BURT WEALTH ADVISORS

301-770-9880
www.burtwealth advisors.com

Recent Developments in China and Greece

This week, as we have been in the process of sending out quarterly portfolio reports to all clients, world stock markets have been exhibiting some considerable volatility. Although we have included our normal market commentary with those quarterly reports, we felt it might be helpful to offer a little more insight into the happenings of the past few days.

Foremost in the news have been the “crashing” Chinese stock market and the ongoing Greek debt drama. The near term impact has been obvious, but the real question is how much impact these events might have on the financial markets, both here and abroad, on a longer term basis.

The Greek Situation: As negotiations deteriorated over the past few weeks and finally broke down, the European Commission froze additional emergency bailout funds for Greece. This now pushes the country to the brink of default unless another last minute deal is worked out by Sunday. As of this writing, there is one in the works. While market volatility rose, there is widespread recognition that the direct economic impact of a Greek default and/or Eurozone exit is far less significant than it might have been a few years ago. Greek debt is now largely owned by public institutions (i.e. IMF, ECB) that can presumably withstand a default. Moreover, Greece’s economic footprint is tiny. That being said, the larger concern is the precedent a Greek Eurozone exit could set, and might other financially troubled European countries possibly follow suit. For now we agree with the general assessment that the probability of this occurring is low. In the meantime however, markets tend to overreact to situations such as this, so Greece will likely remain a contributor to near term volatility.

Chinese Stock Market: First to recap- Over the past few weeks the Shanghai index is down 32% and the Shenzhen index is down 40% from highs hit in mid-June. But these drops are merely the flip-side of the extraordinary gains they saw during the past year. Even after recent losses, they are up 68% and 70% respectively over the past year. The Chinese government has been attempting to halt the slide with new regulations, and as of Thursday at least temporary stabilization has taken hold. A large part of the market run-up was due to a buying mania fueled by margin financing. Valuations rose to truly bubble levels, and when the government stepped in to try and cool the overheated markets, the initial market decline began creating margin calls and the rout was on.

The bottom line is that although the Chinese economy is slowing some, it is still growing at a very respectable pace. At this point the Chinese market crash does not seem to be a sign of the Chinese economy being in trouble. Additionally, Chinese stock ownership represents a relatively small part of Chinese household wealth, so the impact on consumers is likely to be small. And lastly, the Chinese government appears very committed in its effort to contain further damage.

Summary

According to a statement from the IMF on Thursday, the crisis in Greece and the meltdown in the Chinese stock market "have not changed the broad outlook" of moderate growth for the global economy in 2015. The IMF trimmed its outlook for global growth by two-tenths, to 3.3%, slightly slower than the 3.4% growth rate seen in 2014. Most of the decline was due to slower growth in the first quarter in North America, which led the IMF to downgrade its outlook for U.S. economic growth by six-tenths to 2.5%, just above last year's 2.4% growth rate. But the first-quarter weakness was expected to be only a "temporary setback”. Further, according to the IMF, recovery in the Eurozone seems broadly on track and risks to the outlook remain just slightly tilted to the downside, notably from asset price shifts and financial market volatility.

So, as we stated in our quarterly report commentary, a market correction is always possible because of many reasons, among them being concerns about high valuations. However, the main takeaway with the two events discussed here, is that although they may trigger further near term market volatility (depending on how they resolve themselves), they are not likely in and of themselves to be of high significance in the long run. Also remember that a temporary market decline corrects some of the valuation imbalances, and sets up a healthier market in the future.

DISCLOSURES: Past performance may not be indicative of future results It should not be assumed any recommendations made in the future will be profitable or equal past performance. Any returns listed above are not meant to represent any specific client's or portfolio's actual experienced returns.