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International Equity Team's Insight on the March 2018 Italian General Election

Italy held its general election on March 4, 2018 following the dissolution of the country's parliament several months earlier. No political party garnered an outright majority in the election, which resulted in a hung parliament. Duff & Phelps' International Equity Portfolio team discuss the political and investment implications of the election below:

The election results featured a better than expected showing by both the populist Five Star party and the extreme right, anti-immigration, Northern League party. Five Star has muted its anti-euro currency agenda, but they will probably stand in the way of a more pro-unified-EU Italian government, including a banking union.

Uncertainty is the word of the day with the prospect of a new round of elections if these seemingly disparate parties can find a path to cobble together a coalition along with the investor preferred, center right parties (Democratic Party and Forza Italia). Normally, "uncertainty" is not something investors take kindly to, and this could be the calm before the storm, but we are relatively sanguine given our investment positioning and the current ebullient European economy.

The reason for our equanimity is that since no party has control, they will need to compromise to create a working coalition, forcing a moderation in views, and the highest probability of the status quo for now. The medium term problem is that the Eurosceptic parties now have more than 50% of the vote, so EU cohesion becomes more problematic. Yet the probability of an "Italexit" or an Italian sovereign default is low, preventing probable contagion to the rest of Europe. The Italian population still supports the euro currency. Five Star has stated they want to reduce government debt to GDP by 40 percentage points over the next 10 years.

In summary, the Duff & Phelps International Equity Team's view is that while the Italian political situation needs to be monitored closely, as investors we do not feel we need to react to it. We do not currently own any Italian equities, and our bottom up stock selection stands on its own.

International Equity Investment Team



Fredrick Brimberg
Senior Portfolio Manager



John Creswell
Executive Managing Director

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