



MACROECONOMIC *view*

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Trump wins, Macron loses – What are the consequences?



KEY HIGHLIGHTS:

- Occasionally, a country's trajectory changes due to an unexpected political event. The assassination attempt on Donald Trump and the dissolution of the National Assembly in France are game changers.
- In the United States, a Trump-inspired economic policy in 2025 would involve tax cuts, increased tariffs, and an end to support for Ukraine.
- France has rarely appeared so ungovernable at a time when crucial choices need to be made to improve the public finances.



"Cleopatra's nose: had it been shorter, the whole face of the world would have been changed". This thought by Blaise Pascal reminds us all how small events can have major consequences.

On July 13, if the bullet aimed at Donald Trump had deviated by a few millimetres, it would have blown his skull apart rather than grazing his ear. Today, he wouldn't be seen as a sort of miracle survivor and, consequently, as the overwhelming favourite to win the US presidential election. On June 9, if Emmanuel Macron had allowed himself a good night's sleep to digest his defeat in the European elections, perhaps he wouldn't have made the reckless decision to dissolve the National Assembly, which plunged France into political chaos not seen in decades.

Towards a second term for Donald Trump

A few weeks ago, it was accepted that the outcome of the November 5 presidential election would be decided by a few thousand votes in a handful of swing states. Embroiled in various legal affairs, Donald Trump seemed to have a slight edge in voting intentions, but nothing decisive. Two recent events have changed this outlook.

On June 27, a TV debate between the candidates showed that Joe Biden had obvious physical and

cognitive weaknesses. The Democratic camp's denial on this issue was no longer tenable. Several donors openly called for Joe Biden to withdraw his candidacy. Pressure was mounting when a second event occurred. On July 13, Donald Trump narrowly escaped an assassination attempt. Could one imagine a starker contrast between a sitting president struggling to move and speak and his opponent who, though wounded, showed his fighting spirit!

No election is ever decided until the vote has taken place. But there's no denying that Donald Trump now has better chances of victory. First, he has received financial support from wealthy individuals, including Elon Musk. Second, it's more difficult for the opposing camp to present him as a threat when he has just been the victim of an attack. Lastly, this event, by reducing the pressure for Joe Biden to step down, diminishes the Democrats' chances of reinvigorating their campaign with a new candidate.

Under these circumstances, we must carefully consider what the main priorities of a second Trump term might be. We can only judge the former president's stated intentions here, knowing that many factors can come between a plan and its implementation. Let's focus on two key issues: international relations and the economy.



In geopolitics, the most direct impact of a Trump victory would involve Ukraine. The former president wants a peace solution which, in practice, could only mean a kind of partition of the country in favour of Russia. His running mate, Senator Vance, is even more explicit in his desire to stop all US military support to Ukraine and encourage US isolationism. It is unlikely that European countries will be able or even willing to fully compensate for the US withdrawal. Simultaneously, we can expect Trump to be tough on China. After all, he was the first to question the benefits of China joining the World Trade Organization. The trade war he waged during his first term did not rebalance trade with China as he had hoped for, but it opened the eyes of many to China's breaches of fair and free competition rules. By other means, such as technology access restrictions, Joe Biden has only reinforced the US's anti-China policy.

On the economic front, the *"Make America Great Again"* motto remains relevant. Judging by his actions during his first term, Donald Trump believes economic power rests on tax cuts (stimulating demand) on the one hand and increasing tariffs (restricting foreign competition) on the other. In 2025, fiscal headroom will be narrower than it was in 2017, but it is doubtful this will prevent Trump from pursuing a loose fiscal policy. Moreover, his desire to tax imports would no longer be limited to China and a few industrial metals but would, according to some of his advisors, apply to all trade with the rest of the world. As tariffs often fall on the end consumer and cause inflation, there is likely room for compromise. Meanwhile, for Europe, and especially Germany, American protectionism could weigh on economic prospects, particularly if China also closes its doors.

Ungovernable France

In the space of one month, the French have voted three times. In the European elections on June 9, they overwhelmingly rejected Emmanuel Macron's party in favour of the National Rally (RN). This led the president to dissolve the Assembly and call for snap parliamentary elections. In the first round of these elections on June 30, the French confirmed their choice with another large lead for the RN. In the second round on July 7, withdrawals between parties prevented the RN from achieving a landslide victory but did not designate another winner. The National Assembly is now divided into three

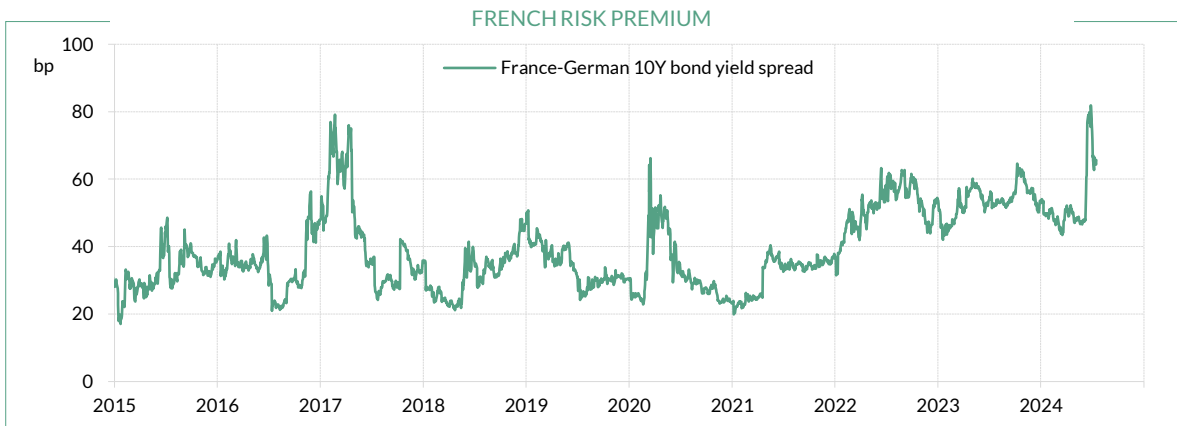
minority blocs (the left, the centre, the RN) plus a few smaller political groups.

No camp can claim an absolute majority. The next government, whoever it may be, will primarily have to avoid causing unity among its opponents, which would lead to a censure motion. **Emmanuel Macron aimed to clarify the political situation. Instead, he only made it more complex and unstable. This situation is unprecedented since the Fifth Republic was founded in 1958. To avoid political instability, the next government might be forced into economic inertia.**

What are the consequences of this situation? First, the indecision over the formation of a new government can only lead to a wait-and-see attitude on the part of economic agents. **Fiscal stability is by no means guaranteed.** As reported by several business groups, some investment decisions are on hold pending knowledge of whether taxes will increase.

Second, the risk of political instability comes at the worst time of the year, namely in the run-up to the annual budget debate. By mid-summer, the budget proposal is normally ready, save for a few details, before being officially presented in September and debated by the Assembly from October. Adjustments will be necessary this year once the government's political leanings are known. This budgetary uncertainty comes as France is under an excessive deficit procedure from the European Commission and rating agencies are closely monitoring any failure to meet deficit reduction targets. **The French risk premium rose sharply after the announcement of the dissolution, before falling back, but it has not returned to its starting point (see chart).** The risks are high that this risk premium will increase if the budget debate proves unfruitful or is delayed.

Lastly, the political risk in France has negative repercussions for the rest of Europe. For one of the zone's major economies to be weakened in this way is not a good thing. The impact can be felt via the trade channel (decline in demand from other countries) and via the financial channel (contagion effect). **What's more, the absence of stable political reference points in France is likely to cause hesitation in neighbouring countries, starting with Germany. This is not the ideal context in which to encourage initiatives aimed at restoring Europe's weight in international competition.**



Source : Bloomberg, ODDO BHF

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