

DAILY POINTS

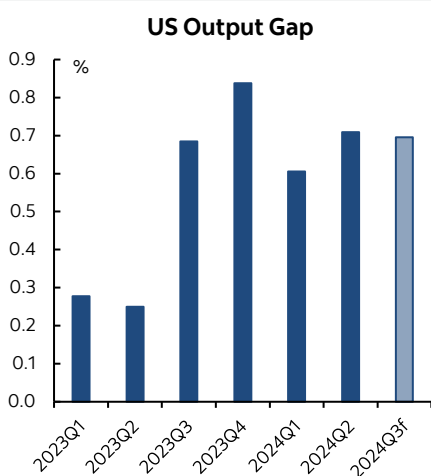
November 6, 2024 @ 9:40 EST

Contributors

Derek Holt

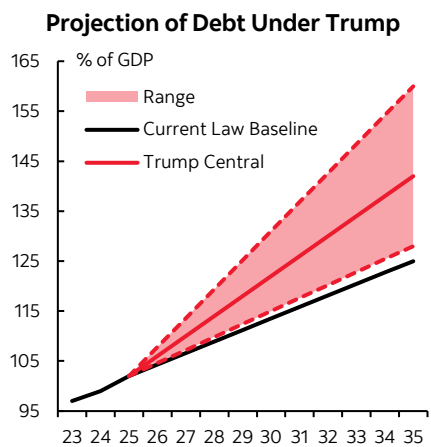
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Chart 1



Sources: Scotiabank Economics.

Chart 2



Sources: Scotiabank Economics, Committee for a Responsible Federal Budget.

On Deck for Wednesday, November 6

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	11-06	07:00	MBA Mortgage Applications (w/w)	Nov 01	--	--	-0.1

KEY POINTS:

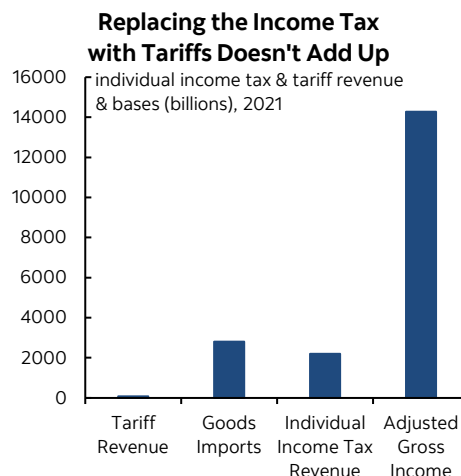
- **Global markets react to Trump victory...**
- **...and now the US and world will live with the consequences, risks, and opportunities**
- **Trump 2.0 will be very different from Trump 1.0...**
- **...as the macro and market backdrop is completely different this time**
- **Canadian market reaction is more benign, Mexico hit hard**
- **BoC to address state of mortgage markets**
- **Brazil's central bank may face an even stronger reason to hike**

America has made its choice and now it and the world will live with the consequences over the next four years, or at least until the mid-terms when the incumbent typically suffers a setback albeit one that this time will probably see the Dems in disarray.

Trump has retaken the Presidency, the GOP has retaken the Senate, and the House is still in play with the results possibly unknown for a while yet. A red sweep is possible, but not assured. The Dems were their own worst enemy in this election thanks to Biden's stubborn ego, internal divisions including key figures who dragged their feet getting behind Harris, and a very clear repudiation of their platform in favour of throwing all caution to the wind. The Dems were politically neutralized and are a spent force that will be ineffective in providing any real opposition while faced with having to reinvent themselves after pivoting too far to the left. A divisive leadership contest is going to be all consuming for the Dems while Trump and the GOP march on.

Markets are initially reacting in predictable ways at least on the first pass I'll recap in a moment, and the reason why they are reacting this way is that today's market and macro backdrop is vastly different than it was in the Trump 1.0 2016–17 playbook era as argued [yesterday](#) and previously. Equity multiples are higher and so are margins which may limit equity gains off of a higher starting point, while an economy that is already in excess aggregate demand (chart 1) faces domestic policy-fed demand stimulus and a three-pronged negative supply shock to population, investment and supply chains via trade tensions. Hello inflation, we didn't miss you. The fiscal position of the US government faces strong risk of spiralling out of control (chart 2). Talk of replacing income taxes with tariffs is totally impractical (chart 3). Loose talk of draconian spending cuts is also impractical partly given carve-outs of untouchable programs, such that deficits are likely to be under upward pressure from here.

Chart 3



Sources: Scotiabank Economics, Tax Foundation.

An added difference is that a wave of maturities will have to be refinanced into next year and beyond after issuance that occurred in the depths of the pandemic and its aftermath. That applies in the US—and in Canada where a record nearly \$100 billion of corporate debt is due next year.

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And so stocks are broadly higher for now on the hopes of lower taxes and deregulation, led by S&P futures that are up by over 2%, TSX futures that are up by about one quarter of that, and European cash markets that were mostly higher but are now reining in their initial response and more sensibly so. Asian equities will have a chance at a more complete reaction tonight.

US Treasury yields are spiking as the curve steepens on supply and inflation concerns with 2s cheaper by around 10bps, 10s up by about double that, and the long end up by over 20bps. Canada's curve is broadly cheaper and steeper, but by less than the US with the Canadian 2-year yield up 2bps, 10s up 10bps, and the long-end up by a little more on concern that Canada will import some of the consequences of US policies. Gilts and EGBs are volatile, as gilts have swung from rallying toward slight cheapening while EGBs are bull steepening. The US 30-year fixed mortgage rate will move toward the year's high and likely surpass it.

US inflation expectations are moving higher with the 10-year breakeven up by between 7–11bps this morning.

FOMC cut pricing is being shaved by several basis points across contracts into next year which may only be the start in my opinion. Trump's policy mixture is a recipe for a higher terminal rate than would otherwise have been the case. BoC cut pricing is little changed so far this morning.

The dollar is broadly stronger in defiance of Trump's assertion that he would act to weaken it which never made sense compared to the thrust of his policy mixture; MXN is leading decliners with a 3% drop on fears that economy may face the brunt of the Trump administration's protectionist policies, followed by the Euro and yen as the other weakest crosses while CAD is depreciating but by less than other majors perhaps partly on arguments like those given in my weekly ([here](#)) and the increased pressure that will be brought to bear upon OSFI regarding bank regs. Emerging market crosses are broadly weaker, though the Russian ruble is outperforming them.

Cybercurrencies are rallying including bitcoin that spiked to an all-time high. Trump is making billions as shares in Trump Media soar as the first step toward profiting from his office.

All of this is a highly tentative market scenario to be informed by the policies that are actually pursued by the Trump administration, their timing, and whether it's a red sweep. I think c-suites and markets have reason to be very cautious toward the future. A surge of protectionism is all but assured to hang over the global economic outlook as a downside to US and global growth. Fiscal stimulus applied to a US economy that is in excess demand will stoke renewed inflation risk and higher yields with the mixture of tax cuts and spending cuts uncertain, but the former likely to outweigh the latter and drive the US fiscal deficit higher yet. Ratings agencies will be keenly watching sovereign risk with implications for the broader corporate ratings on the next layer of reassessments. A negative population shock, a negative investment shock by curtailing heavy investment in clean energy with ESG initiatives about to be significantly weakened, and roiled supply chains risk shrinking the supply side. Geopolitical risk shifted into higher gear with this outcome.

Today's other developments will clearly pale by comparison. Nothing else mattered overnight. Brazil's central bank is likely to hike again today and may hike by more now given the depreciation of the real this morning (4:30pmET). A Bank of Canada speech on the mortgage market may carry the possibility of a staff research paper that updates payments shock analysis (12:40pmET).

Fixed Income	Government Yield Curves (%):												Central Banks	
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
U.S.	4.28	4.18	4.18	4.31	4.15	4.16	4.47	4.27	4.30	4.65	4.44	4.50	Canada - BoC	3.75
CANADA	3.17	3.15	3.10	3.14	3.07	3.05	3.35	3.25	3.26	3.39	3.27	3.34	US - Fed	5.00
GERMANY	2.21	2.30	2.26	2.24	2.29	2.26	2.42	2.43	2.39	2.66	2.61	2.62	England - BoE	5.00
JAPAN	0.48	0.46	0.45	0.62	0.58	0.59	0.98	0.94	0.96	2.24	2.22	2.23	Euro zone - ECB	3.40
U.K.	4.52	4.51	4.32	4.47	4.43	4.23	4.58	4.53	4.35	5.03	4.96	4.83	Japan - BoJ	-0.10
Spreads vs. U.S. (bps):														
CANADA	-111	-103	-109	-116	-108	-111	-111	-103	-104	-127	-116	-117	Mexico - Banxico	10.50
GERMANY	-207	-188	-192	-207	-186	-190	-204	-185	-191	-199	-183	-188	Australia - RBA	4.35
JAPAN	-380	-372	-373	-369	-357	-357	-349	-333	-334	-242	-222	-227	New Zealand - RBNZ	4.75
U.K.	24	33	14	16	28	6	12	26	5	38	52	33	Next Meeting Date	
Equities	Level						% change:							
	Last		Change		1 Day		1-wk		1-mo		1-yr			
S&P/TSX	24388		131.8		0.5		-0.5		0.9		23.5		Canada - BoC	
Dow 30	43522		1300.5		3.1		3.3		2.8		27.6		US - Fed	
S&P 500	5783		70.1		1.2		-0.5		0.6		32.5		England - BoE	
Nasdaq	18855		416.2		2.3		1.3		4.0		39.5		Euro zone - ECB	
DAX	19147		-109.6		-0.6		-0.6		0.1		26.5		Japan - BoJ	
FTSE	8194		21.2		0.3		0.4		-1.1		10.5		Mexico - Banxico	
Nikkei	39481		1005.8		2.6		1.5		0.4		22.3		Australia - RBA	
Hang Seng	20538		-468.6		-2.2		0.8		-11.1		16.2		New Zealand - RBNZ	
CAC	7398		-9.1		-0.1		-0.4		-1.9		5.5			
Commodities	Level						% change:							
WTI Crude	70.70		-1.29		-1.8		3.0		-4.9		-12.5		Canada - BoC	
Natural Gas	2.72		0.05		1.9		-4.4		-4.7		-16.6		US - Fed	
Gold	2659.07		-84.92		-3.1		-4.6		19.2		34.4		England - BoE	
Silver	32.65		-0.19		-0.6		-4.4		1.8		44.2		Euro zone - ECB	
CRB Index	283.65		0.90		0.3		1.9		-2.7		0.6		Japan - BoJ	
Currencies	Level						% change:							
USDCAD	1.3956		0.0132		1.0		0.4		2.5		1.9		Mexico - Banxico	
EURUSD	1.0708		-0.0222		-2.0		-1.4		-2.4		-0.1		Australia - RBA	
USDJPY	154.44		2.8200		1.9		0.7		4.2		2.9		New Zealand - RBNZ	
AUDUSD	0.6562		-0.0076		-1.1		-0.2		-2.9		1.1			
GBPUSD	1.2850		-0.0192		-1.5		-0.9		-1.8		4.1			
USDCHF	0.8765		0.0132		1.5		1.1		2.6		-2.5			

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