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ASK TYLER

CONFESSIONS: A FONDNESS FOR FRENCH WINE (AND CONTRARIAN IDEAS)

Should Investors Be Worried About the Upcoming Election in France?

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Following a late surge in the opinion polls from far left candidate Jean-Luc Mélenchon, two of the four leading French presidential candidates are now professed Euroskeptics. Even though most traditional opinion polls have lost credibility, political risks are clearly elevated in the Eurozone.

Yet beyond investors' immediate political concerns (which have dominated the investment landscape over the last year), the regions' cyclical upturn is gathering strength based on a confluence of positive factors: rising confidence, increasing profit margins and highly accommodative financing conditions. In an unloved region of the world, this is an interesting investment setup.

Consider France itself. Can pessimism toward the country get any worse? Bank of America Merrill Lynch's latest survey of money managers recently revealed that the country's equities are the least loved major equity class in Europe.

This may be a contrarian's dream. At times like this, it pays to look for sentiment shifts at the margin. Any sign of a brighter outlook can have a large impact on expectations. With significant space for investors to downgrade their optimism towards the US, the opposite is true in France — beyond the election risk, plenty of room for positive surprises exists.

Below, we lighten the gloomy mood toward French stocks with our own joie de vivre: it is time to buy. Consider the following: (1) French PMIs are pointing to solid growth, with the country's composite climbing to an 18-month high, (2) with unemployment falling, and wages beginning to pick-up, inflation expectations are finally starting to rise, (3) a steepening yield curve has lifted bank stocks, which tend to lead to increased credit creation, (4) with the Euro nearing parity to the US dollar, the country's competitiveness has dramatically increased over the last few years, further priming it for a profit up-tick (and prompting a recent rash of positive earnings revisions) and (5), finally, French stock are cheap, trading at 1.59 times their book value, compared to the US at 3.09 times (MSCI figures).

INVESTMENT IMPLICATIONS

Much like the conditions in 2016 with Brexit or US elections, the course of the French election will dictate near-term movements in Eurozone, and perhaps even global equities. However, investors should look beyond the political risk of France's presidential election in April and May and tactically buy French equities based on solid macroeconomic and valuation support. Finally, for fellow wine enthusiasts looking for value, we recommend the 2010 Château Jean De Trimoulet, an elegant (yet very attractively priced) Bordeaux with lots of ripe black plum, coffee and just a hint of nut.

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