

## Greece, Europe in Renewed Turmoil— No Greek Debt in SEI Funds

*By: SEI Investment Management Unit*

Concern over Greek debt has again come to the forefront in recent weeks. After receiving a €110 billion loan in May 2010, it now seems that the country is in need of a second financial bailout from the European Union (EU) and the International Monetary Fund (IMF). The loan, which could be up to a further €100 billion, could help to ensure that Greece is able to continue to service its debt and meet financial obligations over the longer-term.

Private companies and banks have been put under pressure to allow Greece to extend (or restructure) the repayment of any debt owed to them. However, credit rating agencies have warned that this would be viewed as a default and could lead to further downgrades. Greek debt is already rated below investment grade, and the impact on investor sentiment and the wider implications of further negative re-ratings could be huge.

### **Our Funds**

SEI's fixed-income funds do not currently hold any Greek sovereign debt. That noted, the situation in Greece remains a concern due to the potential for contagion to other European countries.

### **Our View**

The eurozone is a unique political entity. To join, member states agree to delegate authority over monetary policy to the supranational European Central Bank and to limit their debt-to-gross domestic product ratios. The arrangement is intended to ensure the fiscal and monetary stability of its members, but it also means that individual countries have very little autonomy when it comes to economic policy. As a result, eurozone governments' finances are more like those of state governments in the U.S., rather than countries that still have authority over both fiscal and monetary policy.

While it seems likely that Greece's rescue will continue, the greater concern is contagion. Banks and other financial entities across Europe (and elsewhere in the world) hold or insure the debt of eurozone governments, and could find themselves in dire straits if any of those issuers were to default. Recent market volatility has also had a negative impact on the debt of both Italy and Spain, which are both under fiscal strain and represent a much larger percentage of the eurozone economy than Greece, Ireland or Portugal. In a worst case scenario, if the ECB, IMF and European finance ministers were to take their collective eyes off the ball, it could pose a systemic risk to the global financial system similar to the near-meltdown that followed the collapse of Lehman Brothers in 2008.

SEI has been paying close attention to this issue for some time and will continue to do so. A list of prior publications on this subject is provided below.

### **Prior Publications**

- "An Update on the Greek Sovereign Debt Crisis," May 2010
- "Outlook on Sovereign Debt," March 2010
- "Greece: Testing the Stability of the Eurozone," February 2010
- "Greece Under Pressure," February 2010

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