

BM Political Highlights

2018

To celebrate the first 12 months of Political Highlights, here is our yearly summary of 2018, and what to look out for in 2019!

2019 Predictions

1. **GBP Currency crisis:** With foreign investors pulling money from the deficit-ridden UK or avoiding it altogether due to Brexit, GBP will plunge as the reality of No Deal becomes priced in.
2. **UK General Election:** As the Brexit clock continues to tick down and PM May's deal struggles to pass, something will be needed to break the impasse. Extending Article 50 relies on EU27 unanimity and only serves to kick cans ahead of a potentially toxic second referendum. Instead, PM May's govt loses the inevitable no confidence vote, and with no "coalition of the willing" able to fill the fourteen-day void an election comes.
3. **UK Government of National Unity:** Fear of Corbyn and a public disdain for the Tories after their botched Brexit, leads to a record low turnout and no overall majority for either party. Centrist and pragmatic MPs of both the main parties band together in a truce to get the UK through Brexit, promising another election in 2021.
4. **President Trump disavows Powell as Federal Reserve Chair:** With the law rather blurry around whether a President could remove a sitting Fed Chair, Trump will do the next best thing: bully him. In a bid to undermine Powell's position and to make him look 'un-loyal' (a cardinal sin to the White House), we expect the Commander-in-Chief to try and lead the financial markets in a bit to manipulate Fed policy.
5. **Donald Trump makes his daughter, Ivanka, his permanent White House Chief of Staff:** The currency of power in the Trump Administration is loyalty, as many of Trump's former colleagues have found out (Comey, Mattis, Bannon etc). Who can Donald trust more than family? With Ivanka Trump and her husband already Senior Advisor to the President, and Ivanka appearing at official functions regularly – the next logical step is her taking the role of permanent Chief of Staff from acting CoS Mulvaney.
6. **Brazil becomes fastest growing world economy:** After 12 years of left-wing socialist rule, right-wing and pro-business President Bolsonaro has promised to deliver much-needed economic reform. With former World Bank economists and US treasury officials in his Cabinet team – there are moves in the right direction for growth which will outperform slowing US and Chinese economies.
7. **ECB restart Quantitative Easing programme:** Three things will cause the ECB to reverse their plans of July 2018 to stop their QE programme. A sharp slowdown in growth in the Euro area, continued fears of defaults in Turkish banks and other EM countries, and the ongoing Italian populist government drama with the EU. All events will lead to deflation fears and a knock-on effect for a higher cost of Government debt.
8. **New Italian govt with technocrat Prime Minister Conte replaced with Northern League leader and current interior Minister Salvini:** As the popularity of the 5-Star Movement and its leader Di Maio continues to wane, Salvini and the Northern League remain on an upward trajectory. Salvini positioned himself as the de-facto leader within the Cabinet during the Budget drama with the EU and remains in a strong position. Should President Mattarella decide to call a snap election, he would be best placed to take the reins in a full League-led Government.
9. **Marine Le Pen's populist National Rally gain biggest vote share in France's European Parliament election:** Populism is here to stay. Nationalist movements with coherent messages and broad public support have popped up all over the continent. None more so than France, where President Macron – despite winning against a populist candidate in 2017 – is increasingly unpopular. Le Pen is back and will surge to a majority in the European elections, weakening Macron's influence in the EU Parliament.
10. **Germany's Merkel is forced to stand down as Chancellor by her own protégé and successor, Kramp-Karrenbauer:** As Merkel will be confident that the policies of the CDU will remain aligned with hers despite her departure, Merkel will begin the process of untangling herself from a position she has held for over 13 years. Although she has said she will stay as Chancellor until 2021, it seems more likely that party pressure from her CDU chairman successor, AKK, will cause Mutti to stand down earlier than she initially planned, handing Angela a dose of the medicine she once doled out to her mentor Helmut Kohl.

2019 Events to Watch

First half of 2019: *US Congress will vote on USMCA trade deal (NAFTA replacement)*

Jan 7th: *US delegation arrives in Beijing for trade talks and US-EU trade talks begin*

March 1st: *President Trump's deadline before \$200bn of tariffs on Chinese goods are implemented*

March 29th: *Brexit day – UK will officially leave the EU on this date unless Article 50 is extended*

April 30th: *Japan Emperor Akihito will abdicate, the first to do so in 2 centuries*

April-May: **Indian General Election** – *incumbent PM Modi's BJP party is under pressure as Hindu nationalist move further rightward*

May: **South Africa General Election** – *Incumbent President Ramaphosa attempts to gain an electoral mandate after former President Zuma's resignation in 2018*

May 26th: **European Parliament Election** – *newly elected EPP leader Weber will look to fight off populist and Eurosceptic movements from Italy and France*

June: **First Democratic Presidential Primary** – *DNC sanctioned 6 debates in 2019 all outside the first four primary states. Any candidates will need to have a campaign in full swing before June*

July: **Japan Upper House elections** – *Japan's Upper House (House of Councillors) although significantly less powerful than the House of Representatives, offers PM Abe an opportunity to call a 'Double Election' whereby he dissolves both Houses in order to wrestle initiatives for his constitutional reforms*

October 21st: **Canadian General Election** – *PM Trudeau's Liberal Party has fallen in the polls as the centre-right Conservative Party led by the youthful Andrew Scheer gain ground on economic policies*

October 27th: **Argentina General Election** – *incumbent President Macri has not announced if he will run again after threats of an IMF Bailout*

2018 Market Review:

Volatility returned in 2018. After an unusual 2017 of low-vol, equity and bond markets had a much more turbulent time with worries about trade, the path of US interest rates, the rise of populism and the dreaded B-word all weighing heavily on investors' minds. The February replacement of Yellen with Trump-appointee Powell at the Federal Reserve did little to rock the Fed's commitment to keep rising rates throughout the year. The President pumped up the volume on his campaign promises, with even the result in the November midterms failing to quieten the Commander-in-Chief.

Across the pond, Theresa May's attempt to make a success of Brexit hit roadblock after roadblock. After a promising start to the year, several key Cabinet resignations rocked Downing St as her Chequers' Agreement failed to gain any traction with MPs. A tempestuous autumn left May in a stasis where she will remain PM going into 2019 even as no one supports her or her Brexit vision. The Brexit circus will continue rolling well past the March deadline and GBP will continue its yo-yoing along with it. Fears of a 'No Deal' Brexit weighed on the share prices of many UK domestic companies. As growth recovered through the year, the BOE increased rates by 25bp to 0.75% in Q3.

In the Eurozone, the focus has been on Rome and the inconclusive election which led to a populist truce of the anti-establishment 5-Star party with the fringe-cum-mainstream Northern League party. BTPs bore the brunt of investor worry over the long-term implications of such an anti-establishment Government. Politically, Germany remains in a period of flux with Chancellor Merkel's 2015 liberal migration policy returning to haunt her. After poor state election results, Merkel stood down from her Chairmanship of the CDU – a void filled by her long-time ally Kramp-Karrenbauer. However, Mutti's influence in Germany and the wider EU is waning.

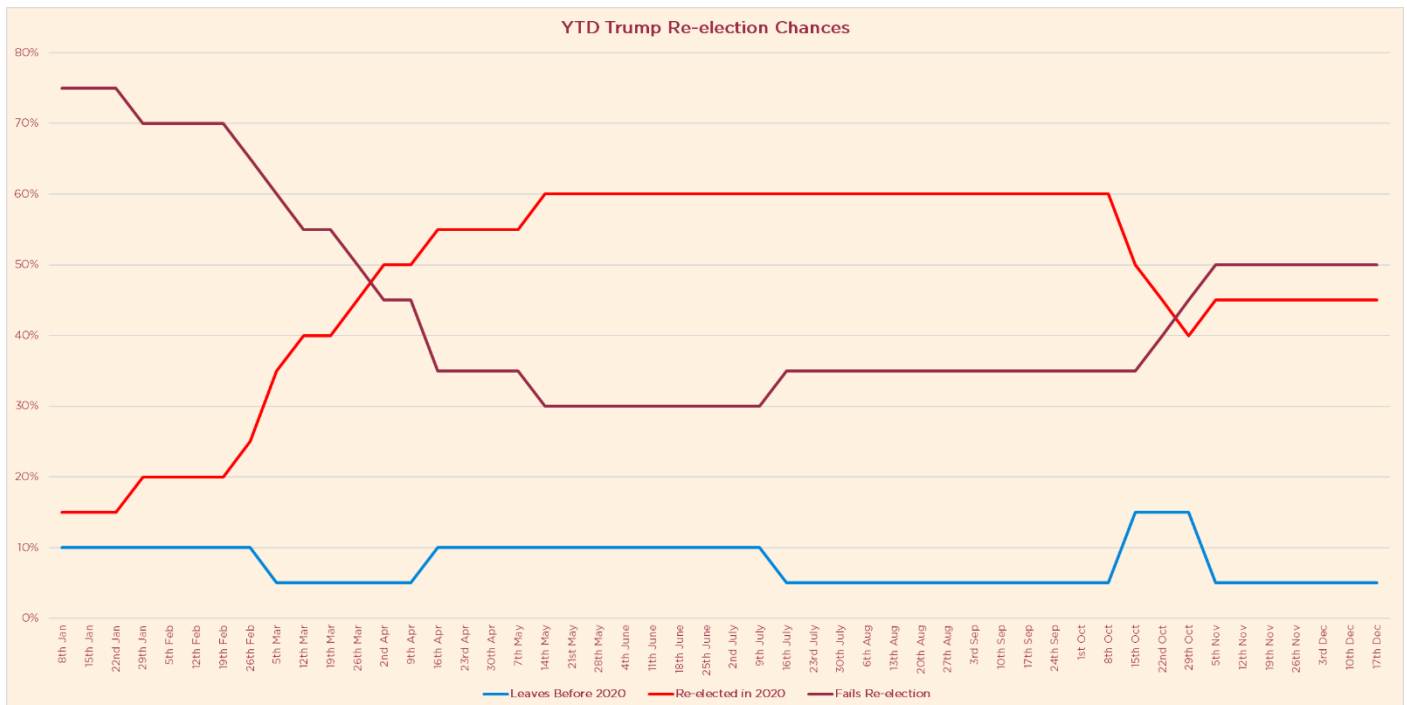
In Asia, **Japan** had quiet year. The ongoing trade tensions between and the US-China and the threat of US tariffs on Japan's huge motor business led most of the JPY moves, along with fears of a deteriorating North Korea situation early in the year. A new Japan-EU trade deal boosted domestic returns, and the re-appointment of Kuroda to the BOJ eliminated some uncertainty for international investors. The September re-election of Shinzo Abe as leader of the LDP solidified his position as Prime Minister. **Beijing**, on the other hand, had a tougher time. The Chinese stock market experienced its worst year since 2008, down 25% led by tightening trade wars with the US and a slowing economy. President Xi Jinping finished the year with a promise of reform and a movement away from his flagship 'Made in China 2025' program. China's growing international influence promises to shape the geo-political world for decades to come.

In emerging markets, currency scares in Argentina and India were minor with the major focus of the year on Turkey and Russia who both felt the full brunt of Trump's rhetoric and his power in the financial markets. Brazil's decisive Presidential election brought a right-wing, conservative, pro-military Bolsonaro to power whereas to the North of them, Mexico elected their most left-wing President in decades: the ageless Andres Manuel Lopez Obrador or AMLO. How both those men deal with their biggest trade partner in Washington will define 2019 and trade in the Americas.

Overall, despite a bright start to the year, markets ended down. US stocks had their worst performing December since 1931 and the world's traditional political order is unravelling. **Prepare for a bumpy 2019.**

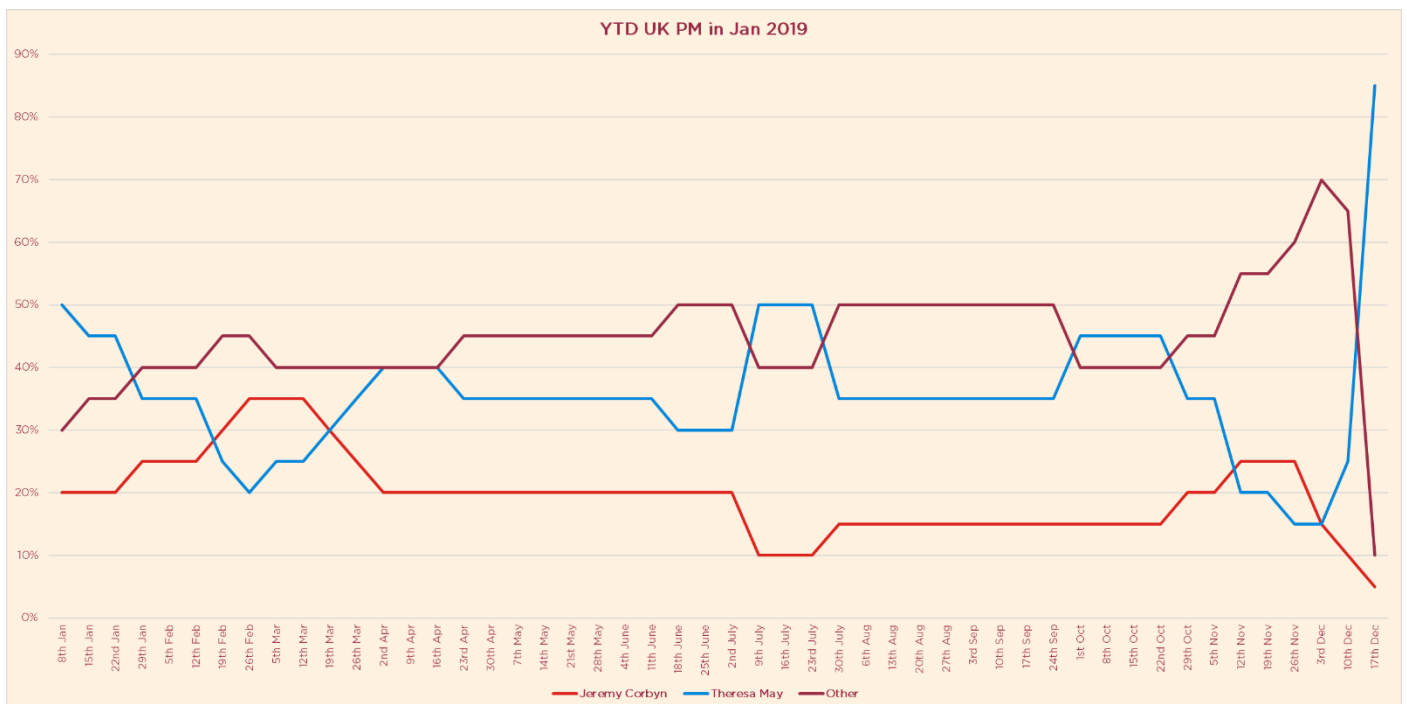
2018 Political Highlights Probability Graphs

Two Terms for President Trump:



The Donald's re-election chances in 2020 became increasingly more likely as the year wore on, only for that to dramatically fall off in October ahead of mid-terms and the criminal net closing around his network. However, after mixed November mid-term results all probabilities stabilised to the end of the year. It is worth noting that despite ongoing leaks from the Mueller probe, this was not the deciding factor in whether Trump would leave office early – this was dictated by Democratic appetite for impeachment.

UK Prime Minister in 2019:



Brexit has consumed the British political landscape throughout 2018. Everyone wants to hold the keys to power but who was the most likely to lead the country come January 2019? Throughout the year, Labour chose to let the Tories pull themselves apart on Brexit with Corbyn hoping to swoop in at the last minute to pick up the pieces. Despite this practice of avoidance, in the latter part of the year Labour inevitably became dragged into the Brexit debate. Corbyn himself, and his chances of ever getting in No 10 in time for 2019, never really took off having been mired in the anti-semitism row in Q2 and, in the last few months, his lack of coherent strategy costing him a chance at the top job. Theresa May's stock hovered around the 30% mark all year, although as she announced her deeply unsatisfactory Withdrawal Agreement, the chances of a leadership challenge rose. Having seen off that challenge in early Dec, she is now firmly in the driving seat for the foreseeable future.

Political Events 2018 vs 2019

	Biggest Stories in 2018	Biggest Stories in 2019
US	Trade: A year dominated by Trump's trade rhetoric with the US's traditional allies including Canada, EU and the UK. The US approach to trade has caused an upheaval in the global order, with many countries looking elsewhere (Africa & China) for trading partners.	Trade: The US-China Trade war has only just begun. Xi ended the year belligerently telling the world he will be "defiant". Trump will welcome the challenge.
	Midterms: Democrats won the House while the GOP enlarged their majority in the Senate. Both parties will be looking at voter demographics (GOP = white rural male and Dem = metropolitan) to maximise 2020 results.	Congress Stasis: With a split Congress, Trump will be unable to push through his agenda quite so easily. Expect compromise on DACA, healthcare and migration but more noise en route.
	Mueller Probe: The arrest and sentencing of close Trump advisers has caused the President ongoing concern, and anti-Trump Democrats fed the media obsession over impeachment considerations.	2020 Election: The Dems are filled with potential candidates. It will be a free-for-all to run against Trump in 2020. A power struggle within the Democrats will ensue.
UK	Backstop: The toxic existential threat to the Union dominated Brexit wrangling. Although both the UK Govt and the EU publicly declare that they never want to use it, the very existence of it has caused huge ire.	No Deal: As the countdown to B-day begins, the UK will be desperate to avoid a No Deal scenario. The ongoing threat and precautionary preparations will define Brexit direction until March.
	Downing St: Who holds the power? The year started with PM May being a puppet PM, manipulated by MPs within her party. However, now almost impossible to remove, May holds real influence and can direct Brexit policy.	Constitution: The lack of a UK constitution is now causing problems. The legal position of Scotland should they reject May's deal but Westminster pass it will cause more rifts in the Union
	Anti-Semitism: Labour's continued association with anti-semitism allegations was thrown into the public domain in 2018. Corbyn failed to address the problem and it was allowed to fester for months dividing the party.	Anything but Brexit: UK's obsession with Brexit means all over legislation is being sidelined. Eventually this bottleneck needs to be addressed.
EU	Italy: In a move away from the establishment, Italians voted for the populist parties of 5-Star and League. They fought the EU for months over their budget in order to deliver on manifesto pledges.	France: Macron is under pressure, with continued rioting. Although this will die down, Macron's popularity remains low in a volatile EU environment.
	Germany: Merkel lost ground in the 2017 election, and continued to do so in 2018 State elections. The repercussions of her 2015 migration policy forced her to stand down as leader of her party.	Ireland: Should a 'No Deal' Brexit occur, Dublin is going to be the hardest hit. If trade with its nearest partner falters, Ireland will struggle.
	Rise of Populism: Populist parties gained seats in Sweden, Poland, Hungary, Germany, Italy & Czech Republic. The migration crisis from Syria only polarised the problem and if not addressed will lead to broad anti-establishment movements and problems at an EU-level.	Polarising politics: With the rise of Trump, Farage & Orban, a new type of polarising politics has been born. Public clashes and dangerous rhetoric is now commonplace.
Asia	North Korea: Kim Jong Un surprised the world by bringing his hermit kingdom into the spotlight. Meetings between the North and South thawed relations, as did a Kim-Trump summit. However, little concessions have been agreed still leaving the peninsula on the brink.	North Korea: With more North-South summits planned, and with Trump itching to meet Kim again, we expect more threats and hysteria surrounding the North Koreans.
	China: Despite a slowing economy, the Chinese remain a threat to established western powers. The US-China race to AI has consumed the tech world while Chinese influence within international institutions (UN, InterPol) has neutered their governing power.	India: Election year, and incumbent Modi will hope to hold on for another term. 2018 state elections results were weak in traditionally Hindu areas. Modi may have to reach out to right-wing MPs of the nationalist movement to stay in power.
	Trade War: Trump's trade war has been felt all over the East, with many smaller Asian countries relying on either the US or China for much of their trade. Vietnam, South Korea and Japan have all suffered due to uncertainty.	Meddling: As technology jumps, 'election meddling' is becoming a new tool of influence. Asian countries will be involved, straining ties to the West.