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Bond Market Is In Focus Following Election

BY SAM GOLDFARB

Stocks notched their biggest week of the year after Donald Trump's election victory. Now it is the bond market that investors are watching.

Treasury yields, which rise when bond prices fall, climbed after Tuesday's election, lifted by bets that a second round of Trump tax cuts will boost growth, inflation and budget deficits. Stocks and Treasury yields similarly surged eight years ago when Trump claimed his first electoral win—a major part of what investors called the "reflation trade."

But inflation, deficits and interest rates are all much higher now than they were then.

Some fear a sustained rise in yields could disrupt stock gains, further pressure the housing market and slow the economy.

"It's a lot more complicated," said Thanos Bardas, global co-head of investmentgrade fixed income at Neuberger Berman. "The starting point is very different [between] Trump 1.0 and Trump 2.0."

The yield on the 10-year U.S. Treasury note, a key benchmark for borrowing costs across the economy, settled Friday at around 4.3%. It was 3.6% in September.

Making matters more difficult for investors, fiscal policy is just one part of Trump's agenda that could shift the economy.

The president-elect has also put forward ambitious, if ill-defined, plans to introduce broad-based tariffs, impose stricter immigration controls and carry out mass deportations of people who entered the country illegally.

Both tariffs and deportations could spur inflation, pushing yields higher, many economists say. They also could slow growth, dragging yields lower.

In the case of tariffs, many businesses and economists agree that higher levies on imported goods would be passed on to consumers. Inflation would likely rise, at least in the short term. But consumers also could balk at the higher prices and cut back on their spending.

Deportations, meanwhile, could force businesses to increase wages to lure new workers, and then raise prices. Employers also could

respond by cutting back on production.

"It all kind of depends on the scale and scope of tariffs and immigration," said Ed Al-Hussainy, senior interest rates and currency analyst at Columbia Threadneedle.

His own view is that both policies could lead to slower economic growth by the end of next year, providing a reason to buy Treasuries at current yields.

Yet even if Trump's trade and immigration policies curb growth, they also will make investors more worried about inflation, said Leah Traub, a portfolio manager at Lord Abbett.

That could cause longerterm yields to rise even if short-term yields tick downward, an unusual move known as a "steepening twist."

The expected economic impact of Trump's fiscal policies is more straightforward. But investors still have questions about how much he will cut taxes and how much those tax cuts will be offset by spending reductions.

After last week's elections, Republicans are poised to hold a governing trifecta that should make it relatively easy to pass legislation that affects revenue and spending levels.

The Committee for a Responsible Federal Budget, a nonpartisan group that favours lower deficits, has estimated that Trump's policies would widen budget deficits by \$7.5 trillion over the next decade.

In a report last week, analysts at Barclays wrote that Treasury yields likely already incorporate expectations for a little less than half that total— equal to the extension of older, expiring tax cuts, partially offset by tariff revenues and spending cuts.

Trump, however, also promised new tax cuts during his campaign, including exemptions for Social Security benefits, overtime pay and tip income.

Given that the federal budget deficit is already running close to \$2 trillion annually, some on Wall Street have questioned how much the government can further increase its borrowing without exhausting the demand of investors and spurring a major bond selloff. ? * ?

Among those worried about the bond market is Vice President-elect JD Vance.

In an interview days before the election, Vance said he was concerned that there could be a "bond-market death spiral" during a second Trump administration, similar to what happened in the U.K. in 2022.

Such a crisis, he said, could be caused by "international investors" trying to "take down the Trump presidency by spiking bond rates."

Many investors, though, are less alarmed.

"I don't buy as much that tweaking supply here or there sets long-term interest rates," said Michael Lorizio, a senior trader at Manulife Investment Management. "I think it's more the fundamentals of the economy."

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