

Consider This

EU elections



STRATEGIST VIEWS

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This is the world's second-largest democratic vote (after India)

Over four days in June, more than 350 million¹ European Union (EU) citizens will vote to shape the composition of the European Parliament up to 2029. Around 20 million will be voting for the first time. This feels like a pivotal time; most say that they have lost faith in the traditional, established political parties and are seeking change.

What are the issues?

According to the last Eurobarometer survey² held before the elections, the issues that voters are most concerned about are:

- Fight against poverty and social exclusion / 33%
- Supporting public health / 32%
- Support for the economy and new job creation / 31%
- EU defense and security / 31%
- Action against climate change / 27%

The closeness of these topics is striking, with the focus on defense and security growing fast over the life of this parliamentary term, driven by Russia's increasingly indiscriminate and desperate war on neighboring Ukraine. Around eight out of 10 surveyed say that the importance of these elections is higher than in the past. One of the striking takeaways is the consistent desire to reinforce the EU's position in the world, with defense (37%), food (30%) and energy (30%) security the top three topics identified.

A parliament with a center-right history meets the populists

Over the life of the EU, its parliament has typically been governed by a pact between the two largest formations, the **Progressive Alliance of Socialists and Democrats** (S&D) and the **European Peoples' Party** (EPP), which straddle the political center ground. They have been losing support over the last two elections and are expected to shrink further in June. After the shocks of the COVID-19 pandemic, the full-scale war in Ukraine, the sudden and sharp rise in interest rates to combat soaring inflation, less-well-known populists are finding fertile ground for their messaging.

The moderate **European Conservatives and Reformists** (ECR) are strongly anti-Russia, take a hard line on immigration, and reject proposals for a more unified and cohesive "federal" European state. But they do work with center parties. The newer and rising **Identity and Democracy** (I&D) grouping seems more sympathetic to Russia and China, skeptical on Brussels, and judging by appearances, is less likely to be constructive in EU policymaking.

In practice, a lot will depend on the final positioning of the new entrants. As the EPP will likely remain the biggest party, it will probably continue to drive policy and ensure strong influence on the executive appointments.

The composition of the EU Parliament (according to poll projections) indicates significant gains by the I&D grouping, which contains *Alternative für Deutschland* (AfD) and *Rassemblement National* (RN), led by Marine Le Pen. The grouping is projected to win 98³ seats in June, up from 58 now, at the cost of the Greens and Renew. That number of seats is equivalent to 13.6% of the total, which is not enough to drive policy but could potentially be enough to block or slow down policymaking.

So how should investors think about this new right wing wave in Europe?

Put simply, there are three big right-wing parties in Europe: the German AfD, the French RN and the *Frattelli di Italia*, or Brothers of Italy. All three share explicit hostility to immigrants and Islam,

loud and assertive nationalism, an aversion to any perceived “federalism” in the EU context, and leanings toward authoritarian governance. But they are creatures of their own domestic political ecosystems. Not identical, not coordinated and often in conflict with each other.

The Brothers of Italy are a “national” party, winning across the north and south of their country. That broad support enabled Giorgia Meloni to form and lead a coalition government in Italy. She has been resolutely supportive of Ukraine and rescinded her country’s membership of the Chinese Belt and Road Initiative. Her government has been assertive on border controls but kept constructive relations with Brussels.

The RN is still dependent on its traditional strongholds in France’s rustbelt in the industrial North and East but has made inroads in the south and on the Mediterranean coast, making it the biggest opposition party in parliament. The party has always had a strong Russophile subculture, which might be driven by a deep anti-Americanism, evident since the party’s origins in 1972. The Russian invasion of Ukraine caught Le Pen and her party on the back foot and forced a rush to tone down the support of Moscow. She announced in September 2023 that the party had paid off its remaining debt to Russian lenders, as this had become a political liability.

The AfD lacks broad national support in Germany. It is the weakest of the three in terms of governance, with frequent leadership changes and its support is concentrated in the rustbelt of the former communist East Germany. Germany’s domestic intelligence agency classifies elements of the party as “anti-constitutional” extremists.⁴ This makes it hard to aspire to national government, so the EU Parliament is the best shop window available. Their proposals range from leaving the EU, to deporting foreigners and foreign-born Germans, ending support for Ukraine, and improving relations with Beijing.

Both the AfD and RN have had recurring investigations into their links to China and Russia. In April 2024, German authorities arrested a Chinese man on charges of spying for Beijing. He was an aide to Maximilian Krah, the AfD’s lead candidate for the EU Parliament elections.

And the likely outcome is?

The “grand coalition” of EPP and S&D will still (probably) have 42% of the seats (currently 45%), and if they work with the RE grouping, they would control 54%.⁵ The parliament would be majority right of center. The areas where there may be more tensions between Brussels and the member governments

include environmental issues, where the new majority is likely to oppose ambitious EU action to tackle climate change. We expect a downgrade of civil liberties, justice and home affairs to country level, and the focus on implementing more restrictive policies on immigration will lead to a review of EU-asylum legislation. This would be a victory for the new populists, allowing individual countries to set their own quotas for refugees.

What is the impact on investors during the next EU Parliament?

The expectation is that there will be a significant weakening of the drives to keep individual governments in line when it comes to fiscal rules and even judicial reform, as has been the case in Hungary. There could also be a noticeable weakening of the existing push for green transition at individual government level in favour of rural and agricultural interests. We should expect more attempts at constraining big technology companies.

For investors, we think this scenario looks surprisingly good. The overall budgetary process and management will likely remain strong. Trade should remain a priority, even as the process of “de-risking” from China continues. European companies should see clearer support from the EU, especially in protections from perceived unfair competitors like China. We expect the new parliament to prioritize agriculture, fishing, rural development, industrial development and research.

Policies likely to be de-emphasized	Policies likely to be prioritized
Enforcement of EU rules on member states	Border control
Fiscal and monetary rules, independent judiciary	Immigration and asylum policies
Civil liberties and national regulation	Rural development: enhanced infrastructure
Environmental policies	Agriculture: food security
Green Deal; net-zero targets; nature restoration	International trade: without offering market access
Foreign policy	Defense and security
“Balanced” relationship with China	Increased defense spending at country-level
Free trade agreements	Ukraine support continues

Longer term, a period of constrained ability to enforce common rules in economic, fiscal and regulatory areas need not be a structural problem, in our view. There is a possibility of a pendulum swing in four years’ time!

Endnotes

1. Source: “European elections 2024: people eligible to vote.” Eurostat. April 4, 2024.
2. Source: Eurobarometer Survey. Conducted in February 2024–March 2024.
3. Source: European Council on Foreign Relations (ECFR), Policy Brief. January 23, 2024.
4. Source: “Germany’s domestic secret service battles far-right AfD.” Deutsche Welle. March 10, 2024.
5. Source: European Council on Foreign Relations (ECFR), Policy Brief. January 23, 2024.

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