

The flexiweekly that reaches new heights - published on 12 October 2026

"FRANCE TESTS THE RESILIENCE OF ITS BOND TOWER"

- The debt crisis is worsening as the budget vote and the presidential election approach
- The financial markets have priced in some of the difficulties ahead – but only some
- The ECB has the tools to stem a panic, but its assistance would be conditional
- Investor mistrust could temporarily rise to a higher level

CHART OF THE WEEK: "To what level will the risk premium rise?"



FINANCIAL MARKETS ANALYSIS

France is causing concern amongst investors. This is nothing new, but their anxiety has now reached a level where it could turn into panic and quickly spiral out of control. Since the dissolution on 9 June 2024, three Prime Ministers have succeeded one another at Matignon, none of whom has enjoyed a majority. The 2027 budget, presented on 10 October by Sébastien Lecornu's government to this fragmented National Assembly, will not be debated until 13 October, nor voted on until the end of the year. With each parliamentary group aiming to boost its favourites in the polls in the run-up to the presidential election in April 2027, consensus will be difficult to reach. **Added to this political deadlock is now public discontent. The country is on edge.** A protest by secondary school pupils began in late September. It is now spreading



to teachers, parents and certain sections of the civil service. Farmers, fishermen, firefighters, lorry drivers and employees in the energy sector (power stations and refineries) are threatening to follow suit. A nationwide protest is planned for 16 October. The memory of the 'yellow vests' movement of winter 2018–2019 is fresh in everyone's minds. That uprising, which began over a fuel tax, ended with €17 billion in budgetary concessions. Investors fear that the current government is too weakened and will have no choice but to buy social peace... once again by increasing the deficit.

Fig. 2 – French budget deficit and its composition

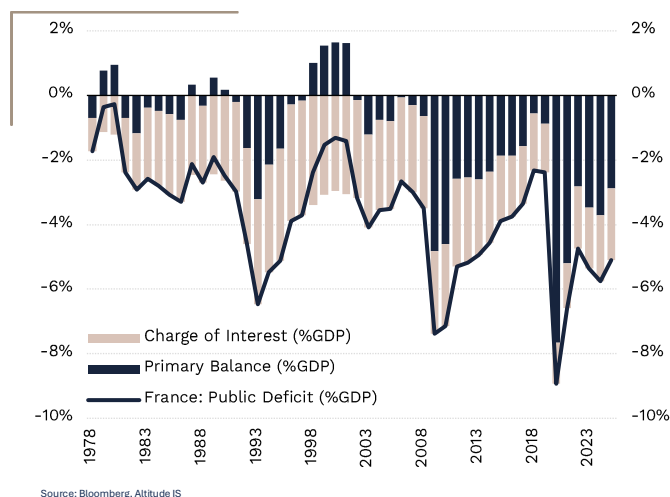
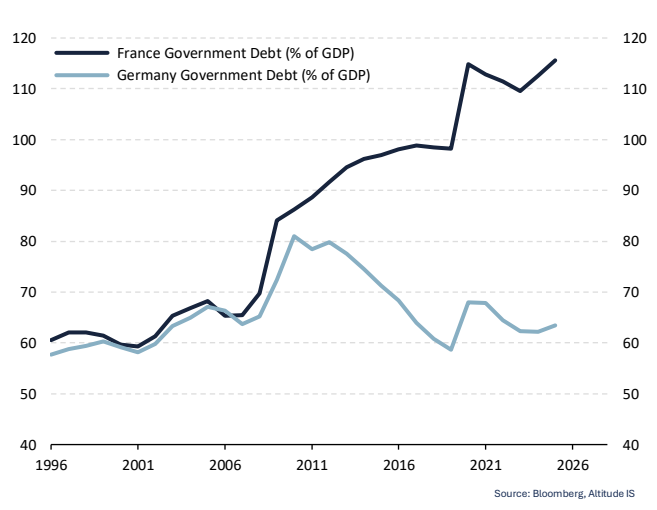


Fig. 3 – French and German public debt



This deficit will be added to public accounts that have been in continuous deficit since 1975. The successive energy, industrial, financial, social and health crises have each added a layer of expenditure, but none of these has subsequently been cut back. Added to this are now the costs arising from an ageing population, the fight against climate change and the modernisation of defence capabilities. The budget deficit reached 5.1 % of GDP in 2025 and is expected to be around 5.4 % this year. Given that France has not recorded a primary surplus since 2001, interest charges are piling up on top of this (see Fig. 2) and the debt is self-perpetuating. And yet, other countries are managing this very well. Over the last 15 years, the difference in trajectory compared with Germany has been striking (see Fig. 3).

Fig. 4 – French public expenditure by category

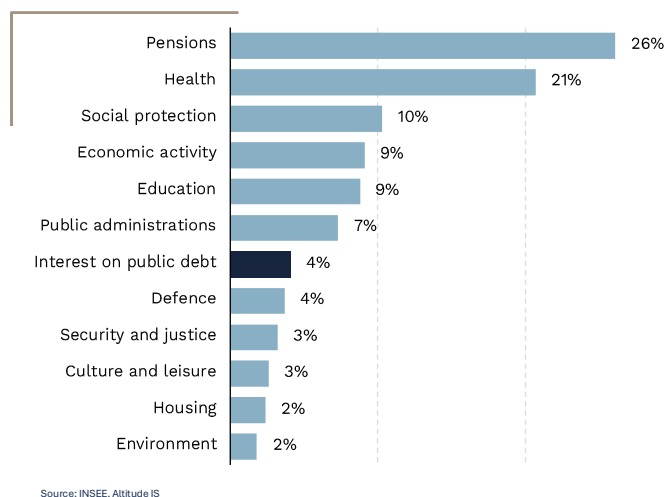
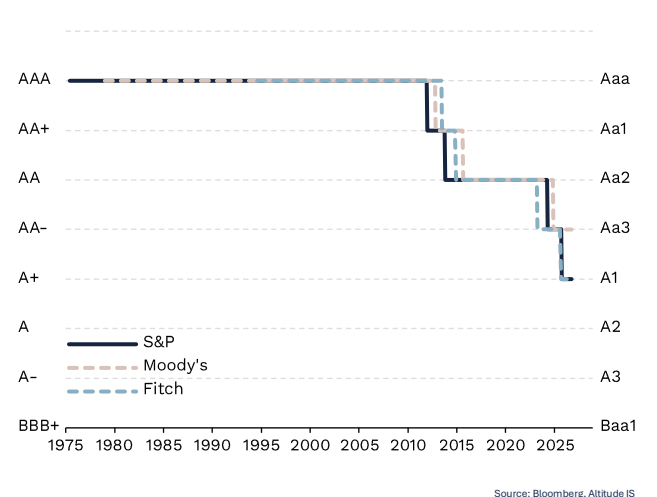


Fig. 5 – France's credit ratings by agencies





Of the approximately 1,750 billion euros that France will spend this year across all levels of government, interest on debt accounts for just 4 %, far behind pensions and healthcare (see Fig. 4). But it is the item that is rising the fastest, from 33 to 79 billion euros between 2020 and 2026 – a 139 % increase in six years. The country now spends more on its creditors than on defence, or on the police and the justice system combined, and nearly half of what it spends on education.

After remaining passive for many years, **the credit rating agencies eventually downgraded their assessments of France's credit quality.** Standard & Poor's had rated France AAA since 1975, Moody's since 1979 and Fitch since 1994. This mark of excellence remained unchallenged until 2012–2013. Since then, the agencies have been making gradual adjustments but have continued to downgrade the rating (see Fig. 5). The political instability triggered by the dissolution of parliament in June 2024 provided grounds for a further downgrade. Fitch and Standard & Poor's downgraded France to A+ in September and October 2025, i.e. four notches below AAA. Moody's, which still rates France at Aa3 with a negative outlook, will announce its verdict on 23 October. It is likely to follow suit and intensify the pressure currently prevailing on the markets.

In the bond market, yields on French government bonds have reached record highs. The 10-year OAT, for example, hit 4.995 % during trading on 2 October, a level not seen since 2002. Part of this rise is not specific to France. Rates have been rising everywhere since central banks resumed tightening – the ECB to 2.50 % and the Fed to 4 % – to combat inflation. But another part is a purely French risk premium. The 5-year CDS – the price of insurance against a French government default – has more than doubled in five weeks, from 33 to 86 basis points. The interest rate on OATs is now higher than that on Italian, Spanish, Portuguese or Greek bonds (see Fig. 6). The yield spread with the German Bund closed at 141 basis points on 1 October, a record high since May 2012 (see Fig. 7 & Chart of the Week). Worse still, in recent days, the spread has widened due as much to the fall in the Bund as to the rise in the OAT. This cross-movement is a sign that investors are shifting their holdings from French debt to German debt.

Fig. 6 – 10-year yields

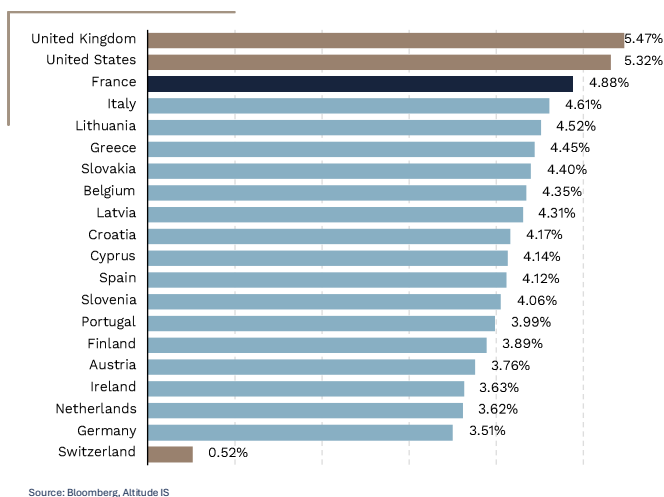
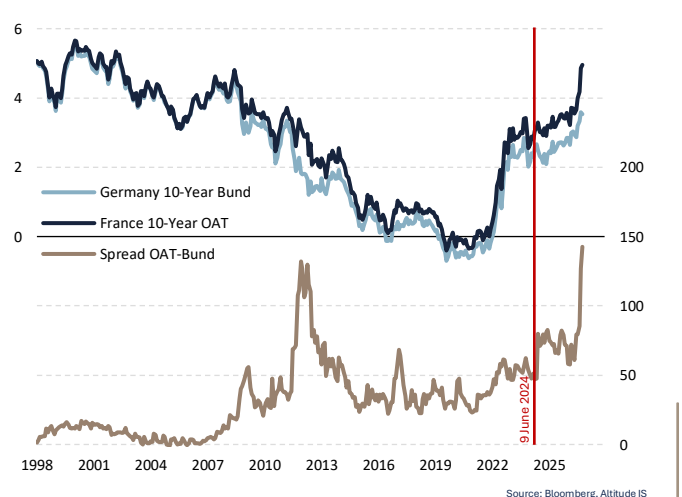


Fig. 7 – France-Germany yield spread

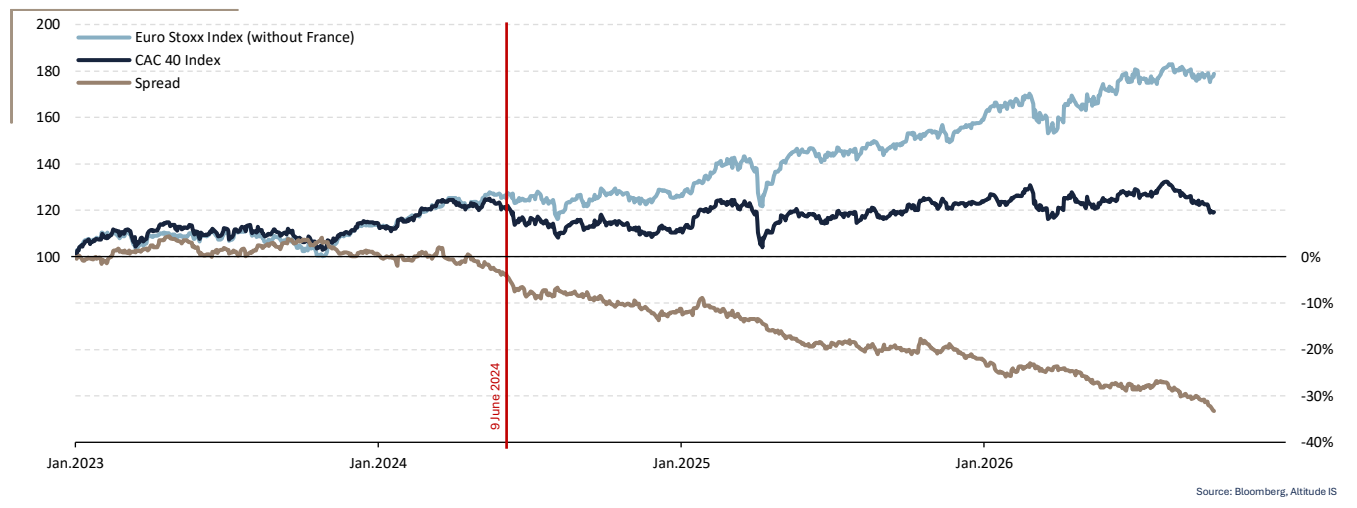


To what extent could investor concerns drive up French yields? Comparisons are not always valid, but history does sometimes repeat itself. During the European debt crisis in November 2011, in the wake of the turmoil in Greece and the peripheral countries, the French spread peaked at 190 basis points for a few days. In 2022, the arrival of Liz Truss in London and Giorgia Meloni in Rome caused their spreads to surge to 230 and 250 basis points respectively. Our scenario, drawn up in June 2024, anticipated a peak



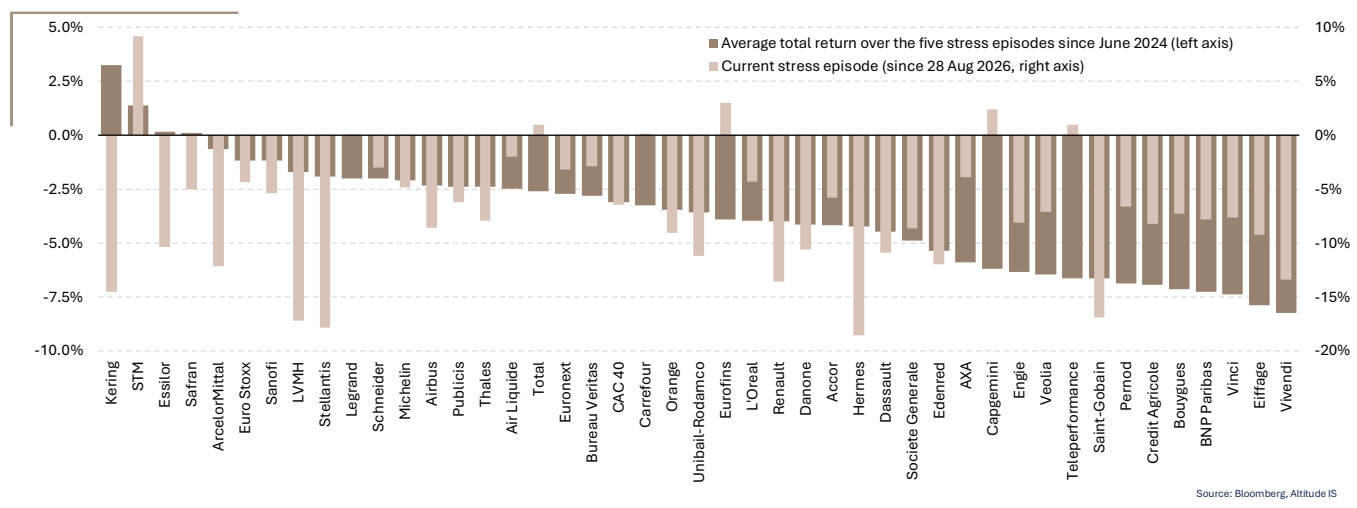
in French market concerns at a spread of 140 basis points and a CDS of 70 points – levels that have now been reached. Given the deterioration in the situation, the peak of market stress is likely to be higher than expected. **A temporary spread exceeding 200 points seems entirely plausible.** More than the absolute and relative levels of yields, it is the speed at which they are rising that is cause for concern. France is close to a bond market crisis, which would force Paris to take action or seek assistance from Europe. We shall return to this in a few paragraphs.

Fig. 8 – CAC 40, performance since the dissolution



On the stock market, the CAC 40 has continued to underperform. Since the summer of 2024 and the dissolution of the National Assembly, the French index has made no further gains, whilst the rest of the Euro Stoxx index has risen by nearly +30% (see Fig. 8). The banking sector has borne the brunt of this. Société Générale, Crédit Agricole and BNP Paribas have seen their share prices fall due to their exposure to OATs and the threat of one-off government levies. Nevertheless, investors are able to separate the wheat from the chaff. Throughout the five episodes of market stress that have occurred since June 2024, some companies have weathered the storm far better (STMicroelectronics, Essilor Luxottica and Safran) than others (Eiffage, Vinci, BNP Paribas, Bouygues and Crédit Agricole; see Fig. 9). Recently, it has been the luxury sector that has paid the heaviest price, but whilst Hermès, LVMH and Kering have fallen by between 15 % and 19 %, this is not solely due to political and budgetary factors.

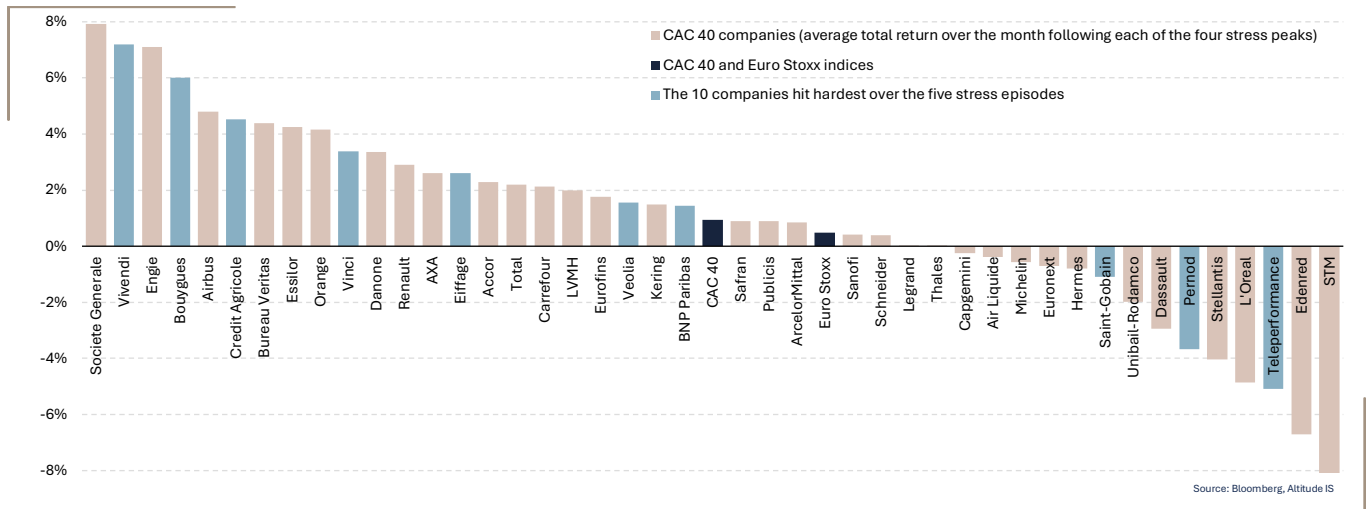
Fig. 9 – Performance of CAC 40 companies during periods of market stress





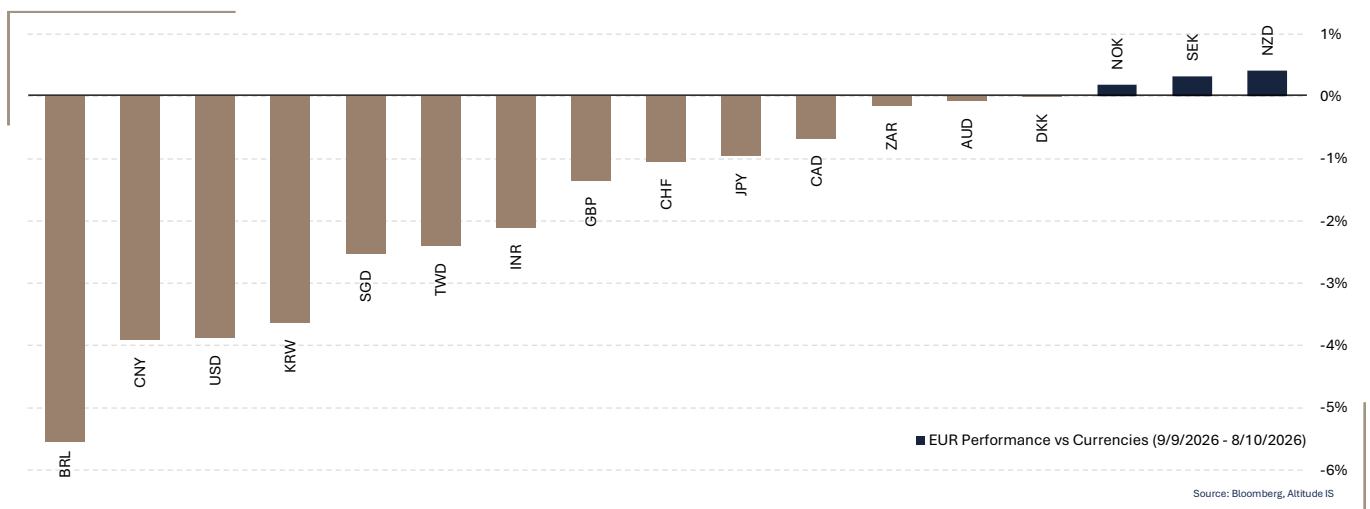
The stocks that suffer the most are often the ones that rebound the most once the storm has passed. By way of comparison, during the four previous recoveries, Vivendi gained +7.2% on average, Bouygues +6%, and Crédit Agricole and Vinci between +3.4% and +4.5%, compared with just 1% for the CAC 40 as a whole (see Fig. 10).

Fig. 10 – Performance of CAC 40 companies during periods of market stabilisation



On the foreign exchange market, the euro had remained unaffected until then but is now beginning to waver. This suggests that the Eurozone as a whole is on the verge of being affected by the situation in France. The single currency had fallen by just -2.1 % in June 2024, and by -3 % following Michel Barnier's dismissal. This time, it has already lost -4.2 % against the dollar, falling from over 1.16 to below 1.12. This is the least favourable exchange rate of the past 17 months. Against other currencies, the picture is similar, as the euro is depreciating against most of them (see Fig. 11). This trend contrasts with the appreciation of the Swiss franc, which, following a spell of weakness this summer, is benefiting from its role as a safe-haven currency.

Fig. 11 – Performance of the euro against major international currencies





To fully understand the outlook for France, it is worth setting out the possible outcomes in detail. There are three. The first would be for the French State to finally balance its budget – in a sort of ‘return to reason’ – so as to stop adding to the debt. No one is under any illusions; this is highly unlikely. The government has no room for manoeuvre, given that the increasing poverty of some citizens, combined with their long-standing habit of relying on the state, will prompt them to step up their demands six months ahead of the elections. The second, even more ambitious, would be to introduce a fiscal rule or a debt brake, as in Switzerland, Sweden, Denmark, the Netherlands and Germany. In a political twist, it is the National Rally – which has hitherto been strongly opposed to any ‘golden rule’ – that has recently spoken out on this issue. Its leaders have clearly understood that promises are only binding on those who listen to them. The third and final option would be to ask for help. The IMF will be ruled out, as Paris considers it too demanding. The European Stability Mechanism (ESM) also imposes a draconian adjustment programme, and its lending capacity would not even cover two years’ worth of French bond issues. As France is ‘too big to fail’ but also ‘too big to bail’, the only option left would then be the European Central Bank.

Since the European debt crisis, the ECB has equipped itself with all the tools necessary to ease the pressure on the bond market. The best-known of these, the PEPP, no longer exists. This relatively flexible emergency purchase programme, launched during the pandemic, had served as a first line of defence in the summer of 2022, to Italy’s benefit. It naturally came to an end with the cessation of reinvestments in December 2024. The ECB’s second intervention tool, the OMT, still exists but is unlikely to be used either. This Outright Monetary Transactions programme made famous by Mario Draghi’s ‘whatever it takes’ statement in 2012, allows for unlimited purchases of a country’s bonds, provided that country is under an ESM programme. With a presidential election just six months away, a bailout negotiated in Brussels and Luxembourg seems politically unacceptable for France. That leaves the third tool, the only realistic one: the TPI. This transmission protection instrument was created in July 2022 to enable the ECB to make unlimited purchases of 1- to 10-year bonds from a country experiencing a sharp rise in interest rates. **The TPI would be perfectly adequate to manage a French debt crisis, but it can only be activated under strict conditions** (see Fig. 12).

Fig. 12 – Criteria that a country must meet to be eligible for the TPI

- Firstly, it must comply with the European fiscal framework, i.e. it must not be subject to an excessive deficit procedure or, if it is, must not have been deemed by the European Council to have failed to take effective measures.
- Secondly, it must not exhibit excessive macroeconomic imbalances, as defined by the scoreboard reviewed annually by the Commission, which covers, in particular, the external position, competitiveness, private debt, property prices and unemployment.
- Thirdly, it must have a debt level deemed sustainable, based on sustainability analyses carried out by the Commission, the ESM and the IMF, which the ECB supplements with its own internal assessment – the most discretionary of the four.
- Fourthly, to comply with the country-specific recommendations issued annually by the Commission and to honour the commitments made under the European Recovery Plan, which Brussels summarises as sound and sustainable policies.

In addition to these eligibility criteria, there is one key trigger condition: the ECB intervenes at the discretion of the Governing Council only in the event of ‘unjustified and disorderly’ market movements that do not reflect the country’s fundamentals and that threaten the transmission of monetary policy across the euro area.

Source: ECB, Altitude IS



Since 26 July 2024, France has been subject to the excessive deficit procedure, with a commitment to bring the budget deficit back below 3 % by 2029. It would therefore only be eligible for the TPI on a discretionary basis and provided that Paris commits to restoring its public finances. This seems difficult, to say the least, in the current context. Furthermore, as the French spread is widening due to the French budget, it is not unjustified. Finally, there is no clear evidence of the stress spreading to Italy, Spain, Portugal or Greece (see Fig. 13). The ECB will only stabilise French OATs if the criteria it has laid down are met. **The situation could therefore deteriorate significantly before the crisis begins to be resolved.**

Fig. 13 – Spreads for southern European countries

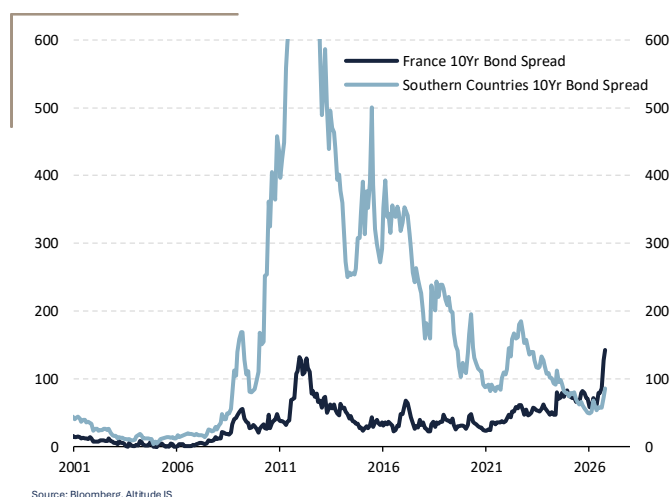
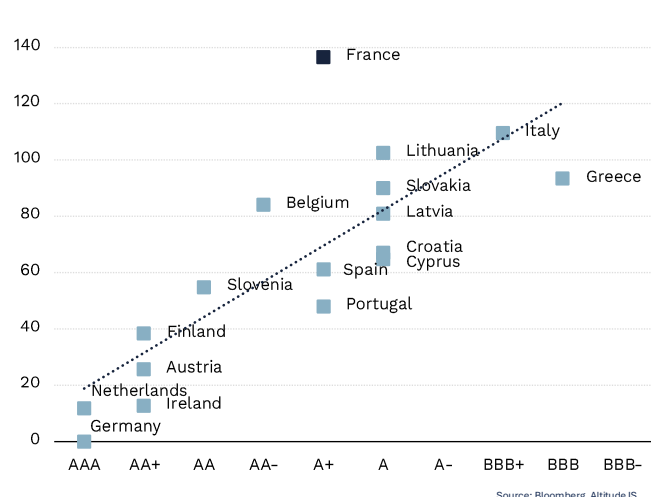


Fig. 14 – Spreads vs Standard & Poor's ratings



Rationally and prudently, investors will probably wait for a strong signal of improvement. They will be on the lookout for the passing of a credible budget, a stabilised debt trajectory, a positive assessment from a credit rating agency or, better still, a statement from the ECB regarding its willingness to act swiftly and decisively. Only then will they seek to capitalise on the windfall generated by the French debt crisis. We are a long way from that. Last Wednesday, the Governor of the Banque de France, Emmanuel Moulin, made it clear that France does not need emergency aid from the ECB, that the solution lies in Paris and not in Frankfurt, and that the passing of a budget will be the first step towards reassuring the markets. As a member of the Governing Council, he also speaks on behalf of the ECB. The message is crystal clear: France must first save itself.

The pressure on France could, however, ease temporarily, thanks to a technical respite, a parliamentary breakthrough or reassuring statements. Investors should not mistake this for the end of the crisis. As long as the budget, social unrest, the presidential election, the credit rating agencies and the ECB remain sources of concern, the crisis is unlikely to have reached its peak. **Everyone will therefore have to choose between waiting, at the risk of missing the ideal entry point, or taking a position now, at the risk of facing unfavourable valuations for several months.**

Experts have already drawn up a list of factors they will examine when the time comes:

- The narrowing of the OAT-Bund spread, the most obvious factor. At 140 basis points, the spread with Germany has returned to its 2012 levels, and OATs now yield more than Italian BTPs or Greek bonds, by 27 and 43 basis points respectively. Once the crisis has passed, the spread will return to the 80 basis points seen this summer, in line with France's A+ rating (see Fig. 14).



- The 'negative basis' strategy – which involves simultaneously buying an OAT and its CDS when the spread exceeds the cost of the protection – is back. Indeed, the yield spread exceeds the cost of protection by 60 basis points. The investor pockets the difference whatever happens, and stands to gain even more if the spread normalises more quickly than the CDS.
- The rebound in banking stocks and the hardest-hit shares. Société Générale, Engie, Bouygues, Vinci and Crédit Agricole are expected to outperform once fears subside. Banks will benefit from two factors: the easing of pressure on the OATs they hold in their portfolios and the removal of the threat of one-off taxes.
- The CAC 40 versus the Euro Stoxx, after falling 30 points behind since the dissolution. The advantage of this long/short strategy is that it neutralises market risk to isolate solely the French premium – the one that will disappear after having ballooned excessively.
- Structures backed by these underlyings round off the range of options. Capital-protected products linked to French banks or the CAC 40, and notes indexed to a narrowing spread, allow investors to gain exposure to France whilst limiting losses should the crisis intensify before subsiding.

To conclude this analysis, it should be noted that France will not default, regardless of the scenario considered. With over €3,800 billion in public debt, the eurozone's second-largest bond market – whose securities are used as collateral throughout the global financial system – could trigger a systemic crisis. No institution will be able to accept this, particularly the ECB.

Conclusion:

We will need to be patient before turning our attention back to France, until the peak of the crisis is reached and Paris or Frankfurt have no choice but to take effective action. Ironically, for the time being, the biggest winner from the French crisis... is the franc!



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 147.3	52.72	0.7%	0.3%	14.7%	22.9%	18.0%
USA (S&P 500)	7 812	59.93	1.2%	2.4%	15.1%	17.9%	25.0%
USA (Dow Jones)	51 655	47.96	1.0%	-1.3%	8.8%	14.9%	15.0%
USA (Nasdaq)	27 366	60.26	0.6%	4.3%	18.3%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	650.0	40.09	-1.0%	-2.4%	9.1%	21.2%	10.2%
UK (FTSE 100)	10 552	45.10	0.9%	-1.0%	9.0%	25.7%	9.6%
Switzerland (SMI)	13 787	44.50	0.9%	0.0%	7.1%	18.0%	7.5%
Japan (Nikkei)	69 031	59.80	1.1%	6.5%	39.2%	28.7%	21.3%
Emerging (MSCI)	1 709	48.00	0.0%	-2.5%	23.9%	34.3%	8.0%
Brazil (IBOVESPA)	209 067	80.30	8.8%	12.6%	29.8%	34.0%	-10.4%
Mexico (IPC)	66 049	59.89	2.4%	2.0%	4.7%	35.1%	-11.0%
India (SENSEX)	72 211	38.64	0.8%	-3.1%	-13.9%	10.5%	9.6%
China (CSI)	4 302	30.77	-0.9%	-5.4%	-5.0%	21.0%	18.2%
Com. Services (MSCI World)	164.5	50.56	0.6%	2.1%	1.1%	33.0%	31.9%
Cons. Discretionary (MSCI World)	427.3	52.89	2.5%	-0.2%	-5.7%	9.8%	20.7%
Cons. Staples (MSCI World)	299.8	55.62	3.5%	0.7%	5.7%	9.3%	4.7%
Energy (MSCI World)	362.2	62.08	3.6%	-0.2%	40.5%	14.8%	2.9%
Financials (MSCI World)	234.8	37.23	0.5%	-5.0%	6.3%	29.5%	25.1%
Health Care (MSCI World)	413.1	51.12	2.0%	1.0%	6.2%	15.3%	1.5%
Industrials (MSCI World)	502.1	40.25	-1.2%	-3.0%	8.9%	26.2%	12.8%
Info. Tech. (MSCI World)	1 324.0	60.45	-0.4%	4.8%	37.7%	26.6%	31.9%
Materials (MSCI World)	427.7	44.04	0.8%	-6.4%	10.6%	32.5%	-7.6%
Real Estate (MSCI World)	978	41.74	1.5%	-4.4%	-0.8%	3.6%	-0.4%
Utilities (MSCI World)	193.6	51.32	2.6%	-2.9%	2.6%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	4.40%	35.73	0.0%	-2.6%	-2.7%	8.2%	-1.7%
USA (Sovereign)	5.08%	39.69	0.3%	-1.6%	-2.4%	6.3%	0.6%
Euro Area (Sovereign)	3.93%	42.09	0.0%	-1.2%	-3.0%	0.6%	1.9%
Germany (Sovereign)	3.36%	51.30	-0.2%	0.0%	-1.7%	-1.6%	0.6%
UK (Sovereign)	5.41%	42.97	-0.6%	-1.0%	-2.5%	6.1%	-3.0%
Switzerland (Sovereign)	0.81%	45.08	-0.3%	-0.8%	-1.5%	0.3%	5.4%
Japan (Sovereign)	2.70%	52.64	0.5%	-0.6%	-3.6%	-4.6%	-2.1%
Emerging (Sovereign)	7.03%	37.38	0.8%	-2.1%	-1.7%	13.1%	7.0%
USA (IG Corp.)	5.99%	38.91	0.5%	-1.2%	-2.7%	7.8%	2.1%
Euro Area (IG Corp.)	4.25%	47.58	0.3%	0.0%	-0.9%	3.0%	4.7%
Emerging (IG Corp.)	7.14%	31.38	0.3%	-1.4%	-0.3%	8.1%	7.0%
USA (HY Corp.)	8.24%	33.70	0.2%	-1.6%	0.3%	8.6%	8.2%
Euro Area (HY Corp.)	6.96%	29.12	0.1%	-1.3%	-0.3%	5.2%	8.2%
Emerging (HY Corp.)	8.37%	37.22	0.7%	-2.2%	1.4%	13.9%	14.9%
World (Convertibles)	606.5	41.95	-1.0%	-2.9%	12.6%	22.4%	9.4%
USA (Convertibles)	803.2	43.99	-1.1%	-2.5%	14.8%	16.9%	10.1%
Euro Area (Convertibles)	303.9	49.56	0.0%	-0.3%	4.6%	24.8%	14.7%
Switzerland (Convertibles)	292.6	58.03	0.9%	0.4%	3.4%	17.5%	-10.5%
Japan (Convertibles)	320.9	49.90	-1.1%	0.0%	24.4%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 921	77.08	n.a.	-0.4%	8.5%	6.2%	11.1%
Macro	1 593	76.26	n.a.	1.6%	11.8%	8.5%	7.4%
Equity Long Only	2 593	65.95	n.a.	-1.7%	6.9%	4.9%	12.0%
Equity Long/Short	2 104	72.75	n.a.	-1.0%	10.2%	6.8%	14.0%
Event Driven	2 025	69.19	n.a.	-3.8%	8.5%	5.5%	8.7%
Fundamental Equity Mkt Neutral	2 007	86.03	n.a.	-0.1%	10.7%	7.1%	12.4%
Quantitative Equity Mkt Neutral	1 943	85.46	n.a.	0.2%	9.6%	7.4%	9.8%
Credit	1 767	81.02	n.a.	-1.1%	4.5%	2.8%	8.5%
Credit Long/Short	1 819	94.81	n.a.	0.6%	7.0%	4.9%	10.0%
Commodity	2 187	79.93	n.a.	-0.6%	11.1%	9.3%	14.7%
Commodity Trading Advisors	1 628	74.04	n.a.	4.6%	19.1%	14.6%	7.9%
Volatility							
VIX	14.84	45.36	-3.1%	-9.8%	-0.7%	-13.8%	39.4%
VSTOXX	18.84	52.35	-2.4%	0.5%	28.0%	-13.5%	25.3%
Commodities							
Commodities (CRB)	565.3	n.a.	1.0%	2.4%	4.7%	0.6%	5.1%
Gold (Troy Ounce)	4 186	n.a.	1.1%	-2.6%	-3.1%	64.6%	27.2%
Silver (Troy Ounce)	60.82	n.a.	-0.4%	-3.8%	-15.1%	148.0%	21.5%
Oil (WTI, Barrel)	91.85	n.a.	0.8%	-4.4%	60.0%	-19.9%	0.1%
Oil (Brent, Barrel)	132.78	n.a.	4.9%	16.0%	112.6%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	102.21	69.52	0.0%	3.1%	4.0%	-9.4%	7.1%
EUR	1.1200	24.57	-0.2%	-3.0%	-4.6%	13.4%	-6.2%
JPY	158.36	43.76	-0.3%	-2.5%	-1.0%	0.3%	-10.3%
GBP	1.3236	39.49	0.1%	-1.9%	-1.8%	7.7%	-1.7%
AUD	0.6974	38.60	0.0%	-2.3%	4.5%	7.8%	-9.2%
CAD	1.4261	30.81	0.0%	-2.5%	-3.8%	4.8%	-7.9%
CHF	0.8309	39.36	0.0%	-1.6%	-4.6%	14.5%	-7.3%
CNY	6.6931	65.82	0.2%	0.2%	4.4%	4.5%	-2.7%
MXN	18.413	23.79	-1.8%	-6.9%	-2.2%	15.7%	-18.5%
EM (Emerging Index)	1 930.4	55.90	0.3%	-0.7%	4.2%	7.2%	-0.7%
XBT	84 051	n.a.	0.8%	8.9%	-4.1%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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