

Tortoise QuickTake Podcast

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, a senior member of Tortoise provides a timely update on trending topics in the market.

Hi, I'm Graham Allen, Senior Portfolio Manager for Tortoise Credit Strategies.

The German election result showed us that all is not well in Europe.

As expected Chancellor Merkel and her Christian Democratic Union Party was re-elected for another term.

What was NOT expected however was the stronger than expected showing by the AfD (Alternative for Germany) Party which garnered an unexpected 12.6% of the total votes. This was the third highest vote for any single party and had the Chancellor's Christian Democrat Union Party decided to form a coalition Government with the second placed Social Democrats, it would have meant that the AfD would have been the official opposition party with all the privileges that it would bring. This was not to be the case as it appears that a so called 'Jamaican coalition of the CDU, The Greens and the FDP Parties is in the works. This means that the SPD will now be the official opposition.

Nevertheless, the result was a shock to the status quo as although she won, Merkel was elected with a 9% lower vote than in her previous election. So although she remains in power governing will be different going forward, not because the AfD finally have seats in Bundestag, but because her mandate has clearly been diluted. One ramification could be that the more diluted view of Europe of the other coalition partners may force a more pragmatic, business-friendly approach to BREXIT. It remains to be seen, but recent Sterling strength against the Euro would support this.

The more important take away from the German election may be that it indicates that the pro-European euphoria that followed the election of France's so called "centrist" President Emmanuel Macron, may be premature, and that populism in Europe is not quite as subdued as first thought. Indeed, since the French Election Macron's popularity has all but collapsed as his party's policies became more widely disseminated and people realized that he was very much still part of the establishment from whence he came. His popularity has dropped from the heady levels of 60% down to a more sobering 36% at the latest count. The decline was the fastest drop in popularity for any newly elected French President in 20 years.

The truth is that the German election results remind us that there are still fundamental issues that exist within the European experiment that permeate division.

Following hard on from the German result is the proposed succession referendum of Spain's Catalonia set for this weekend, October 1st, 2017. The hard line taken by the Spanish government, just toward the vote itself, is indicative that there are still deep divisions within Europe, and that these divisions have been worsened by eight years of austerity politics. If the vote takes place and the Province decides it wants to break away, this will give support to other areas of the Union that want independence. More importantly it sets a bad precedent for the cohesion of the Euro-Zone and the European Union itself, even though this vote is non-binding. In the short term however the possibility of civil unrest is real as already the local unions have not cooperated with the edicts coming from Madrid, including the police union.

Elsewhere the most popular party in Italy, the anti-Europe Five Star Movement, just elected a 31-year old charismatic leader who insists that the party does not stand for Populism. One would be forgiven for thinking that the same tactic used by Macron's party, which was elected on centrist policies even though Macron came from the establishment, is now being used to effect by the anti-Euro movement also.

Finally, the Eastern European countries have been openly defiant against the immigration policies of Brussels. With Merkel's pro-immigration mandate severely diluted, this stance is likely to be strengthened. Both Hungary and Poland have refused to take any more immigrants for the time being citing security concerns, although the reality is that the economics of refugee absorption probably play a bigger role.

So the German election shift comes at a bad time for European unity and deals a blow for the pro-Europe camp.

On the positive side, there is no question that the European economic revival underway is supporting the drive towards more unity. This is perhaps no better demonstrated by the recent strength of the Euro which is up by 12.7% against the U.S. dollar so far in 2017. Eastern Europe is leading the region out of recession with growth rates of between 3-5%. The recovery in core Europe is also accelerating but at a slower rate. This is of course a welcome trend but is not without side effects. The lack of mobility of labor within Europe is leading to shortages of labor, especially in Eastern Europe where some countries are experiencing double digit wage inflation. Conversely, the recovery is not helping youth unemployment in other less fortunate countries such as Greece and Italy.

So while the AfD success in the German election may turn out to be just a protest vote, its effects may be felt far beyond The Bundestag. In fact, from a technical perspective it may be that recent Euro strength against the U.S. dollar could be reversing.

Thank you for listening.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseinvest.com.

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