

## Rates Spark: US yields rise amid rising Trump clean sweep bets

As Donald Trump performs better than many polls had predicted, the market is bracing for a clean sweep for the Republican candidate, with 10Y UST yields rising beyond 4.4%. The eurozone has reacted with a bull steepening as more ECB rate cuts are priced in again. But the wider risk sentiment seem to hold



Presidential candidate Donald Trump addresses supporters at the Election Night watch party in West Palm Beach, Florida

### The Trump trade unfolds

News headlines are becoming more and more convinced that Donald Trump has won the US presidential election, and the Republicans may even have secured both the Senate and House. The 10Y UST is the key measure of the Trump trade gaining ground, showing a bump up in yields from 4.25% to around 4.4% overnight. The front-end of the curve was also dragged higher, the implied landing zone for the Federal Reserve is now 3.75%. We think the 10Y yield could easily stand ground at higher levels, but a 2Y of 4.3% feels high.

In euro rates, the reaction was a bull steepening. 2Y rates dropped by around 10bp as more European Central Bank cuts are priced in, while the back-end of the curve remained more anchored. The ECB is expected to cut just below 2% now in mid-2025, which would be slightly

lower than our neutral range estimate of 2-2.25%. In a clean sweep scenario we expect Trump to first priorities on domestic issues, such as extended tax cuts, before focusing on foreign policy. That might give European economies some respite from trade restrictions, though the 10Y Bund yields still fell compared to Tuesday's close dipping below 2.38%.

No broader risk-off episode is taking place for now, though. EGB spreads versus Bunds remain relatively stable, including for Italy and France. Bund ASW spreads themselves are even slightly tighter again. Only this week they had managed to regain a first foothold following their 20bp tightening since early October. The notion is that Germany could be considered more sensitive to trade tensions with the US, and therefore Bunds may not benefit as much as a safe haven this time.

UK rates saw the 5Y belly of the gilt curve almost 10bp higher on the day on Tuesday. Ahead of Thursday's Bank of England meeting, this was an extension of the Bank's repricing kicked off by the government's expansionary budget. Alongside a generally lower exposure to trade that fiscal stimulus may limit the need for the SONIA curve to reprice as much on the back of the US election outcome.

## Wednesday's events and market view

The presidential race seems clear, but markets may still wait on confirmation of a Republican clean sweep. Calendars hold little to distract the markets with today, with the US releasing mortgage applications data and the eurozone publishing final PMIs as well as producer prices.

Primary markets will be a little busier with Germany tapping long-end bonds in the 20Y area for €1.5bn in total and the US Treasury later selling US\$25bn in new 30Y bonds. The 10Y sale on Tuesday went well considering the circumstances, but at the same time investors could look back to a cheapening of more than 30bp since September to raise their appetite.

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