

Democracy Returns to Greece

What could be more appropriate than Greece delivering a lesson in democracy. The word itself is derived from the Greek language. Democracy began in Greece and is returning there. How very appropriate. The enduring weakness of the EU has been its management by technocrats with often scant regard for popular opinion. The beauty of a referendum is that the Germans and the French, having increasingly taken sovereign decisions over the Greek people will now be in effect negotiating directly with the Greek population itself. Few observers can doubt either the political judgment or the basic fairness of pursuing this route. The French and German banks that recklessly bought so much Greek debt with scant regard for the risks deserve little sympathy. Perhaps they'll revisit the revised 50% haircut recently agreed on Greek bonds as a smart campaign move as the referendum date moves closer.

It still seems for now that being short the € has many ways to provide a return. Surprises keep cropping up, and in addition there is growing evidence that gap between U.S. and Euro-region GDP growth will widen in favor of the U.S. A cut in short term rates by the ECB seems likely by the end of the year. We are short the € through owning EU0 in our hedge fund as protection against falling equities which would hurt other positions. However, the focus of Merkel and Sarkozy on the issues should ensure that the tail risk of a complete disaster will be averted. They will muddle through – it won't be pretty but that is the most likely outcome. Consequently, we'll use € weakness to reduce the position.

Senior loans continue to be attractive. The improved GDP outlook in the U.S. should keep a lid on potential defaults among leveraged borrowers. We are invested in PPR and BHL which both have good portfolio management and are attractively priced. Both securities yield close to 6% and are at around a 7% discount to NAV. They represent a solid

component of a yield seeking portfolio and are in our Fixed Income Strategy.

Disclosure: Author is Long EU0, PPR, BHL