

Can the Market Ride Through the Greek Debt Crisis?

U.S. equities face their biggest test of 2015.

Provided by Ellendorle, CFP

June definitely ended with some drama. When Greek government officials told Reuters Monday that the nation could not make its €1.5 billion loan repayment to the International Monetary Fund on June 30, the Dow plunged 350.33, the S&P 500 43.85 and the Nasdaq 122.04 while the CBOE VIX rose 36%. The Dow closed under its 200-day moving average. The big three stabilized Tuesday while investors braced for more turbulence.^{1,2}

Greece's last-minute requests were turned down Tuesday. Greek Prime Minister Alexis Tsipras asked eurozone finance ministers for an extension, a haircut on the nation's debt, or a third bailout. Each request was denied, and that meant the official end of the Greek bailout coordinated by the European Financial Stability Fund. The Greek government will present a proposal for a new, third bailout to the same finance ministers (a.k.a. the Eurogroup) on Wednesday. Approval of any such bailout package will only be considered in July.³

The next hurdle is Greece's July 5 nationwide referendum. Tsipras and his far-left Syriza party have slated a national vote for next Sunday, in which Greeks can express whether they are for or against the current IMF/EU bailout proposal. Practically speaking, Syriza is polling the Greek people to see if they want to quit the euro.⁴

As NPR notes, while Tsipras has argued that the austerity measures imposed on the country amount to a humiliation of Greece, most Greeks want their nation to stay in the EU. Wolfgang Schaueble, Germany's finance minister, characterized Tsipras's stand this way: "When you're driving down the Autobahn and everyone else is driving the opposite direction, you may think you're right, but you're wrong."⁴

Still, Greece could remain in the EU even if it defaults. Though Schaueble has been a severe critic of the Greek government, Bloomberg notes that he has indicated the European Central Bank will do what it must to keep Greece in the eurozone, even if its people vote to leave it. As he told ARD Television earlier this week, "Greece is on a difficult path. But we will do everything to keep Europe stable."⁵

Germany is Greece's largest creditor, and German Chancellor Angela Merkel did not soften the nation's stance in the matter, saying bluntly on June 30: "This evening at exactly midnight Central European Time the program expires. And I am not aware of any real indications of anything else."⁶

Would a "Grexit" damage the solidarity of the EU? Spanish Prime Minister Mariano Rajoy worried about that this week, expressing that if Greece leaves the eurozone, it would send "a negative message that euro membership is reversible."⁶

If Greece does leave the euro and return to the drachma, it would undeniably make things worse for a nation with 26% unemployment that just experienced a run on its banks and a credit downgrade to CCC- (junk status) by Standard & Poor's.^{4,7}

On our shores, the Dow gained 23.16, the Nasdaq 28.40 and the S&P 500 5.48 Tuesday, offering a little hope that U.S. equity markets might possibly be able to decouple from this crisis.⁸

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Citations.

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