

#### Consent for the Use of Cookies

By actively continuing the use of this website you consent to the use of cookies for the purposes of market or opinion research, analysis and advertising. For further information regarding the use of cookies, their purposes and possibly related collection, processing and use of personal data please refer to our [Cookie Policy](#).

I agree

**Allianz**   
Global Investors

Understand. Act.

[Our Firm](#) [Insights](#) [Capabilities](#)



[Careers](#)

[Contact Us](#)

e

| f b v

European Politics

# Macron Majority Gives His Reforms Momentum

9 hours ago



## Summary

With a new majority in the French National Assembly, President Macron has increased the chances parliament will pass his ambitious reforms, which are aimed at transforming labour laws and spurring growth. But France also faces some hard fiscal realities that may take some time to fix.

### Key takeaways

- The results of the National Assembly elections are an important boost for President Macron as he seeks to advance his ambitious reform package.
- Domestic French stocks are likely to benefit from Mr Macron's economic reforms, including sectors such as construction, infrastructure and banks.
- Despite the optimism, fixed-income investors shouldn't forget the fiscal realities that support a decent spread between France and Germany.

Ahead of France's presidential election in May, it seemed unlikely that the ultimate victor – whatever his or her political colour – would go on to secure a majority in the National Assembly. The numbers seemed too finely balanced for that. But people had not fully factored in the meteoric rise of President Emmanuel Macron.

In the 18 June elections, Mr Macron's La République En Marche (LREM) party – still only a

year old – won a much sought-after parliamentary majority. This gives him valuable leverage to push through his ambitious reform agenda.

The result adds to Mr Macron's power and legitimacy at home, while further enhancing his credibility abroad. It's likely that he will seek to pass the most difficult reforms – in particular, those related to labour law – as quickly as possible. French workers are, famously, among the most "expensive" in Europe. Mr Macron wants to give employers more flexibility to negotiate deals with unions and employees on wages and hours, rather than having to stick to rigid rules. He is also looking at pension scheme reform.

The unemployment rate in France, at close to 10 per cent, is higher than many neighbouring countries. During the presidential election campaign, Mr Macron said a target of 7 per cent by 2022 was "reasonable".

His other proposed measures include cutting the corporate tax rate from 33.3 per cent to 25 per cent and replacing France's wealth tax (ISF) with a tax on bricks-and-mortar real estate only – to encourage investment and entrepreneurialism.

Overall, his programme is designed to address the country's structural weaknesses in terms of cost of work and competitiveness, and to attract foreign investors.

## Investment implications

### ***Boost for domestically exposed stocks***

The most obvious short-term impact of Mr Macron's reform package is on the re-rating of France. By moving quickly on parts of his reform agenda, Mr Macron will send a positive signal that should buoy market perception. An important reason why the "Macron effect" has so far been muted for French equities is that the market does not have a lot of domestic exposure. Similar to the FTSE 100 in the UK, a majority of revenues are earned from international sales.

The more domestically exposed companies are likely to be the biggest beneficiaries of Mr Macron's agenda. Sectors such as infrastructure, construction and banks should benefit from stronger growth and lower taxes – assuming he can push his reforms through.

While not a Macron-specific story, defence sector stocks are also worth watching. In the wake of President Donald Trump's recent comments, European Union Commission President Jean-Claude Juncker reiterated the need for countries to stand on their own two feet when it comes to defence. This may translate into increased defence spending across the EU.

### ***Optimistic fixed-income investors shouldn't forget the fiscal realities***

Amid the optimism, fixed-income investors should keep in mind some of the hard fiscal realities. France may struggle to bring its budget deficit below 3 per cent (as a percentage of gross domestic product) for 2017. The lingering lack of fiscal discipline – whatever the commitments for the subsequent years – should support a decent spread between France and Germany, despite the likelihood of a slight tightening between French and German government bonds in the immediate aftermath of these election results.

### ***Political risk in Europe isn't going away anytime soon, but our near-term outlook for the region remains favourable***

The UK election result is a reminder that the political landscape continues to throw up surprises. Perhaps the "elephant in the room" is Italy, which is facing continued political stagnation and an inability to pass much-needed reforms. There has been a great deal of speculation about a potential snap election being called for this autumn, instead of early 2018 as scheduled, but this is looking increasingly unlikely. The anti-establishment Five Star Movement seems to have derailed an electoral reform deal. This would have been a critical step in forcing early elections, which could have empowered Eurosceptic parties and posed a threat to the euro zone.

While political risk in Europe has not gone away, we continue to see a favourable near-term cyclical outlook for the euro zone. The election of Mr Macron, the LREM's new parliamentary majority and the likely reaffirmation of Chancellor Angela Merkel in Germany should lead to a constructive partnership between France and Germany. A strong "Merkron" could put Europe back on a path toward achieving the job started in 1950s: a truly United States of Europe.


Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association]; Allianz Global Investors Korea Ltd., licensed by the Korea Financial Services Commission; and

## Recent Insights

	<p>European Politics</p> <p><b>UK Election: Uncertainty Piled on</b></p> <p>09/06/2017</p>		<p>European Politics</p> <p><b>Macron's Win Is a Loss for Euro-Phobia</b></p> <p>07/05/2017</p>
---	--	--	---

### Connect With Us

Stay up-to-date with social media

ç n o

### Contact Allianz Global Investors

For more information on our products and services

Contact Us

#### Our Firm

- Why Partner With Us
- Leaders of Our Firm
- A Brief History
- Press Centre
- Contact Us
- Careers
- ESG Approach

#### Insights

- Outlook & Commentary
- Investment Themes & Strategy
- View from the Global Strategist
- European Politics
- Artificial Intelligence

#### Capabilities

- Alternatives
- Equity
- Fixed Income
- Multi Asset
- Research
- Our Experts
- Our Products

Allianz Global Investors is comprised of the AllianzGI Affiliated Entities worldwide. Product availability will vary by jurisdiction.