



## Market Commentary

### Donald Musk the Doge

#### Money is power

##### Key points:

- Markets continue to adjust to the upcoming reality of what Trump 2.0 means for the global economy.
- The appointment of Elon Musk could have wide-ranging implications, with the Tesla CEO sure to shake things up dramatically and advance a reform agenda.
- Assessing market moves since the election, expectations for Fed rate cuts in 2025 have continued to recede.
- There is currently a fair amount of economic gloom in the Eurozone, with fear of greater downside. This could highlight the need for the ECB to ease policy more aggressively.
- Emerging markets are under pressure from higher US yields, a strong dollar and the prospect of increased tariffs. However, we continue to find opportunities on a relative basis.

**15 November 2024 (London)** – Treasury yields have pushed high over the past week, as markets continue to adjust to the upcoming reality of what Trump 2.0 means for the US economy and the world at large. Since delivering the clean sweep last week, the 47<sup>th</sup> President of the United States has been wasting little time in announcing his picks for the key jobs within his administration. Loyalty to the Trump agenda seems prized above all else, and certainly some of the unconventional picks have raised eyebrows both domestically and overseas.

Nevertheless, we might expect that all the individuals announced to date may well be confirmed by the Senate in the lame duck session, meaning that Trump's team are in place and ready to hit the ground running in the wake of the inauguration in January.

Meanwhile, the appointment of Elon Musk to head a Department of Government Efficiency could also have wide-ranging implications in the months ahead, with the Tesla CEO sure to shake things up dramatically, in an effort to tackle bureaucracy and 'drain the swamp'.

In light of this, it is interesting to reflect back on Musk's acquisition of Twitter in 2022. At the time, there was a degree of outcry, as he laid off staff and radically transformed the organisation, under its new identity, X.

Yet, today, looking back at this move and reflecting on how this has gifted the world's richest man a platform and a megaphone to air his views and push his agenda, much of the past chaos around his early interventions at Twitter suddenly seems to make much more sense.

It will be interesting to see how far Musk can advance a reform agenda in the coming months. What seems to be sure is that he won't mind breaking more than a few eggs in the process.

Assessing market moves since the election, expectations for Fed rate cuts in 2025 have continued to recede, with only around 50bps of cuts for next year now embedded in futures pricing. Given a pro-growth narrative, coupled with some upside risks to inflation from fiscal, trade and immigration policies under Trump, these moves appear logical in our opinion.

However, we look for 2-year Treasury yields to remain not far from 4.25%, given that the future rates profile is likely to remain tilted more towards cuts than hikes, given that cash rates are still materially higher than estimates of the Fed's neutral rate.

Meanwhile, we have been somewhat surprised that longer dated yields have not been under more pressure over the past few days. We continue to think that the yield curve 2/30 should steepen materially over time. Although this is a consensual view, which is largely positioned across markets, we think that the catalyst of the Trump sweep should have given this trade some added momentum, and so this is a position we are inclined to add to.

We also thought that FX markets were slow to react to Trump's win last week, with many investors wanting to downplay tariff risks in the immediate aftermath of the election. This saw us add to long US dollar positions and over the past week, the greenback has been building more of a head of steam, reaching its strongest level versus the euro since the end of 2022.

Parity versus the euro is now not far off, and with rhetoric around trade unlikely to quieten down much, a combination of US tariffs and strong US growth can continue to be the dominant theme in the FX space for the time being. Indeed, there has been increased speculation over the past week that Trump may actually seek to embed trade tariffs into legislation that goes through Congress.

This would then enable the incoming administration to spend monies from tariffs collected on additional tax cuts. It would also mean that tariffs can't be easily reversed in the administration that comes to power in 2029. That said, we won't be surprised if Trump's 'bark' proves worse than his 'bite' on tariffs.

Ultimately, we doubt that there will be moves on a universal tariff early in the administration, and we see tariffs being utilised as a tool through which Trump is seeking to negotiate deals and affect changes in behaviour at a corporate and national level.

In Europe, Germany has set a date for elections on 23<sup>rd</sup> February next year. The CDU is very likely to be the largest party in the next coalition government, with the AfD placing second and remaining the party of opposition. We have been looking at whether Germany may weaken its balanced budget commitment of the 'Schwarze null', as a pre-cursor to more significant fiscal spending in the year ahead.

With the shock of Trump in office and an imperative to raise military expenditure, given the uncertainty around Russia/Ukraine, a move in this direction remains probable in 2025. However, we doubt that CDU leader, Merz, will commit to a bigger change in this respect prior to the vote – noting that CDU campaigning often likes to highlight the Schwarze-null policy and the CDU's strong attachment to this, under the strapline 'we are proud of our fetish'.

A bigger EU fiscal push would likely steepen the European yield curve and could cause longer dated bund yields to rise. In part, some anticipation in this direction has already been a factor weighing on bunds and it is part of the reason for the dramatic underperformance of the bund versus swaps over the past couple of months.

Conversely, if Berlin won't loosen the purse strings, then this could infer greater economic downside. This could highlight the need for the ECB to ease policy more aggressively in the coming months. In the short term, we think that a 50bps rate cut from Lagarde is unlikely, especially with the euro having moved considerably weaker in the past couple of weeks. Generally speaking though, the narrative of steeper curves in both the US and Eurozone remains intact as we head towards 2025.

In Japan, we are becoming more convinced of a December rate hike by the BoJ. With the yen breaching 156 versus the dollar and US yields rising, there seems little to be gained by delaying a move until January.

Indications on wages remain firm and we see the BoJ on a path of monetary policy normalisation, which will continue to progress in the year ahead. JGB yields have breached above 1.00% in the past week, though we feel these may be sitting at 1.50% this time next year, particularly as reduced BoJ bond purchases should help unwind the overvaluation at the 10-year point on the yield curve.

Meanwhile, with Japanese rates rising and euro rates declining, we think this is the time to build a long position in the yen versus the euro, close to cheapest extremes seen in the last 30 years.

Upward moves in risk assets have appeared to stall somewhat, as Treasury yields move higher and the dollar strengthens. A stronger dollar may be a negative for corporate earnings and tariffs will also hurt US companies that have located production plants overseas. In corporate credit, we have been continuing to reduce exposure in the wake of the US election, after a strong rally in spreads.

The next few weeks should see an uptick in supply and, from that point of view, market technicals may be a bit softer than of late. More generally speaking, we are happy to flatten out directional exposure in risk assets, as we are convinced that episodic volatility under Trump will create opportunities to add exposure during moments of weakness.

Emerging markets have been under some pressure from higher US yields, a strong dollar, and the prospect of lower global trade under tariffs. However, we would continue to highlight opportunities on a relative basis. We look at currencies such as the South African rand as potentially vulnerable, given that investor positioning remains overweight.

Conversely, a market like Brazil is very unloved and under-owned and, in a technically-driven market, may well be able to perform better than its peers. Meanwhile, Chinese stimulus measures continue to underwhelm. There seems something of a drip-feed of ongoing tweaks and adjustments coming out of Beijing, of late. Eventually, such measures could amount to something substantive.

Yet, for the time being, we still feel that we are left waiting for the big bazooka. Chinese authorities don't seem to have embraced shock and awe, and with penal US tariffs set to clobber Chinese exports early next year, we still think there is a misconception on the part of Beijing that it will be able to export its way out of a deep downturn, at a time when its trading partners don't want to absorb additional quantities of cheap Chinese imports.

Credit exposure saw a quieter week, after gapping tighter following the US election result. As we de-risk, our beta-adjusted spread duration exposure is now much less than half the size that it was at the end of September, when we started positioning for a Trump victory.

## **Looking ahead**

It will be interesting to see the extent to which political headlines continue to drive markets over the next couple of weeks. There seems a sense that investors are still undergoing something of a reassessment of how they view the year ahead, now that the US election is out of the way.

Certainly, it feels that projections for a recession, or a material growth slowdown, are much diminished – at least in the context of the first half of 2025. Longer term, the outlook is still hard to discern and, in some respects, the further ahead you try to look, so economic forecasting starts to give way more to economic guesswork.

Our broad assessment of the landscape suggests to us that for all the economic positives a Trump agenda may bring, we feel sure that there will certainly be some bumps along the journey. We might even start to speculate which of the current Trump appointees may end up 1<sup>st</sup> in the sack race, when the commander-in-chief decides to tire of them or turn on them, should they step out of sync with his own views. Indeed, with confirmation hearings still a few months away, it is well possible that some figures could even fall from grace before they make it over the start line.

That said, given the money and media presence that someone like Elon Musk can bring to the table, it should be a safe bet that he will be around for quite a while longer. In many respects, it is still difficult to know whether to be excited by the participation of one of the brilliant minds of his generation, being part of an initiative to transform and improve the government of the world's dominant superpower.

However, for all that Musk, who helped engineer the capture of a descending space rocket with a pair of chopsticks, can bring to the table, there is a darker side to this as well. With the world's richest man sat next to the man in the world's most powerful office, the risk that power is abused in the process may be writ large for all to see. It may not matter too much if Musk's tweets make him even more wealthy and send Dogecoin to the moon. However, if a radical experiment to restructure government leads to chaos in the process, then history may end up judging his hubris more harshly....

**Notes to Editors**

Lydia Cambata: +44 7578 252 424  
LCambata@BlueBay.com

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