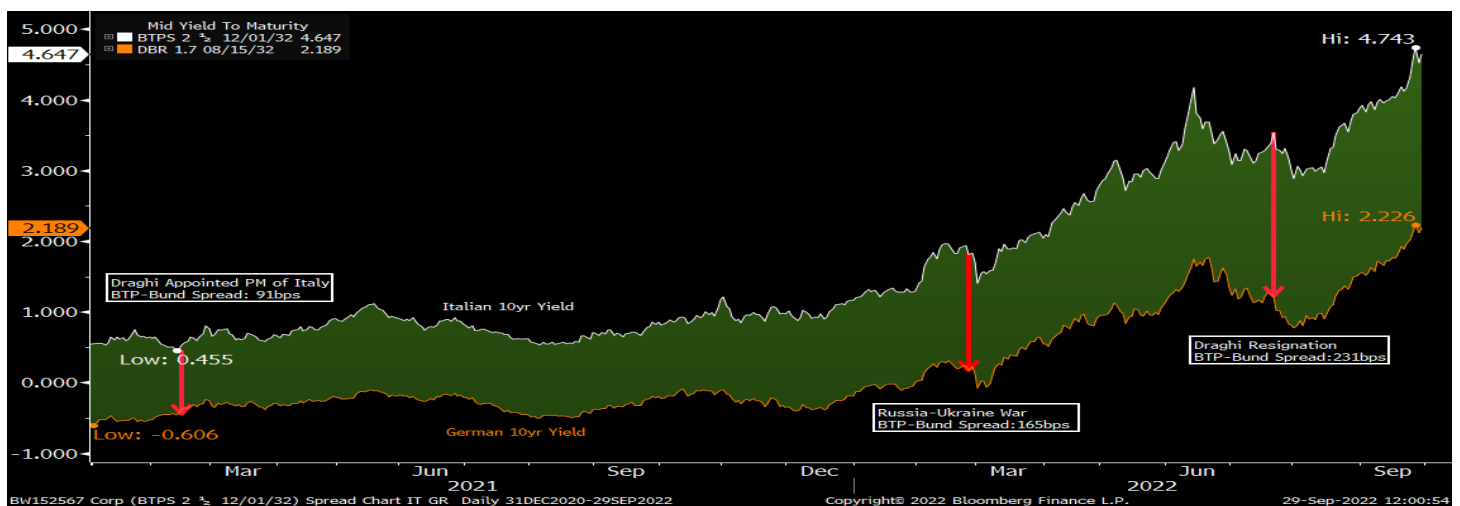


## Italy's New Government Brings Renewed Uncertainty

September 30, 2022

This week Italy elected a new coalition government comprising far-right Brothers of Italy and League, and center-right Forza Italia. Led by Giorgia Meloni, the Brothers of Italy party garnered 26% of the votes, though voter turnout was less than usual. Following the expected approval by pro-EU President Sergio Mattarella, Ms. Meloni will become the first female prime minister and Italy's first far-right government since the Mussolini regime. **Absent former PM Draghi's leadership and EU solidarity, the incoming Meloni administration could return Italy to more political and economic uncertainty given the potential for EU friction and ideological differences between the coalition parties.**

The Bloomberg graph below underscores Italy's rising political and fiscal risk profile illustrated by a comparison of the spread between 10yr government bonds of Italy (BTP) and Germany (Bund). At the start of the Draghi coalition administration in February 2021, the BTP-Bund spread was lower than 100 bps, thereafter widening further to 165 bps due to the Russia-Ukraine war in February 2022. BTP-Bund spreads reached a wide of over 250 bps on September 27, 2022 reflecting Draghi's resignation in the summer and Italy's new government.



One US newspaper observed that *“it’s easier to gain power in Italy than to stay on long enough to change it.”* The Draghi government lasted less than two years, the average for Italy since 1946. Despite leading a more Eurosceptic-leaning government, Ms. Meloni should take a more moderate approach given Italy's need for European economic recovery assistance, of which €200B has been allocated by the EU. She must also deal with the country's perennial challenge of high debt — Italy's debt to GDP of around 150% is second only to Japan in the G7 — soaring rates and inflation and a stagnant economy, amidst the Ukraine-Russia war. Moreover, Italy's energy needs are critical given Russia's shut down of the Nord Stream 1 pipeline which accounts for one-fifth of the country's energy gas consumption. Many of Italy's' problems have been the norm for decades, but policy missteps could result in a higher cost of funding, among others, and more severe economic stress for the country. **Spectrum believes Italy will do what must be done to preserve its EU membership, banking system and international standing.**

Joseph Urciuoli  
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