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Markets In the New Era of Trumpism

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As we re-enter a new era of Trumpism, it's worth considering the potential impacts on markets.

10-year government bond yields have edged higher, currently at 4.640%, up from 4.562% at the beginning of the week. The election triggered significant volatility in bond futures, with 10-year futures initially rising by 13.5 basis points before settling at a 5.5 basis point gain.

Meanwhile, risk-on assets like equities and crypto have rallied strongly.

US markets reached record highs as investors anticipated tax cuts, deregulation, and a prolonged period of high interest rates. The Dow and S&P 500 saw their best day since November 2022, led by financial stocks, particularly banks. The S&P 500 bank index surged 10%, while the small-cap Russell 2000 climbed to a three-year high, boosted by prospects of regulatory easing and tax cuts. Bitcoin exceeded \$75,000, and the US dollar saw its biggest daily gain since September 2022.

Market Highlights (7th November):

- Dow Jones: +3.6% to 43,730
- S&P 500: +2.5% to 5,929
- Nasdaq Composite: +3% to 18,893
- Russell 2000: +5.8% to 2,393

Implications of Trumpism on Global Markets and Australia

Higher US deficits, driven by tax cuts, are expected to push up long-term interest rates and inflation. Increased US borrowing could drive up global interest rates, strengthen the US dollar, and weaken other currencies, though the Australian dollar has held steady.

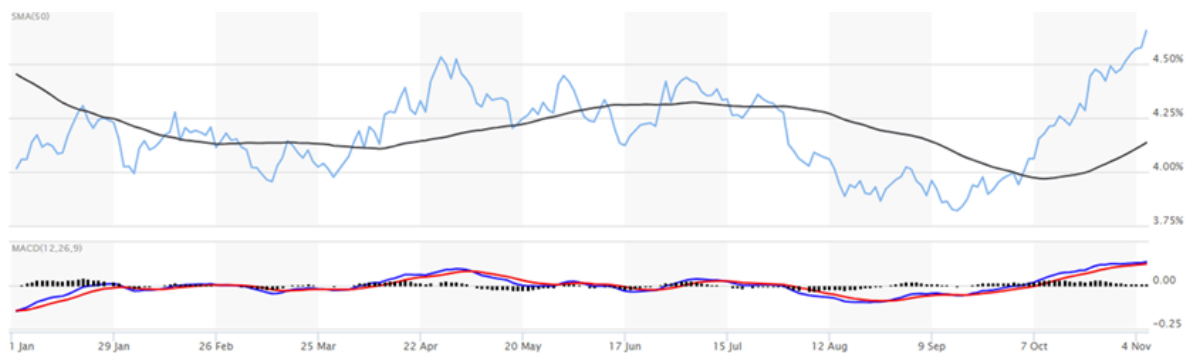
Potential tariffs under Trumpism could further boost the dollar, while slowing global growth and hitting European markets, with risks to China. However, Australia's markets and currency have remained relatively insulated from these impacts.

Impacts on Australia:

- **Tariff-Resistant Exports:** Australia is expected to avoid significant tariff impacts due to its limited manufacturing exports, as in the 2018-2019 period.
- **China and Iron Ore:** If tariffs limit China's export-driven growth, authorities may focus on infrastructure spending, boosting demand for iron ore.
- **RBA Outlook:** The Reserve Bank of Australia remains focused on domestic inflation, influenced by its more accommodative COVID-era policy. Rate cuts are not anticipated until May next year.

Where to from now?

Looking at the 10-year AUD government bond on a year-to-date basis we see the current rate of 4.64% as an attractive rate. We would view this as a range trade, looking to buy duration around these levels and trade out towards the bottom of the range being 3.75-4 which has held throughout the year.



*Source: <https://www.marketwatch.com/investing/bond/tmbmkau-10y?countrycode=bx>

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