

Flash Update: US Rate Markets - Friday 2/23/2024

- Rates pause ahead of key data and Chairman Powell's Congressional testimony next week
- There is no economic data scheduled for release today
- Market is looking ahead to next week's GDP (2/28) and PCE (2/29) data

Good Morning – US Treasury and SOFR swap rates opened flat to last night's close as traders wait for the release of key economic data and Chairman Powell's Congressional testimony next week. Rates held steady overnight after top Fed officials hammered home the message Thursday that the US central bank is still on track to cut interest rates this year — just not anytime soon. The FOMC is clearly in unison on the current data-driven, "wait-and-see" monetary policy approach. From my perspective the market believes it has adequately adjusted forward pricing to reflect a longer horizon on the first rate cut. Traders were holding out hope that Fed officials would take a more dovish tone this week – the opposite was true. Expect elevated levels of volatility next week as the market digests the economic data and Chairman Powell's remarks. We will dive into GDP and PCE, and what to expect from the Chairman in next week's updates.

Today rates are likely to trade in a sideways range – we may see some intraday volatility lead by the equity markets. Stock markets are nearing historic record levels. The recent tech-led rally has the market's attention. Should traders choose to take profits, we may see some reallocation into bonds while portfolio managers contemplate their next investment. The recent spike in Treasury yields could entice traders to take equity profits and snap up some decent yielding UST's. That could create some rate volatility – we could see rates drift lower.

For the near term the cap market will be about "pockets" of opportunity. Unless we see a dramatic surprise in the data next week, or Chairman Powell changes the script, rates are likely to stay in a range until we see another series of economic data. *Stay tuned!*

Chart 1: US RATES SNAPSHOT: 9:30 AM Eastern

UST YIELDS | SOFR SWAP SPREADS | SOFR SWAP RATES

| GV Ask/Chg | | SOFR/GV | | SOFR OIS | |
|------------|--------------|----------|---------|----------|---------|
| 2Y | 4.709 -0.002 | -14.2200 | -0.2200 | 4.5677 | -0.0063 |
| 3Y | 4.477 -0.008 | -18.1500 | +0.0400 | 4.2963 | -0.0068 |
| 4Y | 4.398 -0.008 | -25.0400 | +0.0100 | 4.1478 | -0.0082 |
| 5Y | 4.319 -0.009 | -26.1300 | -0.2500 | 4.0587 | -0.0158 |
| 7Y | 4.332 -0.012 | -35.6000 | -0.1900 | 3.9765 | -0.0155 |
| 10Y | 4.305 -0.015 | -36.9000 | -0.2700 | 3.9362 | -0.0202 |
| 20Y | 4.557 -0.019 | -65.0900 | -0.0300 | 3.9079 | -0.0180 |
| 30Y | 4.438 -0.018 | -71.9000 | +0.2100 | 3.7192 | -0.0163 |

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

Chart 2: 2Y & 3Y SOFR SWAP RATES, PRIOR 30 DAYS

The graph below details 2Y and 3Y SOFR swap rates for the prior 30 days. You can see the market has been repricing Fed rate cut expectations all month. The first major repricing occurred after Powell's appearance on 60 Minutes – the market finally started to get the message. The second occurred after the hotter-than-expected CPI inflation data. Rates have continued to drift higher since CPI was released, based on continued strong economic data and hawkish Fed-speak. 2Y and 3Y swaps are ~50+ bps higher since the lows for the month on Feb 1. The market has removed more than 2 rate cuts from forward pricing and it feels like they think that is enough for the time being. Next week will be another key test for current market levels. We will see key economic data and hear a detailed update on monetary policy from Chairman Powell.



2Y & 3Y SOFR SWAP RATES, PRIOR 30 DAYS



Source: Bloomberg, LLP | 2Y & 3Y Swap - Prior 30 Days

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