

That risk has now been crystallised in the price of Italian assets. Italian equities have fallen by around 10% since the formation of the new populist government, by the time of writing Italian government bonds are trading at a significant discount to any other investment grade-rated sovereign.

The same cannot be said of other populist-led countries in Eastern Europe. There is no evidence yet of a political risk premium in Czech, Polish or Hungarian assets despite the confrontational approach

adopted towards European institutions and norms. Assets in those countries look vulnerable to any further escalation in tensions exacerbated by the almost inevitable fights over immigration in the years ahead.

Market focus can rapidly snap back to underlying political risks after long periods of calm. If refugee flows stay high (or even intensify), the prospect of disruptive political clashes between member states and the EU remains ever-present.

August Comte (1798-1857), argued that “demographics is destiny”. Arguments over immigration look destined to dominate European politics for years to come.

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