

MONTHLY  
NEWSLETTER

# The Advisor

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I am happy to present this month's market commentary from our Investment Team. The goal is to give our clients and friends a simple way to see everything they need to know about the financial markets on a weekly basis, in 5 minutes or less. After all, investing should be simple, not complicated.

## GEO-POLITICAL INSTABILITY; WHAT DOES IT MEAN FOR MARKETS?

Investors can be nervous people. That goes double for institutional investors; the people who manage big pension funds, mutual funds, foundations or the funds in insurance companies. When you are responsible for managing billions of dollars, in some cases, you worry about a hiccup of any geopolitical nature. It can mean volatility in the market and that can mean a loss.

Unfortunately for those money managers, there is always some concerns on the world stage. Whether those concerns have to do with Iran, North Korea, Russia, terrorism, the French election or Syria, it can impact the oil markets or the stock market. Uncertainty about anything is not welcome in the equity or futures markets and it can wreck havoc with many forms of investments.

In times of uncertainty, many investors seek out safe havens such as gold or government bonds, as lower risk alternatives. Yet, employing a knee-jerk reaction isn't always the best response since many geopolitical events are short-lived and selling out of equities may mean real losses, according to some experts.

Still, big changes in the UK, and the potential for change in France, alongside a threatening North Korea and an Iran with nuclear ambitions has proven unsettling for those investors who prefer calm waters and stability as the preferred investment environment.

### Not Troubling the Market Much

Macroeconomic policies in many countries, including the U.S., have helped to weather many of the concerns about geopolitical risk and have softened the impact on the markets. This even includes the expectation of another Fed interest rate increase in June. The big gains, directly after the presidential election, have been mostly



maintained despite several geopolitical concerns.

According to an article appearing in the Council on Foreign Relations Macro and Markets, research by S&P Capital IQ, looked at the markets starting at the beginning of World War II. They looked at geopolitical events they termed "market shocks," and their impact on the S&P 500. According to the study, each geopolitical event resulted in a median loss of 3.4 percent until the bottom was hit. After this, it took only five days on average for the market to recover to the level before the event.

### Short Lived Response

The article goes on to point out that there are a lot of investors who have a strategy of buying-the-dip; buying

when there is a price drop, and this can make the impact of a geopolitical event short-lived. Some examples are the Crimea conflict, which caused less than a point drop in the market and then five days to recover or even 9/11, which resulted in a 11.6 percent drop in the market, which took 30 days to recover. The Lehman bankruptcy or Black Monday in 1987, had more profound implications for the market at the time. It would appear that these other market events took a greater toll on investors.

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## FRENCH ELECTIONS; WHAT DOES IT MEAN?

France has had more than its share of terrorist events and that fact has crept into the country's politics. It has propelled one of two parties competing for the presidency into prominence for the post. Emmanuel Macron and Marine Le Pen made it through round one to fight it out in a run-off election. The first round of voting occurred on April 23, 2017 and the second round run-off will happen on May 7, 2017.

Neither finalist comes from either of the country's two leading parties. News sources characterize them both as outsiders, although Macron had worked as the Deputy Secretary General and Economy Minister for French president Hollande. The candidates from the country's two major parties only accounted for less than 27 percent of the total vote. The voters have spoken.

If this sounds like it bears a resemblance to the last U.S. presidential election, you would be right. There is a degree of opposition to the traditional, establishment politicians

that became apparent with the results of the first round of voting.

### The French Presidential Election

The French presidential election occurs in two phases, with the top two finalists in the first round going on to a second round after two weeks. To make it as a candidate in the first round, each needs to have gathered 500 signatures from elected officials and be a French citizen.

The first round included 11 candidates with only five getting a reasonable percentage of the vote. If any candidate received 50 percent of the vote, there would be no round two, but this has never happened in France.

### Who are the Round Two Candidates?

Le Pen appeals to the patriotic French who have been stunned and fearful because of repeated terrorist attacks against their country. She is the candidate of the Front National party and has also run on a platform of withdrawing from the EU and the euro, restoring law and order, bringing back French culture and identity and giving job and housing priority to French citizens.



She is a former lawyer and has led her party since 2011.

Macron is the candidate of the En Marche! party. Macron political career began as the Deputy Rapporteur for the commission to improve French growth; a post within the French Treasury. In 2008, he joined Rothschild Bank and eventually became an associate. He was the Head of the Economy and Finances Division from 2012 to 2014 as well as the Deputy Secretary-General of the Presidency during those years also. In 2014, he then became the Minister of the Economy, Industry and Digital Affairs; the youngest person to hold this position.

Ironically, the French, English and American press characterize Mr. Macron as an outsider because of his four year stint as a banker. Both candidate's parties are outsiders as finalists going into round two.

Because polls put Mr. Macron in the lead in a run-off, and he wants to remain in the EU, the euro was up two percent after the first-round results were known. Speculators don't want anyone rocking the boat and Ms. Le Pen would like France to pull out of the EU.

Round two will determine if the French people want to put French citizens first and to cut ties with the EU or maintain the status quo, more or less.



# The Advisor

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## About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.