DNCA INVESTMENTS

By Igor de Maack
Fund manager and spokesperson for fund management team

"The likely election of Emmanuel Macron pushes back systemic risk."

The first round of voting in the French presidential elections put an end to the suspense that has been hanging over France for several months. Opinion polls had predicted a tight race and for once they remarkably predicted the order of the top ranking candidates. So Emmanuel Macron will face Marine Le Pen in the final round of voting and electors now have a very simple choice to make: 1/ they either vote to remain within the ranks of democratic nations, based on a social-liberal program that is coherent with the functioning of a globalized and connected world or 2/ they choose the unknown factor of a presidency that incites extreme responses and provides a dead-end economic program. For the moment, opinion surveys point to a clear advantage for Emmanuel Macron. However, there are two weeks until the second round of voting and it is difficult to predict how electors will transfer their votes, given the scores achieved in the first round. As it often the case, the second round of voting in the French election will come down to something of a “default” choice. Voters traditionally vote with their convictions in the first round, but in the second round they face a choice between the worst candidate and the contender who they see as a lesser evil/closest to their political leanings. The parliamentary elections (June 11 and 18) will also be a key event as a majority is required to govern the country.

Investors will initially express their relief that we are not seeing a second round stand-off between Marine Le Pen and Jean-Luc Mélenchon, and could also now start revisiting European equities, and more particularly French stocks if the polls keep on confirming the clear headway for the more “traditional” candidate. France has not yet taken advantage of the euro area’s economic recovery to implement reforms: its public spending is high, it carries hefty debt, it has not really managed to cut back unemployment after three years of growth, and it is still stuck in the rut of a social model that dates back to the three post-war decades of economic boom and which defies the laws of mathematics if we look at the financing of the pay-as-you-go pension system. The country has not taken advantage either of the extraordinary advantage offered by the ECB's moves to keep interest rates artificially low, after the central bank clearly turned its back on German monetary orthodoxy. France has undeniable advantages (culture, small and large companies, infrastructure, demographics, climate, geographical position) and is faced with a fresh, and perhaps the last, opportunity to get on board with the other great nations, both developed and emerging, and to breathe fresh life and meaning into European integration and therefore prevent an expected decline after a thousand years of such rich and eventful history.

Text completed on April 23, 2017 by Igor de Maack, fund manager and spokesperson for DNCA fund management team.

About DNCA:

DNCA is a French asset management company set up in 2000 by wealth-management specialists acting on behalf of private and institutional investors. With a defensive slant, the company seeks to optimize the risk/return ratio on its portfolios. DNCA has developed expertise in European and international equities (long only and absolute return), diversified fund management, convertible bonds and Eurozone bonds. The quality of the company's investment management, which regularly wins awards from the financial press, has enabled the company to enjoy swift growth over the past fifteen years. AUM currently stand at €19.8bn (as at 12/31/2016), with 105 staff in offices in Paris, Milan and Luxembourg.

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