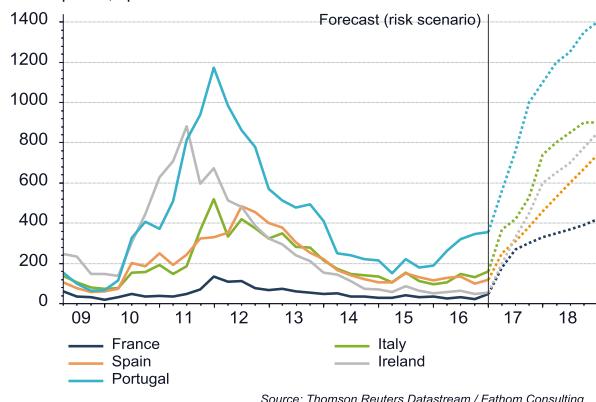


Dutch election outcome represents a step away from our risk scenario. En marche!

- Confirming the trend in polls, incumbent Dutch Prime Minister Mark Rutte's Liberals won 33 seats in yesterday's elections, 13 seats more than the populist candidate Geert Wilders Party for Freedom.
- This represents a step away from our risk scenario, in which we assume populist parties are successful in the upcoming elections around Europe. Indeed, French and peripheral sovereign debt spreads over Germany have tightened.
- However, until the French elections political risk is sufficient to prevent us from advising a reallocation into euro area assets despite the cyclical economic upturn.
- In the run-up to the French elections we expect French and peripheral sovereign spreads to widen again and the implied volatility of the Euro Stoxx 50 relative to that of other major equity indices to increase.

Ten-year peripheral sovereign spreads

Basis points, spread over German Bunds



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