GLOBAL MACRO RESEARCH

FRANCE

STEPS TOWARDS A SECOND EUROZONE SOVEREIGN CRISIS

NOVEMBER 2025

EXECUTIVE SUMMARY

FRANCE FACES A PRECARIOUS AND UNPREDICTABLE POLITICAL OUTLOOK

- France's political landscape is highly fragmented, with a divided parliament and precarious governments fuelling legislative gridlock and reliance on legal mechanisms to pass budgets, resulting in only temporary stability.
- The 2027 presidential election is expected to be highly unpredictable due to the splintered political field. The far-right National Rally (RN) are strongly positioned to reach the run-off, while polling suggests most run-off scenarios are extremely close.
- The election outcome will significantly impact France's fiscal and political stability; a moderate victory may aid fiscal reform, while an RN win without a stable majority could worsen gridlock and increase investor uncertainty.

THE FRENCH FISCAL OUTLOOK COULD DETERIORATE FURTHER

- France faces persistent fiscal challenges, with budget deficits stretching back 50 years, rising debt levels, and expenditure – particularly on pensions and social protection – consistently outpacing revenues, making meaningful fiscal consolidation elusive.
- Recent attempts at pension reform have stalled amid political instability, with the government suspending planned changes until after the 2027 election. Defence spending is set to rise but remains below NATO targets and is dependent on parliamentary approval.
- All major credit rating agencies have taken negative actions on France's sovereign rating, citing deteriorating fiscal conditions and political uncertainty. There is a meaningful risk of further downgrades, and potential for market instability similar to Italy's experience in the early 2010s.

IMPLICATIONS FOR INVESTORS AND ALTERNATIVES TO FRENCH ASSETS

- The ongoing political and fiscal instability is a clear risk for French assets, with government bond and credit markets potentially vulnerable to further credit rating downgrades and deteriorating market sentiment. This could see French assets underperform eurozone peers, while contagion remains a concern for the wider region.
- Investors seeking alternatives to French bonds may consider German bunds, semi-core bonds (Netherlands), peripheral bonds (Italy, Spain), and selected European supranational issuers, each offering varying levels of yield, liquidity and risk.
- While a French debt default or euro exit is highly unlikely, long-term buy-and-hold investors may remain comfortable; however, active investors may prefer diversifying away from France until political and fiscal risks subside.

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PARLIAMENTARY GRIDLOCK WILL LIKELY LEAD TO A TEMPORARY COMPROMISE

Since President Macron's decision to call snap legislative elections in summer 2024, in a move widely regarded as an unforced error, France has found itself with a deeply divided parliament split into three broad blocs:

- the left, ranging from the far-left La France Insoumise, or LFI, to the centre-left Socialist Party, or PS;
- the centre and centre-right, which provide support for the minority government; and
- the far-right National Rally (RN).

This has resulted in a series of four precarious governments, each unable to advanced meaningful legislation. Budgets have only been passed by decree using Article 49.3 of the French constitution, which presents the opportunity for a vote of no-confidence in the government.

After the last, very short-lived tenure of then Prime Minister Sébastien Lecornu's government, President Emmanuel Macron chose not to call fresh legislative elections. Instead, he re-appointed Lecornu, tasking him with forging support from the centre-left PS. To achieve this, Lecornu promised to suspend the contentious 2023 pension reforms until after the 2027 presidential election, pledged not to use Article 49.3 to pass a new budget, and agreed to allow a full debate in Parliament.

However, consensus in Parliament remains unlikely, so a budget will probably be passed by 'ordinance', a legal mechanism which bypasses full Parliamentary approval. Under this approach, the budget will likely include only some of the amendments that Parliament has agreed on, resulting in a budget that does not address France's long-term fiscal challenges. The likely outcome is tax rises rather than spending cuts, which could hamper planned increases in defence spending. Nonetheless, this is seen as the price of temporary political stability and avoiding new elections.

While another government collapse cannot be entirely ruled out, attention in the new year will focus first on Marine Le Pen's appeal against her ban from standing for political office – one she is likely to lose – and will then shift to the local elections in March, which RN is likely to win.

After that, politicians will be concentrating on the presidential election scheduled for April 2027.

THE 2027 PRESIDENTIAL ELECTION IS TOO CLOSE TO CALL

The 2027 presidential contest is expected to feature a diverse and fragmented field, reflecting deep divisions within and across France's political blocs.

- **Left:** The left is split among several prominent figures, including **Jean-Luc Mélenchon** (LFI), **Raphaël Glucksmann** (Place Publique, or PP), and potential Socialist Party nominees. Enduring ideological rifts and leadership rivalries complicate the prospects for a unified left-wing candidacy.
- **Centre:** The centrist camp features **Gabriel Attal** (Ensemble, former prime minister and seen as President Macron's political heir), and **Édouard Philippe** (Horizons, and another former prime minister). While these candidates represent continuity and reformist credentials, competition for the centrist mantle could dilute their collective strength.
- **Right:** The traditional right, led by figures such as **Bruno Retailleau** (Les Républicains, or LR) and **Xavier Bertrand** (associated with LR), faces challenges in distinguishing itself from both centrist and far-right platforms.
- **Far right: Jordan Bardella** will likely represent RN, especially if **Marine Le Pen** remains barred from standing due to her current legal prohibition. However, the outcome of Le Pen's appeal introduces a degree of uncertainty regarding the RN's final candidate. Le Pen is the stronger candidate, but her appeal does not look likely to succeed.

Run-off scenarios: an RN candidate is likely

French presidential elections are decided in a two-round system, where the top two candidates from the first-round advance to a final run-off. Current polling and recent electoral trends suggest that the RN candidate – most probably Jordan Bardella, or potentially Marine Le Pen if her legal appeal succeeds – is highly likely to reach the second round. The identity of their opponent remains less certain, given the fragmentation of both the centre and the left.

Historical precedents, such as President Macron's unexpected breakthrough in 2017, caution against ruling out surprise outcomes. The primary campaigns may throw up an unexpected candidate who gathers the dynamism for a political renewal. Nevertheless, former Prime Minister Édouard Philippe is widely regarded as the frontrunner among centrists, with another former Prime Minister Gabriel Attal also commanding significant support. On the left, Jean-Luc Mélenchon remains the most prominent figure, but polling suggests he would struggle in a head-to-head contest against the RN. The right's Bruno Retailleau could also contend for a place in the run-off, depending on how the centre-right vote consolidates.

Polling suggests most run-off scenarios are too close to call, except a Mélenchon versus RN contest, where the RN would be heavily favoured. This underscores the volatility and importance of campaign momentum.

Implications for political and fiscal stability

The outcome of the 2027 election will have significant ramifications for France's legislative cohesion and fiscal trajectory.

A centrist or moderate right victory could facilitate fiscal consolidation efforts and improve prospects for budgetary reform, potentially stabilising investor sentiment. However, an RN win, particularly in the absence of a working legislative majority, could exacerbate political gridlock and undermine market confidence, especially if fiscal discipline is deprioritised.

Regardless of the presidential outcome, the subsequent legislative elections will be pivotal in determining whether the new president can secure a stable parliamentary majority. RN are probably in a better position to achieve this than other parties. Without such support, the risk of policy paralysis and continued fiscal slippage will remain elevated, prolonging uncertainty for investors and weighing on French asset valuations.

THE FRENCH FISCAL OUTLOOK COULD DETERIORATE FURTHER

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- Recent attempts at pension reform have stalled amid political instability, with the government suspending planned changes until after the 2027 election. Defence spending is set to rise but remains below NATO targets and is dependent on parliamentary approval.
- All major credit rating agencies have taken negative actions on France's sovereign rating, citing deteriorating fiscal conditions and political uncertainty. There is a meaningful risk of further downgrades, and potential for market instability similar to Italy's experience in the early 2010s.

Over the past year, three French prime ministers have been ousted after failing to pass a budget with any meaningful fiscal consolidation. While this is partly due to political fragmentation, the causation is circular. Budget problems and the attempts to fix them have fuelled the political problems, and that instability has in turn made fiscal reform harder. This raises important questions about France's fiscal predicament: what exactly are the problems, and is there something unique to France behind them?

PERSISTENT DEFICITS: PENSIONS SPENDING IS A KEY COMPONENT

With regard to fiscal unsustainability, France is one of the countries about which we are most concerned, because of persistent budget deficits and the political inability to fix them. The result is unsustainably rising debt/GDP levels (see Figures 1 and 2).

Figure 1: Budget balance of the select developed markets[1]

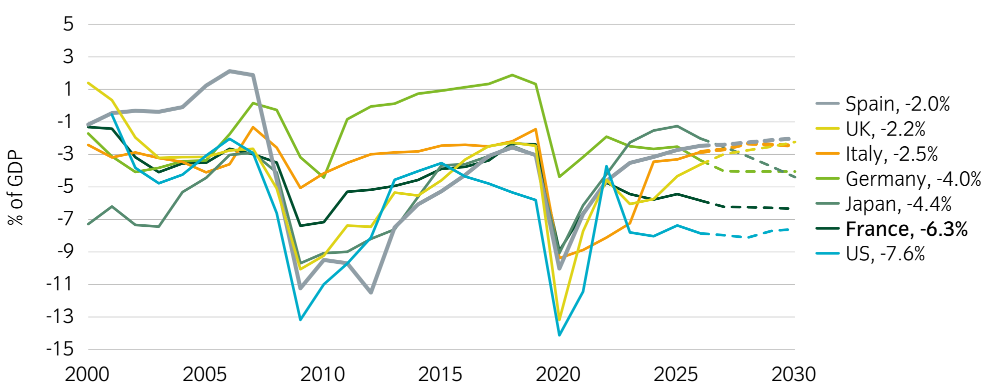
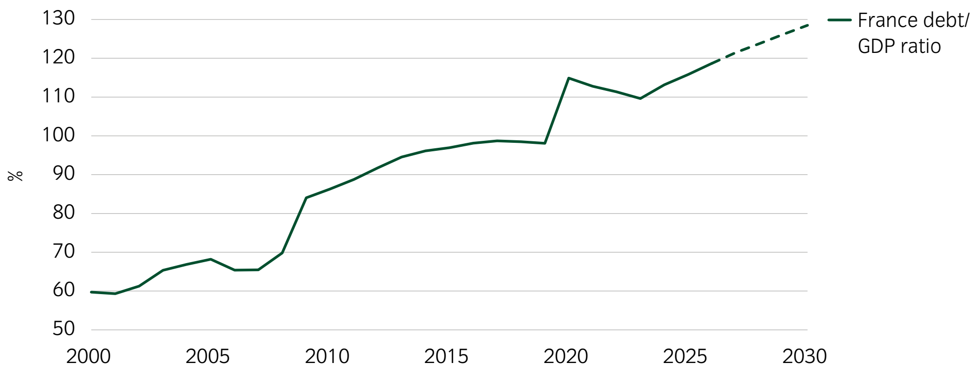


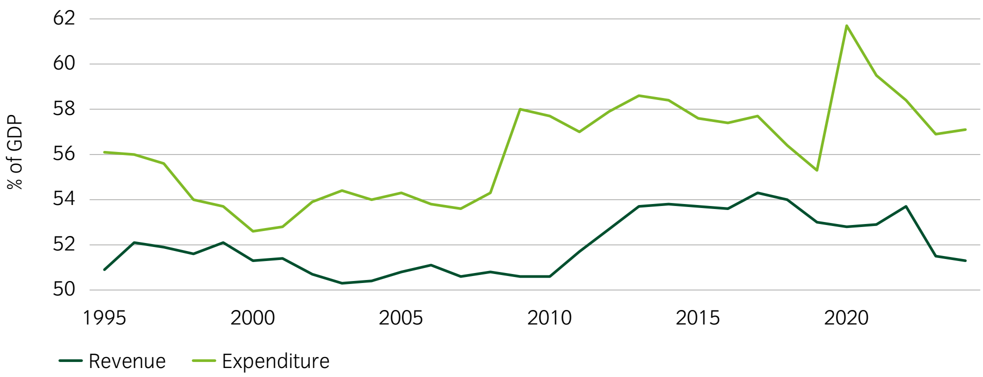
Figure 2: Debt/GDP ratio of France[2]



[1] Source: IMF, as at 8 October 2025. [2] Source: IMF and Insight forecasts, as at 8 October 2025.

French budget deficits actually extend back 50 years; the last budget surplus was in 1974. Although revenues have been broadly stable in a range of 51%-54% of GDP in recent decades, expenditures have gradually crept higher (see Figure 3).

Figure 3: French government expenditure has gradually trended upwards while revenues have remained flat[3]



Comparing French government expenditure to other European countries, we can see that French spending is very high (see Figure 4). Government revenues are also high (see Figure 5), and this suggests our focus should be on the expenditure side. If the French government is to fix this, they probably need to focus more on cutting spending than raising taxes further.

Figure 4: Government expenditure (% of GDP)[4]

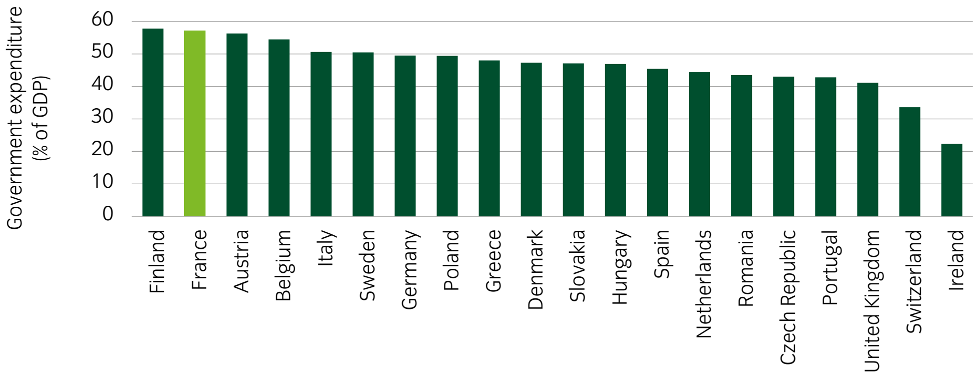
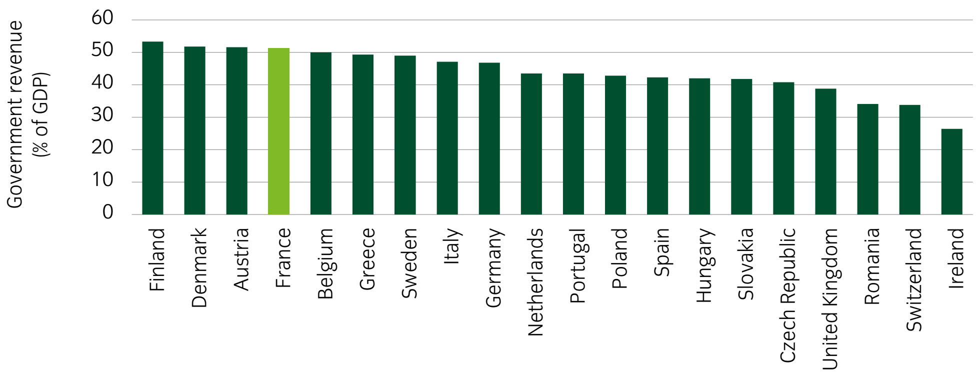


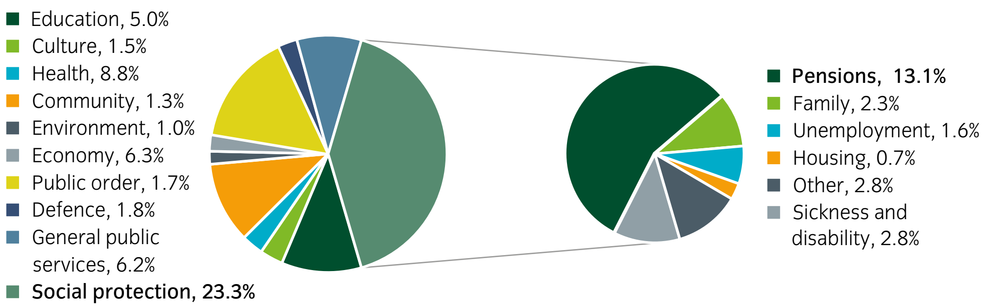
Figure 5: Government revenue (% of GDP)[4]



If we look at the breakdown of French government spending, we can see that social protection dominates, at 23.3% of GDP out of a total of 56.9% (see Figure 6). Breaking that down further, pensions dominates social protection spending, at 13.1% of GDP.

[3] Source: Macrobond, Eurostat. [4] Source: Eurostat, as at 8 October 2025.

Figure 6: France government spending in 2023 (% of GDP)[5]

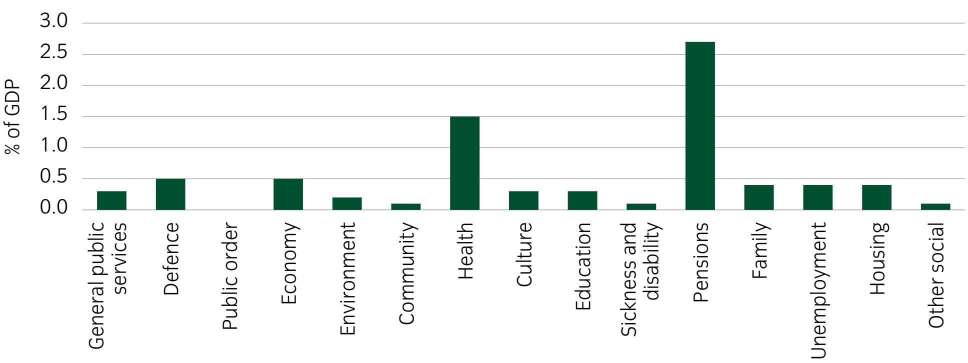


Pension reform stalemate

We can see that pensions are a particular expense for France in an absolute sense. We can also compare French spending with EU average spending (see Figure 7). Overall French public spending is 7.8% of GDP higher than EU average. The breakdown shows that France spends more than the EU average across almost every category: pensions are 2.7% of GDP higher, and health is 1.5% higher.

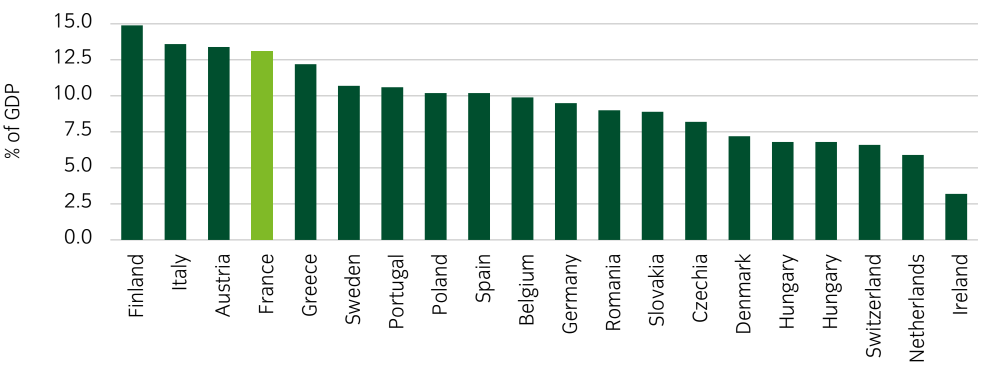
If France is politically unable to reduce spending on pensions, then any successful budget consolidation will either need to significantly cut health spending, or impose austerity across almost all government functions.

Figure 7: France vs EU average spending (% of GDP)[5]



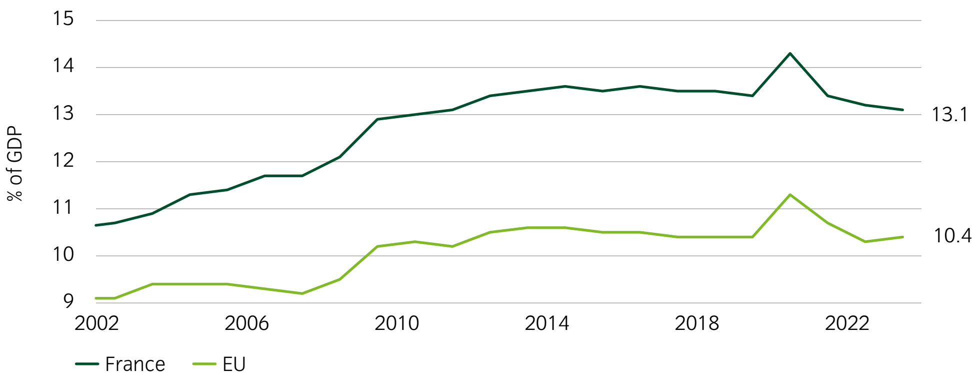
If we focus on pension spending, we can see that, unsurprisingly, France is towards the upper end of the range of European countries (see Figure 8), but French pension spending and the gap to the EU average have actually been improving slightly since around 2017, ignoring the blip from the pandemic (see Figure 9).

Figure 8: Pension spending (% of GDP)[5]



[5] Source: Macrobond, Eurostat.

Figure 9: Pension spending – France vs EU average (% of GDP)[6]



Former Prime Minister François Bayrou asked trade unions and employers with identifying compromise revisions to the 2023 pension reforms, but these talks collapsed in June, a failure that likely contributed to the collapse of Bayrou's government. It now appears that the pension reforms are the necessary sacrifice to keep a modicum of political stability, with Prime Minister Lecornu promising the Socialists to suspend the reform until after the 2027 presidential election.

Note that the data presented above only extends to 2023, so the effect of the pension reforms introduced that year are not shown, but further improvements on pensions spending are dependent on pension reforms.

The effects of those reforms were to gradually increase the retirement age from 62 to 64, still low by general European standards, but as a result the budgetary benefits only accrued gradually over time (and the financial pain is felt entirely by people coming up to retirement age, with no impact on existing retirees).

Figure 10: Average effective retirement age[7]

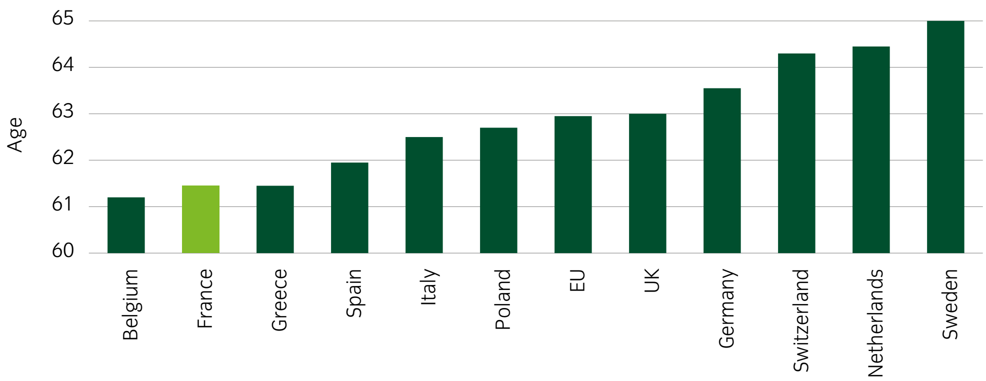
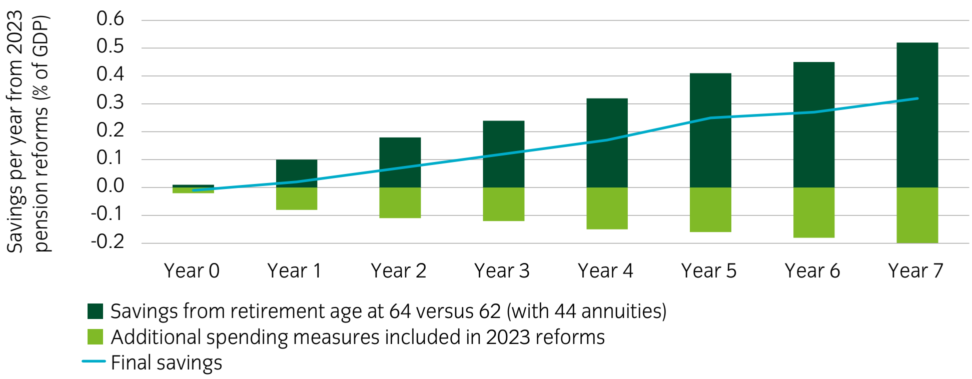


Figure 11: Public finance savings from 2023 pension reform[8]



[6] Source: Macrobond, Eurostat.
[7] Source: OECD, Insight.
[8] Source: CNAV, COR, PLFRSS 2023, Crédit Agricole CIB.

Suspending this reform costs only around 0.1-0.2% of GDP in 2026, but those abandoned savings increase up to around 0.4% of GDP per year in future years if we assume the suspension becomes permanent with a new president, which must be the base case.

As a result, there are presently no signs that restraining pension spending can meaningfully contribute towards budget consolidation in the near future.

DEFENCE SPENDING PRESSURES

In July 2025, President Macron addressed the French armed forces, announcing a substantial and exceptional increase in military expenditure: an additional €3.5bn in 2026 and €3bn in 2027. These new funds are in addition to the amounts already outlined within the 2024-2030 Military Programming Law, which itself ramped up spending to modernise the French military. The new commitment took the defence budget to €64bn in 2027, a figure previously targeted for 2030, and close to double the 2017 level[9].

Despite this marked increase in defence spending, the budget will still only represent around 2.3% of French GDP, which is still some way short of the new NATO target of 3.5% to be reached by 2035. Key priorities include upgrading France's nuclear deterrence capabilities, expanding cyber and space defence operations, and investing in next-generation equipment such as Rafale fighter jets, submarines and armoured vehicles.

The proposed defence budget increases are within the draft budget currently under debate in the French parliament. While the centre, right and far-right parties broadly support increased defence spending, opposition remains among some parties on the left, which are advocating instead for more spending on social care and infrastructure. Notably, the increased defence spending depend on the overall budget being passed. If Parliament fails to agree and a special law is used to carry forward the 2025 budget, the additional defence spending will not be implemented.

SOVEREIGN CREDIT RATING OUTLOOK

All three major credit rating agencies have taken negative action on Frances's sovereign rating in recent months, reflecting mounting concerns over the country's fiscal trajectory and political instability.

- **Fitch Ratings downgraded France's sovereign rating from AA- to A+ on 12 September 2025**, warning that France's debt burden, already among the highest in the eurozone, is set to rise from 112% of GDP at the end of 2024 to 121% by 2028, with limited prospect for meaningful fiscal consolidation. Fitch now has the country on a stable outlook.[10]
- **S&P cut France's sovereign rating from AA- to A+ on 17 October 2025**, citing elevated "uncertainty on France's government finances" after the government suspended its flagship pension reform and struggled to pass deficit-reduction measures. S&P now has the country on a stable outlook.[11]
- **Moody's maintained France's sovereign rating at Aa3 in an update on 24 October 2025** but downgraded its outlook from stable to negative.[12]

France continues to face significant challenges on both fiscal and political fronts. While an immediate political crisis has been averted, this has come at the expense of worsening fiscal conditions, doing little to diminish the risk of a future sovereign market crisis or the likelihood of further credit rating downgrades.

French fiscal dynamics look similar to that of Italy from 2011 to 2013, when the main ratings agencies downgraded Italy between four and six notches from an average rating of AA- to BBB. Such an outcome would leave France downgraded to ratings of around A- or BBB+. Holders of French bonds will need to take this risk into account.

[9] What to Make of Macron's Recent Defence Spending Commitments?, 25 July 2025, Royal United Services Institute.
[10] France – Rating Action Report, 12 September 2025, Fitch Ratings.
[11] France Ratings Lowered To 'A+/A-1' From 'AA-/A-1+' On Heightened Risks To Budgetary Consolidation; Outlook Stable, 17 October 2025, S&P Global.
[12] Moody's Ratings changes France's outlook to negative, affirms Aa3 ratings, 24 October 2025, Moody's.

IMPLICATIONS FOR INVESTORS AND ALTERNATIVES TO FRENCH ASSETS

- **The ongoing political and fiscal instability is a clear risk for French assets, with government bond and credit markets potentially vulnerable to further credit rating downgrades and deteriorating market sentiment. This could see French assets underperform eurozone peers, while contagion remains a concern for the wider region.**
- **Investors seeking alternatives to French bonds may consider German bunds, semi-core bonds (Netherlands), peripheral bonds (Italy, Spain), and selected European supranational issuers, each offering varying levels of yield, liquidity and risk.**
- **While a French debt default or euro exit is highly unlikely, long-term buy-and-hold investors may remain comfortable; however, active investors may prefer diversifying away from France until political and fiscal risks subside.**

FRENCH GOVERNMENT BONDS (OATS) AND OTHER ASSETS

France faces the dual threat of political and fiscal crises, increasing the likelihood of further credit rating downgrades, and heightening the risk of a market crisis for French assets in general and French government bonds in particular.

French bonds have already underperformed and overtaken Italy as the highest yielding eurozone government bond market, with 10-year spreads around 80 basis points over German bunds, but there remains a material risk of even deeper underperformance over the next couple of years. This vulnerability is not limited to French government and agency bonds; it extends to other French assets such as corporate bonds and equities, where investors may have to factor in higher risk premia. Given France's systemic importance within both the eurozone and EU, any French market crisis would likely exert downward pressure on the euro and pose contagion risks for other member states. This would make a broader eurozone sovereign crisis a plausible base scenario.

France retains considerable strengths. It is the second largest-economy in the EU, with a well-educated workforce and diversified high technology companies. Historically, its political system has delivered strong governments, and if France returns to this norm a future government could address the country's budgetary challenges – provided it is willing to expend the necessary political capital. The French government bond market remains liquid, supported by active futures trading and a diversified investor base, both domestic and foreign. As a member of the EU and the eurozone, France has access to the various financial backstops developed in the first eurozone sovereign crisis, such as the European Central Bank's Transmission Protection Instrument (TPI).

These strengths mean that France is highly unlikely to default or restructure its debt. It is also highly unlikely to exit the eurozone in favour of a depreciating Nouveau Franc. But French OATs are likely to continue underperforming before any of these potential strengths can come into play. There is little prospect of a strong French government until after the 2027 presidential elections, and markets will worry about an RN government, which may not plan on budget consolidation and may revert to eurosceptic policies.

In a crisis, trust between the government and EU institutions, and other European leaders, is key to securing a solution, and such trust may be lacking. Already, there is evidence of cautious investors in French government bonds reducing their limits for French holdings, or their eligibility for inclusion within collateral pools because of the credit rating downgrades seen so far. It is important to note that the European-level backstops come with conditions that mean they will not be used until after a market crisis has materialised.

Given these risks and uncertainties, investors may be considering the alternatives to owning French OATs over the next few years.

POTENTIAL ALTERNATIVES TO FRENCH OATS

1 German bunds

Second only to US Treasuries in terms of global liquidity, German bunds are the safe-haven asset of choice within the eurozone. As demonstrated during the first eurozone sovereign crisis, a flight-to-quality can cause bunds to outperform, and we would expect that to occur again in a second eurozone sovereign crisis.

German fiscal deficits are expected to increase over the next few years due to increases in defence and infrastructure spending, but this is affordable for Germany, which has much lower starting debt levels than France. Yields are lower than on OATs, which will gradually reduce returns during calmer periods and over the longer term, but German bunds appear to be the most attractive alternative asset for most investors, relative to OATs, if a crisis hits.

Unfortunately, the picture is not so clear in inflation-linked bonds, where France rather than Germany has the most substantial and liquid issuance. The German debt agency has ceased to issue new inflation-linked bonds, and liquidity has declined in outstanding issues.

2 Other semi-core government bonds

In the first eurozone sovereign crisis, semi-core government bonds emerged as a middle ground. While they did not experience the pronounced decline in yields of German bunds, there were affected to a degree of contagion from peripheral risks.

In the event of a second eurozone crisis, we may see similar dynamics. But with France at the heart of the turmoil, the range of possible outcomes may be broader. Belgium, which faces comparable fiscal and political problems to France, appears equally vulnerable and a potential trigger for the next crisis; given Belgian bonds offer lower yields than France, it appears they will not be appealing to investors as an alternative to OATs. In contrast, the Netherlands stands out among the main eurozone economies for its fiscal discipline, second only to Germany – but this is reflected in the tight spreads of its debt relative to bunds. Austria and Finland occupy a middle ground, with deteriorating fiscal positions but not to the same extent as France or Belgium. While investing in these smaller, less liquid markets may offer some degree of diversification and marginally higher yields, these may not be enough to offset the increased risk of contagion.

Ireland, previously on the periphery, has returned to be deemed semi-core. It has high-quality fiscal status and its debt has low spreads relative to bunds. However, its economy remains highly geared to global trade in general and pharmaceuticals in particular.

3 Periphery government bonds

Having been at the epicentre of the first eurozone sovereign crisis, the peripheral countries have generally stabilised their fiscal positions, with some help from EU funding. They have returned to positive debt dynamics, which has been reflected in improving credit ratings, although for now these countries continue to hold lower average ratings than France. It is important to note, however, that debt levels remain high, particularly in Greece and Italy, making them susceptible to contagion risks if market conditions deteriorate.

Despite these concerns, Italy stands out as particularly well-positioned for outperformance in the coming years. With yields comparable to France but underpinned by stronger fiscal discipline and, notably, more subdued political risk, Italian bonds look attractive. Spain too looks well set for continued economic and market outperformance. Smaller peripheral countries Portugal and Greece have benefited in the same way, and low supply has also driven their spreads tighter. However, this may not remain the case in the event of contagion in a future crisis.

Overall, a diversified allocation across Italy, Spain, Germany and potentially the Netherlands may be an attractive alternative to France (and Belgium).

In inflation-linked bonds, while Spain faces challenges similar to Germany in terms of low issuance and illiquidity, Italy stands out in offering a reasonably deep and liquid curve, with real yields above those of France. In this space at least, Italy may therefore be the most attractive alternative to

France. For enhanced credit quality, a barbell approach combining Italian inflation-linked bonds including either German inflation-linked bonds or synthetic swap proxies could be an option.

4 Supranational bonds (EIB, EU and others)

A distinction needs to be made, though markets often overlook it, between European supranational issuers with joint and several guarantees or callable capital, such as the European Investment Bank (EIB), EU and European Stability Mechanism (ESM), and those which have a liability cascade such as the European Financial Stability Facility (EFSF).

For the former category, the ultimate guarantor is the strongest of the backing countries (i.e. Germany), so any spread reflects liquidity and supply differentials. For the latter, the marginal guarantor should set the spread, and historically this has been France. In a second crisis, this role could shift to Spain or Italy, so the EFSF need not experience the full spread widening of French bonds, but it would nevertheless be expected to underperform the issuers with "joint and several" guarantors such as the EIB, EU or ESM.

For these strong AAA-rated issuers, the supply outlook and swap spreads are typically the most significant factors. In a crisis a flight to quality would likely drive swap spreads wider, with Germany outperforming, and a resolution to the crisis might lead to increased issuance from the EU or ESM. While it is reasonable to expect some contagion for these issuers, they will likely maintain their high credit quality and their higher starting levels of yield offer some protection. They may therefore be a sensible component of alternative portfolios to France.

5 Corporate investment grade bonds

Investment grade corporate bonds can offer a highly diversified portfolio alternative to government bonds, with the potential for higher yields, albeit with a lower average credit rating. Nevertheless, they remain exposed to spread risk, and it is reasonable to expect some contagion in the case of a new eurozone sovereign crisis, and not just in the directly affected countries. Investment grade spreads are close to historically tight levels which suggests they may not currently offer enough protection against spread widening triggered by such contagion. As such, they may appear less appealing as an alternative to French government bonds for investors seeking protection in a more volatile environment.

THE LONGER-TERM VIEW

The above analysis focuses on alternatives to French government bonds over the next few years, given the higher risks driven by political and fiscal challenges. Over this timeframe, a mix of alternatives such as Germany, Italy, Spain, Netherlands and European supranationals appears to offer an alternative approach with moderately lower yields but a much-improved risk outlook.

However, for investors with a very long-term horizon, it is important to emphasise that the risk of a French government debt default or restructuring remains remote. An exit from the euro would require a dramatic political shift that is currently extremely unlikely; RN has said very little on leaving the euro since Brexit. Therefore, any crisis that might unfold is more likely to resemble Italy's experience in the first eurozone sovereign crisis.

In that scenario, Italy initially underperformed Germany and France with spreads peaking at the end of 2011, resulting in a lag of 20% in total return terms. However, the crisis was not entirely over after that, with relapses particularly in 2012 and 2018. The higher yields available in Italian bonds which were captured on reinvestment led to ongoing outperformance, recovering to match the total return from German bunds by late 2013 (see Figure 12). Even in the case of Greece, which did see restructuring, and a maximum drawdown in relative total return of 86%, its total returns caught up with the total return of German bunds by the end of 2017, and with Italy by mid-2018 (see Figure 13).

Long term buy-and-hold investors can be comfortable holding on to France. Active investors, however, may wish to position themselves in less vulnerable alternatives. There could be much better opportunities to buy ahead.

Figure 12: Italian bonds recovered and then strongly outperformed bunds after the global financial crisis[13]

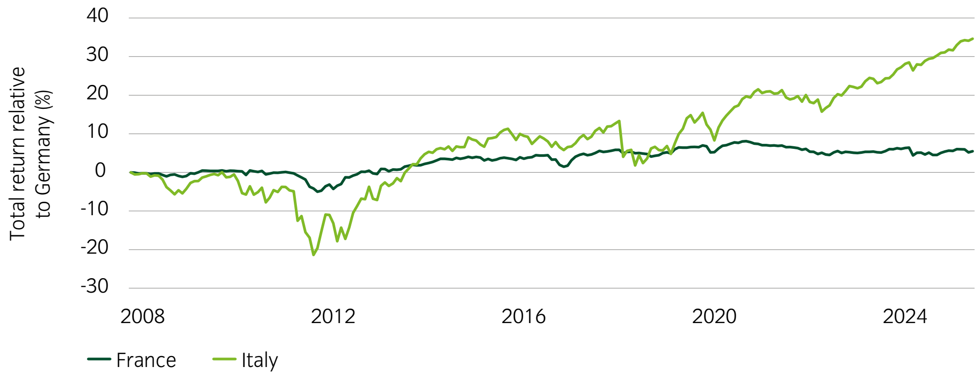
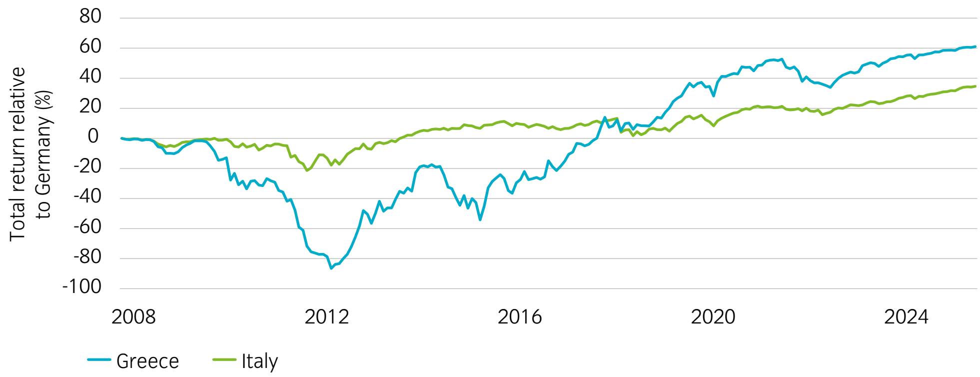


Figure 13: Greece also suffered a significant downturn, before recovering to even outperform Italy[13]



[13] Source: Bloomberg. As at 30 September 2025. France: ICE BofA France Government Index. Italy: ICE BofA Italy Government Index. Greece: ICE BofA Greece Government Index. Germany: ICE BofA Germany Government Index. All in euro, total return terms.

CONCLUSION

France currently finds itself only partway through a prolonged period of political instability that began with the RN's triumph in the 2024 European elections. Legislative gridlock has become entrenched, with deep-seated divisions within Parliament rendering the passage of consolidating budgets or meaningful reforms almost impossible. Even President Macron's flagship 2022 pension reform – a symbol of his reformist agenda – has been shelved until after the 2027 presidential election.

As the 2027 election approaches, the potential for heightened market volatility grows, fuelled by investor concerns over possible political upheaval should the RN secure victory. Such an outcome would not only intensify domestic uncertainty but could also undermine France's standing and influence within the EU.

Persistent budget deficits continue to plague France, underscored by an ongoing lack of political consensus needed to implement effective remedies. Pension expenditure remains the single largest contributor to these deficits, and prospects for improvement now appear remote. Furthermore, a renewed commitment to boost defence spending is likely to place additional strain on fiscal balances in the years ahead.

Reflecting these challenges, credit rating agencies have downgraded France, and the country's credit quality continues to deteriorate. The risk of a renewed eurozone sovereign crisis, this time centred on France, cannot be discounted.

In light of these developments, it may be wise for active investors to diversify their holdings away from French government bonds. Weighing yield, liquidity, and credit risk, a diversified portfolio comprising German, Dutch, Italian, Spanish, and potentially EIB or EU bonds could offer a more balanced and resilient investment approach.

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16493-11-25