



Market: trends & themes

Investing in times of rising populism

June 2024

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The elections to the European Parliament will take place from 6 to 9 June (in the Netherlands on 6 June). Gains are expected for populist right-wing parties in these elections. Will this affect the economic outlook, and should investors take this into account?

EU parliamentary elections: swing to the right expected

Elections to the European Parliament will be held in all countries of the European Union from 6 to 9 June. In the Netherlands, 6 June is election day, but because the elections will only be held in the following days in some other EU countries, a final election result is not expected until the evening of 9 June at the earliest. All the [polls](#) indicate that, compared to the last elections in 2019, the parties on the right of the 'European People's Party' ('EPP') group, in which the CDA and the Christian Union are represented from the Netherlands, will make substantial gains. More specifically, this concerns the 'European Conservatives and Reformists' (ECR) group, with the Dutch SGP and JA-21, among others, and the 'Identity and Democracy' (ID) group, with the Dutch PVV.



According to the polls, the ECR and ID groups together could reach about a quarter of the vote, compared with about 20% now. This would mean that the two groups together would be around the same size as the EPP group, which is still expected to be by far the largest. All other groups (including Liberals, Social Democrats and Greens) are facing slight to significant losses in the polls. In all likelihood, the three right-wing groups, together with a few smaller “independent” radical right parties, will thus gain a majority in the European parliament after the elections. This does not necessarily mean that they will also jointly shape the European Union’s policy after the elections. The EPP Group has repeatedly stated that it does not want to see cooperation with the ECR Group and that it is ruling out cooperation with the ID Group. Relations between the two groups on the right wing of the EPP are not always good, to put it mildly.

Shift to the right in the EU has been ongoing for some time

The expected shift to the populist right in the European Parliament is part of a trend that has been ongoing in individual countries in the European Union for some time. One of the trendsetters here has been Hungary, which, under the leadership of Prime Minister Viktor Orbán, has taken an increasingly conservative and nationalist course. After the fall of the Wall in 1989, Orbán’s party, Fidesz, initially profiled itself as a progressive, pro-democratic student movement, but in the first period of Orbán’s rule, at around the turn of the century, it has pursued mainly a right-wing liberal policy. Orbán has become increasingly conservative and authoritarian, especially since his re-election in 2010. As a prominent objector within the EU, Orbán ultimately saw no place for his party within the EPP Group, nor did the EPP see a place for him. Fidesz has been an independent party in the European Parliament since 2020.

It is not only in Hungary and other central European countries, such as Poland and Slovakia, that right-wing populist parties have built up a strong position. The same is true of ‘original’ EU countries such as Italy, where Prime Minister Giorgia Meloni has been in charge of the ‘Brothers of Italy’ party since 2022, now joined by the Netherlands, with the coalition-in-progress led by the PVV of Geert Wilders. Far-right populist parties in Europe’s major powers France and Germany have not yet entered government, but Marine Le Pen’s Rassemblement National and the Alternative für Deutschland are making gains in the opinion polls.

Even outside the EU, right-wing populists to a certain extent have the wind in their sails

The growing popularity of right-wing populists is not confined to the European Union. The most eye-catching achievements on that side of the political spectrum were Donald Trump's unexpected election victory in the 2016 US presidential election and the equally surprising outcome of the UK's Brexit referendum earlier that year. However, these two events also show that the rise of right-wing populism does not have to be a one-way street: Donald Trump did not succeed in extending his presidency in 2020 (although he has a good chance of a comeback later this year) and the United Kingdom is in danger of a major defeat for the Conservatives in the parliamentary elections on 4 July. As Conservative Prime Minister Cameron failed to convince the British in 2016 that Brexit was a bad idea, his four successors, including 'Brexiters' Boris Johnson and Liz Truss, have since failed to convince the British that leaving the European Union was a good idea. Meanwhile, a large majority of the British population believes that Brexit has turned out to be a poor choice and a slightly smaller majority would even vote in favour of rejoining the EU if they were asked.

Also within the European Union, right-wing populists do not (or no longer) have the wind in their sails everywhere. Most notably, there was the recent election defeat of Poland's deeply conservative "Law and Justice" ("Pis") party, which, after eight years of government power, was forced to leave the field for a centre-right coalition led by Donald Tusk. In several other central European (including the Czech Republic and Slovenia) and southern European (including Spain and Portugal) countries, populist right-wing parties have not been able to force a breakthrough or have lost power again.

What are the aims of the right-wing populists for the economy?

Besides the question of how much power populist-right parties are able to attain, their economic policy and its effects on the economy and the financial markets are particularly relevant for investors. Even if we limit ourselves to European right-wing populists alone, this question is quite difficult to answer. The populist-right parties currently and/or expected to be represented in the European parliament after the elections of 6-9 June are not driven by a single shared economic vision. In the past, 'euro-scepticism' seemed like a suitable denominator that most populist-right (and, incidentally, also populist-left) parties could support, but since the euro crisis that started in 2010, the difficulties with Brexit since 2016 and the Russian invasion of Ukraine in 2022, any appetite to leave the European Union and/or the euro area would seem to have cooled considerably.

Most populist-right parties have however remained proponents of more national autonomy and less power and influence for international organisations, institutions and companies, which are often seen as elitist. This is not a unique European phenomenon, as the trend towards 'deglobalisation' and greater national autonomy is also a long-standing theme outside Europe. We have also highlighted this in earlier theme messages, with the main conclusion being that 'deglobalisation' has the potential to increase inflation (and reduce growth) for most countries in the longer term.

Migration: the new common cause for right-wing populists?

Migration, especially 'anti-immigration' is another theme that right-wing populists have been increasingly insistent on in recent years, and now appears to be their central theme. This theme also has potentially important economic implications, although it is not always clear how and to what extent right-wing populist parties will succeed in effectively influencing international migration flows. For example, although Brexit has ensured that the influx of (labour) migrants from the EU to the UK has largely dried up since 2016, as promised by the 'Brexiters', this has been more than offset in recent years by increased immigration from countries outside the European Union.



Purely from an economic perspective, the question is whether the focus on reducing migrants is sensible. Especially for countries in the European Union with a rapidly ageing population that is also expected to contract population in the longer term, net immigration is actually the only way to reverse the worsening demographic trend. A contracting population and a higher old age dependency ratio generally mean lower economic growth, although the consequences for inflation are less unambiguous. In the European Union, this is particularly threatening for countries in central and southern Europe, but also for large countries such as Germany and France, where the demographic outlook is not entirely favourable. Of course, also purely from an economic perspective, the composition of an immigration flow matters, for example in terms of age distribution and level of education, and how this is regulated.

'Bread and circuses': populism and fiscal policy

A third aspect potentially relevant to investors is that (right-wing) populists generally seem to attach less value to budgetary discipline than more traditional middle parties, although it must be said that experience in practice is very different in this respect. Two recent examples of how populist rulers may view budgetary (and monetary) policies differently are Turkey and Argentina. Under President Recep Tayyip Erdogan, the Turkish government has for years pursued (overly) expansive budgetary policies, which, in particular, combined with a frankly bizarre monetary policy, has led to extremely high inflation (of more than 80%) and a collapsing exchange rate (-80% against the euro over the past 5 years). In Argentina, economic mismanagement by successive left-wing populist governments has led to hyperinflation of nearly 300%. There, the recently elected right-wing popu-

list, 'libertarian' President Javier Milei is now trying to bring the government budget under control with drastic austerity measures, although this has not yet produced any visible positive effects.

Moreover, it is not the case that only populist governments tend to embrace fiscal policy. If economic developments warrant it, 'moderate' political leaders are also willing to spend public money, as the large-scale coronavirus support in both the EU and the US has shown. In addition, President Biden, who is known as a reasonably 'centrist', has made a considerable dent in the US government budget with his "Bidenomics". Large-scale investments in infrastructure, energy transition and climate policy, among other things, have given the US economy a growth boost, but also contributed to the 'inflation wave' of 2021-2023 and to a sharply increased budget deficit (over 6% of GDP in 2023).

Populism increases the risk of stagflation, or are things not that bad?

All in all, the possible consequences of right-wing populist government policies on the economy, and therefore also on financial markets, are not very clear. Yet there are some points to be made. Whereas right-wing populist policies lead to a combination of less international trade (deglobalisation), less immigration, and less fiscal discipline, the longer-term outlook for economic growth seems less favourable with an above-average risk of inflation getting out of control. In other words, the risk of a 'stagflation' scenario, such as in the early 1980s and actually the short-lived early 20s in the aftermath of the coronavirus pandemic is increasing.

For investors, such a scenario means, above all, that there is a greater risk of higher interest rates. Higher inflation, rising government debt and higher interest rates are negative for government and corporate bonds. Because of the subdued economic outlook and the greater uncertainty associated with high inflation and higher interest rates, a stagflation scenario would also not be entirely favourable for investors in equities and other high-risk asset classes such as real estate. In fact, expected investment returns for almost all asset classes will be lower in a stagflation scenario than in a more normal economic environment, especially in real terms (i.e. when accounting for the value-destroying effect of inflation).



This would appear to be a longer-term problem, in which it is actually less relevant whether economic mismanagement originates from the radical right or left of the political spectrum. Recent experience in countries where populist parties are in government suggests that, in the short term at least, things will not turn out to be as bad as they might appear. For example, since the populist-right Meloni government took office in 2022, the Italian stock market has performed significantly better than the European stock market average, while Italian shares had underperformed significantly in the previous 15 years. In addition, yields on Italian government bonds have fallen in the past year and a half, while yields on 'safe' German government bonds for example have risen. The Dutch AEX index has also outperformed the European stock market average since the PVV's election victory in November 2023, while interest rate differentials with Germany have hardly changed since that time.

Rising populism: important for investors, but not decisive

Apparently, financial markets are not so far very concerned about the trend towards rising right-wing populism and/or other developments at the (macro) economic or geopolitical level, for example, are seen as more important. Of course, the question is whether this will continue to be the case in the longer term, but for the financial markets, the assessment that the trend towards more populism is not necessarily irreversible, as shown recently in Poland and expected to be shown soon in the UK, is probably also a factor. All in all, our conclusion is that while it is prudent as an investor to keep an eye on the rise of populist right-wing parties and take this trend into account when making investment decisions, this is not expected to be a decisive factor, at least not in the short term and in the European context.

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