

Weekly Digest

Week ending **23 April 2017**

French politics: vive la difference

Overnight the votes were counted in the first round of the French presidential election and the result signifies substantial changes of the guard in French politics. Emmanuel Macron, something of a political newcomer, secured the largest share of the votes cast (23.8%), with Marine Le Pen second on 21.5%. While much of the commentary in the build up to the election has been the prospect of Le Pen's success, the first round result means that it is the first time in many decades that neither of France's main left or right wing parties has a candidate in the second round.

France's first round vote was broadly consistent with polling data ahead of the event. So, while there may not have been the outright shock that was experienced as a result of Brexit or Trump's election, the result of the first round still represents a big deal for French politics. The implication is clear and consistent with the votes in the US and UK insofar as the clear message from the electorate is that the political status quo wasn't working for them and that they feel underserved by the established political elite. Furthermore because Le Pen garnered over a fifth of the vote at the first round, there is also a strong anti-EU sentiment in France which echoes with last year's Brexit vote.

Mr Macron represents a new direction for French politics. The centrist candidate does not have the backing of a major party and, at 39 years old, he could become the youngest president in French history. In the lead up to the first round vote, Mr Macron's bid was buoyed by a number of high profile supporters getting behind him as the 'non Le Pen' candidate and in the aftermath of yesterday's vote many of those defeated candidates have now backed Mr Macron and urged their voters to do the same. As a result Mr Macron is now the favourite to win the final vote - due to take place on 7 May.

A couple of months ago the weekly blog turned its attention to the upcoming French election. At the time Macron's candidacy was still something of a novelty but it suggested

that the vote would be less about the traditional tension between left vs. right and more premised on protectionism vs. globalisation. If Le Pen were taken over the line by a silent supporter base it would be a catastrophic blow for the European Union. Firstly Le Pen wants to take France (a founding member of the bloc) out of the Eurozone and will likely hold a referendum on leaving the EU. The second reason is that an erstwhile far right party winning a presidential election in Europe would rightly send shock waves through Brussels. This would call into question one of the key *raison d'être* of the European project as a response to the political and military upheaval seen in the region in the 20th century (and indeed countless times in the centuries before). But in truth, even if Le Pen does not win outright, the fact that she has made it through to the second round of voting should be deemed a bold message from the electorate of France. The good news is that Mr Macron is also something of a political oddity compared to the relative hegemony of much of France's post war political history and as a result he should be well placed to embrace this discontent rather than try to sweep it under the carpet. Presently Le Pen is expected to trail Macron by between 20 and 30% in the second round vote which, while substantial in terms of her defeat, still implies that she gains up to 40% of the votes in the second round, which should in itself provide plenty of food for thought for the French establishment.

So, France continues the recent trend of a big anti-establishment vote and all eyes are now on the second round in two weeks' time. While the prospect of a victory for Mr Macron may be somewhat settling thanks to his pro EU stance, his presidency may still be a difficult one because without the backing of a major party he may struggle to secure a majority in the national assembly, in which case he would have to negotiate to have his policies approved through parliament. Marine Le Pen represents the largest share of the vote for an established party and as a result even if she loses the second round her influence in France's political landscape may be substantial..

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The Marketplace

- Equities & Euro up following first round of French election
- May calls snap UK election
- Flash PMI's encouraging in Europe, less so in US
- UK retail sales decline in March
- Poor week for oil as US inventories rise

Market Focus

France

- Sunday saw the first round of voting in the pivotal French Presidential election. With 94% of votes counted, centrist independent candidate Emmanuel Macron (23.8%) looks to have won the first round, with extreme far-right candidate Marine Le Pen (21.7%) in second place. The two frontrunners will now face off in a head-to-head second round of voting on the 7th May, with Macron the favourite.
- Macron, a supporter of the EU, is seen as the most market friendly candidate – evidenced by the moves in Continental European equities, which after losing 0.4% last week, are up 2.1% at time of writing on Monday, while the French CAC 40 index is up 4.5%.
- The Euro is similarly 1.2% higher against the US dollar, at USD 1.09 – its highest level since late March – following a 0.7% rise last week.

UK

- On Tuesday Theresa May, in a surprise U-turn on previous statements, called for a snap general election to be held on the 8th June, which was consequently approved by parliament the next day.
- The prime minister said that her change of heart on calling an election primarily stemmed from her desire to gain more seats in parliament in order to give her a stronger negotiating stance when determining the exit conditions of the UK from the European Union.

- Sterling surged following the announcement, gaining 2.2% on the day versus the dollar, and finished the week at its highest level since September, at USD 1.28. This strength had an adverse effect on UK equities which fell 2.4% on the day, reflecting the high proportion of UK companies who generate revenues abroad.
- Regarding economic data releases the biggest surprise was monthly retail sales, which, after rising 1.7% in February, recorded their largest monthly decline since 2010, falling 1.8% over March.

UK

- US equities rose 0.9% over the week, including a 0.8% rise on Thursday after being buoyed by comments made by Treasury Secretary Mnuchin that the Trump administration is “pretty close” to bringing forward “major tax reform”.
- Meanwhile, flash Purchasing Managers Index (PMI) numbers for April were relatively disappointing, with the manufacturing PMI falling 0.5 points to 52.8, and the services PMI falling 0.3 points to 52.5. Although still representing expansion by being above 50, the numbers were interpreted by some to indicate the stalling momentum of US growth.

Europe

- PMI numbers for the Eurozone were more encouraging, with the manufacturing (56.8) and services (56.2) indexes rising 0.6 and 0.2 points respectively.

Oil

- Brent crude oil prices recorded a weekly decline of 7.0% to USD 51.96 per barrel.
- Falls primarily followed data showing US gasoline stockpiles rising for the first time since February. While a following report showed the number of rigs drilling for oil in the US rising for a 14th consecutive week, bringing the total rig count to 688 – the most since April 2015.

James Klempster (CFA) & Oliver Bickley

Weekly Digest

Week ending 23 April 2017

| Asset Class/Region | Currency | Currency returns | | | |
|-------------------------------------|----------|-----------------------------|------------------|----------|-----------|
| | | Week ending 21 Apr. 2017 | Month to date | YTD 2017 | 12 months |
| Developed Market Equities | | | | | |
| United States | USD | 0.9% | -0.5% | 5.4% | 14.0% |
| United Kingdom | GBP | -2.8% | -2.5% | 1.2% | 16.0% |
| Continental Europe | EUR | -0.4% | -0.9% | 5.9% | 12.2% |
| Japan | JPY | 2.0% | -1.6% | -1.0% | 9.1% |
| Asia Pacific (ex Japan) | USD | -0.4% | -0.1% | 12.7% | 15.2% |
| Australia | AUD | -0.6% | -0.2% | 4.6% | 15.9% |
| Global | USD | 0.6% | -0.5% | 5.8% | 11.2% |
| Emerging Market Equities | | | | | |
| Emerging Europe | USD | 1.2% | -0.4% | 1.0% | 7.4% |
| Emerging Asia | USD | 0.1% | 0.3% | 13.7% | 16.7% |
| Emerging Latin America | USD | 0.0% | -0.1% | 11.9% | 18.7% |
| BRICs | USD | 0.2% | 0.2% | 11.8% | 19.1% |
| MENA countries | USD | -1.4% | -0.2% | 0.9% | 7.8% |
| South Africa | USD | 0.0% | 4.4% | 8.9% | 7.9% |
| India | USD | -0.6% | -0.3% | 17.4% | 20.1% |
| Global Emerging Markets | USD | 0.2% | 0.5% | 11.9% | 15.3% |
| Bonds | | | | | |
| US Treasuries | USD | 0.0% | 1.0% | 1.7% | -0.1% |
| US Treasuries (inflation protected) | USD | -0.6% | 0.3% | 1.7% | 2.6% |
| US Corporate (investment grade) | USD | 0.0% | 1.2% | 2.4% | 3.7% |
| US High Yield | USD | 0.1% | 0.5% | 3.2% | 13.4% |
| UK Gilts | GBP | 0.0% | 0.8% | 2.4% | 9.0% |
| UK Corporate (investment grade) | GBP | 0.0% | 0.5% | 2.4% | 10.1% |
| Euro Government Bonds | EUR | -0.1% | 0.5% | -1.1% | -0.5% |
| Euro Corporate (investment grade) | EUR | -0.3% | 0.4% | 0.7% | 2.6% |
| Euro High Yield | EUR | 0.1% | 0.4% | 2.3% | 7.4% |
| Japanese Government | JPY | 0.0% | 0.7% | 0.2% | -2.3% |
| Australian Government | AUD | -0.4% | 1.0% | 2.3% | 2.9% |
| Global Government Bonds | USD | 0.3% | 1.3% | 2.8% | -2.4% |
| Global Bonds | USD | 0.2% | 1.0% | 2.4% | -1.4% |
| Global Convertible Bonds | USD | 0.4% | 0.3% | 4.1% | 3.3% |
| Emerging Market Bonds | USD | 0.5% | 1.7% | 5.5% | 7.2% |

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| Asset Class/Region | Currency | Currency returns | | | |
|--------------------------------|----------|-----------------------------|------------------|----------|-----------|
| | | Week ending 21 Apr. 2017 | Month to date | YTD 2017 | 12 months |
| Property | | | | | |
| US Property Securities | USD | 0.9% | 2.9% | 3.6% | 8.5% |
| Australian Property Securities | AUD | -1.1% | 4.1% | 2.9% | 5.1% |
| Asia Property Securities | USD | -0.6% | 2.7% | 12.0% | 8.4% |
| Global Property Securities | USD | 0.2% | 2.6% | 6.4% | 6.6% |
| Currencies | | | | | |
| Euro | USD | 0.7% | 0.0% | 1.6% | -5.3% |
| UK Pound Sterling | USD | 2.2% | 2.0% | 3.6% | -10.7% |
| Japanese Yen | USD | -0.3% | 2.1% | 7.4% | 0.4% |
| Australian Dollar | USD | -0.5% | -1.4% | 4.8% | -2.6% |
| South African Rand | USD | 2.1% | 2.0% | 4.1% | 8.9% |
| Swiss Franc | USD | 0.6% | 0.2% | 2.0% | -2.3% |
| Chinese Yuan | USD | -0.2% | -0.2% | 0.8% | -6.0% |
| Commodities & Alternatives | | | | | |
| Commodities | USD | -3.6% | -2.1% | -3.8% | 3.3% |
| Agricultural Commodities | USD | -1.7% | -1.8% | -2.1% | -4.9% |
| Oil | USD | -7.0% | -1.6% | -8.6% | 16.7% |
| Gold | USD | 0.0% | 2.9% | 11.7% | 3.1% |
| Hedge funds | USD | 0.1% | 0.0% | 1.7% | 5.6% |

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The Rex Building, 62 Queen Street, EC4R 1EB*

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