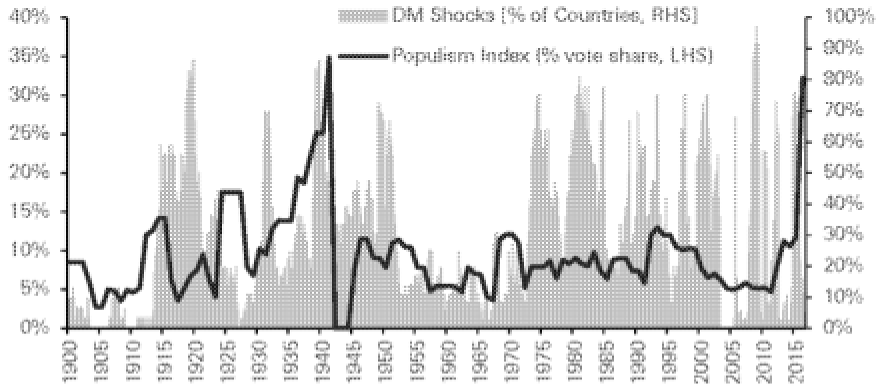
Figure 56: Populism index (% of vote across key countries, population weighted, LHS) and DM Financial Crises (RHS)



Source: Deutsche Bank, Author's calculations. Data collected from G7countries (ex Canada but including Spain)

Notes:
1. There is no German Election data between 1938 and 1949 as there was a dissolution of parliament after the Nazi party banned all other parties until the end of the war.
2. There is no Italian Election data between 1924 and 1946 as no democratic elections took place after Benito Mussolini banned other parties from taking part in elections.
3. There is no Spanish Election data between 1936 and 1977 due to the4 ascension of Franco to power as a Military Dictator until a Spanish Republic was re-established. There was also a lack of available data on the 1967/1971 general elections.

So while the consequence of the recent rise in populism hasn't yet destabilised financial markets, the level of uncertainty will surely remain high while such parties remain realistic power brokers in major national elections. Prior to the last decade, the only comparable rise in populism started in the 1920s and culminated in WWII. So although populism has proved unpredictable in recent years, the rise surely increases the risks to the current world order and could set off a financial crisis at some point soon.

Where populism has already claimed victory in a national election, there are ongoing risks. We'll touch upon Brexit later but the Trump Presidency certainly contains risks to the current world order. Before we touch on the negatives we should stress that a successful tax reform and de-regulation agenda could improve US growth in the medium-term and actually reduce the risks of a crisis or reduce the impact of an external one. However there are also risks.

Indeed it's possible that Mr Trump could decide to force the military option with regards to North Korea which could de-stablise the region and cause great friction in its relations with China. The handling of such a situation is of greatest concern when assessing the impact on markets. Linked into this any trade spats could also be a shock to global growth if handled clumsily. In summary the usual international diplomacy that surrounds major tensions seems less likely to occur with Mr Trump. That surely increases the risks of a more extreme event.