Hi «Name»,

Good Morning! Please see below for the RCA | AST Defeasance Rate Market Update for March 15, 2023. Please let us know if you would like additional market color or have any questions. We are also always happy to provide indications for your defeasance needs, or for interest rate caps, swaps or other derivative hedging products. Please feel free to reach out anytime! ***-RCA | AST Interest Rate Hedging Desk***

RATE MARKET UPDATE | March 15, 2023:

- **Market turbulence continues**
- **Credit Suisse woes renew bank contagion fears**
- **Flight to quality leads to dramatically lower rates this morning**
- **PPI better than expected; Fuels speculation Fed will pause rate hikes**
- **Volatility in all markets to continue**

U.S. Treasury and SOFR swap rates plunged again this morning as concerns about Credit Suisse renewed bank contagion fears, particularly in Europe. *This continues what has been the most volatile week for rates in the past 15 years!* Overnight we saw a global flight to quality and the Treasury rally was extended after the release of this morning's economic data. PPI printed better than expected, manufacturing numbers were weaker and retails sales were worse than anticipated. The PPI number in particular eased inflation concerns and further fueled speculation the Fed will need to pause and reassess monetary policy going forward. The PPI data assuaged some of the inflationary concerns wrought by yesterday's core CPI figure, with the PPI figures coming in below expectations across every major sector.

The situation with Credit Suisse spooked markets overnight and caused a global flight to quality (sell risk assets, buy U.S. Treasuries). The overnight market momentum carried over into the U.S. market open and rates continued to slide lower. *Make no mistake:* there is still tremendous trepidation in the market and they will be looking for further assurances that U.S. (and global) financial institutions are on solid footing. This issue will likely overshadow everything else in the near term – remember, the FOMC's primary mandate is to provide stable financial markets run by liquid, healthy and well capitalized financial institutions. Therefore, market expectations are now betting that the Fed will pause at next week's meeting and not raise rates. It is anticipated that they will address the banking sector and attempt to calm market fears. Beyond that, uncertainty remains about the FOMC's future path. Yesterday it felt like the market was satisfied the banking sector would be ok and CPI renewed inflation fears – rates were up dramatically and there was talk of the Fed being forced to hike 25 bps at the March meeting. This morning the sentiment is almost the polar opposite. Some market prognosticators are now calling for the Fed to quickly *reduce* rates to ease the pressure on financial institutions and prevent a recession. I point this out to emphasize I expect to see continued elevated volatility as the market sorts out what has become a complicated situation for the central bank. All eyes will be on the FOMC meeting next week (March 22).

I wanted to take a moment to update you on the banking sector. The SVB and Signature situation caught the market off guard and sparked concerns other banks might be susceptible to the same issues. Fortunately the Fed stepped up quickly and put two key measures in place to calm markets and help financial institutions. The Credit Suisse situation complicated things, as it raises the possibility that bank woes may extend beyond U.S. regional banks and perhaps globally. We will monitor this situation and provide updates as necessary.

Concerning U.S. financial institutions, here is what the Fed has done:

1. The Fed announced that *all* deposits at U.S. banks, regardless of amount, would be guaranteed. This helped calm markets and more importantly, nervous consumers. When it comes to banks, market and consumer psychology play a *big* role – if the public feels banks are not safe, that has a tendency to feed on itself and grow quickly and exponentially. Guaranteeing all deposits was a swift and decisive move that did help to calm markets.
2. The Fed created the *Bank Term Funding Program*. This program provides loans to banks, credit unions and savings associations for up to 1-Year. Banks can pledge U.S. Treasuries, thereby avoiding having to sell securities at a huge loss to cover funding or liquidity needs.

Both of these provisions calmed markets somewhat, but as mentioned the market will need more assurances and time to calm down and start to navigate what could be a new monetary policy landscape.

CHART 1: ***1-Month Change – SOFR Swap Rates Plunge***

The Bloomberg graph below illustrates the month-on-month change in SOFR swap rates. Please note the far right of the graph, particularly from Feb 10th to today. This illustrates the *extreme* market volatility we have been witnessing since last Friday. Rates were at the highs for the year one week ago, but have plunged since last Friday.

We expect elevated rate volatility to continue for the near term. This morning 2Y swap rates are down ~40-50 bps and 3y ~35-40 bps. 1M Term SOFR remains stable for the moment at 4.74343% (vs. 1 week ago 4.77646%). Volatility will drive markets – it is so severe that rates can change *significantly* very, very quickly.

Net SOFR swap rate moves from *Friday morning to today* are as follows: 2y down **146 bps**; 3y down **110 bps;** 5y down **98 bps** & 10y down **51 bps**.

2Y & 3Y SOFR SWAP RATES PRIOR 30 DAYS

We will be publishing market updates as frequently as we can and will be tracking the rate market closely. We expect rate volatility to continue for the near term, but there has indeed been a dramatic improvement in cap premiums the past few days. Stay tuned!

Best Regards,

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If you wish to no longer receive these market updates, please just reply back and let us know!