



What You Need to Know About the Italian Political Crisis

Description

Markets have been more than a little jittery lately — partly because of escalating trade tensions, but also partly because of the burgeoning political crisis coming out of Italy.

Markets have found themselves reacting to increasing concerns that a rising populist movement among the Italian public could lead to a referendum and pressure from within the country to leave the Eurozone and the single currency.

But, for now, at least, those fears appear to be somewhat allayed thanks to the formation of a new populist government made out of the Five Star Movement and far-right League party, which, at least partly, mitigates the risk of the country calling a snap-election later this summer that would have likely drawn stronger anti-E.U. voices into the fray.

But it's important to understand exactly what the European markets are dealing with and exactly how worried you should — or shouldn't — be.

The prospect of a snap-election that was initially feared at the start of the month was a potentially very dangerous possibility; as recent history has shown, voters in the west have been known to surprise with their views on nationalist agendas.

For a recent example of this, you needn't look further than Brexit or the most recent U.S presidential election.

The fear in Italy was that in the run-up to a potential election, it could bring more radical right-wing voices into the debate, which could have eventually ended up with Italy completely abandoning the Eurozone and the euro currency.

If that were to happen, it could very well — and likely — provide a massive shock to not only the Italian and European economies, but the global economy at large, particularly global financial institutions. That would include, but certainly not be limited to, two of Canada's largest financial institutions: **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)); both of which have extensive operations outside Canada's borders.

Why the latest news is good news

But while both incoming parties, the Five Star Movement and the League, are indeed described as “populist” parties and are interested in protecting the interests of Italians, neither are so inclined to abandon the euro completely.

As far as the Five Star Movement and the League are concerned, it isn't so much an issue of leaving the Eurozone, but rather more of taking a stand at the directives being handed out by Brussels, the de facto capital of the European Union.

A recent survey of Italians suggested that as few of three in 10 voters believe their voices are being heard in the E.U.

So, while Italian politics should be expected to take on a more protectionist tone in the coming months, there shouldn't be too much cause for concern about an impending threat to the global financial system.

For one thing, the Italian constitution currently states that the country doesn't allow referendums to decide the fate of international treaties like the one governing Italy's inclusion in the E.U.

Even if the government did want to change the constitution, it would still require the support of two-thirds of the house and could take years after accounting for the judicial process and any appeals.

Conclusion

For now, it appears that cooler heads have prevailed, and the “headline risk” has, for the most part, subsided; however, many agree that the future of European politics will more likely than not revolve around issues of migration going forward.

The next issue on the chopping block will be how [trade negotiations](#) are sorted out between the United States and its allied nations and any ramifications that may have on economic and financial markets.

With the market now into its ninth year of the current bull rally, investors may want to start thinking about [adopting a more cautious stance](#) in their investment portfolios.

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