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Parisian riots: an illustration of Europe's wider political risk



As the US business cycle ages (albeit gracefully), normally investors would see this as an opportune moment to start looking further afield, perhaps diversifying into European equities, given that the continent is at an earlier stage in the cycle. This is something that has been discussed at length by our experts, yet so far, we have been unable to shake our reluctance for this asset class, given the seemingly unending political risk that European equity investors must contend with.

This week it was France that grabbed headlines, with an estimated 136,000 citizens protesting on Saturday. The protests predominantly played out in the ritzier districts of Paris, where the Arc de Triomphe was vandalised and cars were set a-light by the so-called 'gilet jaunes'— a group wearing hi-vis yellow vests, a mandatory safety requirement in all French vehicles. The movement was initially against rising fuel costs and the prospect of a new fuel eco-tax to be rolled out in January, but morphed into a wider movement expressing frustration about costs of

living and inequality. The spreading protests are not aligned with any political party, but share a solidarity against a raft of Macron's policies.

The scenes became so alarming that the French Prime Minister announced that the introduction of the taxes - designed to improve France's environmental credentials - would be postponed for six months. But the additional taxes seem to just be one more layer in a mille-feuille of discontent that has built up over the years, layer-by-layer. France's much needed structural reforms are still to materialise, whilst its budget deficit is almost touching the 3% limit imposed on euro zone members, and its public debt pile stands at almost 100% of GDP. It is increasingly felt amongst the people that the system is failing and somewhere, online expressions of anti-elite resentment have evolved into a physical protest movement. It remains to be seen whether the movement can maintain momentum in the long term, but the fact that is a leaderless movement also means that negotiation is mostly wishful thinking.

It seems that there is a growing resentment with traditional political systems at large, and a collapse of the left-right paradigm. According to reporting by the Guardian newspaper, protestors interviewed did not express allegiance to any politician: most said politics disgusted them. A poll for Harris Interactive conducted after the weekend scenes, found that 72% of French people continued to support the gilets jaunes, even if 85% said they disagreed with the violence in Paris.

And what is happening in France is just a microcosm of what is happening across Europe where populist ideals are gaining ground. Whilst France may have a mille-feuille of issues, Slovakia's finance minister - Peter Kazimir - has a similar analogy for broader Europe: a lasagne of evil, with each layer representing a different part of society that has failed to curb growing unrest — the media, politicians, corporations, even religion. As he said, now we are being forced to eat the lasagne - for example with Britain's departure from the EU and Italy's new government's reluctance to play ball with the EU over its budget. At a European level, growing polarisation in national politics makes it even harder for the EU's 28 governments to make decisions.

And we do not see political risk fading throughout 2019. On 29th March, the UK is scheduled to leave the EU. In Germany, Merkel will not go up for re-election, marking a weakening of Germany's centre-left party - the SPD. And in May there will be the European elections which will be a real litmus test of the true strength of populist sentiment across the bloc. Without stellar fundamentals eclipsing the political scene, the investment case for Europe is simply not there at the moment.

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