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Bond Funds Lost $18 Billion in Value During this Week's Trump-Inspired Selloff.

Mutual funds and exchange-traded funds benchmarked to the Bloomberg Barclays Aggregate U.S. Bond Index lost about $17.7 billion in value this week, according to a MarketWatch analysis of data provided by Morningstar.

As of last Friday, the roughly 1,700 exchange-traded and mutual funds benchmarked to the index collectively managed about $1.2 trillion. By the close of trading on Thursday, the Bloomberg index registered a total return of minus 1.487 percentage points. Funds benchmarked to an index are supposed to reflect its holdings as accurately as possible, but occasionally there are slight discrepancies.

Because many mutual funds report their holdings only once a month, the total AUM figure used as the basis for these calc£ulations doesn't reflect changes in valuation due to market movements between Oct. 31 and Nov. 4. It also doesn't reflect changes due to investor withdrawals between Oct. 31 and Thursday.

The index, which is weighted by market capitalization, comprises a broad range of U.S. dollar-denominated bonds, including Treasurys, asset-backed securities and corporate debt. Only fully taxable bond issues are eligible, which excludes most municipal bonds and inflation-linked government bonds.

Republican President-elect Donald Trump's unexpected victory over Democrat Hillary Clinton in Tuesday's election triggered an explosive bond-market selloff—the biggest since the "taper tantrum," which occurred in the summer of 2013.

Former Federal Reserve Chairman Ben Bernanke unwittingly sparked the taper tantrum when he told Congress that the Fed would "gradually reduce the flow of [bond] purchases" as the U.S. economic outlook improves. The comment led to a prolonged selloff that saw the 10-year yield rise from about 1.6% to nearly 3% between late May and early September 2013.

Many, including a team of macro strategists at Bank of America Merrill Lynch led by David Woo, expect bonds to continue falling as Trump and the Republican-controlled Congress cut taxes and fund infrastructure projects. That will increase the budget deficit and increase the supply of Treasurys as government borrowing rises.

"We believe the outcome of a Republican clean sweep means fiscal loosening is now a foregone conclusion. We believe this will lead to both higher rates and a higher [dollar]," Woo said, in a note.

On Wednesday alone, the yield on the 10-year Treasury note TMUBMUSD10Y, +5.22% rose 20.3 basis points on Wednesday, its largest-one day gain since July 5, 2013. Bond yields move inversely to prices.

Treasury yields have risen steadily in recent months, after plunging to historic lows following the

U.K.'s late-June vote to leave the European Union. Treasurys represent a plurality of the index's holdings.

MarketWatch

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