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Stocks soared on news of Trump's election. Bonds sank. Here's why.

Story by Daniel de Visé, USA TODAY

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As Donald Trump emerged victorious in the presidential election Wednesday, stock prices soared.

As the stock market rose, the bond market fell.

Stocks roared to record highs Wednesday in the wake of news of Trump's triumph, signaling an end to the uncertainty of the election cycle and, perhaps, a vote of confidence in his plans for the national economy, some economists said.

On the same day, the yield on 10-year Treasury bonds rose to 4.479%, a four-month high. A higher bond yield means a declining bond market: Bond prices fall as yields rise.

While stock traders rejoiced, bond traders voiced unease with Trump's fiscal plans.

Trump campaigned on a promise to keep taxes low. He also proposed sweeping tariffs on imported goods.

Economists predict a widening deficit in Trump presidency

Economists warn that Trump's plans to preserve and extend tax cuts will widen the federal budget deficit, which stands at $1.8 trillion. Tariffs, meanwhile, could reignite inflation, which the Federal Reserve has battled to cool.

For bond investors, those worries translate to rising yields. The yield is the interest rate, the amount investors expect to receive in exchange for lending money: in this case, to the federal government.

In the current economic cycle, bond investors "might perceive there to be more risk of holding U.S. debt if there's not an eye on a plan for reducing spending. Which there isn't," said Jonathan Lee, senior portfolio manager at U.S. Bank. *

The 10-year Treasury bond is considered a benchmark in the bond market. The yield on those bonds "began to climb weeks ago, as investors anticipated a Trump win," The New York

Times reported, "and on Wednesday, the yield on 10-year Treasury notes jumped as much 0.2 percentage points, a huge move in that market."

It was an ironic moment for bond yields to rise. Bond yields generally move in the same direction as other interest rates.

But the Federal Reserve cut interest rates on Thursday, trimming the benchmark federal funds rate by a quarter point. The cut was widely forecast and, in any case, the Fed's interest rate decisions matter more for the short-term bond market.

Long-term bond yields are rising because "many investors expect that the federal government under Trump will maintain high deficit spending," according to Bankrate, the personal finance site.

Former President Donald Trump takes the stage following early results from the 2024 U.S. presidential election in Palm Beach County Convention Center, in West Palm Beach, Florida, on Nov. 6, 2024.© Callaghan O'Hare, REUTERS

Forecasters predict more tax cuts under Trump

Many forecasters expect Trump and a Republican-led Congress to renew the 2017 Tax Cuts and Jobs Act, which trimmed tax rates across the board and fed the federal deficit during Trump's first term.

"Significant spending under the Biden administration, including for COVID relief, added further to that debt," Bankrate reports. And now, bond traders expect the deficit to rise anew under Trump.

In a broader sense, bond investors worry that "we're living beyond our means in the United States, and we have been for a very long time," said Todd Jablonski, global head of multi-asset investing for Principal Asset Management.

Over the long term, Jablonski said, investors "fear that the United States's creditworthiness is not as impeccable as it was once considered to be."

As the federal deficit grows, investors take on greater risk, and they expect to be paid a higher interest rate for loaning money to the government.

Neither Trump nor Democratic presidential candidate Kamala Harris offered a convincing plan to reduce the deficit on the campaign trail, economists said. Harris promised to raise taxes on the wealthiest Americans and corporations as a source of new revenue.

Surrounded by family members and supporters, Donald Trump makes his acceptance speech at his Election Night Watch Party at the Palm Beach County Convention Center in West Palm Beach, Fl., after being elected the 47th President of the United States November 5, 2024.

Trump, by contrast, pledged to extend and even deepen his previous tax cuts. Trump has made a case that economic growth and job creation would naturally boost revenue.

The bond market may not be convinced.

"If there's a Republican sweep of House, Senate and the presidency, I expect the bond market to be wobbly," said Jeremy Siegel, finance professor at the Wharton School of the University of Pennsylvania, speaking to CNBC on Election Day. "I expect them to be worried that Trump would enact all those tax cuts, and I think bond yields would rise."

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