

# Le Pen is mightier than the sword, but not Emmanuel Macron

French Presidential election update



Hetal Mehta is Senior European Economist with responsibility for providing macroeconomic analysis and forecasts for the UK and euro area economies



Christopher Jeffery works as a strategist within LGIM's asset allocation team, focussing on discretionary fixed income and systematic risk premia strategies

## EMMANUEL MACRON WINS THE FRENCH PRESIDENCY

In a largely anticipated result, Emmanuel Macron has won the French presidential election. The contest has been one of the most closely watched political and market-relevant events in Europe, and the most hotly contested French election in recent history. But with a winning margin of 66% vs Marine Le Pen's 34%, Macron's victory is decisive. Turnout was relatively low by French standards at 74%.

However, there is more French politics to come. Macron will formally become the French president on 14 May. The focus will then swiftly move on to the legislative elections on 11 and 18 June. As the head of the relatively new En Marche movement, Macron still faces a challenge from the established parties in terms of getting a majority.

In turn, this will impact his ability to pass legislation and make the reforms he promises. Without a working majority in parliament, Macron will be forced to work alongside a Prime Minister from a different political party and compromise with his/her domestic policy agenda.

## MACRON'S KEY POLICIES

Amongst the key measures Macron has campaigned on are:

- Reduce the deficit by €60bn
- Cut 120,000 public sector jobs
- Boost competitiveness through a €50bn investment plan
- Lower household and corporation taxes
- Promoting a common euro area budget and finance minister

## EUROPEAN RISKS REMAIN

Although Macron was the most pro-European amongst the main candidates, this vote should not be mistaken as a ringing endorsement for the EU. 49% of all those who

voted in the first round of the election did so for parties explicitly in favour of leaving the euro and/or the EU.

Moreover, the rest of 2017's European election calendar still has much to offer in terms of event risk. The German election in September is the next key milestone. The relationship between France and Germany will determine the future of Europe and how Macron and his German counterpart work together to address the rise in populism, the challenges of immigration and structural weaknesses, will be high on the agenda.

Then it is Italy's turn where a general election has to be held by May 2018. Italian political risk should not be underestimated given the strength of support for the anti-establishment Five Star Movement.

### MARKET REACTION MUTED

The euro was initially higher on the news that Marine Le Pen will not be the next resident of the Elysee Palace. However, as this result was widely anticipated, the market reaction has been fairly muted.

Market stress about the prospects for a destabilising outcome peaked several weeks ago just prior to the first round of voting. The clearest market barometer of this risk has been in the excess spread of French government bond yields over equivalent maturity German government bond yields. That has retraced from 80bps (prior to the first round) back to the 20-40bp range that has characterised the last three years.

Looking ahead, equity markets can return to focusing on the more mundane issue of earnings prospects. On that front, recent news has been encouraging with the long-term underperformance of European earnings finally having come to an end.

On the euro itself, we remain quite negative given the lingering political risks (especially in Italy) and the likely widening in the interest rate differential between Europe and the US. We continue to think it is appropriate to hedge European currency risk.

However, the most pressing challenges in the months ahead may well be in European fixed income markets. On our estimates, the European Central Bank is on its way to owning nearly a quarter of the sovereign and non-financial corporate bond markets. The prospect of slowing down the pace of those purchases (i.e. tapering) has the greatest potential to disrupt the markets in the second half of the year.

The last 12 months has clearly demonstrated that politics matters for financial markets. However, the clearer lesson from the last 12 years is that you ignore central banks at your peril.

For the latest multi-asset views from the Asset Allocation team visit our blog.



#### Important Notice

This material has not been reviewed by the SFC and is provided to you on the basis that you are a Professional Investor as defined in the Securities and Futures Ordinance (Cap.571) (the "Ordinance"). By accepting this material you acknowledge and agree that this material is provided for your use only and that you will not distribute or otherwise make this material available to a person who is not a Professional Investor as defined in the Ordinance.

This material is issued by Legal & General Investment Management Asia Limited ("LGIM Asia Ltd"), a Licensed Corporation (CE Number: BBB488) regulated by the Hong Kong Securities and Futures Commission ("SFC") to conduct Type 1 (Dealing in Securities) and Type 9 (Asset Management) regulated activities in Hong Kong. The registered address of LGIM Asia Ltd is 30/F, Jardine House, One Connaught Place, Central, Hong Kong.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorized reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views expressed in this document by any contributor are not necessarily those of the LGIM Asia Ltd affiliates and LGIM Asia Ltd affiliates may or may not have acted upon them.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecast, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up.

We accept no responsibility for the accuracy and/or completeness of any third party information obtained from sources we believe to be reliable but which have not been independently verified. Legal & General Investment Management Asia Limited, Unit 5111-12, Level 51, The Center, 99 Queen's Road Central, Central, Hong Kong.

[www.lgim.com](http://www.lgim.com)

Authorised and regulated by the Securities and Futures Commission.

M1404\_ASIA