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What effect does the French election have on the bond markets?

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In 2016, [election](#) results surprised us twice: both the Yes vote for Brexit and Donald Trump's victory in the USA were unexpected, but did happen. This prompts the question of whether the European Union (EU) is in peril because of the French elections in April.

Will Marine Le Pen win the presidential election in France and then lead the country – one of the original founders of the European Union – out of said union?

Leaving the EU – a crisis scenario?

France has public debt of EUR 1.620bn outstanding. About 60% thereof are held by international investors. To them, the return to the French franc would be a catastrophe. The value of the franc would immediately fall, and they would get back less than they lent to debtors.

Due to the turmoil in the French banlieus and the weakness of her competitors, Marine Le Pen is currently ahead in first-round polls.

Source: www.opinion-way.com/fr/

How much influence does the French president have?

An issue easily forgotten in the discussion is the structure of the French constitution. The president is given full power only if his or her own party holds the majority in parliament, the so-called Assemblée Nationale. If the president's party falls short of reaching a legislative majority, he or she is left with a representational role only.

What is the risk of a "Frexit"?

In June 2017, France will hold parliamentary elections. At the moment, the parliament consists of 316 deputies from the Socialist Party and 219 from the Conservative Party. We expect the nationalist party Front Nationale to clear the hurdle to parliament, but it remains to be seen whether the party can secure a parliamentary majority – as does the extent to which the French people who would "protest-vote" for Le Pen would also want to elect an oppositional power into parliament. Even though Le Pen is ahead in polls, the scenario of France leaving the EU – and thus a nosedive of French [bonds](#) – remains unlikely. However, we do expect an increased level of volatility among European bonds if Marine Le Pen were to make it to the run-off stage of the presidential elections. If Marine Le Pen loses in said stage, the trust of US investors, which has been shaky since February 2016, might return. This could boost new investments in Europe and in European equities.

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