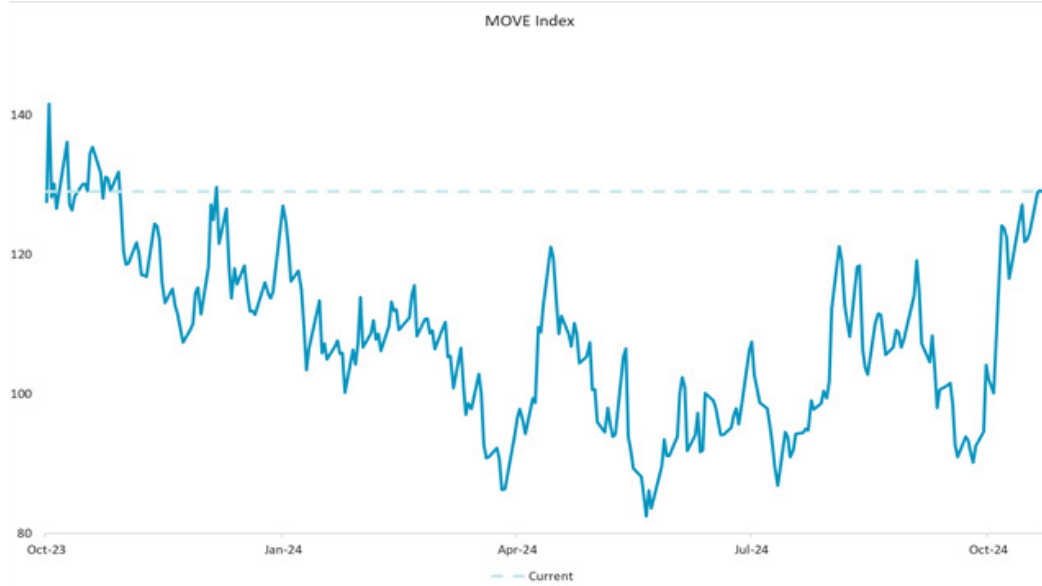


Shaken, not stirred

Gabby Byron, Investment Services Executive

Chart of the Week



Sources: Momentum Global Investment Management, Bloomberg Finance L.P. data to 23 October 2024

What this chart shows

The chart shows the MOVE Index over the last year. The MOVE index measures the implied volatility in the US Treasury market, capturing market expectations of future price movements in US Treasuries based on the pricing of one-month Treasury options. A higher reading on the index signals greater uncertainty or expected volatility in bond prices. Recently, the index has reached its highest level of 2024, with the rise in volatility reflecting heightened market concerns about economic conditions, fiscal policy and geopolitical risks. The index experienced its largest daily percentage increase in four years on 7 October which interestingly corresponds with the upcoming US presidential election, suggesting that election-driven uncertainty is exacerbating bond market fluctuations.

Why this is important

Despite the Fed's recent rate cuts, a series of strong economic data releases has led markets to doubt the likelihood of future aggressive rate cuts, boosting Treasury yields and adding to bond market volatility. Political uncertainty is also playing a pivotal role and the sharp move in the index on 7 October aligns with the election timeline. Investors are wary that the election outcome could significantly impact fiscal policy, with some fearing that a win by Republican candidate Donald Trump could lead to inflationary pressures due to proposed tariffs on imports. Rising inflation expectations can further erode bond prices and push yields higher. Lastly, the rising fiscal deficit has also raised market anxiety. Recent warnings about the unsustainable trajectory of US government debt have further exacerbated bond market jitters, further fuelling volatility. While bond volatility increases, equity markets, as reflected by the VIX Index, have shown little comparable anxiety.

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