A giant stirs

Elections to the European Parliament are getting closer. They could prove even more exciting than we thought.

Back in March, we published our initial outlook for the elections to the European Parliament (EP) on the long weekend from May 23-26. We believe much of what we had to say remains valid. [March 2019 Macro Perspectives European Elections] In particular, we expressed some doubt as to whether populist surprises, not yet apparent in the polling, might strengthen the euroskeptic camp, however broadly defined. We also explained that statistically, historically and even in terms of the election rules, there is no such thing as a European election. Elections to the EP tend to be 27 largely uncorrelated national elections in the various member states. That is still broadly true – and will probably remain so for a long time to come. That said, elections in 2019 could prove quite a bit more "European" than usual. In the jargon of political science, the giant topic of European integration has finally started to stir-up and reshape national politics. This is not quite a new topic in all member states, but the impact could be more wide-spread than might have been expected a few months ago. The reason for this can usefully be summed up in one word: Brexit.

1. Brexit and its immediate impact

The importance of Brexit to the EP elections is hard to overstate. Partly, that is just a function of the 73 members of the European Parliament (MEPs) the UK would send. Out of these, 27 seats would otherwise be distributed among many of the remaining member states. So, depending on whether Brexit takes place, there will either be 751 or 705 MEPs.¹

Looking back at poll-based seat trackers over the past year, there have only been a handful of events that have had a meaningful impact on the likely make-up of the EP.² Most of these events relate to decisions by various national parties as to which EP group they intend to caucus with.³ For example, last November’s decision by Emmanuel Macron’s La Republique en Marche (LREM) to work with the EP’s centrist Alliance of Liberals and Democrats for Europe (ALDE) significantly boosted the prospect of this socially liberal, broadly pro-European and pro-market group. In recent weeks, Italy’s deputy prime-minister Matteo Salvini has assembled his own alliance of far-right parties.

But the two largest political events have both been Brexit-related. One was the June 2018 announcement on how many seats each remaining member state would secure after Brexit. The other came

²Our favorite seat tracker, updated daily, is: https://pollofpolls.eu/EU. We have some minor quibbles with the projections for individual countries.
³That said, this polling aggregator, which translates national polls into seat estimates, is an excellent starting point and valuable tool to keep track of polling trends throughout Europe.

All opinions and claims are based upon data on 4/30/19 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH CRC 067177 (04/2019)

All articles are available on https://go.dws.com/cio-view-articles
a few weeks ago at the April summit, when Brexit was again delayed to October 31.

Theoretically, MPs in Westminster could still avoid holding elections to the EP, by finally passing the UK’s withdrawal agreement in coming weeks. Politically, that prospect looks increasingly remote. In our view, the window of opportunity for a quick, soft Brexit compromise between Labour and the ruling conservatives is rapidly shrinking. Partly, that is because the electoral incentives of both parties are changing by the day. Before Westminster’s Easter recess both Labour and the Tories had plenty of reasons to fear the verdict of voters at the EP elections for May 23. [4/1/19 CIO Flash on Brexit] In polling since, the Labour vote is actually holding up quite well. So far, Nigel Farage’s new Brexit Party has mainly hurt the Tories and the UK Independence Party (UKIP), the party Mr. Farage once headed.

We would not read too much into the handful of surveys we have seen so far and will be watching local elections in England and Northern Ireland on May 2 closely. UK polling has been comparatively unreliable in the recent past. It is too early to say which British pollsters have best been able to resolve the UK’s various polling problems. Or whether any of them will be able to correctly assess the likely level of turn-out of different voting groups. The fact that two new parties are standing – the pro-European Change UK group in addition to the Brexit Party – adds to uncertainty. Moreover, the version of proportional representation the country uses for EP elections makes it hard to accurately translate percentage shares into MEP numbers. The smaller parties strongly in favor of remaining in the EU, such as the Liberal Democrats, Change UK and the Greens, have failed to present a common list. That could boost their percentage share but hurt the actual number of pro-EU MEPs. That said, early indications are the UK’s delegation might actually be quite a bit more EU-friendly than we would have expected a few months ago – or than the crop of MEPs elected in 2014 was.

2. The broader prospects of populist, euroskeptic forces

One of our core messages back in March was that as a matter of sheer arithmetic, an EP without the UK was likely to be somewhat less euroskeptic. National politics ahead of the EP elections was part of the reason why we were somewhat less confident than many market participants on the prospects of the remaining 27 member states granting an extension. In our view, the point of maximum danger of the UK chaotically exiting without a deal was Brexit Day, as initially scheduled for March 29. We reasoned that there might well be at least one head of government keen, perhaps for his or her own domestic reasons, to see the UK leave.

Since then, the politics around Brexit have shifted, and not just in the UK. In France, polling for Macron’s LREM has been slowly but steadily recovering, while Marine Le Pen’s far-right Rassemblement National (RN) has stagnated since the start of the year. In much of Europe, Brexit has become a toxic word. It is more likely to be used on the campaign trail by pro-Europeans of various stripes than by

---

All articles are available on https://go.dws.com/cio-view-articles

DWS Investment GmbH
CRC 067177 (04/2019)
euroskeptic populists once keen to follow the UK out. In Spain’s recent election campaign, socialist prime minister Pedro Sánchez tried to taint the Catalan independence movement with the Brexit brush, while attacking the liberal Ciudadanos for reaching a deal with the far-right Vox party.5

As a matter of pure electoral strategy, it was quite effective. [Insert link to our piece] Sánchez’ success augurs well for his party’s prospects at the EP elections. Meanwhile, the disastrous results for Spain’s right in general and the Christian-Democratic Partido Popular (PP) in particular in our opinion illustrate the electoral dangers of flirting with right-wing euroskepticism, at least in broadly pro-EU member states like Spain.

Throughout the EU, there are very few signs of a resurgence for euroskepticism. Since last September, their overall seat share has been trending downwards, ever so slightly.6 To be sure, none of this precludes the potential for electoral surprises in the last stretch of the campaign. In the Netherlands, Thierry Baudet’s Forum for Democracy has seen steady gains, though mostly at the expense of Geert Wilders’ Party for Freedom. In Finland, the increasingly radicalized Finns Party has recovered from its recent experience in government that led to a party split. In April’s general election, it won 17.5% and might conceivably do even better in the EP contest. That said, it is hard to see such events moving the needle much at the European level. Other far-right parties, such as Denmark’s Dansk Folkeparti and Germany’s Alternative for Germany, have seen their support erode. Partly, this too probably reflects these parties’ erstwhile flirtation with the idea of taking Germany or Denmark out of the EU and voter fears of importing Brexit chaos. Barring a major polling error in Italy, the EP elections could well be quite disappointing for right-wing populists. And of course, Italian polling uncertainty cuts both ways.

3. The giant stirs – in unexpected ways and places

So what, you might ask? As veteran observers of pan-European politics well know, right-wing populist, euroskeptic forces falling short of their own – and the media’s – electoral expectations is not a new phenomenon. After all, there have been plenty of examples over the past 30 years in the older member states of Western Europe. Many of today’s far-right parties have already seen several cycles of electoral boom and bust of the sort described above for the Finns Party and the Dutch Party for Freedom. What might be different, this time around?

Well, starting back in 2004, many political scientists were wondering how and when Europe might start to become a major topic in national politics.7 That there was plenty of hostility towards Brussels in portions of the electorate of individual member states had been suggested by a series of tight EU treaty referenda in places such as Denmark, France, the Netherlands and Ireland.8 A series

---

5https://elpais.com/elpais/2019/04/04/inenglish/1554387419_707095.html
6https://pollofpolls.eu/EU/99/how-popular-are-the-euroskeptics
All opinions and claims are based upon data on 4/30/19 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH

CRC 067177 (04/2019)
of papers suggested that European integration was in fact a giant, waiting to be awakened by some savvy political entrepreneurs. And, because support for or opposition against the EU did not break down along the traditional lines of left and right of the political spectrum, the end result would be a re-arrangement of national politics.⁹

To these authors, the recent chaos in Westminster would have seemed perfectly in line with expectations – even if it took 15 years longer than some thought to materialize.¹⁰ What is more interesting is the reaction Brexit and talk of right-wing populist waves have triggered in other parts of the electorate in both the UK and many remaining member states. In coming weeks, we will focus less on what is happening on the far-right – and more on how the rest of the political spectrum is changing.

Already, several member states have seen the emergence of, often relatively new, electoral outlets for dissatisfaction with the status quo at the national level. European integration is frequently invoked, but not quite in the ways euroskeptics in the UK and elsewhere might have expected. In countries such as Poland, and to a lesser extent Hungary, opposition parties are increasingly invoking the EU as bulwark against local, illiberal strongman rule. In Romania, the EU is seen as instrumental at fighting corruption at the national level. Over the past year, the constant fights with "Brussels" over corruption and Romanian attempts to loosen anti-corruption laws have eroded support for the ruling Social Democratic party.¹¹

It has been a similar story in Slovakia, where last year’s murder of investigative journalist Ján Kuciak triggered a wave of street protests bigger than anything seen since the fall of Communism in 1989.¹² Earlier this year, disgust with corruption at the national level helped Zuzana Čaputová, an anti-corruption lawyer and environmental activist, capture 58% of the vote in the runoff presidential elections.¹³

The way growing numbers of voters in Romania, Slovakia and elsewhere appear to see matters, being (partly) “governed by Brussels” is not necessarily the worst thing that can happen. How bad "Brussels" is seen to be rather depends on what voters think of the politicians otherwise having a free reign nationally. Which brings us back to Brexit and the rather diffuse impact it might have on voter sentiment across the EU. In various corners of the continent, we continue to see only very sporadic and ambiguous signs of any broader right-wing, euroskeptic wave at the EP elections. However, fears of such a wave in the aftermath of the Brexit chaos might well prove a strong motivating factor for voters broadly in favor of European integration. Such fears can be especially powerful when paired with opposition to other aspects of the status quo at the national level – or when there are home-


All articles are available on https://go.dws.com/cio-view-articles

All opinions and claims are based upon data on 4/30/19 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH CRC 067177 (04/2019)

All articles are available on https://go.dws.com/cio-view-articles
made, seeming threats to the values of liberal democracy many voters have also come to associate with "Brussels."

In Spain, Mr. Sánchez partly owes his victory to fears of what a center-right government propped up by the far-right might have meant for the country. In Estonia, the formation of a new coalition including the far-right has sharply eroded polling support for the governing parties, while boosting the opposition.\(^\text{14}\) It has also prompted dire warnings that, in the words of one of Estonia’s former presidents, "We cannot turn into yet another failed Eastern European state."\(^\text{15}\)

**Conclusion**

So will there be "populist" revolts against the "status quo?" Well yes, we are already seeing early signs of that in several member states. But who voters are protesting against – and which parts of the status quo they are objecting to – looks set to differ quite a lot from member state to member state. And, how European integration plays into such "protest" votes will be shaped not just by Europe-wide events, but also by national politics.

Brexit is likely to cast a long shadow, but not quite in the ways we might have expected a couple of months ago. Rather than bringing a wave of right-wing, euroskeptic victories, early indications are that the Europe-wide results of "populist" revolts against the "status quo" will be quite nuanced and difficult to interpret. Corruption, for example, appears to be a big voter concern in several member states, but mainly at the national level. That, in turn, means the same party family might face losses in one country, but off-setting gains in another, sometimes because of very similar dynamics at the national level. Social democrats might score some unexpected gains in Estonia and Spain, for example, but face even heavier losses than expected in Romania and Slovakia. That is partly because European elections could once again be seen as an opportunity to punish unpopular national governments.

In this election cycle, though, we see some interesting and relatively new patterns emerging. It would appear that broadly pro-European forces are starting to mobilize, and not just in the UK. Especially in new member states, the EU is more often seen as a guarantor of good governance, rather than a threat to it. Of course, it will take much longer for truly "European" politics to emerge – if it ever does. Nor should the result of any one election be over interpreted. Let alone the combined results of 28 largely uncorrelated and probably still relatively low turn-out national elections that happen to take place over the same long weekend! But make no mistake: the European giant is finally stirring and will be worth watching, both in the months leading up to the vote and in the months and years after.


\(^{15}\) https://news.err.ee/928627/ilves-we-cannot-turn-into-yet-another-failed-eastern-european-state

All opinions and claims are based upon data on 4/30/19 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH

**CRC 067177 (04/2019)**
Glossary

Alternative for Germany (AfD)
The Alternative for Germany (AfD) is a nationally-conservative and right-wing political party in Germany.

Brexit
Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

Ciudadanos
Ciudadanos ("Citizens") is a liberal, pro-market and pro-European party in Spain.

Conservative Party
The Conservative Party, also referred to as "Tories", is a center-right political party in the United Kingdom.

La République En Marche (LREM)
La République En Marche (LREM) is a French centrist, social-liberal party, founded in April 2016 by Emmanuel Macron, who was later elected as the President of France in the 2017 election.

Labour Party
The Labour Party is a center-left political party and one of the three biggest parties in the United Kingdom.

Partido Popular (PP)
The Partido Popular (PP, "People’s Party"), is Spain’s traditional party of the center-right

UK Independence Party (UKIP)
The UK Independence Party (UKIP) is a right-wing political party in the United Kingdom long in favour of ending the country’s membership of the European Union.

Vox
Vox is a far-right populist party in Spain.

All opinions and claims are based upon data on 4/30/19 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH

CRC 067177 (04/2019)
Important Information – EMEA

The following document is intended as marketing communication.

DWS is the brand name under which DWS Group GmbH & Co. KGaA and its subsidiaries operate their business activities. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

The information contained in this document does not constitute investment advice.

All statements of opinion reflect the current assessment of DWS Investment GmbH and are subject to change without notice.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical performance analysis, therefore actual results may vary, perhaps materially, from the results contained here.

Past performance, [actual or simulated], is not a reliable indication of future performance.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document and the information contained herein may only be distributed and published in jurisdictions in which such distribution and publication is permissible in accordance with applicable law in those jurisdictions. Direct or indirect distribution of this document is prohibited in the USA as well as to or for the account of US persons and persons residing in the USA.

DWS Investment GmbH 2019

Important Information – UK

Issued in the UK by DWS Investments UK Limited. DWS Investments UK Limited is authorised and regulated by the Financial Conduct Authority (Registration number 429806).

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively “DWS”) are communicating this document in good faith and on the following basis.

This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an

All opinions and claims are based upon data on 4/30/19 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. DWS Investment GmbH

CRC 067177 (04/2019)
offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor.

This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are suitability and appropriate, in light of their particular investment needs, objectives and financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author’s judgment as of the date of this document. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

© DWS 2019

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany