

France: why markets are underperforming those in the euro area

Since the beginning of 2024, French financial markets have posted positive but lower performances than those in the euro area, both in terms of equity and bond markets. This underperformance can be explained by a combination of factors: a relatively average economic situation, fears about the trajectory of public finances leaving less support capacity and a less favorable sector composition.

Positive performances but less than the rest of the euro area.

Since the beginning of 2024, the French equity market has posted a performance of +10%, while the German, Italian and Spanish markets have exceeded +40% (calculation based on broad indices, with dividends reinvested). At the same time, the French bond market posted a cumulative performance of +2% over the same period, significantly lower than that of the Spanish and Italian markets (respectively close to +5% and more than +7%). The French bond market is penalised both by a lower level of interest rates than in Italy (carry effect), but also by an interest rate that has remained almost stable over the period, while they have fallen sharply in Spain and Italy (value effect).

The economic situation is in the average, but the trajectory of public finances stands out. On the activity momentum front, the French economy appears to be in line with the euro area average, with cumulative growth of +1% since January 2024, while Spain is clearly outperforming (+4%) and Germany appears to be lagging behind (0%). On the other hand, France stands out from its neighbors by the recent trajectory of its public finances. The European Commission points out that the deficit will remain above 5% in France in 2025, while it will be around 3% in the main economies of the euro zone.

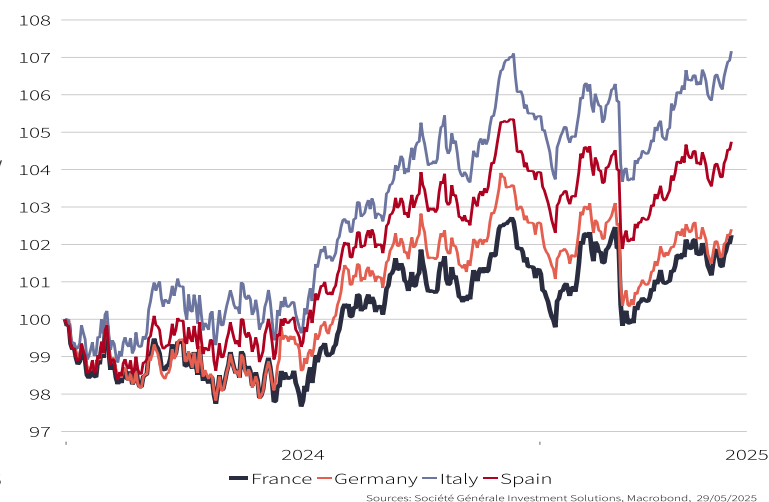
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Looking without the interest charge, the primary deficit also remains much worse for France, particularly compared to Italy, which has a positive primary balance as of 2024, a sign of significant fiscal efforts. This context, combined with the French political context without a clear majority since the surprise parliamentary elections in June, is weighing heavily on the bond markets and contributing to the weaker performance on the equity markets.

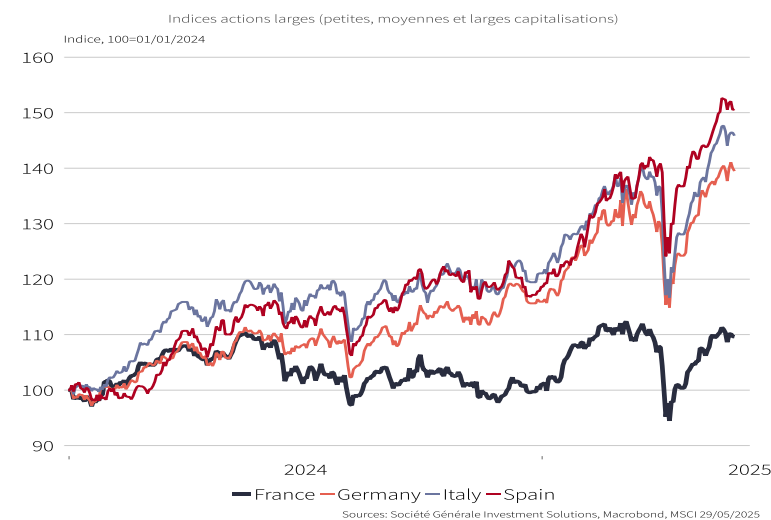
European fiscal support plans are only indirectly favorable to the French economy. First, the "Next Generation EU" plan, put in place following Covid, will continue to favor mainly Spain and Italy in the coming quarters. Indeed, France benefits from a smaller total envelope and has already used a large part of the available funds. In parallel, the RearmEU plan could support the French arms industry, but indirectly and with a certain delay. Finally, Germany has announced a "whatever it takes" that will first and foremost support its own economy. In short, these European plans will have a modest direct effect on the French economy. However, they could improve the dynamics of the market indirectly, by stimulating growth in its trading partners in the immediate vicinity.

A less favorable sector composition. Beyond the macroeconomic effects, the French equity market remains penalized by a sector composition that distinguishes it from other markets. First, the consumer sector, and particularly the luxury sector, appears to be over-represented compared to other neighboring markets. However, this sector is affected by the sluggishness of Chinese demand but also by the threat of tariff increases. In addition, the financial sector represents a small weight (13% compared to 23% for the euro zone and more than 40% for Spain and Italy), while this sector has been the best performing since the beginning of the year.

Bond market performance



Equity market performance



OUR MACRO COMMENTS

Events of the week

Uncertainties over tariffs and investments in the United States

On Wednesday, the United States Court of International Trade (ITC) suspended the tariffs decided by the Trump administration, ruling that the President had exceeded his prerogatives. However, on Thursday, an appeals court suspended the decision, pending the judgment on the merits. Tariffs therefore continue to apply for the time being.

At the same time, a provision in the draft budget voted last week by the House of Representatives adds a new element of uncertainty. "Section 899", which has so far gone relatively unnoticed, targets countries that apply, according to the United States, "unfair foreign taxes". This section provides for a five-percentage-point increase, over four years, on taxes related to dividends and interest from U.S. stocks and certain corporate bonds held by foreign investors.

In addition to discouraging foreign investment in the United States, this measure could also weigh on the dollar, which has already fallen by 9% against the euro since the beginning of the year. In this context, the S&P 500 and Nasdaq indices, which had almost returned to their level at the beginning of the year, could be weakened again. However, the Senate still has to vote on this draft budget.

Inflation & Monetary Policy

In the euro zone, inflation rates continued to fall in May, to 0.6% in France, 2.1% in Germany, 1.9% in Italy and Spain over one year. These figures are in line with wage trends, which showed a clear slowdown in the first quarter.

Inflation figures for the whole euro area will be known next Tuesday, but markets are already anticipating a further rate cut by the European Central Bank next week (5 June) as well as another in the coming months.

In the United States, the PCE index for April remained stable at 2.1%. Similarly, the Core CPE, which excludes energy, food and tobacco, also remained stable at 2.5%. But caution remains the order of the day, with household and business surveys pointing to a rise in prices, while the impact of tariffs could be felt in the coming months.

The Federal Reserve would remain wait-and-see in this context, with markets anticipating a status quo for the next monetary policy meeting on June 18.

EVENTS AND KEY FIGURES TO COME

Monday

United States ISM manufacturing PMI (May)

Tuesday

China Caixin Manufacturing PMI (May)
Euro area Inflation (May)
Euro area Unemployment rate (May)

Wednesday

United States Job Vacancy Survey (JOLTS)

Thursday

Canada Monetary policy decision
United States ISM services PMI (May)

Friday

Euro area Monetary policy decision
Canada Trade balance (April)

EVENTS OVER THE NEXT FEW MONTHS

5 June: ECB monetary policy meeting

18 June: Fed monetary policy meeting

19 June: BoE monetary policy meeting

Early July: End of the suspension of US tariffs

Mid-July: major budget orientations announced by the government

MARKET PERFORMANCES

Interbank rates

%	28/05/2025	30/04/2025	28/02/2025	01/01/2025	30/05/2024
US SOFR	4,314	4,35	4,35	4,53	5,32
Euro area €ster	2,167	2,16	2,66	2,91	3,91
UK SONIA	4,210	4,46	4,46	4,70	5,20
Switzerland SARON	0,208	0,20	0,43	0,45	1,45
Japan TONAR	0,476	0,48	0,48	0,23	0,08

10Y Government rates

%	28/05/2025	30/04/2025	28/02/2025	01/01/2025	30/05/2024
US Treasuries	4,47	4,17	4,24	4,58	4,55
France OAT	3,22	3,17	3,12	3,18	3,15
Germany Bund	2,55	2,45	2,38	2,36	2,66
Italy BTP	3,53	3,58	3,47	3,52	3,96
Spain Bonos	3,15	3,12	3,07	3,06	3,39
Switzerland	0,27	0,33	0,40	0,32	0,85
UK Gilts	4,71	4,44	4,51	4,55	4,35
Japan JGB	1,46	1,32	1,36	1,08	1,04

Credit

%	29/05/2025	30/04/2025	28/02/2025	01/01/2025	30/05/2024
United States IG	5,25	5,14	5,08	5,33	5,58
United States HY	7,46	7,90	7,15	7,49	8,08
Europe IG	3,35	3,38	3,32	3,44	4,12
Europe HY	5,70	6,03	5,40	5,70	6,61
Emerging FX	6,23	6,27	6,12	6,40	6,95

Equity indices

29/05/2025 vs	-1w	-1m	-3m	01/01/2025	-1y
World	1,52	5,83	0,835	2,966	11,228
United States	1,86	6,41	-0,542	0,615	12,480
Euro area	1,15	6,13	3,579	14,717	11,877
France	0,89	4,19	-1,118	8,454	0,693
Germany	1,30	6,07	6,411	20,299	26,538
United Kingdom	0,18	3,35	1,038	8,363	9,001
Japan	2,84	5,57	5,928	2,023	4,060
Emerging	0,22	4,51	4,660	6,088	9,847
China USD	-0,71	4,82	2,480	15,294	24,103
India USD	0,06	2,87	17,833	1,850	4,729
Latin America USD	0,85	4,21	17,439	26,365	0,595

Foreign exchange rates

	29/05/2025	30/04/2025	28/02/2025	01/01/2025	30/05/2024
EUR/USD	1,14	1,14	1,04	1,04	1,08
GBP/USD	1,35	1,34	1,26	1,25	1,27
EUR/CHF	0,94	0,93	0,94	0,94	0,98
USD/JPY	144,35	142,60	150,67	157,00	156,63
USD/CNY	7,20	7,27	7,28	7,30	7,25

Commodity prices

	29/05/2025	30/04/2025	28/02/2025	01/01/2025	30/05/2024
Brent, USD/BL	63	61	73	75	82
Copper, USD/Metric ton	9 642	9 204	9 364	8 706	10 017
Gold, USD/Troy oz	3 318	3 289	2 858	2 606	2 343
Silver, USD/Troy oz	33	32	31	29	32
Palladium, USD/Troy oz	976	933	918	909	947
Platinum, USD/Troy oz	1 088	972	943	913	1 032

Source : Bloomberg on 30 May 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 mont change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..



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