

July 1, 2024

The EU Parliamentary Elections: New Strength for the Right

In early June, voters across Europe cast ballots for their representatives to the European Parliament, an institution likely unfamiliar to most Americans. Even among the few who may know of it, we suspect many don't really understand it or other top European Union institutions. In this report, we offer a primer on the main EU decision-making bodies and how they work together. We also review the results of the early June parliamentary elections, in which right-wing populists significantly increased their strength in the legislature, largely at the expense of leftists. We examine the implications at the EU level and within key EU countries. We wrap up with a discussion of the investment ramifications.

The EU's Top Decision-Making Bodies

[The EU itself describes its governmental structure as "unique."](#) For those of us who grew up and learned our civics lessons in the United States, the top EU bodies can seem completely unfathomable, with no direct US counterpart. Below, we describe the top bodies and show that they actually do have rough equivalents in the US government.

European Commission. [The European Commission is the EU's executive branch, roughly equivalent to the US president, White House staff, Cabinet, and the various departments and agencies of the federal government.](#) Generally, the Commission's role is to implement EU laws, including managing the EU budget and ensuring that

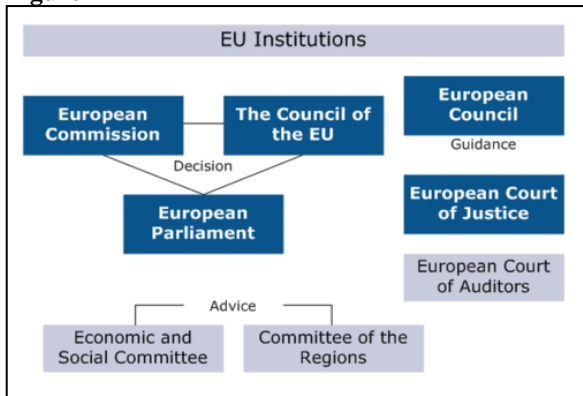
member states implement EU laws correctly. The Commission also has *right of initiative* to propose new laws, which are then scrutinized and approved by the Council of the European Union and the European Parliament. The Commission is headed by a president, who is nominated by the European Council (in a qualified majority vote) and approved by the Parliament (in a simple majority vote). The president serves up to two five-year terms. The current Commission president is Ursula von der Leyen, a former German defense minister, whose first term will expire in November. As described below, one key result of the parliamentary elections is that they have greatly complicated von der Leyen's hopes for a second term.

- The Commission's mandate does not include managing the EU's Common Foreign and Security Policy (CFSP). The EU's chief diplomat is a Commission vice president known as the High Representative for CFSP. This foreign policy chief is therefore a key player in the EU's geopolitical activity. The current High Representative for CFSP is Josep Borrell, a former Spanish foreign minister.
- Besides the High Representative for CFSP, the College of Commissioners includes more than two dozen commissioners handling specific policy areas, such as market competition, budget and finance, and environmental regulation.

European Council. [The European Council consists of the Commission president and each member nation's head of state or](#)

[government](#). The European Council therefore gives each member state an equal voice to influence EU priorities and policies, just as each US state has two seats in the Senate. However, the European Council has no power to adopt laws, other than certain amendments to the EU Treaty. To manage its operations and drive policy forward, the European Council selects a president who serves up to two 2.5-year terms. The current president of the European Council is former Belgian Prime Minister Charles Michel.

Figure 1



Top EU Institutions (Source: Quizlet.com)

Council of the European Union. With a name so similar to the European Council’s, this body is a source of confusion among reporters, voters, and foreign observers. However, the similar names make sense, given the similar mandate of the bodies. Whereas the European Council is a forum for advice and guidance from EU member *states*, the Council of the European Union is a forum for the member states’ *governments*. Importantly, it has the power to approve proposed EU laws, along with the European Parliament (meaning it also has some similarities to the US Senate). The Council of the EU meets in different configurations depending on the topic discussed. For example, all the EU finance ministers would meet to approve a proposed law on financial regulation. All the EU environment ministers would meet to

approve a proposed law on climate change. The Council of the European Union is chaired by one of the member states on a six-month rotating basis. Starting on July 1, Hungary will lead the body until the end of 2024.

European Parliament. [As the only EU body directly elected by individual voters, the European Parliament represents the people of the EU on a proportional basis.](#) Members of the European Parliament (MEPs) approve proposed laws in conjunction with the Council of the European Union, in a process called “co-decision.” In that sense, the European Parliament is similar to the US House of Representatives, which represents the citizens proportionally and shares the power to approve laws with the Senate. The European Parliament is headed by a president elected by the MEPs themselves, similar to the speaker of the US House. The current president of the European Parliament is Roberta Metsola, a Maltese politician.

- The Parliament elected in early June will have 720 seats. The number of MEPs each country gets depends on its population. Naturally, large countries such as Germany and France have the largest numbers of MEPs.
- Just as a national parliament is typically divided into different political parties, the European Parliament is divided into several formal “groups” across the political spectrum. These EU-wide groups or parties are typically made up of MEPs from like-minded national parties, along with some independent MEPs. In the outgoing parliament, for example, the center-right European People’s Party (EPP) included MEPs from Germany’s Christian Democratic Union/Christian Social Union, France’s Les Republicains, Italy’s Forza Italia, and Spain’s Partido Popular, among

others. Following an election, each group works hard to cobble together a coalition of national-party MEPs and independent MEPs. Groups can also merge, confederate, or break up.

Other EU Bodies. The four main EU bodies are complemented by three other institutions that global investors might be familiar with: the [European Central Bank](#), the Court of Justice of the European Union, and the European Court of Auditors. These institutions manage the financial, judicial, and external audit aspects of the EU. We do not detail them in this report.

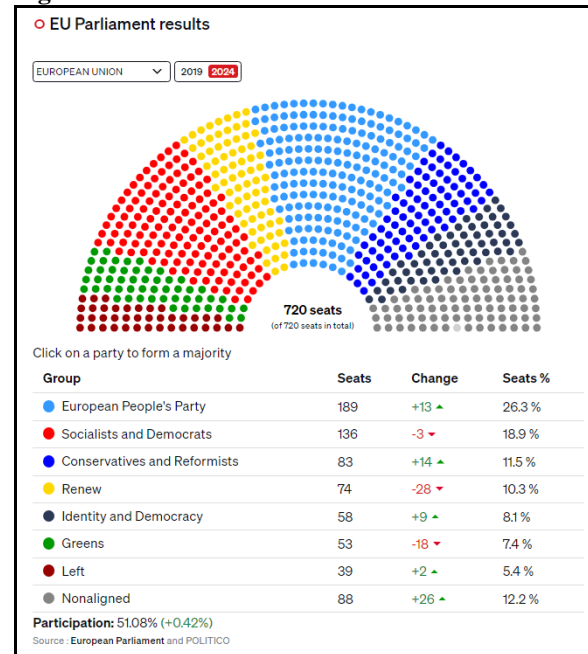
The 2024 Parliamentary Elections

[In the early June elections, EU voters as a whole continued to prefer politicians affiliated with the traditional national parties that make up the European Parliament's centrist groups, i.e., the center-right EPP, the center-left Socialists and Democrats \(SD\), and the liberal Renew group.](#) Based on the affiliations of the national parties and independent MEPs as of this writing, the centrist groups will hold 399 of the 720 seats in the Parliament. That would equate to 55.4% of the seats, down from 59.1% in the previous Parliament but still a comfortable majority. [However, support for far-right candidates surged, greatly expanding the membership of the European Conservatives and Reformists \(ECR\) and the Identity and Democracy \(ID\) groups.](#) They are currently set to have 19.6% of the seats in Parliament, up from 14.8%. In contrast, center-left and leftist groups, such as the Greens, lost significant seats (see Figure 2).

Even though Europe's traditional centrist parties have maintained their majority in parliament, and even though the far right gained fewer seats than expected, the results mark a pronounced shift of power to the right. [This shift was apparently driven in](#)

[large part by younger voters' frustration with immigrants \(who they see as "jumping the line" and competing with them for jobs\), as well as their continuing anger over the economic lockdowns during the coronavirus pandemic and high housing prices.](#)

Figure 2



Current groupings in the European Parliament (Source: Politico.com)

Even if the far right can't control the flow of legislation in Parliament, its rise will give greater voice to conservative MEPs and the voters who elected them. The far right's two main groups, the ECR and the ID, have also discussed a confederation into a super-group that would further increase their power. Indeed, officials of the center-right EPP have explored cooperating with the newly powerful ECR and ID to gain approval for top EU officials or pass certain initiatives (as discussed below). Since the center-left SD has threatened that any such cooperation would force it to withhold its support, there is even a chance the EPP could ally itself with both ECR and ID, forming a purely right-wing coalition. Together, the EPP, ECR, and ID would have 330 seats in

parliament, meaning they would only need the help of 31 independents to form a majority in parliament.

EU-Level Implications

At the EU level, the increased power of the right will likely affect the selection of key EU officials, foreign policy initiatives, and legislation.

Impact on Key Officials. In the weeks right after the June elections, national leaders in the European Council had informally agreed on a slate of candidates for the EU's top officials: the EPP's von der Leyen for a second term as Commission president, liberal Estonian Prime Minister Kaja Kallas as the EU's top diplomat, socialist ex-Portuguese Prime Minister Antonio Costa as European Council President, and the EPP's Roberta Metsola for a new term as European Parliament president. However, that deal was scuttled in mid-June when the overly confident EPP demanded a longer term for Metsola, angering right-wing Italian Prime Minister Giorgia Meloni, who argued that the right's new strength should give it better representation in the bloc's top jobs. As of this writing, it is unclear how the politics will develop and who will fill those jobs.

Impact on EU Foreign Policy. Many of today's far-right parties in the EU have been sympathetic to Russian President Putin's invasion of Ukraine and have opposed more EU assistance for Kyiv. However, the ECR has been more supportive of Ukraine. The ECR includes several far-right parties that are in government or have recently been in government at the national level, and European observers have noted that the experience has typically moved those parties closer to the political center. In late June, even Marine Le Pen, the leader of France's far-right National Rally (RN), said she would support additional aid to Ukraine.

- Far-right populist parties in the EU have also tended to oppose letting in new member nations.
- On balance, the far-right parties have also supported protectionist trade policies. They have supported such policies even against China, despite China's support for some of them.

Impact on EU Legislation. Within the EU, greater right-wing influence will likely have a noticeable impact on fiscal, environmental, and social policy. For example, the right's push for greater national autonomy may lead it to try watering down the EU's fiscal and debt rules for national governments. Greater right-wing influence will probably also preclude significant new environmental regulation and could even roll back some of the EU's recent "Green New Deal" policies aiming to end global warming. Just as certain, the right will probably push for measures to clamp down on immigration.

National-Level Implications

Even though the June elections focused on electing MEPs, the voting patterns had huge implications for some national governments. In Germany, for example, the far-right parties won more seats than the three centrist parties making up today's coalition government.

More dramatically, France's far-right RN (a member of the ID group in the European Parliament) won some 32% of the vote, more than double the share of President Macron's coalition. [In response, Macron called snap elections for the French national parliament, with the first-round voting on June 30 and the run-off voting on July 7.](#) With RN polling so strongly, Macron risks a right-wing takeover of France's legislature and the likely installation of an opposition prime minister, creating a messy "cohabitation" government. Macron is likely

gambling that French citizens faced with the prospect of a far-right government will switch their votes back to the centrists. If that doesn't happen and RN enters government, Macron is likely wagering it will soften its policies, fall on its face, or both, allowing his centrists to retain the presidency when his term ends in 2027.

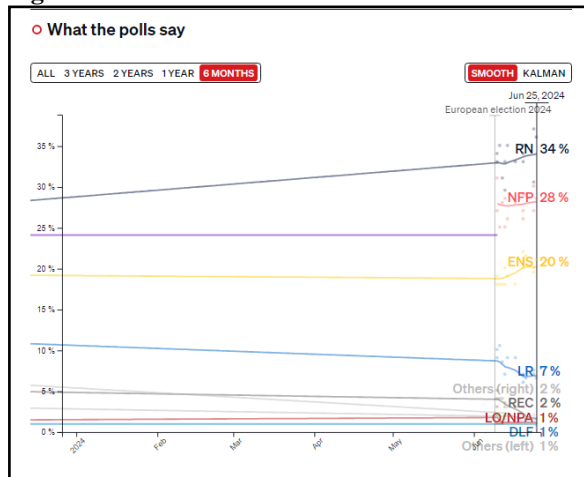
- If Macron is wrong about RN falling on its face, France could be at the beginning of a long period of right-wing rule.
- The snap elections also unexpectedly spurred the formation of a new, unified far-left alliance known as New Popular Front (NFP). By late June, Macron's centrist coalition was hemorrhaging support to both NFP and RN, raising the risk that France could also be led for a time by the far left.

Investment Implications

If Europe's far-right parties continue to gain power, the EU could soon see big changes in its foreign, economic, and social policies. In the long run, giving conservative voters more of a voice in Brussels could ultimately diffuse their anger and help re-establish political stability. Nevertheless, sharp change can unsettle markets. Many global investors have responded to the recent political developments by unloading European stocks and bonds. The euro has also lost value since the election. These dynamics have been especially notable in France, where the bond sell-off has boosted the yield on government bonds above those of lowly Portugal.

If the surging right-wing parties in Europe continue to moderate as they get closer to power, today's selloff in European assets could be overdone. Given that centrists maintain their majority in the European Parliament and will likely retain top positions in the Commission and the two Councils, the rise of the right in the European Parliament elections could ultimately lead to a mere course correction in EU policy that allows for more stimulative fiscal policy, a regulatory stance that is friendlier to business, and a reduction in immigration that allows for more social stability and higher wage rates. If so, today's weak pricing for European stocks, bonds, and currencies could be a buying opportunity.

Figure 3



Pre-election polling in France (Source: Politico)

Patrick Fearon-Hernandez, CFA
July 1, 2024

This report was prepared by Patrick Fearon-Hernandez of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics, and geopolitical analysis with a value-driven, company-specific approach. The firm's portfolio management philosophy begins by assessing risk and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.