



French Presidential second round – and now the real work starts

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"I will respect everyone in their beliefs, I will seek reconciliation because I want the unity of our people. Finally, I will serve you with humility, with strength, in the name of our national rallying cry: Liberté, Egalité, Fraternité" Emmanuel Macron

So despite the pollsters being wrong – by an even greater margin than on the UK's Brexit referendum result or the US Presidential vote – the centrist Emmanuel Macron garnered just over two-thirds of votes successfully cast for the biggest French Presidential vote victory since Jacques Chirac's 2002 victory against Jean-Marie Le Pen, the Father of yesterday's losing candidate Marine Le Pen.

At one very clear level, Macron's success is a victory for the continuation of the European ideal. His candidacy has been cloaked in the flag of the European Union, and the sharp relief expressed in the messages of congratulations from other European political leaders reflect this. As with the Dutch elections just under two months ago, the forces of populism have politically been unsuccessful in gaining power, and pro-European mainstream politicians have another term in office to stimulate faith in pan-European ideals.

France is especially influential in the development of this vision, given the country's size plus proud and important history in the

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creation and administration of the modern European Union and euro single currency project. Without France, neither of these initiatives can properly function and – until recently – it was an accepted fact that the Franco-German partnership at the heart of Europe pushed forward together. The French economic malaise of the last decade, which has led to high unemployment, suppressed economic growth and internal political angst compared to their erstwhile German partners, has helped to unsteady the European economic and political ship.

So, does Monsieur Macron have a range of insightful answers? At face value, his proposed legislative initiatives including making public investments worth Euro50 billion spread over five years for

environmental measures, apprenticeships, digital innovation and public infrastructure, lowering the corporation tax rate to 25% from 33.3% and pledging to make material reforms in France's state pensions, and policy of propping up failing businesses appears to be a step in the right direction. His challenge will be to shape a coalition of sufficiently like-minded interests in the French Parliament – following upcoming elections in a few weeks' time – to push through such much-needed reforms. Even modest success here could have a cascading positive impact on France's economic performance, and give a vision for other Western European countries trying to revitalise both economic growth and political hope. In investing terms, the big winners in such a scenario would be the currently undervalued Euro – which would re-attract global capital flows – and sectors/companies (for example in the retail, construction and banking sectors) with significant Eurozone revenues and profits.

As for the Brexit debate, the re-election of mainstream, pro-European politicians may appear to potentially cause problems. However, an un-cohesive, economically hindered and politically failing European Union is likely to be a lose-lose for everyone. Common sense – and a softer Brexit – is much more likely to prevail with a European Union that is feeling better about itself.

The financial markets are not without foresight however. Inflows into European equities and the euro currency started to turnaround earlier this year, and the noticeably positive reaction to Macron's first round victory two weeks ago will not be repeated after the second round complete triumph. The travelling hopefully period is now coming to a close, and with the arrival formally in a week or so of President Macron, reality will have to start kicking in. I still like the relative valuation and opportunities contained within European stock markets, but as 2017 rolls into 2018 you are going to have to increasingly believe that some element of change is coming.

'Reform or die' sounds a bald and provocative observation, but for the French political economy and the broader cohesive Eurozone project it is close to reality. Growth has to be boosted, labour market flexibility enhanced, and general productivity/competitiveness levels improved, not just in France but in large other swathes of the European Union. President Macron probably has until the end of this year to work out the final details and bring together his effective Parliamentary majority, and then he is going to have to start proving up. But if he does, the motivations for others will build. After all, the German supply side reforms of the 1990s or the British equivalent changes in the 1980s historically show conviction politicians can push through change in Western Europe.

Bonne chance Monsieur Macron – more than just your potential re-election in five years' time rests on this. ■

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