

The view from

Europe

10 November 2011

Tim Stevenson comments on the situation in Italy now that bond yields have reached record highs

I have been particularly reluctant to say anything for the last 48 hours, because it's very easy, as you've seen over the last couple of weeks, to say something and be proved wrong 24 hours later. Clearly the situation now has got highly serious.

It's not about Greece, that's sadly irrelevant at the moment; it's precisely about Italy. The scale of Italy is far too great in terms of its bond market and with Italian bond yields now over 7% and a 550 basis point premium over Germany that is simply an untenable situation. So something has to be done and it has to be done very urgently and we're not actually hearing anything from Europe, which is not a very, particularly helpful sign, so that's why there is intense concern at the moment.

I don't see the situation getting any better in the very short term because I'm not quite sure who is going to take over, who is going to say anything particularly helpful at the moment, and in fact the opposite is happening when you've got Angela Merkel's government, or rather party, the CDU, tabling a motion to allow people to get out of the Euro at their forthcoming congress.

So the situation is very serious, it's obviously as soon as people begin to question whether people can exit the Euro or not, then you get into a very complex, an even more complex situation, and if you want to know what it means there was a good article in the Financial Times yesterday about exactly what the mechanism would be and frankly it doesn't even bear thinking about.

So what has to happen here is we have to get Berlusconi out, that's obviously going to happen very soon, the good news is that a very senior Italian politician was made a lifetime member yesterday. Chances are that he will take over as some kind of technocratic government, that would be very good, and I suspect that could come as soon as this weekend.

And the Italian situation can actually be managed and enough can be done to save the situation although all the relic questions will remain about whether the Euro is long-term sustainable and fiscal integration. So where we are at the moment, or rather, like to see, is stabilisation. It's interesting to see the markets this morning are more stable than I'd expected after a bad showing by Asia overnight.

Overall the situation is still pretty serious and it is now spilling over into the real economy, so forecasts are going to have to come down again for 2012 both for GDP, but also for earnings as well, so the outlook's pretty gloomy in the meantime. We know that the valuations are low and people are generally well positioned for a fairly cautious market but it is still a very uncertain time.

Tim Stevenson, fund manager of the Henderson Horizon Pan European Equity fund

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