



Home > Insights > Market views

## Market View

# Macron's snap election and the effect on markets

Date 21 June 2024

Author Sanjay Rijhsinghani



### At a glance

- Macron called for a snap election after poor EU Parliament results to challenge Le Pen's National Rally, aiming to secure his party's future.

- The snap election caused some market turmoil, with France's CAC 40 Index dropping over 6% and bond spreads widening, increasing political uncertainty in France and the EU.
- Le Pen's party is unlikely to win a clear majority in French parliamentary elections, but the rise of far-right parties adds political risk and market instability.

Last week, we wrote about the surprise results in the India election and the impact on equities. We now shift our focus closer to home to look at the political environment in France, the European election results, and what this means for European equity and fixed income markets.

## Snap election

Following his dismal performance in the European Parliament elections on 9 June, French President Emmanuel Macron called for a snap election, an effort to discredit Marine Le Pen's populist National Rally as a serious party of government. Le Pen's party won nearly 32% of the vote in the European Parliament elections, more than double Macron. Two rounds of voting will take place on 30 June and 7 July, just a few weeks before the Olympics starts in Paris.

## Why now

So why did Macron call a snap election? It took many by surprise and is seen as a huge risk he didn't have to take. He theoretically has until 2027 until the next presidential vote, and the results of the European Parliament election are not a surprise, given his party has been unpopular for some time.

Some political experts speculate that Macron wants Le Pen to win, form a government, and become unpopular all before the 2027 presidential election, anticipating that she will 'mess up' and pave the way for Macron's coalition to win in 2027. Although Macron cannot run for re-election, he aims to secure his party's future at the national and EU level. Indeed, some argue Macron had no choice but to take this gamble, as he lost his majority in the French parliament just two years into his second term. Without a majority, his government struggles to pass laws and must negotiate support for each bill.<sup>1</sup> Given his party's recent significant loss, it's seen as better to act now than struggle for the next few years.

## Not so clear cut

While the National Rally did well in the European election, legislative elections are unlikely to provide such a clear victory. The French parliamentary system requires a candidate to win 50% in the first round or face a run-off.<sup>2</sup> This essentially means it is significantly harder for a far-right candidate to win a seat in the national parliament. Although Le Pen's party might gain more seats, political experts doubt it will be enough to govern.

Nevertheless, the EU elections have led to uncertainty within individual countries, as incumbents were weakened. This will not only weigh on the stability of countries such as France and Germany, but also EU-decision making generally. The results show centrist politicians are holding firm for now, but the gains made by the far-right may leave the continent in a precarious position.

## Elections weigh on markets

It is therefore no surprise we saw European markets come under stress last week. France in particular has had a difficult time since Macron's surprise announcement. France's CAC 40 Index fell more than 6% last week, while spreads between French and German bonds reached levels not seen since 2017.<sup>3</sup>

## Truss part deux?

Is France the new Italy or Greece of Europe? Will we witness a similar reaction in bond markets as we did when Liz Truss's disastrous mini-budget upended bond markets and sent the pound in a downward spiral? France has not had much pressure to keep its finances under control and has significant budget deficits. Now, with a snap election looming, markets are concerned Le Pen's National Rally party could win seats and bring in looser fiscal policies. Consequently, bond markets have repriced to reflect the increasing risk. It is also worth mentioning Italy's nationalist Prime Minister Giorgia Meloni, who has been more moderate than feared. She has carried just enough deficit spending to appease her voter base whilst agreeing on fiscal consolidation with Brussels to avoid market panic.

These are unusual times and as such we can expect markets to be affected by elections. Money managers must increasingly consider political risk, and whether we are witnessing structural shifts in politics that may result in significant policy changes. While we are monitoring these developments closely, our focus remains on companies that demonstrate resilience to political turbulence and can deliver solid returns over the longer term.

[1] Euronews, <https://www.euronews.com/my-europe/2024/06/10/france-snap-elections-why-macron-is-gambling-with-france-and-europe>

[2] Politico, <https://www.politico.eu/article/eu-european-election-results-2024-emmanuel-macron-snap-election-marine-le-pen-national-rally-jordan-bardella-national-assembly>

[3] Bloomberg

*This communication is provided for information purposes only. The information presented herein provides a general update on market conditions and is not intended and should not be construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy. The subject of the communication is not a regulated investment. Past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invest. Although this document has been prepared on the basis of information we believe to be reliable, LGT Wealth Management UK LLP gives no representation or warranty in relation to the accuracy or completeness of the information presented herein. The information presented herein does not provide sufficient information on which to make an informed investment decision. No liability is accepted whatsoever by LGT Wealth Management UK LLP, employees and associated companies for any direct or consequential loss arising from this document.*

*LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*



Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority (FCA). Registered in England and Wales: OC329392. Registered office: Fourteen Cornhill, London, EC3V 3NR.