POST ELECTION NOTE - YIELDS

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One of the interesting features of the run-up to the election, and market reaction over the course of election night, was the move up in treasury yields—now approximately 80 basis points (bps) higher than they were on September 18, the day the Federal Reserve (Fed) cut the Federal Funds Rate by 50 bps.
Highlighting the connection to the election results, the 10-year treasury ended election day at 4.27% and traded to a 4.47% yield during the late-night election coverage, an additional 20 bps overnight move as results became clear.

As we discussed in our Mid-Year Letter to Clients, neither of the presidential candidates positioned themselves as deficit hawks during the campaign, and at that time, we shared the expectation that an increasing amount of the market conversation going forward would revolve around US debt and monthly treasury auctions in what the media will rightly portray during either administration (but particularly a Republican one) as 'deficits as far as the eye can see'. The move we've seen in rates since September supports that view.

One caveat that surfaced later in the campaign is the idea of an appointed team of economic and business wunderkinds, like Elon Musk, in an 'Office of Government Efficiency' finding trillions in budget items to cut. While this thought process would represent a step in the right direction, the truly discretionary portions of the budget are a minority relative to the entitlement elements, the defense budget, and the interest expense itself—and moving the spending needle with such cuts will be a difficult challenge, even for an administration that controls both houses of congress and might eye the elimination of entire government agencies.

The takeaway from the move in yields over the last month, plus the abrupt jump as the election result became clear, is that the bond market may supplant a divided Congress as a check on this administration's policies, which are likely to include an immediate effort to eliminate the budgeted year-end 2025 phase-out of the tax rates and estate tax provisions voted in during the first Trump administration. The ultimate success of the second Trump Administration's economic policies may rest on this challenge, and it will be interesting to watch a fiscal conversation that, for the first time in over a decade, earnestly considers expense cuts from a bloated budget as opposed to focusing exclusively on tax increases as the solution to the growing US fiscal deficit and borrowings.

YEAR-TO-DATE 10-YEAR TREASURY YIELD

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