With a resounding "NO" vote on the Greek referendum to accept the terms of Europe's proposed "bailout", market pundits are out in force talking about the coming turmoil. I think investors and policymakers alike would be wise to step back and put this unexpected outcome into perspective for the long term.

Global CIO Commentary by Scott Minerd

In the wake of the results of Sunday's Greek referendum, there fundamentally remain three possible outcomes. The first is as follows: Greece remains in the European Union (EU) and the eurozone while remaining in arrears on its payments to the IMF and defaulting or falling into arrears on its next payment to the European Central Bank, which is due on July 20, and the Troika begins to work out a restructuring of Greek debt.

The likelihood that the ECB will extend more liquidity to Greek banks seems remote under any circumstances. The ECB could call loans made under Emergency Liquidity Assistance to Greek banks or just maintain those loans. Either way the ultimate outcome will be the same – Greek banks will run out of euros sometime this week and the whole of the Greek banking system faces insolvency.

The second option is the same as the first except that Greece or the EU decide that Greece should leave the eurozone. I don't see this as being much different than the first except that it increases questions about the long term viability of the euro. I think that question exists regardless, but it obviously raises the severity of the issue in the near term.
The third option would be like the second, but would include Greece exiting the EU. I think this is very unlikely unless Russia or China (or both) were to suddenly provide some kind of lifeline to Greece. This could be devastating to the EU and the NATO Alliance. I believe this is a low probability outcome. We will not know which path policymakers will follow until later in the week and then maybe longer. Nevertheless, markets will have to deal with the uncertainties created by the outcome of the referendum and have not fully priced for the risk of this event. If we had a "YES" vote I think equity markets would have rallied and bonds would have generally sold off. That tells me that some of this risk has been baked into prices.

A replay of last Monday is quite likely, which means a classic risk-off trade with a rally in German bunds and Treasury notes and bonds. Bonds of European periphery governments like Spain and Italy are likely to sell off again. The euro should come under pressure, while the dollar advances and global equity markets experience another sell off.

How long will this go on and how protracted will this risk-off period be? That is the real question. A number of years ago, the contagion threat posed by "Grexit" is a lot different than today. Since then, most banks outside of Greece have been purged of their Greek credit exposures, which now look immaterial relative to bank capital.

Of course, exposures are material in official institutions, but still small in absolute terms at less than 2 percent of annual European GDP. Questions still loom as to undefined derivative exposure throughout the financial system. Compared to the resources and tools available to the global central bankers (particularly the ECB) and the relative preparedness in contrast to the days when Lehman Brothers failed, I do not believe we are on the brink of a systemic collapse as we were in 2008.

But there remains at least one black swan event that deeply concerns me and should not be ignored. If other countries in Europe which have engaged in austerity should view the Greek outcome as a win, then political pressures may build and the survival of the euro, which one commentator referred to Sunday night as "hanging by a thread", may itself be drawn into question. The warning signs of that outcome would be to see German bund prices decline in the wake of bad news. While I assess this risk as low, keeping an eye on bund prices as a barometer for survival is still important.

Regardless, the reaction of central banks will be vigilance. The trusty printing press stands ready to inflate asset prices and swell liquidity as needed. Don’t expect preemptive action. Central bankers will wait to see if and how much actual action is needed. There will be an attempt at the illusion that money printing will not be immediately undertaken to avoid the appearance of creating moral hazard. But, if anything was learned by the Lehman event, moral hazard exists and it is alive and well. Every effort will be made to stem any crisis in the wake of the Greek referendum.

For those who are ready to declare the failure of the great European experiment and view Greece as the beginning of the endgame for the euro, they might be advised to wait.

The Greek referendum will likely cause yet another round of innovation and recommitment by European policymakers to the success of a unified continent. In the days ahead, pro-growth policies will likely be expanded around the continent. For example, just last week Prime Minister Mariano Rajoy
of Spain announced an acceleration of tax cuts while increasing projected economic growth to 3.3 percent for 2015, a growth rate which may end up greater than that of the United States. Expect more of these announcements in the coming days.

Countries at the core of Europe are deeply invested in the success of the eurozone. The idea that Greece may exit will be enough for policymakers to double down in the days ahead. While many see Grexit as the beginning of the end, it may end up ushering in a new beginning for Europe. Let's face it, many believe Greece should never have been allowed entry into the eurozone in the first place. Few would make that statement for Italy, Spain, Portugal, or Ireland. Nevertheless, the eurozone is a political creature whose fate will ultimately be decided through political means. That's why policymakers will move quickly to offer largess to shore up the currency union.

While risks loom, it would be premature to throw in the towel on Europe especially as it is beginning to turn the corner. The wild card event may be that after an initial bout of euro-skeptic turbulence, things in Europe will get better, not worse.

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