

Core fixed income: Could a U.S. “Blue Wave” raise yields?



- Market commentators are focusing on the possibility that the Democratic party wins the Senate and White House as well as retaining control of the House in the 3rd November elections. A so-called ‘blue wave’ may mean a fiscal stimulus based around public infrastructure expenditure. In addition the Fed has continued to indicate they will tolerate inflation above target to make up for the undershoot in recent years.
- Despite the generally deflationary pressure from the Covid epidemic, this has meant longer-term inflation expectations are starting to rise. This is perhaps best seen by looking at forward starting swaps, where the US level is the highest it has been in over a year. We expect this to mean that there will be some upward pressure on yields, although they are likely to remain low.
- We continue to think TIPS look attractive versus Treasuries, especially as conditions move towards more inflationary policies.

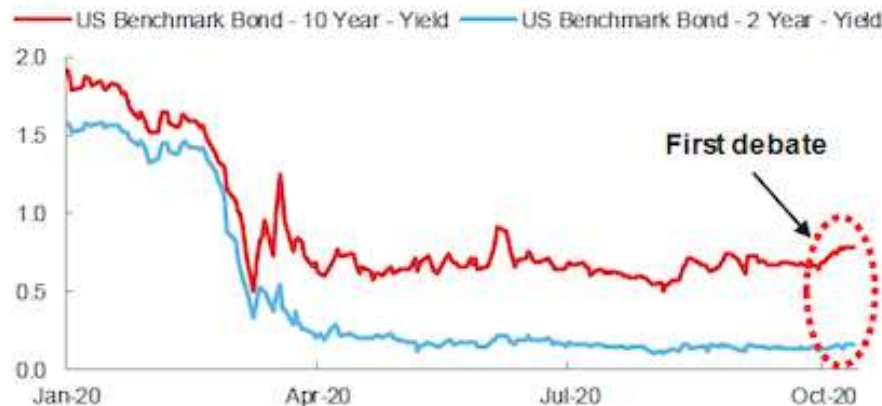
Inflation expectations are on the rise



Source: Bloomberg

...but remain extremely low in a medium-term context

Yields are bouncing from March lows...



Source: Factset

US Benchmark Bond - 10 Year - Yield US Benchmark Bond - 2 Year - Yield



Source: Factset