

THE FRENCH ELECTIONS

WHAT CAN WE EXPECT?

Strategy and economics

Caspar Rock – Chief Investment Officer



Caspar Rock, Chief Investment Officer, discusses the upcoming elections

Between the end of April and the middle of June the French electorate may have up to four opportunities to visit their local polling station - twice to elect a president and twice to elect MPs. European investment markets have become fixated on political risk, so it is worthwhile considering what might happen.

The presidential election first round is on the 23rd April and there are currently 10 candidates. If no candidate gains an absolute majority then there is a second round on the 7th May where the top two candidates go head-to-head in a run-off election – it is very unlikely that any of the candidates will win outright in the first round. In the parliamentary elections there are 577 constituencies which each elect an MP. The first round is on the 11th June where if a candidate wins 50% of the vote and there is at least a 25% turnout they win the seat. Otherwise there is a run-off a week later on the 18th June for all the candidates that won more than 12.5% of the vote, with a ‘first past the post’ system for the second round.

In both elections, the French electorate have used the first round to register a protest vote and so more extreme candidates do well, but in the second round after endorsements have been given and a certain amount of horse-trading done,

more centrist candidates tend to be more successful.

In the presidential election, current polling suggests that no one will win outright in the first round, but that Marine Le Pen from the Front Nationale (FN) will make it to the run-off with the largest share of the vote. Le Pen has clearly campaigned to hold a referendum on the EU, and this is why the markets are watching this election very closely.

The other candidate is likely to be either Emmanuel Macron, who was Minister of the Economy in the current left of centre Administration, (before resigning to set up an independent movement called En Marche!) or Francois Fillon, from the Republican Party, (although he is dropping back in the polls after he and his wife became embroiled in an expenses scandal).

The projected polling for the second round points to a resounding win for Macron as it becomes an anti Le Pen vote. If Fillon beats Macron, Fillon would clearly beat Le Pen, although by a smaller margin than Macron. Unlike in the Brexit and Trump opinion polls, these poll results are statistically significant and have a large margin of error, meaning there would have to be a seismic change of mood in the electorate for Le Pen to win. Whoever wins the presidency has to appoint a Prime Minister, and the holder of the office must represent a majority in parliament. This makes

the parliamentary elections very interesting, and there are more variables to consider. Macron, having started a new political movement as his base for the presidency, does not have the same local infrastructure that the established parties have built over many years, so it will be interesting to see how En Marche! fares: but the most likely outcome would be that there would have to be a coalition administration built of his own MPs (if they win any seats) along with a group of centre right and perhaps centre left parties. In the less likely event that Le Pen were to win, she would face a different set of issues!

Traditionally the parties that are not the FN horse-trade, after the first round of the parliamentary elections, to ensure they maximise the non-FN vote they agree to drop certain candidates in different constituencies.

In 2012 they did this extremely successfully... the FN came 3rd in the first round of voting but only 9th in the second round, and only got two MPs out of 577. The question this time, (given the fragmentation of the parties of the left and right) is whether they will cooperate to the same extent given the clear differences that are coming out in the presidential campaign. This may give an opportunity for the FN to win more seats than they have in the past, but in any case Le Pen and the FN would be very unlikely to win an outright majority in parliament so

would have the tricky task of forming a coalition government.

The most likely outcome is a Macron presidency and a centrist pro-European coalition government given the internal differences and the struggles to implement the structural reforms that the new president wants to implement and that France needs. There should however be something of a relief rally in French and peripheral assets as the threat of greater turmoil in the Eurozone would have been avoided.

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