

Market Bulletin

29 May 2019

European Parliament elections: The populist risk remains contained

Although there was an increase in support for populist parties in the recent European Union (EU) elections, pro-European parties still hold the majority of seats. There are greater implications at the national level, particularly in Greece, Italy and the UK. Markets have generally received the results positively.

Populism

With rising populism and Brexit making the headlines, the 2019 European Parliament elections have drawn more attention than ever—not only in the media, but also in the polling stations, where turnout reached 51%, the highest level in 20 years.

As expected, populist support increased across Europe, especially in countries such as France, Italy and the UK. However, gains were not sufficient for populist parties to achieve the necessary critical mass at the European Parliament to influence the policies of the EU's main institutions.

The two main populist groups, Europe of Freedom and Direct Democracy Group¹ (EFDD) and Europe of Nations and Freedom² (ENF) gained 12 and 22 seats respectively, which will give them 54 seats (7%) and 58 seats (8%) in the parliament.

Even though this is a step forward for them, each group alone remains too small to carry much weight, and even in the context of a grand populist coalition, which seems unlikely given their diverging views, they would only be the third largest political group, behind the Group of the European People's Party (EPP) and the Group of the Progressive Alliance of Socialists and Democrats (S&D).

The populist score benefited from the UK's participation in the elections: of the 73 Members of the European Parliaments sent by the UK, 29 are from the Brexit Party, strengthening the EFDD. However, once the UK finalizes its divorce from Europe, these seats will be partially "frozen" for eventual new EU joiners and partially redistributed, mainly among France (+5), Spain (+5), Italy (+3) and the Netherlands (+3), which should weaken populist groups.



Vincent Juvyns
Global Market Strategist

¹ Includes, among others, the Five Star Movement in Italy and the Brexit Party in the UK.

² Includes, among others, the Rassemblement National in France and the Lega Nord in Italy.

Beyond populists

The majority of seats were lost by the two mainstream groups, EPP and S&D, which together lost their majority in European Parliament, but remain the largest parties.

The Group of the Alliance of Liberals and Democrats for Europe (ALDE) was a large beneficiary in these elections, helped by support from Emmanuel Macron's party, La République en Marche. With 38 additional seats, this liberal-centrist group has now become the third-largest political group in the European Parliament. The Group of the Greens/European Free Alliance (Greens/EFA) also got some traction in these elections, albeit to a lesser extent, winning an additional 19 seats to take their total to about 9%.

As a consequence, a majority could be formed from those four political groups, with the most likely being a coalition between the EPP, the S&D and the ALDE.

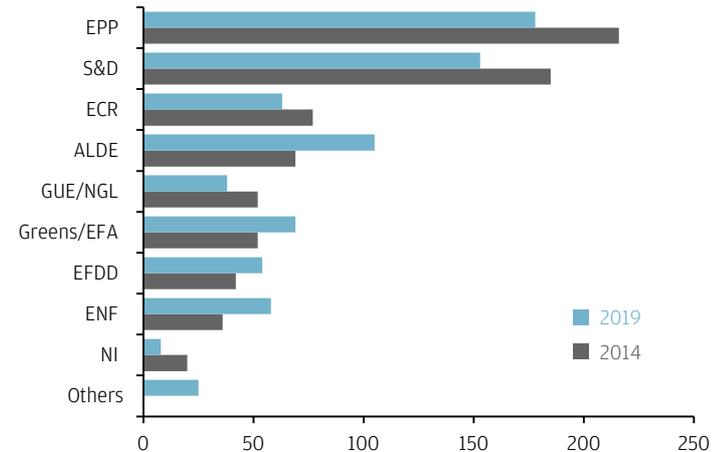
Negotiations are expected to start rapidly as they will not only influence the European Parliament but also the nomination of several key EU decision-makers, including the future presidents of the European Commission and the European Central Bank (ECB), which must be validated by the European Council on 21 June.

Since 2014, the "casting" for the Commission president has been based on the so-called "Spitzenkandidaten" process, whereby European political parties, ahead of European elections, appoint lead candidates for the role. The presidency of the Commission then goes, in theory, to the candidate of the political party capable of securing sufficient parliamentary support. However, in practice, member states still influence the choice, to ensure that each of them is well represented in key EU roles. This time, the choice is going to be more difficult than in 2014 as none of the candidates tick all the boxes to be designated without background negotiations.³ In addition, the choice is mutually exclusive, meaning that if a German candidate wins the presidency of the Commission, all German candidates for the presidency of the ECB are excluded, and vice versa.

However, no matter the final casting of the EU top jobs, all the potential candidates should move Europe in the right direction, as long as the populist risk remains contained.

³ Candidates are Manfred Weber (Germany) EPP, Michel Barnier (France) EPP, Frans Timmermans (The Netherlands) S&D, Margrethe Vestager (Denmark) ALDE and Cecilia Malmström (Sweden) ALDE.

Seat distribution by political group at the European Parliament, 2019 vs 2014



Source: European Parliament, J.P. Morgan Asset Management. EPP: European People's Party; S&D: Group of the Progressive Alliance of Socialists and Democrats in the European Parliament; ECR: European Conservatives and Reformists; ALDE: Alliance of Liberals and Democrats for Europe; GUE/NGL: European United Left-Nordic Green Left; Greens/EFA: The Greens/European Free Alliance; EFDD: Europe of Freedom and Direct Democracy Group; ENF: Europe of Nations and Freedom; NI: non-attached members; Others: New elected members not affiliated with any of the current groups in parliament. Data as of 28 May 2019.

Implications at national level

Although EU elections are not meant to have local repercussions, the surprising results in some countries could lead to new elections or coalition changes. In Greece, Alexis Tsipras has announced snap elections after the deep loss suffered by his party. In Italy, meanwhile, the governing coalition has been weakened by the fact that the Lega Nord almost doubled its score while its coalition partner, the Five Star Movement, saw its support decrease and dropped to third place behind the Democratic Party (PD).

Economic and investment implications

The most important element of the results is that populists, even with the participation of the UK in the elections, failed to secure a majority in the European Parliament or even to become the biggest political group. Pro-Europe parties should continue to lead the European Parliament, even though the current bi-partisan coalition (EPP-S&D) will need to be opened to a third partner (ALDE, most likely) to secure a majority. This means that the EU reform agenda will likely continue its course, although at a moderate speed.

Markets have reacted relatively favorably to the news, with equity markets rising and credit spreads tightening. Markets may also have taken solace from the fact that populist support, although still very much in evidence, seems to be shifting in favor of parties on the right of the political spectrum rather than the left.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be used as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our [Company's Privacy Policy](#). For further information regarding our regional privacy policies please refer to the [EMEA Privacy Policy](#); for locational Asia Pacific privacy policies, please click on the respective links: [Hong Kong Privacy Policy](#), [Australia Privacy Policy](#), [Taiwan Privacy Policy](#), [Japan Privacy Policy](#) and [Singapore Privacy Policy](#).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA; and J.P. Morgan Investment Management Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a825e50cd