

Macron's political gamble

Global Matters Weekly

17 June 2024

– Gregoire Sharma, CFA — *Senior Research & Portfolio Analyst*

I recently returned from a wonderful trip to Botswana to yet more political turmoil in Europe. I recall, two weeks prior, as we left London, the UK was still in shock at its prime minister Rishi Sunak's decision to call snap elections for July 4. As my wife and I landed in Johannesburg on our way to Kasane, another big election shock grabbed the newspaper headlines: The significant loss of parliamentary majority of South Africa's ruling party for the past 30 years, the African National Congress (ANC). Whilst 2024 was touted as the election year for the sheer number of countries such as South Africa holding important elections, little did I expect France to throw its hat in the ring! French President Emmanuel Macron's decision to dissolve parliament and hold snap elections (just weeks before the start of the 2024 Olympic Games in Paris no less) seems strange and rushed at first glance but there may be a method to the madness. Will it backfire?

For context, Macron called the parliamentary elections after Marine Le Pen's far-right party (Rassemblement National or RN) recently defeated Macron's centrist party (Renaissance) at the European parliamentary elections, winning more than double the votes. This continues a worrying trend we have seen of late with far-right political parties in Germany and Italy also registering increased shares of the European parliamentary vote.

Macron's troubles started much further back than this though. His popularity plunged as the protests of the so-called "Gilets Jaunes" (Yellow Jackets) movement sprouted at the end of 2018 following the rise in energy prices which had a disproportionately punitive effect on the working and middle classes living in rural areas of the country. In 2022, Macron then lost his parliamentary majority and his popularity sunk to new lows as he was forced to rule by decree to push through unpopular measures such as pensions reform. So, with his popularity so low and the parliamentary elections not due until 2027, why call snap elections now?

"One thing is for certain, 2024 is shaping up to be a bigger year of flux than many thought in terms of political change."

It seems Macron, seeing the increase in popularity of RN, may be banking on its poor ability to govern the country should they win a majority in parliament. That is quite a gamble to take. With three years until the presidential elections, should RN take over the country's governance, the risk is that they perform well. This risk should not be understated. Jordan Bardella, the leader of the RN party and Marine Le Pen's protégé, connects well with young voters, making regular appearances on social media. He also rates well amongst older and well-educated voters – no wonder in France he is called Marine Le Pen's "Marketing Product". But whilst Bardella is undeniably a good orator, the question is whether he can also walk the walk. At 28 years old, he does not have much of a professional CV having neither gone to university, nor held a job outside of the RN party. Importantly, he has no experience in governing, which one would think should caution French voters when electing their prime minister.

More likely, though, Macron would have hoped for the leftwing parties and his centrist party to unite against the far right. But this seems to have backfired. Indeed, these snap elections have spurred left-wing parties into action as they announced late last week a deal to run as an alliance (Le Nouveau Front Populaire). In many constituencies, Macron's candidates now probably won't make it to the second round of voting. Ultimately this should lead to an even more fractious parliament given coalitions rarely run smoothly. Indeed, France's four left-wing parties have historically rarely seen eye to eye and so expecting this new alliance to run smoothly in practice warrants some level of skepticism. Not least because the leader of the far-left party (La France Insoumise or LFI), Jean-Luc Mélançon, a polarising and

deeply controversial figure in French politics, has hinted he would like to be the alliance's candidate for prime minister. In any case, whilst extreme right and left candidates will undoubtedly win more seats, they should not win enough to secure a majority in parliament which is likely to lead to a very messy three years of governing a country that likes to voice its discontent...

One thing is for certain, 2024 is shaping up to be a bigger year of flux than many thought in terms of political change. In the case of France, the president has made a huge gamble

which he may come to regret. Macron may have envisaged two outcomes; one where he allows the far-right party to rule until the next presidential elections in the hope they are exposed for their inability to govern. Another where the left-wing parties and his centrist party unite against the far-right. However, given the recent announcement of the left-wing alliance, the most likely outcome as things stand is a frustrating governing stalemate. As always, uncertainties abound, but one worrying legacy of Macron's second term could potentially be to have allowed the far-right into power. History will tell us soon enough.

The Marketplace

- Global equities rose 0.4%
- US and European equities diverged, with the former boosted by softer inflation figures, and the latter weighed down by political uncertainty
- Brent crude rose 3.8% to \$82.62 per barrel
- Gold rose 1.7% to \$2,333.04 per ounce

Market Focus

US

- US equities rose 1.6%
- US CPI (Consumer Price Inflation) came in softer than expected, with the headline measure increasing 0.01% month-on-month (vs 0.1% expected), taking the year-on-year figure to 3.3%. The core measure increased 0.16% month-on-month (vs 0.3% expected) taking the year-on-year figure to 3.4%
- The Federal Reserve decided to keep rates unchanged striking a more hawkish tone, with their dot plot now pointing to just one rate cut over the rest of 2024, having signalled three cuts back in March
- The PPI (Producer Price Inflation) release for May was also softer than expected, with monthly headline PPI falling 0.2% (vs a 0.1% increase expected), which left the year-on-year number at 2.2% (vs 2.5% expected)

Europe

- European equities fell 2.8%
- Eurozone industrial production fell 0.1% in April (vs a 0.2% increase expected)
- A poll by Elabe for Les Echos found that President Macron's approval rating was down to 24%, which is its lowest level since December 2018, during the Yellow Vests protests

UK

- UK equities fell 1.2%
- GDP came in unchanged in April, better than the 0.1% decline expected
- UK unemployment rate rose to 4.4% (vs. 4.3% expected) over the three months to April, which is its highest level in two-and-a-half years
- The latest YouGov poll showed the Reform party overtaking the Conservative's for the first time, with the Labour party still 18 percentage points ahead

Asia/Rest of The World

- Global emerging market equities rose 0.5%
- Japanese equities fell 0.3%, while Chinese equities fell 1.1%
- China CPI rose 0.3% year-on-year (vs 0.4% expected), while PPI contracted 1.4% (vs -1.5% expected)
- Japan's PPI rose 2.4% year-on-year (vs 2.0% expected) following the prior month's upwardly revised increase of 1.1%
- China retail sales rose 3.7% year-on-year (vs 3% expected), while industrial output grew 5.6% (vs 6.2% expected)
- China's real estate crisis continued to weigh on investment, with the overall fixed asset investment figures expanding 4.0% year-to-date (vs 4.2% expected) and new home prices dropping at the fastest pace since October 2014, falling 0.7% month-on-month marking the eleventh straight decline

Global Matters Weekly

17 June 2024

Asset Class/Region	Currency	Currency returns			
		Week ending 14 June 2024	Month to date	YTD 2024	12 months
Developed Market Equities					
United States	USD	1.6%	3.0%	14.4%	25.5%
United Kingdom	GBP	-1.2%	-1.4%	7.4%	11.6%
Continental Europe	EUR	-2.8%	-1.3%	8.6%	13.0%
Japan	JPY	-0.3%	-0.9%	17.3%	22.5%
Asia Pacific (ex Japan)	USD	0.2%	3.1%	7.7%	9.7%
Australia	AUD	-1.7%	0.3%	3.5%	12.2%
Global	USD	0.4%	1.4%	11.1%	20.6%
Emerging markets equities					
Emerging Europe	USD	-1.8%	-3.6%	11.0%	27.0%
Emerging Asia	USD	0.8%	4.2%	10.3%	11.6%
Emerging Latin America	USD	-2.6%	-6.9%	-16.4%	-7.6%
BRICs	USD	-0.2%	1.9%	6.9%	8.0%
China	USD	-1.1%	0.6%	7.4%	-2.2%
MENA countries	USD	0.2%	0.9%	-5.1%	-2.3%
South Africa	USD	4.2%	3.6%	-0.8%	0.9%
India	USD	0.8%	4.2%	8.3%	24.2%
Global emerging markets	USD	0.5%	2.9%	6.4%	9.0%
Bonds					
US Treasuries	USD	1.4%	1.8%	0.0%	2.2%
US Treasuries (inflation protected)	USD	0.8%	0.9%	0.8%	2.9%
US Corporate (investment grade)	USD	1.2%	1.6%	1.0%	6.7%
US High Yield	USD	0.3%	0.7%	2.3%	10.4%
UK Gilts	GBP	1.6%	2.1%	-1.7%	6.3%
UK Corporate (investment grade)	GBP	0.7%	1.0%	0.1%	10.8%
Euro Government Bonds	EUR	0.8%	1.0%	-1.2%	3.7%
Euro Corporate (investment grade)	EUR	0.8%	1.0%	0.8%	6.6%
Euro High Yield	EUR	-0.2%	0.3%	2.9%	9.7%
Global Government Bonds	USD	0.4%	0.8%	-3.5%	-0.8%
Global Bonds	USD	0.6%	0.9%	-2.1%	2.0%
Global Convertible Bonds	USD	-0.7%	-0.3%	-1.8%	2.0%
Emerging Market Bonds	USD	0.9%	1.2%	1.9%	9.2%

Global Matters Weekly

17 June 2024

Asset Class/Region	Currency	Currency returns			
		Week ending 14 June 2024	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	1.3%	1.3%	-2.1%	5.5%
Australian Property Securities	AUD	-1.5%	1.8%	11.0%	24.3%
Asia Property Securities	USD	-2.3%	-1.4%	-9.1%	-9.1%
Global Property Securities	USD	0.1%	0.1%	-2.6%	5.6%
Currencies					
Euro	USD	-1.0%	-1.3%	-3.3%	-1.5%
UK Pound Sterling	USD	-0.3%	-0.3%	-0.6%	-0.1%
Japanese Yen	USD	-0.4%	-0.1%	-10.5%	-11.4%
Australian Dollar	USD	0.4%	-0.4%	-3.2%	-3.1%
South African Rand	USD	2.2%	2.3%	-0.8%	-0.5%
Swiss Franc	USD	0.6%	1.4%	-5.8%	0.7%
Chinese Yuan	USD	-0.1%	-0.2%	-2.1%	-1.5%
Commodities & Alternatives					
Commodities	USD	0.8%	-0.5%	8.1%	12.2%
Agricultural Commodities	USD	-0.8%	-2.6%	4.2%	4.2%
Oil	USD	3.8%	1.2%	7.2%	12.9%
Gold	USD	1.7%	0.2%	13.1%	19.3%

Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the

underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

© Momentum Global Investment Management Limited 2024