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A Few Words on Greece

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Greece's ongoing debate about the best way forward has now played out at the ballot box, although many uncertainties remain. On January 25, Syriza, an extreme left-wing party led by Alexis Tsipras, won the biggest share of the vote in Greece's elections, and it now has 149 seats in parliament, leaving it two seats short of an absolute majority.

Because Greece is a small part of the emerging markets universe, and is a small economy within the eurozone overall, it is our view that the markets had largely priced in the news, and that it should not have widespread global market impact. However, we see the Greek election as bringing to the fore how the country's debt situation—and issues related to debt problems in Europe overall—requires dramatic changes and bold action. With the election now over, the Greek government can hopefully move forward and institute policies designed to foster growth, with an emphasis on change. We are optimistic these policies will give the Greek population hope for a better life, rather than a future of only debt payments.

We believe there is no question that a continuing emphasis on cutting spending and investment will not help Greece recover from the current situation. What is needed, in our view, is more investment and a path toward recovery. To achieve that, we believe the new government's emphasis on easing the pain to the ordinary Greek citizen is the correct path. Also, we think its emphasis on renegotiation of the stringent terms imposed on the country would be positive in terms of injecting more optimism.

We believe Greece's ability to renegotiate both the debt arrangements and conditions with the troika of the European Commission, the European Central Bank (ECB) and the International Monetary Fund will likely prove extremely challenging. February 28 will mark a key milestone; it's the day Greece's financial bailout is due to expire. It remains to be seen if Greece can negotiate an extension or some other measure to avoid default and allow Greek banks to continue to access ECB liquidity.

Of course, the devil may be in the details—and there has been disagreement on those details within the Greek populace. As Syriza fell two seats short of an absolute majority, a coalition party would be required to hold a strong position in parliament; Mr. Tsipras has apparently been aligning with the Independent Greeks known as ANEL (a right-wing, anti-austerity party). The Syriza party had successfully campaigned on an anti-austerity ticket, and it was well-telegraphed that Syriza intended to renegotiate the terms of Greece's debt agreement with the European Union (EU).

Austerity is never popular and has been especially unpopular in Greece, but at the same time there doesn't appear to be a large groundswell of support for Greece to exit the eurozone. That presents a challenge for political leaders, as austerity measures have been a condition for Greece to secure financing. Perhaps the biggest implication of Greece railing against austerity is what this will mean for other eurozone members facing similar situations—including Italy, Portugal or Spain—and whether long-term it will lead to broader changes in the region.

As we see it, there is no question that Greece should and likely will stay in the eurozone. As some observers have pointed out, after World War II Germany was bailed out, its debts were forgiven and it received a massive investment program under the Marshall Plan. This is a time when the EU should engage in an investment program for Greece and other indebted countries to encourage economic growth, in our view.

At this time, we don't plan any changes to our investment strategy as a result of the vote, but we will be watching developments closely. As always, we'll be looking for potential values that may surface in emerging Europe. We believe the long-term investment outlook for Greece is good. Greek stocks are generally not overvalued at this time based on our research, although there are significant differences in valuations. Greek banks look particularly attractive to us, if we assume a long-term recovery of the Greek economy.

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