

Macron wins French vote

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Centrist Emmanuel Macron was set to secure a second term as France's president, heralding a deepening of European integration at a time the continent is under extraordinary stress. Macron fended off a challenge by eurosceptic Marine Le Pen for the second time, albeit with a smaller margin than in 2017. We could see modest gains for French and peripheral bonds, the euro and European stocks as the result maintains the status quo and averts a potentially disruptive scenario.

The election result is key for Europe's future shape, in our view. The French president is the head of state and leads international affairs. Macron, who was the first French president to be re-elected in 20 years, is committed to deepening EU integration. In contrast, Le Pen advocated to transform the EU into an "association of free nations."

Macron has pushed to make the EU's fiscal rules more flexible and increase common EU funds for investment. France needs fiscal space. The country had the fifth-highest debt-to-GDP ratio in the euro area at the end of 2021's fourth quarter, according to Eurostat data. Plus, interest rates are rising with the European Central Bank set to start to normalize policy.

In addition, Russia's invasion of Ukraine has created further spending needs to finance defense and enable the green transition. Macron supports more investment in nuclear power and renewables to alleviate the energy crisis, and he is a proponent of an EU carbon tax. Germany is set to remain France's key partner, while Macron also is likely to deepen ties with partners such as Italy on fiscal coordination and other EU policy areas.

On the domestic front, Macron is likely to extend his push for structural reforms in an effort to increase growth and generate fiscal savings. The parliamentary elections in mid-June will determine Macron's ability to deliver on his domestic agenda. If his party falls short of a clear majority, his plans could be curtailed at the margin as he will have to strike deals with other parties. Macron's mandate arguably is already weaker than in 2017 when he beat Le Pen by 66% vs. 34%. This time, the margin was projected to be narrower at 58% vs. 42% amid low voter turnout.

What does the result mean for markets? Macron represents the status quo versus the more uncertain scenario of a Le Pen presidency. We could see yields on French government bonds edging down versus German bunds and French stocks ticking up. Peripheral European bonds like Italy's and Spain's as well as the euro could post modest gains on the prospect for deeper European integration.

Key views

Re-election of centrist Macron averts a more uncertain and potentially disruptive Le Pen win.

Macron will seek to deepen EU integration and advance domestic structural reforms.

We could see modest gains for peripheral bonds, the euro and French stocks on the status quo result.

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