

GOVERNMENT

Italy's potential EU exit has investors, brands on edge

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Italy's political situation is indicative of larger movements in the EU. Image credit: Amani

By DANNY PARISI

Italy's ongoing political turmoil sent stocks plummeting earlier this week, and the country's many famous luxury brands may be affected by the crisis.

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The country has been without a government since a hung parliament was declared back in March. As negotiations to form a coalition have failed and anti-E.U. parties have grown stronger, some are whispering that an "Italexit" from the E.U. could be on the horizon.

"Whether it's going to be called Itexit, Italexit or Quitaly, the prospect of Italy leaving the euro is fast becoming a topic of conversation, not just in the cafes of Rome's piazzas, but all across the globe," said Murray Gunn, head of global research at **Elliott Wave International**, Essex, U.K. "The country's populist coalition wanted to appoint a euroskeptic as finance minister, but the Italian President blocked the move.

"Now looms the prospect of fresh elections which, given the fault lines, would no doubt be waged as a de-facto referendum on Italian membership in the euro," he said. "Italy's future in or out of the euro will depend in large part on social mood."

Political crisis

In March, an election in Italy ended with a hung parliament, with the establishment pro-E.U. Democratic Party neck and neck with the euro-skeptic Five Star Movement and Lega.

But after several months of negotiations, the parties have not been able to form a coalition, and the country's governmental situation continues to reside in limbo.

The Dow Jones Industrial Average was down 505 points on Tuesday, May 29 in response to growing turmoil in Italy, as many investors frantically began to sell off investments in the country in fear of an imminent withdrawal from the European Union.



Gucci is one of Italy's most successful and iconic brands. Image credit: Gucci

Italy's economy is the third largest in the E.U., but the country is heavily indebted and its economy has performed poorly for years, not experiencing nearly the same recovery that its neighbors felt since the financial crisis of the late 2000s.

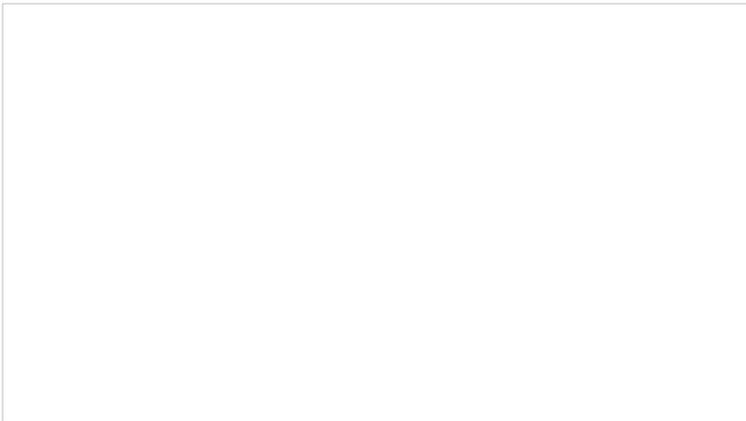
The country is home to many of the most iconic luxury brands in the world. Many of those brands operate internationally, but still have headquarters in Italy.

If an Italexit comes to be, Italy would face many of the same challenges the U.K. has had since the Brexit vote in 2016. Additionally, the already weak European Union would suffer yet another catastrophic blow, weakening its currently shaky foundation.

Italexit

The European Union is in a difficult situation, but even as member states leave or contemplate leaving, the crisis presents an opportunity to strengthen the architecture of the E.U.

According to economist and former Italian Prime Minister Mario Monti, the various crises facing the EU also represent a golden opportunity. At the Financial Times Business of Luxury Summit on May 21, Mr. Monti spoke with Martin Wolf, chief economics commenter at Financial Times, about the various challenges that lie in the future for Italy and all of Europe ([see story](#)).



Michael Kors was one of many luxury brands whose stock dropped due to Italy's situation. Image credit: Michael Kors

But as for Italian luxury brands, many of whom rely on the free movement and trade within the E.U., the prospect of leaving the union will likely seem disastrous. As of now, there is not much they can do other than focus on strategy.

While Italian brands have a strong heritage and tradition, they should also focus on innovation and creativity to drive growth, according to a new report from WPP and Kantar Millward Brown.

Luxury brands dominate the Italian-focused BrandZ rankings, with seven of the country's top 30 most valuable brands, led by Gucci. Italy has a reputation for producing fine foods, fashion and cars, leading to a heavier concentration of premium producers among the nation's top brands than is seen in most other countries ([see story](#)).

As the markets seek to self-correct, Italy's fate and its relationship with the E.U. hangs in the balance. Until a government coalition can be formed, what will ultimately happen with the country is still undetermined.

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