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Monday Macro Highlight: Politics driven volatility may become the norm and not the exception

17th September, 2018

A few weeks ago I wrote a note entitled 'The Stock Market Says Trump is winning the Trade War' in which I outlined the Economic Policy Uncertainty indexes. Today I am going to write about another index from the same group of people called the 'Migration Fear Index'. These very clever academics based in the U.S. noted the fears around security, the rise in social anxiety and the economic consequences that came about following the surge of economic immigrants and refugees coming into Europe from North Africa and the Middle East from 2015 onwards.

Just to explain the indexes, the compilers look at the usage in news publications of words and phrases such as border control, Schengen, open borders, migrant, migration, asylum, refugee, immigrant, immigration, assimilation, human trafficking as proxies for concern about migration and for the fear component they searched for words such as anxiety, panic, bomb, fear, crime, terror, worry, concern, violent.

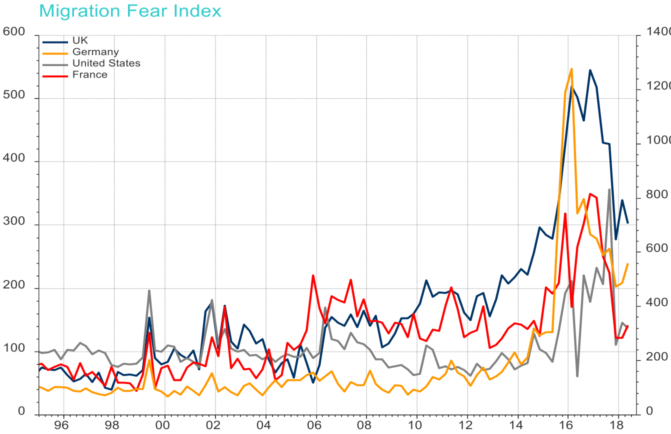
What I find interesting about this chart is that since inception and up to the global financial crisis, there wasn't much fear about migration. From 2005 onwards there is a clear rise in the UK and French indexes, which are linked to the London bombings and the Paris riots of the same year. In Germany and the US, migrant fear was low. Obviously this all changed for Europe following the migrant crisis and the EU Referendum in the UK. The rise in the US in 2015 is interesting - it really jumps up in Q3 2015, which was the month that Donald Trump announced he would run for President!

Migration has become a destabilising factor in modern day politics; President Trump is thriving on it. Migration continues to threaten to bring down Angela Merkel; nationalist parties are faring well in elections, not necessarily winning but gaining a large number of seats or holding influential positions in governments in countries including Sweden, France, Austria, Italy and the Netherlands. All of which has revived discussion of the Eurozone's persistent existential crisis which continues to generate euro volatility. It's easy to brush off election results if the nationalists lose but as the index shows, concerns around immigration has not gone away and there will be elections again in a few years.

One of our asset allocation investment themes is titled 'Political Responses to Structural Forces'. Migration and immigration is certainly a force to be reckoned with and it is not a topic that will go away any time soon. It is deeply embedded into the conversation around globalisation; one cannot exist without the other. Whilst the world was getting richer pre-crisis, the population tolerated migrants but following the extraordinary monetary policy pursued by central banks in response to the crisis, which sent risk-asset prices rocketing upwards, inequality grew wider. The populations grew impatient with governments and the straw that broke the camel's back (particularly in Europe) was the various governments' willingness to allow a massive flow of refugees and migrants into their countries and to provide a security blanket for them when the native populations feel neglected and constantly squeezed.

Migration is not the only reason to vote for populist parties but it certainly is a big one. We only have to look at the price of Italian equities and government bonds to know what a populist government can do to asset prices. In a couple more years we enter a new electoral cycle in many countries and politics-driven volatility may become the norm and not the exception. President Trump is doing a fine job of demonstrating this right now.

Migration Fear Index



Source: Thomson Reuters Datastream, Capital Generation Partners

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