



## Trick Question: Yes or No?

It's the start of a new month so it must be time for one of the world's top G7 countries to throw the public yet another destabilising and uncertain vote threatening to undermine capitalism, end western civilisation and unleash a plague of locusts. Forgive the sarcasm but we are, of course, talking about Italy or, to give this latest referendum its popular name in the market, Exitaly.

In a nutshell, Italian voters are being asked by the Italian Prime Minister in this Sunday's referendum to give a straightforward yes or no answer to this simple question:

"Do you approve a constitutional law concerning the scrapping of the bicameral system (of parliament), reducing the number of MPs, containing the operating costs of public institutions, abolishing the National Council on Economy and Labour (CNEL), and amending Title V of the Constitution Part II?"

In case you're wondering, "Title V" covers regions, provinces, and municipalities. So that's perfectly clear, then. What could possibly go wrong?



On the face of it, the constitutional changes proposed by the referendum question are not without merit. A curtailment of the upper house and cutting the number of senators by two-thirds seems reasonable enough. Had it been implemented 60 years ago, Italy may have been spared a change of government almost every year since.

Well, polling suggests that the answer is going to be a firm "No". This would be the wrong answer for Prime Minister Matteo Renzi, who granted the referendum, and whom it seems has been on a losing ticket right from the start. It may also be a double blow because he also promised to resign in the event of a "No" vote. He didn't say when, exactly, and he could hold on until 2018. David Cameron on the other hand didn't make his departure contingent upon a Brexit vote as he knew it would've risked turning the UK referendum into a vote on his Premiership. We know how that ended. Interestingly, President Obama has also endorsed Matteo Renzi for being 'bold' and 'progressive' and as he 'fights for this cause for reform, know that we stand by you'. Not a bad endorsement for the third unelected leader of Italy in 5 years.

However, the polls also indicate that 50% of voters have neither made up their mind nor understand what the referendum is about and so it could technically still go either way. But this is unlikely. The referendum could've been held as early as October but the "No" vote was already thought to be ahead and so there was seemingly nothing to lose from postponing. The opposite was true of the Brexit and Trump events, of course, where in both cases the polls had the disruptive challenger to the establishment behind.

Renzi has also taken to the media to appeal to the Italian electorate and, in a noticeable departure from earlier appearances, sat in front of six Italian flags instead of the usual combination of the EU flag, an Italian flag and an Italian Council of Ministers flag during an online Q&A event on Facebook.

Renzi may be popular as can be seen from polling data but, the anti-establishment, anti-Euro vote belongs to ex-comedian Beppe Grillo's 5-Star movement and everyone else opposed to Renzi including ex-Prime Minister Berlusconi, Forza Italia and The Northern League whose supporters will likely vote "no" in the referendum.

Looking at the Italian economy, the fact it is mired in difficulty is not in dispute. GDP has fallen 8% since the Great Financial Crisis in 2008 and youth unemployment is running at 40%. The Italian stock market is down 25% this year, dragged down by their bank stocks which have halved.

Ironically, a bit of currency weakness would be exactly what Italy needs. But with the Euro up 10% against a Brexit-encumbered Sterling since the summer and Italy linked through this single currency to the rest of the eurozone, this escape route is closed off.

Whilst we can identify some attractive investment opportunities within Europe TAM portfolios have only modest exposure to European equity markets with minimal, if any, exposure to the European banking sector. Of course, that is not to say that speculation over the future of Italy remaining in the eurozone or the EU itself would be contained to European equity markets. The ramifications for stock, bond and



currency markets would be global.

However, during a year of political and economic uncertainty, we have endeavoured to invest TAM client portfolios as sensibly as we can and with a defensive bias to preserve wealth. We have been equally cautious not to stray too far from asset classes fraught with uncertainty because, as we saw in the aftermath of the Brexit vote, poor sentiment can appear very much at odds with the opportunities thrown up by a sharp depreciation in currencies.

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