

Emmanuel Macron Wins

Monday, 05/08/2017

This time, the polls were spot on, and Emmanuel Macron was duly elected President of France, as predicted by the outcome of the first round of the elections. France thus chose a President who is in favour of the continuation of the European project and deregulation of the French economy, to be at the helm of the country for the next five years. This result dispels the risk of a further blow being inflicted upon the European Union after Brexit – damage that might this time have been fatal given the key role played by France in building and promoting the European endeavour.



Adrien Pichoud

Chief Economist & Senior Portfolio Manager

Political risk dispelled

This election therefore serves to dispel, at least for some time, the political risk that has weighed down European financial assets for the past year, with the succession of elections in the United Kingdom, Italy, Netherlands and now France. The forthcoming German elections this autumn do not pose the same fundamental risk for the future of the European institutions and the single currency. And the main bone of contention of the next parliamentary election in France is no longer the prospect of France eventually leaving Europe, but rather the capacity of the new President to deploy his political programme, bearing in mind that a significant share of the electorate who voted for him in the second round are not in favour of it. The outcome of the French parliamentary elections and the German federal elections will influence the development of European policies over the coming years, but should not affect the institutional framework of the EU and of the euro.

Focus will now shift to fundamentals

Investors can now turn their attention to the economic fundamentals of European financial assets. And in a context of positive but moderate worldwide growth, with the US economy turning in disappointing results (once again) relative to overly optimistic forecasts, the Eurozone is showing a positive dynamic linked to the fact that it is still in the middle of the growth cycle begun in 2013. In the 1st quarter of 2017, the Eurozone's GDP growth exceeded that of the US, as was the case for the year 2016 as a whole. The deflationary fears are dissipating and this is fuelling a debate over a gradual phasing out of the ultra-accommodating monetary policies put in place by the ECB over the past few years. Under these circumstances, the coming months should witness significant movements on the financial markets, even though the immediate impact of the election of Mr. Macron is expected to be limited given the extent to which the markets had already anticipated this outcome pursuant to the first round.

Euro strengthens as existential risk diminishes

The first involves the euro. With the lifting of the "existential" risk posed by the French elections and the prospect of a gradually less accommodating ECB, the single currency is likely to strengthen, particularly against the US dollar should the Fed lower its ambitions owing to the US economy's display of less dynamism than expected.

European subordinated bonds show attractive yield prospects

The second involves interest rates. The prospect of a gradual ending of the ECB's quantitative easing in light of the positive economic growth of the Eurozone should cause European long-term interest rates to ease upwards, in particular the rates in Germany, which, until the outcome of the French elections, had somehow acquired a status of safe haven. The government rates of France, Italy and Spain might, for their part, benefit from a reduction of the political risk premium and rise in turn, but to a lesser extent. In the corporate bonds sector, European subordinated bonds are showing attractive yield prospects, thanks to the dispelling of the risk of an unravelling Eurozone. Furthermore, the positive impact of a rise in rates on the profitability of the banks, offers the prospect of a narrowing credit spread.

Equities: domestically-orientated sectors set to benefit

Finally, the European equity markets should benefit from the dispelling of the political risk premium over the coming months. But not all the sectors. Financial stocks and those oriented towards the European domestic market will be the main beneficiaries of the current economic dynamism and their valuations should begin to recover. On the other hand, enterprises with significant exposure outside the eurozone might be penalised by the strengthening of the single currency.

Disclaimer

This marketing document has been issued by Bank Syz Ltd. It is not intended for distribution to, publication, provision or use by individuals or legal entities that are citizens of or reside in a state, country or jurisdiction in which applicable laws and regulations prohibit its distribution, publication, provision or use. It is not directed to any person or entity to whom it would be illegal to send such marketing material. This document is intended for informational purposes only and should not be construed as an offer, solicitation or recommendation for the subscription, purchase, sale or safekeeping of any security or financial instrument or for the engagement in any other transaction, as the provision of any investment advice or service, or as a contractual document. Nothing in this document constitutes an investment, legal, tax or accounting advice or a representation that any investment or strategy is suitable or appropriate for an investor's particular and individual circumstances, nor does it constitute a personalized investment advice for any investor. This document reflects the information, opinions and comments of Bank Syz Ltd. as of the date of its publication, which are subject to change without notice. The opinions and comments of the authors in this document reflect their current views and may not coincide with those of other Syz Group entities or third parties, which may have reached different conclusions. The market valuations, terms and calculations contained herein are estimates only. The information provided comes from sources deemed reliable, but Bank Syz Ltd. does not guarantee its completeness, accuracy, reliability and actuality. Past performance gives no indication of nor guarantees current or future results. Bank Syz Ltd. accepts no liability for any loss arising from the use of this document. (6)