

---

## MV Capital Management Weekly Market Flash

### Europe's Elections: Less Drama Than Meets The Eye

*May 30, 2014*

The dominant media narrative in the wake of last Sunday's European Parliamentary elections is the strong showing by an array of extreme, mostly right-wing parties. Consider the following smattering of headlines emanating forth from major media outlets this past week:

*A Rubicon Moment for the EU? – New York Times, 5/29/14*

*The EU's "Post Earthquake World" – Financial Times, 5/27/14*

*Chaos im Europaparlament? (Chaos in Europe's Parliament?) – Frankfurter Allgemeine Zeitung, 5/27/14*

This narrative is perhaps unsurprising. After all, many of the cultural attitudes and policy positions represented in these parties – France's National Front, Britain's UK Independence Party and Austria's Freedom Party to name but three – evoke unpleasant memories of a not-sufficiently-distant past that the postwar European Union project meant to eradicate from the continent for once and all.

A fractured Europe would be a very undesirable outcome for the global economy – we got a taste of how undesirable during the 2010-12 Eurozone financial crisis. But we are not convinced that the reality in Brussels is quite as alarmist as some of the more provocative headlines would suggest. Let's take a closer look at what happened, and what some of the larger implications may be.

#### *Protest Vote*

It is indisputably true that radical parties had a good day last Sunday. The National Front and the UK Independence Party won the largest number of seats in France and Britain, respectively, and others posted strong showings in the Netherlands, Denmark, Austria and Italy. Voters in these countries clearly are not thrilled with the status quo – hardly surprising when Eurozone unemployment is stuck in double digits and job prospects in some areas are close to hopeless, particularly for young adults. But it is worth noting that, for the time being anyway, none of these radical parties holds sway at home. European voters tend to be more prone to vent their frustrations in Europe-wide elections than in their own national referenda. Recall that even in Greece, the sickest member of Europe's struggling periphery, the citizenry voted to remain in the Eurozone when the question was put to them in 2012.

#### *More Disputes Than Common Causes*

Another problem the radical parties will face in trying to convert protest votes to action and influence is that many of them emphatically dislike each other. To be recognized as a political party group – basically a voting caucus – in the European Parliament requires a minimum of 25 legislators representing at least seven different nations. Marine Le Pen, head of France's National Front Party, is trying to build such a coalition. But the UK Independence Party and the Danish People's Party, two of the larger national movements, refuse to join in a common bloc with

Le Pen and her chances of successfully forming one appear low. The levers of power – committee seats and chairperson plums and the like – are available only to these recognized party group caucuses.

### *The Center Still Holds*

Meanwhile, the two traditional Project Europe-supporting party groups retained a majority (albeit diminished) of the Parliament's 751 seats between them after Sunday's vote. The center-right European People's Party, which includes Germany's Christian Democrats and France's UMP, got 28% of the vote. The center-left Socialists and Democrats, dominated numerically by the German Social Democratic Party and France's Socialists, hung onto 26%.

This is important from a procedural standpoint. The European Parliament does not initiate legislation, but rather is tasked with implementing the policies proposed by the European Commission. On large matters – including the economic and financial policy deliberations global investors would care about – the nuts and bolts of policymaking tend to revolve around committees dominated by German and French legislators hammering out and implementing a consensus approach with their Commission counterparts. With the current balance of power it is hard to see much changing in terms of the practical workings of Parliamentary norms and procedures.

### *La Question, C'est La France*

If there is one wild card which merits keeping an eye on, it would be France. That France is the junior partner in the Franco-German hub of the European Union is not news to anybody who has paid attention to the Eurozone's economic evolution. But French sentiment still finds it hard to come to terms with the idea that the European project is anything other than a socio-political enlargement of France itself. The voters' mood is particularly sour: François Hollande's ruling Socialist Party ran a distant third last Sunday to the National Front and the center-right UMP. Marine Le Pen in Brussels is far less scary a proposition than would be Marine Le Pen in the Élysée Palace.

But that is a worry for another day. Meanwhile, we expect little to change as EU policymakers deal in the coming weeks and months with the many pressing economic and financial issues calling for immediate attention.

**Masood Vojdani**  
*President & CEO*

**Katrina Lamb, CFA**  
*Head of Investment Strategy & Research*

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.