CREDO WEALTH

Eyes towards France

Much of the world's recent attention has been focussed on politics. As each country grapples with similar questions posed in different ways, eyes turned recently to France. The two established parties have been the Socialist Party and the Republican Party. Neither party's candidate proceeded to the second round, where voters chose between Emmanuel Macron and Marine Le Pen. Both presented new visions for France. Macron is 'neither of the right, nor of the left', and his party was only formed in April 2016. He is explicitly pro-European, and plans reforms to modernise the French economy. Le Pen sought to prioritise the national interests of France, and exit the Eurozone. Her focus was on security, immigration and sovereignty of the French state.

The stock market reacts to political expectations, and results. When the first round of voting approached, markets had been wary of either far-right Le Pen, or the far-left Candidate Mélenchon. Volatility increased and the 10-year spread between French and German bonds widened (a high of 0.86% in February) reflecting the uncertainty. After the Macron victory, volatility settled, spreads narrowed, and the euro strengthened (touching a 6 month high at $1.09). Unlike other recent elections and referendums, the result was the expected one and so the market impact was more relief than a rally.

Some see the result as a shift of momentum from the wave of populism (Brexit, Trump). *Will it last?* Le Pen won 34% of the vote, Trump remains in power and the British elections look likely to give May's government a strong majority. Federal elections in Germany are in September. The two biggest parties in Italy are looking for early elections this year. *Time will tell.*

The question is what impact that should have on a long term investor's decision making?

Voters have to choose between parties, or leaders, they may not like. With the stock market, investors are less constrained. Global investors are able to look at any market where we are comfortable with the risks. Each company in that environment gets to make different decisions about how to deal with those risks. We can back the management team, products, and strategy which we think is attractive relative to the price. We can also pick a number of companies facing different challenges. We can change our mind. We are not forced to buy any company, and can put ones we don't understand on the 'too hard pile'.

Uncertainty does still affect underlying companies, and you can't keep your head in the sand. Business leaders will have to make long term investment decisions. They will need to take into account the tax and regulatory decisions of potential leaders. But it would be a brave executive who predicted, and prepared, specifically for one outcome. That is betting, not investing. The big driver of successful businesses should be *their* specific competitive advantages and their ability to execute, not who the winner of an election is.

Against this background, what impact did the French election result have on the portfolios we manage at Credo?

The short answer is: very little, if any. Good quality businesses should be able to adjust to a changing environment. Ultimately, our goal remains to ignore most of the noise, to focus on fundamentals, and to find businesses at attractive valuations. The process and philosophy is what matters, and that stays the same whatever happens in geopolitics.

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