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# Markets in a Minute

2 July 2024

Guy Foster, Chief Strategist, discusses the result of the first round of the French election and the impact it's had on equity and bond markets. Plus, Janet Mui, Head of Market Analysis, examines fresh U.S. inflation data.



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Markets traded broadly sideways last week, with relatively little economic news or corporate earnings results. While markets may have been quiet, there was plenty of politics for investors to ponder.

The election-heavy year continued with France hitting the polls on Sunday for the first round of legislative elections. Candidates are competing for one of 577 National Assembly deputy positions, which they'll win if they receive 50% of votes in their constituency, representing at least 25% of registered voters.

However, if they don't win a position, a second round will take place where voters will select one of the top three candidates who have achieved 12.5% or more of the votes. In this round, the candidate who receives the most votes is elected.

Marie Le Pen's far-right National Rally party won 33% of the popular vote, while President Emmanuel Macron's centrist Together coalition (which includes his Renaissance party) achieved 21%. The second round of voting takes place on Sunday.

## The UK election looms...

Taking place between the two French rounds of voting is the UK general election.

The two leaders, Labour's Sir Keir Starmer and the Conservative Party's Prime Minister Rishi Sunak, debated last week and the consensus seems to be that the prime minister won the argument but still won't prevail in the election.

When the election comes, the market's reaction is likely to be muted, as a Labour victory has seemed so likely for a long time – but the margin of victory could be important.

UK elections are notoriously difficult to poll, and prediction models are producing some wildly different forecasts of the possible Labour margin of victory (from 50-150 seats). This could be due to a lack of enthusiasm for the opposition or the performance of other parties, such as Reform or the Scottish National Party.

The size of the margin gives a new prime minister a mandate and equates to their right to make decisions. If this was accompanied by a bold policy agenda, investors would react to those policies being implemented. However, as Labour's offering has been relatively vanilla, the mandate should therefore protect the leadership from rebellions and contribute to a feeling of general political stability.

## Belief in the U.S. president weakens...

More newsworthy was the first U.S. election debate on Thursday.

President Joe Biden, who has been lagging former President Donald Trump in the polls, pushed for this debate because it was seen as an opportunity to expose Trump's weaknesses.

However, it was also recognised as a risk if Biden was to appear frail, which is exactly what happened. His voice and the dithering nature of his answers will have reinforced the suggestion he's too old to serve another four-year term. Prediction markets immediately marked his potential chances lower, but Biden's losses were bigger than Trump's gains (and the gains of potential candidates Gavin Newsom and Kamala

Harris). Speculation's now mounting that Trump might end up facing a different candidate in November.

The obvious candidate would be current Vice President Kamala Harris, but there is little evidence that she would perform well against Trump. For that reason, Governor of California Gavin Newsom is the most likely pick, with a handful of other state governors also amongst the speculation. So far, they have all been firm in their commitment to Biden's cause, so any change of candidate would need to be initiated by him deciding not to stand. The candidacy will be confirmed at the Democratic National Congress in late August.

### The third-party candidates line up...

This year's election will also feature some third-party candidates. That's not unusual, however, their influence tends to be limited. In fact, no third-party candidate has won any Electoral College votes (effectively winning a single state) since 1968.

However, it is possible for third-party candidates to influence the election. In 1992, Ross Perot is credited with taking votes from George H. W. Bush, which ultimately helped Bill Clinton. The highest polling third-party candidate in this election, Robert F Kennedy Jr., has appeal across both voter bases, but is especially popular with the young.

Third-party candidates usually underperform on election day, although the low level of satisfaction with the big party candidates could change that.

The Green Party's Jill Stein is also expected to run. It's sometimes observed that her vote share in Michigan, Wisconsin and Pennsylvania in the 2016 U.S. presidential election was greater than Trump's margin of victory over Hillary Clinton in each of those states. Therefore, Clinton might have won that election had Stein not run and her supporters had instead supported Clinton (which they might not have).

Although unlikely, it's possible that a third-party candidate wins enough Electoral College votes to prevent either Trump or Biden (or his replacement) from winning the 270 votes required to become president. Under those circumstances,

the newly elected House of Representatives would select the new president on the basis that each state has a single vote (despite a state like California having 60 times the population of Wyoming).

Therefore, regardless of which party controlled the largest number of seats in Congress, the fact that there are more Republican states than Democrat states means this approach would likely favour Trump.

The debate seeming to improve Trump's chances led to a rise in the dollar. Traders may have perceived that Trump will cause growth, inflation, or both by virtue of promised tax cuts and threatened import tariffs. However, the gains didn't last and historically, markets have seemed to find it hard to really think through the implications of different presidents. Hardly surprising given there are so many different potential combinations of presidential and Congress control.

### The Falcon Heavy lands...

The threat of higher inflation is one scenario but continued progress in the contemporary space race offers some hope for deflationists.

Elon Musk's Falcon Heavy rocket successfully deployed the final satellite in the geostationary operational environmental satellite series (GOES-R), with the now familiar sight of its boosters landing in an upright position.

The conquest of space seems like science fiction but is believed to carry tangible economic benefits. One of these is the implementation of space-based solar power, in which energy is captured by space-based solar panels and beamed to earth in the form of microwaves for conversion to electricity. It's also anticipated that an unmanned nuclear power plant could be built on the moon, allowing for further expansion of human influence in space, including asteroid mining.

Realistic returns from space are years away but could see enormous changes in availability of some natural resources, with knock-on effects for the countries that might currently supply them on earth.

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