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FRANCE: WHAT'S INVESTABLE NOW?

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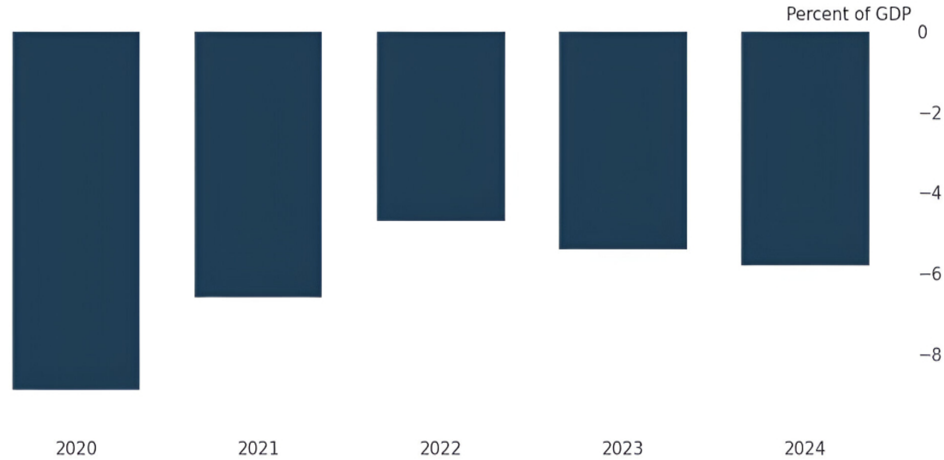

Figure 1- France: General government deficit (% of GDP, 2020–2024)

France merits focus because fiscal arithmetic is colliding with still--positive real rates in the Eurozone's second-largest economy, where politics and ratings momentum now shape term premia. The 2024 general government deficit was 5.8% of GDP, up from 5.4% in 2023, and debt stands near 113% of GDP (see Figure 1). That combination leaves little tolerance for policy drift as the reformed EU rules make multi-year consolidation unavoidable. My aim in this article is practical: to determine whether French equities and/or OATs presently offer attractive opportunities, especially if a gradual market recovery unfolds as the underlying problems begin to subside.

Pressures

Post-pandemic and energy measures have left a high spending base while consolidation lagged peers. Market discipline has tightened: the 10-year OAT averaged roughly 3.0% in 2024 and the OAT–Bund spread has hovered around 75–80 bp since late-2024/early-2025, well above the ~50 bp pre-2024 norm and occasionally even compressing toward BTPs during episodes of Italian "relative stability."

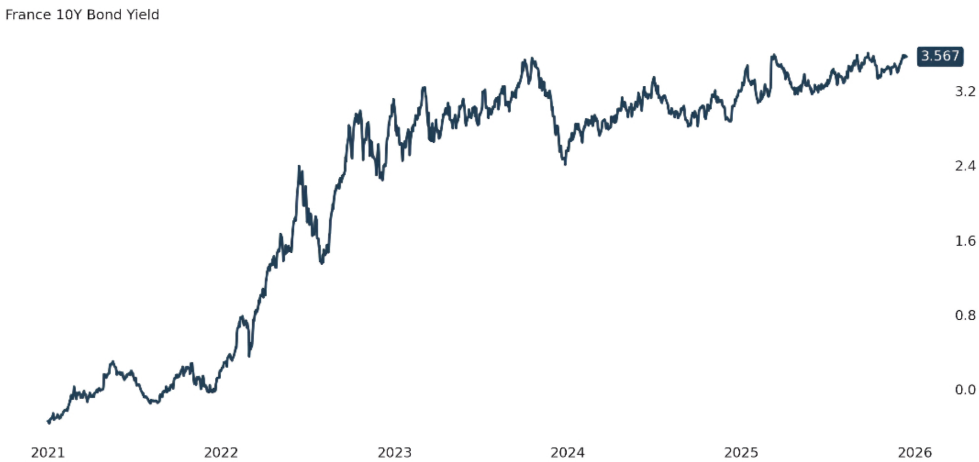

Figure 2 — France 10-year OAT yield (2021–2025)

Growth is modest but not recessionary: France expanded 1.1% in 2024 (Germany −0.2%, Italy ~0.5–0.9%, Spain ~3.5%), and labour slack is limited (ILO jobless rate ~7.3–7.4% around Q4-2024/Q1-2025). This constellation explains why spreads have repriced fiscal-political risk more than cyclical stress.

Country	Year	Debt/ GPD(%)	GDP Growth (%)	Unemployment (%)
France	2024	113	1.1	7.4
Germany	2024	62.5	-0.2	6
Italy	2024	135.3	0.5–0.9	6.5
Spain	2024	101.8	3.5	11.4

Table 1 — Euro area peers (2024)

Strengths

Sectoral and market depth cushion shocks. France's quoted universe features diversified industrials, aerospace/defense, healthcare, luxury, and energy. Index fact sheets show heavy weights in consumer discretionary (global luxury), industrials (including aero/defense), and healthcare, sectors geared to external demand and dollar-linked cash flows rather than purely domestic cycles. If policy credibility

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improves, low headline inflation and gradually easing labour pressure can deliver a softer landing for margins, with external demand acting as the key swing factor.

CAC 40 performance and the "crisis" linkage

The CAC 40's price action through the autumn "crisis" window is instructive. From 7,399 on 2 Jan 2025 to an all-time high of 8,271 on 21 Oct 2025, the index was up ~11.8% at peak and still ~+8.7% YTD by 10 Nov 2025 at 8,044, only ~2.8% off the high. That pattern, fresh highs into a ratings downgrade and a shallow pullback afterward, suggests a low and unstable correlation between sovereign stress (spreads, ratings momentum) and broad French equities over this window. The mechanism is straightforward: the CAC 40's revenue base is majority ex-France, with global luxury, aero/defense, and healthcare margins driven by world demand and the global rates path more than domestic headlines.

Bonds

With debt near 113% of GDP and deficits still above 5%, carry is appealing but path-dependent on consolidation credibility. The base case is to keep duration in the belly, 5–7-year OATs, hedged versus Bunds, add on event-driven spread spikes tied to ratings/politics that are not backed by fresh fiscal deterioration, and fade when the OAT–Bund spread revisits the high-70s/80 bp area in the absence of new information. EU notifications and Commission forecasts point to several years of primary tightening, observable, quarterly headline progress, especially on expenditure control, is the catalyst for sustained spread tightening. If consolidation delivery disappoints or the ratings cycle turns decisively worse, shorten duration and rotate to Euro peers with firmer anchors.

Equities

The CAC/MSCI France tilt to global luxury and aero-defense makes performance sensitive to US/China demand and to the global rate path. We prefer quality exporters, particularly aerospace/defense, large-cap healthcare, and efficient industrial tech, over domestics with regulated pricing or pronounced wage-drift exposure. Treat drawdowns on fiscal headlines as tactical entry windows only if a multi-year spending cap and primary improvement look credible and if the broader rates/growth backdrop is cooperative. In the near term, broad index-level upside is likely capped without a further tailwind from lower global discount rates or an upside surprise in external demand.

Bottom line

France is investable, selectively. This is a carry-and-selectivity market. In bonds, intermediate-tenor OATs with Bund hedges and tight risk limits can harvest carry while keeping political risk ring-fenced, add on volatility, trim on complacency. In equities, favour globally exposed, high-ROIC champions and keep domestically constrained cyclicals underweight. If consolidation stalls or the ratings cycle deteriorates, reduce OAT duration and rotate toward Euro peers with clearer fiscal anchors, on the equity side, maintain the quality/exporter tilt and rely on disciplined, event-driven entries rather than blanket market exposure.

Article written in November and updated on December 15th

Figure 3 — CAC 40: 2025 YTD