

# THE PERSPECTIVE

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## A Greek Tragedy

Now that the first half of 2015 is in the record books, it is a perfect time to reflect on what has happened so far and contemplate what the rest of 2015 will bring.

Movie buffs will remember how “Back to the Future Part 2” depicted 2015 – with flying cars and fusion power, which back in 1989, when the movie was produced, seemed ridiculously farfetched. While we may not yet have flying cars, 2015 brought the FIFA Women’s World Cup to Canada, and made it the runaway hit on our “smaller screens”.

The first half of the year also saw the retirement of

another small screen icon. David Letterman retired from his late night show in May after a 30 plus year run.

We also saw the release of Canada’s federal budget in April which, among other things, increased the amount that Canadians can contribute to their Tax Free Savings Account from \$5,500 each year to \$10,000.

Yes the first half of 2015 has certainly had a little something for everyone. There have been ups, downs, and a lot of drama.

Greek politics once again dominated the headlines in the second quarter with each new deadline to repay its creditors and introduce new austerity measures coming and going, without resolution. While growth throughout the Eurozone was showing signs of a modest recovery prior to the latest “Greek Tragedy”, following the introduction of Quantitative Easing, the sustainability of that recovery is now in question given the escalation of the Greek crisis and potential contagion.

However, it must be said that despite the return of volatility in financial markets in Europe, the direct impact from a default on Greek debt is much less today than in 2012, as European bank holdings of Greek debt are only a fraction of what they once were. As well as the financial condition of peripheral countries such as Spain, Italy and Portugal have improved significantly over the last few years.

Perhaps overshadowed in the second quarter by Greece, was China. After the Shanghai Composite index rose approximately 150% from June 2014 to the middle of June 2015 it decreased sharply, causing concerns about the Chinese economy going forward. Should the economy not stabilize, it is expected that China will continue to introduce stimulus measures in a controlled and directed manner to try and achieve its targeted 7.0% growth rate.

Meanwhile, the United States remains the single bright spot in the global economy with solid economic data, albeit with a softer than expected start to the year. The



timing of the Fed’s first rate hike remains the subject of continuous debate. Given the data-dependent nature of the decision and the recent firming of data points, it is expected that the Fed will begin to moderately raise the Fed Funds rate by year-end, assuming the Greek crisis is contained. The Fed’s ability to balance the gradual tapering of monetary stimulus without interrupting the U.S. recovery, or damaging investor sentiment, will be a key driver of the U.S. economy and equity markets.

The situation in Greece is not new to the Eurozone and Greece is not the only country to require aid from Eurozone members who seem intent on keeping the union together and in avoiding the spread of contagion to other countries. However going forward, it is likely that any headline news event will result in increased volatility in financial markets. Just imagine what the introduction of the first flying car will do!

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