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Investment Institute

Market Commentary



Weekly perspective on current market sentiment **November 4, 2026**

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Last week's S&P 500 Index: -0.6%

France's budget battle: Who picks up the bill?

Key takeaways

- France's budget struggles and civil unrest leave investors facing continued uncertainty. Budget gridlock and rising yields can hurt bondholders even if France continues making its debt payments.
- Higher yields do not automatically mean better value. In our view, European bonds offer too little income for the risks involved.

Imagine going out to dinner with a friend. You order a salad and water. They order steak and wine. The bill arrives, and your friend says, "Let's just split it." In that situation, you might wonder: Who benefits, and who gets stuck with an unfair amount of the bill? A similar question is at the core of recent civil unrest over the French budget: How much government support can the country afford, and who should cover the cost?

France faces a difficult squeeze. The government spends more than it collects in revenue, creating a budget deficit. Meanwhile, cost-of-living pressures have increased demands for further government support. The result has been bitter budget negotiations and significant unrest. Investors have noticed. Concerns about France's finances have pushed its bond yields significantly higher relative to much of Europe. When yields rise, existing bond prices fall.

According to euronews (July 26, 2026), France has the lowest retirement age among Europe's largest five economies and one quarter of the French population is retired. Benefit cuts are unpopular, and French taxes are already a much heavier burden than in Italy, Germany, the U.K., or the U.S. Notably, French general government tax revenue was 51.4% of its economy versus 29.9% for the comparable U.S. percentage (according to 2023 data from the Organization for Economic Cooperation and Development [OECD]). At a high level, this means that French taxpayers faced an average tax rate of 51.4% versus 30% for U.S. counterparts in 2023. France's dinner bill remains on the table with policymakers and the population still divided over how to split it.

A budget impasse does not mean the French government is heading for collapse. OECD figures show Greece had a government deficit of 15.9% of its economy in 2009, much higher than France's today. Austerity measures reversed that deficit to a 1.70% surplus by 2025. Fortunately, the French economy is larger, more diversified, and, we believe, has a resilient financial system. European institutions also offer a potential backstop if financial conditions unexpectedly deteriorate severely. Still, bondholders can be negatively impacted even if a fair split of the bill is ultimately agreed upon. Political uncertainty can push yields higher and existing bond prices lower. France's unrest and Europe's broader budget pressures are unlikely to fade without austerity measures that may take more time to develop. Until then, European bond yields still do not provide enough income to justify the risks and we are unfavorable on Developed Markets ex-U.S. Fixed Income as a result.

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