
Weekly Market Flash

Peak Populism?

March 17, 2017

It was Game On week. No, not the NCAA basketball tournament with its annual goody-bag of Cinderella stories and humble pie for top seeds, but the opening salvo of the elections in Europe about which we've all been chattering since the beginning of the year. What message will those discontented bodies politic in the fraying Eurozone send to global markets? Vox Populi rising, or more of the same?

Nee, Non, Nein

"Nothing here, move on" might be an appropriate response to this week's contest in the Netherlands, and indeed much of the post-election commentary focused on the singular Nee – Dutch for No – served up by the voters to anti-immigrant polemicist and Freedom Party (PVV) head Geert Wilders. A stunning 82 percent of the citizenry turned out (dream on, America!) to give Mr. Wilders the thumbs-down and enable incumbent Mark Rutte and his VVD party to form a new government. This outcome fits rather neatly into a long-held view that, while disgruntled Europeans may register their unhappiness in polls and in the less consequential votes for the EU representatives they send to Brussels, they will heed their better angels when voting in their own national governments. Historians will point out that ethnocentric populism, while always present, has never managed to crack the high 30s in percentage terms over more than a century of national electoral contests. In this reading of the current environment, the Dutch "Nee" is likely to be followed by a French rejection of Marine Le Pen in favor of centrist Emmanuel Macron, and a vote for more of the same in Germany when Angela Merkel seeks her fourth term. Certainly these would have to be considered the default outcomes in the absence of any new news.

The Math of Discontent

A closer read of the Dutch outcome, though, tells a somewhat different story and one that would appear to be well in line with broader trends both within and without the Old Continent. The PVV – Wilder's party – didn't actually lose parliamentary seats but rather gained five. The big losers of the night, by the math of seat gains or losses, were the two establishment parties. PM Rutte's PVV lost eight seats (though still retaining its position as the largest single party). But the PVV's coalition partner, the Dutch Labor Party (PvdA) lost a stunning 29 seats. That adds up to a net loss of 37 for the Establishment. It also serves up yet more evidence that the traditional European left (think Britain's beleaguered Labor Party or France's Socialists with a 4 percent favorability rating) is in a death spiral.

Meanwhile three "alternative" parties – the left-leaning, Europhile D66 and Green List and the center-right, quasi-populist CDA, picked up 23 seats between them. Adding Geert Wilder's 5 seats means that a non-Establishment alternative, split roughly between pro and anti EU sentiment, will play an outsize role in the new government. With no clear mandate for either bailing out of the EU/Eurozone or doubling down on open borders and free trade, the result is likely to be a lack of clear direction one way or the other. This outcome much more resembles the recent past than it does some bold new step forward. Populism may have its limits, but so does globalism.

Mr. Market's Quiet Genius

For the past couple months we have spilled a great deal of ink on the pages of this column finding fault with the so-called "reflation-infrastructure" trade that appeared to be based on little other than hope and animal spirits. But we are starting to see a little method in the apparent madness of the markets. No – there is no infrastructure pony out back with a Christmas bow around its neck. There never was. Just as in Europe, our own policy engine is stuck in second gear, and not just on account of the apparent own goals the current administration and Congress keep making. Ours, too, is a body politic divided, and those divisions are, so far at least, keeping in check any decisive movement juggernaut in one given direction.

And that suits Mr. Market just fine, thank you very much. Hey – economies are doing pretty much okay on their own, here at home, in Europe, Japan and much of the emerging world. Citizens are disgusted with their governments for some very valid reasons. The less interference we get from misguided policymakers, goes this line of thinking, the better. No action is good action. Continued improvement in jobs and wages, with a modest but not frenetic pick-up in prices, all in the context of real GDP growth of two percent or a bit more – that’s enough for now. Enough to keep corporate earnings growing at least in the mid-high single digits. These may not be the best of times, but neither are they the worst. As long as things remain more or less as they are, this bull market can perhaps enjoy an extended sunset rather than suffering an abrupt end.

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