



French Presidential election round 1: France votes for something different... but not *too* different

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'You cannot create experience. You must undergo it.' Albert Camus

So, the pollsters were – for once in the last couple of years – absolutely spot-on. The two candidates for the second round of the French Presidential election in just under a couple of weeks' time, will be the centrist Emmanuel Macron and the populist Marine Le Pen. And if the pollsters are even roughly correct in their second round analysis, in a fortnight's time we will be heralding the 39 year old Mr Macron as the youngest French President since Napoleon. Not too bad; a man with more experience of investment banking than politics and whose party – En Marche! (translation – 'Forward' or 'On the Move') was only formed in April last year.

With mainstream politicians of the French centre-left and centre-right lining up to endorse him, it would take a dramatic change of events for Mr Macron not to be elected President, and this outcome – after a first round election battle that saw populists from both the hard right and hard left polling at levels not seen before in the modern-day French republic – will correctly be taken positively by financial markets. The euro bounced the most in ten months, and European equities have enjoyed a positive start to the week.

So, given the victory for mainstream candidates in the Dutch election earlier in the year and in the first pivotal round of the French Presidential election, are Europe's travails over? At one level, Continental Europe has stepped away from the brink with the highly likely election of Mr Macron. A victory for Ms Le Pen would put enormous strains on the euro and the broader European integration project – already weakened by the UK's Brexit decision and the economically struggling southern European countries – and lead to a de facto break-up of the European Union as we know it today. Today this risk has significantly receded – and hence the aforementioned financial market moves.

However, let us not kid ourselves that Europe is in the middle of a changing political epoch. The abysmal performance of the long-established parties of the mainstream centre-left and centre-right in the French elections reflects a still-growing malaise across the European Continent of an electorate that simply wants more jobs, higher real wage growth, better economic growth levels and a revival of faith in the future and the institutions that govern. For the two final candidates in the French Presidential election race, to just have three directly aligned members of the current French Parliament reflects this changing backdrop.

Mr Macron is however not a complete neophyte – after all, he was the Economy Minister in outgoing President Hollande’s government until his resignation to run on his own Presidential ticket. However, he will need to build a constituency – not unlike President Trump – to govern effectively and to push through change and reform, to have any hope of rebuilding political and economic confidence levels. This is no easy task, but at least he will not be alone in Europe facing this challenge, given the aforementioned Dutch vote and the upcoming German election in September.

European assets including the euro currency, remain – despite recent positive moves and inflows from the global investment community – lowly valued versus their American equivalents. Further recovery in 2017 seems reasonable, but deep challenges remain for 2018 and beyond.

Being elected President is not very easy... but becoming an effective President is even harder.

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