



European Elections: Why They Matter, if They Do?

May 2019

Will upcoming European elections impact broader market sentiment?

In the past, European elections were viewed as more of a consultation on the popularity of EU member governments than a real vote on the future of the European Union.

This year is somehow different.

The Framework

For the first time, a real debate about Europe and its direction is taking place across the continent. Here is some anecdotal but telling evidence:

It is unprecedented that a European leader, through a direct message, addresses not only his national electorate but the whole European citizenry. I refer to the letter of 4th March from French president Emmanuel Macron to the European citizens outlining a plan for the Renewal of Europe and starting with the sentence “Citizens of Europe, If I am taking the liberty of addressing you directly....”.¹ The letter has been translated into 22 languages.

In our view, never has there been so much interaction between national politics and European themes in the electoral campaign. Parties in different countries are positioning themselves vis à vis European parliamentary groups, and national leaders are addressing this in the campaign trail. New alliances are being proposed, and a major re-composition of the European Parliament’s politics is envisioned; these issues were openly discussed in a recent press conference in Budapest by Hungary’s Premier Victor Orbán and Italy’s Deputy Prime Minister Matteo Salvini.²

National elections - even in smaller countries such as Slovakia or Finland, or partial elections in some southern Italian regions or English local councils - are receiving a new level of Europe-wide attention as if the Continent’s future depends on the de-assembling and re-assembling of all these local moving pieces. The affirmations of certain parties instead of others are scrutinised as bellwethers for the decline or rise of Euroscepticism across the continent.

1. <https://www.elysee.fr/emmanuel-macron/2019/03/04/for-european-renewal.en>.

2. <https://www.ft.com/content/f915a13a-6cf4-11e9-80c7-60ee53e6681d>



Fabrizio Pagani, Global Head of Economics and Capital Markets Strategy

Fabrizio joined Muzinich in June 2018. Prior to that he was in the public sector where he has held a number of roles including most recently Head of the Office of Italy’s Minister of Finance, responsible for developing policies targeting macroeconomics, tax, finance and banking. Before that he served as G20 Sherpa and Senior Economic Counsellor to the Italian prime minister. Previously, during his time at the OECD in Paris, he also held the role of Chief of the Sherpa Office and Special Counsellor to the Secretary General in Paris, responsible for coordinating the OECD’s contributions to the G20 and G8 during and after the financial crisis. He holds a degree in International Affairs from the Scuola S. Anna in Pisa and a Masters in International and European Law from the European University Institute.

This new attention towards European polity is finding its roots in recent developments such as Brexit and the rise of populist movements in most European countries. Brexit will deprive the Union of one of its key members and the populist surge is coloured with varying shades of Euroscepticism; their combined effect is deeply shaking the European Union (EU).

A new “justification deficit” of the European project seems to be emerging. Many ordinary citizens seem to have lost a clear understanding of the rationale for the European construction and particularly of why “more Europe” would be necessary. This year’s elections are seen by many as the opportunity to address this issue, perhaps for the first time. The pro-Europe parties are being called to explain why more integration is needed. On the contrary, sovereigntist movements need to come out with their vision of “different Europe/less Europe” and how to achieve it.

What is at Stake?

This year, the key positions in the EU are all up for appointment. Not only will the President of the European Parliament, of the Commission and of the Council be nominated, but also the President of the European Central Bank (ECB). Markets will closely follow these appointments and will particularly focus on who will lead the ECB, following Mario Draghi’s eight-year tenure.

While the European Parliament does not play a significant role in the appointment of the ECB President, the European elections may have a consequential impact on the choice made by Eurozone leaders.

The selection for key European posts is an arcane puzzle in which political affiliation, usually to one of the two main political families, nationality mix and political experience all play a role. The ECB’s executive board is only partially shielded from this dovetailing exercise; the search for a nationality balance will become a pressing factor in all choices, especially once agreement for certain posts is reached. For example, if - as we believe seems likely - the Popular group has the most seats in Parliament and the Spitzenkandidaten principle is retained, the President of the Commission will be Manfred Weber, a German national. This outcome will largely reduce the chances of also having a German at the helm of the ECB.

This is just an example however, and there are still too many unknowns in a very complex political equation to make meaningful predictions. The results of the elections will provide some indications, but only the late-night negotiations at the European Council of the 20th - 21st June will lead to decisions for who will take the top jobs at the Commission and Central Bank.

Market Impact

The EU is the world’s largest economic block and its economic policies have a huge impact on markets. However, the role of the European Parliament is somehow limited.

The Parliament does not play any part in monetary policy, an area in which the ECB is “sovereign” and independent. Equally, Eurozone fiscal policies are governed by the “growth and stability rules” set by the member countries and implemented by national governments under Commission monitoring. Instead, the European Parliament plays a co-decision-making role in setting the framework for those structural policies which are within EU competence, such as competition, trade and, to a certain extent, industry and innovation. However, structural reforms have longer-term impacts on which markets do not usually focus.

The markets will observe the European Elections results, but only in a quest for determining downside risks and particularly tail risks.

The growth in popularity of a sovereigntist party in the coming polls will not rattle markets in our view. Important gains by these movements are already factored in, as are the chances of a more fragmented Parliament in which the two traditional and largest groups - Popular and Socialist - will not be able to form a stable majority but will have to find alliances with the Liberal Democrats and possibly the Greens. Only the case in which Eurosceptics will be capable of blocking the works of the Parliament and, for example, the appointment of a new Commission would spook markets. Most observers consider this event unlikely...a tail risk.

Markets will also be observant of national political developments which the elections could unleash. The elections could indeed be the catalysts for changes in national politics, particularly in those countries where government coalitions look unstable.

The impact on Brexit could also be significant. The UK electorate’s participation in the polls is the result of the “lack of Brexit” and the outlook for UK MPs* is uncertain. It could be a telling moment on the electorate’s view on Brexit. Markets will not be shocked by these results, unless they lead, by accident or purpose, to a no - deal Brexit. Is that another tail risk?

* MP - Member of Parliament.

This document has been produced for information purposes only and is not intended to constitute an offering, advice or recommendation to purchase any securities or other financial instruments. The investment strategies and themes discussed herein may not be suitable for investors depending on their specific investment objectives and financial situation. Investors should conduct their own analysis and consult with their own legal, accounting, tax and other advisers in order to independently assess the merits of an investment.

Statements throughout this document are views and opinions of the author and/or Muzinich. The views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity, they are for information purposes only, are as of the date of publication and are subject to change without reference or notification. Certain information contained in this document constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “likely,” “will,” “should,” “could,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or the actual performance of the securities, investments or strategies discussed may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in this document may be relied upon as a guarantee, promise, assurance or a representation as to the future.

All information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Nothing contained herein is intended to constitute investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. Historic market trends and performance are not reliable indicators of actual future market behavior or performance.

Certain information contained herein is based on data obtained from third parties and, although believed to be reliable, has not been independently verified by anyone at or affiliated with Muzinich & Co.; its accuracy or completeness cannot be guaranteed.

No part of this material may be reproduced in any form or referred to in any other publication without express written permission from Muzinich & Co.

Issued by Muzinich & Co. Limited, which is authorised and regulated by the Financial Conduct Authority FRN: 192261. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ.