



THE DISSOLUTION IS APPROACHING

All that for nothing. Barely a month after his appointment and just hours after the announcement of his government's composition, Sébastien Lecornu has already resigned, becoming the only Prime Minister of the Fifth Republic whose government never saw the light of day. The extremely virulent reactions to the announcement of the government team last night, both from the opposition and within the Common Base itself, left Sébastien Lecornu with little choice, and attention is now focused on Emmanuel Macron. The latter surprised many by appointing one of his close advisers to replace François Bayrou, when many were expecting a sign of openness towards other parties, and it appears that his options are now very limited.

Although he is still reluctant to do so, the President may be forced to announce a new dissolution in the coming days, which could increase upward pressure on French interest rates and the underperformance of the CAC 40, with a significant risk of tensions spreading to other assets such as French banks, the euro and peripheral spreads. This scenario is becoming increasingly likely given the inability to find a compromise with the forces currently present in the National Assembly. Negotiations in recent weeks have confirmed that the Socialists would only agree to save the government in exchange for significant concessions on the taxation of the wealthiest or on pensions. Their leader, Olivier Faure, indicated this morning that a freeze on pension reform was a prerequisite for his party not to vote to censure the government. However, it is difficult for Emmanuel Macron to give up one of the few structural reforms to his record, especially since backtracking on this issue could prompt the Republicans to leave the government and, above all, fuel mistrust in the financial markets. On the other side of the political spectrum, the far-right political party Rassemblement National (National Rally) remains adamant in its position of quasi-automatic censure until the President agrees to dissolve the Assembly, an outcome that seems increasingly inevitable.

Marine Le Pen's party is confident of its strength in the event of new parliamentary elections, bolstered by last week's IFOP poll, which puts it well ahead with nearly 35% voting intentions. Behind him, the rest of the political landscape is deeply fragmented, both among the centrist parties, which are likely to field their own candidates, and within the left, where an agreement between Raphaël Glucksmann's Social Democrats and La France Insoumise is completely out of the question. These divisions could greatly benefit the RN in converting its electoral weight into a larger number of seats in the second round, especially since the Republican barrier is no longer a given for several political leaders. The probability of the Rassemblement National coming to power therefore appears relatively high, which should result in a significant widening of the French spread given the risk of further deterioration in the budgetary situation if the party does indeed seek to implement its programme. Nevertheless, it is likely that the Rassemblement National will not obtain an absolute majority and will be forced to form a coalition with the centre-right, which could reassure some investors and limit the impact on French assets.

If Emmanuel Macron decides to once again ward off the specter of dissolution, two other scenarios seem possible. The first would be to appoint a Prime Minister close to the left, whose room for manoeuvre would be extremely limited but who would be more likely to obtain the Socialist Party's indulgence. In this case, fiscal consolidation efforts would be minimal, but the financial markets might agree to see the glass as half full and be satisfied with no worsening of the public deficit, a scenario that would keep the OAT-Bund spread at levels higher than the historical average but without reaching new peaks.

The latest scenario on the table is that of a technical government, similar to what was practiced in Italy during periods of political instability. This government would be responsible for passing a budget more or less similar to this year's and managing day-to-day affairs, but it would only be

transitional until political clarification comes, which will happen no later than 2027 but probably sooner when Emmanuel Macron deems it appropriate to hold new legislative elections.

Beyond the distribution of probabilities between these different scenarios, none of them appears particularly promising for the attractiveness of French rates, which leads us to maintain our underweight position in bond portfolios.

**Michaël Nizard, Head of Multi-Asset & Overlay and Nabil Milali, Portfolio Manager / Strategist
Multi-Asset & Overlay, Edmond de Rothschild Asset Management.**

DISCLAIMER

06/10/2025

This is a marketing communication.

This document is issued by the Edmond de Rothschild Group. It has no contractual value and is designed for information purposes only. This material may not be communicated to persons in jurisdictions where it would constitute a recommendation, an offer of products or services or a solicitation and where its communication would therefore contravene applicable legal and regulatory provisions. This material has not been reviewed or approved by any regulator in any jurisdiction.

The figures, comments, opinions and/or analyses contained in this document reflect the Edmond de Rothschild Group's view of market trends based on its expertise, economic analyses and the information in its possession at the date of preparation of this document and may change at any time without notice. They may no longer be accurate or relevant at the time of publication, particularly in view of the date of preparation of this document or due to market developments.

This document is intended solely to provide general and preliminary information to those who consult it and should not be used as a basis for any investment, disinvestment or holding decision. The Edmond de Rothschild Group shall not be held liable for any investment, disinvestment or holding decision taken on the basis of such comments and analyses.

The Edmond de Rothschild Group therefore recommends that all investors obtain the various regulatory descriptions of each financial product before investing, in order to analyse the associated risks and form their own opinion independently of the Edmond de Rothschild Group. It is recommended to obtain independent advice from specialised professionals before entering into any transaction based on the information contained in this document, in order to ensure that the investment is suitable for the investor's financial and tax situation.

Past performance and volatility are not indicative of future performance and volatility and are not constant over time and may be independently affected by changes in exchange rates.

Source of information: unless otherwise indicated, the sources used in this document are those of the Edmond de Rothschild Group.

This document and its contents may not be reproduced or used in whole or in part without the permission of the Edmond de Rothschild Group.

Copyright © Edmond de Rothschild Group - All rights reserved

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros

AMF Registration number GP 04000015

332.652.536 R.C.S. Paris