

Will populism remain popular?

This week's European Parliament elections could provide guidance on the question.

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[Editor's Note: The second of three weekly specials for May, this one on the sustainability of the global populist movement.]

The outcome of the European Union (EU) Parliament elections that start tomorrow (*more below*) could give us a good read on the status of the post-crisis populist movement that in 2016 gave us Brexit and Donald Trump as our president. A JP Morgan gauge of global populist sentiment based on media reports across a dozen economic and social themes suggests that, after settling down post-2016, populism is on the rise again, with socialism, nationalism, corruption, income inequality and wealth taxes the most talked-about issues. This, of course, coincides with the 2020 election season (*more on that next week*) and proposals being put forth by an unusually large pool of left-of-center Democratic candidates.

What exactly is populism? It is traditionally defined by at least three traits, JP Morgan says: (1) an ideology that divides a country stereotypically into just two groups of virtuous people and corrupt elites, where elites can be individuals, their political parties and/or a country's institutions; (2) a prioritization of national interests and citizens over international ones and immigrants; and (3) a tendency to frame political relationships in highly antagonistic terms.

Populism is not limited to any one group, either left or right wing. In terms of economic policies, populists from the left tend to favor nationalization of private industry and/or services and much more progressive tax regimes than populists from the right, whereas populists from the right tend to be more anti-immigration. Populists from either side can be hostile to domestic or global institutions thought to represent the power and privileges of elites, JP Morgan notes. Think World Trade Organization or the United Nations.

As for economic and market outcomes, the evidence after the decade's populist uprisings is mixed. Reviewing the four most-followed elections of the past decade—Greece's 2015 retention of the left-wing Syriza party (which sent conflicting messages about sticking with the euro), Brexit, Trump and Italy's 2018 election in which anti-establishment forces of two different political tilts formed a coalition government—three of the four experienced economic slowdowns or recessions, the U.S. being the exception. Each case saw significant market volatility, with both the U.S. and U.K. recovering beyond their pre-election/referendum levels. Greece has been the biggest laggard.

How are these populist agendas working out? Well, Greece so far has stuck with the euro, Trump has been unable to repeal and replace Obamacare, the coalition Italian government significantly lowered its fiscal ambitions and the U.K. seems to be moving gingerly toward a softer Brexit. Of course, if that doesn't work out, there are suggestions it may hold another referendum! By the way, over there in France, The Guardian says French President Macron "hasn't just lost his touch, he's enabling the populism he was supposed to defeat!!"

Populist episodes are almost always disruptive. Indeed, JP Morgan sees the potential for Black Swans—possible but unlikely tail-risk events that could roil global markets—arising out of policies adopted in this latest populist wave. The U.K. could get stuck with hard Brexit. The U.S. and China could fail to strike a trade truce. Italy could seek to follow the U.K. and move to exit the EU, crippling the euro. A supply shock triggered by U.S. sanctions against Iran could lead to a troubling spike in oil prices to \$100 or more. Populist episodes may call for some ballast in investment portfolios.

WHAT ELSE

Might populists control the EU? Highly unlikely, JP Morgan says. It anticipates populists parties will pick up nearly 30% of seats in the 4-day elections, up from 22% in 2014. But due to the huge gap in aspirations between right- and left-wing populists, a grand coalition is out of the question. Still, it's possible right-wing populists might form the largest single EU parliamentary group, rallying around a platform of greater national independence and tighter immigration policies.

“Trump of the tropics” That’s the moniker the Brazilian press has given new President Jair Bolsonaro, a divisive self-styled political outsider who appalls critics to the delight of supporters. Among notable quotes in recent years, courtesy of CNBC: “Brazilian prisons are wonderful places ... They are places for people to pay for their sins, not live the live the life of Reilly in a spa.” “The scum of the earth is showing up in Brazil, as if we didn’t have enough problems of our own to sort out.”

Populism isn’t for the birds At least, not according the head of the United Nations, which says populism is creating a “trust deficit disorder” between countries that undermines cross-border cooperation at the risk of “runaway climate change.” A new Audubon Society study estimates 43% of migratory birds are “highly vulnerable” as warming global temperatures continue to eradicate longtime nesting areas.

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