

Market Bulletin

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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 Republique 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.

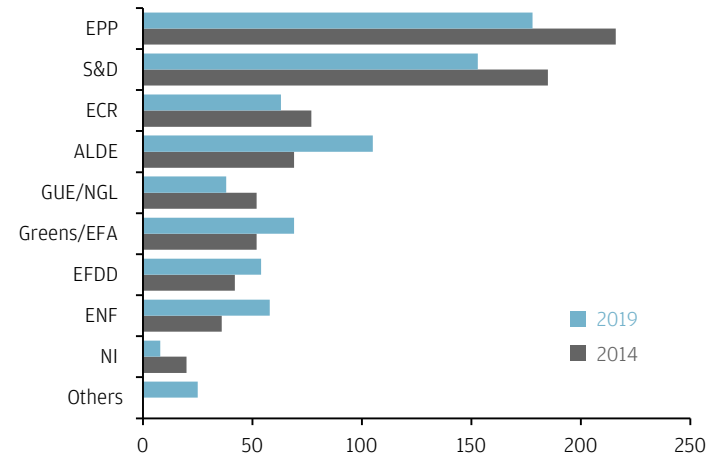
Negotiations are expected to start rapidly as they will not only influence the European Parliament but also the nomination of several key EU decision-makers, including the future presidents of the European Commission and the European Central Bank (ECB), which must be validated by the European Council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

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