## Economic News

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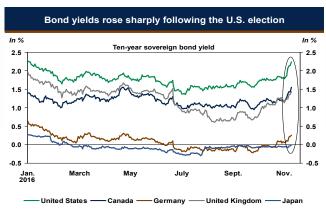
## UNITED STATES

Rise in bond yields justified after Donald Trump's victory

Bond yields across the globe surged after Donald Trump's surprise victory in the U.S. elections. Ten-year U.S. federal bond yields went from 1.85% to about 2.25% within just a few days-a peak not seen since last January. This increase partly reflects a certain optimism that also lifted stock markets, with the hope that the infrastructure projects and tax cuts promised by the president-elect could spur economic growth in the United States.

The recent increase in bond yields appears however to stem primarily from investors' higher expectations on inflation. Inflation expectations in the medium term derived from U.S. bonds hedged against inflation have soared since the election, reaching their highest level since the summer of 2015. In addition to more aggressive measures to kickstart the economy, Donald Trump also wants to impose major tariffs on goods imported from China and Mexico; this would push prices up higher in the United States. The marked deterioration in U.S. public finances expected if the president-elect fulfills his promises also justifies higher bond yields. Even if the election of Donald Trump raises several uncertainties, the higher inflation outlook should convince the Federal Reserve to increase its key rates in December and a few times next year as well.

Implications: Donald Trump's election seems to confirm that the long-standing downtrend in bond yields is now over. The extremely low yields were already becoming increasingly difficult to justify and a slight uptrend had been noted since the end of summer. In this environment, the U.S. election could be seen as a positive shock on inflation, one that justifies a faster normalization of the bond market. The big question now is this: How fast will interest rates rise and how high will they go? We will also have to see how the other central banks adjust to this new landscape.







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