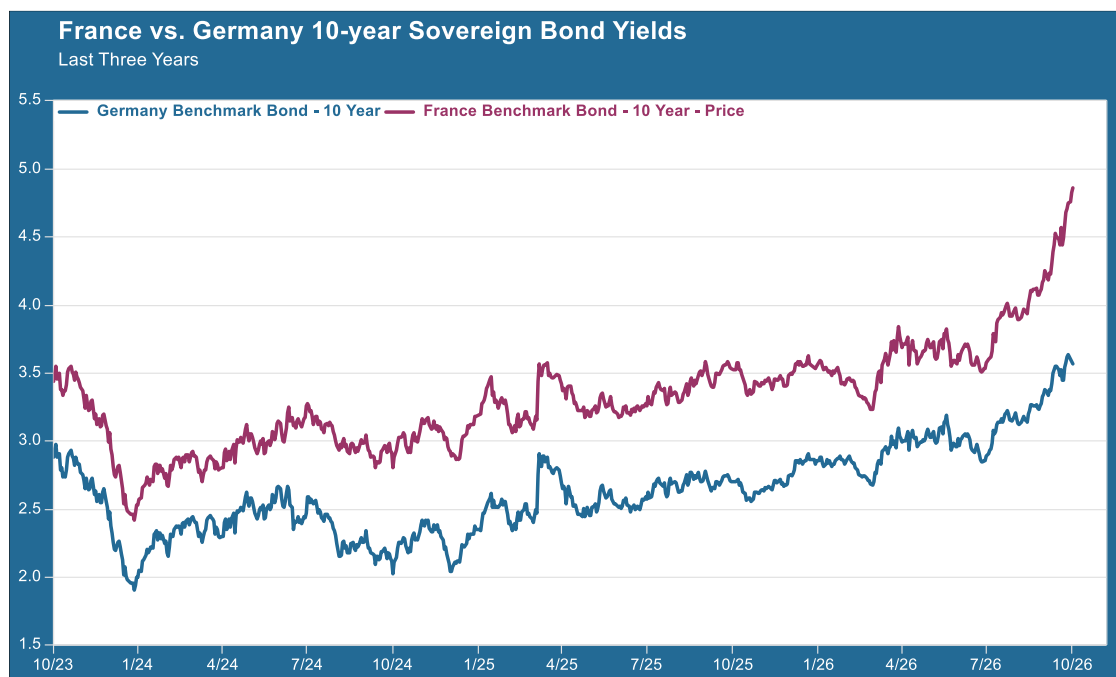


Weekly Market Flash

France Is Europe's Tipping Point

October 2, 2026

Bond yields here in the US are having a bit of a reprieve this morning, as a softer than expected jobs report today from the Bureau of Labor Statistics, on the heels of a relatively cool inflation report a couple days ago, has taken some pressure off the Fed for another interest rate hike later this month. But problems in the bond market are global, and perhaps nowhere more so than in Europe. France is at the epicenter of what may be brewing as that continent's most serious economic challenge since the single-currency Eurozone nearly came apart in 2012. While schools and other public institutions burn, set upon by violent student protests reminiscent of the 1968 revolts that nearly brought down the de Gaulle government, France's intractable budget crisis and unnerving politics ahead of next year's presidential elections have sent the country's sovereign debt yields soaring. The French 10-year yield is trading around 1.4 percent above its German 10-year counterpart, a higher spread than any time since the 2012 crisis.



Source: MVF Research, FactSet

Les Inquiétudes françaises

Let's start with the here and now. France's debt to GDP ratio, at 119 percent, is well above the Eurozone average of around eighty-eight percent. To assuage nervous bond investors, the troubled Macron government has been trying to come up with a package of spending cuts for the 2027 budgets. Led by premier Sebastian Lecornu, the government has proposed a figure of €54 billion in cuts to get the budget deficit back below five percent of GDP (it is projected to end 2026 at around 5.4 percent of GDP).

The likelihood of that budget seeing the light of day is growing ever weaker. The government has had to revise its projected GDP growth forecast down to 0.5 percent for next year, which is half the 1.0 percent growth assumption made at the time when the details of the budget were originally being put together. Unemployment stands at 8.3 percent; meanwhile, inflation throughout the Eurozone hit 3.8 percent in

September as higher energy prices from the ongoing war in the Middle East continue to exert more harm on Europe than on the US or China. Stagflation is something we have been worried about here at home, but in France it appears to have already arrived.

The Vanishing Political Center

Those are all problems of the here and now. They could turn considerably worse next year. France's presidential election is scheduled to take place in April 2027. For many observers of the scene, a worst-case scenario would involve a run-off between the far left and the far right. Based on current polling, that scenario is anything but an outlier. Much of the recent violence in the streets, led by students but also involving labor unions protesting the proposed budget cuts, appears to be either directly or indirectly traceable back to the machinations of the far left under its leader, Jean-Luc Mélenchon of the La France Insoumise (France Unbowed) party. Current prime minister Lecornu earlier this week accused the far left party of instigating violence for partisan gain.

Perhaps more unsettling is that the far-right Rassemblement National (National Rally) party of Marine Le Pen appears to have used the current student revolts as a way to present itself as a saner alternative. The odds of the far right gaining power in Europe's second-largest economy have probably never been higher. France's precarious economic situation, particularly its ability to rein in an unsustainable level of financing, is unlikely to improve if either Mélenchon (less likely) or Le Pen (more likely) find themselves taking over from Macron next April.

The center's vanishing act is not limited France. Across the border in Germany, chancellor Friedrich Merz is in the crosshairs as his center-right Christian Democratic Union party has taken a beating in a recent series of regional elections. In Berlin, the party looks set to be ejected from power on the heels of a strong showing by the far left Die Linke party. In another region, Mecklenburg-Vorpommern, the CDU failed to even achieve the five percent of the vote necessary for parliamentary representation, marking the party's worst electoral result since the Federal Republic was established in 1949. And, as is the case in France, the biggest likely beneficiary of the center's collapse is the far right, which in Germany means the Alternative for Germany (AfD in German) party that many observers liken, accurately or not, to a neo-Nazi movement.

None of this means that the Eurozone is going to fall apart tomorrow, or any time this year. The present conditions are not as dire as they were before then-European Central Bank chair Mario Draghi stepped in to save the day in June 2012. But the times are different, and the ECB may have a more limited toolkit to draw on if the combination of stagnating growth, high inflation, spiraling debt costs, rising unemployment and political instability continues to weigh on Europe. Looking ahead to 2027, there is plenty of worry to go around.

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