

## Consider This

## EU elections



## STRATEGIST VIEWS

## Kim Catechis

Investment Strategist

Franklin Templeton Institute

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

Over four days in June, more than 350 million<sup>1</sup> 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 survey<sup>2</sup> 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 98<sup>3</sup> 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.<sup>4</sup> 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%.<sup>5</sup> 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.

## WHAT ARE THE RISKS?

**All investments involve risks, including possible loss of principal.**

**Equity securities** are subject to price fluctuation and possible loss of principal.

**International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. Investments in companies in a specific country or region may experience greater volatility than those that are more broadly diversified geographically.

## IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. This material may not be reproduced, distributed or published without prior written permission from Franklin Templeton.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as of the publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. **Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.**

Any research and analysis contained in this material has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third-party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

**Issued in the U.S.** Franklin Resources, Inc. and its subsidiaries offer investment management services through multiple investment advisers registered with the SEC. Franklin Distributors, LLC and Putnam Retail Management LP, members FINRA/SIPC, are Franklin Templeton broker/dealers, which provide registered representative services. Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, [franklintempleton.com](http://franklintempleton.com).

**Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1500 Toronto, ON, M5H3T4, Fax: (416) 364-1163, (800) 387-0830, [www.franklintempleton.ca](http://www.franklintempleton.ca).

**Offshore Americas:** In the U.S., this publication is made available only to financial intermediaries by Franklin Distributors, LLC, member FINRA/SIPC, 100 Fountain Parkway, St. Petersburg, Florida 33716. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. Distribution outside the U.S. may be made by Franklin Templeton International Services, S.à r.l. (FTIS) or other sub-distributors, intermediaries, dealers or professional investors that have been engaged by FTIS to distribute shares of Franklin Templeton funds in certain jurisdictions. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

**Issued in Europe by:** Franklin Templeton International Services S.à r.l.—Supervised by the *Commission de Surveillance du Secteur Financier*—8A, rue Albert Borschette, L-1246 Luxembourg. Tel: +352-46 66 67-1, Fax: +352-46 66 76. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd, which is an authorized Financial Services Provider. Tel: +27 (21) 8317400, Fax: +27 (21) 8317422. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. **Dubai office:** Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E. Tel: +971-4284100, Fax: +971-4284140. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL Tel: +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority.

**Australia:** Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849) (Australian Financial Services License Holder No. 240827), Level 47, 120 Collins Street, Melbourne, Victoria 3000.

**Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong. **Japan:** Issued by Franklin Templeton Japan Co., Ltd, Shin-Marunouchi Building, 1-5-1 Marunouchi Chiyoda-ku, Tokyo 100-6536, registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 417]. **Korea:** Issued by Franklin Templeton Investment Advisors Korea Co., Ltd. 3rd fl., CCMM Building, 101 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul Korea 07241. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia. **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E, 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore.

Please visit [www.franklinresources.com](http://www.franklinresources.com) to be directed to your local Franklin Templeton website.

The views and opinions expressed are not necessarily those of the broker/dealer; or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

