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TRUMP, LE PEN, AFD: COPING WITH THE POLITICS OF ANGER

Berenberg Macro Flash

So far so good: Four months into 2017, the major risks we had discussed in our [Global Outlook](#) at the start of the year have receded somewhat. Most importantly, US president Donald Trump is being tamed by reality, Congress and the courts. Instead of upsetting the liberal global order, his administration is pursuing some small-scale protectionism only, mitigated by some domestic deregulation. Trump has neither started a trade war with China nor struck a deal with Putin at the expense of Europe. Instead, he has turned into a friend of NATO. He has even phoned his counterparts in China, Japan and beyond to discuss how to deal with North Korea, as a prudent US president should do.

In Europe, the most pro-European candidate is in pole position to be the next president of France with a mandate to reform his country and strengthen the cohesion of the EU27 and the Eurozone. We expect Emmanuel Macron to do that jointly with a Germany where chancellor Angela Merkel has a 75% chance to win a fourth term this September. In reaction to Brexit, Trump and the advance of home-grown populists, we detect signs across much of core Europe that the pro-European mainstream is re-asserting itself. In Austria, the Netherlands and the first round of the presidential election in France, the ultra-right fared less well than opinion polls had projected months before the votes. A good turnout helped to contain the anti-European radicals. In Germany, the rise of Martin Schulz, whose SPD has gained almost 10 percentage points in the polls mostly at the expense of fringe parties, fits the pattern: being known as a strong supporter of the EU and the euro can attract more voters than it may repel. Germany's nasty AfD has fallen back to below 10% in most opinion polls.

Across the Channel, the UK Conservatives are gradually realising that leaving the EU will involve far more painful trade-offs than the Brexiteers had claimed in their campaign last year. Britain can't have its cake and eat it. Upon leaving the EU, it will lose most of the privileges of membership. See this [report](#) for more on the choices facing the UK.

Is the worst of the populist risk over? The tide may indeed be turning. Although the tail risks remain noteworthy, I see significantly more opportunities (Macron) than risks (Marine Le Pen, Beppe Grillo) on the European continent. Of course, it will be a long time before we can be reasonably confident.

FOUR REASONS FOR HOPE

In a note [on coping with the politics of anger](#) eight months ago, we discussed four reasons to expect the more dangerous kinds of populism to peak before the radicals could destroy the global liberal order, the European Union and the euro.

- 1) **Employment rates are rising** across most of the Western world. Data published in the last eight months show a rise in US non-farm payrolls by 1.4 million, equivalent to an annualised increase of 1.5%. In the Eurozone, a 1.2% rise in employment over the course of 2016 has underpinned a decline in unemployment by 913k in the eight months to February 2017. Leading indicators of the jobs market point to further gains ahead on both sides of the Atlantic. As labour markets tighten, average and median real wages will likely increase over time. Although perceptions often lag behind reality, a rebound in the share of wages in gross value added could eventually take the edge out of the current debate about income inequalities. In some European countries such as Spain and Italy, the long-term results of recent labour market reforms will add to this. If a president Macron goes well beyond the small-scale reforms he introduced as French economics minister in 2015, the French labour market and its overall economy will likely be in much better shape at the time of the next French election in 2022 than they are now.
- 2) **The worst of austerity is over** in most advanced economies. Instead, falling unemployment and the gains from a much lower interest burden are creating some fiscal scope to improve education and fund other measures to support those hardest hit by the dislocations of globalisation. Although the devil will be in the detail, the US will likely get a significant fiscal boost this autumn while Eurozone demand will probably benefit from a modest fiscal easing year after year. With a fiscal deficit of just 1.5% of Eurozone GDP in 2016 (0.8% surplus in Germany, 3.4% deficit in France and a 2.4% deficit in Italy) the overall fiscal position of the region is now more satisfactory than it has been since 2007.



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- 3) **Even populists may change** once they meet reality. Eight months ago, we quoted the transformation of the “True Finns” into the tamer “Finns” and the gradual evolution of Greece’s radical Syriza into a more mainstream centre-left party as evidence for that. By now, we can probably add the much more important learning process of Donald Trump after 98 days in office as - still tentative - evidence to that list.
- 4) **Populists cannot deliver on their pompous promises.** For example, the contrast between the huge savings of “GBP 350 million per week” which the Brexiteers had promised their voters in the UK referendum campaign and an EU exit bill for the UK that may easily reach €40bn does not make it easy for anti-EU populists elsewhere to argue the case for leaving the EU.

OUR BASE CASE: THE TIDE OF POPULIST ANGER WILL ABATE IN COMING YEARS

It is very early days. That more than 45% of French voters opted for candidates who want to get out of the EU and the euro (Le Pen, Dupont-Aignan) or are at least toying with the idea (Melenchon) in the first round of the presidential vote illustrates the risks. However, that Macron is in the lead also shows the potential: the EU and the Eurozone are more likely to adjust under pressure than to fracture badly. Beyond the French tail risk, we also have to watch how the Italian political dynamic unfolds once Matteo Renzi has regained the leadership of the mainstream Democratic Party, as he probably will do after the 30 April primary vote. Although early elections in Italy ahead of the regular date in spring 2018 have become unlikely, we can’t rule them out.

By and large, the evidence over the last eight months supports our base case: the global liberal order and the institutions that underpin peace and prosperity in Europe will survive the onslaught of the politics of anger. While it will take a long time to heal the economic and social wounds that have given rise to the radical populists from the left and the right in the first place, the process seems to be under way.

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