

Update on the French Presidential Election
Deuxième round – a Macron victory?

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Is it presumptuous to predict an overwhelming victory for Emmanuel Macron on Sunday? Possibly, take Brexit or the election of President Trump. We would point out that, in fact, the Netherlands vote went the way of the polls and due to the system, the French electorate chooses its next President, it seems Mr Macron has too much support for Marie Le-Pen to overturn.

What would a Macron victory mean for markets?

In one word, stability. His appointment would provide the EU with much less political uncertainty. It is also felt that his victory would reinforce confidence in the economic outlook.

It has been well documented that the former investment banker and economy minister is proposing reforms, quite radical by French standards. The issue – a French economy that, although is growing, has done so at a much slower rate than Germany, the UK and the US. He has intimated that he will push for a eurozone budget managed by a eurozone finance minister. These proposals would be opposed by Germany, but if he reforms France's economy and reduces the deficit below 3% then many may see his proposals as a 'good thing'.

The above all sounds positive and promising for France. However, as President Trump has found in the US Congress, if you do not have the support of Parliament then your proposals are merely words. The elections for the parliament take place in June, and Mr Macron needs a majority of 289 seats. Should the French electorate vote a parliament in opposition to the President, then the Prime Minister has the majority of executive powers, making President Macron's campaign pledges unattainable. Any stability created from the Presidential race would be curtailed, and we may see much political risk.

There are other potential political risks across Europe this year. There are the German elections; which pits Angela Merkel against Martin Schulz and Italy's elections may be brought forward into 2017.

A victory for Emmanuel Macron, should create a positive reaction for markets. However, his victory has already been priced in since March when the Dutch rejected their right-winged candidate. His victory will still spark a confidence in global markets and the continuation of a resurgence in the EU.

It is anticipated that there may be many attractive opportunities in Europe. Last year saw many investors flock to the US following Mr Trump's victory and a gloomy outlook for Europe following Brexit. How times have changed! Longer-term views should come into play.

So, what does a Macron victory mean? The short answer – stability. However, in this environment nothing ever seems stable for long. In the short term there will be a bounce in equities compared to long duration bonds. An overweight equity exposure will provide the best returns especially with an unconstrained mandate and exposure across the whole of Europe. Bonds may come under pressure as investor sentiment becomes more positive over the longer term and yields rise because of this. For the first time in a long-time Europe is looking like the market to be overweight.

