Market Update

Greece votes No; a ‘Grexit’ now appears more likely

6 July 2015

Yesterday (Sunday, 5 July), Greece voted ‘No’ to a recent (but expired) bailout offer from the Eurozone. This has sparked increased uncertainty for the path of Greece within Europe. Negotiations will now continue, and a response from Eurozone leaders in coming days will be important to watch. From here, almost anything is possible. This article summarises four of the possibilities that could play out.

- **Possibility 1**: **There could be a deal done with the Eurozone** offering up a more attractive debt programme to Greece;
- **Possibility 2: Greece could default and stay within the Eurozone** – even though such an outcome would be difficult to reconcile with Eurozone “rules”. One reason why the situation is so fluid, is that few if any of the pre-existing “rules” of the game are non-negotiable, in light of the extremity of the situation. Greek banks could receive capital support from the Eurozone under this scenario;
- **Possibility 3: There could be a new government and a new deal put in place in Greece** as citizens become weary of domestic banking system dysfunctionality; or
- **Possibility 4: Greece exits the Eurozone (‘Grexit’).**

Of the above scenarios, it is unlikely that a new deal will be done in coming days; and with the convincing “No” vote seen as representing support for the Government, short-term political change is also unlikely. This means that the ‘default’ and/or ‘Grexit’ options are now much more likely than they were last week, although still not a foregone conclusion. Of particular concern is the escalating emotional dimension to the crisis. The “No” vote was galvanised by appeals to Greek national pride and, relatedly, by a repudiation of national “humiliation”. Creditor reactions are still to be seen, but are likely to be hardened, not conciliated, by what may be seen as Greek recalcitrance. From a Greek perspective, more pain than gain may lie ahead, in coming weeks.

For global investors, we see the situation as more positive, although not without risk. The immediate impact on markets is to dampen returns on “risk” assets, such as global and local shares; and to encourage investors to move into “safe haven” assets such as Treasury Bonds and the US Dollar. European equities have been volatile, but represent reasonable value at current levels. The Eurozone economy is in very good shape, and the strong recovery underway will not, in our view, be undermined by the ructions in Greece. Indeed, if the uncertainty elicits further monetary support from the ECB for the Eurozone as a whole, equity markets may well be underpinned by liquidity injections.

In currency markets, the Euro has remained relatively firm in recent days, and this complacent response may well underestimate the risks to the European unit.

Do Russell's international funds for investors in New Zealand have exposure to Greece?

Our Russell International Shares Fund and Russell Global Bond Fund have no exposure to Greece, with the Russell Global Opportunities Fund and Russell Global Opportunities Fund - $NZ Hedged holding an immaterial allocation through Jumbo SA.

FOR FURTHER INFORMATION:

Please contact Russell Investments on 09 357 6633 or 0800 357 6633.

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