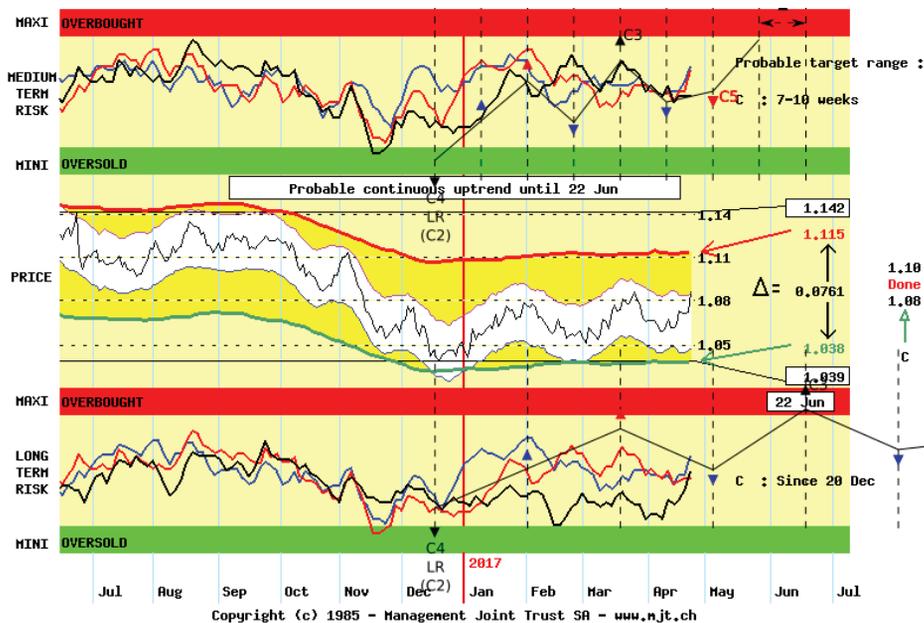


# 44 / SPLICING THE MARKETS - One last focus on the French Election, ... hopefully

The market friendly news out of the 1st round of the French Election is that at least one mainstream candidate made it to the 2nd round, Mr Macron, and that he is also for now in pole position to win (current polls are circa 60/40 for Mr Macron). The less market friendly news is that his challenger is Mrs Le Pen of the National Front Party, which aims to give France its sovereignty back and has planned to exit the EuroZone. Given the polls poor track record recently (Brexit vote, Trump election), the widespread discontent among French voters and a sense of revolutionary feeling against the elite, a surprise win by Mrs Le Pen, although unlikely, is not impossible. Let's now consider what market consensus may be anticipating.

## EUR/USD (Daily graph or the perspective over the next 2 to 3 months)

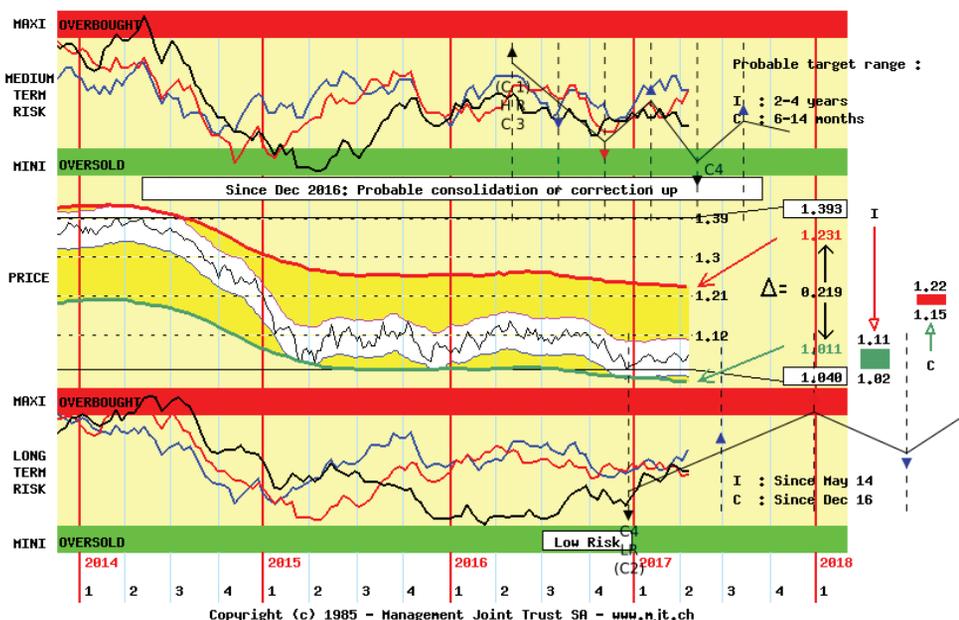


Since December, EUR/USD has created an uptrend on both our oscillator series (lower and upper rectangles). The recent acceleration up could see a bit of retracement early May as shown by both the models we project. Yet following that, **EUR/USD should accelerate up again towards late June in first instance** (as mentioned by our automatic messaging; middle rectangle). **EUR/USD is currently testing the resistance of our "C" corrective targets up (between 1.08 and 1.10; right-hand scale). It will probably pause and even retrace a bit until a potential**

Macron win, before it breaks above it. The next level of targets to the upside we can calculate are between 1.14 and 1.17 over the next 3 to 6 months.

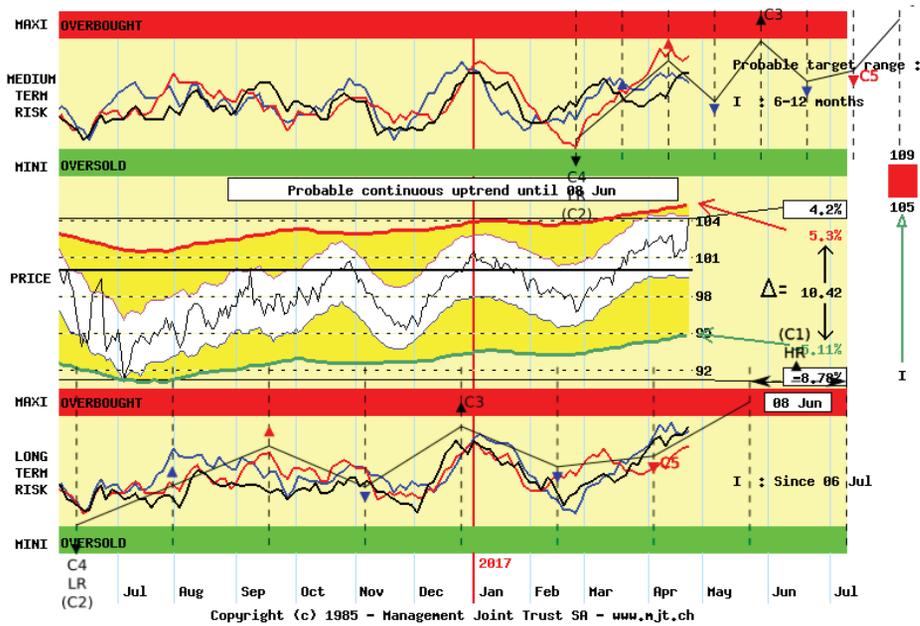
## EUR/USD (Weekly graph or the perspective over the next 2 to 4 quarters)

Scoping out to the Weekly chart, a Low Risk situation was identified in December on our long term oscillators (lower rectangle). The sequence up we project from this low could lead EUR/USD up to between 1.15 and 1.22 over the next 6 to 12 months ("C" corrective targets; right-hand scale). In the unlikely event of a Mrs Le Pen win, EUR/USD would most probably re-test once more to the downside (as shown by the sequence on our medium term oscillators; upper rectangle) towards the lower-end of our "I" impulsive targets down i.e. close to parity (right-hand scale). Yet, the downtrend since



2014 is already exhausted ("Low Risk" situation, "I" impulsive targets down have already been achieved), this could imply that the sell-off would **probably be short-lived**.

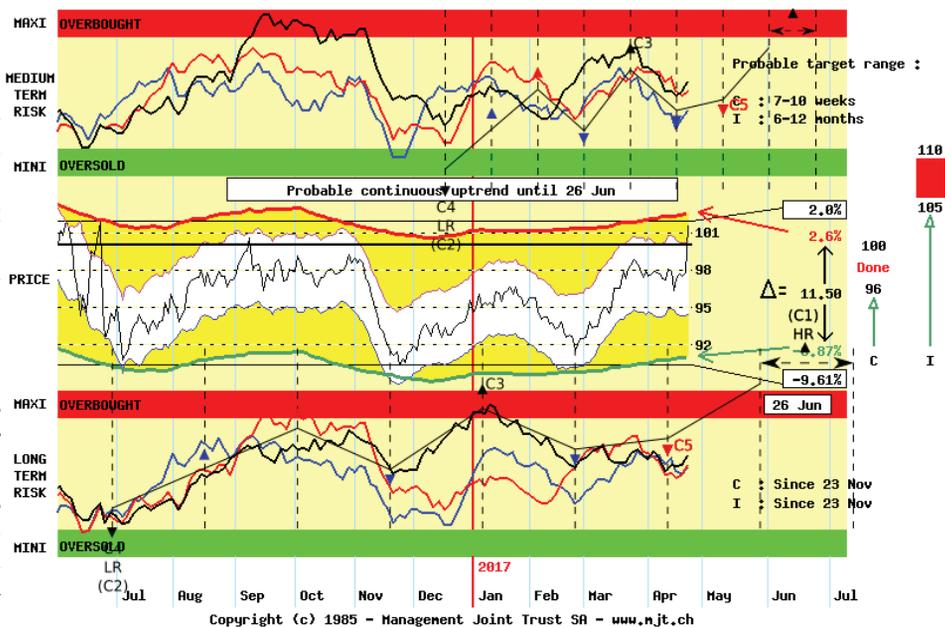
## Dow Jones EURO STOXX (EPI) vs S&P 500 (hedged for currency risk) (Daily graph or the perspective over the next 2 to 3 months)



This ratio compares the EuroStoxx 600 with the S&P500 like to like, i.e. no currency translation. Although a slight retracement can be expected into the 2nd round of the French Elections (7th of Mai) as shown by the sequence on our medium term oscillators, both sequences show that **the Euro Stoxx 600 should accelerate up vs the S&P500 towards June**. Such relative strength on a currency hedged basis, this despite the headwind that a stronger currency can create, is revealing of the re-rating that Europe could experience vs the US during the coming months and quarters.

## Dow Jones EURO STOXX (EPI) vs S&P 500 (in USD terms) (Daily graph or the perspective over the next 2 to 3 months)

Now if we consider the same ratio translated into USD, we can view the combined effect of outperforming European markets and of a stronger EUR/USD. Indeed, following the 1st round results of the French Elections on Monday, prices shot up above their "C" corrective targets up and are now **on course to reach their "I" impulsive targets up some 5 to 10% higher in USD terms** (right-hand scale). **The timing for this move is probably into late June** as shown by the models we project on both our oscillator series (lower and upper rectangles) and the tentative date given by our automatic messaging ("26th June").



Concluding remarks:

**The Euro and European Markets (on a relative basis) are anticipating a Macron victory. Yet, they may pause a bit until the 7th of May as investors await the results of the 2nd round of the Election. Following that, if consensus and the polls are correct, they should accelerate up again into June. Short term, asymmetric protection may still be warranted in the unlikely event of a Le Pen victory. Yet, the sell-off should be short lived** because 1) the long term downtrend on EUR/USD seems exhausted, 2) the uptrend initiated on Brexit of European equities vs US ones appears quite robust and 3) because Mrs Le Pen will probably have to share power with a mainstream ruling party following the parliamentary elections which are due in June (which she is even more unlikely to win). That said, and notwithstanding the charts above, a Le Pen victory would play in nicely with the risk-off period we expect during May and June