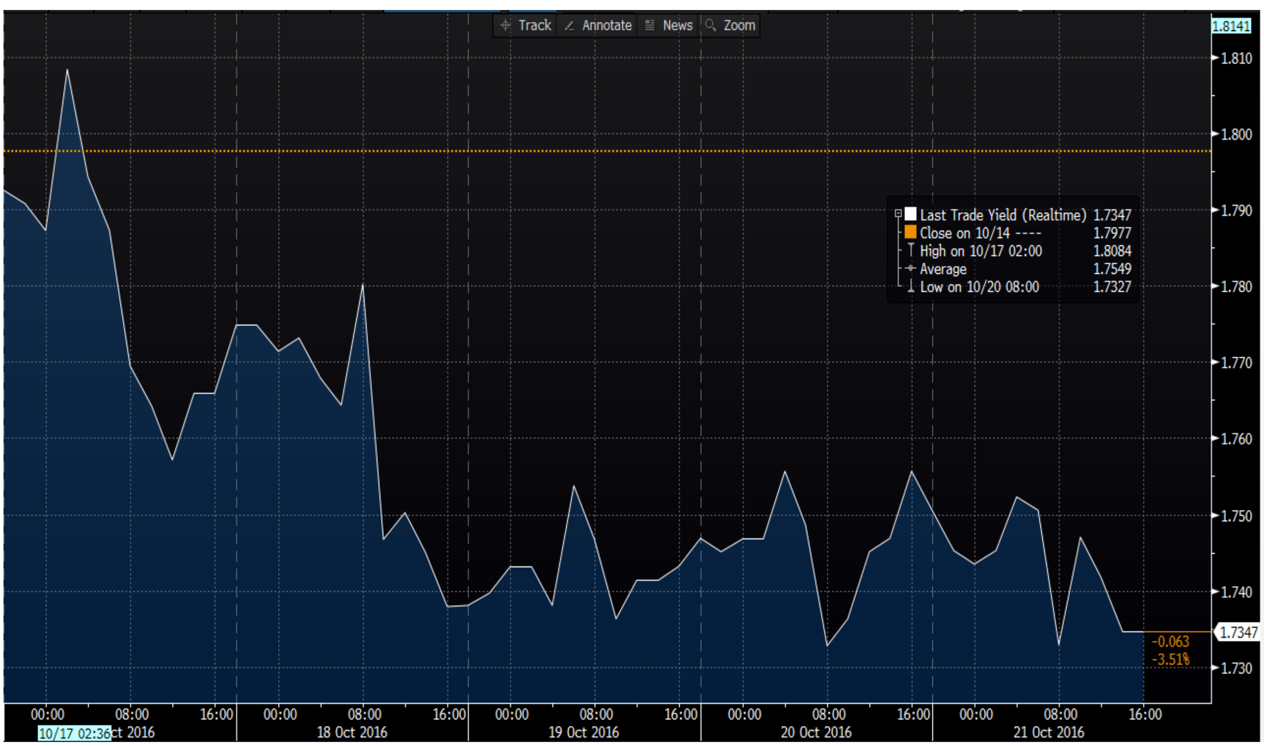
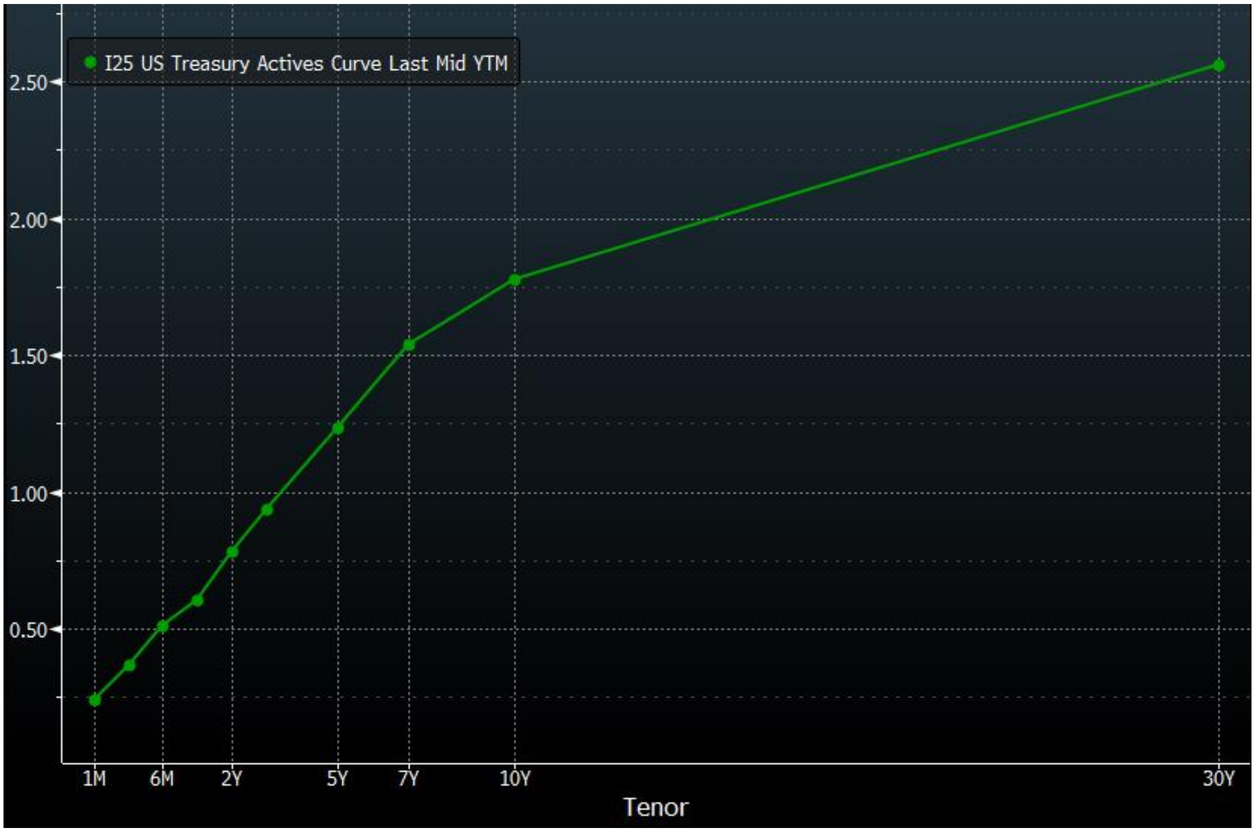
Bond Report

This week, in spite of a satisfying jobs report for October, Treasury yields fell (and prices rose inversely), as investors are being concerned about the outcome of the presidential election because of Clinton's shrinking lead over Trump in various polls. One of the other main points of scrutiny of the market were the likelihood of a coming interest rate hike. On Monday, the drop in yields was partially due to investors directing towards longer-term bonds as an increase of 0.8 years in the duration of the Bloomberg Barclays U.S. Treasury index is expected. On that day, Personal Consumption and Expenditures Index showed the highest increase since November 2014 (+1.2% in 12 months), but did not have a strong impact on the yields. On Tuesday, the impact of increased inflation expectations, as well as accelerating U.S. manufacturing activity, were countered by the results of polls that estimated Clinton's lead in the presidential race to have narrowed to 2.2% from over 7% a couple of weeks ago. Consequently, the Treasuries rallied in the afternoon, and the yields fell sharply in the later part of the day. On Wednesday, Short-Term Treasury yields kept on rising, as the Federal Reserve did not raise the interest rates, but stated that a hike in interest rate would make even more sense now than it did this summer. Consequently, investors now strongly expect a December hike. On Thursday, BOE expecting inflation to raise above its 2% lead European yields to rise sharply, but the US Treasuries did not follow the trend, as the growing concern over the election outcome kept on prevailing on other events. Indeed, on Friday, even reports of an October 0.4% wage growth and higher-revised number of August and September jobs growth were not sufficient to drag yields higher. Overall, yields fell sharply over the last week as demand for Treasuries increased. The 10-year note yield fell from 1.846% on Monday to as low as 1.783% on Friday evening, while the 30-year yield fell from 2.614% to 2.570%.





What's next and key events

On Tuesday, the PMI Manufacturing Index showed positive numbers, with a 1.9 points increase in October to 53.4 from 51.5 in September. Overall, production, building of inventories, purchase activity, and hiring strengthened through the month. On Wednesday, the FOMC announcement kept the Fed Funds rate at its current 0.25-0.50% range. Further evidence of strong inflation might be the initiator of a long-expected interest rate hike. Next week, even though reports such as JOLTS (Job Openings and Labor Turnover Survey), Jobless Claims, and Consumer Sentiment are expected on Tuesday, Thursday, and Friday respectively, the bond market will be waiting for only one event: the presidential election. The market is fearing the outcome, as Hillary Clinton's, whose policies would be mostly in line with Obama's, has seen her lead over unpredictable Republican candidate Donald Trump shrink.