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Bond Market Reactions to Trump Administration Policies and Safe-Haven Reassessment

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Deutsche Zusammenfassung

Diese Masterarbeit untersucht, ob die Politikankündigungen der Trump-Administration im Jahr 2025 — darunter Exekutivorder, Zollmaßnahmen und fiskalpolitische Erklärungen — die Convenience Yield und Sicherheitspremie von US-Staatsanleihen wesentlich geschmälert haben.

Die Arbeit verwendet ein Ereignisstudienerfahren, angewandt auf 433 Politikereignisse im Zeitraum 20. Januar bis 31. Dezember 2025. Davon haben 156 Ereignisse substanziellen politischen Inhalt (Relevanzstufen 2 und 3) und ausreichend historische Daten für die ökonometrische Analyse. Die Marktdaten umfassen den Zeitraum 1. August 2024 bis 31. Dezember 2025.

Nach Aggregation gleichtagiger Ereignisse auf einzelne Handelstage (N = 80 eindeutige Ereignistage) beträgt die durchschnittliche kumulative abnormale Änderung im dreitägigen Ereignisfenster [−1, +1] −0,60 Basispunkte ($t = -0{,}63$, $p = 0{,}527$) und im asymmetrischen Fenster [−5, +10] −5,16 Basispunkte ($t = -1{,}92$, $p = 0{,}059$). Das Hauptergebnis im kurzen Fenster ist nach Korrektur der durch geclusterte Gleichtagsankündigungen entstandenen Inflation der Freiheitsgrade nicht statistisch signifikant. Quer-Benchmark-Analysen mit Schweizer (−0,93 Bp, $p = 0{,}230$) und japanischen (−0,38 Bp, $p = 0{,}601$) Staatsanleihen zeigen richtungsgleiche, aber statistisch insignifikante Effekte. Da deutsche 10-jährige Renditen im Untersuchungszeitraum um 61 Basispunkte stiegen (US-Renditen nur um 19), enthält der dokumentierte Spread-Rückgang einen erheblichen deutschspezifischen Anteil im Zusammenhang mit der Schuldenbremsen-Reform und dem 500-Milliarden-Euro-Sondervermögen für Verteidigung 2025. Nach Aggregation auf eindeutige Handelstage und Demotion von 11 zeremoniellen Ankündigungen erreicht keine Politikkategorie statistische Signifikanz im [−1, +1]-Fenster. Government Operations (−4,08 Bp, $n = 5$) und Foreign Policy/Defense (−2,72 Bp, $n = 10$) zeigen die größten negativen Punktschätzer. Energie-/Umweltpolitik wechselt nach Demotion von zwei zeremoniellen Proklamationen das Vorzeichen zu +3,51 Bp ($n = 3$). Ratingnahe Ereignisse zeigen keine Verstärkungseffekte.

Die Ergebnisse deuten auf eine bescheidene und nur teilweise identifizierbare Erosion des US-Sicherheitspremiums im Jahr 2025 hin. Mechanisch entspricht ein POSITIVES CACYC einer Ausweitung des Spreads und damit der eindeutigen Richtung klassischer Sicherheitsprämien-Erosion (US-Renditen steigen relativ zu Bundrenditen). Genau dieses Muster zeigt die Liberation-Day-Fallstudie (+17,52 Bp im [−1, +1]-Fenster). Die gepoolten negativen CACYCs hingegen sind mechanisch mehrdeutig zwischen US-Sicherheitspremiums-Stärkung, deutschspezifischer Schwäche (Schuldenbremse-Reform) und Kompositionseffekten der Kreditrisiko-Komponente. Das Exorbitante Privileg der Vereinigten Staaten wurde 2025 möglicherweise punktuell getestet, aber die gepoolte Cross-Section liefert keine eindeutige Evidenz für eine anhaltende Erosion. Die Befunde haben dennoch Implikationen für Reservewährungsmanager, Zentralbanken und die Architektur des internationalen Währungssystems.

Schlüsselwörter: Sicherheitspremie, Convenience Yield, US-Staatsanleihen, Ereignisstudie, Trump-Administration, politische Unsicherheit, Staatsanleihenspreads, Kreditausfall-Swaps.

Abstract

This thesis examines whether the Trump Administration's policy announcements in 2025 — spanning executive orders, tariff actions, and fiscal pronouncements — materially eroded the convenience yield and safe-haven premium embedded in US Treasury bonds.

The thesis employs an event study framework applied to 433 policy events issued between January†20 and December†31, 2025. Of these events, 156 possess substantive policy content (salience levels 2 and 3) and sufficient historical data for econometric analysis. Market data spans August 1, 2024 through December 31, 2025, comprising 370 trading days in the thesis period. An adaptive estimation window (max 190, min 30 pre-event trading days) ensures all 156 events contribute to the analysis. Credit default swap data coverage reaches 97.9 percent for US government debt and 98.5 percent for German Bunds, allowing nearly complete computation of credit-adjusted spreads.

Aggregating same-day events to the trading-day level (N = 80 unique event dates), the credit-adjusted Treasury–Bund spread exhibits cumulative abnormal changes of −0.60 basis points (t = −0.63, p = 0.527) in the three-day [−1, +1] event window and −5.16 basis points (t = −1.92, p = 0.059) in the asymmetric [−5, +10] window. The headline short-window result is not statistically significant after correcting for degrees-of-freedom inflation from clustered same-day announcements; the longer-window evidence is marginally significant at the 10 percent level. A negative cumulative abnormal change indicates that the credit-adjusted Treasury–Bund spread narrowed beyond what macroeconomic controls would predict. Because German 10-year yields rose by 61 basis points over the sample period while US 10-year yields rose by only 19 basis points, this narrowing reflects a substantial Bund-specific component related to Germany's 2025 fiscal regime change (Schuldenbremse reform, defense fund). Cross-benchmark analysis using Swiss (−0.93 bps, p = 0.230) and Japanese (−0.38 bps, p = 0.601) government bonds shows directionally consistent but statistically insignificant effects, supporting a partial Germany-specific interpretation. By contrast, a single-event case study of the April 2025 Liberation Day tariff announcement yields a positive CACYC of +17.52 bps over [−1, +1] and +26.74 bps over [−5, +10] — the unambiguous direction predicted by classical US-specific safe-haven erosion (US yields rising relative to Bunds). Rating-adjacent events show no evidence of amplification effects. The findings indicate at most a partial reassessment of relative safe-haven status between Treasuries and Bunds in 2025: the pooled negative CACYCs cannot be cleanly attributed to US-specific erosion in the presence of the German Schuldenbremse confounder, while the Liberation Day case study provides the strongest single-event evidence for partial US erosion.

Keywords: Safe-haven premium, convenience yield, US Treasury bonds, event study, Trump administration, policy uncertainty, sovereign spreads, credit default swaps.

1. Introduction

The US Treasury bond has for decades occupied a singular position in global finance. It is not merely a sovereign debt instrument. It is the world's preeminent safe-haven asset, the benchmark risk-free rate, the primary collateral in global repo and derivatives markets, and the anchor of the international dollar system. The resulting exorbitant privilege — the United States' ability to borrow at yields systematically below those justified by macroeconomic fundamentals alone — is closely linked to the structure of the US external balance sheet. Gourinchas & Rey (2007) show that the United States behaves as a "world banker to world venture capitalist," issuing safe, liquid liabilities while holding riskier, high-yield foreign assets and thereby earning an excess return on its net external position. Eichengreen (2011) provides a historical account of how the dollar came to dominate as the key reserve currency and explores the conditions under which that status might erode. In parallel, the global imbalances literature emphasises that the pre-crisis configuration of large US current-account deficits and excess foreign demand for dollar assets was inseparable from the broader international monetary architecture (Obstfeld & Rogoff, 2009). Together, these contributions motivate treating the Treasury convenience yield as an equilibrium outcome of global demand for dollar safe assets and US fiscal and institutional credibility, rather than a purely domestic object.

The question of whether this premium is permanent or politically contingent has long been a theoretical concern. Maggiori (2017) and Farhi & Maggiori (2018) model reserve currency status as an equilibrium that can shift when the hegemon's fiscal credibility deteriorates or when coordination among creditors breaks down. Prior to 2025, however, such theoretical scenarios remained largely counterfactual: while there have been episodes of Treasury volatility — the 2011 debt ceiling crisis, the March 2020 COVID dash-for-cash, the 2022 Gilt market turmoil — none involved a sustained, administration-led policy programme that simultaneously challenged trade relationships, fiscal norms, institutional independence, and geopolitical alliances at the scale observed under the second Trump term.

Beginning on 20 January 2025, the Trump Administration initiated one of the most concentrated sequences of high-salience executive actions in modern US history. Over the calendar year, 433 distinct policy events were documented, with the densest clusters occurring in the first 100 days and around the April 2025 "Liberation Day" tariff announcements. These actions spanned trade policy (universal baseline tariffs, sector-specific measures targeting semiconductors, steel, automobiles, and pharmaceuticals), fiscal policy (tax cut extensions, spending restructuring via DOGE), institutional policy (Federal Reserve independence signals), and foreign policy (NATO and allied burden-sharing disputes). Each category carries distinct channels through which it could affect the Treasury convenience yield. Trade policy operates through inflation expectations and global dollar demand. Fiscal policy works through default risk perceptions and debt sustainability concerns. Institutional policy affects credibility of the monetary-fiscal framework. Foreign policy influences foreign official demand for Treasuries as reserve assets.

The April 2025 tariff shock proved to be the most consequential single episode. As documented by Cieslak & Vissing-Jorgensen (2025), the tariff war shock produced a notable erosion of the long-end convenience yield, consistent with a reduction in the safe-asset hedging property of long bonds — evidenced by a rising stock-bond return covariance computed using intraday data. At the same time, short-term Treasuries maintained and in some respects strengthened their safe-haven properties, consistent with investor rotation towards shorter maturities and gold, and with unwinding of cash-futures basis trades. This asymmetric pattern — long-end erosion coinciding with short-end preservation — forms a central empirical puzzle motivating the present analysis.

This thesis makes three contributions. First, it constructs a systematic, comprehensive event dataset covering all 433 Trump policy events in 2025, enabling the first granular event-study estimation of cumulative abnormal spread changes across the full year. Second, it extends the analysis to multiple sovereign benchmarks — German Bunds, Swiss Confederation bonds, and Japanese Government Bonds (JGBs) — allowing decomposition of whether observed spread movements reflect US-specific safe-haven erosion or global risk-off dynamics. Third, it employs credit default swap (CDS) data to construct credit-adjusted convenience yield spreads that isolate the safety and liquidity premium from pure credit risk differentials, following the methodology of Krishnamurthy & Vissing-Jorgensen (2012).

The remainder of the thesis is structured as follows. Section 2 reviews the relevant literature. Section 3 develops the testable hypotheses. Section 4 describes the data sources and variable construction. Section 5 presents the methodology. Section 6 reports the main empirical results. Section 7 presents robustness checks. Section 8 discusses the findings and implications. Section 9 concludes.

2. Literature Review

2.1 Safe-Haven Assets and the Treasury Premium

The concept of safe-haven assets encompasses securities that preserve or increase in value during periods of market stress, providing negative or zero correlation with risky assets. Within this literature, US Treasury bonds occupy a unique status. Longstaff (2004) decomposes Treasury yields relative to yields on agency bonds (which carry near-zero default risk) and attributes the residual flight-to-liquidity premium to the unmatched depth, transparency, and settlement efficiency of the Treasury market. This liquidity component is distinct from default risk and reflects the value of holding an asset that can be converted to cash at minimal cost during stress.

Krishnamurthy & Vissing-Jorgensen (2012) provide the most rigorous quantification of the Treasury convenience yield, defining it as the excess return investors sacrifice to hold Treasuries relative to comparably safe but less liquid instruments. They find that the convenience yield is negatively related to Treasury supply and reflects two distinct premia: a liquidity premium (arising from the use of Treasuries in transactions and as collateral) and a safety premium (arising from default risk perceptions). Their decomposition implies that the convenience yield can be eroded either through increases in perceived default risk or through deterioration of Treasury market liquidity — both of which are potentially induced by policy uncertainty.

Micro-level evidence on liquidity premia in "near-money" assets further supports this decomposition. Nagel (2016) shows that highly liquid near-money claims, such as Treasury bills and other short-term government obligations, command a distinct liquidity premium that varies with their supply and with investors' demand for transaction services. In his framework, changes in the availability of short-term Treasuries can have first-order effects on observed yields even in the absence of shifts in default risk, reinforcing the interpretation of the Treasury convenience yield as partly a liquidity premium rather than a pure safety premium.

Recent work also reframes the Treasury convenience yield through a hedging lens rather than a pure liquidity-or-safety lens. Acharya & Laarits (2025) show that the convenience yield on US Treasuries is higher when Treasuries provide stronger hedging services against aggregate equity-market risk, proxied by a lower stock-bond return covariance, and that innovations in the convenience yield co-move with aggregate equity returns. This perspective is directly relevant for episodes in which long-duration Treasuries cease to hedge risky assets effectively: even absent a large contemporaneous jump in measured sovereign default risk, a deterioration in hedging value can compress the convenience yield embedded in Treasury prices. This mechanism is especially pertinent for the April 2025 tariff shock, where long-end Treasury prices fell alongside equity prices — the canonical signature of a breakdown in the stock-bond hedging channel.

Maggiori (2017) develops a dynamic general equilibrium model in which reserve currency status emerges endogenously from the comparative advantage of the hegemon's financial sector in risk-bearing. Crucially, the model admits multiple equilibria: the reserve currency equilibrium is stable under normal conditions but can collapse if the hegemon's credibility deteriorates sufficiently. Farhi & Maggiori (2018) extend this framework to show that the reserve currency issuer must balance the global demand for safe assets against the fiscal cost of maintaining credibility — a tension directly implicated by large-scale deficit expansion and institutional norm violations.

He et al. (2019) model the safety trap: a situation in which the world economy is so starved of safe assets that even small supply shocks can cause large convenience yield movements. Their framework suggests that the marginal safe-asset investor is highly sensitive to changes in perceived Treasury safety, implying potentially non-linear responses to policy shocks that breach credibility thresholds. Relatedly, Du et al. (2018) document the CIP deviation puzzle, in which the dollar funding premium in currency swap markets co-moves with Treasury convenience yields, suggesting that the dollar's global funding-currency role and the Treasury's safe-haven status are closely intertwined.

Recent work links the Treasury convenience yield directly to the external value of the dollar. Jiang et al. (2021) document that foreign investors' demand for US safe assets generates a Treasury basis relative to currency-hedged foreign sovereign bonds and that shocks to this basis are associated with immediate appreciations of the dollar followed by gradual depreciations. Their evidence suggests that the US convenience yield is an international price that reflects global demand for dollar safe assets as well as domestic conditions, implying that large policy-induced changes in the Treasury–Bund spread may coincide with — and help explain — movements in the dollar exchange rate.

The macro-finance literature on optimal government debt maturity further clarifies the link between US public debt and the Treasury convenience yield. Greenwood et al. (2015) develop a comparative-advantage framework in which short-term government securities provide monetary services, so that the Treasury trades off the monetary premium from issuing short-term safe debt against the refinancing risk associated with frequent rollover. When private intermediaries also issue money-like claims, such as repos or asset-backed commercial paper, public issuance of short-term safe debt can crowd out risky private money creation and thereby enhance financial stability. In this view, the US safe-asset supply reflects not only the aggregate stock of federal debt but also its maturity structure, implying that fiscal and debt-management choices under the Trump Administration may have interacted with policy uncertainty in shaping convenience-yield dynamics.

Taken together, these contributions imply that policy announcements affecting trade barriers, energy prices, or inflation expectations may alter Treasury pricing through both credibility channels and hedging-demand channels. A sustained reduction in the stock-bond hedging benefit of Treasuries — whether driven by tariff-induced inflation uncertainty, fiscal credibility concerns, or both — will compress the Treasury–Bund convenience yield spread independently of any movement in sovereign CDS premia. This dual-channel perspective motivates the credit-adjusted spread measure employed in the present thesis and underpins the interpretation of Energy/Environment and Education policy effects documented in Section 6.

2.2 Sovereign Spreads and Policy Credibility

The empirical literature on sovereign credit spreads identifies fiscal fundamentals, institutional quality, and global risk appetite as the primary determinants of cross-country yield differentials. Cantor & Packer (1996) establish that sovereign credit ratings systematically incorporate GDP per capita, GDP growth, inflation, fiscal balance, external debt, and development status. Ismailescu & Kazemi (2010) extend this to show that positive rating events have smaller and less persistent spread effects than negative rating events, suggesting asymmetric information content.

Almeida et al. (2017) document real effects of sovereign ratings: rating downgrades cause investment cuts by firms in the affected sovereign, even holding firm-level characteristics constant, because institutional investors face rating-contingent portfolio constraints. Applied to the US context, this literature implies that even a small increase in US CDS spreads or a sovereign rating action — both of which occurred in 2025 — can trigger disproportionate portfolio reallocation among constrained institutional investors, amplifying spread dislocations beyond what fundamentals alone would predict.

The term structure of sovereign CDS premia provides additional structure for interpreting these credit-risk signals. Pan & Singleton (2008) develop a framework in which default intensities and recovery rates are inferred from the term structure of sovereign CDS spreads, allowing for a structural decomposition of sovereign credit risk. Building on this, Longstaff et al. (2011) decompose sovereign CDS spreads into global and country-specific components and find that a substantial share of variation is attributable to common global risk factors. Their results imply that movements in US CDS spreads reflect both worldwide risk appetite and US-specific fundamentals, so that credit-adjusted Treasury–Bund spreads must be interpreted against the backdrop of global sovereign-risk dynamics.

The Treasury–Bund spread merits particular attention as the canonical measure of the US safe-haven premium. Germany's fiscal conservatism and the Bund's status as the European "safe" benchmark make the Treasury–Bund spread a widely used proxy for the relative value of US safety. The credit-adjusted spread — stripping out CDS-implied credit risk differentials — provides a cleaner measure of the pure convenience yield gap, and serves as the primary dependent variable in this analysis.

2.3 Event Study Methodology

The event study methodology, introduced by Fama et al. (1969) and comprehensively reviewed by MacKinlay (1997), provides the standard empirical toolkit for measuring market reactions to discrete information events. The methodology assumes that in efficient markets, security prices adjust rapidly to new information, allowing abnormal returns (actual minus expected returns) around event windows to be interpreted as market assessments of the event's informational content.

For sovereign bonds, microstructure evidence confirms that public information is incorporated into prices and liquidity at very high frequencies. Fleming & Remolona (1999) show that US Treasury yields, bid-ask spreads, and market depth respond sharply and almost instantaneously to macroeconomic announcements at the minute-by-minute level, supporting the use of event windows to isolate the information content of policy news while acknowledging that full price discovery may extend beyond immediate reactions.

MacKinlay (1997) distinguishes between market model-based estimation and constant mean return models. For sovereign bond spread analysis, the analogous approach uses a regression of Treasury–Bund spread changes on macroeconomic control variables estimated over a pre-event estimation window, with abnormal spread changes defined as residuals.

Critical methodological issues include selection of the estimation window, event window, and test statistics. Ball & Brown (1968) and subsequent literature document that pre-announcement drift can contaminate event window estimates if information is partially anticipated. Brown & Warner (1985) show that standard t-tests perform adequately for daily return data when abnormal returns are cross-sectionally independent, but that clustering of events — pronounced in the present case, where executive orders often cluster on the same or adjacent trading days — requires correction for cross-sectional correlation.

In the specific context of monetary policy, Rigobon & Sack (2004) use a heteroskedasticity-based identification strategy to estimate the impact of policy shocks on asset prices and find large and immediate responses of Treasury yields across the curve. Their results reinforce the premise underlying this thesis' design: that high-frequency changes in sovereign yields around policy announcements primarily reflect the informational content of those events, provided that overlapping shocks are controlled for.

2.4 Policy Uncertainty, Political Risk, and Geopolitical Shocks

Baker et al. (2016) provide the Economic Policy Uncertainty (EPU) Index, quantifying text-based measures of policy uncertainty from newspaper coverage, expiring tax provisions, and forecaster disagreement. The index is used in this thesis as a control variable to separate the information content of individual Trump announcements from the baseline level of policy uncertainty.

More granular measures capture political and geopolitical risk beyond aggregate policy uncertainty. Hassan et al. (2019) construct a firm-level, text-based index of political risk from earnings-call transcripts and show that elevated political risk is associated with lower corporate investment and employment, confirming that political shocks have sizeable real effects that investors actively monitor and price. At the global level, Caldara & Iacoviello (2022) develop a news-based Geopolitical Risk (GPR) index that distinguishes between geopolitical "threats" and "acts" and show that spikes in GPR are associated with deteriorations in economic activity and tighter financial conditions. These indices provide complementary measures of the broader political and geopolitical environment in which US policy announcements are received by markets.

Micro-level evidence from the 2018 US–China trade war confirms that trade policy shocks can trigger sizeable repricing of risk. Exploiting cross-sectional variation in firms' trade linkages to China, Huang et al. (2023) show that more exposed firms experienced significantly larger valuation losses following tariff announcements. Their findings are consistent with the notion that tariff shocks convey information about both future cash flows and risk premia, reinforcing the plausibility of a trade-policy channel in the transmission from Trump Administration tariffs to US sovereign spreads.

The policy-uncertainty literature also provides a term-structure channel that is more specific than the use of EPU as a generic control variable. Hu et al. (2022) show that higher economic policy uncertainty raises yield levels, yield volatility, and bond risk premia across maturities, implying that uncertainty shocks can reshape the yield curve rather than merely shift aggregate risk sentiment. For the present thesis, this means that the negative abnormal changes in the Treasury–Bund convenience yield spread documented in Section 6 may reflect both sovereign safe-haven reassessment and maturity-specific uncertainty premia, particularly at the long end of the curve where the hedging and duration channels identified by Acharya & Laarits (2025) interact most strongly.

2.5 Structural Breaks and Persistence

The question of whether market reactions represent permanent regime shifts or transitory dislocations is addressed using structural break methodology. Andrews (1993) derives optimal tests for structural change at an unknown break date using a supremum Wald (SupW) statistic. Bai & Perron (2003) extend this to multiple simultaneous structural breaks and provide computationally efficient estimation procedures. These methods are well suited to the present context, where the Trump announcement calendar generates multiple candidate break dates throughout the year.

The persistence question also relates to the efficient markets literature on post-event return predictability. Jegadeesh & Titman (1993) document momentum in equity returns. Analogous bond market evidence (Asness et al., 2013) suggests that initial price responses to large informational shocks can be followed by further drift rather than immediate reversal, especially when the shock conveys information about fundamental regime change. If convenience yield compression following Trump announcements persists at 20+ day autocorrelation lags, this is consistent with investors revising their long-term assessment of Treasury safety properties rather than with noise-driven temporary dislocations.

2.6 The 2025 Context: Policy Uncertainty at Historical Highs

The second Trump Administration began with extraordinary policy uncertainty. The EPU Index reached levels unseen since the COVID-19 pandemic onset, driven by sweeping tariff announcements, DOGE-led federal spending restructuring, and Federal Reserve independence concerns. By April 2025, the "Liberation Day" tariff announcement — imposing a baseline 10 percent universal tariff with sector-specific rates reaching 145 percent on Chinese goods — generated the largest single-day VIX spike since March 2020, with the index reaching 52.3 in the study period.

The bond market's response was structurally unusual: in a canonical risk-off scenario, Treasuries would rally as investors fled equities for safety. Instead, as documented by Cieslak & Vissing-Jorgensen (2025), Treasury yields at the long end rose alongside falling equity prices — a flight-from-safety pattern more reminiscent of the March 2020 dash-for-cash than of conventional flight-to-safety episodes. Acharya & Laarits (2025) interpret this pattern through the hedging-channel lens: the rising stock-bond covariance during the tariff shock directly compressed the hedging-based convenience premium embedded in long-duration Treasuries. This decoupling of long-end Treasuries from the equity market represents direct evidence of convenience yield erosion at the long end of the yield curve and forms the empirical backdrop against which this thesis's event study evidence is interpreted.

3. Hypothesis Development

This thesis tests three hypotheses that together address the safe-haven erosion question, its potential amplification near credit events, and the structural persistence of any observed effects.

H1: Safe-Haven Premium Erosion

The central hypothesis posits that Trump Administration policy announcements caused a statistically significant downward mean shift in the Treasury–Bund convenience yield spread. The theoretical motivation draws on Krishnamurthy & Vissing-Jorgensen (2012), Maggiori (2017), and Acharya & Laarits (2025): if policy announcements raise perceived default risk, impair Treasury market liquidity, or signal deteriorating US institutional credibility — or if they reduce the hedging value of long-duration Treasuries through an increase in stock-bond return covariance — the safety, liquidity, and hedging premia embedded in Treasury yields should compress relative to German Bunds.

> H1 (Null): Policy announcement events generate zero abnormal change in the credit-adjusted Treasury–Bund spread.
>
> H1 (Alternative): Policy announcement events generate statistically significant negative abnormal changes in the credit-adjusted Treasury–Bund spread ($p < 0.10$).

The directionality assumes that safe-haven erosion manifests as spread compression — Treasury yields rise relative to Bunds (or fall by less during risk-off episodes), reducing the premium investors accept in exchange for Treasury safety — consistent with the partial flight-from-safety documented for long-end Treasuries during the April 2025 shock.

H2: Rating Amplification

A secondary hypothesis posits that policy events temporally proximate to credit rating actions, debt ceiling debates, or fiscal outlook revisions generate amplified safe-haven erosion effects relative to non-rating-adjacent events. The theoretical motivation draws on Almeida et al. (2017) and Ismailescu & Kazemi (2010): rating events are highly salient to constrained institutional investors, and their coincidence with politically charged policy announcements may produce compounding credibility signals that the Treasury convenience yield alone does not fully price.

> H2 (Null): Rating-adjacent policy events generate the same abnormal convenience yield changes as non-rating events.
>
> H2 (Alternative): Rating-adjacent policy events generate statistically larger (more negative) abnormal changes in the credit-adjusted Treasury–Bund spread than non-rating events.

This hypothesis is tested by comparing the mean CACYC of rating-adjacent events against non-rating events using a two-sample t-test across the individual event-level CACYC distributions, both measured at the [−1, +1] window.

H3: Structural Persistence

A third hypothesis addresses the time-series properties of convenience yield changes. If Trump Administration policy announcements triggered structural reassessments of US credibility — rather than transitory liquidity dislocations — the resulting convenience yield compression should exhibit statistically significant positive autocorrelation at horizons beyond the immediate event window. The theoretical motivation draws on Bai & Perron (2003) and Jegadeesh & Titman (1993): genuine regime shifts produce persistent drift in asset prices, while noise-driven dislocations revert quickly.

H3 (Null): Daily changes in the credit-adjusted Treasury–Bund spread follow a white-noise process with no significant autocorrelation.

H3 (Alternative): Daily changes exhibit statistically significant autocorrelation beyond the immediate event window — whether negative (microstructure effects) or positive — consistent with non-white-noise dynamics following policy-induced credibility shocks.

This hypothesis is tested using the autocorrelation function (ACF) of daily spread changes over the thesis period, with the Ljung-Box Q-statistic providing a joint test across the first five lags.

4. Data and Variables

4.1 Event Data: Trump Policy Announcements

The primary event dataset consists of all Trump Administration executive orders and major policy announcements issued between 20 January 2025 (Inauguration Day) and 31 December 2025. The primary source is the Federal Register and the White House press release archive. Executive orders are supplemented with presidential proclamations on tariffs (issued under the International Emergency Economic Powers Act, IEEPA), National Security Presidential Memoranda (NSPMs), and White House Fact Sheets flagging major policy changes.

The full event list encompasses 433 confirmed events. Each event is classified along three dimensions:

> (1) Policy Category: Trade/Tariff (34 events in the analysis sample), Immigration/Border (21), Foreign Policy/Defense (26), Energy/Environment (15), Regulatory (14), Economic/Fiscal (10), Technology/AI (9), Healthcare (8), Government Operations (8), Education (7), Justice/Law Enforcement (3), and Other (1). A total of 156 events with substantive content and full estimation window data constitute the final analysis sample.
>
> (2) Salience Score: Scored 1–3 based on policy substance and potential market impact. Salience 1 (ceremonial/routine, 228 events), Salience 2 (substantive policy, 166 events), Salience 3 (high-impact announcements, 39 events).
>
> (3) Estimation Window Availability: Events are screened for sufficient pre-event historical data to enable approximately 180-day estimation windows. Of the 205 substantive events (salience 2–3), 156 events have complete estimation window data and comprise the final analysis sample.

Event category classification follows the primary substantive policy domain of each executive order. Events spanning multiple domains are assigned to the dominant policy mechanism. Justice/Law Enforcement and Other categories together account for 4 events in the analysis sample and are included in aggregate analyses but reported as a residual group in category-level breakdowns due to insufficient individual sample sizes for reliable inference. The most salient events in the analysed sample include Liberation Day tariff proclamations, energy deregulation orders, education policy reforms, and foreign policy directives.

4.2 Yield and Spread Data

Daily benchmark government bond yields are obtained from:

> FRED (Federal Reserve Economic Data): US 10-year constant maturity Treasury yield (DGS10), US 2-year (DGS2), US 5-year (DGS5), US 30-year (DGS30). Daily data covering August 1, 2024 through March 14, 2026, comprising 370 US trading days (1 August 2024 through 31 December 2025, the thesis period). Data series are recorded at daily frequency including weekends and holidays with values carried forward from the most recent prior trading day; descriptive statistics reflect calendar-day observation counts. All regression and event-study computations use only unique-value (trading-day) observations. The zero-coupon yield curve data follow the methodology of Gürkaynak et al. (2007), which provides a smooth parametric zero-coupon yield curve for maturities from 3 months to 30 years.
>
> Investing.com / BIS Statistics: German 10-year Bund yield, Swiss 10-year Confederation bond yield, Japanese 10-year JGB yield. Daily data for the same period, constructed using analogous zero-coupon methodologies to ensure comparability.
>
> LSEG Workspace: Daily 5-year senior sovereign CDS spreads for the US (USGV5YEUAC=R), Germany (DEGV5YUSAC=R), Switzerland (CHGV5YUSAC=R), and Japan (JPGV5YUSAC=R). Historical data from January 1, 2024 through December 31, 2025.

The primary dependent variable — the credit-adjusted Treasury–Bund spread — is defined as:

$$CY^{Is-DE},t = (y^{Is}{}_{10},t - y^{DE}{}_{10},t) - (CDS^{Is}{}_{5},t - CDS^{DE}{}_{5},t) / 100 \qquad (1)$$

where $y^{Is}{}_{10},t$ and $y^{DE}{}_{10},t$ are the US and German 10-year benchmark yields (in percentage points), and $CDS^{Is}{}_{5},t$ and $CDS^{DE}{}_{5},t$ are 5-year sovereign CDS spreads (in basis points, divided by 100 to convert to percentage points). This construction follows Krishnamurthy & Vissing-Jorgensen (2012) and is designed to strip out the bulk of credit-risk variation, acknowledging that CDS premia may still embed their own liquidity and counterparty components. CDS premia are observed at the 5-year tenor, which we treat as a summary measure of default risk across the curve. This maturity mismatch is standard in the literature but implies that the credit adjustment is approximate rather than exact in a term-structure sense (Pan & Singleton, 2008; Longstaff et al., 2011). Analogous spreads relative to Swiss bonds (CY^{Is-DHf}) and JGBs (CY^{Is-IIN}) serve as robustness benchmarks.

4.3 Holiday Correction Methodology

A central data quality contribution of this thesis is the explicit correction for country-specific market holidays across all four sovereign bond jurisdictions. Different countries observe different non-trading days, meaning that raw data files from Investing.com and LSEG Workspace contain gaps on foreign market holidays that do not appear in US FRED data, which reports only US trading days.

The correction methodology proceeds as follows. The US trading day calendar — 370 dates from FRED, spanning 1 August 2024 to 31 December 2025 — serves as the master index. All foreign yield and CDS series are reindexed to this US calendar. Gaps arising from foreign market closures are filled by carry-forward imputation: the most recently available price is carried forward to the closed-market date. This is the standard treatment in international event study research, since no new price information was produced in those markets on closed days. One exception applies to the first day of the sample: because the Swiss yield series begins on 2 August 2024 (the first available Swiss trading day), the 1 August value is filled by backward-fill from the next available observation.

Specific holidays corrected for each jurisdiction:

> Switzerland: 1 August 2024 (National Day, the first sample day) backward-filled from 2 August 2024; 26 December (St. Stephen's Day) carry-forward in both 2024 and 2025; 21 April 2025 (Easter Monday) and 28 December 2025 carry-forward. These three carry-forward dates (plus the one backward-fill at sample start) account for the 99.4 percent calendar-day coverage of Swiss 10Y yields reported in Section 4.5; the higher 99.7 percent figure occasionally cited in the trading-day version of the series reflects the difference between Swiss and US trading calendars.
>
> Germany: 3 October (German Unity Day), 25–26 December (Christmas and St. Stephen's Day), Good Friday, Easter Monday — carry-forward throughout the sample period.
>
> Japan: approximately 16 national holidays annually including Coming of Age Day, National Foundation Day, Emperor's Birthday, Showa Day, Constitution Day, Children's Day, Marine Day, Mountain Day, Respect for the Aged Day, Sports Day, Culture Day, and Labour Thanksgiving Day — all carry-forward.
>
> United States: 17 federal holidays appear in the FRED data as NaN observations (the series is published on these dates but with a missing value). These include Labor Day, Columbus Day, Veterans Day, Thanksgiving, Christmas Day, New Year's Day, Martin Luther King Jr. Day, Presidents' Day, Good Friday, Memorial Day, Juneteenth, and Independence Day — all filled by carry-forward of the prior trading day's value.

After applying these corrections, all 370 trading days have complete data for every variable. CDS data coverage reaches 100 percent across all four jurisdictions. Swiss 10Y yield coverage is 99.7 percent

(369 of 370 trading days), with the sole gap on 1 August 2024 handled by backward-fill as described above. The carry-forward approach assumes that foreign bond prices are unchanged on local holiday dates; this is standard but implies that the measured daily change on the first post-holiday trading day bundles up any information released during the holiday. This is noted as a limitation in Section 5.4.

4.4 Control Variables

The following daily control variables are used to construct the expected convenience yield in the event study:

VIX (CBOE Volatility Index): Captures global risk appetite. Expected negative relation to Treasury yields operates via flight-to-safety mechanism. Sourced from FRED (series VIXCLS).

EPU Index (Baker et al., 2016): Daily US Economic Policy Uncertainty Index from PolicyUncertainty.com. Captures baseline policy uncertainty separately from event-specific shocks.

High-Yield Spread: ICE BofA US High Yield Option-Adjusted Spread (FRED series BAMLH0A0HYM2) as proxy for credit risk premia and financial stress. Stored in percentage-point units in the raw data (e.g., 3.02 corresponds to 302 basis points) and converted to basis points for descriptive presentation.

All control variables are first-differenced to ensure stationarity and align with the first-differenced specification of the credit-adjusted spread in the normal model regression.

An additional confounder requires explicit acknowledgement. During the 2025 sample period the German fiscal regime underwent a significant change with the March 2025 Bundestag reform of the Schuldenbremse (debt brake; see Bundesbank Monthly Report Q1 2025 and BIS Quarterly Review June 2025 for contemporaneous analysis) and the establishment of a €500 billion special fund for infrastructure and defense. German 10-year yields rose by 61 basis points over the thesis period while US 10-year yields rose by only 19 basis points, indicating that the credit-adjusted Treasury–Bund spread compression is driven substantially by Bund repricing rather than Treasury repricing. We address this confounder in three ways: (i) cross-benchmark robustness against Switzerland and Japan (Section 6.5), (ii) a robustness specification excluding ±3 trading days around major German fiscal event dates (Section 7.7), and (iii) explicit channel-identification discussion in Section 8.1.

4.5 Sample Construction and CDS Data Coverage

The full market data sample runs from August 1, 2024 through 31 December 2025 (370 trading days). Within the thesis period, CDS data coverage is nearly complete. US CDS data are available for 507 observations (97.9 percent), German CDS for 510 (98.5 percent), Swiss CDS for 461 (89.0 percent), and Japanese CDS for 509 (98.3 percent). Swiss 10Y yield data are 99.4 percent complete (515 of 518 thesis-period calendar days), with only 3 isolated missing observations (2024-08-01, 2025-04-21, 2025-12-28) handled by carry-forward imputation; Swiss yield data quality does not materially affect the cross-benchmark analysis. The credit-adjusted spread using US and German data (Equation 1) can be computed for 498 observations (96.1 percent of the thesis period).

The first-difference series used in the H3 persistence analysis consists of 369 observations (370 trading days minus one NaN created by differencing the first row). The event study uses an approximately 180-day estimation window (calendar span $[-190, -11]$ in event time) and five event windows. Table 1 presents the observation structure.

Table 1: Event windows and valid CACYC calculations for the primary Treasury–Bund spread.

Event Window	Trading Days	Target Events	Valid (US-DE)	Valid Rate
[−1, +1]	3	156	148	94.9%
[−3, +3]	7	156	152	97.4%
[−5, +5]	11	156	155	99.4%
[−2, +7]	10	156	156	100%
[−5, +10]	16	156	156	100%

Valid observations vary by window due to CDS data availability on specific event dates. Cross-benchmark analysis (Switzerland, Japan) has different valid rates due to their respective CDS coverage patterns.

5. Methodology

5.1 Event Study Framework

Following MacKinlay (1997), the event study proceeds in four steps. First, I identify and classify events. Second, I estimate the normal convenience yield model. Third, I compute abnormal convenience yield changes. Fourth, I aggregate results and perform statistical inference.

Step 1: Normal Model Estimation. For each event i, the normal model is estimated over the pre-event window [T0, T1] where T0 = −190 and T1 = −11 (in event time), providing approximately 180 trading days:

$$\Delta CY^{Is-DE}{,t} = \alpha i + \beta 1 \Delta VIXt + \beta 2 \Delta EPUt + \beta 3 \Delta HY\_Spreadt + \varepsilon i{,}t \qquad (2)$$

Parameters $\hat{\alpha}$i, $\hat{\beta}$i are estimated by ordinary least squares (OLS). The baseline specification uses standard OLS standard errors. Per-event fit statistics (residual standard error, R^2) are computed during estimation but are not tabulated here because the analysis aggregates abnormal returns across 156 individual normal-model regressions; per-event fit varies considerably (typical R^2 0.20–0.50) and a single representative value would be misleading. Given the pronounced clustering of events on adjacent trading days and potential cross-sectional correlation, reported significance levels should be interpreted as upper bounds on confidence. Newey–West HAC corrections or Kolari & Pynnonen (2010) adjustments would provide more conservative inference but are not implemented in the baseline specification.

Step 2: Abnormal Convenience Yield Changes. Within the event window [T1+1, T2], the abnormal convenience yield change (ACYC) on day t for event i is:

$$ACYCi{,}t = \Delta CY^{Is-DE}{,t} - (\hat{\alpha} i + \hat{\beta}' iXt) \qquad (3)$$

where Xt = [ΔVIXt, ΔEPUt, ΔHY_Spreadt]'. All control variables enter the regression in the same units as their raw FRED series: VIX in index points, EPU in index points, and HY Spread in percentage points (e.g., 3.02 represents 302 basis points). The dependent variable ΔCY is in percentage points; coefficient magnitudes therefore reflect a one-unit change in the corresponding regressor. Negative ACYC values indicate that the spread fell more than predicted, consistent with safe-haven erosion.

Step 3: Cumulative Abnormal Convenience Yield Changes. CACYCi[T1+1, T2] = Σ ACYCi,t, summed over the event window. Negative CACYC throughout means the spread compressed more than the model predicted.

Step 4: Cross-Sectional Aggregation. CACYC[T1+1, T2] = (1/N)Σ CACYCi, with t = CACYC / (σCACYC / √N), where σCACYC is the cross-sectional standard deviation and N is the number of events with valid data for that window.

5.2 Event Sample Construction

The event filtering procedure proceeds as follows: (1) Initial Sample: 433 events from the Federal Register, January 20 – December 31, 2025. (2) Salience Filter: Exclude 228 ceremonial events (salience 1), retain 205 substantive events (salience 2–3). (3) Data Availability Filter: Exclude 49 events lacking sufficient pre-event history, as market data begins August 1, 2024 and estimation windows require approximately 180 trading days. (4) Final Sample: 156 events with both substantive policy content and full estimation window data.

5.3 Subgroup Analysis

To test H1, events are analyzed at the date-aggregated level by salience (salience 2, n = 48 dates, vs. salience 3, n = 29 dates after ceremonial-event demotion) and by policy category (see Table 5). For H2, events are split into rating-adjacent (5 unique dates) and non-rating (72 unique dates) at the date-aggregated level. Both groups use the same event-level CACYC as the unit of analysis, with N reflecting individual events with valid CDS data in the [−1, +1] window. For H3, I compute the ACF of the 369 unique daily first-differences of the credit-adjusted spread.

5.4 Limitations

Several methodological limitations warrant acknowledgement: (1) Estimation window constraint: the approximately 180-day estimation window requirement, combined with data starting August 1, 2024, excludes 49 early events, creating sample selection bias favouring later events. (2) Standard errors: the baseline analysis uses standard OLS standard errors without HAC corrections or adjustments for cross-sectional correlation despite significant event clustering. (3) Event clustering: 92.3 percent of events (144 of 156) have at least one neighbouring event within a two-day window. (4) Holiday carry-forward: the carry-forward approach (described in Section 4.3) assumes foreign bond prices are unchanged on local holiday dates; any information released during a foreign holiday is attributed to the first post-holiday trading day. (5) CDS data coverage: Swiss CDS coverage is 89.0 percent, lower than US/German coverage; CDS premia may embed liquidity and counterparty components not fully stripped by Equation 1. (6) Causal identification: the event study design cannot definitively establish causality.

6. Empirical Results

6.1 Descriptive Statistics

Table 2 presents descriptive statistics for the primary variables over the full market data period (August 1, 2024 – March 14, 2026). Observation counts reflect calendar days in the dataset, including weekends with carried-forward values; regression and event-study computations use only unique-value trading-day observations.

Table 2: Descriptive statistics, 1 August 2024 – 31 December 2025 (N = 370 trading days, holiday-corrected).

Variable	Mean	Std. Dev.	Min	Max	Obs.
US 10Y Yield (%)	4.23	0.23	3.63	4.79	370
DE 10Y Bund Yield (%)	2.52	0.22	2.03	2.90	370
Raw Treasury–Bund Spread (bps)	172	27	127	227	370
US CDS 5Y (bps)	39.8	6.5	30.0	58.1	370
DE CDS 5Y (bps)	10.4	2.2	7.3	15.5	370
Credit-Adj. Spread CY^{Is-DE} (bps)	142	29	102	208	370
Credit-Adj. Spread CY^{Is-DHf} (bps)	355	27	290	408	370
Credit-Adj. Spread CY^{Is-IIN} (bps)	269	37	201	343	370
VIX	18.6	4.9	12.8	52.3	370
EPU Index	297	164	5.4	891	370
HY Spread (bps)	304	36	259	461	370

CY^{Is-DE} computed as in Equation (1). The HY Spread control is stored in percentage-point units in the raw data (e.g., 3.02 = 302 bps) and converted to bps for presentation here. All 370 trading days complete after holiday correction. Switzerland Aug 1, 2024 (National Day) backward-filled from Aug 2; all other foreign holidays carry-forward. CDS 100% coverage across all jurisdictions after correction. Sources: FRED, Investing.com, LSEG Workspace, PolicyUncertainty.com.

The raw Treasury–Bund spread averaged 172 basis points with standard deviation 27 bps and ranged from 127 to 227 bps over the study period. The credit adjustment via CDS differentials reduces the mean spread to 142 basis points, with the US–Germany CDS differential averaging 29.4 basis points — a meaningful 17 percent correction to the convenience yield measure. The VIX averaged 18.6, reaching a peak of 52.3 during the April 2025 Liberation Day shock. The EPU Index averaged 297 over the study period. High-yield spreads averaged 304 bps, elevated relative to 2023 levels.

These descriptive patterns — elevated average credit-adjusted Treasury–Bund spreads and substantial time-series variation — are consistent with the safety-trap and global safe-asset frameworks, which predict that convenience yields will be highly sensitive to shifts in perceived US safety and liquidity. They provide a backdrop for testing whether Trump policy announcements systematically moved these spreads in a manner consistent with safe-haven erosion (H1) and potential regime change (H3).

6.2 Main Event Study Results (H1)

Table 3 reports average cumulative abnormal convenience yield changes (CACYCs). A negative CACYC means the credit-adjusted Treasury–Bund spread declined more than the normal model predicted, indicating that Treasury yields rose relative to German Bunds beyond what macroeconomic fundamentals would forecast — consistent with safe-haven erosion.

Table 3: Average CACYC around Trump policy announcements, date-aggregated to 80 unique event dates (corrected from V6 specification of 156 event-level observations).

Event Window	Mean CACYC (bps)	t-stat	p-value	Sig.	N
[−1, +1]	−0.60	−0.63	0.5275	n.s.	80
[−3, +3]	−2.16	−1.43	0.1562	n.s.	80
[−5, +5]	−4.00	−1.94	0.0554	*	80
[−2, +7]	−2.59	−1.37	0.1750	n.s.	79
[−5, +10]	−5.16	−1.92	0.0589	*	78

**p<0.10. Negative CACYC = Treasury–Bund spread narrowed beyond model prediction; positive CACYC = spread widened (the direction predicted by classical safe-haven erosion, see Section 6.2.1 and 8.1). The pooled negative CACYCs in this table are mechanically ambiguous between US strengthening, Bund-specific weakness (most plausibly the 2025 Schuldenbremse reform), and compositional credit-risk effects. N varies across windows because the [−2, +7] and [−5, +10] specifications extend further forward, and one or two of the latest event dates lacked complete CDS coverage at the rightmost edge of the window.*

After aggregating same-day events to unique trading dates (N = 80), the empirical findings provide qualified support for H1. All five event windows exhibit negative mean CACYCs. The three-day window ([−1, +1]) yields −0.60 basis points (t = −0.63, p = 0.527) — not statistically significant. The longer asymmetric window [−5, +10] yields −5.16 basis points (t = −1.92, p = 0.059), marginally significant at the 10% level. The headline short-window finding does not survive correction for degrees-of-freedom inflation from clustered same-day announcements; the longer-window evidence is suggestive but not decisive. The headline [−1, +1] effect represents approximately 0.42 percent of the mean credit-adjusted spread of 142 basis points; the longer-window [−5, +10] effect of −5.16 bps represents approximately 3.6 percent of the mean spread. The progression from −0.60 bps over the three-day window to −5.16 bps over the sixteen-day asymmetric window is suggestive of post-announcement drift rather than instantaneous repricing, consistent with gradual portfolio adjustment by institutional investors as noted by Jegadeesh & Titman (1993) and Asness et al. (2013), but the magnitudes are now uniformly smaller and weaker in significance than V6 implied. The drift interpretation should not be over-stated.

6.2.1 The Liberation Day cluster

The April 2025 Liberation Day announcement deserves a standalone analysis given its central role in our motivating literature (Cieslak & Vissing-Jorgensen, 2025). Centring the event windows on 7 April 2025 (the IEEPA reciprocal tariff proclamation), the credit-adjusted Treasury–Bund spread exhibits cumulative abnormal CHANGES of +17.52 bps over [−1, +1], +21.45 bps over [−3, +3], and +26.74 bps over [−5, +10]. The largest single-day change in the surrounding window was +11.57 bps on 7 April itself.

Two features of this case study warrant emphasis. First, the sign of the Liberation Day CACYC is positive — i.e., the credit-adjusted Treasury–Bund spread WIDENED in the aftermath of the announcement. This is the direction predicted by classical safe-haven erosion (Treasury yields rising relative to Bunds), and is consistent with the long-end Treasury sell-off documented intraday by Cieslak & Vissing-Jorgensen (2025) and the hedging-channel framework of Acharya & Laarits (2025). Second, the direction is OPPOSITE to the average pooled CACYC reported in Table 3. This contrast underscores that the pooled negative CACYCs are not driven by Liberation Day; they are driven by other dates in the sample, and our interpretation of the pooled result must accommodate this heterogeneity.

The implication is that a single high-salience Trump event can generate a clean US-specific safe-haven response in the predicted direction, but that the pooled cross-section is dominated by other dynamics — most plausibly, German fiscal news (see Section 8.1).
A negative CACYC means the (US − DE) spread narrowed beyond what the macro controls predict. Mechanically, this can occur because (i) Treasury yields rose by less than the model predicts conditional on the macro environment, (ii) Bund yields rose by more than predicted, or (iii) some combination. We do not interpret this as direct evidence that Treasury yields rose relative to Bunds — such a movement would correspond to a positive, not negative, CACYC. The pattern is instead consistent with one of two channels: relative weakening of US safe-haven demand, or relative weakening of Bund safe-haven demand due to country-specific shocks. Section 6.5 cross-benchmark evidence and Section 8.1 channel-identification discussion attempt to disambiguate the two.

The fact that abnormal spread compression is strongest in the [−1, +1] and [−3, +3] windows and accumulates further only in the longer asymmetric [−5, +10] window suggests that markets react promptly to policy news while subsequent dynamics partly reflect gradual portfolio rebalancing. This pattern is in line with event-study evidence for other macro and policy shocks, where most informational content is impounded quickly but persistence reflects slow-moving capital and learning rather than immediate full adjustment.

6.3 Results by Salience Level

Table 4 decomposes results by event salience for the three-day [−1, +1] window after date aggregation and ceremonial-event demotion. Of the 77 unique substantive event dates, 48 are classified as medium-salience (level 2) by max-on-date assignment and 29 as high-salience (level 3).

Table 4: CACYC by salience category, [−1, +1] window.

Salience Category	N	Mean CACYC (bps)	t-stat	p-value
Salience 2 (Medium)	48	−1.08	−1.24	0.2229
Salience 3 (High)	29	+0.03	+0.01	0.9907
All (Sal. 2 and 3)	77	−0.67	−0.69	0.4936

**p<0.10. Window: [−1, +1] days, date-aggregated. N reflects unique trading dates after demotion of 11 ceremonial proclamations to salience 1. The total of 77 dates is 3 fewer than the 80 dates in Table 3 because three event dates contained only ceremonial events that were demoted out of the substantive sample (28 April was retained as it had four events of which three were substantive Education/Foreign-Policy actions). Salience is assigned at the date level by max-on-date rule (a date carries the highest salience of any substantive event occurring on it).*

After date aggregation and demotion of 11 ceremonial events, medium-salience events generate a mean CACYC of −1.08 basis points (t = −1.24, p = 0.223), not statistically significant. High-salience events exhibit a CACYC near zero (+0.03 basis points, t = +0.01, p = 0.991). The headline V6 finding of a significant medium-salience effect (−1.91 basis points, p = 0.017 at the event level) does not survive correction for clustering, indicating that the effect was driven by repeated counting of same-day events rather than by a robust salience-2 signal.

The salience-paradox interpretation advanced in earlier drafts — that medium-salience events drive the result via an anticipation mechanism — does not survive the date-level correction. Both salience-2 and salience-3 cells are insignificant after aggregation, and the overall effect is driven primarily by the longer-window cross-temporal pattern documented in Table 3 rather than by any salience cell.

6.4 Results by Policy Category

Table 5 reports mean CACYCs for policy categories in the [−1, +1] window, ordered by negative effect magnitude. Categories with fewer than 3 events in the analysis sample (Justice/Law Enforcement: 3 events; Other: 1) are included in the aggregate results of Table 3 but excluded from Table 5 due to insufficient inference power. Note that category N-counts reflect recoding of previously miscategorised events described in Section 4.1.

Table 5: Policy categories with date-aggregated CACYC after demotion of 11 ceremonial events. Window: [−1, +1]. Rows are presented in the V6 ordering for cross-reference; sorted by ascending mean, the order is: Government Operations (−4.08), Education (−3.21), Foreign Policy/Defense (−2.72), Technology/AI (−2.66), Immigration/Border (−1.45), Regulatory (−0.68), Economic/Fiscal (+0.08), Trade/Tariff (+0.21), Healthcare (+2.83*), Energy/Environment (+3.51). Healthcare is the only category at the marginal 10% level, with a positive (anti-erosion) sign.

Category	N	Mean CACYC (bps)	p-value
Education	2	−3.21	0.4920
Technology/AI	5	−2.66	0.2686
Energy/Environment	3	+3.51	0.6125
Immigration/Border	8	−1.45	0.4632
Foreign Policy/Defense	10	−2.72	0.1523
Regulatory	6	−0.68	0.7870
Government Operations	5	−4.08	0.4077
Trade/Tariff	27	+0.21	0.9258
Healthcare	4	+2.83	0.0986*
Economic/Fiscal	6	+0.08	0.9765

**p<0.10. Window: [−1, +1], date-aggregated. After demoting 11 ceremonial events to salience 1 and aggregating to unique trading dates, no category reaches 5 percent significance. Healthcare reaches 10 percent on n = 4 dates with the OPPOSITE sign to safe-haven erosion. Sub-samples are small (n ≤ 10 for most cells); category-level inference is correspondingly weak.*

After date aggregation and ceremonial-event demotion, no category reaches conventional significance at the [−1, +1] window. Government Operations (n = 5, −4.08 bps, p = 0.408) shows the largest negative point estimate but on a small sample. Foreign Policy/Defense (n = 10, −2.72 bps, p = 0.152) and Technology/AI (n = 5, −2.66 bps, p = 0.269) follow directionally. Education (n = 2, −3.21 bps, p = 0.492) is no longer interpretable: of the seven V6 events, four were the same-day cluster on 28 April 2025 sharing a single CACYC, and one was the ceremonial "Education and Sharing Day" proclamation; only two unique substantive Education event-dates remain. Energy/Environment (n = 3) flips sign to +3.51 bps after demoting two ceremonial proclamations and aggregating same-day events. Trade/Tariff (n = 27, +0.21 bps) remains insignificant. Healthcare (n = 4, +2.83 bps, p = 0.099) is the only category marginally significant at the 10 percent level, and with the opposite sign to safe-haven erosion.

The most useful reading of Table 5 is now negative: after correction, no policy category produces a statistically significant CACYC at the [−1, +1] window. The V6 narrative built around Education and Energy/Environment categories does not survive date-level aggregation and ceremonial-event demotion. The Trade/Tariff result remains directionally insignificant, consistent with the V6 view that the tariff channel operates through cumulative policy uncertainty rather than discrete announcement-day effects — the Liberation Day case study in Section 6.2.1 documents the largest single Trade/Tariff event in isolation and shows a positive CACYC, opposite to safe-haven erosion. Sub-sample sizes are now small ($n \leq 10$ for most cells) and category-level inference is correspondingly weak.

6.5 Cross-Benchmark Robustness

Table 6 reports results for alternative sovereign benchmarks using the [−1, +1] window.

Table 6: CACYC with alternative sovereign benchmarks, [−1, +1] window.

Benchmark	N valid	Mean CACYC (bps)	t-stat	p-value
Germany (primary)	80	−0.60	−0.63	0.5275
Switzerland	80	−0.93	−1.21	0.2296
Japan	80	−0.38	−0.52	0.6014

**p<0.10. Window: [−1, +1], date-aggregated. N = 80 unique trading dates for all three benchmarks. After date aggregation, no benchmark is statistically significant at conventional levels. Smaller magnitudes for Switzerland and Japan reflect their own safe-haven currency dynamics and CDS characteristics.*

The directional consistency of negative CACYCs across all three benchmarks — Germany, Switzerland, and Japan — provides modest corroboration that the main results are not driven exclusively by German-specific risk or Bund market conditions. The pattern is consistent with global safe-asset models that treat the US as one of several potential suppliers of high-grade safe assets (Jiang et al., 2021; Maggiori, 2017), but the post-correction magnitudes are too small to support a strong US-specific erosion claim.

After date aggregation, all three benchmarks yield directionally negative but statistically insignificant CACYCs at the [−1, +1] window: Germany −0.60 bps ($p = 0.527$), Switzerland −0.93 bps ($p = 0.230$), Japan −0.38 bps ($p = 0.601$). The weaker effects relative to Switzerland and Japan compared to Germany likely reflect differences in market depth, CDS liquidity, safe-haven currency dynamics (Swiss franc appreciation, yen carry-trade mechanics), and the extent to which these markets co-move with Treasuries during normal times. The directional consistency across benchmarks is suggestive of a Treasury-specific channel, but the post-correction magnitudes are insufficient to support a strong interpretation, and the German Bund channel (Section 4.4) cannot be ruled out as the dominant driver.

6.6 Rating Amplification: Testing H2

Policy events temporally proximate to credit rating actions, debt ceiling debates, or fiscal outlook revisions may exhibit amplified safe-haven erosion effects if market participants view such coincidences as compounding signals of US fiscal credibility deterioration. To test H2, I classify events as “rating-adjacent” using keyword matching on event titles (keywords: moody, fitch, rating, downgrade, outlook, debt ceiling, fiscal). Of the 156 substantive policy events, 8 are flagged as rating-adjacent at the event level. After date-level aggregation and ceremonial-event demotion, these reduce to 5 unique trading dates that are flagged rating-adjacent. All 5 have valid CDS data in the [−1, +1] window.

Table 7: CACYC comparison for rating-adjacent versus non-rating events, [−1, +1] window.

Event Category	N events (valid)	Mean CACYC (bps)	t-stat	p-value
Rating-Adjacent	5 (5)	+2.29	1.259	0.2766

Event Category	N events (valid)	Mean CACYC (bps)	t-stat	p-value
Non-Rating	72 (72)	−0.87	−0.85	0.3983
Two-sample t-test		t = 1.51		p = 0.1744 (n.s.)

Window: [−1, +1], date-aggregated. The unit of analysis is the unique trading date; same-day events sharing a CACYC contribute one observation. Rating-adjacent dates are those on which any substantive event title matches one of: moody, fitch, rating, downgrade, outlook, debt ceiling, fiscal. The Welch two-sample t-test fails to reject equality of means.

H2 is not supported. After date aggregation and ceremonial-event demotion, rating-adjacent events (n = 5 unique dates) exhibit a positive mean CACYC of +2.29 basis points (t = 1.26, p = 0.277), statistically indistinguishable from zero. Non-rating events (n = 72) show −0.87 basis points (t = −0.85, p = 0.398). The two-sample Welch t-test yields t = 1.51 (p = 0.174), failing to reject equality of means. Note that the corrected rating-adjacent estimate has the OPPOSITE sign to the V6 number: at the date level, rating-adjacent days saw spreads widen, not narrow. The reversal reflects the loss of three event-level observations that were duplicates of dates already counted, and underscores the fragility of the original V6 finding. Three factors explain the null result: rating actions are anticipated through prior outlook warnings, causing gradual pre-pricing rather than discontinuous event-window reactions; rating effects manifest primarily in CDS markets rather than yield spreads; and the small sample of rating-adjacent dates (n = 5) limits statistical power.

The absence of any statistically detectable difference between rating-adjacent and non-rating dates means H2 is not supported. Given the small rating-adjacent sub-sample (n = 5) and the failure of either group to produce a statistically significant CACYC at the [−1, +1] window, the data do not permit a reliable test of differential amplification at credit-risk-salient events. The negative pooled result for H1 is similarly modest after correction, so any V6-style claim that "investors treated the broader Trump policy stream as the primary information source about US safe-haven status" would be over-stated by the data.

6.7 Persistence and Autocorrelation: Testing H3

Safe-haven erosion effects may exhibit persistence beyond the immediate event window if policy shocks trigger structural reassessments of US credibility rather than transitory market noise. I test this using the autocorrelation function (ACF) of daily credit-adjusted spread changes. The sample comprises 369 unique daily first-differences, being 370 trading days minus the one NaN observation created by the first-difference transformation on row 1.

Table 8: Autocorrelation function of credit-adjusted spread changes.

Lag (Days)	ACF (ρ)	Std. Error	t-stat	p-value	Significant?
1	−0.1093	0.0521	−2.10	0.0357	Yes**
5	−0.0359	0.0521	−0.69	0.4900	No
10	+0.0272	0.0521	+0.52	0.6009	No
15	−0.0403	0.0521	−0.77	0.4390	No
20	−0.0359	0.0521	−0.69	0.4901	No
Ljung-Box Q(5 lags)	Q = 6.95	df = 5		p = 0.2243	No

***p<0.05. N = 369 unique daily first-differences (370 trading days minus one first-difference row). SE = 1/√N = 0.0521. Ljung-Box test on first five lags.*

H3 is not supported by the test specified in Section 3. The Ljung-Box Q statistic ($Q(5) = 6.95$, $p = 0.224$) fails to reject white noise behaviour. The lag-1 autocorrelation of −0.109 ($t = -2.10$, $p = 0.036$), while statistically significant, has the negative sign characteristic of bid-ask bounce in daily sovereign spread data and does not constitute evidence of slow information incorporation. Lag 20 shows $\rho = -0.036$, $t = -0.69$, $p = 0.490$), negative and statistically insignificant. The Ljung-Box test for joint significance of the first five lags yields $Q = 6.95$ ($p = 0.224$), failing to reject white noise at conventional levels. The intermediate lags (5, 10, 15) are individually and jointly insignificant. The accumulating CACYC magnitudes across event windows in Table 3 ([−1, +1] = −0.60 versus [−5, +10] = −5.16 basis points after date aggregation) provide complementary evidence of drift beyond the immediate announcement window, although the [−1, +1] result is no longer statistically significant.

Under the pre-specified Ljung-Box test, daily changes in the credit-adjusted Treasury–Bund spread are statistically indistinguishable from white noise once the negative lag-1 bid-ask bounce is accounted for. We therefore do not claim support for H3 from the autocorrelation evidence. The cross-window CACYC accumulation pattern documented in Table 3 may reflect slow-moving capital and gradual learning (Asness et al., 2013), but this is a separate empirical observation that does not bear on the pre-specified H3 test.

Taken together with the event-study evidence of accumulating CACYCs in longer windows, this pattern is consistent with the interpretation that the second Trump Administration induced at least a partial and persistent reassessment of how global investors price the US safe-haven premium, in line with the safety-trap and global safe-asset frameworks of He et al. (2019) and Jiang et al. (2021).

6.8 Synthesis of Empirical Results

After date-level aggregation and ceremonial-event demotion, all five event windows exhibit negative mean CACYCs, with the (−5, +10) window marginally significant at the 10 percent level ($p = 0.059$). No individual policy category reaches conventional significance; Government Operations (−4.08 bps, $n = 5$) and Foreign Policy/Defense (−2.72 bps, $n = 10$) show the largest negative point estimates, while Energy/Environment reverses sign to +3.51 bps after demotion of two ceremonial proclamations. Rating adjacency plays at most a secondary role in explaining cross-event variation, with H2 not supported by the data. H3 is also not supported: the Ljung–Box Q(5) statistic ($Q = 6.95$, $p = 0.224$) fails to reject the white-noise null, and the lag-20 accumulation pattern does not constitute a formal test of H3. Cross-benchmark consistency across Germany, Switzerland, and Japan supports a US-specific rather than Bund-specific interpretation. Together, these findings indicate a qualified, directionally consistent but statistically modest erosion of the US safe-haven premium in 2025, operating primarily through longer-horizon convenience yield compression rather than discrete announcement-day effects.

7. Robustness Checks

7.1 Event Contamination

Event clustering presents a significant challenge: 92.3 percent of events (144 of 156) have at least one neighbouring event within a two-day window, meaning consecutive policy announcements occur within three trading days of each other. This high contamination rate implies that individual event effects may be difficult to isolate, and standard errors may be understated. The event clustering reflects the temporal concentration of Trump Administration policy activity, particularly in early 2025 (post-inauguration executive order surge) and around major legislative battles. While this reduces statistical precision, it also represents the actual policy environment faced by Treasury investors — a sustained barrage of announcements rather than isolated shocks.

7.2 Alternative Event Window Specification

As a robustness check, I re-estimate the main specification using a [−2, +2] event window. Results show mean CACYC of −0.55 basis points ($t = -0.62$, $p = 0.5357$), statistically insignificant at the event level. The five-day symmetric window appears to capture more noise than the [−1, +1] specification, consistent with the date-aggregated baseline of −0.60 bps ($p = 0.527$) in Table 3.

7.3 Outlier Sensitivity

Removing two outlier observations (event-level CACYC more than three standard deviations from the mean) changes the event-level [−1, +1] mean CACYC from −1.39 to −1.81 basis points ($N = 154$ events). At the date level (the V8 baseline specification), the outlier-removed mean is approximately −1.0 bps but remains statistically insignificant on a sample of 78 dates. The outlier sensitivity confirms that the original V6 result was driven partly by a small number of large positive observations rather than by a robust negative shift.

7.4 Summary

Table 9: Robustness checks summary.

Specification	Mean CACYC (bps)	t-stat	p-value
Baseline [−1, +1]	−0.60	−0.63	0.5275
Alternative window [−2, +2]	−0.55	−0.62	0.5357
Outliers removed (n = 154)	−1.81	−2.56	0.0115**
Event contamination rate	92.3% (144/156)	—	—

**p<0.10. Baseline row uses date-aggregated specification (N = 80). Alternative-window and outlier-removed rows retain V6 event-level specification (N ≈ 154 events) for cross-comparison; their statistical significance does not survive date-level aggregation.*

7.5 Limitations of Robustness Analysis

Two additional robustness specifications were implemented. First, the Kolari & Pynnönen (2010) cross-sectional correlation correction was applied to the date-level t-statistics; the average pairwise correlation between event-window ΔCY series is small ($|\bar{r}| < 0.01$ across all five windows) and the KP-adjusted p-values move by less than 0.0002 from the conventional values, indicating that residual cross-sectional correlation is not the dominant source of inference error. Second, the normal model was re-estimated with a one-day lagged Δ EPU control to address potential bad-control bias from the contemporaneous EPU specification; the lagged-control p-values move uniformly toward the null by 0.01–0.06, leaving the qualitative conclusions unchanged. Several additional robustness checks remain incomplete. HAC standard errors: Newey-West correction for autocorrelation could not be implemented; reported p-values should therefore be interpreted as lower bounds on actual significance levels — true standard errors may be larger. Placebo tests: randomly assigned fictitious event dates would provide a useful benchmark for statistical significance under the null hypothesis. Alternative control variables: adding Fed policy surprises or 2-year Treasury spreads could refine the baseline specification. Despite these limitations, the cross-benchmark consistency (Table 6) and robustness to alternative windows provide substantial confidence in the core finding of safe-haven erosion.

7.6 Cross-Benchmark Consistency (Implemented)

As reported in Table 6, the finding of negative abnormal returns is directionally consistent across sovereign benchmarks (Germany, Switzerland, Japan). No benchmark achieves statistical significance at the [−1,+1] window after date-level aggregation (Germany $p = 0.528$, Switzerland $p = 0.230$, Japan $p = 0.601$). The directional consistency of negative CACYCs across all three benchmarks provides corroboration against idiosyncratic Bund-market explanations; the longer-horizon ([−5,+10]) Germany result ($p = 0.059$) offers marginal support for a US-specific convenience yield channel.

7.7 German fiscal confounder robustness

To assess whether the H1 result is driven by confounding events in the benchmark country (Germany), we re-run the date-aggregated event study excluding ±3 trading days around seven major German fiscal event dates in 2025: the coalition agreement in principle on the Schuldenbremse exemption (4 March), the start of Bundestag readings (5 March), the Bundestag final vote on debt-brake reform and the defense Sondervermögen (18 March), the Bundesrat consent vote (21 March), the formal coalition agreement signing (9 April), the Merz government inauguration (6 May), and the NATO summit defense-spending commitments (24 June). The exclusion set covers 39 calendar days; 10 of the 80 unique event dates fall within these windows.

Excluding these confounders weakens the H1 result for the short windows. The [−3, +3] window p-value moves from 0.156 to 0.334 (more than doubling); the [−1, +1] window remains insignificant; the [−5, +10] window strengthens slightly ($p = 0.034$ from 0.059) on a smaller sample. The interpretation: a non-trivial share of the apparent short-window compression in the H1 main result is driven by Bund repricing on German fiscal news dates rather than US Treasury repricing on Trump policy dates. The longer-window pattern survives exclusion, suggesting that some persistent Trump-policy effect is present beyond the German channel. We do not claim a clean identification, but we report the bound.

8. Discussion

8.1 Interpretation of Negative Abnormal Returns

The pooled empirical findings — directionally negative but mostly statistically insignificant cumulative abnormal convenience yield changes (CACYCs) around Trump policy announcements — require careful interpretation. Mechanically, the dependent variable $\Delta CY = \Delta(y\_US10 - y\_DE10) - \Delta(CDS\_US - CDS\_DE)/100$ increases when US Treasury yields rise relative to Bund yields, beyond what the credit-risk differential explains. A POSITIVE CACYC therefore corresponds to spread widening — the unambiguous direction predicted by classical safe-haven erosion (US yields rising relative to a stable Bund benchmark). The Liberation Day case study (Section 6.2.1) documents exactly this pattern: +17.52 bps in [−1, +1], +26.74 bps in [−5, +10]. By contrast, NEGATIVE CACYCs — the modal pattern in the pooled cross-section — reflect spread narrowing, which is mechanically ambiguous between US safe-haven STRENGTHENING (the opposite of H1), Bund-specific weakening, and compositional credit-risk effects. Mechanically, negative CACYCs can occur through four channels:

(1) Bund yields rose more than Treasury yields: this is the dominant explanation in the 2025 sample. Over the full period German 10-year yields rose by approximately 61 basis points (driven by the Schuldenbremse reform and the €500 billion defense fund), while US 10-year yields rose by only about 19 basis points. A relative German yield increase mechanically narrows the (US − DE) spread, generating negative ΔCY entirely through the Bund leg without any change in US safe-haven status.

(2) Bund yields rose less than Treasuries during risk-off: in a typical risk-off episode, both US and German yields fall as investors flee to safety. If Treasuries experience weaker safe-haven demand (yields fall by less), the Treasury–Bund spread narrows.

(3) Flight-from-Treasuries to alternative safe assets: the spread compression could reflect substitution towards other safe havens (gold, Swiss francs, short-duration Treasuries) rather than Bunds specifically. The cross-benchmark consistency (Table 6) supports this: effects are present for Swiss and Japanese bonds, suggesting broad rotation away from US Treasuries.

(4) Hedging-channel deterioration: as formalised by Acharya & Laarits (2025), policy-driven inflation uncertainty may reduce the hedging value of long-duration Treasuries by increasing the stock-bond return covariance. This channel compresses the convenience premium independently of any movement in sovereign CDS premia and is particularly relevant for interpreting the Energy/Environment results.

Given the dominance of channel (1) in the 2025 sample, the pooled negative CACYCs are NOT clean evidence of US safe-haven erosion. They are most plausibly driven by the German fiscal regime change rather than US-specific events. The unambiguous evidence for partial US safe-haven erosion comes from the Liberation Day case study (positive CACYC, classical erosion direction) rather than from the pooled negative CACYCs. The qualitative conclusion — that Trump policy announcements reduced market confidence in Treasuries as the ultimate safe asset, triggering marginal portfolio reallocation — is consistent with the theoretical frameworks of Maggiori (2017) and Farhi & Maggiori (2018), but the quantitative evidence is weaker than the original V6 specification implied.

8.2 Salience Effects After Correction

In V6 (event-level, with same-day events double-counted), medium-salience events appeared to generate larger abnormal returns than high-salience events, suggesting an apparent salience paradox. After correction (date-level, ceremonial events demoted), neither salience cell reaches significance: salience 2 yields −1.08 bps ($p = 0.223$, $n = 48$) and salience 3 yields +0.03 bps ($p = 0.991$, $n = 29$). The salience paradox does not survive correction. We retain the discussion below for completeness, but emphasise that the V6 paradox itself was an artifact of clustered same-day events. Several explanations were originally considered:

Anticipation and information leakage: high-salience events (Liberation Day tariffs, major foreign policy shifts) receive extensive pre-announcement media coverage, policy signals, and leaks, allowing markets to partially price in expected announcements before official publication. Medium-salience events, by contrast, may arrive with less advance warning, generating larger event-window surprises. This mechanism is consistent with Hassan et al. (2019)'s finding that political risk is actively monitored and priced by sophisticated investors.

Policy uncertainty versus discrete shocks: high-salience events may be interpreted as discrete policy shocks with bounded impact (tariffs have known maximum rates). Medium-salience events, occurring more frequently and covering broader policy domains, may create persistent policy uncertainty that gradually erodes confidence. The cumulative effect of many medium-impact events may exceed that of few high-impact events, consistent with Baker et al. (2016)'s EPU framework and the term-structure uncertainty channel documented by Hu et al. (2022).

Institutional versus market-driven responses: high-salience events may trigger coordinated institutional responses (central bank interventions, Treasury buybacks, policy clarifications) that stabilise markets. Medium-salience events, falling below intervention thresholds, allow market forces to operate without official stabilisation, generating larger measured price effects.

This pattern merits further investigation using text analysis of media coverage to quantify pre-announcement information flows and intraday data to separate announcement surprises from anticipation effects.

8.3 Policy Category Heterogeneity

After date-level aggregation and demotion of ceremonial events, no policy category produces a statistically significant CACYC at the [−1, +1] window. The V6 narrative organised around Education and Energy/Environment as the strongest erosion categories does not survive correction. The Education category in particular collapses from n = 7 events to n = 2 unique substantive dates (with the third event of 28 April reclassified as a same-day duplicate, plus the ceremonial "Education and Sharing Day" proclamation removed). The Energy/Environment category drops from n = 15 to n = 3 unique substantive dates and flips sign to +3.51 bps. Sub-sample sizes are now small ($n \leq 10$ for most cells); category-level inference is correspondingly weak. The mechanisms below were proposed in earlier drafts as interpretations of the V6 category effects; we retain them as candidate channels but emphasise that the post-correction data does not support category-level claims at conventional significance:

Institutional credibility signaling: education policy (particularly actions affecting universities, research funding, or international student visa policies) may signal broader institutional norm violations or competence concerns that affect market perceptions of US governance quality — a key determinant of safe-haven status.

Inflation and hedging channels: energy/environment policy directly affects oil and gas prices, electricity costs, and inflation expectations. Changes to energy regulation, drilling permits, or climate commitments may alter long-run inflation forecasts, raising Treasury term premia and compressing convenience yields. Crucially, if inflation uncertainty reduces the stock-bond hedging value of Treasuries — as documented by Acharya & Laarits (2025) — then energy policy announcements can compress the convenience premium through the hedging channel even without any increase in sovereign CDS spreads. This channel is consistent with the monetary-services framework of Greenwood et al. (2015), in which higher expected inflation reduces the real value of Treasury monetary services.

International relations: both education (affecting global talent flows) and energy/environment (affecting climate cooperation) have geopolitical implications. Foreign official investors (central banks, sovereign wealth funds) may view these policies as indicators of US commitment to international norms and multilateral institutions, affecting their willingness to hold Treasuries as reserve assets. This interpretation aligns with Caldara & Iacoviello (2022)'s finding that geopolitical threats affect cross-border investment flows.

After correction, three categories exhibit positive mean CACYCs: Energy/Environment (+3.51 bps, $p = 0.613$, $n = 3$), Healthcare (+2.83 bps, $p = 0.099$, $n = 4$, marginally significant), and Economic/Fiscal (+0.08 bps, $p = 0.977$, $n = 6$). The V6 sign on Energy/Environment was negative; the post-correction reversal reflects the demotion of two ceremonial Energy proclamations and the aggregation of remaining same-day events. These reversals underscore the fragility of category-level inference at small n. With $n \leq 4$ in three of the ten categories, no category-specific claim merits weight in the thesis's overall interpretation.

The post-correction Trade/Tariff CACYC (+0.21 bps, $p = 0.926$, $n = 27$ dates) reinforces this interpretation. The Trade/Tariff category contains the largest sub-sample after correction, yet shows essentially zero average effect at the [−1, +1] window. The Liberation Day case study (Section 6.2.1) shows that a single tariff event can produce a clean +17.5 bps Treasury–Bund spread widening in isolation, supporting the cumulative-uncertainty interpretation: the tariff channel operates through the steady drumbeat of policy announcements rather than through discrete same-day reactions.

8.4 Explaining the Null Finding for H2

The failure to find statistically significant amplification effects for rating-adjacent events warrants careful interpretation. Three mechanisms may explain this null result. First, rating actions are anticipated through prior outlook warnings, causing gradual pre-pricing rather than discontinuous event-window reactions; by the time a rating event coincides with a policy announcement, markets have already incorporated most of the information. Second, rating effects may manifest primarily in CDS markets rather than yield spreads, making them invisible to the credit-adjusted spread measure used here. Third, the small sample of rating-adjacent events ($n = 9$, generating only 26 event-window observations) limits statistical power substantially. This negative result is scientifically valuable: it demonstrates that not all theoretically plausible amplification channels operate as hypothesised in the US sovereign bond market.

8.5 Comparison to Cieslak & Vissing-Jorgensen (2025)

The present findings complement and extend Cieslak & Vissing-Jorgensen (2025)'s analysis of the April 2025 tariff shock. Cieslak and Vissing-Jorgensen document that the Liberation Day announcement specifically eroded long-end convenience yields while preserving short-end safe-haven properties, consistent with rotation from long to short maturities and from Treasuries to gold. The hedging-channel interpretation of Acharya & Laarits (2025) provides a structural explanation for this maturity-asymmetric pattern: the rising stock-bond covariance following the tariff shock compressed the hedging-based convenience premium primarily at the long end, where duration amplifies the effect.

This thesis extends their work in three dimensions. (1) Event scope: we construct a systematic event dataset covering 156 substantive policy announcements (date-aggregated to 80 unique trading dates, 77 after demotion of 11 ceremonial proclamations) across the full 2025 calendar year, providing the first granular pooled estimation of cumulative abnormal spread changes around the entire stream of Trump policy events. (2) Cross-benchmark evidence: by constructing credit-adjusted spreads relative to Germany, Switzerland, and Japan, we test whether the apparent compression is US-specific or driven by individual benchmark country dynamics. (3) Policy heterogeneity: we decompose effects by salience and policy category. After correction for clustered same-day events and ceremonial-event demotion, no salience cell or policy category produces a statistically significant CACYC at the [−1, +1] window. The Liberation Day case study (Section 6.2.1) provides the cleanest single-event evidence of US-specific spread widening in the predicted direction, but the pooled cross-section is weaker than the V6 specification suggested. Together, our results do not contradict Cieslak & Vissing-Jorgensen's intraday findings for the Liberation Day shock specifically, but they provide a more sober assessment of the broader 2025 event calendar.

8.6 Implications for the Exorbitant Privilege

The US Treasury convenience yield — the premium that allows the US to borrow at below-fundamental rates — has been estimated at 50–200 basis points depending on methodology and time period (Krishnamurthy & Vissing-Jorgensen, 2012; Du et al., 2018). A median convenience yield compression of 2.59 basis points across the five event windows may seem modest relative to this total premium, but three considerations suggest non-trivial economic significance.

First, with approximately $27 trillion in outstanding US government debt as of end-2025, even a small sustained increase in borrowing costs translates to material additional interest expense at the margin of fiscal sustainability debates. We do NOT claim, however, that the post-correction CACYCs documented here would translate directly into permanent yield level changes — see Section 9 for explicit discussion of the conditional framing. As Gourinchas & Rey (2007) emphasise, the exorbitant privilege generates substantial excess returns on the US external position; erosion of this privilege carries direct fiscal consequences.

Second, He et al. (2019) and Maggiori (2017) suggest that safe-asset equilibria can exhibit threshold effects: small incremental erosions may be absorbed until a tipping point triggers discontinuous regime shift. The gradual accumulation documented here — from −0.60 bps over three days to −5.16 bps over 16 days, after date aggregation — is suggestive of progressive incorporation of information across multi-day windows, though only the longer windows reach marginal (10%) significance. Third, the hedging-channel dynamics of Acharya & Laarits (2025) imply that even if sovereign CDS premia remain stable, a sustained increase in stock-bond return covariance driven by policy-induced inflation uncertainty can permanently compress the convenience premium embedded in long-duration Treasuries.

8.7 Policy Recommendations

For the US Treasury: institutional credibility and policy predictability carry quantifiable market value. The measured safe-haven erosion — while modest per event — suggests that high-frequency, high-uncertainty policy announcements impose fiscal costs through elevated borrowing rates. Treasury could advocate internally for greater policy coordination and advance signalling to reduce market uncertainty and preserve the hedging value of long-duration Treasuries.

For reserve asset managers: central banks and sovereign wealth funds should reconsider the composition of reserve portfolios in light of increased US policy uncertainty. The finding that education and energy/environment policy generate larger effects than expected suggests that safe-haven status depends on broad institutional credibility, not just macroeconomic fundamentals. Diversification towards alternative safe assets (Bunds, Swiss bonds, gold, SDRs) may provide a hedge against further erosion, consistent with the portfolio choice framework of Jiang et al. (2021). The hedging-channel perspective of Acharya & Laarits (2025) implies particular caution regarding long-duration Treasury holdings during periods of elevated inflation uncertainty.

For market participants: the concentration of effects in medium-salience events (rather than high-salience shocks) implies that cumulative policy uncertainty may matter more than discrete large announcements. Monitoring aggregate EPU indices, the term-structure of policy uncertainty premia (Hu et al., 2022), and stock-bond return covariances may provide better signals for positioning than focusing exclusively on major scheduled events such as FOMC meetings or G7 summits.

8.8 Limitations

Several limitations qualify the interpretation of results. Identification: the event study design cannot definitively establish causality; observed abnormal returns could reflect omitted confounding variables correlated with but not caused by Trump announcements. Sample selection: the 49-event exclusion due to insufficient pre-event history creates potential bias favouring later events; if early-year events had larger effects (due to novelty), our estimates may understate the true average effect. Estimation window choice: the approximately 180-day window is standard but arbitrary; structural breaks in the relationship between convenience yields and control variables could bias normal model estimates. Cross-sectional correlation: event clustering potentially understates standard errors and overstates significance. H3 qualification: the Ljung-Box test for the first five ACF lags does not reject white noise, qualifying the persistence interpretation. Incomplete robustness: HAC standard errors and placebo tests are not implemented; reported significance levels should be treated as upper bounds.

9. Conclusion

This thesis provides the first comprehensive event study analysis of how Trump Administration policy announcements in 2025 affected the convenience yield and safe-haven premium of US Treasury bonds. Using a dataset of 433 policy events and analysing 156 substantive events with sufficient historical data, the analysis yields the following conclusions.

H1 receives qualified support after correction: Aggregating same-day events to unique trading dates (N = 80), the [−1, +1] window CACYC is −0.60 basis points ($t = -0.63$, $p = 0.527$) and is not statistically significant. The longer asymmetric [−5, +10] window CACYC is −5.16 basis points ($t = -1.92$, $p = 0.059$), marginally significant at the 10% level. Three of the five windows lose significance after date-level aggregation; none reaches the 5% threshold. Cross-benchmark evidence and the German fiscal regime change discussed in Section 8.1 further qualify the interpretation.

H2 is not supported: after date aggregation and ceremonial-event demotion, rating-adjacent dates (n = 5) exhibit a positive mean CACYC of +2.29 basis points ($t = 1.26$, $p = 0.277$), and non-rating dates (n = 72) exhibit −0.87 basis points ($t = -0.85$, $p = 0.398$). The Welch two-sample t-test ($t = 1.51$, $p = 0.174$) fails to reject equality of means. The post-correction rating-adjacent estimate has the opposite sign to the V6 number; the reversal reflects the loss of three event-level observations that were duplicates of dates already counted, underscoring the fragility of the original V6 finding.

H3 is not supported: the Ljung-Box Q statistic ($Q(5) = 6.95$, $p = 0.224$) fails to reject white noise behaviour. The lag-1 autocorrelation of −0.109 has the negative sign characteristic of bid-ask bounce, and the medium-horizon lags (5, 10, 15, 20) are jointly and individually insignificant. The cross-window CACYC accumulation pattern is a separate observation that does not support H3 as specified.

Salience: After correction, neither salience cell reaches significance: salience 2 yields −1.08 bps ($p = 0.223$, n = 48 dates) and salience 3 yields +0.03 bps ($p = 0.991$, n = 29 dates). The V6 salience paradox was an artifact of clustered same-day events double-counted across the salience-2 cell.

Policy category heterogeneity: After date aggregation and ceremonial-event demotion, no policy category produces a statistically significant CACYC at the [−1, +1] window. Government Operations (−4.08 bps, n = 5), Education (−3.21 bps, n = 2), Foreign Policy/Defense (−2.72 bps, n = 10), and Technology/AI (−2.66 bps, n = 5) show the largest negative point estimates. Trade/Tariff (+0.21 bps, n = 27) is essentially zero. Healthcare (+2.83 bps, n = 4, $p = 0.099$) is the only category marginally significant at the 10 percent level, in the OPPOSITE direction to safe-haven erosion. The V6 finding of significant Education and Technology/AI effects does not survive correction.

Cross-benchmark robustness: After date aggregation, Germany yields −0.60 bps ($p = 0.527$); Switzerland and Japan retain their V6 directional but insignificant patterns. None of the three benchmarks produces a statistically significant short-window effect. The directional consistency is suggestive of a Treasury-specific channel, but the post-correction magnitudes are insufficient to support a strong interpretation, and the German Bund channel (Section 4.4) cannot be ruled out as the dominant driver.

Contribution: this thesis extends Krishnamurthy & Vissing-Jorgensen (2012)'s convenience yield framework, Gourinchas & Rey (2007)'s exorbitant privilege analysis, Acharya & Laarits (2025)'s hedging-channel framework, and Cieslak & Vissing-Jorgensen (2025)'s April 2025 study by providing systematic event study evidence across the full year, formally testing three hypotheses, incorporating CDS data to construct credit-adjusted spreads, and documenting policy category and salience heterogeneity.

Economic significance: the date-aggregated [−5, +10] effect of 5.16 basis points, IF sustained as a steady-state yield level change rather than a window-specific cumulative abnormal change (which it is not), would translate on approximately $27 trillion outstanding debt to roughly $14 billion annually in additional interest expense. The conditional framing matters: a CACYC over a 16-day event window does not directly translate into a permanent yield level change. The qualitative pattern of negative CACYCs across windows is suggestive of the hedging-channel mechanism articulated by Acharya & Laarits (2025), but the magnitude after correction is more modest than V6 suggested, and the German Bund channel cannot be ruled out as the dominant driver. The hedging-channel perspective implies that inflation uncertainty can permanently compress the convenience premium even absent visible sovereign default risk.

Limitations and future research: the event study design cannot definitively establish causality. Sample selection bias from excluding early events may understate true effects. Incomplete robustness checks mean reported significance levels are upper bounds. Future research should examine: whether 2025 patterns accelerate reserve currency diversification using TIC data; whether partial erosion is reversed under subsequent policy stabilisation; whether higher-frequency intraday analysis can separate anticipation from surprise components following Fleming & Remolona (1999); whether text-based sentiment analysis can quantify pre-announcement information flows following Hassan et al. (2019); and whether the hedging-channel decomposition of Acharya & Laarits (2025) can be applied at intraday frequency to the full 2025 event calendar.

Final assessment: After correction for clustered same-day events and demotion of ceremonial proclamations, the evidence is weaker than V6 suggested. The headline short-window result is not statistically significant. The longer-window pattern is marginally significant at the 10 percent level. Cross-benchmark evidence is directionally consistent but not significant for any individual benchmark. The Liberation Day case study shows a clean Treasury–Bund spread widening in the predicted direction for the single most consequential 2025 tariff event, but the pooled cross-section does not support a strong claim of US-specific safe-haven erosion. The German fiscal regime change in 2025 (Schuldenbremse reform, defense fund) is a substantial confounder. The exorbitant privilege may have been mildly tested in 2025, but the data does not support a decisive verdict. Whether 2025 represents a temporary dislocation or the beginning of a structural transition in the international monetary system, as contemplated by Eichengreen (2011) and Obstfeld & Rogoff (2009), remains an open question for future research.

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