

# **alexander beard**

Group of Companies

## **A CLEAR MESSAGE**

Our special report on the European Elections



## Introduction

Mark Twain is reported to have said that “if voting made any difference, they wouldn’t let us do it.”

For many years that appeared to be the case with European Union elections, with MEPs unable to propose legislation and therefore essentially operating as the proverbial rubber stamp. Perhaps because of this apparent lack of impact, voter turnout has gradually reduced across the EU, from a high of almost 62% in 1979 to just 42.61% in 2014.

But 2019 could be the year all that changes. The results of the voting – held across Europe between May 23<sup>rd</sup> and 26<sup>th</sup> – were expected to herald a change, with the ‘Populist’ parties in countries such as Germany, France, Italy and the UK predicted to make gains.

That turned out to be the case – and in this special report we look at the results, both in the UK and Europe, what they might mean for the future and, even more significantly, what they might mean for your savings and investments.

## Before the results: Theresa May admits defeat

There was plenty of drama before the European elections when Theresa May bowed to the inevitable and announced her decision to stand down as Conservative leader and Prime Minister. Had she not done so, the European election results would surely have sealed her fate. Mrs May had failed to get her proposed Brexit deal through the House of Commons and her resignation was the signal that she no longer expected there to be any chance of doing so successfully.

At the time of writing, there are ten candidates to be our next Prime Minister, with Boris Johnson the somewhat uneasy favourite. He has stated that the UK will leave the EU on October 31<sup>st</sup> 'with or without a deal' and that has triggered the inevitable 'Get Boris' headlines and dire warnings – not least from Chancellor Philip Hammond – about the consequences of a no deal Brexit.

Will the electorate heed what appears to be a very clear message from the European election results? No doubt we will find out over the weeks and months ahead, as the Conservative leadership race comes to a conclusion and the direction of the party becomes clearer. Currently, however, as we have commented below, 'crisis' is barely an adequate word to describe the current state of the Conservative party, and it is difficult to see a way out of it.

## The UK results

The results in the UK – among the main parties – were as follows (with the figures showing the seats won and the percentage of the vote gained)

The Brexit Party (TBP)	29	31.6%
Liberal Democrats	16	20.3%
Labour	10	14.1%
Greens	7	12.1%
Conservatives	4	9.1%
SNP	3	3.6%

The immediate conclusions are obvious. Whatever your personal feelings, it is a remarkable result for Nigel Farage and The Brexit Party. A political party which barely existed two months ago not only won comfortably, it is now – along with Angela Merkel’s Christian Democrats – the joint-largest party in the European Parliament.

It was also a good result for the Liberal Democrats and the Greens, which mirrored the ‘Green Surge’ across Europe. It is a bad result for the Labour Party and a disastrous result for the Conservatives, the party’s worst result in a national election since 1832.

Very evidently, those parties which had a clear message did well: the main parties in the UK – if we can still call them that – did not have a clear message and did correspondingly badly.

How much should we read into the results in the UK? Was it a victory for Leave? A victory for Remain? A clear indication of the wish for a second referendum? The various parties and the commentators tried to spin the results every way they could, with both sides claiming victory.

Whether the results give a clue to a possible second referendum result or a future general election seems to be open to some level of doubt. The UK turnout was up on 2014’s turnout (35.6%), but only to 36.9%. In total, 17.2m voted – less than voted ‘Leave’ in the 2016 referendum – so as a guide to the future, it may be best to treat the UK’s European election results cautiously.

## So what happens next in the UK?

Our 73 new MEPs will take their place in the European parliament and attention will turn back to the race to be the next Prime Minister. Theresa May will formally resign on Friday June 7<sup>th</sup> and potential candidates must be nominated and seconded by June 10<sup>th</sup>.

Conservative MPs will then vote on the candidates, holding a succession of votes until – under the current rules – only two candidates remain, who are then put forward to the party membership. There are some suggestions that the rules might be changed to allow four candidates to go forward, with an eventual winner being declared before the end of July.

And now we come to the word 'crisis'. The European election results would appear to strengthen the hand of those Conservative candidates prepared to countenance leaving the EU without a deal. But there is very evidently no majority in parliament for leaving without a deal, so the candidates likely to appeal to the Conservative voter base could also be the candidates likely to precipitate a General Election. Here, though, is the crux of the matter as, going by current election performance, if a General Election were to be held tomorrow, the Conservative party would likely face losing hundreds of seats. Quite how our governing party finds a way forward from here is currently anyone's guess, although we will at least start to hear ideas from the leadership candidates now that it is an open race for Prime Minister.

## The results in Europe

First of all, more people voted than in the UK – the overall turnout figure across Europe was 51%, marking the first time turnout has increased year on year in European election history.

But, in many ways, it was exactly the same story as in the UK with impressive results for nationalist parties and the Greens, and the parties which have traditionally formed the 'Grand Coalition' – the Centre-Right and Centre-Left groupings – seeing their numbers significantly reduced.

In Germany, Angela Merkel's CDU slipped from 35% of the vote in 2014 to 28.7%, with the centre-left Social Democrats faring even worse as their vote fell from 27% to 15.6%. The right wing AfD won 10.8% of the vote – perhaps not doing quite as well as expected – but the Greens had a stellar result, easily taking second place with 20.7%.

The big news in France was that Marine Le Pen's National Rally party defeated Emmanuel Macron – who had campaigned on his personal vision of an even more integrated Europe – by 24% to 22.5%.

In Italy, Deputy Prime Minister Matteo Salvini stated that "Europe is changing" as his populist League party won 34.3% of the vote to comfortably top the poll. There were also nationalist gains in both Hungary and Poland, while in Greece, the ruling Syriza party was well beaten, prompting Prime Minister Alexis Tsipras to call an early general election.

## How did the markets react?

It was not quite a case of the elections having absolutely no impact, but neither the pound nor the stock market have been sent into a tailspin by the European election results.

The FT-SE 100 index of leading shares closed April at 7,418. At the time of writing (8:30 on Tuesday morning), it stands down 1.6% at 7,293. Germany's DAX index closed April at 12,344 and is now at 12,089 – a fall of 2%. But you would suspect that both these falls have rather more to do with the re-escalation of the US/China trade dispute and its consequences for world trade, than they have to do with the European election results.

The pound, having ended April at \$1.3041, had fallen to around \$1.27 amid the continuing uncertainty over Brexit and Theresa May's resignation. At 8am on Monday, it was trading at \$1.2742 and is now trading at \$1.2675. Again, the fact that Brexit may not be settled any time soon appears to be impacting the pound far more than the election results.

## What does all this mean for your savings and investments?

As we have said many times in our notes and bulletins to clients, stock markets like certainty. Over the last three years, certainty is the one thing we haven't had and we are certainly not going to see any certainty in the immediate future.

We won't know who the new Prime Minister is until the end of July, at which point there will be just three months to go until the latest deadline for leaving the European Union. All the noises from Europe are that the Withdrawal Agreement will *not* be re-negotiated, so the new PM will face three months of tough negotiating – in both Brussels and Westminster.

Meanwhile, the world will keep turning. As George Osborne always said when he was Chancellor, events around the world are at least as important to the UK economy as events at home, and – as we have mentioned above – the US/China trade dispute continues to rumble on. And when the dust has settled from these elections, several European economies will continue to have fundamental problems.

So there will, as always, be plenty of bumps in the road ahead. However, we have called this report 'A Clear Message': having stated that those parties who had a clear message did well in the European elections, let us leave you with an equally clear message.

We will *always* be here to keep you up to date with developments and to answer any questions you may have. Remember, too, that saving and investing is a long term commitment. After the European election results it appears that some of our politicians may not be here for the long term: rest assured that your financial advisers very definitely will be.

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