

September 2025

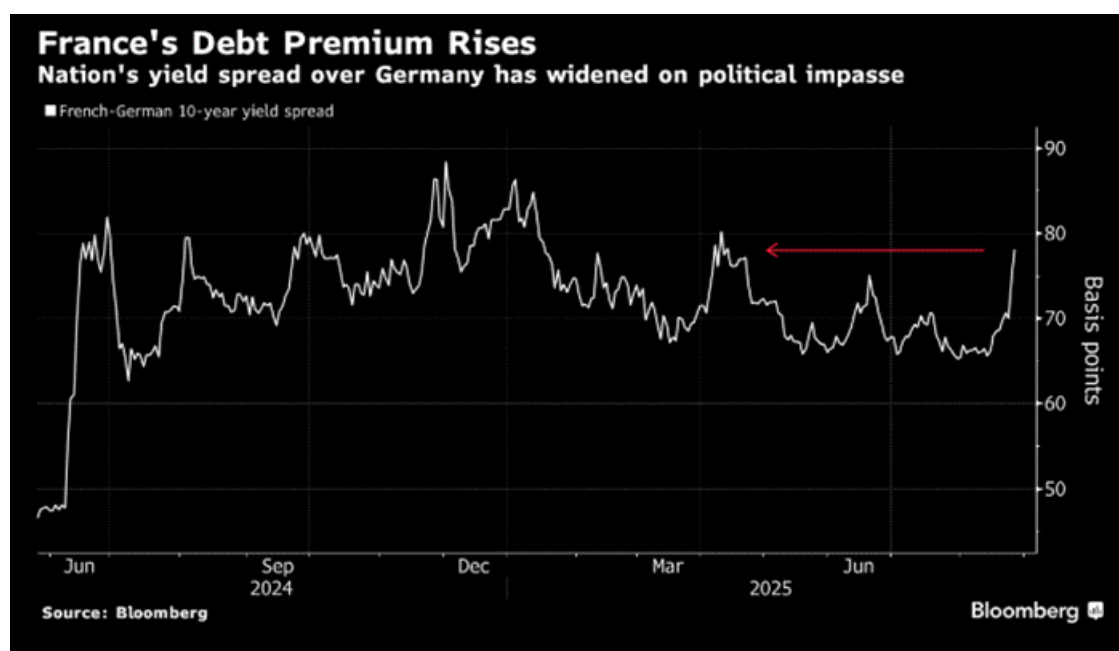
French Political Situation - We have seen this playbook before back in June 2024

By Jenna Hayes

We see the recent political instability in France as an opportunity to top up positions in BNP, BPCE, Soc Gen and EDF amongst other French names. We have seen this playbook before back in June 2024. If credit spreads widen, we urge investors to opportunistically add to their position(s). The credit spread between many of the French bank bonds (T2) compared to the Australian major bank (T2) credit spread curve is around 50-70bps and we think the equity market is going to react more than the credit market to the latest events.

Investors are getting a reminder of France's volatile politics and fragile finance position.

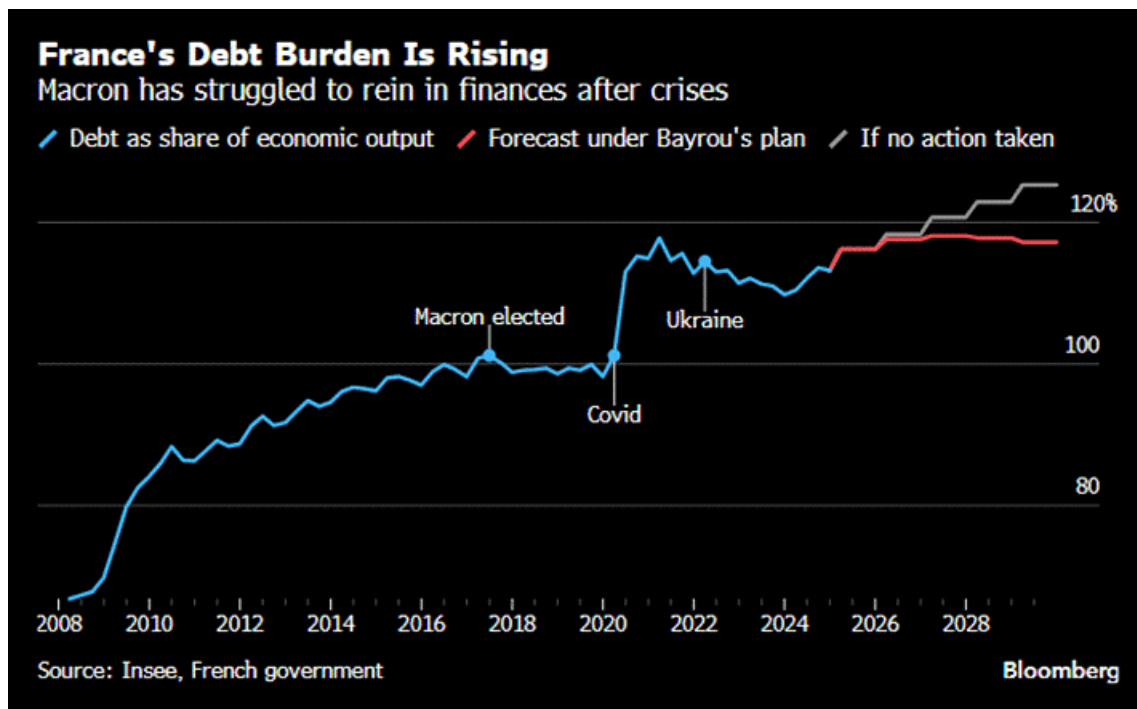
Political wrangling over the government's debt burden in June 2024 ultimately led to the loss of any semblance of a parliamentary majority for President Emmanuel Macron. Overnight, this has led to the return of the risk premium on French assets with the market acknowledging France is in a deep political crisis with a difficult economic backdrop. France's 10-year yield spread over Germany has now widened to around 80bps (up around 10bps from last week) with its 10-year yield now sitting amongst the highest in the euro zone.



French bank stocks were the biggest decliners overnight, with a basket of French bank stocks down 7% this week. We expect stock prices to be more reactive than credit spreads with shares in France's banks to be under pressure after Prime Minister Francois Bayrou called a vote of confidence for next month. While the widening of France's 10-year yield spread over Germany is far from ideal, the impact on earnings and common equity tier 1 (CET1) ratios remains limited for the major French banks and no ratings downgrades are expected from a credit side.



French bank bonds (T2) already have some protection against the political turmoil in the country. Credit spreads of French bank bonds (T2) trade at wider levels than their major Australia major bank (T2) peers and have since the political crisis of June 2024, indicating that there is already a spread cushion built in. In our opinion, French bank bond (T2) spreads are unlikely to widen as sharply as they did during the political crisis of June 2024. If they do, we would be opportunistically adding to our position.



Note Australian major bank (T2) credit spreads for reference on average.

- 3yr +110
- 4yr +125
- 5yr +135
- 7yr +150
- 10yr +170

Many of the French bank bonds (T2) offer around 50-70bps pickup compared to the Australian major bank (T2) credit spread curve. See below relative value chart.

Credit spreads of French bank bonds (T2) vs Australian major bank (T2) peers



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