

FEDERAL ELECTION 2022 / COALITION LOSES GOVERNMENT

Australia's federal election was held on Saturday 21 May 2022. The Liberal-National Coalition (LNP) government, led by Scott Morrison, was defeated, with the Australian Labor Party (ALP) forming the next government, led by incoming leader Anthony Albanese. Some uncertainty remains as to whether the ALP will govern as a majority. Swings against both the major parties, toward both the Australian Greens and independents, dominated the voting, with the damage more significant for the LNP. The lack of rigorous action on climate change, dissatisfaction with the Government's handling of natural disasters and the COVID-19 pandemic, and the rising cost of living were key issues at the polls.

For markets, the election has been fought along lines that are likely to be less impactful for markets in the short term. While history reveals that the domestic equity market has underperformed post elections where the party has changed, equities have been significantly weaker than normal leading into the election. This reflects the impact of global geo-politics, inflation and rising interest rates, which will remain dominant in the period ahead. Whichever party won power, it was always likely to face the challenges of a more complex foreign policy environment, the fiscal challenge of a slowing economy through 2023 and 2024, and pressure to deliver more 'real' and rigorous climate action.

The Australian Labor Party forms government

The Coalition suffers a significant swing against it

After almost a decade in power, the LNP government was defeated, with the ALP forming Australia's next government. After almost four years as leader, former Prime Minister Scott Morrison conceded to the incoming leader Anthony Albanese.

Swings against both the major parties toward the Australian Greens and (often climate-aligned) independents dominated the election tally, albeit the damage was materially more significant for the LNP. The latest figures (as at end of counting Sunday night) suggest a significant 5.8% swing against the LNP (with 35.7% of the primary vote) and a modest 0.5% swing against the ALP (with 32.8%). In contrast, there were significant swings toward the independents of 2.2% (10.5% of the primary vote) and the Australian Greens of 1.5% (11.9%). There were also swings to One Nation (+1.8% and 4.9%) and the United Australia Party (+0.8% and 4.2%). On a two-party preferred basis, there was a relatively large 3.8% swing to the ALP.

Uncertainty remains as to whether the ALP will govern as a majority

According to the Australian Electoral Commission (AEC) website, it is almost certain the ALP will secure 75 of the necessary 76 seats to govern in its own right. Some media outlets, such as *The Australian*, have now called the ALP as likely to be able to lead with a majority of 76 seats. The LNP appears to have secured only 54 seats and is leading in a further three, with independents likely to secure 10 seats (and some seats 'too close to call'). Some uncertainty still remains as to whether the ALP will be able to govern in its own right, or with the support of the Australian Greens or a number of independents. Nonetheless, Australia's 31st Parliament is likely to have one of the larger minor party representations or cross benches (potentially 16) in history.

The significant number of postal votes this election, which favours the major parties (and particularly the LNP) ahead of the independents, has the potential to impact the result. On Sunday 22 May, the AEC announced that it would start counting postal votes on Sunday instead of Tuesday, as it did in the previous election.

Climate, natural disasters, the pandemic and cost of living key issues

Analysis by the media and political commentators suggests a number of factors worked directly against the LNP government. These include its handling of the pandemic, as well as the availability of vaccines and rapid antigen tests, and the Government's preparedness and handling of a raft of natural disasters, such as floods and bush fires, over the past three years. The rising cost of living, led by (global) petrol prices and worsened by pandemic-led supply shortages of goods, was also seen as a strong message through the voting, with wages yet to meaningfully offset the increases ahead of a rising interest rate cycle.

Analysis suggests the significant swing to a range of independents (some explicitly funded by Climate 200, an organisation aiming to donate to candidates advancing climate policy), reflected dissatisfaction with the lack of more rigorous action on climate change in Australia (directed at both major parties, though particularly the LNP). Whether the ALP governs in its own

right, or with the support of the crossbenches (including the Australian Greens), may have a significant impact on the pace of Australia's climate action over coming years.

Policy implications for markets

The dominant risk near term for markets was always an extended period of uncertainty (potentially weeks) surrounding who could form government. This was also mixed with uncertainty around the size of the crossbenches and the number of independents or members of the Australian Greens that any minority government would need to engage to both form government and progress policy. This has largely now been allayed, given the significant swing against the LNP, with the ALP likely to either govern with its own majority or require the support of only one or two independents. While a 'third force' in Australian politics has arrived in the form of the independents and the Australian Greens, the focus of the carnage experienced by the LNP has left the ALP in a largely unchanged position.

While history reveals the Australia **equity market** has underperformed post elections when the political party has changed, equities have been significantly weaker than normal in the period leading into this election (falling 4.1% against an average gain of 1.7%). This reflects the ongoing impact of global geo-politics, inflation and rising interest rates. Moreover, this year's election has not been fought along the lines of previous elections, namely negative gearing, capital gains tax, franking credits, trusts, income tax, penalty rates, and a 'living wage', which could have seen the minimum wage rise by more than 10%.

Indeed, neither the LNP nor the ALP during their campaigns committed to economic policies that would meaningfully impact equity market performance. Rather, this election was based more around the pandemic response, national security and issues of affordability which, at the margin, can be less impactful for equity markets (notwithstanding the ALP will likely adopt more proactive policies around boosting wages growth). An election-friendly budget was released by the LNP at the end of March and has already been digested by investors and the electorate.

The incoming ALP followed the 'small-target' approach, where specific policy differences to the LNP were limited. Like the LNP, the ALP's campaign focused on repairing the budget via growth rather than higher taxes or reduced spending, prioritising areas such as skills, childcare and manufacturing. The ALP has committed to the final third stage of the LNP's tax cuts and to no tax increases (except for multi-national companies deemed to be minimising tax obligations). It also matched the LNP's freezing of deeming rates for pensioners and greater access to seniors' benefits. Key differences in policy specifics were largely focused on the housing sector, where the LNP's vetted reduction in the age hurdle (from 60 to 55) for its housing downsizer contribution of \$300,000 to superannuation will now be replaced by the ALP's (still somewhat undetailed) 30-40% 'shared equity' scheme. The LNP had also committed to keep taxes below 23.9% of economic output.

There are, however, less explicit policy differences. In addition to campaigning on its economic management and climate credentials, the ALP committed to additional spending on childcare, aged care and disability care, as well as boosting wage growth in line with inflation (a potential headwind for small business and corporates with significant wages shares or earnings). With most independents aligned with greater climate action, this is also a likely area of significant policy change, which will result in further spending on renewables and other decarbonisation-related infrastructure.

For **fixed income and currency markets** (and potentially equity markets), impacts are likely to reflect perceptions now and outcomes further down the track regarding the ALP's management of the economy. Key questions will focus (as they would for any incoming government) on its ability to control the budget, boost Australia's productivity growth, along with all the other factors that will contribute to keep inflation and interest rates at manageable levels.

Overall, at least for the next year or so, the domestic and global equity, fixed income and foreign exchange markets are likely to continue to be significantly buffeted by global developments surrounding geo-politics, inflation and interest rates.

Challenges were always going to lie ahead, whoever took power

Indeed, regardless of which party won power in this election, it was always likely to face significant challenges. While not exhaustive, the following are likely to be key issues in the period ahead:

- **Foreign policy**—the challenge of China's rise in the Asia Pacific region, as well as the complexity of the broader geo-political environment, including the Russia-Ukraine war. Deglobalisation and the potential impacts on defence expenditure, other international commitments, and Australia's supply chain security will be critical to the domestic outlook.
- **Budget management**—with the budget forecast to be in deficit well into the 2030s, the likelihood of faster-than-expected interest rate rises, a slowing economy through 2023 and 2024, inflation above target, and rising costs of living will present many challenges. Boosting wage growth without adding to inflationary pressures will be a difficult balance.
- **Climate action**—the rise of the (often climate-aligned) independents and the Australian Greens, even if the ALP governs in its own right, suggests a growing demand for more 'real' climate action from the federal Government. Balancing the longer-term imperative for more rigorous domestic action against evident short-term costs will be an important challenge.

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