

French Presidential Elections

Perspectives and Investment Strategies in the Aftermath of the First Round

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Analysis and Market impact

by



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Analysis and Market Impact

The French presidential elections remained uncertain until the end:

- **Four potential candidates for the second round: François Fillon, Marine Le Pen, Emmanuel Macron and Jean-Luc Mélenchon,**
- **Two pro-Europeans (François Fillon and Emmanuel Macron), two Eurosceptic or even Europhobes (Marine Le Pen and Jean-Luc Mélenchon),**
- **A candidate of a traditional party (François Fillon), a candidate without an official party (Emmanuel Macron), and two "extremist" or "populist" candidates, one from the right (Marine Le Pen), one from the left (Jean-Luc Mélenchon).**

In short, 4 candidates, 3 men, 1 woman and 6 possibilities.

The polls were tight to the end, though with one pair constantly leading the race: Emmanuel Macron and Marine Le Pen.

Second round of the elections: A duel Macron – Le Pen

The first round finally delivered its verdict: Emmanuel Macron (En Marche!) arrived in the lead with 23.9% of the votes, ahead Marine Le Pen (Front National) with 21.4%. It is therefore between these two candidates that the future President of the French Republic is. François Fillon (Les Républicains) got 19.9% of the votes, Jean-Luc Mélenchon (La France Insoumise) 19.6%, Benoît Hamon (Parti Socialiste) 6.3%, Nicolas Dupont-Aignan 4.7%, Jean Lassalle 1.2%, Philippe Poutou 1.1%, François Asselineau 0.9%, Nathalie Arthaud 0.6% and Jacques Cheminade 0.2%.

The rate of abstention was around 21.8%, a decent score in recent history, in comparison with previous presidential election first rounds (20.52% in 2012, 16.22% in 2007, 28.4% in 2002, 21.6% in 1995, 18.6% in 1988, 18.9% in 1981). One of the stakes of the second round will be to mobilize this electorate without conviction.

We witness for the second time in four presidential elections, the disappearance of the candidate of the traditional left (the Socialist Party); for the first time, the disappearance of the candidate of the traditional right ("Les Republicans") and the presence of a candidate without an official political party (E. Macron). It is in this sense that the French election represents a strong break with the past.

What do the polls say for the second round?

Until now, the populists, although they have been announced or feared, have not been able to take power neither in Italy, nor in the Netherlands, Austria or Spain. This will also be the case for Germany, with the two leading candidates (accounting for more than 60% of voting intentions) are strongly pro-European candidates (Martin Shultz and Angela Merkel).

As regard France, the polls institutes had so far analysed the six possible binomials: Macron - Le Pen, Le Pen - Fillon, Fillon – Macron, Le Pen - Mélenchon, Macron - Mélenchon and Fillon - Mélenchon. What emerged from the different scenarios was that Macron remained in the lead in the second round, regardless of the opponent, that Marine Le Pen did not win the election in the second round regardless of the candidate, and that a Francois Fillon's victory would prove complicated given the percentage of undecided.

As for the Macron – Le Pen binomial selection in the first round of elections, the latest polls indicated that the percentage of undecided was less than the difference between the voting intentions for the two candidates, which gives "some comfort" for the election of E. Macron. But let's be clear: the percentage of undecided and the probable reduction of the abstention rate (as is the case in each second round of presidential elections - 8 points in 2002 and 2 to 3 points on average) add uncertainty.

Let us recall, however, that in the French elections, whether national, regional or local, the transfer of votes has so far led to the elimination of the "extremist" parties: the right either withdraws or votes for the left (and vice versa) to avoid the election of the candidate of the National Front, for example. It was thus (but not only for this reason) that, after having made nearly 17% of the votes in the legislative elections, the National Front had finally obtained only 2 seats of representatives in the National Assembly (0,35% of the seats). François Fillon and Benoît Hamon already announced they would vote for E. Macron and recommend their supporters to do the same. Some other candidates reject the Front National officially but do not want to give voting instructions.

The programs of both candidates at a glance

The table below is based on the candidates' programs and on the website of the French newspaper "Le Monde". We added colour for the two candidates who are qualified in the second round: a blue colour for E. Macron, orange for M. Le Pen, and purple for the points of agreement. The same colours have also been added for each beaten candidate, considering the proximity to either Le Pen, or Macron, and this has been done measure by measure. This is important because the electorate of the beaten candidates will obviously have to vote either to Emmanuel Macron or Marine Le Pen. Some comments from the table below:

- In terms of security and immigration, François Fillon and Marine Le Pen are the closest;
- In economic matters, François Fillon and Emmanuel Macron are close, as are Jean-Luc Mélenchon and Benoît Hamon;
- As far as Europe is concerned, François Fillon and Emmanuel Macron are also very close;
- Apart from a few specific measures such as universal income, Benoît Hamon is a "sort of combination" of Jean-Luc Mélenchon and Emmanuel Macron;
- On some subjects (not the most important, and not the most numerous, let us admit), there are strong similarities between Macron, Fillon and Le Pen.

Ahead of the second round of the presidential elections, several conclusions must be drawn:

- A large part of the electorate of B. Hamon will turn to E. Macron;
- A (large) part of the electorate of F. Fillon will go to E. Macron, and another part - a smaller one - will go to M. Le Pen;

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- The electorate of J.L. Mélenchon is not supposed to choose one of the two candidates in the second round, as the divisions remain strong. A large part may turn to E. Macron, though;
- The electorate of N. Dupont-Aignan (democrats and anti-europeans) might hesitate between E. Macron and M. Le Pen.

The table below refers to the main programs and cleavages at the dawn of the second round, as well as indications of their "proximity" (blue for "Macron group", and orange for "Le Pen group", purple for consensual measure).

A comparison of the two finalists and the three main contenders (Sources: Le Monde, campaign programs, Amundi) – see annex for details on measures

	E. MACRON	F. FILLON	M. LE PEN	J.L. MELENCHON	B. HAMON
Civil Servants	120 000 jobs to be cut	500 000 jobs to be cut	-	Increase number of civil servants	Increase number of civil servants
Pensions	No change	Raise lower pensions	Raise lower pensions	Raise lower pensions	Authorise transfers between spouses
Unemployment benefits	Extend them (to cover resignations under certain conditions)	Introduce a phased withdrawal of allocations	-	Extend them (to cover resignations)	Extend them (to cover resignations)
Retirement Age	Keep current age (62)	Increase to 65	Bring back to 60	Bring back to 60	Keep current age (62)
Minimum social benefits	Creation of a "one-size-fits-all" allocation	Creation of a "one-size-fits-all" allocation	Keep the current French minimum social benefits	Increase minimum	Create a universal income
Social Security Scheme for the Self-Employed (RSI)	To be scrapped	To be reformed	To be reformed	To be reformed	To be reformed
Minimum Wage (SMIC)	No Change	No Change	No Change	Increase	Increase
Housing Tax (similar to council tax)	Scrapped for 80% of households	-	Freeze tax?	Keep the tax	-
Gifts & Inheritance tax	Keep the current scheme	Promote the transfer of wealth	Promote the transfer of wealth	Increase taxation for large estates	Limit taxation for smaller estates
VAT	Keep current rate	Increase	Keep current rate	Reduce for certain products	Reduce for certain products
Tax Evasion	Increase measures to counter tax evasion	-	Increase measures to counter tax evasion	Set up framework for capital transfers	Scrap the « Bercy Locker »
Corporate Tax	Reduce	Reduce	Reduce	Reduce depending on the use of tax savings	Reduce depending on the use of tax savings
Income Tax	Individualise income tax	-	Reduce Tax	More progressive tax plan	More progressive tax plan

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	E. MACRON	F. FILLON	M. LE PEN	J.L. MELENCHON	B. HAMON
Corporate Tax Credits for competitiveness and job creation	Turn into a reduction in tax and social security contributions	Turn into a reduction in tax and social security contributions	Turn into a reduction in tax and social security contributions	Reinforce the counterparties	To be scrapped
Solidarity Tax on Wealth (ISF)	Investments in the economy to be exempt	To be scrapped	Keep as it is	To be reformed	To be reformed
Made in France	-	-	To be supported	Introduce European Protectionism	To be supported
Social Security Contributions	Reduce for companies and employees	Reduce for companies and employees	Reduce for SMEs and VSBs	Increased	Charged on Value Added (Robot Tax)
Public Procurement	Support European companies in Europe	Support European companies in Europe	Support French companies	Promote a social economy	Promote a social economy
Uberisation of work	Align the rights of the self-employed with those of employees	-	Create a management Framework	Fight against it	Align the rights of the self-employed with those of employees
Terminations	Manage the Employee Tribunal payouts	Make easier	-	Make harder	Make harder
Social Housing	Construct more	Relax Laws	Priority to be given to French Nationals	Strengthen sanctions against illegal housing	Strengthen sanctions against illegal housing
Executive Compensation	Publish information on pay gap between Executives and employees	-	-	Create a framework to manage them	Create a framework to manage them
Minimum Working week	Relax laws	Increase	Keep the 35 hours working week	Reduce the hours	Keep the 35 hours working week
Employment law	Keep it as it is	Increase reforms	Abolish it	Abolish it	Replace it
Common Agricultural Policy (PAC)	More protectionist and ecological policy	Reform it	Go back to national agricultural policy	More protectionist and ecological policy	More protectionist and ecological policy
Public Spending	Reduce share of GDP	Reduce share of GDP	Cut spending on Immigration & Europe	Resume investments	Resume investments
Public Debt	Get under control and reimburse	Get under control and reimburse	Get under control and reimburse	Part of the debt is not legitimate and shouldn't be paid back	Get under control and reimburse
Family reunification	Keep as is	Scrap it	Scrap it	Keep as is	Keep as is
Immigration Quotas	Against	Pro	Pro	Against	Against
Asylum Rights	Decrease response time	Decrease response time	More astringent conditions	Favour the welcome of asylums seekers	Favour the welcome of asylums seekers

	E. MACRON	F. FILLON	M. LE PEN	J.L. MELENCHON	B. HAMON
Control of European Borders	Reinforce	Reinforce	Control the national borders	More flexible	-
Family reunification	Keep as it is	More astringent conditions	More astringent conditions	Soften the conditions	Keep as it is
Birthright citizenship	Keep as it is	More astringent conditions	Remove	Maintain	-
Schengen agreements	To be upheld	To be reformed	To be removed	To be reformed	-
Healthcare reimbursement	Better reimburse thanks to health mutuals	Better reimburse thanks to health mutuals	Better reimburse thanks to health mutuals	100% reimbursed thanks to social security	Improve the reimbursement of social security
Family allowances	-	<u>Restore the universality of family allowances</u>	Restore the universality of family allowances	Paid as of the 1 st child	Paid as of the 1 st child
Civic service	Restore mandatory civic service	Keep as it is	Restore mandatory civic service	Initiate a mandatory civic / military service	Keep as it is
Deprivation of citizenship	Unfavourable	Favourable	Favourable	Unfavourable	Unfavourable
Prison	Create between 10 000 et 20 000 prison spaces	Create between 10 000 et 20 000 prison spaces	Create 40 000 prison spaces	Promote alternative sentences	Promote alternative sentences
Police workforce	To be increased	To be increased	To be increased	To be increased	To be increased
The position of France in NATO	To oppose new entries in NATO	-	Exit from integrated command	Exit from NATO	Remain in the integrated command
Defence budget	To be increased to 2 % of GDP	To be increased to 2 % of GDP	To be increased to 2 % of GDP	Keep as it is	To be increased to 2 % of GDP
Nuclear	Reduce nuclear share	Modernize and develop nuclear	Modernize and develop nuclear	Get out of nuclear	Get out of nuclear
TAFTA & CETA treaties	Favourable	Unfavourable	Unfavourable	Unfavourable	Unfavourable
Tax and social harmonisation in Europe	Favourable	Favourable	-	Favourable	Favourable
Compliance with the Stability Pact	Maintain the 3% rule	Maintain the 3% rule	Restore a budgetary sovereignty	Bypass the rules	Soften the rule
Euro	Create a Eurozone governance	Create a Eurozone governance	Return to franc	To have the euro exist alongside a national currency	Create a Eurozone governance

	E. MACRON	F. FILLON	M. LE PEN	J.L. MELENCHON	B. HAMON
European Union	Reinforce the existing Europe	Reinforce the existing Europe	Propose an exit referendum	Redesign a less liberal Europe	Reinforce the existing Europe
UEM governance	Create a position of European Minister of Economy and Finance	Create a European treasury in charge of mutualised public debt	Return to national sovereignty (monetary, budgetary and fiscal)	Return to national sovereignty	Reduce the Maastricht criteria
Foreigners' right to vote at local elections	Unfavourable	Unfavourable	Unfavourable	Favourable	To be submitted by referendum
Number of parliamentarians	To be reduced	To be reduced by referendum	To be reduced	Remove the Senate	Keep as it is
Legislative voting system	Introduce the proportionality feature	-	Move to proportional - integral	Move to proportional - integral	Introduce the proportionality feature
Presidential term duration	Maintain 5-year term	Maintain 5-year term	Move to non-renewable 7-year term	Remove or amend the presidential position	Move to non-renewable 7-year term

Europe, the big stake of the second round?

Several points emerge from the analysis of the programs of the main candidates (those who are in the second round and those whose vote deferral is likely to weight in the balance):

- For Emmanuel Macron, the emphasis is on tax reduction, reforms (flexi-security), innovation and investment, and budgetary rigour;
- For Marine Le Pen, the rejection of Europe (more moderate in the run-up to the elections), the fight against immigration, restoration of sovereignty (monetary, political, budgetary and territorial) are the main battlegrounds;
- For François Fillon, priority has to be given to the (reduction in) taxation, the fiscal discipline required for better control of the debt, and reforms (labour market in particular);
- Jean-Luc Mélenchon insisted on taxation (rising taxation for the richest), sovereignty and Europe (let's change it or leave it). This last point became unclear lately;
- Finally, Benoît Hamon developed his campaign on themes such as universal income or the need to change the governance of Europe.

The proposed measures (fiscal and tax stimulus, sovereignty or subsidiarity ...) run counter to European rules (Le Pen, Mélenchon and to a lesser extent Hamon) or have the ambition to consolidate European integration (Macron and Fillon). Furthermore, since the French electorate favours the EU and EMU, hostile speeches against Europe have recently been mitigated by the two extreme candidates, Le Pen and J.-L. Mélenchon. But the inconsistency remains between the desire to regain sovereignty (monetary, fiscal, political, diplomatic and even territorial) and to stay within the EU / EMU.

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The debates preceding the second round will undoubtedly focus on these themes, as they will determine the scope and direction of voting transfers.

Looking at the results and at the usual transfers of votes (the right parties voting for the left, and vice-versa, to eliminate extreme parties at second round of elections), it is reasonable to bet on a victory of E. Macron (the second round will take place on May 7).

What's next? In less than two months (June 11 and 18), the French people will vote again for general elections (with the whole 577 deputies to be elected). Two key questions at this stage:

- **Will the next President be able to gain a majority?** The very weak performance of the Socialist Party favours a massive restructuring of the left wing, a positive factor for E. Macron. He may benefit from a large support from the leftists at the general elections. Note that, in the past, all the newly elected presidents won the general elections that followed the presidential one. But if Marine Le Pen is elected (not our scenario), she will be unable to gain a majority. As a consequence, the political situation (and reforms also, including referendum on the Constitution and on Brexit ...) would be completely blocked.
- **If the next President is not able to gain a majority, is a coalition possible?** Certainly yes should we consider Macron as the next President. As the above table on the differences between Macron and Fillon point out, the programmes are not irreconcilable. We can consider that a large part of the right parties will accept to run the country and reforms with E. Macron if needed. Any coalition with Marine Le Pen would certainly be impossible.

What market impacts?

Extreme scenarios, including that of FREXIT (France's exit from the EU) have rapidly fuelled chronicles and comments, but they have not really been discounted into market prices, no doubt a proof of relative serenity in the run-up to the elections, ... or proof of a strong underweight in portfolios and a wait-and-see attitude. Despite the race at the top of the polls of Marine Le Pen, the difficulties of François Fillon, the rise of Jean-Luc Mélenchon, and the fears of a scenario Le Pen-Mélenchon in the second round, the impact on the French and European markets has been limited overall:

- The OAT-Bund spread has risen by only about 30 basis points between the first of January and the day before the elections.
- The deterioration in spreads in peripheral countries was similar: +30bp for Spain, +45bp for Italy (also in response to specific political problems), +10bp for Portugal ...
- Slight degradation of sovereign CDS: + 25bp for CDS 5 years of France, + 8bp for Spain, +35bp for Italy, but -21bp for Portugal ...
- A performance of French financials similar to European comparable;
- Finally, it should be noted that the underperformance of French equity markets was only 2% compared to Germany or the United States.

In the awaiting of the second round opposing Marine Le Pen and Emmanuel Macron (the scenario with the highest probability for long), the market impacts should still be limited. The worst case scenarios (such as a second round Le Pen – Mélenchon) have evaporated, but part of the uncertainty remains. A final answer will be given at the second round of the Presidential elections, and at the general elections. As such, a rush of investors into French assets is improbable. The continuation of the wait-and-see attitude is certainly more probable in this environment ... but a positive mood on French financial markets is also possible. The major lesson from the presidential election is the elimination of the Frexit scenario, which is a very important step. This positive news should materialise into a positive mood on financial markets. The elimination of extreme scenarios will favour an appreciation of the euro, a decline in OAT/Bund Spread and an increase in French bonds and equities.

Appendix: State of play on reform issues (sources : Le Monde, Amundi)

Measure	Current situation
Civil servants	5,5 millions of civil servants (State civil service, Hospitable and territorial)
Pensions	Traditionally, pensions are revalued annually according to a calculation based on inflation forecasts. But inflation is currently very low and the system determining the level of pensions is weakened by the age pyramid
Unemployment benefits	Unemployed persons are compensated for up to 24 months, depending on their previous contributions. The unemployment insurance scheme is in a chronic deficit due to the high number of jobseekers
Retirement age	The statutory retirement age is fixed at 62 years, with exceptions for persons born before 1955 who have worked long or have had a hard job
Minima social	Today, ten social minima are paid to different categories of the population (working poor, elderly, handicapped). A total of 4.8 million people receive these benefits, of which more than 2 million for the RSA, paid after 25 years
Social Regime of Independents (RSI)	Social security scheme for the self-employed, the RSI provides compulsory social protection for self-employed workers, craftsmen, traders and liberal professions. It has experienced many dysfunctions since its creation in 2006
Minimum wage (SMIC)	The monthly wage amounted at the beginning of 2017 to 1,466.62 euros gross. It rose by 5.8% during François Hollande's five-year term – an inflation-based increase, as provided for by law, without a "boost" from the government.
Housing tax	The housing tax constitutes an important part of the resources of the municipalities. It varies greatly from one commune to another, the richest imposing generally lower taxes on housing
Inheritance	Taxation is one of the candidates' concerns because, with the aging of the baby boomers, inheritance is expected to multiply in the 2020s. However, inequalities in wealth are already relatively high in France
VAT	Value added tax or VAT is an indirect consumption tax. Tax revenue is the largest in France, it has a normal rate of 20%, two rates reduced to 10 and 5.5% and a super-reduced rate to 2.1%
Fighting tax evasion	Tax competition between countries, including within the European Union, helps large companies to optimize their taxes by repatriating profits to low-tax areas. In France, the judiciary cannot investigate tax data without authorization from the Ministry of Finance: this "lock of Bercy" is regularly criticized
Corporate tax	Corporate profits are taxed at 15% below € 38,120 and at a rate of 33.33% thereafter.
Income tax	Income tax, calculated on the basis of household income, is progressive: low income earners pay nothing, then there are successive instalments of 14%, 30%, 41% and 45%. Less than 46% of tax households paid taxes in 2015

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Competitiveness and Employment Tax Credit	This measure, introduced in 2013, consists of a credit for contributions on salaries of less than 2.5 times the SMIC. It aimed at encouraging hiring by lowering the burden on companies, but its effectiveness in terms of jobs is disputed
Solidarity tax on wealth	This tax represented 5.2 billion euros of revenue for the State in 2015, spread over about 340,000 taxpayers. Reserved for tax households whose wealth income exceeds the threshold of 1.3 million euros, it represents less than 0.5% of the total capital for assets less than 2 million euros
Made in France	The subject, which was imposed in the 2012 presidential campaign, comes back for the 2017 one, while globalization remains a scarecrow for many voters
Social contributions	Social security contributions (sometimes referred to as "charges") are used to finance social security and pensions. Paid both by the employer (employers' contributions) and by workers (wage contributions), they are accused of increasing the cost of labour
Awarding of public contracts	Whether it concerns orders or concessions granted by the State or local authorities, public procurement is an important market for companies. European rules currently prohibit the privileging of a national or regional undertaking: contracts must be awarded on the basis of best value for money
"Uberisation" of labour	"Uberisation" is the name given to the rise of models of collaborative economics (carried out by start-ups such as Uber or Airbnb), who freed themselves from wage labour to secure the services of workers Independent
Lay-offs	Facilitating, supervising or even prohibiting dismissals are part of the candidates' proposals on the part of the law
Social housing	Each municipality member of an urban agglomeration must acquire 20% of social housing by the year 2020 in relation to the number of main residences under the SRU (Urban Solidarity and Renewal) Act
Legal working time	The statutory duration has been set at 35 hours per week since 2002, but there are several ways of derogating from it. In fact, French employees work an average of 39 hours. To encourage overtime, Nicolas Sarkozy had exempted them in 2007, before François Hollande abrogated this reform in 2012 Labour law Definitely adopted in the summer of 2016 after five months of social protest, the labour law is being criticized Part of the Left
Common Agricultural Policy (CAP)	The common agricultural policy, which absorbs nearly 40% of the European budget, guides production through subsidies and support to agricultural prices. A recent reform has oriented part of this aid towards the development of a more environmentally friendly agriculture
Public expenditure	Most candidates propose savings on the budget of the state, local authorities and social security
Public Debt	Public debt represents a little less than 100% of GDP, a little more than 2000 bn euros and about €32500 per inhabitant (29000 in Germany, 40000 in Italy, 62000 in the US and 85000 in Japan)
State Medical Assistance	The State Medical Assistance (SMA) provides minimal care for illegal and precarious foreign residents who have been in France for at least three months and whose resources do not exceed the ceiling. The actual expenditure of the SMA was € 814 million in 2015
Immigration Quotas	In 2015, approximately 210,000 foreigners obtained their first residence permit in France
Right to asylum	Nearly 100,000 asylum seekers have filed a petition in France in 2016. Faced with such an influx, the effective application of the right of asylum, a principle set out in the preamble to the constitution, is debated in the classroom policy.
Control of European borders	The Schengen agreements allow free movement in Europe and lay down common rules for the control of external borders. Border guard and coast guard agency Frontex, responsible for implementing them, is facing an unprecedented migratory crisis
Family reunification	Family reunification, which represented around 12,000 arrivals in France, made it possible under conditions for members of the family of a foreign national to join the family in France
Soil law	The law of the soil consists of attributing French nationality to children born in France. Some candidates propose to restrict or even eliminate this possibility.
Schengen agreements	The Schengen area allows for the free movement of people in 26 states (22 of them in the European Union).

Reimbursement of health care	The current system is based on a basic reimbursement by the Social Security, the rest being paid by healthcare mutuals
Family allowances	Family allowances are granted on the basis of the second dependent child, subject to income
Civic service	Civic service is a voluntary service open to young people aged 16 to 25 serving the general interest
Deprivation of citizenship	Only binational French nationals who have acquired nationality after birth may now be subject to nationality forfeiture. Several proposals put forward for public debate aim at extending the measure, in particular to all binationals, as François Hollande envisaged it before coming up against the reluctance of parliamentarians
Prison	While the number of detainees in France is around 70,000, many prisons are in overcrowding (prison capacity was only 58,311 on 1 July 2016).
Police workforce	In the year 2014 there were approximately 140,000 police positions and 95,000 gendarme positions
Position of France in NATO	France is a solid but autonomous ally of the North Atlantic Treaty Organization (NATO). Its defence strategy is not conceived outside the framework of the alliance, but it has full autonomy of decision
Defence budget	The defence budget currently stands at 1.77% of GDP.
Nuclear	France has 19 nuclear power plants in operation, representing a total of 58 reactors. The oldest, Fessenheim, was commissioned in 1977
TTIP and CETA Treaties	The Transatlantic Trade and Investment Partnership (TTIP) with the United States and its Canadian cousin, the Comprehensive Economic and Trade Agreement (CETA) are draft agreements with the European Union to reduce tariffs and regulatory barriers. Their critics fear private arbitration tribunals, breaching environmental standards and weakening public services
Tax and social harmonization in Europe	Tax rates, especially for companies, are very disparate in Europe, ranging from 12.5% in Ireland to 33.3% in France, which encourages the relocation of companies within The EU. However, it is necessary to obtain the unanimity of the Member States to reach an agreement on taxation
Compliance with the European Stability Pact	The Maastricht Treaty, signed in 1992, imposes a fiscal deficit of less than 3% of GDP and a maximum public debt ratio of 60%
Euro	The euro area comprises the 19 member states of the European Union which have adopted the single currency. The Greek crisis has destabilized since 2010 the functioning of this group of countries to disparate economic situations
UEM Governance	Monetary centralization (ECB), constraints on public finances and public debt (Maastricht criteria, Stability and Growth Pact, six-pack...)
European Union	The European Union, composed of 28 countries, is criticized and fragile since the Brexit. Several candidates plan to follow the British example, or have tempted to call for specific treatment, promoting a multi-speed Europe
Right to vote for foreigners in local elections	Foreigners (outside the European Union) currently do not have the right to vote in French elections There are currently 577 deputies and 348 senators in France
Legislative voting system	The deputies are elected in the first-past-the-post system, limiting the representation of small parties.
Presidential term	The presidential term of seven years was reduced to five years in 2002. A president may not hold more than two consecutive terms

View direct from our CIOs

We have gradually moved towards a more cautious portfolio positioning both in terms of duration and exposure to risky assets. This prudent view is not only linked to the coming French elections but also to remaining uncertainties, particularly with regards to the US budgetary policy and the FED decisions.

However, we still favor certain Eurozone equities and credit in light of improving fundamentals and lack of anticipated impact following the first round of French presidential elections.

Finally, we maintain a good level of liquidity in our portfolios, in order to be able to adjust our positions should any opportunities materialize.

Fixed income portfolios

- **Underweight Eurozone rates, where possible**

We remain generally underweight duration across our fixed income portfolios, though significantly more on our international portfolios compared to our euro portfolios. We are also underweight Eurozone risk in our international portfolios. However for our euro-denominated portfolios we have less margin to mitigate a risk that, in reality, will impact the entire investment universe.

- **Within the Eurozone, an overweight position in peripheral sovereign risk.**

Our positions continue to favor “risky” assets, with more exposure to peripheral Europe than to the “core” Europe. However, our strong underweight position in Germany (negative position) has been somewhat reduced in recent months in the euro portfolios, to anticipate large inflows to this region in the event of market turbulence.

- **Within the Eurozone a preference for Corporate risk.**

The corporate sector has the advantage of providing a form of hedge against sovereign risk, though likely to be marginally effective in the event of a major market shock.

- **A search for the highest possible liquidity**

In this context, a fundamental part of risk management lies in seeking the highest level of liquidity of selected assets in order to keep some leeway in stressed markets.

In short, we seek to construct liquid, diversified portfolios with a range of high-quality issuers. In view of the forthcoming French Presidential Election, our current risk mitigation strategy is therefore to remain underweight Eurozone bonds in international portfolios (for both active and currency positions) and overweight credit in the euro portfolios.

Equity portfolios

Equity portfolios have benefited from a very favorable year-to-date trend which has seen stock markets supported by the anticipated earnings recovery, along with the ongoing nominal GDP recovery. Economic indicators remain strong and have helped equity markets to price in the 3 Fed rate hikes expected in 2017.

- Some investment opportunities within a globally positive trend.

The elections results could influence the value of the euro currency. The removal of uncertainty will likely cause markets to rebound as we have seen with the Brexit and Italian referendums. Any setback would be an opportunity to overweight EMU stocks. In addition, further political tension is expected to result in prolonged ECB intervention.

Political events are likely to have a marginal impact on the overall stock market performance. Indeed, they are more likely to create slight country performance divergence within Europe rather than cutting short the more general recent upward trend. In fact, we anticipate only very limited performance divergence between continents and within Europe.

- European and Japanese equity markets overweight versus US equities

The US equity market, however, is already very expensive and good economic news could eventually burst the bubble. Japan (hedged), European Equities and some emerging markets are still deserving of overweight positions at the expense of US equities.

- A cautious stance within the Eurozone

Within the Eurozone we have taken a more cautious stance and reduced country bias whilst we wait for the uncertainties linked to the French Presidential election to abate.

- Specific attention on company earnings

Earnings were and should remain in the driving seat. If Forex, followed by bond markets, are more liable to be impacted by political events, Equities are then generally influenced by these market movements especially when it comes earnings.

- A preference for Value, Dividend yield and the Reflation play

With regards to investment styles, value and dividend yield factors are should continue to work well for Europe, especially if political uncertainties causes the prolonged low interest rate environment to persist.

It should also be noted that many overseas investors moved away of European equities in the summer of last year thus limiting risk associated with potential outflows.

Multi Asset

The results of the election expected within 2 weeks will not fundamentally change our view of the market, where risk premia has generally become scarce.

- **We remain long risky assets**

Our portfolios retain a moderate risk bias with a targeted overexposure to Euro zone stocks, Euro zone peripheral debt (which remain undervalued despite improving fundamentals) and certain diversification securities (gold, Japanese equities, etc.).

- **Reduced duration**

Portfolio duration has been gradually reduced and is set to remain low especially for core European sovereign debt.

- **Macro hedging in case of uncertainties**

The environment remains uncertain. Looking beyond the French presidential election, the US budget horizon should also be an important stimulus for markets. Given this context, we have chosen to maintain macro-hedge strategies including exposure to volatility (via put options and volatility funds) and remain overweight the US dollar and the yen.

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