



FIXED INCOME

Italian Election Result: Political Uncertainty is Business as Usual for Italy

March 5, 2018



David Zahn, CFA, FRM
Head of European Fixed Income,
Senior Vice President,
Franklin Templeton Fixed Income Group®

No outright winner emerged from the Italian general election, but as David Zahn, Franklin Templeton's head of European Fixed Income, explains, that situation is normal for Italy. He expects a muted response from European bond markets but cautions there may be consequences down the road if the authorities fail to take the need for reform seriously.

Political uncertainty is business as usual for Italy, so we think European bond markets are likely to respond pragmatically to the lack of an outright winner in the Italian election held on Sunday (March 4, 2018).

We now expect either a grand coalition of Italy's political parties to emerge or a technocrat administration to take the reins of government.

In either case, it's likely take a few days for a resolution. But in the meantime, we expect the response of European bond markets to be fairly sanguine.

If no resolution is forthcoming, it's possible that the Italian authorities might demand another vote, but in our travels in Italy recently, we've detected no enthusiasm for further elections.

An election outcome in which there is no clear decision is pretty standard for Italy, judging by recent history.

Reform Off the Agenda?

Any talk of political, structural or fiscal reform is likely to evaporate; none of Italy's major political parties had campaigned for reform in their manifestos after the referendum defeat and subsequent resignation of former Prime Minister Matteo Renzi.

Longer term, inertia may re-emerge as a challenge for Italy as we think some reform is required. However, in the short-term, we think markets will be relieved that the country is not facing the prospect of a center-right coalition, as campaign pledges pointed to more spending and higher debt.

The comments, opinions and analyses expressed herein are for informational purposes only and should not be considered individual investment advice or recommendations to invest in any security or to adopt any investment strategy. Because market and economic conditions are subject to rapid change, comments, opinions and analyses are rendered as of the date of the posting and may change without notice. The material is not intended as a complete analysis of every material fact regarding any country, region, market, industry, investment or strategy.

What Are the Risks?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments.

This information is intended for US residents only.

To get insights from Franklin Templeton delivered to your inbox, subscribe to the [Beyond Bulls & Bears](#) blog.

For timely investing tidbits, follow us on Twitter [@FTI_US](#) and on [LinkedIn](#).

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.