

Market Bulletin

8 May 2017

Macron conquers, but France remains deeply divided

In brief

- Once again, the polls correctly predicted the outcome of the second round of the French presidential elections. As widely expected, Emmanuel Macron has been elected as President, winning 66.06% of the votes vs. the 33.94% secured by his opponent, Marine Le Pen.¹
- As Macron's victory had already been priced in by the markets, after initial gains this morning, global markets returned to a more neutral stance.
- In the medium term, we expect this victory to be reflected in a strengthening of the euro, a further narrowing of the spread between 10-year French and peripheral bonds over German bonds and further equity gains, especially for the financial and cyclical sectors.

The more market-friendly President

This outcome is certainly the more market friendly of the two options. First, it has removed the threat of Frexit: Macron is a firm supporter of the European project and wants further integration in Europe, with the European Commission having its own budget managed by a European minister of finance.

Second, Macron has already proven his reformist credentials through measures like the "Macron law" –introduced under the previous government–reflecting calls by most French business associations, such as Mouvement des Entreprises de France (MEDEF), for reforms to improve the flexibility of the French economy.

Third, while Macron is a reformist, he should still provide greater continuity in the French political landscape than his opponent, rather than implementing disruptive policies on immigration, trade and international cooperation.

As a result, we expect to see an extension of the risk rally in Europe that started after the first round, particularly as most macroeconomic indicators have since shown that the eurozone economy has been gaining traction and 2017 first-quarter earnings season has so far delivered strong earnings per share (EPS) growth of 21%.²

¹ France Interior Ministry. Latest results as of 8 May 2017, 08:00 CET.

² Bloomberg, J.P. Morgan; data as of 3 May based on the EPS reported by 47% of the market capitalisation of the Euro Stoxx.



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France remains deeply divided

This victory may be positive from a market and economic perspective, but it is also a bittersweet victory that leaves a deeply divided nation in its wake. Many of those who voted for Macron did so not out of sympathy with his agenda, but as a strategy to block Le Pen. What's more, a turnout of 74.6%—very low by historical standards—was compounded by a record level of blank ballots of around 11.5%.

Macron's share of the votes—while high—is much lower than the 82.2% gained by Jacques-Chirac against Jean-Marie Le Pen in 2002. This indicates that Macron will need to move fast to win French hearts and minds in order to cement his position at the June legislative elections—and to stand a solid chance of forming a stable government and driving through his political agenda.

Investment implications

Europhiles and financial markets will be celebrating Macron's victory. But when it comes to the French economy itself, it is the legislative elections in June that will determine whether this victory could be a game-changer.

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