Hi «Name»,

Good Morning! Please see below for the RCA | AST Defeasance Rate Market Update for March 7, 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 7, 2023:

- **FOMC Chairman Powell speaks in Washington D.C. today and tomorrow**
  - **Appears before Senate Banking panel today at 10:00 AM**
  - **Appears before House Financial Services Committee tomorrow at 10:00 AM**
- **Rate market hoping for further monetary policy clarification from the Chairman**
- **Rates have been range bound ahead of Powell's testimony**
- **Highly anticipated US Employment Report will be released Friday (3/10) at 8:30 AM**
- **Next FOMC meeting March 22, 2023**

Fed Chair Jerome Powell delivers his semi-annual monetary policy report to lawmakers today and tomorrow at 10:00 am. He will give prepared remarks and then endure a lengthy Q&A on both days. His comments may shed light on whether the rate market and investors are in synch with the FOMC view on how high it will have to raise rates to knock down inflation. It is also hoped that the Fed chief will provide more insight into how long the central bank intends to keep rates high. Although Powell's testimony is highly anticipated, the Fed will see another round of crucial economic data prior to the March 22 meeting. Friday's critical jobs report will be the last before the Fed convenes again and may shed even more light on whether policy makers are sticking with another 25 basis-point increase in rates or potentially acting more aggressively in light of recent data showing stubborn inflation (see Chart 2 below). Fed officials will also have February consumer-price index, producer-price index and retail-sales data in hand before they meet. So far this week, rates have been largely range bound as a nervous market awaits Powell's testimony. Swap rates moved toward the lower end of the range yesterday on renewed fears that the Fed may rekindle more aggressive rate hikes, thereby increasing the risk of recession. We expect the market to be initially cautious when digesting Powell's comments, but as we have seen, we may experience some rate volatility as the market reacts real time to Powell. As we have witnessed time and time again, the Chairman has a unique ability to move the market with his comments. A hawkish Powell is likely to push rates higher and may further invert the yield curve, whereas more neutral comments may cause rates to back up slightly as the market reassesses the forward rate outlook.

CHART 1: ***2-Year SOFR Swap Rate - 3-Day Chart***

The Bloomberg graph below details the 2-year SOFR swap rate for the past 3 business days. You can see the FOMC-sensitive 2-year swap rate has been largely range bound over the past few days ahead of Chairman Powell's testimony. Rates across the curve steadily moved higher over the past 30 days as the market reacted to Hawkish Fed-speak and positive US economic data. The rate market is now as "in-synch" with the FOMC as it has been in months. That said, the market is now at a juncture where it needs further clarification and insight from the Fed before determining how to position rates and forward rate expectations. Recent Fed talk has hinted at the possibility of a 50 bp hike at the March or May meeting and Fed officials have also openly commented that the terminal rate the market *had* anticipated (5.00-5.25%) may *not* be high enough to thwart inflation. Currently, the market is pricing in a 25 basis point hike for the March meeting and they have not officially adjusted the neutral rate projections presented in December.

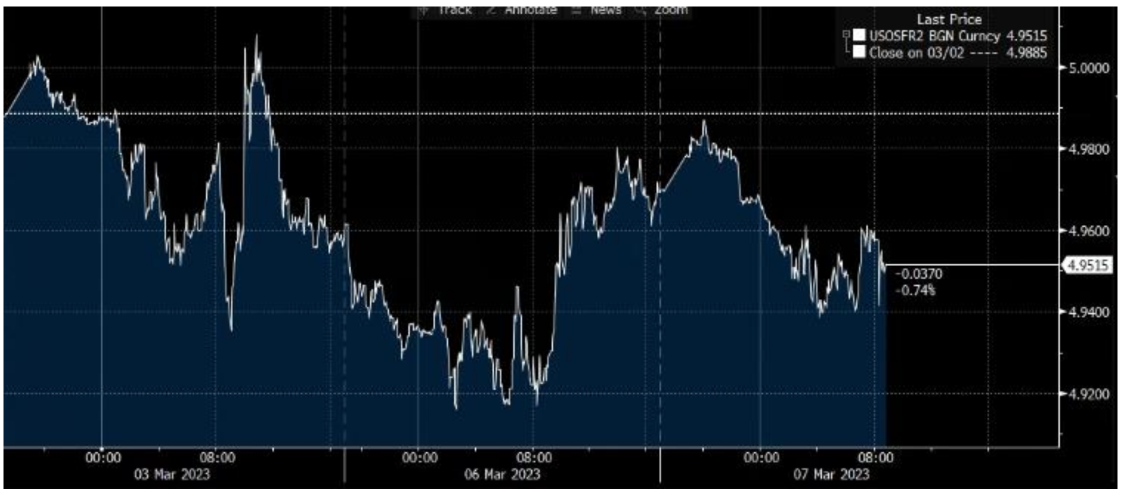
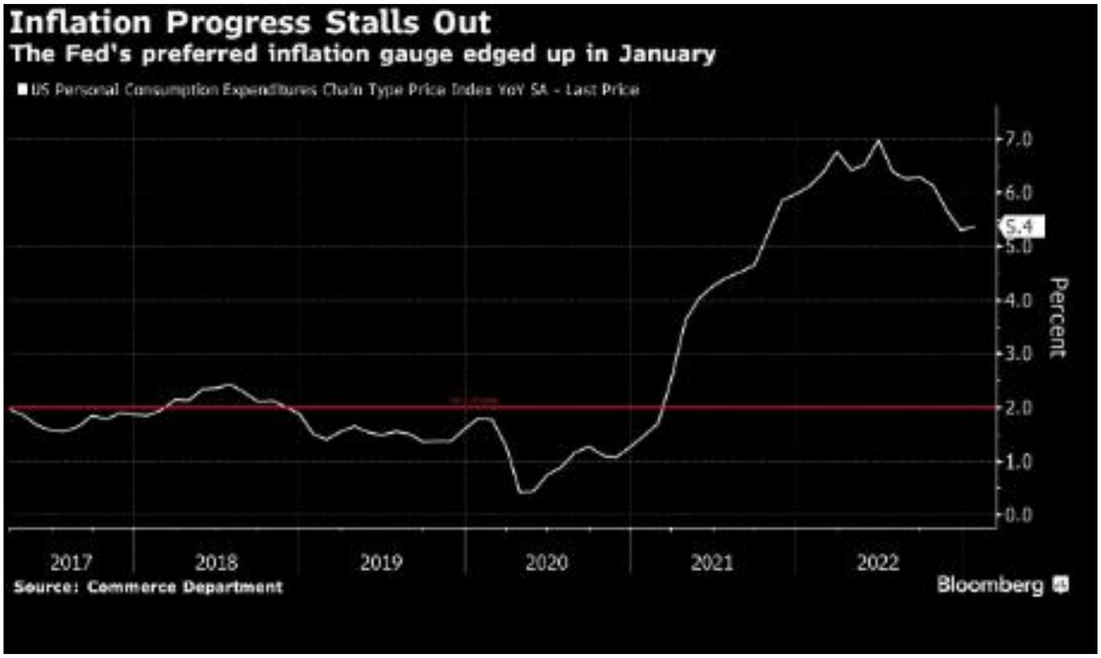


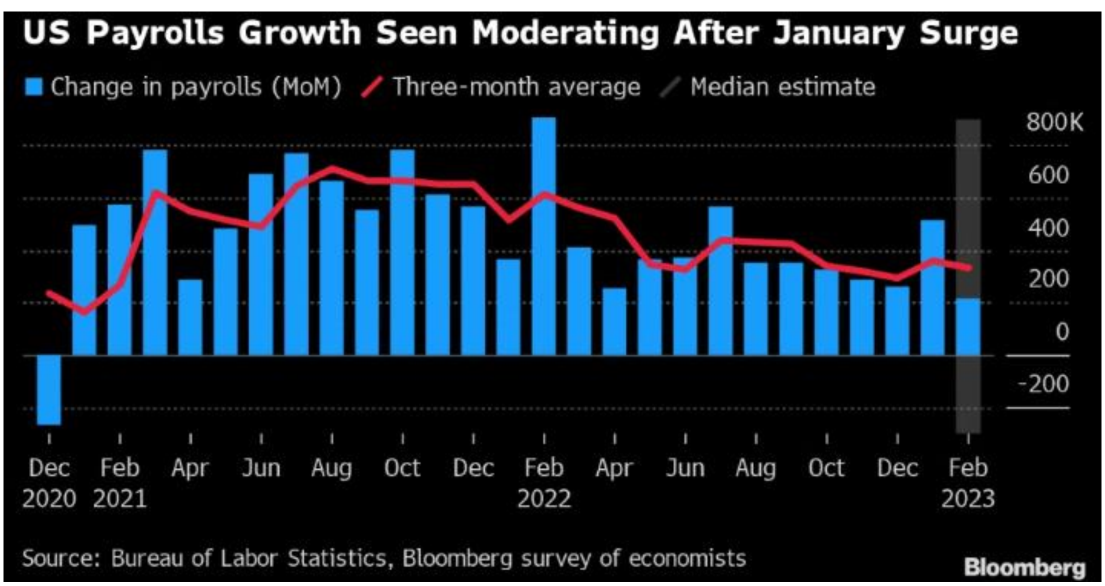
CHART 2: ***PCE: The Chairman's Favorite Inflation Indicator***

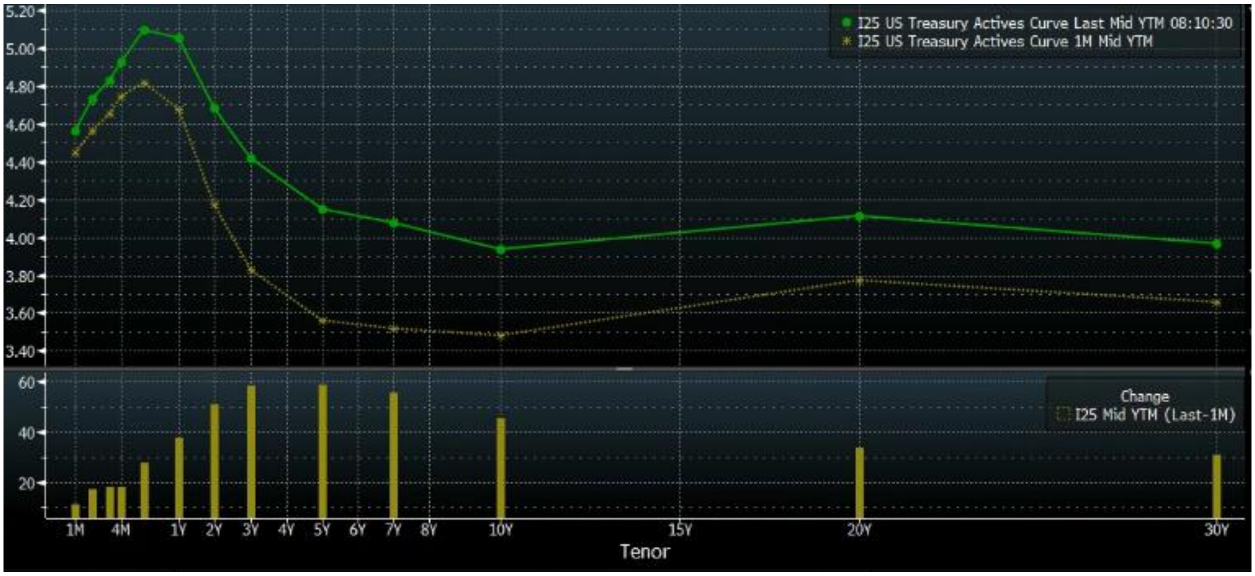
The following Bloomberg graph details the Personal Consumption Index (PCE) since 2017. The far right of the chart clearly illustrates the surge in inflation we have experienced since late 2021. As we have heard from Chairman Powell, PCE is his favorite inflation index and one he tracks closely. Market speculation that the Fed may need to hike more than anticipated was partially fueled by the uptick in PCE in January. The January number ended a 6 month disinflation trend and spooked the market. Fed officials have also pointed out that the rise in PCE concerned them and reiterated that they will continue to monitor PCE closely. As mentioned, the Fed will also see CPI and PPI data prior to the next meeting. PCE data for February is not released until 3/31. Make no mistake, inflation is still the FOMC's main focus!



[CHART 3:] ***U.S. Employment Report: Friday at 8:30 AM***

The chart below details US Payroll Growth since Dec 2020. Payroll growth surged unexpectedly in January 2023, contributing to a sustained move higher in rates since the number was published. The FOMC has repeatedly mentioned that they *want* to see a weaker employment market and *contained* wage inflation. The robust number we got last month showed the opposite. That said, the Bloomberg median estimate calls for a +100k change in US payrolls for February. If the number prints as expected, it should be a welcome development for the Fed and should calm market jitters. The US jobs report will be released on Friday (3/10) at 8:30 AM.





Best Regards,

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