

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.

Author

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.