
OBSERVATIONS ON THE FRENCH PRESIDENTIAL ELECTION

French presidential elections concluded yesterday, with En Marche! candidate Emmanuel Macron soundly defeating the populist National Front party candidate Marine Le Pen. Two interesting takeaways:

- *The accuracy of French polling.* While markets have been suspicious of polling after Brexit and US Presidential election misses, French polls generally got it right. Although there has been minimal polling for the upcoming parliamentary elections on June 11 and 18, markets may have more confidence with future polling reports.
- *Losses for populist candidates.* The French elections cap off the third loss (including Austria and Netherlands) for populist candidates in the last five months. While populist movements will likely remain active in Europe, this outcome will be a sigh of relief for markets, which have been on edge with uncertainties surrounding this election.

As President, Macron faces serious headwinds in promoting structural reforms of the economy (particularly related to labor) and government. As a new party formed just over a year ago, it remains unclear if En Marche! can win a parliamentary majority and establish coalitions with established parties to act on Macron's reform proposal.

Despite longer-term challenges facing Macron, the French election outcome is – at least over the short-term – supportive of a more positive macro tone for both the Euro zone and markets more broadly. Global equity markets and the Euro had rallied in the days following the first round of French presidential elections on April 23, as Macron emerged as the favorite and his pro-EU platform and planned labor reforms were well received by the capital markets. On the first trading day following the Macron's May 7, 2017, presidential win, it appears investors had already priced in his victory, with both Euro-zone equity markets and the Euro down slightly.

OUR VIEW

Ellwood views this election outcome as a positive for the capital markets, removing the potential for negative surprise had Le Pen won. Overall, our views on Europe are generally positive, given attractive relative valuations, rebounding economic indicators and strengthening corporate earnings.



Investment Insights

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May 8, 2017*

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