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Rebecca Thomas CEO of Mint Asset Management Limited was recently a speaker at The 5th Annual Craggy Range speaker series. The title of the speech was "Revolt Against the System ". As ordinary Europeans and Americans scream out for change, is Western civilisation at risk from the manifestation of a populist revolt against the established political and economic order? And with a further 8 European and our own election in 2017, what impact will all this disruption have on New Zealand?

2016 was a watershed year with the shock of the Brexit result where the young stayed away from the polls and the election of President Trump being lauded as a victory for Main Street over Wall Street. However, my contention is that these surprise outcomes were the result of a pressure cooker which has been building over the last 9 years. The post GFC economic environment has been very different across geographies. Despite a stimulatory environment and even negative interest rates in many countries, in Europe in particular, there is a feeling of dystopia with a lack of opportunities and jobs especially for young people. This is the back drop which has led to the rise of populism.

There are common themes across countries. A fear of immigration, a fear of the impact of technology on jobs, rising income inequality, the declining importance of the middle class at the ballot box, a rise in geo political risk and a general lack of trust and respect for the democratic process evidenced by referenda and short lived governments.

I will take a look forward to the European elections of 2017 and 2018 and see whether this trend will continue. What has been done to date to address voters' concerns?

Will President Trump be able to carry out his reform agenda? And what are markets saying about all this potential disruption and social unrest?

Lastly, I will look at the impact of these events on New Zealand. There are some of the issues we see elsewhere bubbling up her and the upcoming election is an opportunity to address these. In general, New Zealand should be looking to leverage its global position with a strong stable economy which has made a good recovery post GFC.

So what has been driving this populist upswing?

Rising income inequality is a significant issue. Very high levels of youth unemployment in some countries creates social issues. There is a broken promise about education which is not delivering a job and the opportunity for an above median income. As a parent, I can see how depressing it would be to contemplate that your children will be worse off than you. I think we have to question whether home ownership as part of the fabric of society serves us well. The Germans have been happy with good quality housing rental stock and found other ways to invest their money.

Other factors are the feeling that the velocity of technological change is too fast and it is not delivering a better way of life but stealing jobs. The whole business model of social media depends on a large number of hits and consequent advertising spend, so the more outrageous the material the more successful it will be. It also spreads discontent like wildfire.

At the last US election, the 120m middle class (defined by median income) were overtaken by voters defined as upper and lower incomes which combined to number 121m for the first time in 40 years.

In Europe, there has been a rise in fringe parties over the last 10 years with many now polling nearly 20% of the vote. The rise of the UK Independence Party (UKIP), the National Front in France and the Freedom party in Austria are three examples. There are extreme left and right wing parties and the traditional lines of left and right have been blurred with many parties just focussed on one issue. The influx of Syrian refugees has caused genuine fear in Europe against a backdrop of deaths from terrorism having doubled in the last 5 years. However, this is just part of a global issue with the UN estimating that there are now 60m displaced people, the greatest number since World War II.

So Europe is deeply divided ahead of the upcoming elections. There is a North/South divide (the austerity merchants versus the spend our way to recovery countries) and an East/West divide with the former Eastern bloc countries feeling uncomfortable with the socially liberal policies of the west. However, Brexit has given them a jolt in the arm and there has been a bit of a swing back in favour of the EU as a construct. So it seems unlikely that there will be more In/Out referenda in the near term BUT there may be some snap elections.

So we kick off with Holland's general election this month followed by the French Presidential election in May. The situation in France is somewhat fluid: when I put together this speech, Francois Fillon was favourite to win but in the last 2 days he looks like he will face charges for paying his wife and son out of the public purse and this old scandal may kill his chances. *Plus ça change*. It is either a money scandal or a sex scandal in French politics. The hope is now that a former investment banker relatively new to politics, Macron can defeat Marine Le Pen. The general election in Germany later in the year, has the potential for the greatest surprise. If Angela Merkel were to lose then all bets are off, as she has been the glue for the EU.

2018 has the Russian presidential election, and an election in Italy by May at the latest. Italy is deeply divided. A vote for constitutional reform was defeated in December and political parties have splintered since then. Effecting change with a coalition government is extremely difficult and overall surprisingly little has been done to address voters' concerns.

So far there is the promise of increased infrastructure spend in the UK and of course the trillion-dollar package announced by President Trump. Minimum wage targets in some countries and an unconditional income level in Finland.

Social security payments have been cut in the UK whilst the minimum wage has been increased as an incentive. The bottom line though is that all this has been going on while interest rates have been low or even negative and liquidity has been pumped into the system by central bankers. It is now up to the politicians if they can, to do the heavy lifting on reviving these economies and responding to constituents concerns.

So a word on President Trump. Equity markets have rallied strongly and given him the benefit of the doubt in terms of the impact of his reform agenda. However, there are several factors which may limit his success. Even a Republican Congress will be a check on his policies and he is starting a reform package against the backdrop of weak global trade. More significantly though, in my view is his attempt to generate jobs in areas where technology has already produced significant de manning. I visited the Renault factory outside Paris with my dad in the 1970's to see a fully automated plant, and I believe President Trump will not be able to "build a wall to keep out the robots "when it comes to reviving jobs in automotive.

Tax reform is a large part of the agenda, but demographics are working against him when it comes to the size of the working population versus the number of retirees. The retirees are not going to drive consumer spending and the working population tasked with creating jobs is small by comparison.

The proposed Border Tax has the potential to be very disruptive. There is a massive difference in profitability between domestically produced and imported goods as proposed and the impact of a trade war would be very negative for growth.

There is also no sign of a revival on America's role of international peacekeeper and with concerns over EU defence spending post a UK departure, the terrorism risks are heightened.

Overall, the risk is that we get inflation but no jobs growth or wage growth.

Just a brief word on markets. As mentioned, the equity market has given the President's agenda the benefit of the doubt but geo political risks are rising globally and markets have historically been very poor at discounting the impact of war and social unrest. These factors are hard to model and have usually not been priced in. So share markets are eternally optimistic and valuations are very stretched. It will not be different this time so there is the likelihood of a bumpy ride.

Bond yields are probably past their low point ... there have been 673 cuts in interest rates globally since 2008. The only bright note is that equities are under owned after $1.5 trillion flooded into bond funds over the last 10 years as the retirees saved and boosted their income.

So finally let's look at the impact of all of this on New Zealand. We have had a strong and stable economy with excellent growth post GFC. Migration fears in Europe are to a considerable extent driven by fears about safety and security with the massive influx of refugees. In New Zealand, net inward migration has been a significant source of economic growth; 25% of the current working population like me was not born in New Zealand. I would argue that President Trump needs more not less migration to drive US growth.

But the downside is the pressure on infrastructure and housing supply and affordability. For whatever reason, be it the short electoral cycle or our parsimonious Celtic roots that gives us a preference for conservative balance sheets, we have not tackled meaningful long term projects and our infrastructure is creaking.

So do we need further tax reform…capital gains tax or a more targeted way of taxing gains on property and not allowing the offset of property income losses against PAYE? At the next election this will be a live issue.

We are an open economy dependent on trade, so a trade war particularly between China and the USA could be messy for us. They are both significant trading partners, with USA as our number 3 destination for exports with beef, dairy products and wine (the largest components). While not major product targets for tariffs, we could still see retaliatory moves against our exports. So post the collapse of the TPP we need to drive trade agreements for our goods as we have done recently with beef into Iran.

Another lesson for us is that we have MMP and grand coalitions are hard to control and can get side tracked by minor party agendas. Getting consensus for change is hard work. Just ask Angela Merkel.

Popular leaders with strong stable governments are the ones that can be bold with change agendas.

So New Zealand stands out as having prospered post GFC. At the moment everyone wants to be here and why wouldn't they? This could be an opportunity to tweak our views on migration to ensure we get fewer students and their parents, and more of the skills we need to position us for long term growth. We can of course improve this ourselves with more apprenticeships and less of an obsession about university courses. The German polytechnics are the model for success here.

We are low on the OECD league tables when it comes to labour productivity; this is not because we are lazy but because of the mix of industries here have not generally benefitted from technological change which has transformed productivity. Of course we need to be careful what we wish for when it comes to the impact on jobs but we have a great opportunity given historic fiscal prudence and the safety and security of our country to re balance skills based migration.

So summing up the risk of populist revolt here is low given our strong stable economy. However, our future growth is as ever, dependent on the global economy and the performance of our trading partners. But the next government must be proactive in terms of addressing growing income equality and deal with housing supply AND affordability ...as opposed to saying it is just a supply issue.

Thank you,

Rebecca Thomas

CEO Mint Asset Management Limited.