



Holland Macro Views

Reflections on a Quaker Marriage

Whilst the last 6 months of upheaval in Greece has dominated the daily news wires we have been very restrained (we think!) in resisting the urge to add our own two-penneth. We have tried instead to focus on company analysis rather than second guess what yet another room full of politicians might propose. However whilst uploading some past research onto our website (www.hollandadvisors.co.uk) we came across a piece that we thought was well worth re-sending for we think it puts some good perspective on the events of the last few months.

We re-attach a piece we wrote in January 2012 – it was written during the latter stages of the last Greek bailout and entitled "*What you get if you marry a Quaker*" referencing Southern Europe's relationship with Germany. On re-reading it is surprising how little has changed on so many different levels.

[Reflections today on our previous piece and the Outlook for Europe today](#)

You might be surprised that today post our own re-reading of those earlier thoughts in the context of recent events we are actually quite optimistic for Europe. Are we mad? Maybe, but read it again yourself and then consider our reflections below:

[Euro optimists \(or better put: 'Less sceptical than we were'\)](#)

The primary reason for a little less scepticism now, we think, is that in 2012 it was highly unclear (as we noted then) whether large chunks of Southern Europe (Portugal, Italy, Spain + Greece) had the stomach to tolerate the huge deflationary pressures that we observed austerity were likely to result in. What is interesting to reflect on today is that such countries economies (Greece excepted) have arguably now, not only survived such horrendous social and economic hardship, but in fact look to be recovering. Importantly however they are still heavily committed to the Euro despite what they have had to endure. Perhaps even the harshest Euro sceptic would accept that this is a sign of lasting commitment to the Euro project, post a real test of their loyalty. Arguably even Greece itself is an example of this commitment, despite the recent chaos. Notwithstanding a 25% contraction in GDP and the horrific resulting social cost, the Greek population, when asked recently, STILL wanted to remain inside the Euro. We suggest that last year the Greek economy was starting to recover quite well and could have also proved a deflationary survivor and success story if the Syriza inspired chaos had not crippled it over the last 6 months. We suspect that post this new bail-out agreement (assuming it goes through) it will may still revert to that path of recovery.

Let's leap 12 months into the future to a possible scenario where let's assume the Greek economy is recovering strongly (a contrarian but still plausible occurrence, not just due to this bailout, but importantly due to the starting point of the economy in 2015). At the same time the GDP recovers from other periphery regions like Spain and Portugal continues also. In such a scenario, what will the assessment of the Euro project be then? Arguably it would seen as ongoing, even successful, and highly unlikely to break. We conclude that the Euro without Greece post a 2012 exit would have been just fine.

The resulting collapse in the Greek economy would have occurred post-exit showing others the dangers of leaving the club. But a Greek exit now makes no sense as its economy is likely, at some stage, to recover post the 25% slump and better this happens inside the club for all to see the benefits of sticking to tough polices than using it as a precedent for anyone considering an exit.

Human consistency to core beliefs

Your author noticed something similar in 2009/2010. At the time he had been writing about the terrible social impact of the US housing and banking collapse and happened to read in an article about Detroit. It was an interview with a group of Auto workers, who said "*the Unions have destroyed this town.*" He was shocked to read that statement, assuming they would blame the banks or the government and reflected almost immediately that Capitalism was not really under threat in the US even though its free market effects at the time were being criticised by all. Today's commitment to the Euro project, despite the economic and personal cost to millions of people, should not be underestimated. If they have not given up on it under such harsh economic conditions maybe they will defy all the sceptics and remain together for far far longer than expected.

Our Conclusions

Today, in summer of 2015, we find ourselves in a very, very unusual place, which is actually moderately optimistic on the future of Europe. A highly unusual state of mind for us in the last 15 years it must be admitted! What difference does this make to our investing? Arguably very little as we do not invest by second-guessing top down trends, but seek individual company ideas that we see as mispriced without relying too heavily on an specific economic outlook. Arguably a little more value is being offered post recent uncertainty, but aside from that the day job has not really changed. We do note however that a number of other investors carry a gloomy disposition, remaining certain that just around the next corner a macro disaster awaits them. Given our stance as macro bears for a long while some years back we know too well how this feels. We do still have a lingering worry of Deflation in the back of our minds, but today for what it is worth we remain upbeat on the outlook for the US economy and, as we have now just reflected, a little less nervous on Europe than we have been for some time.

That is quite enough navel gazing. We return to the day job – finding mispriced companies to invest in.

With kind regards

Andrew & Mark

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Extracts from 2012 piece – “What you get if you marry a Quaker”

"We have suggested for a long while that Greece should have been the weak calf whose sacrifice would have made the Euro herd stronger but others it seems will not contemplate this route. As a result and due to a desire for integration and consistency of message at all costs, instead a number of southern European countries look likely to be pushed into a deflationary economic slump."

"The scale of fiscal cut backs that are going to be required in such countries from a starting point where they are not competitive at current labour rates combined with a high starting debt burden is surely a recipe for lasting slumps and deflation. Importantly in most cases none of these countries (with the possible exception of Ireland) has any history of stomaching such hardship before."

What will be fascinating, but appalling, to witness is just how long such populations will put up with such terrible conditions before they hit the panic button electing officials with more extreme views.

"This last point is surely the key one. All countries joining the Euro had the same opportunity to compete with each other assuming the starting exchange rate was right, but some used access to cheaper funding and a wider market to progress to greater efficiency (Germany and Slovenia). Most others used low funding costs to borrow and consume more or to build houses they did not need. They also used a European market to build a better safety net around the current standard of living they tried to preserve. Each country's actions were different but we observe most have been strangely consistent with their historic cultural behaviour."

<http://www.hollandadvisors.co.uk/cms/resources/research/holland-macro-views-the-trouble-with-marrying-a-quaker122011.pdf>

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