

## Italy Says Arrivederci to Renzi

Italian Prime Minister Matteo Renzi's proposed constitutional amendment to reduce the country's 315-member Senate to a mere 100 suffered a decisive defeat on Sunday in a public vote.

Renzi, a left-centrist Democrat, claimed that the amendment would help prime ministers to implement economic reform. Supporters said that passing the amendment would curb the instability of the Italian political system, which has seen more than 60 governments since World War II ended in 1945. Opponents believe Rome would have too much power and would lose the Senate's oversight.

Following Sunday's referendum, in which 59% of Italian citizens voted "no," Renzi announced his resignation.

The No vote is expected to lead to another round of instability for the Italian government, as well as engender further uncertainty to the eurozone and indeed the entire European Union (EU), which is still shaky following the U.K.'s surprise Leave vote in late June.

From an economic perspective, the No vote will likely have a notable impact, and Italian banks (which were troubled before the referendum) will likely bear the brunt of any resulting negativity. Financial and political turmoil could affect Italy's credit rating (the assessment of the risk of default of a country), which would increase the cost of borrowing for the Italian government and businesses. The No vote could also lead to deeper depression for the already-flatlining Italian economy, hurting business and consumer confidence and pushing the country's near-12% unemployment rate even higher.

The vote has emboldened the euroskeptic, anti-elite Five Star Movement, a political party founded in 2009 and led by Italian comedian Beppe Grillo, who is calling for a new election as soon as possible. The "Five Stars" of the movement's name refers to the five main issues it seeks to address: publicly owned water, sustainable (eco-friendly) transport, sustainable development, right to internet access and environmentalism. It is important to note that the Five Star Movement wants to take Italy out of the euro-currency framework, although the economic, legal and political hurdles remain substantial. More likely, an interim government consisting of alternative members of Renzi's Democratic party will assume power

through early 2018, which is the deadline for a new election.

### Our View

The No vote in Italy is just the latest example of the wave of populism that is sweeping across the globe and upending decades of establishment politics. Brexit, the election of Rodrigo Duterte in the Philippines, Donald Trump in the United States and the ousting of Renzi in Italy clearly mark the advance of the anti-globalization movement.

While the defeat of a far-right candidate in Austria's election shows the cross currents of global sentiment, the fractured nature of the EU is on full display. In this regard, we have stated for some time that we fail to see how the euro experiment can achieve success with a unified currency without a unified government. The current fragmented political environment creates what we believe are fast becoming insurmountable hurdles. Another euro-currency crisis, with Italy as the epicentre, may be brewing.

The upcoming French election at the end of April is expected to pit National Front leader Marie Le Pen against conservative former Prime Minister François Fillon. A win for Le Pen would mark the populist wave's next advance. At this point, a National Front presidency seems to be a long shot. But Mr. Fillon's bold reform proposals, which include increasing the country's 35-hour workweek, raising the pension age and axing government jobs, seem to run against the grain in a country where protesters take to the streets on a regular basis.

Of course, like Brexit, the fallout from political upheaval could take years to play out, with currency changes related to the euro presenting even more complex challenges than trade negotiations. While Italy's No vote was largely priced in to European markets in advance — with little change following the vote — continued uncertainty across the political spectrum will likely result in bouts of short-term market volatility.

While unsettling, these events should have a relatively modest impact on most diversified investors' financial goals. Investment decisions should be made based on financial need rather than politics.

***Important Information***

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