

## ARTICLE

For professional investors

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**ROBE**CO  
The Investment Engineers

# Macron landslide election weakens wave of populism

- Centrist newcomer wins 66% of vote against 34% for Le Pen
- He becomes the youngest French head of state since Napoleon
- Election seen as good for markets as positive for euro and EU

**Emmanuel Macron was comfortably elected as President of France, providing the most market-friendly outcome and weakens the populist wave that has swept global politics.**

The former banker and economics minister, who created his own centrist political party En Marche! to move away from mainstream conservative or socialist politics, defeated the far-right and anti-EU candidate Marine Le Pen in the run-off election on Sunday. He polled 66% of the vote against 34% for Le Pen – the second-largest winning margin in modern French history – though one in four voters abstained.

At the age of 39, Macron becomes the youngest head of state in France since Napoleon Bonaparte made himself Emperor aged 34 in 1804, and the youngest leader in the G20 of the world's largest economies. He does though have experience of government office, having served as Minister of Economy, Industry and Digital Affairs from 2014-2016. Macron is a former civil servant with the Inspectorate General of Finance, and a former investment banker with Rothschild & Cie Banque.



Léon Cornelissen



Lukas Daalder

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'He is very business friendly and staunchly pro-EU'

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“The populist tide has been stemmed by Macron at least for now,” says Chief Economist Léon Cornelissen. “It’s a pretty impressive victory, but of course keep in mind that part of it can be explained by an anti-Le Pen vote and not so much an endorsement of Macron’s modernist platform.”

“He is very business friendly and staunchly pro-EU, so it strengthens the European Union at a time when it has been bashed by the Brexit. Europe ‘En Marches’ on. And it also means problems for Britain because Macron’s election as president of one of the EU’s biggest supporters won’t make the Brexit negotiations any easier for the UK.”

### **Markets for Macron**

“The Macron victory will be hailed with a sigh of relief on the financial markets today, with the Nikkei up more than 2% on the news,” adds Lukas Daalder, Chief Investment Officer of Robeco Investment Solutions. “We do expect this victory to be positive for European equities, which are overdue for a rerating after a strong first-quarter earnings season.”

“Having said that, it seems that financial markets had already priced in a Macron victory last week. This explains the muted reaction for the euro so far: whereas the euro rose by 1.5 cents versus the dollar following the outcome of the first round, the European currency is virtually unchanged this morning.”

“And what applies to the euro also applies to French bonds to a certain extent: the spread versus Germany has already declined from 75 basis points prior to the first round outcome to close to 40 basis points on Friday. With the uncertain parliamentary elections still ahead of us, a spread of around 35 basis points seems reasonable, indicating that much of the recovery is already behind us.”

### **Notable French firsts**

Aside from his age, his election has created a number of notable firsts in modern France. The presidential run-off was unique, since neither of the two candidates were from the main center-right or center-left parties, and neither has any parliamentary seats. Macron created En Marche! (On The Move), also called the Association for the Renewal of Political Life, as a

social-liberal centrist party in April 2016. Critics have noted that the party has the same EM initials as its founder, though Macron insists this is a coincidence. It was also the first time since the creation of the Fifth Republic in 1958 that the incumbent president – socialist François Hollande – did not seek re-election. Macron will take office on May 14.

Cornelissen says that now that Macron has secured the presidency, attention will turn to how well En Marche! party does in elections for the French Parliament, due in two stages on June 11 and 18. With currently zero seats, he would need a majority in the 577-seat National Assembly to get his legislation passed.

### **National Assembly next**

“Macron’s first challenge is to assure a majority for his plans in the National Assembly,” Cornelissen says. “A recent poll suggests it could win 249 to 286 seats, in the latter case just short of an absolute majority. This cannot be ruled out completely, but more likely is the need for a coalition government as the vested party apparatus of the Republican and Socialist parties will ensure some pull back now that the presidential elections are over.

“According to a recent poll, the center-right Republicans will get 200 to 210 seats, so a coalition of En Marche! with this party is likely. The far-right Front National will remain relatively small, with 15 to 25 seats and Marine Le Pen probably preparing herself for the next presidential elections in 2022. Also, voters could seek assurances against too much change by tactically voting against En Marche! this time.”

### **Reform of labor laws**

So what will the new ‘Monsieur Presidente’ do? “What is most likely is that the new government will give priority to a reform of labor laws, opening the way to bargaining at company level rather than national level, also enabling a loosening up of the strict 35-hour work week,” Cornelissen predicts.

“It also wouldn’t be difficult for the Kremlin-sceptic Macron to maintain cordial relations with Germany. An interesting idea is his sensible plan for creating a European budget and finance minister for investment policies and macroeconomic stabilization at the European level. But any initiatives will probably have to wait till after the German elections in September.”

‘The incoming tide is floating all boats’

“France has traditionally been relatively resistant to change, and its economic position has weakened vis-à-vis Germany. Illustrative of this is France’s youth unemployment rate of 24% and overall unemployment rate of 10%, compared with 7% and 4% respectively in Germany. Previous presidents have tried reforms in the past, but these have been run into the ground. After the current political earthquake, the prospects look better, increasing the likelihood of the survival of the euro.”

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“Currently, the Eurozone is showing a business cycle upswing following two quarters of 0.5% growth, and confidence indicators now pointing towards a 0.7% growth rate for the second quarter. For the Eurozone we can begin to dream of a growth rate for 2017 above 2.0%. The incoming tide is floating all boats, including in the periphery.”

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