



Greek Tragedy

You probably read earlier this month that the Greek debt crisis had something to do with the sudden loss of confidence investors were feeling on May 6th -- although regulators are apparently still investigating whatever caused the COMPUTERS to lose confidence and decide to sell anything they could get their electronic hands on.

The Economist has been giving nonstop coverage to what it has called the sovereign debt crisis in the PIIGS area of Euroland: Portugal, Ireland, Italy, Greece and Spain, all of which have taken on too much debt and are in the process of painful restructuring. (Iceland is doing the same thing, but the acronym probably would have looked funny with an extra "I" in the middle). The magazine notes that two-year Greek government bonds were selling at prices that would have yielded 20% returns -- or about 100 times what Japanese bonds of comparable maturity are paying their investors. At the same time, Portugal's borrowing costs jumped, Spain's government debt was downgraded by the ratings agencies and Italy came close to a failed debt auction -- meaning no buyers anywhere.

Just like the banking crisis in the U.S., any bailout of Greece is deeply unpopular to the citizens of the rest of Europe, particularly Germany, where the Greek politicians are about as popular as Goldman Sachs and AIG are to American voters. The problem, of course, is that most of the Greek debt is held by regional European banks, which means that without some kind of a bailout, there will be real economic pain everywhere across the Atlantic.

The whole Greek economic tragedy has made for lurid headlines, one of those rare global business stories that gets the attention of average investors. You know that a country is bordering on dysfunction when its AIR FORCE goes on strike.

What does all this have to do with U.S. stocks? An article in the Huffington Post suggests that a weaker European economy could reduce demand for U.S. exports, and as the euro declines against the dollar, U.S. goods become more expensive in the 16 countries that use the European currency. Under some economic scenarios, Europe could experience the second dip of a double-dip recession, where consumers stop spending and companies cut back on production and lay off millions of workers.

Two weeks ago, while the markets were on their wild ride, Europe and the International Monetary Fund finally crafted a \$140 billion rescue package of Greek financing. Thirty percent of that will come from the International Monetary Fund, 40% of which is funded

by U.S. taxpayers. Shortly thereafter, the rescue package was upped to a full \$1 trillion, including loans from the U.S. Federal Reserve Board, the Bank of Canada and the Bank of Japan. Tony Boeckh, of the Boeckh Investment Letter, wonders why American citizens should have to share Greek's pain -- sounding exactly like the angry taxpayers of Germany and France. The answer, in terms even the rogue computers can understand, is that in an interconnected global economy, everybody seems to have a vested business interest in avoiding the worst-case scenario. We'll see if the markets agree.

-- Bob Veres. Posted 05/19/10.
Used with permission.