

The rise of populism: a mega-trend



Image source: iStock/RapidEye

Introduction

As demonstrated in the recent European elections, populism is in vogue in many developed countries. This is a long-term trend with major macroeconomic consequences.

All over the world, populist parties are inexorably gaining ground, influencing the political scene, and occupying positions within government. The recent European Parliament elections revealed the widespread rejection by voters of the progressive, green, globalist consensus, and the rise of right-wing populist parties. These parties oppose mass immigration, reject some of the climate measures and oppose multiculturalism. Above all, they reflect a growing dissatisfaction with traditional political figures. This article looks at the potential causes of their meteoric rise and its possible consequences.

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Populists in power

Populism is a political approach that seeks to represent the interests of “common people”. Traditionally, right-wing populists were seen as openly “authoritarian, anti-Semitic, and racist”, as Ben Wellings, professor in politics and international relations at Monash University, points out. However, many of these parties have undergone a process of modernisation, making them more respectable and complex in their ideologies. This shift has allowed them to gain broader acceptance and significant political influence.

In the United States, Donald Trump’s presidency (2016-2020) and his “America First” agenda exemplifies this movement. Trump campaigned on promises to “drain the swamps” of political corruption, renegotiate trade deals to favour American workers, and introduce strict immigration controls. Despite losing the 2020 elections, his influence persists within the republican party and his candidacy in 2024 signals a continued trend of populist influence in the American politics.

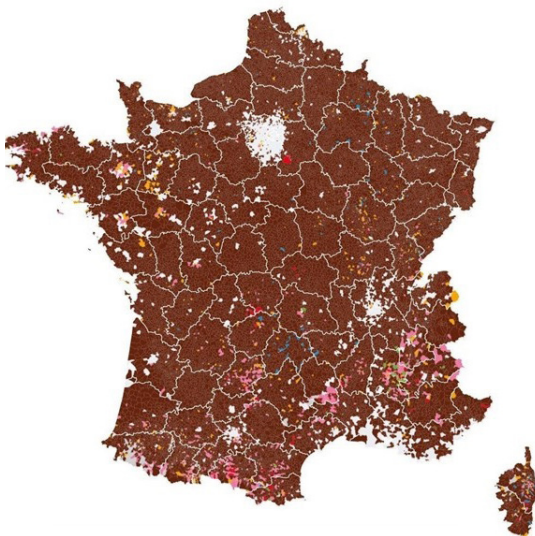
In Europe, the recent European Parliament elections sent shockwaves, challenging the long-established political order. In France, Marine Le Pen’s Rassemblement National (RN) party achieved a significant victory in the European elections, garnering nearly 32% of the vote, more than half of President Emmanuel Macron’s Renaissance party. Macron responded by taking a terribly risky bet: the immediate dissolution of the National Assembly and the calling of new legislative elections, hoping to challenge the RN’s ability to govern just before the Paris Olympics.

In Italy, Prime Minister Giorgia Meloni’s Fratelli d’Italia party, which in the past had links with fascism, is currently in power. Meloni plays down this aspect, presenting the party as a modern nationalist movement focused on protecting Italian sovereignty and cultural identity.

In Germany, the far-right Alternative for Germany (AfD) came second in the European elections, behind the Social Democrats but ahead of Chancellor Olaf Scholz’s party.

Populists are also the dominant parties in Hungary, Poland, and the Czech Republic.

In brown, the municipalities in which the Rassemblement National topped the polls in the European elections.



Source: Xavier Ruiz

In Argentina, the election in 2023 of Javier Milei, an economist known for his liberal views, as president is seen as a response to Argentina’s prolonged economic struggles, including high inflation (an annual rate close to 300%) and heavy public debt.

In India, Prime Minister Narendra Modi, in power for ten years, is seeking a third term. His party, the Bharatiya Janata Party (BJP), is rooted in Hindu nationalism and advocates Hindu heritage, often at the expense of minority rights.

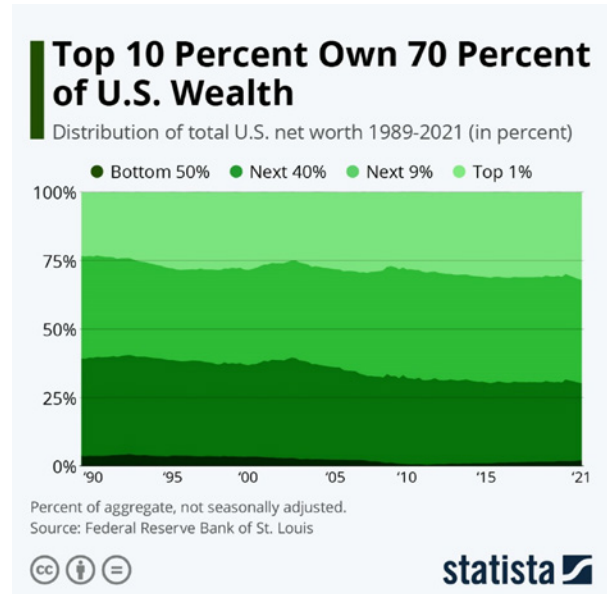
Root causes of populism

The rise of populist parties did not happen overnight. Political observers attribute the shift to populism to the loss of purchasing power, concerns about immigration, the cost of the green transition, and the geopolitical positions of governing parties.

► Economic insecurity

Economic discontent stems from the widening gap between the wealthy elite and the working class. This has fostered resentment and disillusionment among those feel “left behind” by the system. Traditionally, the working class supported left-wing parties, but economic and social transformations have shifted their allegiances. Rising living costs, particularly for housing, healthcare, and education, exacerbate this discontent, as many grapple with stagnant or declining purchasing power amid inflation.

In the United States, 10% of the population owns 70% of the country’s wealth.



Populist parties tap into these frustrations by portraying themselves as the advocates of the economically marginalised, promising to rectify disparities and restore fairness. They blame traditional political parties for their inability to address financial burdens and propose reforms such as tax cuts, welfare, and protectionist policies.

If re-elected, Donald Trump plans to extend and build on his previous tax policies under the Tax Cuts and Jobs Act (TCJA) of 2017. His plan includes making personal income tax cuts permanent, reducing the top bracket income tax rate from 39.6% to 25% and establishing a larger zero tax bracket. In addition, Trump aims to lower the corporate tax rate from 21% to 15%.

► Globalisation

Mass immigration has given rise to cultural anxieties and fears of the erosion of national sovereignty among certain segments of the population. Far-right parties have seized on these concerns, promising to restore a sense of order, security, and national identity. They praise the merits of their anti-immigration and de-globalisation policies, often in the form of radical and sometimes simplistic solutions.

In Italy, when the country saw a 50% increase in migrant arrivals in 2023, Prime Minister Meloni announced plans to build detention centres to hold all those arriving without visas for up to 18 months, until they were deemed eligible for asylum or repatriated. As for former US President Trump, his plan to build “The Wall”, a barrier between Mexico and the United States, at a cost of at least \$36.1 billion, has made headlines. Brexit also illustrates this resistance to globalisation, with the UK voting to leave the EU in part to regain control of its economic policies and borders.

► Loss of confidence in traditional parties

Populism is often seen as a consequence of the erosion of trust in traditional parties. Scandal and corruption have increased public distrust of governing institutions, while technological developments and political upheaval are gradually eroding their credibility. High-profile leaks, such as the Edward Snowden revelations in 2013, the Panama Papers in 2015 and Swiss Leaks, the stolen HSBC files on tax evasion, have disclosed many incriminating documents, reducing public confidence in governing institutions.

Brexit was partly driven by distrust of “liberal elites”, but it also raised concerns about a possible acceleration towards “illiberalism”. The term ‘illiberal democracy’ is frequently used to describe states such as Viktor Orbán’s Hungary and Recep Tayyip Erdoğan’s Turkey. Unlike liberal democracy, this model of authoritarian populism targets the independence of the judiciary and the media, in the name of “the people.” Donald Trump has also frequently used the phrase “enemies of the people” to describe the media and newspapers he opposes.

Most leaders in developed countries have low popularity ratings



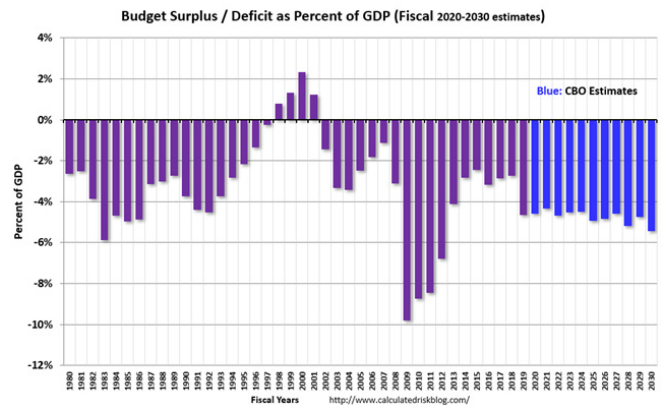
The economic consequences of populism

► Widening budget deficits

Populist governments are not very different from “liberal” systems; they often resort to increasing public debt to finance their expansionist policies. This trend is evident in countries such as Argentina, where public spending has soared in response to election promises.

In the United States, the government has a cumulative deficit of 1.2 trillion dollars. At the same time, many clauses of the 2017 tax package are due to expire in 2024. According to the Committee for a Responsible Federal Budget (CRFB), simply maintaining these policies will increase the federal deficit by \$3.3 trillion over the next decade. On top of this, the Trump administration intends to cut tax rates even further. According to estimates, this would increase the deficit by a further \$522 billion.

US budget deficit projections according to the CBO



On the other hand, populist parties have announced their intention to challenge the implementation of environmental policies, particularly in Europe. These policies aim to adapt the EU’s climate, energy, transport, and taxation policies to ensure the Union’s transition to zero net carbon emissions by 2050. By challenging these measures, far-right parties are aiming to reduce the budget allocated to climate initiatives.

► Mixed effects on inflation

Populist leaders often advocate protectionist trade policies to shield domestic industries from foreign competition. But this approach can lead to trade wars and increased tariffs. If re-elected, Donald Trump plans to impose a 10% global tariff on all imports and a 60% tariff on imports from China. He also intends to prevent US companies from investing in China. The first US-China trade war under President Trump has resulted in billions of dollars’ worth of tariffs on goods, increasing costs for consumers and businesses, disrupting supply chains, and provoking retaliatory tariffs that have negatively impacted US exports. Despite these economic disruptions, Trump has maintained a lead in polls over Biden on handling inflation and the cost of living. On the specific question of managing inflation, Trump led by 22 points.

The geopolitical landscape is also playing a role in inflation. In Austria, the far-right Freedom Party, which won the most seats in the European elections, is calling for an “end to European madness” and for negotiations with Russia. In France, Marine Le Pen, who has pro-Russian sympathies, shares similar sentiments. By reducing geopolitical tensions, commodity prices could stabilize, leading to lower inflation. However, the overall impact of populist economic policies remains mixed and complex.

► Impact on the markets

Populist politicians are often seen as pro-business and advocate limited government regulation of the economy. They embody a Reaganite ideology of low taxes, minimal regulation, and free market principles. This approach tends to prioritise business interests over environmental concerns, health care, unions, and pension benefits. As a result, populists generally enjoy greater support from business leaders and investment capitalists. Historically, US equities perform better with a Republican presidential win, as they are seen as more pro-growth.

However, financial markets often react negatively to uncertainty and instability. When President Macron called early parliamentary elections, the market reacted swiftly with a significant fall in French equities and bonds. The CAC 40 index fell by 2% and the yield on 10-year OATs rose by

13 basis points to 3.23%, its highest level in 2024, reflecting higher risk premiums. In addition, Moody's has indicated that the current situation is having a negative impact on France's credit rating and that it may revise its outlook from stable to negative.

Conclusion

The rise of populism is a consequence of a number of phenomena, including loss of purchasing power, rising inequality, globalisation and a loss of confidence in the system. When populist parties come to power, the result is higher public spending and more debt. Debt monetization seems unavoidable and will likely cause more inflation and greater inequality. A vicious circle that threatens social peace and growth in many developed countries.

For further information

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