



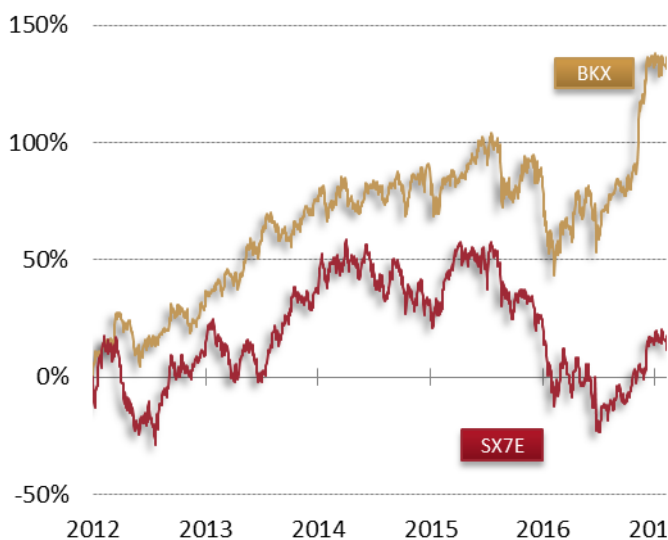
Structural Functionalism or Just Talk?

Kim Wallace

Much binds the European Union and the United States, including policies founded on economic liberalism which have long since given rise to powerful institutions. **It's not surprising some populations on both sides of the Atlantic have in the past two decades acted to reassert the primacy of individuals over institutions.**

Even having survived economic, financial, and business risks this decade, serious policymakers both private and public won't assert the Eurozone's worst days are behind it. **Too much on the plates in Brussels, Frankfurt, and sovereign capitals remains unresolved;** including balance sheet stressors caused by non-performing loans and under-valued sovereign bonds. The 5-year trajectories of US and EMU major banking indices tell the story.

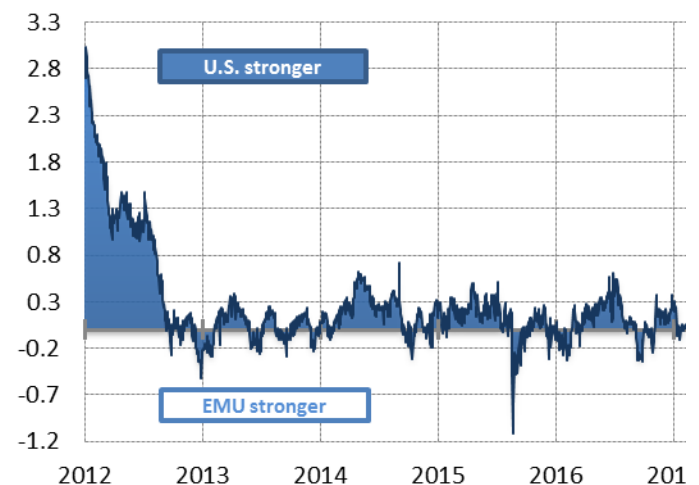
Banks Indices: US vs. Europe (% appreciation)



Source: Bloomberg, RenMac

The spread between US and EMU financial conditions continues to favor the Yanks, despite recent improvement on the Continent. **We see short-termism at work.** European economic results in the past half year have improved and this development was boosted by the Trump reflation trade. However, Europe's structural challenges haven't been addressed (trade barriers, capital vibrancy, and labor rules).

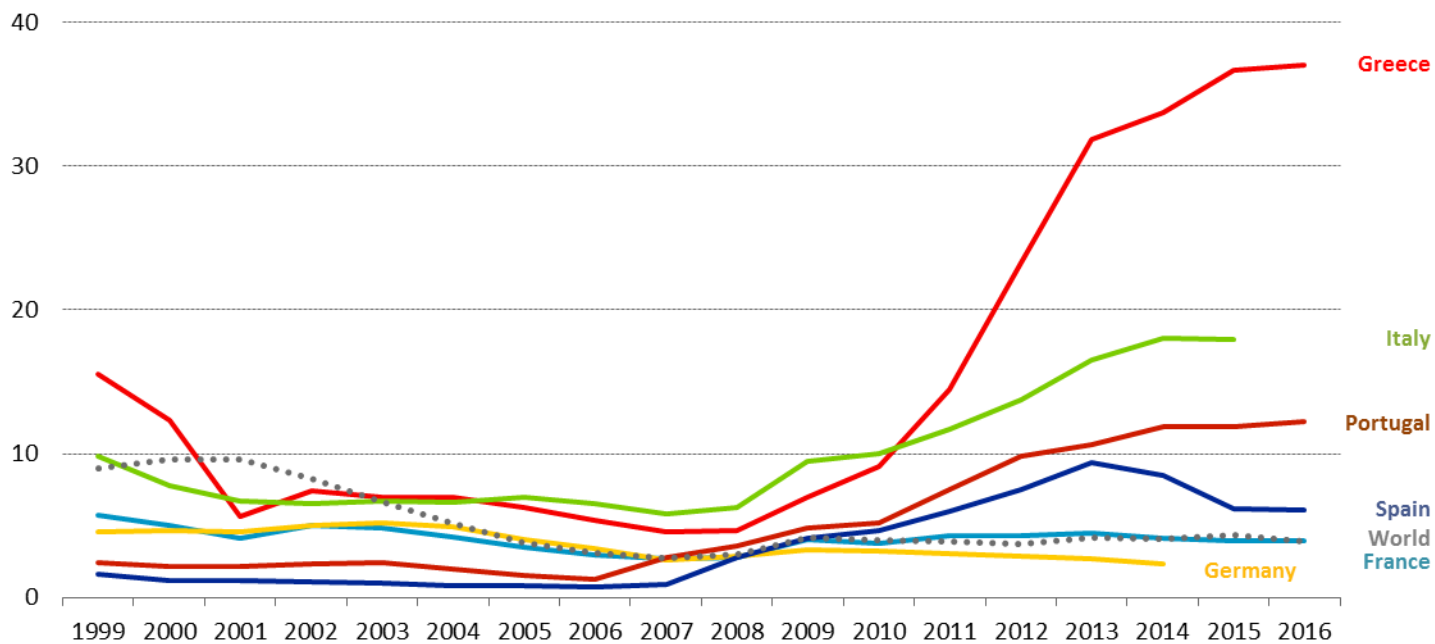
U.S. - EMU Financial Conditions Spread



Source: Bloomberg, RenMac

World Bank data substantiate the NPL challenge. In addition, Italian and Portuguese banks are under either lingering or renewed pressure. Deutsche Bank's inability to close off adverse headlines along with the unknown but possibly unsettling passporting endgame for UK institutions remains a brick in a tall, thick wall of woe.

Bank NPLs to Gross Loans (%)



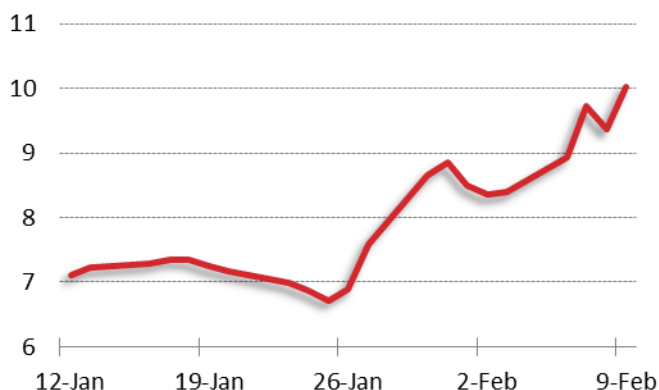
Source: World Bank

Greece has reengaged a game of chicken with Brussels and Washington (the IMF). Neither the EU nor the ECB have interest in cutting financial assistance deals with Athens absent the involvement of the IMF, for practical and political reasons. **IMF staffers know Greece's book as well as most, and from a political perspective, European policymakers have little appetite for more direct negotiations with one of its sickest siblings.** More than likely, another tranche of support will be forthcoming this spring but in the meantime Athens is under withering funding strain.

So in Europe and the US, some voters have switched known politicians considered insufficient to the task for lesser-known politicians promising they have the fix. This may be the beginning of a road to better outcomes for voters or not. We doubt policymakers matter more than their policies.

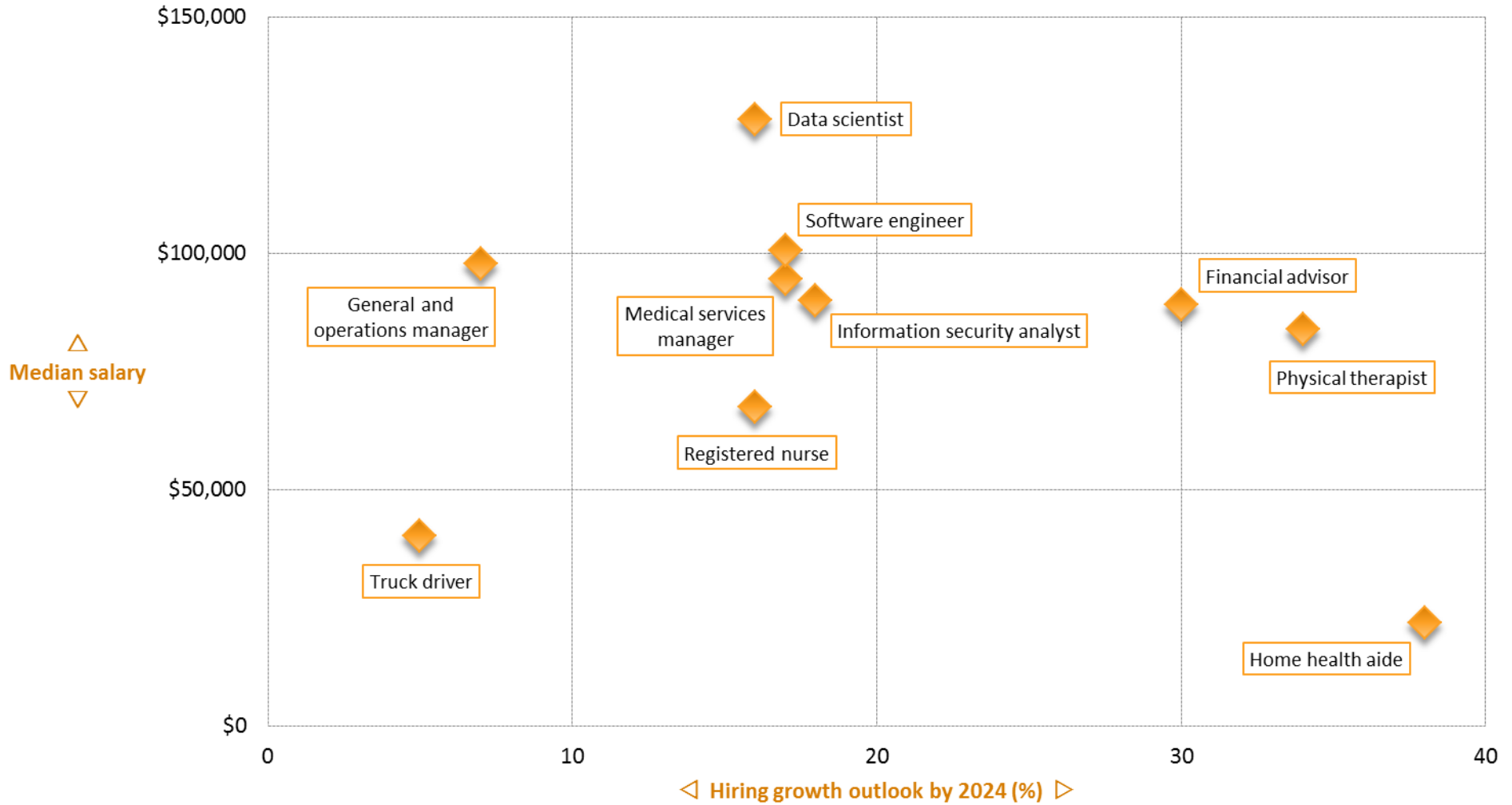
(last chart, next page) **Educational attainment of the masses is an important structural function for countries hoping to thrive rather than just survive global economic realities.** In the US, this puts a premium on politicians not de-valuing healthcare markets lest they risk damaging companies offering good paying jobs with strong growth potential.

Greece 2 year (2017 to date, mid YTM)



Source: Bloomberg

Jobs with the Best Growth Potential in the Next 7 Years



Source: USAToday (CareerCast, BLS data)

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