The Year Ahead / 2019
Data-Driven Predictions
for Global Investors
is an AI-driven political risk intelligence platform that measures, analyzes, and forecasts political risks in real time.

All risk indicators are assessed on a 0-100 scale. Data are generated via a political science-infused machine learning algorithm that combines low-frequency, structural country-level data with high-frequency data derived from news media.
Average global Political Risk is set to decline somewhat in 2019 from 2018, although it re-accelerates close to 2H 2016/1H 2017 levels by the end of the year - hardly a reason for optimism, albeit a palliative against breathless punditry and panic.

Keep in mind this is an extremely broad-based measure: each country’s top-line Political Risk score is composed of 22 fundamental political sub-indicators - ranging from governance/policy risks to security risks to more diffuse social risks.

- and this projection is based off a simple average derived from 30 countries; a projection for the larger G20 economies is included as well. That said, the analysis does embed a number of more specific predictions: that hard Brexit won’t happen; that more-or-less status quo incumbents will hold onto power in key emerging markets like India, Indonesia and South Africa; that Mexico’s AMLO will be more bark than bite and Brazil’s Bolsonaro will be hemmed in by state institutions; and that U.S. institutions will withstand the volatility and uncertainty of another year of President Trump, including potential impeachment proceedings.

We are less sanguine about the potential for a lasting peace in the U.S.-China trade dispute, project more instability in the Middle East, and anticipate another year of major political volatility in the EU. As such, we are not hopeful that (currently sky-high) global Geopolitical Risk will return to earth in 2019.
We also find more evidence for one of our core analytical themes: namely, that politics in traditionally more stable developed markets are converging toward those in more volatile emerging markets. Ironically, this DM-to-EM political convergence is a mirror image of the EM-to-DM economic convergence that dominated the most recent era of globalization. And, arguably, it’s a direct product thereof, particularly to the extent that more volatile DM politics are being driven by greater economic and political competition (not to mention migration flows) from developing countries that failed to globalize.

The graphs above compare the average top-line Political Risk score for DMs and EMs over the past 6 years, and then projected out for 2019. Note that the trend lines are quite similar, albeit at different levels of risk (with EMs having structurally higher risk than DMs). Yet even at this level of analysis we note some greater - and historically counter-intuitive - volatility in the DM indicator, with peak-to-troughs occurring in smaller time bands and with more bumps in the 2019 projection.

These differences are amplified when focusing the analysis on Governance Risk, per above. Governance Risk includes risks stemming from the stability of incumbent governments, the institutional frameworks in which they operate, and the market-orientation of economic policies that they pursue. Governance risks in historically more stable DMs are generally lower and more predictable than in EMs, but the record in late 2018 and our projection for 2019 tells a different story: while Governance Risk has fallen substantially over late 2018 and GeoQuant forecasts...
Despite a long history of institutional strength and predictability, Institutional Stability Risk - a measure of the stability of the rules that govern political competition and policy formation - has risen among developed markets through late 2017, and is projected to settle at a still-elevated level in 2019. Institutional tensions inherent in the European project - monetary union without fiscal union, the EU’s embrace of German-mandated fiscal austerity in the wake of the 2008 financial crisis - have contributed to poor economic performance across most EU-area economies, generating populist backlashes against national governments as well as the EU. These challenges have come not just in smaller, peripheral economies like Greece, Portugal and Ireland, but also in larger players including Italy, Spain, and France, exacerbated in all by EU-wide and country-specific migration policy disputes amid heightened demographic pressures. For similar reasons, Brexit continues to strain another nearby developed economy. Meanwhile, the U.S. election of Donald Trump as president produced domestic (e.g. immigration conflict and impeachment risk) and international stress due to US-driven trade conflict and a strained western alliance.

By contrast, EMs experienced falling Institutional Stability Risk through late 2016 and, though volatile over the past two years, it is near historic lows. Key drivers of this positive aggregate trend are varied, but include more stable electoral cycles and greater emphasis on rule of law amid the backdrop of improved macro-economic positions for many EMs. In addition, recent EM electoral outcomes have brought increasingly market-oriented governments to power, from both sides of the political spectrum. The resulting narrowing of political conflict over electoral policy has been conducive to improved economic predictability and performance. For example, Lula and Rousseff move leftist Brazilian politics closer to a market orientation, and now electoral alternation to Jair Bolsonaro on the right may pull that side of the aisle toward markets as well. Similar positive trends have been experienced with the rise to power of President Macri in Argentina, President Ramaphosa in South Africa, President Jokowi in Indonesia and Prime Minister Mahathir in Malaysia.
TRADE RISK WILL REBOUND GLOBALLY IN 2019, BUT WILL LARGELY SPARE DEVELOPED MARKETS.

CHINESE RISK WILL BEGIN TO DECLINE IN H2/2019 DUE TO A TRADE WAR STALEMATE.

BEYOND CHINA, EM TRADE RISK WILL RISE SUBSTANTIALLY BEGINNING IN MID-2019.

In 2018, the U.S. initiated a series of major trade/investment disputes: with China over “unfair trade practices,” with the European Union (EU) over automobiles, and globally over U.S. steel/aluminum tariffs. These trade disputes, coupled with successive rounds of tit-for-tat tariffs and uncertainty over NAFTA’s re-negotiation, caused a sharp escalation in Global Investment/Trade Policy Risk.

Globally, we forecast Investment/Trade Policy Risk will re-escalate in 2019 (though short of its 2018 peak), driven primarily by uncertainty surrounding the the U.S.-China dispute (in the first half of the year), and by a broad and rising wave of EM risk beyond China (in the latter half of the year).

With respect to the former, we expect the emergence of an increasingly united investment screening front among developed countries – led by a U.S.-EU tag-team (with support from Australia, New Zealand and the UK) and intended to curtail China’s acquisition of sensitive technology – to help stabilize DM Investment/Trade Policy Risk at slightly lower average levels relative to 2018, despite ongoing disagreement among them over reforms to the World Trade Organization (on deck for 2019).

Relatedly, our forecast of a soft Brexit, the eventual passage of NAFTA 2.0, and minor positive developments in the U.S.’ trade negotiations with the EU and Japan will further stabilize DM risk.

For China, we forecast declining Chinese Investment/Trade Policy risk from mid-2019 onwards as China begins to adapt to newly heightened – albeit henceforth stable – barriers to doing business abroad on the investment front, and to an anticipated U.S.-China tariff stalemate that does not worsen beyond the current $250 billion USD tariff package. We anticipate this “new normal” will impart more certainty surrounding long-term risk levels to both DM and Chinese markets.
Beyond China, we nevertheless forecast a broader wave of EM pressure that will drive EM Investment/Trade Policy Risk upwards toward its 2018 peak. Notable EM risk drivers can be found in Latin America (due to rising post-honeymoon investment/trade policy uncertainty in Brazil and Mexico and heightened external financing constraints in Argentina and Venezuela); Saudi Arabia (due to geopolitical tensions upending MBS’s outward-looking economic reform agenda); and South Africa (due to rising populism risk heading into the 2019 election cycle including a more aggressive debate around land reform and the potential for unfavorable regulatory changes in the extractive.

Oil Prices Will Remain Low Throughout 2019 Due to a Production Glut and Weak Demand.

2018 witnessed a dramatic decline in the price of oil; prices became somewhat more stable following OPEC’s announcement in December 2018 that Saudi Arabia and a Russia-led coalition would cut production by 1.2 million barrels/day.

Despite the production cut, our Oil Price Risk Indicators – one focused solely on political risks to production (pink line) and the other incorporating politically-driven consumption dynamics (yellow line) – forecast low risk throughout 2019 relative to their respective 2018 averages.

Both indicators – which are positively correlated with the price of oil – point toward low prices throughout 2019 due to an ongoing supply glut (buoyed by large inventories) and weak demand.

At the country/regional level, key drivers of trends in the production and consumption sides of our Oil Price Risk indicators can be found in several places.

- On the production side of the ledger, these include:
  - Rising Investment/Trade Policy Risk for Saudi Arabia following the Khashoggi incident and related threats to MBS’s economic reform agenda, and a similar trend for Russia, both forecast to accelerate beginning in mid-2019. Should foreign exchange pressures or broader macroeconomic instability begin to emerge in either country, further production cuts may be in order, driving our production risk indicator.
(pink line) upwards later in 2019, with upward movement in prices to follow.

- **Elections in several major oil-producing countries** (e.g. Indonesia and Nigeria) may similarly reinforce government support for production cuts in order to secure greater financing for pre-election spending by incumbents who are eager to remain in office. In Nigeria, an increase in political violence surrounding the election may also pose physical risks to production.

- **On the consumption side of the ledger, key drivers include:**
  
  - **Rising interest rates in developed markets and uncertainty surrounding the outcome of the U.S.-China trade dispute**, which we jointly expect to perpetuate low oil prices by suppressing demand, reinforcing relatively low overall oil price risk (yellow line).
  
  - **We forecast a rate-driven hit to consumption through at least mid-2019, with some potential for oil price risk - and thus oil prices - to rise as expectations of further rate increases begin to ease in mid-2019.** We similarly forecast that the U.S.-China trade dispute will exert a dampering effect on consumption through mid-2019, after which time we forecast risks linked to the trade dispute will begin to ease, further helping to boost consumption.
  
  - **The first round of U.S. waivers to continue purchasing Iranian oil granted to China, India, Japan, South Korea, and several other countries will expire.** Following the waivers’ expiration in May 2019, we expect suppliers covered by our oil price risk indicators (which do not currently include Iran) to face increased demand for oil, driving overall oil price risk (yellow line) upwards alongside of prices, with estimates of the total amount of Iranian oil purchased by countries receiving waivers roughly equal to that covered by the OPEC production cut in December 2018.
  
  - **With these political developments only anticipated to drive oil price risk upwards beginning in mid-2019, prices are unlikely to rebound substantially before then. We forecast prices will begin escalating more rapidly thereafter.**
MACRI (BARELY) HANGS ON AMID HIGHER SOCIAL RISK; POLICY REFORMS REMAIN ON TRACK.

Argentina’s Government Risk indicator is slightly higher than during Macri’s surprise 2015 win over then-president CFK’s favored successor, Daniel Scioli, and much higher than during Cambiemos’ coalition’s big midterm win in 2017, highlighting risks to Macri’s re-election bid.

Social Risk remains lower than a recent peak during the negotiation of an IMF bailout package and associated austerity policies, but is nevertheless elevated, posing additional risks to Macri.

Despite the above, stable and relatively low Policy Risk tips our analysis in favor of Macri/Cambiemos, given how closely aligned the incumbent is with Argentina’s current policy path. Should Macri lose amidst high Government Risk, we expect his replacement to maintain the country’s policy trajectory, including adhering to the IMF bailout deal.

1 2015 general elections
2 Macri’s coalition wins mid-terms
3 2019 general elections
LABOUR PARTY WILL WIN SINGLE-PARTY GOVERNING MANDATE.

Australia’s Labour Party is poised to win a single-party governing mandate in a general election that must be held by May 2019. The current conservative Liberal/National coalition faces rising Government Instability Risk and will lose its single-seat majority due to falling mass support amidst recently rising Social Polarization Risk.

As a result, the threat of partisan alternation in control of government has significantly elevated Institutional Risk.

Policy Uncertainty Risk will remain volatile ahead of a substantial tilt leftward in the policy preferences of government.
NEW FLEMISH ALLIANCE (N-VA) WILL LEAD NEXT GOVERNING COALITION.

Though recently on the rise, Government Instability Risk remains well below its 2014 election level amidst relatively low (albeit recently volatile) Social Polarization Risk, indicating that Belgian voters are comfortable with a status quo coalition similar to the government led by Charles Michel until late December.

The N-VA alliance will be able to tack either left or right to find coalition partners, though Brussels will face difficulty tackling big policy challenges.

As a result, Policy Uncertainty Risk has leveled off, but remains elevated. Passing much-needed economic reforms will remain difficult in the current political climate, as will passing a national budget.

1. 2014 general election
2. 2019 general election
TRUDEAU’S LIBERAL PARTY LIKELY RETAINS POWER IN 2019.

Prime Minister Justin Trudeau’s Liberal Party will likely prevail in its bid to retain power in 2019, but the contest will be closer and more uncertain than in 2015 in the face of Government Risk that is both rising and volatile.

Mass Support Risk has risen as well, in line with and influenced by elevated and volatile levels of Social Polarization. These features of the Canadian political landscape combine with weak partisanship to produce Canada’s notoriously volatile party vote and seat share outcomes.

As a result, low but increasingly volatile Policy Uncertainty Risk over the election period is unlikely to decline substantially before the votes are counted.
MODI RE-ELECTED AS PRIME MINISTER; BJP WILL LOSE SMALL NUMBER OF SEATS.

Slightly elevated Government Risk relative to the previous post-election plateau in January 2015 suggests that Modi will be re-elected, albeit by a somewhat smaller margin.

Slightly elevated Institutional Risk over this same time period nevertheless suggests that Modi’s BJP party will lose a small number of seats, in line with recent state-level elections in which the BJP lost seat share relative to its chief rival, Congress.

Our Policy Uncertainty indicator suggests that policies will remain relatively stable during the window surrounding the election. We nevertheless anticipate some movement on the socio-economic front - to help shore up support among India’s farm sector through farm loan waiver programs and other means - as well as on the micro-economic and monetary policy fronts, to help improve liquidity for India’s SMEs.

Next election: Apr. 01, 2019
Jokowi re-elected as President; PDI-P/Golkar will lose small number of seats.

Slightly elevated Government Risk relative to the previous post-election plateau in January 2015 suggests that incumbent President Jokowi will be re-elected, albeit by somewhat a smaller margin, as he faces off against once-again rival Prabawo who continues to trail in the polls.

A very slight decline in Institutional Risk over this same time period suggests that Jokowi’s coalition (led by PDI-P and Golkar) will gain a small number of seats.

On the policy front, stable albeit elevated Policy Uncertainty Risk suggests that policies will remain relatively stable during the window surrounding the election, particularly on the economic front, as Jokowi seeks to bring in more investment and stabilize the economy (particularly on the exchange rate front).
Overall lower Government Instability Risk than in 2015 suggests Likud will again win the April election, with Bibi Netanyahu holding onto the prime ministership in a destabilizing campaign given pending corruption charges against him.

While our data does not speak to legal outcomes, the trend in Israeli Institutional Risk trend suggests Bibi will continue to face push-back from legal authorities, keeping the threat of indictment alive.

Uncertainty over the fate of the post-election government is reflected in higher Policy Uncertainty Risk after the poll.

1. 2015 elections: Likud wins amid lukewarm polling
2. 2019 early elections
BUHARI WILL LOSE THE PRESIDENCY BACK TO ATIKU ABUBAKAR AND A PDP-LED OPPOSITION.

Government Instability Risk is about the same level as during the 2015 election in which Buhari displaced the incumbent Goodluck Jonathan, and shows a similar post-election increase in risk. This suggests that Buhari will suffer the same fate in 2019, losing the presidency back to Atiku Abubakar and a PDP-led opposition.

The election comes amid elevated Social Instability and Internal Security Risk, suggesting the ethnic/regional rivalries will manifest in incidents of violent instability around the election.

That said, our Policy Risk indicator does not suggest a period of sustained instability, meaning Nigeria will likely see its second peaceful transfer of power in recent history.

1 2015 general elections
2 2019 general elections
PDB-LABAN (LED BY PRESIDENT DUTERTE) WILL LOSE MODERATE NUMBER OF SEATS.

While declining Government Risk relative to the previous post-election plateau in January 2016 suggests that popular support for Duterte remains strong, an ongoing rise in Institutional Support Risk over this same time period suggests that Duterte’s PDB-Laban party is likely to lose a moderate number of seats during the 2019 election.

We forecast that policies will remain relatively stable during the window surrounding the election, as evidenced by low and stable Policy Uncertainty Risk, with Duterte likely to continue his push for Charter Change and the ongoing drug crusade.
POLAND'S LAW AND JUSTICE PARTY (PiS) LIKELY TO MAINTAIN CONTROL OF GOVERNMENT IN LATE 2019 ELECTIONS.

Low Government Risk, supported by steady and low Mass Support Risk, puts PiS in a strong position ahead of the November 2019 election deadline.

The anti-democratic tendencies of PiS were checked by EU constraints in 2018, reducing institutional risks of the ruling party’s own making in the new year.

Collectively, these trends point toward lower Policy Uncertainty Risk ahead, reinforcing an ongoing period of strong economic performance.

1 2015 general election
2 2019 general election
IOHANNIS AND DRAGNEA WILL CONTINUE TO DOMINATE POLITICS.

Much could change with eleven months to go before the presidential election and Bucharest currently taking its turn as President of the EU Council. However, President Iohannis will likely prevail as Government Risk remains erratic but relatively steady, while Social Instability - though rising - has leveled off.

Institutional Risk will likely remain high as Iohannis attempts to enforce a corruption verdict on his political rival (Dragnea), and a predicted economic slowdown will put pressure on a government that has demonstrated inconsistent and inefficient policymaking.

As a result, Policy Uncertainty Risk will remain somewhat elevated in the interim.

1 2014 general election
2 2019 general election
ANC MAINTAINS MAJORITY BUT LOSES SEATS; POLICYMAKING TO REMAIN PRAGMATIC.

Government Instability Risk is steady into the election period and at similar levels to the 2014 national election when the ANC won 62% of the vote, down from 66%, as well as the 2016 local elections, when the party lost control of key urban areas.

As such, we predict the long-ruling ANC will maintain a majority in parliament and secure re-election for Ramaphosa, but will drop under 60% seat share due to continued vote loss in urban areas.

Policy Risk - especially around land reform - is rising into the election and thereafter, but remains below levels which prevailed during Zuma administration, signaling that Ramaphosa will continue on a pragmatic policymaking path.

1. 2014 national elections
2. 2016 local elections
3. 2019 national elections
Tymoshenko leads but race remains open.

Government Risk has been volatile but little changed since 2014. President Poroshenko polls poorly and has not yet joined the race; meanwhile, a popular wildcard candidate, actor/comedian Volodymyr Zelenskiy, has thrown his hat into the ring.

Geopolitical Risk is forecast to decline, suggesting the candidate who is least antagonistic to Russia, Tymoshenko, may be best positioned to take the reins in April.

Fluctuating Policy Uncertainty likely reflect the populist positions that Tymoshenko is running on. However, she is expected to continue anti-corruption reforms and work constructively with the IMF, EU, and other donors to continue to stabilize the Ukrainian economy.

1 2015 general elections
2 2019 general elections