EUROPEAN **LONG-TERM UNCONSTRAINED**

Italian election result

MARTIN CURRIE

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Landslide victory for a right-wing coalition

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Executive summary

- **Georgia Meloni, leader of the far-right party Brothers of Italy, is likely to become the next Italian Prime Minister, following a landslide victory for a right-wing coalition**
- **We do not expect any major deviation by Italy away from the European Union (EU) political agenda, and therefore we do not see this as a geopolitical risk for Europe**
- **Italian equities should be unscathed, with the Italian equity risk premium unlikely to change materially**
- **Right-wing parties' momentum continues to increase throughout Europe, but we do not see any major risk of rising Euroscepticism for the time being**
- **A more sizeable Euro-sovereign risk in our view remains the next French presidential elections in 2027, whose time horizon remains too far out for financial markets to focus on at present**

Far-right Brothers of Italy leader Georgia Meloni likely to be next Italian Prime Minister

As was widely expected, the Italian elections last weekend have shown a landslide victory for the right-wing coalition formed of Brothers of Italy, Lega and Forza Italia. Georgia Meloni, the leader of the far-right party, Brothers of Italy, is likely to become Italy's next Prime Minister, and the country's first female Prime Minister since unification in the 19th century.

Brothers of Italy achieved the strongest result with c.26% of the votes, well ahead of the second largest party, centre-left Democratic Party, which achieved c.19%. Five Star Movement achieved c.15% of the votes, whilst Lega received c.9% of votes. Forza Italia took fifth place at c.8%. Taken together, centre-right parties won c.44% of overall votes, which should lead to a comfortable parliamentary majority of c.232-252 seats out of the 400-seat lower house, known as the Camera (House of Deputies). They should also get c.114-126 of the 200-seat upper house, the Senato.

The absence of a two-third majority means that the right-wing coalition might be limited in its ability to put through major constitutional changes in Italy. Also, whilst it is difficult to express any views on longevity of the newly elected government, we note that no government has lasted its full term in Italy since WW II, and government changes have ended up happening at an average frequency of less than one year.

President Sergio Mattarella will now start a round of consultations with party leaders, once parliament reconvenes, with the aim of getting a government formed; this is likely to be led by Georgia Meloni given the election results. Meloni will then proceed to form a government, and appointing ministers, a key focus for the new government will be to draw a budget plan for 2023 and beyond. Given the budget deficit, deteriorating economic outlook, and higher spending notably related to rising debt servicing costs and rising public sector salaries, this might put limits on the ability of the government to launch and or renew expansionary policies.

Italy also needs to reach 55 milestones by year-end, as part of its Recovery and Resilience Plan (RRP), to get c. EUR19bn of payments from the EU in early 2023. This should therefore be another point of focus for the new government. Whilst Meloni has talked about making changes to the RRP, this is likely to be done within the limits of the EU regulatory framework. It could create headline grabbing news, even if, in our view, the ability to make significant changes will be very limited.

We do not see this as a geopolitical risk to Europe

We do not expect the far-right government in Italy to be a sovereign risk for EU geopolitics in our view, given that Georgia Meloni has been explicit about a few important current political topics, such as backing Ukraine against Russia, and seeing EU fiscal laws as needing to be adhered to – albeit with pragmatism given the energy crisis in Europe, and the escalating cost of living.

Limited impact on Italian equities

We do not expect any volatility as a result of this outcome at the European or Italian equity market level. We do not believe that there will be any worrying Eurosceptic risk related to this election outcome that could weigh on Italian sovereign risk, and therefore lead to undue Italian bond spreads widening.

On the equities front, the exposure we have across our strategies in Italy, Ferrari and Moncler, are companies that have global exposure, rather than being particularly sensitive to the Italian economic cycle. Corporate fiscality could be an area of focus, but we have already factored in a 300bps increase in corporate tax rates across all companies across geographies, given the need in the medium term to fund the fiscal expansion trends that we have seen accelerated around and since the Covid crisis.

Despite the advancement of right-wing parties, no meaningful rise in Euroscepticism – the key event is the 2027 French presidential elections

Whilst there is ongoing advancement of right-wing parties in Europe (Sweden, Austria notably), we do not see a major risk of rising Euroscepticism appearing in a meaningful way on the European landscape at this stage. However, as we had highlighted at the outcome of the French presidential election in April 2022, the key event to watch in our view is the next French presidential elections in 2027. Emmanuel Macron will have come to the end of his two-terms mandate, we could then see right-wing parties' momentum potentially bringing a higher risk of Euroscepticism and therefore higher Eurozone geopolitical risk.

If there is no credible and charismatic moderate candidate to pick up President Macron's baton in 2027, there could be a higher risk of Marine Le Pen's Eurosceptic party becoming the key rainmaker in France, and therefore in Europe. This has more potential to unsettle financial markets, even if for now, that timeline is outside the markets' radar.

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