RATHBONES

THE WAVE

REVIEW OF THE WEEK
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THE RIGHT-WING RASSEMBLEMENT NATIONAL WAS THE BIG WINNER IN THE FIRST ROUND OF FRENCH ELECTIONS, BUT THE MOST CONCLUSIVE VOTE COMES THIS WEEKEND. BEFORE THEN, THE UK VOTES ON ITS OWN PARLIAMENT.

Left and right-wing parties dominated the first-round election for the French parliament. The right-wing *Rassemblement National (RN)* won the popular vote with 33%, beating the left-wing alliance *Nouveau Front Populaire (NFP)* by five percentage points. French President Emmanuel Macron's *Ensemble* centrist coalition took just 20%. The share of seats where RN and its smaller ally Les Republicains topped the race was even more overwhelming: of the 577 districts, RN and its allies led in 297. If that is repeated on Sunday , RN would win a slim absolute majority. The second-placed left-wing NFP topped the ballot in 159 districts, while centrist *Ensemble* managed just 70.

In 76 districts a candidate took more than half the vote, meaning they win the seat immediately. RN won 39 seats this way, while NFP secured 32. The remaining seats will be decided in the second round of voting on Sunday. In each district, the two candidates who collected the most votes and those who received more than 12.5% of the total eligible voters will gain a spot in the run-off. Candidates can and do pull out, however, to avoid splitting votes. Exactly how this shakes out is hard to tell for all but the most clued-up French politicos. Experts say that seat projections should become more accurate once the run-off candidates are finalised on Tuesday evening.

The French stock market surged almost 4% after the opening bell, although it was just shy of 1.9% higher at the time of writing. Non-European stock markets barely budged, pointing towards the election news as the driving factor. French government bond yields fell a little relative to global benchmark borrowing rates throughout the morning. The CAC 40 French stock market index had already fallen about 5% since Macron announced the snap election on 9 June. The difference between French 10-year government bond yields and those of Germany had leapt from about 0.45 of a percentage point to 0.75 of a percentage point on the news of the snap election as investors demanded more return to account for the greater risk of deterioration in the **nation's already poor financial situation.**

Meanwhile, the US presidential debate was extremely underwhelming. President Joe Biden gave a terrible showing, with trailing, confused answers that led to questions about his health. While Republican challenger Donald Trump was much more vigorous and (mostly) coherent, various fact checking groups found that he made around 30 false statements, over three times as many as Biden, some of them decidedly nonsensical. November's election is still very far off, with both parties' conventions, at which they formally choose their candidates, in between. Noises from Democratic leaders suggest that cogs may be turning to attempt to replace Biden.

The Democratic convention in Chicago on 19-22 August could be the forum, but it would take unprecedented scenes to do so. Because the Democratic state primaries that nominate the candidate have already been held – and Biden won them convincingly – the delegates are pledged to vote for him in a rubber-stamp, victory lap confirmation at the convention. It is widely agreed that it would take Biden himself stepping aside for them to cast their votes for another choice (something he steadfastly refuses to do). However, there is some wriggle room: Democratic delegates are allowed to vote in a way that "in all good conscience reflect[s] the sentiments of those who elected them."

If Biden did step down ahead of the convention – or at it – or if more than half the delegates revolted and voted for other people, the party would be in uncharted waters. There would, however, be a spooky historical rhyme. It was in Chicago that the Democratic convention of 1968 devolved into a no-holds-barred electoral fight over who would get the nomination on national television as protestors were beaten on the streets by police and the National Guard. It was in the aftermath of that ill-fated event that the Democratic Party reformed how it selected delegates and candidates, ushering in the modern system that gave more power to voting members in the primaries, rather than to party bigwigs through backroom machinations.

If Biden is replaced, anyone could have the opportunity to fling their hat in the ring. That could turn into a convention-floor bunfight to determine the winner. All the more reason why it doesn't make sense to premise investment decisions on any single election outcome. We need to be prepared for a range of possibilities. We'll be publishing more of our analysis over the next few months.

Britain votes

The UK general election takes place on Thursday, with Labour's roughly 20-percentage-point lead on the Conservatives in opinion polls still intact after 40 days of electioneering. Both major parties have lost roughly 5% of support over the campaign, with most of this flowing to the Reform Party and the remainder to the Liberal Democrats.

We will be releasing analysis of the result and its implications for your finances and the prospects for the economy on Friday. You will be able to find this on the **Knowledge and Insight section of our website**. In the meantime, you can read a brief update on what a Labour government could mean for the nation's finances **here**. Whatever your politics, don't forget to vote!

There's no Bank of England (BoE) interest rate decision this month, with the next meeting due on 1 August. It's a close call whether the BoE's monetary policy committee (MPC) will cut its benchmark interest rate for the first time since the pandemic ended or leave it at 5.25%. While headline CPI inflation fell back in May to the 2% target for the first time since July 2021, services (things like cafes, holidays, garages and gym memberships) prices are still rising at a clip (5.7%). Services inflation is being watched closely by the BoE, so a slow deceleration may need to become more pronounced over the summer to encourage it to take the plunge.

Picking through the MPC's latest meeting minutes shows that seven out of nine committee members voted to hold rates where they were. Yet "some" of this group felt that the stronger-than-expected services inflation "did not alter significantly the disinflationary trajectory that the economy was on". They cited evidence that some recent price hikes were due to regulated and indexed prices, which were not expected to be as large in the future. Essentially, for those members, it doesn't really matter that services inflation has come in above the BoE's forecasts. And given that their decision was apparently "finely balanced", it presumably wouldn't take much for them to vote for a rate cut in August.

The big unknown is exactly how many members this group contains. But it would only take three more votes for a rate cut to be voted through. Accordingly, interest rate markets currently imply a 50/50 decision in August between a hold and a cut. The data released between now and then will probably be the deciding factor. But regardless of the August decision, the big picture is that, for the first time in years, interest rate cuts are now on the table. With markets still only pricing in a gradual rate-cutting beyond August, we think that there's a greater chance that there will be more interest rate cuts than expected, as opposed to fewer.

If you have any questions or comments, or if there's anything you would like to see covered here, please get in touch by emailing **review@rathbones.com**. We'd love to hear from you.