

## Why pension trustees need to stay ahead of the political curve

'2024 is not an election year, it is the election year.'

Around the world, more voters than any other year in history will be filling out ballot papers. At least 64 countries (plus the European Union), representing around 49% of the global population, are scheduled to hold national elections, some of which will prove to be consequential for years to come.

There has been a historic election in Mexico, which returned the first Jewish female president in the history of Mexico and North America. The coalition led by the governing MORENA party will have qualitative majorities in both legislative houses, giving President Elect Claudia Sheinbaum the prospect of almost unlimited executive and legislative power, including the ability to pass sweeping changes to the country's constitution. This has already sparked jitters among international investors.

Potentially game-changing elections have also taken place in the European Union, which saw a notable rightward shift in many of the member states. In France, Emmanuel Macron's party suffered a drubbing that he called snap legislative elections. It is a political gamble that could backfire significantly, with the results of the first round suggesting the coalition government's losses could be so great that Macron would become a lame duck president until his term ends in 2027. In other words, the government of the EU's second largest economy could lose much of its ability to govern – for three years.

Panic buttons are being pressed in the Elysee Palace. France's Economy Minister Bruno Le Maire has warned that a victory by the left-wing alliance would lead to economic collapse and France's exit from the European Union. While hyperbolic warnings like these are intended to sow fear among voters – pour encourager les autres, the reality is that many of these electoral shifts could have significant political – and by extension, economic – repercussions.

### Stay ahead of the curve

Pension trustees need to stay ahead of the curve during this key electoral year. Many risks could manifest, including unexpected ones. Risks such as inflation, currency crises, commodity shocks, geopolitical tensions and political turbulence.

Political successions are brewing, including here in the UK where Keir Starmer's Labour Party is tipped to win July's general election, ending 14 years of unbroken Tory governance. As in Mexico, Labour could win by a landslide and thus govern with less political opposition. What implications could this have for the British economy and businesses?



## Political instability

We live in an increasingly volatile world, and one of the main causes of that volatility is political instability. Since 2016, the year of Brexit and Trump's election, the political centre has lost ground across the West. Reasons include public apathy and disaffection following the economic fallout of the Global Financial Crisis, the inflationary forces unleashed by the pandemic-induced lockdowns, bailouts and other forms of monetary stimulus. But it is the potential consequences, not the causes, of this trend that are of interest. How could the loss of the political centre and the rise of more radical parties affect overall management of the economy?

One possible outcome is higher taxes, particularly for large companies and wealthy individuals. This may not be the case in the UK where Starmer's election team has repeatedly pledged that a Labour government will be business friendly, but governments do not always keep their word. A Starmer victory is likely to mean more regulations, particularly concerning the environment. More regulations and more taxes tend to have inflationary effects.

New governments can also unnerve global investors, leading to (often transitory) pressures on the local financial markets and currency. If the pressure on the local currency is sustained, as often happens during emerging market crises, the subsidiaries of foreign corporations inevitably feel the pinch.

Back in the UK, a Starmer victory could herald a rapprochement with the EU. In the words of former PM Tony Blair "Labour must reset relations with the EU by negotiating closer political and trading ties if it wins the next election."

What form will those ties take? Will it mean partial regulatory realignment with Brussels? If so, in what areas? What could that mean for British companies? How will Brexit supporters react? These questions corporate treasurers should be asking themselves and their colleagues in the days leading up to this election.

Trustees and their advisers may also wish to be considering the potential reverberations of the US elections in November. If Trump wins and brokers a peaceful settlement to the Ukraine conflict, it may help to relieve the pressures that have built up in the global energy markets since the war began. On the other hand, he has also pledged to raise tariffs on all Chinese goods, which augur yet more escalations in the trade war and a further unravelling of globalization.

## What should Pension Trustees do?

This makes the pension trustees' job even trickier – where maintaining long-term stability is paramount. Pension trustees need to think strategically to navigate this landscape of political volatility. For schemes close to buyout, it's essential to ensure that funding levels are secure and to carefully assess the timing and conditions of the buyout process. For those further from buyout, a focus on long-term sustainability and resilience against market fluctuations is key. Staying informed about global political developments and hedging against their impact is important. Questions such as:

- Are foreign currency exposures properly hedged?
- Is it time for an investment strategy review, or to check that interest rate and inflation hedges are appropriate.



- Is there sufficient liquidity from a stable funding source to meet LDI collateral calls?
- Is the investment strategy well diversified, both geographically and by asset class?
- Does the investment strategy contain hedges against some of the extremes, such as gold or bitcoin?

By working with their advisers to adopt a proactive and strategic approach, pension trustees can better safeguard the financial security of their schemes, ensuring they meet their long-term obligations to beneficiaries while maintaining the stability and growth of the schemes they manage.

If you would like to discuss any of these matters further, please get in touch with your usual contact at [Cartwright](#).

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