

French markets under pressure again in the face of political uncertainty

The announcement of an upcoming vote of confidence by François Bayrou has revived political risk in France, leading to further turbulence on the financial markets. For the time being, these tensions remain contained and mainly confined to the French markets, but they accentuate an underperformance already noticeable since the dissolution of the National Assembly in June 2024.

A new sequence of political instability. Prime Minister François Bayrou announced on Monday 25 August that he would seek a vote of confidence on September 8th in the National Assembly, on the occasion of the presentation of his budget savings plan for 2026. This initiative comes at a time when the government does not have a clear majority, and the main opposition groups have already announced their intention to vote against it. Several scenarios are emerging at the end of September 8th: (i) the continuation of the current government in the event of success – an unlikely hypothesis in view of the opposition's positions –, (ii) the appointment of a new Prime Minister, or (iii) a new dissolution of the National Assembly, which would imply the holding of early elections before the formation of a new government. This vote of confidence is thus in line with the political instability that has prevailed in France since June 2024.

Public finances: little hope for improvement in the short term.

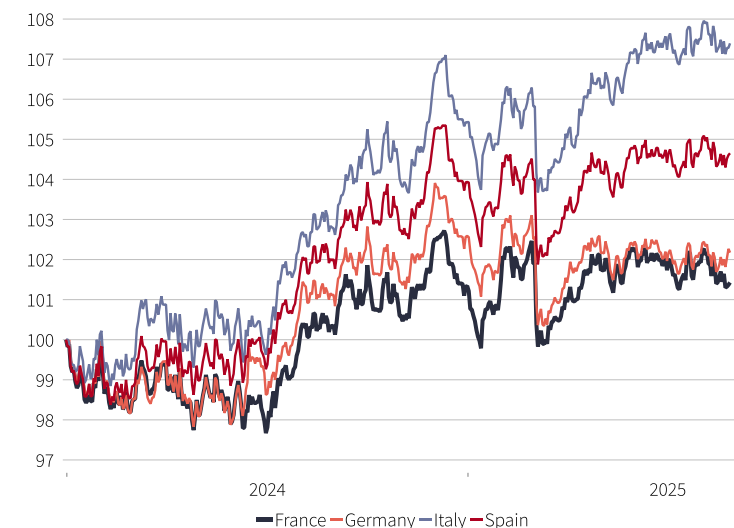
France stands out from its neighbours by the deterioration of its public finances. According to the European Commission, the French public deficit is expected to remain above 5% in 2025, compared to around 3% in the main economies of the euro area. Even excluding interest charges, the primary deficit remains significantly higher in France, particularly compared to Italy, which now has a positive primary balance as of 2024, a sign of significant fiscal efforts. Whatever the outcome of the vote of confidence on

September 8th, the climate of political instability does not seem to be hardly conducive to a significant change in the budgetary trajectory by 2026

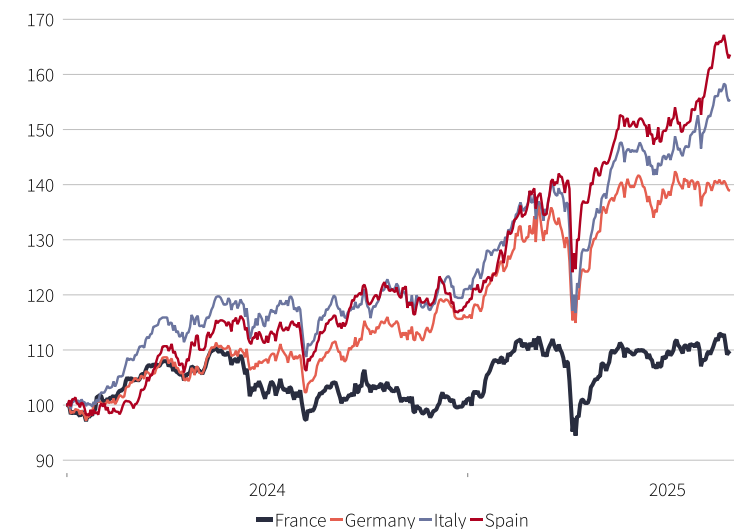
Growth: a weak economic and financial environment. French growth remains sluggish, with a cumulative increase of only +1% since January 2024, against 4% for Spain, while Germany is stagnating (0%). Political uncertainty continues to weigh on consumer and business confidence, prompting them to focus on savings over investment and consumption. In addition, this instability is increasing the pressure on credit rates, due to the rise in French government bond yields, which is further hampering investment decisions.

French financial markets penalised for a long time. The announcement of the confidence vote has caused further tremors on the financial markets. The 10-year yield on French government bonds is now above 3.5%, widening the gap with German rates. The CAC 40 lost nearly 2,9% this week. At this stage, these tensions remain moderate and concentrated in the French markets, but they aggravate the underperformance observed since the dissolution of the National Assembly. Since the beginning of the year, the French equity market has posted a performance of +5%, while the German, Italian and Spanish markets have risen by more than 40% (broad indices, dividends reinvested). In addition to the political risk, the sector composition of the French market – overweight in luxury stocks and underweight in financials, the latter being the best performers since the beginning of the year – is an additional handicap. At the same time, the French bond market recorded a cumulative performance of +2% over the period, significantly lower than that of the Spanish and Italian markets (nearly +5% and more than +7% respectively). This underperformance can be explained both by a less attractive level of interest rates than in Italy (carry effect) and by a stability in interest rates, while they have fallen sharply in Spain and Italy (value effect)..

PERFORMANCE OF FIXED INCOME INDICES



PERFORMANCE OF EQUITY INDICES (100=2024)



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OUR MACRO COMMENTS

Last week's events

Q2-25 corporate results: another very good American vintage

The earnings season of large US companies confirms their good health, and specifically for companies in the new technology sector. Indeed, revenue increased by 6.25% in Q2-25 for all S&P 500 companies while profits increased by 12.4%. In addition, 81% of S&P 500 companies reported profits above analysts' expectations. By sector, the new technologies and communication sector remain the main contributors, with profit increases of 22.3% and 44% year-on-year respectively.

In Europe, the season is more contrasted. Indeed, of the 77% of STOXX 600 companies that have published quarterly results, the turnover of these companies contracted by 2% but profits increased by 4% in Q2 25, which reflects companies that manage to keep their margins. By sector, as in the United States, new technology companies posted strong profit growth (+56%), and financials also contributed significantly (+12%). The consumer discretionary sector is still weighing on the index, with negative results in the luxury sector.

Eurozone: Disinflation continues in August

Preliminary inflation data for August confirm the slowing trend in inflation in the main eurozone economies. Indeed, in France, harmonised inflation in August amounted to 0.8% year-on-year, with an increase in core inflation of 1.6%. Moreover, the good news from this figure is that the slowdown in inflation reflects the slowdown in services inflation, which indicates contained inflationary pressures.

In Italy, inflation is still below the ECB's target while in Germany, inflation continues to converge towards the 2% target, with headline inflation at 2.1% in August. We believe that continued disinflation in a context of very gradual recovery in activity could lead the ECB to cut its key interest rate again at the end of the year.

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EVENTS IN THE COMING MONTHS

8 September: Vote of confidence in the French government

11 September: ECB monetary policy meeting

September 17: Fed monetary policy meeting

EVENTS AND KEY FIGURES TO COME

Monday

Tuesday

Euro area HCPI inflation august
United States ISM manufacturing index August

Wednesday

Euro area Taux d'inflation PPI juillet
United States JOLTS survey July

Thursday

Switzerland August CPI
Euro area July retail sales
United States Q2-25 productivity report
United States ISM services index August
United States July trade balance

Friday

United States August employment report

MARKET PERFORMANCES

Interbank rates

%	27/08/2025	29/07/2025	29/05/2025	01/01/2025	29/08/2024
US SOFR	4,355	4,35	4,31	4,53	5,35
Euro area €ster	1,925	1,92	2,16	2,91	3,66
UK SONIA	3,968	4,22	4,21	4,70	4,95
Switzerland SARON	-0,039	-0,04	0,21	0,45	1,21
Japan TONAR	0,478	0,48	0,48	0,23	0,23

10Y Government rates

%	28/08/2025	29/07/2025	29/05/2025	01/01/2025	29/08/2024
US Treasuries	4,22	4,34	4,43	4,58	3,87
France OAT	3,48	3,34	3,18	3,18	3,00
Germany Bund	2,70	2,69	2,51	2,36	2,28
Italy BTP	3,54	3,49	3,49	3,52	3,66
Spain Bonos	3,29	3,20	3,11	3,06	3,10
Switzerland	0,29	0,40	0,27	0,32	0,42
UK Gilts	4,70	4,61	4,66	4,55	4,02
Japan JGB	1,62	1,56	1,51	1,08	0,89

Credit

%	28/08/2025	29/07/2025	29/05/2025	01/01/2025	29/08/2024
United States IG	4,89	5,03	5,25	5,33	4,90
United States HY	6,73	7,03	7,46	7,49	7,30
Europe IG	3,30	3,26	3,35	3,44	3,65
Europe HY	5,32	5,29	5,70	5,70	6,32
Emerging FX	5,76	5,89	6,23	6,40	6,39

Equity indices

28/08/2025 vs	-1w	-1m	-3m	01/01/2025	-1y
World	0,15	2,303	9,122	12,36	16,53
United States	0,61	2,389	10,630	11,31	17,10
Euro area	-1,80	0,369	1,567	16,51	16,78
France	-2,73	-1,224	0,182	8,65	6,51
Germany	-1,30	-1,043	-0,412	19,80	26,39
United Kingdom	-1,14	1,467	6,271	15,16	13,18
Japan	-0,27	6,181	10,082	12,31	17,94
Emerging	-0,31	1,456	9,631	16,31	17,58
China USD	-1,08	1,732	12,399	29,59	49,43
India USD	-2,09	-2,706	-3,064	-1,27	-8,25
Latin America USD	1,60	8,393	7,501	35,84	12,58

Foreign exchange rates

	28/08/2025	29/07/2025	29/05/2025	01/01/2025	29/08/2024
EUR/USD	1,17	1,15	1,14	1,04	1,11
GBP/USD	1,35	1,33	1,35	1,25	1,32
EUR/CHF	0,94	0,93	0,94	0,94	0,94
USD/JPY	147,04	148,44	144,35	157,00	145,34
USD/CNY	7,15	7,18	7,20	7,30	7,10

Commodity prices

	28/08/2025	29/07/2025	29/05/2025	01/01/2025	29/08/2024
Brent, USD/BL	68	72	63	75	79
Copper, USD/Metric ton	9704	9734	9642	8706	9116
Gold, USD/Troy oz	3417	3326	3318	2606	2521
Silver, USD/Troy oz	39	38	33	29	29
Palladium, USD/Troy oz	1102	1246	976	909	957
Platinum, USD/Troy oz	1345	1397	1088	913	941

Source : Bloomberg on 29 August 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..



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