.10.5%) in the coming days and/or weeks.