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## France Chooses Controlled Chaos: Anticipating the Next Moves

### The French Do Not Want to be Governed by a Single Bloc

The French election results have been celebrated as if there was a clear winner. However, in reality, the electorate has shown a clear intention not to be governed by any specific bloc, whether left, center, or right. The National Assembly will be dominated by three blocs, in almost equal parts. Various figures about seats can be found on social media, most of them incorrect. Here is the accurate distribution of seats in the Assembly: 180 seats for the left bloc (France Insoumise, Socialists, Greens, and Communists), 162 seats for Macron's group (Ensemble), and 143 seats for Le Pen's Reassembly.

I can say without fear of being wrong that we have a “hung” Parliament in the 5th Republic, with each group far (too far) from the 289 seats needed to form a single-party government. Now it is up to the president to untangle this situation, and he could proceed in three ways:

#### 1. A Minority Left Government:

- If this bloc moves forward, it will likely adopt tax and spending programs that could result in a significant increase in the OAT-Bund spread and a considerable drop in French equity (especially the stocks considered “national victims” due to their exposure to French politics). Is it possible to govern in the minority? Jean-Luc Mélenchon has suggested governing through decrees, relying on Article 49 of the Constitution. However, this would create a very unstable political environment. Governing by decree is not the best way to govern. Each new law would be exposed to a no-confidence motion (where Mélenchon would need at least 100 abstentions from the other blocs to succeed). This is reassuring from a market perspective. While the Constitution allows governing by decrees, there are real limits to this practice.

#### 2. A Centrist Coalition (Excluding the Insoumise Left):

- Arithmetically, this is possible. Mélenchon's LFI and Le Pen's RN combined for 220 deputies, meaning there are 330 seats revolving around the political center. If this solution prospers, investors would welcome it, leading to a narrowing of the OAT-Bund spread and a small equity rally (5%-10%). Of course, this possibility is not easy to assemble. The traditional lack of political cooperation in France does not support it, and there are deep differences between these “center” parties on

key issues such as the role of nuclear energy in France's energy mix or pension reform. However, if there ever was a time for a pact (and concessions), it is now. Their Lordships are aware (I believe), which increases the chances of this centrist solution, in my humble opinion.

**3. Technocratic Government:**

- This would be Macron's third option. If neither of the previous two options comes to fruition, the president may seek to appoint a technocratic government led, probably, by a non-political prime minister with a narrow mandate to pass only essential laws like the budget (and little else). This solution should last at least a year and, in my opinion, would have a favorable effect on French assets: narrowing both the OAT bond risk premium and equity.

Assigning probabilities to each scenario, I believe options 2 and 3 are the most likely, with a 35% probability each. Why? As Giuseppe Tomasi anticipated in his novel "The Leopard," "Everything must change for everything to remain the same."

In this work inspired by 19th-century Italy, one of the characters, a noble named Falconeri, uses this phrase to justify his support for Garibaldi's revolutionary forces, despite belonging to the aristocracy that traditionally opposed change. With this quote, the author captures the ironic idea that apparent changes are necessary to maintain the fundamental structure of power. In a political context, the phrase highlights the nature of elites, who can accept (and even promote) superficial changes to ensure that their dominant position remains substantially unaltered. An effective strategy involves promoting cosmetic transformations to avoid profound changes.

Does Macron belong to this type of elite? It is hard not to wonder if Macron has been in power too long to let others usurp such a distinction. Considering recent developments from a convincing height, it is not unreasonable to think that the president has utilized this aphorism about the adaptability of power structures, adopting changes to preserve the status quo.

**A Reading on Market Impact: Main Conclusions**

1. A hung national assembly (as it has resulted) significantly reduces the likelihood of disruptive policies. That is not bad.
2. Any of the more probable scenarios (in my opinion) would have a soothing effect on French assets.
3. I could be wrong, and scenario 1 could develop (to which I assign a 30% probability). After all, as I previously stated, the qualities required for a leader to be accepted by the French are legality and legitimacy, and Macron would lose all legitimacy if he did not offer the left bloc the possibility of governing in the minority. In such a case, I am convinced that the first decisions of this government would be to undo parts of Macron's labor reform and probably

modify the capital tax structure. In such a case, I fear the market could react very poorly.

In any event, I can assure you that French (and European) assets will not remain as they are today for much longer.