Much Ado, Little Progress

Not that long ago, the media often had to scratch around for developments that might hold the interest of its audience. Days and weeks would go by and from time to time we'd tune in to find out what was going on throughout this country and abroad.

That was then and this is now. Fast forward to the present and there seems to be increasing pressure to be connected at all times, lest we miss the latest goings-on. One minute, we hear of Fire and Fury. Then we learn of a "historic" summit meeting in Singapore.

The picture is changing rapidly, perhaps far too rapidly. Yesterday's yes may be today's no . . . and vice-versa.

What's more, hot spots abroad continue to simmer (and flame up) while the international community deals with the apparently increasing isolationism of the U.S. So it comes as no surprise that Wall Street is quite confused. Daily ups and downs of the Dow Jones Industrial Average in the triple digits are now commonplace, no longer indications of something unusual taking place.

The bottom line is that in the wake of the January spurt, the investment markets have jumped around a lot, but ended up largely unchanged from where the year began. Although current-year gains are coming in at a well above average rate, it's likely that what's in store for 2019 will be far more moderate. Given investors' tendency to respond to what lies ahead, it seems likely that there will be more treading water ahead.

The rock of Gibraltar it ain't

Since the beginning of the decade, problems in Europe have occasionally drifted across the Atlantic. If it's not Greece, it's Portugal. If not Portugal, it might be Italy or Spain. And if not Italy or Spain, it was Brexit that briefly created turbulence in 2016.

More recently cracks in the European financial system have taken a backseat to firmer growth on the continent. But problems are simmering just below the surface.

Enter the dysfunctional nature of Italian politics and the two anti-establishment parties that took top honors in an early March election. A coalition was eventually formed between the two groups, but the president of Italy rejected a finance minister who has expressed doubt about the euro, which unites much of Europe. Concerns the government might ditch the common currency led to a massive spike in Italy bond yields and a global sell-off in stocks the day after the Memorial Day weekend.

We could see new twists and turns, but for now cooler heads have prevailed. Yields came off highs as government officials salvaged the coalition and staved off new elections later this year.

My synopsis is simply a thumbnail sketch of events, but you may be asking, “Why the overview of what is only the latest in decades of dysfunctional Italian politics? Why should I care?” First, it’s a reminder that Europe’s ongoing financial problems haven’t been solved, and what happens in Europe can sometimes trigger uncertainty among U.S. investors . . . at least temporarily.

Should you be concerned?

Italians aren’t clamoring to get rid of the euro. If it were to happen, it would have enormous consequences for Italy, which would then reverberate throughout Europe. We’d likely see a run on Italian banks, as citizens moved cash to safer shores. The collapse of Italian banks would roil the European financial system, and its impact would likely be felt around the globe.

Yes, we are interconnected today. But the odds of a “Quitaly” or “Italexit”– financial commentators are once again trying to coin a new term – remain low. Yet now it’s on the radar. If nothing else, the drama in Italy is simply a reminder that Europe hasn’t solved its financial problems.