

# Talking About Italian Politics

## Alert: Welcome to the Jungle

For nearly an hour, markets welcomed the scenario of a PD/Monti possible alliance. And then came early exit polling data and a shock: Berlusconi is once again back thanks to a mix of PD mistakes and Monti's late decision to step in (see i) [Machiavellian Manoeuvres](#); ii) [Is it a bird? Is it a plane? No it's Berlusconi's poll ratings.](#); and iii) [The \(Berlusconi\) Heat Is On](#) for more details). Comedian-turned-politician Beppe Grillo may have more than doubled Mario Monti's performance according to some estimates.

Welcome to Italy –one of the largest economies in Europe and one of the largest public debt in the world. So what's next? In our view

- If the scenario based on the current exit polls of a hung parliament transpires, in our view the new government will struggle to perform basic duties, let alone push reforms; fresh elections well before the new government serves its full 5-year term cannot be ruled out.
- To make things more difficult, no matter how hung the new Parliament is, the new MPs will have to elect a new Presidente della Repubblica by April 15<sup>th</sup> and – theoretically would then be new Presidente responsible for calling new elections. Under the Italian laws, it might be difficult to have new elections before October.
- While waiting for the final data, which may not come until after markets open Tuesday morning, our sense is that the traditional parties might try to create a grand-coalition (in our view a much more difficult exercise after the acid campaign where everybody insulted everybody) and keep out Beppe Grillo's 5 Star Movement. The "Grand Coalition" might try to change the byzantine electoral law before going to new elections. The Italian press already suggests that Giuliano Amato – who led Italy with a technocrat government in 1992 into the *Seconda Repubblica* – might be a credible candidate to lead into the *Terza Repubblica*.
- Our sense is that today might represent the last chapter of the political life of several politicians who have been dominating the last 20 years of the Italian political scene in all of the different parties. In our view the strong showing for Beppe Grillo could prompt a shift in Italy's political discourse and – potentially – a new generation of politicians will lead the next elections. At least, there might be some good news in Pompeii.
- The performance of the Italian equity market in January-February in 2011 and 2012 might provide investors with some hints of what we might expect in the coming months – also considering the weak macro-environment. Once again, better to stick to stocks of companies incidentally bearing Italian passports.

### ■ Industry Overview

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