Three ‘chiers’ for Macron

Whatever the outcome of the French president’s gamble, turgid politics in Europe have far-reaching implications for investors...

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It is a common complaint in certain circles that boys growing up today lack strong male role models – with once traditional masculine traits like risk-taking and impulsiveness now considered ‘de-trop’ by those in the know – so this week has been a refreshing break from the norm.

Astute observers among you will be au-fait with the news that French President Emanuel Macron called a snap parliamentary election on Monday.

The decision was made after a surge in support for far-right parties in the European Union elections which were held last week – saw Marine Le Pen’s Rassemblement National take a third of the French votes, and double those won by Team Macron.

Voters have in the past used these European elections as a protest vote but by contrast the legislative election which Macron has now called – putting candidates directly into power in France – has historically favoured more traditional parties as voters from left and right rally around more mainstream candidates.

The aim of this cunning plan, then, is to put the right-wing populist back in her box with a much diminished show of support. A second line of thought goes that, even if she wins a few more seats, by putting a few RN politicians into power they will be forced to show their hands to the French people – and reveal the weakness of their policies when exposed to hard reality.

Perhaps most importantly, by calling the election now before he is forced to do so in the autumn, when controversial but gravely needed budget cuts will have really kicked in, and forced a no-confidence vote – he gets to keep control of the timetable and for now at least stays in charge of the game.

Perhaps Macron himself sees political mastermind David Cameron as a role model? As Lord Cameron showed us in 2016, there is no possible way that a political gamble with profound implications for the European Union can backfire.

Unless it does, and Marine Le Pen’s party wins enough seats to force Macron into a coalition where he no longer has control of the prime minister’s office.

Should that happen Macron’s gamble will usher the far-right into power for the first time in France since the Vichy era and essentially end his own political career at the same time – unless somebody decides to offer him a job as foreign secretary a few years later, stranger things have happened.

The prospect of this happening remains an outside chance, but the fact that French voters reacted to Macron’s plan to swim in the Seine - to celebrate the cleanup operation he implemented - by announcing a **plan to defecate en-masse into it**, suggests anything is possible.

And, even if his gamble pays off, there are interesting implications for investors.

It does not mean, necessarily, that we are hurtling toward jackboots on the Champs-Elysees – indeed antisemitism among those left of centre seems to be at least as popular as it is among those on the right.

But with similar changes in the dynamic happening across Europe – the far right now occupies about a third of all seats in the European Parliament – politicians of all other stripes including centrists on the left and right have had their card marked; Europe is getting fed up with rainbows and reparations.

A shift to the right is bad news for Europe's Green Deal and industries associated with it – expensive green policies are unpopular with voters and an easy target – and bad news for those who believe ever closer-union is a good thing. That is off the cards for now, though far-right parties no longer talk much about leaving the bloc entirely - instead focusing on the need to reshape it to their nationalist agendas, harder on immigration, stronger on collective defence, but still mutually supportive. Good news for defence, then – but perhaps not for NATO.

It is also bad news for the relationship between Germany and France – Europe's two great political powerhouses. Macron has effectively put his own political interests before those of the EU itself in a decision which may well leave members of the French far-right making policy decisions directly in the heart of Brussels. Policymakers there are aghast at the prospect.

With this in mind, and whatever the outcome of Macron's gamble, the outlook for European politics looks pretty bumpy and against that backdrop the UK's long tale of political woe – and the battered valuations UK equities trade at as a consequence – makes for an interesting counterpoint.

Kier Starmer, whether your toast is buttered blue or red, has undeniably pursued a steady path in cleansing the Labour party of swivel-eyed loonies since Magic Grandpa lit up the stage at Glasto, and with a landslide victory for Labour potentially on the cards, the UK may for the first time in a long time be in a position of political stability; even if it costs more to send your kids to school.

Although it is not yet clear whether Sir Kier, unlike poor Rishi, had access to Sky TV as a child, what is clear is that having a prime minister who remains at his post for longer than a week before his rivals start openly plotting to murder him can only be a good thing for investor confidence. That confidence, particularly with interest rates on the wane, could be a welcome fillip for UK equities.

Already we have seen the **FTSE 100 set record highs**, and yet our analysts believe it remains undervalued relative to its own history and UK smaller companies have been even harder hit during these 'years that the locusts hath eaten' for perfidious Albion.

But with Boney on the ropes, green shoots may already be visible. Trusts like the newly merged **JPMorgan UK Small Cap Growth & Income (JUGI)** – which has already had a good start to the year, up nearly 20% in share price terms on the back of strong NAV performance – could stand to benefit, and there are plenty of trusts on wider discounts exposed to similar forces.

If the UK begins to play catchup on a broader scale it will be doing so from a heavily discounted base.

Join us next week to hear from five fund managers running small cap money all around the world, including veteran UK microcaps manager Gervais Williams, manager of Miton UK MicroCap, and fellow UK specialist Rockwood Strategic's Richard Staveley. Click here to register now.

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