

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.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of June 30, 2015, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. Investment involves risks.

Issued in Australia by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL), for the exclusive use of the recipient who warrants by receipt of this presentation that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth). This presentation is intended only for wholesale clients and this presentation must not be relied or acted upon by retail clients. This presentation provides general information only and has not been prepared having regard to your objectives, financial situation or needs. BIMAL, its officers, employees and agents believe that the information in this presentation and the sources on which the information is based (which may be sourced from third parties) are correct as at the date of this presentation. While every care has been taken in the preparation of this presentation, no warranty of accuracy or reliability is given and no responsibility for this information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information. This presentation has not been prepared specifically for Australian investors. It may contain references to dollar amounts which are not Australian dollars. It may contain financial information which is not prepared in accordance with Australian law or practices.

FOR WHOLESALE CLIENTS ONLY – NOT FOR DISTRIBUTION TO RETAIL CLIENTS

This material is being distributed in New Zealand by BIMAL. In New Zealand, this information is provided for registered financial service providers and other wholesale clients only in that capacity, and is not provided for New Zealand retail clients as defined under the Financial Advisers Act 2008.

©2015 BlackRock, Inc. All Rights Reserved. **BLACKROCK** is a registered trademark of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Prepared by BlackRock Investments, LLC, member FINRA.

Not FDIC Insured • May Lose Value • No Bank Guarantee

4689A-OE-0615 / USR-6588

BLACKROCK®