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The Greek Equity Market

For a first time since 2008, Greek unemployment fell – albeit slightly – by 0.2 percentage points (Nov. – Dec. 2012) to 26.4% of the labor force, remaining far above the natural rate of unemployment. Unemployment data for the following months shall indicate whether this stabilization is incidental or not. The most possible scenario is that of stabilization, since unemployment rate is a lagging indicator, following with a lag of months the income level. As far as growth is concerned, the challenge over the next months for the Greek economy shall be the increase of competitiveness derived not only from labor cost reductions but also from increased productivity originating from the Investment portion of GDP.

With regards to portfolio investments, Greece may be downgraded to emerging market status by MSCI indices in 2013. Moreover, various Greek mid-cap stocks are removed from international indices, causing further volatility the following months due to rebalancing trades from passive institutional investors.

Given the fragile political and macroeconomic climate, long-term investors remain cautious, even if the Greek stock market seems attractive in terms of low ratios such as P/E, P/B, P/S or P/CF relative to other stock markets of developed nations. It shall be stressed however that ratios are determined by fundamentals. For instance, intrinsic P/B is determined by return on equity, EPS growth and the cost of equity, which is subsequently dependent on market risk [$P/B = (ROE-g)/(r-g)$]. If long-term investors do not foresee any prospects regarding fundamental values, chances that they shall invest in the Greek equity market are slim, no matter how cheap the market seems to be at first glance.

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