

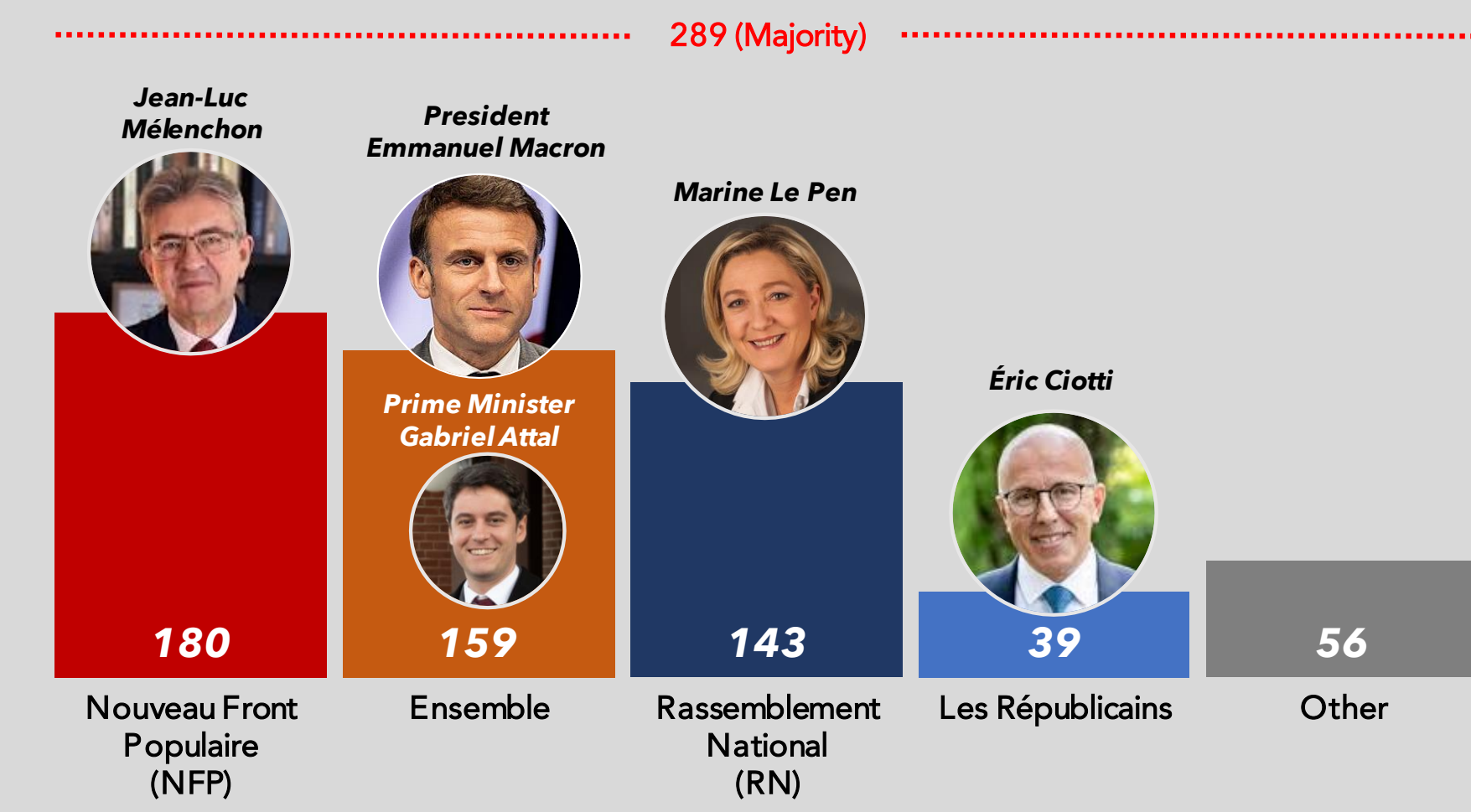
Chart of the Day

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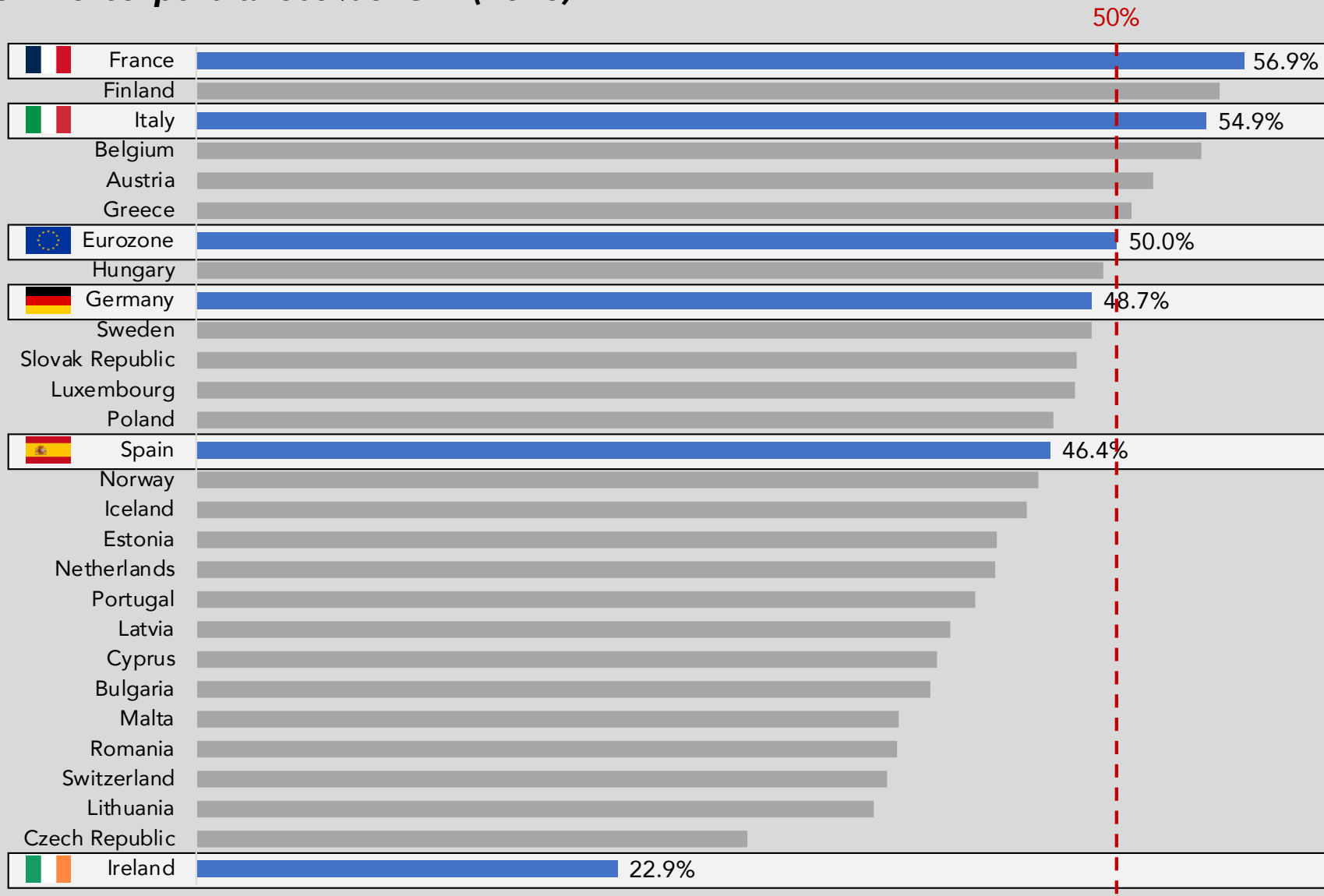
Although left and centrist leaning parties outperformed Le Pen's right-wing Rassemblement National party in the 2nd and final round of France's legislative election on July 7, none of the main political parties achieved the 289 seat majority threshold in France's 577 seat National Assembly. Macron's Ensemble alliance lost more than one third of their seats from the 2022 election.

Constituencies won



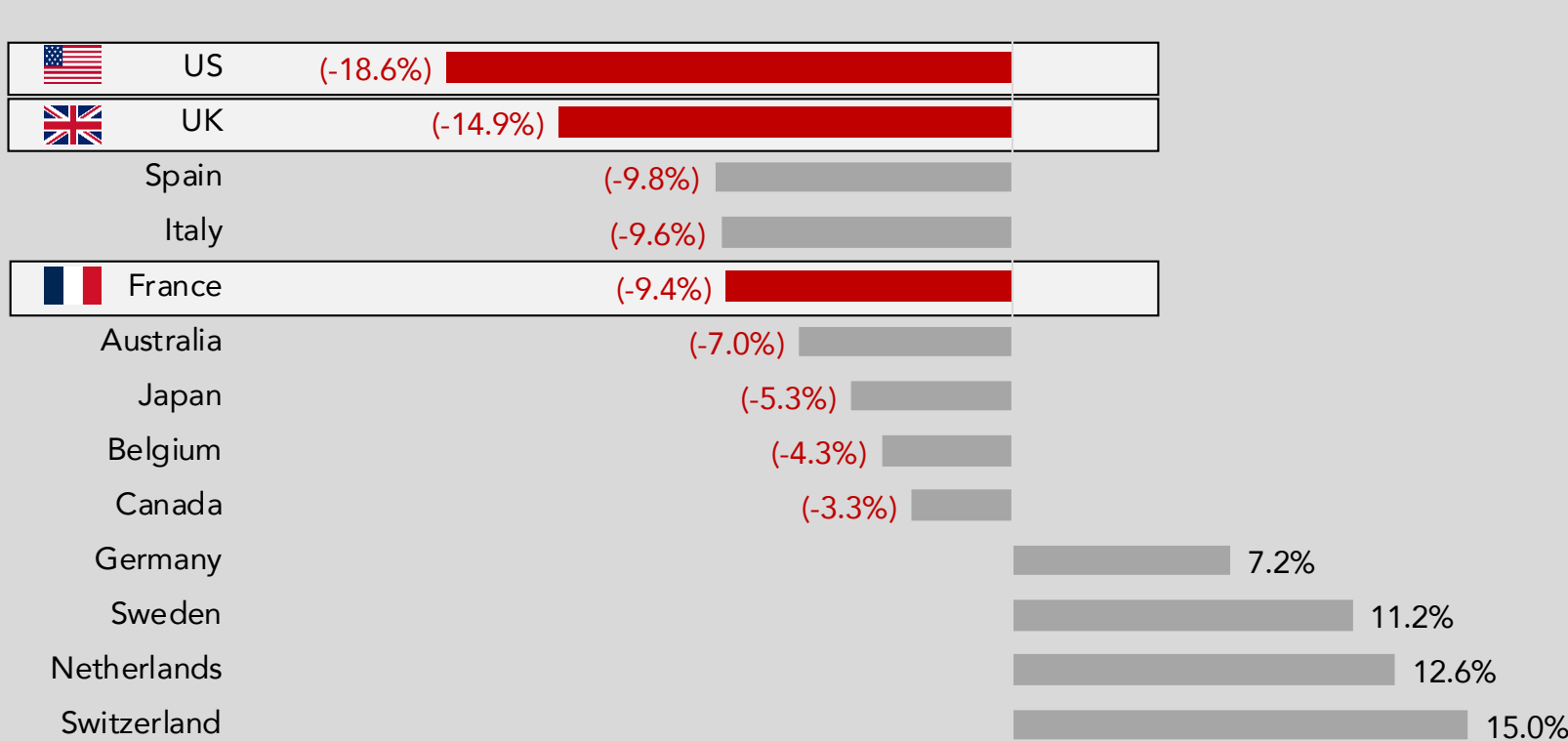
French government spending as a percentage of GDP is among the highest of large and small economies across Europe. Political gridlock and a less stable governing coalition are likely to delay much needed reforms to address debt sustainability, declining productivity and chronically low growth.

Government expenditure as % of GDP (2023)



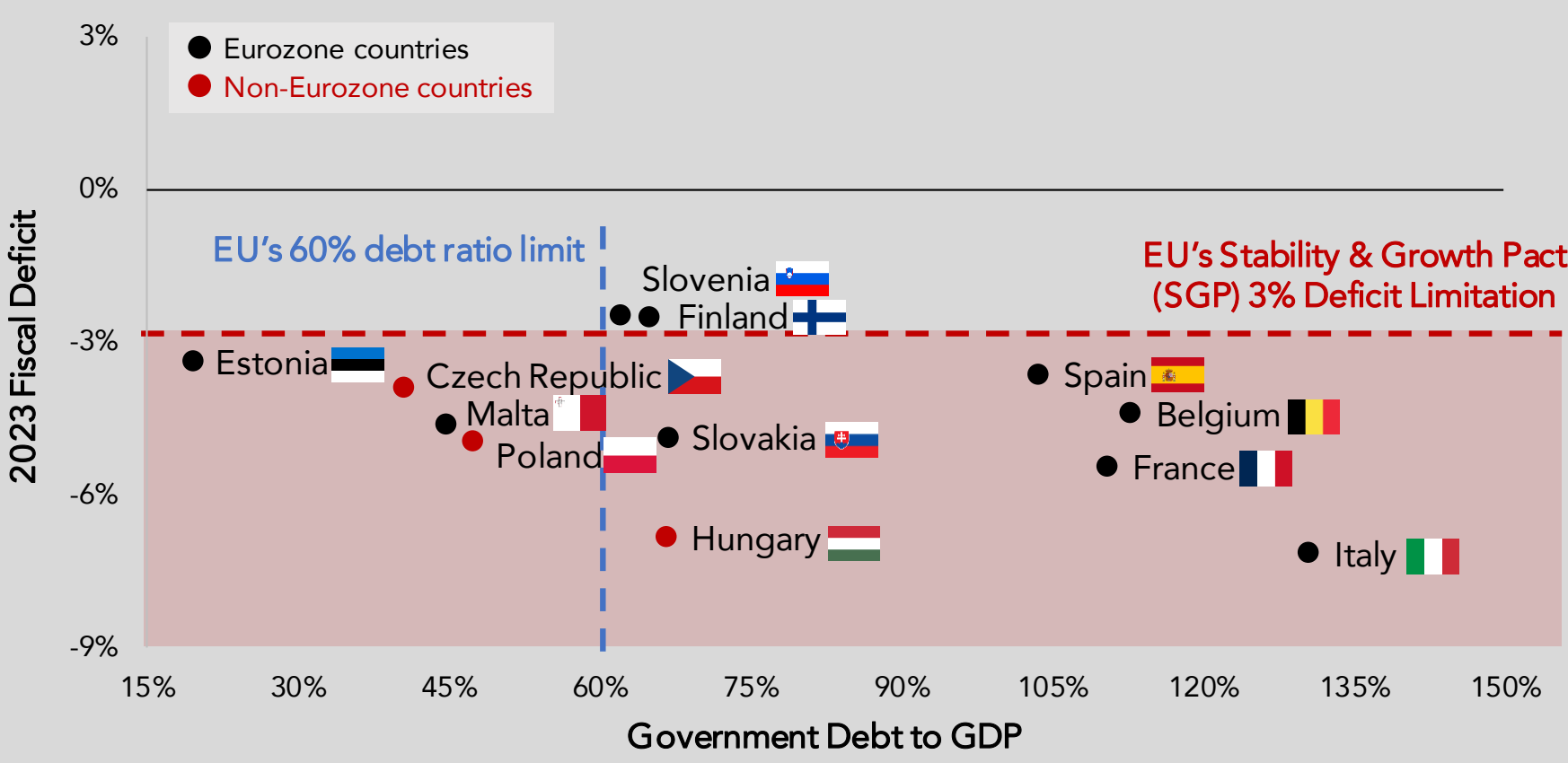
The United States runs the highest "twin deficits" in the world, though global demand for Treasuries suggests a strong ability to finance rising deficits. By comparison, non-US government bond markets are generally more sensitive currently to the relationship between political risk and debt sustainability. To this end, improved or at least sustainably status quo policy outcomes will be important to post election UK and France.

Weighted sum of current account and budget deficits as % of GDP



France's public deficits of 5.5% of GDP in 2023, and outstanding government debt of 111% of GDP, stand well above "permissible" Euro Area thresholds. On June 19th, the executive arm of the EU, the European Commission, identified a dozen EU countries for violations of debt and deficit criterion related to the Stability & Growth Pact. Seven of these countries, including France, will be subject to "excessive deficit procedures" with deadlines for reducing such gaps to be set in November. The new restrictions are likely to significantly curtail any tax and spending policy initiatives from a new governing coalition emerging from the French election.

EU countries identified for violations of debt & deficit criterion



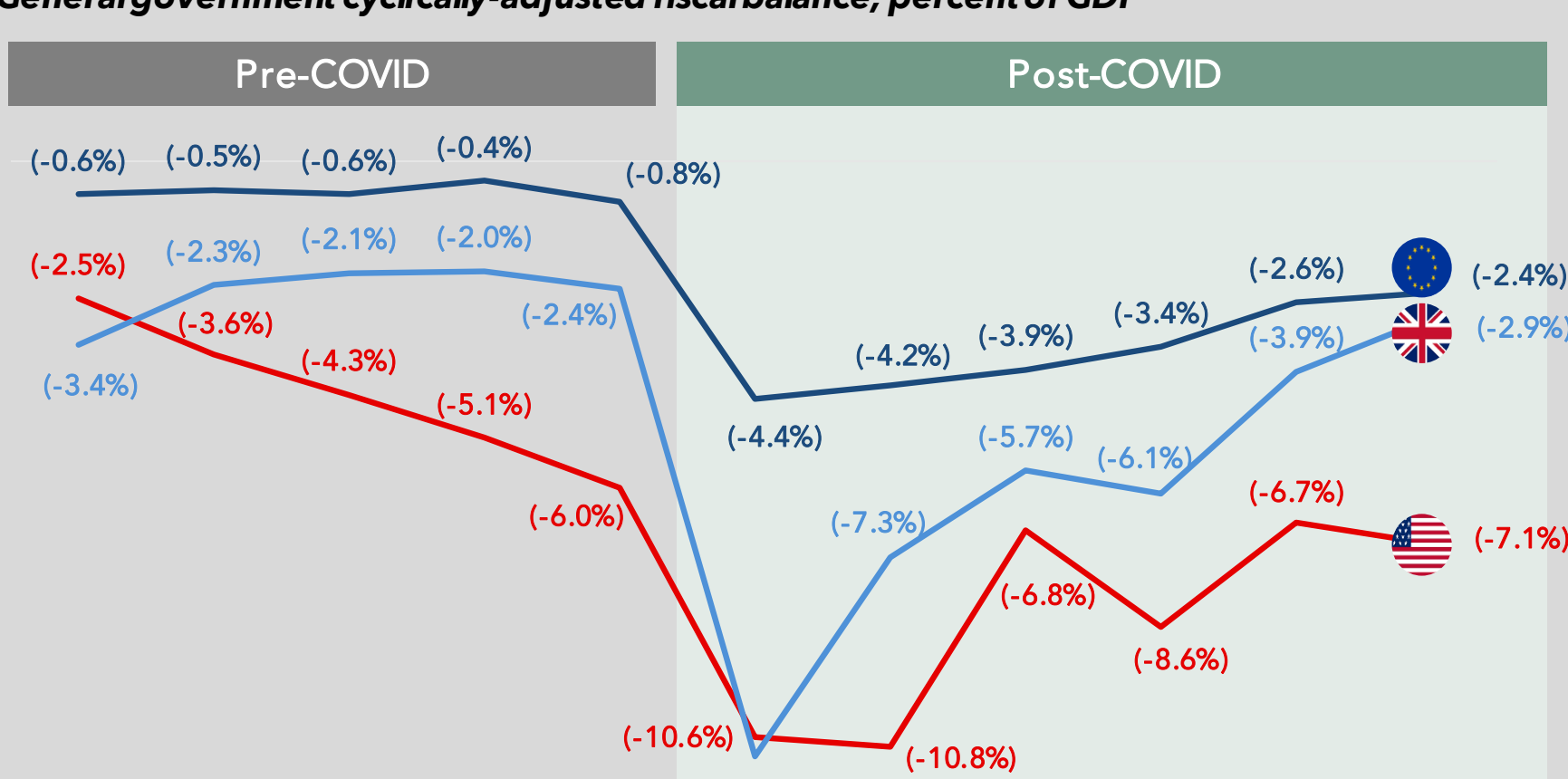
Concerns around French debt sustainability rose sharply since Macron initially announced elections on June 9th, though have since receded to still elevated levels. Though initially close to 40 bps wider after round one of the election on June 30, French bonds have settled approximately 20 bps wider than levels one month ago. With near term visibility low and instability high, French spreads are likely to remain elevated.

France 10 year government bond yield - Germany 10 year government bond yield



While US deficits are wider than pre and post election UK and France, markets are generally less concerned about the ability of the US Treasury to finance its rising deficits. In fact, Treasury yields have rallied on numerous occasions in recent years following adverse political developments in the US.

General government cyclically-adjusted fiscal balance, percent of GDP



Source: (1-6) Ministry of the Interior. Data as of 9AM on July 8, 2024. Oxford economics, general government balance as % of GDP. Government debt to GDP is IIF data as of Q1 2024. Bloomberg. Data as of July 8, 2024. Apollo (Torsten Sliok). IMF. Data based on fiscal year-based potential GDP. Data as of April 2024.

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"Macro stability isn't everything, but without it, you have nothing."