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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

That which follows in the shadow of populism, etc.

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1. Overview Macroeconomic and Financial Risks (Trends & Topics)

That which follows in the shadow of populism (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)

Amidst a continued robust US economy and stabilizing prices, we are beginning to see the signs of a peak-out of both the super-charged business climate and the earnings of the GAFAs companies. In this environment, the US stock market experienced some corrections in October and faced increased uncertainties in both trade friction and the outcome of the US mid-term elections. The economy then suddenly swung rather rudely back towards a risk-on situation because of the as-predicted results of the mid-terms. Conversely, the Chinese economic slowdown continues. In the face of the impacts of worsening trade friction with the US, and despite the economic stimulus by the Chinese government, the status of worsening business climate has become clearer, and both stock prices and the FX rate have hit the levels of the 2015-2016 RMB shock.

And now, in addition to the movement in the US and China, the European situation has become another focal point to be watched carefully from global risk point of view. In Q3, its annualized quarterly growth rate fell only to 0.6% and the worsening market conditions show no signs of stopping even in Q4. Behind this slowing down lies stagnant German and other EU countries' exports due to trade friction and the Chinese economic slowdown. Moreover, EU politics are dragging the economy - Italy's fight with the EU over its fiscal situation, the political weakness of Germany's Angela Merkel and France's Emmanuel Macron, as well as the confusion over a possible "No-deal" Brexit - all adding to the turmoil.

The situation is especially perilous in the UK. While it appears that the EU and the UK have reached an agreement on Brexit, it still seems to be quite hard for PM May to obtain enough votes to pass the plan through parliament

(planned to take place in this December or January next year). Should the UK parliament not approve the agreement, the UK economy and society would only have a few months to prepare for a hard Brexit, which could spark a possible panic situation.

In this case, we can also assume a scenario that PM May steps down as leader and calls another general election. This would be a hard fought battle for the Conservative party, who are the instigators of Brexit, and the Labour party (the current opposition party) might form the new government, which would be led by their leader Jeremy Corbyn. Indeed, this might be another nightmare for many in the UK as the policies that Mr. Corbyn supports (significantly higher taxes for corporations and the wealthy, nationalizing major industries) are all ones that would bring the UK back to a pre-Thatcher era status-quo. If such policies were actually implemented, it is very likely we will see an exodus of high-skill human capital as well as major companies from the UK.

Even more frightening is a possibility that this phenomenon will not stop only with the UK. If you watch carefully the politics of major countries that have been swept up by populism recently, you might notice that the other extreme political camp – socialism - has also been growing as if lying in wait for the failure of populist governments. For example in the US, while there is no major contender for the next Democratic nominee for President but the self-styled democratic socialist Senator Bernie Sanders continues to be extremely popular. In Germany, while the populist AfD has gained a significant following, it is actually the Green party that has seen even more growth and now becomes even stronger than the SPD. And in France, Mr. Macron, the left-wing politician who put up a good fight in the last Presidential election, still enjoys a significant grass-roots following.

I just hope that we will not see the future when we long for the days of current populist governments, which are replaced by new socialism governments.

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