JUNE 30, 2015

GREECE: UPDATE AND INVESTOR IMPLICATIONS FROM BLACKROCK

BLACKROCK®

After years of a steady drip of negative news coming out of Greece, the spigot has now been opened wide: The country has closed its banks and stock exchange following the breakdown of talks between Greece and its creditors, and the introduction of capital controls (no more than EUR60 per day on ATM withdrawals) is making life miserable for many Greek citizens.

Ahead is the almost certain miss of a debt repayment to the IMF and a July 5th referendum for Greeks on whether the country should accept or reject the proposals offered by its creditors—which European leaders have billed as essentially a vote on whether Greece remains in the eurozone or exits and gives up the common currency.

To help investors digest these fast-moving events and understand the implications for markets and portfolios, here is an update from BlackRock:

Referendum Scenarios

- **In the event of a "yes" vote:** BlackRock expects Greek Prime Minister Alexis Tsipras to resign and a national unity government to be formed. A new government likely would restart negotiations in an attempt to agree on a new debt-relief proposal. The Emergency Liquidity Assistance (ELA) program now in place presumably would be extended to cover the period of these new negotiations over several weeks or more. Banks would likely remain closed immediately after the referendum.
- **In the event of a "no" vote:** Much more challenging. The ELA would be pulled and the banking system would likely remain closed. If and when banks do re-open they will quickly run out of physical currency and could begin issuing IOUs that would essentially become the currency of Greece. Creditors should expect losses, and the European Central Bank (ECB) likely will be aggressive in trying to protect the monetary union.

What This Means for Investors

- **Broad implications:** As painful as the situation is for Greeks, the country represents just 0.3% of global GDP—less than that of Peru or Romania, by our analysis.
- **Fixed-income markets:** Most of the exposure is with the official lenders. The bigger risk for global bond markets would be from spillover effects into the so-called periphery markets of Spain, Italy and Portugal. Recent widening of spreads in European bonds has been driven by risk aversion and tactical positioning, which is not a significant change in already known fundamentals. BlackRock will be monitoring the situation and client portfolios, seeking to guard against any knock-on effects.
- **Equities:** For equity investors in Greece it is very difficult, but for stocks outside of Greece it is largely about sentiment. Few companies outside the country draw significant earnings from Greece. And well-capitalized European and global banks hold only the tiniest sliver of Greek exposure. Low trading volumes further demonstrate that most investors believe the Greek situation is not a material factor for stocks.
- **Indexes:** The very small exposure of Greece in most indexes—accounting for 30 basis points or less—means the removal of the country from indexes would be a headache but manageable and unlikely to result in any material tracking errors for asset managers.

Bottom Line

The situation in Greece is the textbook definition of fluid. But the fundamentals for private investors—few of whom hold any meaningful exposure to Greece—remain unchanged. In the near term risk aversion will contribute to volatility, and the ECB's ability to navigate will also influence the direction of bond yields. If the situation continues to drag on, uncertainty could further damage investor confidence. An ultimate "Grexit," if it happens, could actually strengthen the euro and calm markets by removing that uncertainty.

4689A-OE-0615 / USR-6588

BLACKROCK®