

Germany are ahead but can the Italians equalise?

Much has been made in sporting history about German-Italian football rivalry. The two most successful football nations in Europe have made a collective fourteen appearances in FIFA Wold Cup finals, which is more than the rest of Europe combined. However, more recently, it is very much the German team who showered themselves in glory by lofting the 2014 World Cup trophy in Brazil. This success comes in stark contrast to the Italian team who very publicly failed to qualify for this year's game in Russia. It would appear then, with all eyes on the German team defending the title at this year's World Cup, this age-old rivalry is looking decidedly one-sided.

Moving away from the beautiful game and into politics, it could be said that a similar situation exists between the nation's political arenas. Germany's grand coalition has finally managed to secure itself another four years of pro-EU integration government, whilst the Italians have elected a fire brand, Eurosceptic party into poll position, throwing Italy's already turbulent political track record into yet another tail spin.

The German government remains the figurehead of stability in Europe, as well as the de facto banker for

the single currency. More recently, there has been a call for the German military to re-armour and play a greater part in the protection of the EU's physical borders which will only further cement Germany's influence in Europe. It is widely speculated among investors that if the EU project were to break down, it would be the German stock market (DAX) and German sovereign debt market that would be the only European indices to rally, as the German market would become the haven play in Europe.

So that's the Germans set for the next four years. What about the Italians?

Well, as we have just alluded to, the political environment in Italy might be once again unclear, but this is nothing new. Italian politics has seen so much volatility in its history, it may as well be written into the political constitution. The situation on the ground after Sunday's election is the dispersion of national votes, which has given numerous parties, all of whom have vowed not to cooperate with one another, a seat at the power table. The anti-EU Five Star party rode the populist wave and took one vote in three across the country. This populist vote dramatically increases the prospect of an anti-EU voice imbedding itself into Italian politics and thus creates an air of uncertainty with Italy's European allies. However, they still don't have enough of the total vote to form a standalone government unless they join forces with the ruling Democratic party. The issue with this is these two parties have historically been at opposition to almost every sticking point on EU membership, so expect fierce debate, should these two parties try to form an alliance.

Tongue in cheek, if you listen faintly you might just hear the "Germany 1 - Italy 0!!!" chant coming from the Bundestag, because it appears to be the Germans who have now re-asserted their place in the driving seat of the European Union, as well as European football.

What does this mean for the markets?

In short, we don't see the new Italian government, despite the current lack of clarity, becoming dangerously anti-EU. Most likely you will see both pro- and anti-EU factions coming together to agree a set of compromises for Italy's integration in Europe. Expect then, to see the Italians kicking back on some of the more pro-EU integration initiatives, as well as rattling the sabre about having an Italian referendum on remaining in the EU.

To us, the European recovery we have seen taking hold across the currency bloc remains intact, with much of the progression outside of Italy staying on course. Indeed, we see GDP growth and unemployment numbers in Italy continuing to improve, albeit at a slow pace. All of this leads us to continue to hold our current positioning in both quality European companies and select European financials, which we believe are still trading at steep discounts across the Eurozone.

As we move into extra time for Italian politics it's Germany 1 - Italy 0. I think everyone would agree, it is with true sadness that the Italians won't be able to compete for the World Cup later this year, because

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