

**Flash Update: US Rate Markets – Thursday 2/29/2024**

- Market shakes-off “as expected” PCE inflation data; Rates remain flat to last night’s close
- Although the PCE data was a relief for the market, headline PCE rose at the fastest pace in nearly a year
- Chairman Powell’s two-day Congressional testimony and Q&A is next week (3/6, 3/7 @10:00 AM)
- There are a host of Fed-officials scheduled to speak this week and next week
- There is the potential for elevated rate volatility this week and next week

Good Morning –

PCE inflation data was released this morning at 8:30 AM (See Chart 2). The PCE data series printed largely “as expected”, however, headline PCE rose at the fastest pace in nearly a year. Overall, market participants took some comfort from the data – there was growing concern that PCE might blow through expectations, but that was not the case. The market reaction to PCE was oddly muted – rates opened very close to last night’s closing levels. SOFR swap rates drifted down ~2 bps this morning after weaker-than-expected Pending Home Sales (released at 10:00 AM).

Forward pricing remained stable this morning – odds for a June rate cut are hovering at 80%. The numbers this week did not really have a significant impact on the forward curve. Forward pricing is now in line with the FOMC’s current dot-plot. (Note: Fed releases a new dot-plot at the March meeting). Both the FOMC and market are expecting three 25 bp rate cuts this year, likely beginning at the June meeting.

*Next week is a big week for the rate markets.* Chairman Powell gives his semi-annual testimony to Congress (followed by an extensive Q&A) on 3/6 and 3/7 at 10:00 AM and we see the aforementioned jobs report released next Friday, 3/8 at 8:30 AM. There are also a host of Fed officials on the tape this week and next. The numbers this week did not really provide any new information, which means that Chairman Powell’s testimony to Congress and Q&A will have even greater significance for the rates market.

**Chart 1: US RATES SNAPSHOT: 10:00 AM Eastern**

**UST YIELDS | SOFR SWAP SPREADS | SOFR SWAP RATES**

GV Ask/Chg	SOFR/GV	SOFR OIS
2Y 4.627 -0.010	-10.5600 -0.6700	4.5234 -0.0161
3Y 4.420 -0.013	-18.4100 -0.6200	4.2379 -0.0181
4Y 4.325 -0.019	-25.2500 -0.2700	4.0810 -0.0169
5Y 4.245 -0.015	-25.6200 -0.0400	3.9891 -0.0154
7Y 4.263 -0.020	-36.4800 -0.0800	3.9006 -0.0201
10Y 4.236 -0.027	-37.8800 +0.2200	3.8588 -0.0256
20Y 4.499 -0.038	-67.2300 +0.7100	3.8275 -0.0320
30Y 4.369 -0.035	-72.9300 +0.2000	3.6401 -0.0340

Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

**Chart 2: PCE Recap**

The table below provides a recap of this morning’s PCE release. Headline PCE rose in January at the fastest pace in nearly a year, supporting the FOMC’s patient approach to begin cutting interest rates. Core PCE, which strips out the volatile food and energy components, increased 0.4% from December and from a year ago, it advanced 2.8%. Economists consider Core PCE to be a better gauge of underlying inflation than the headline index. Headline PCE

rose 0.3% from the prior month and 2.4% from a year ago, according to the report from the Bureau of Economic Analysis. Inflation-adjusted consumer spending dropped slightly in January, taking a breather after a robust holiday shopping season. Real disposable income, the main supporter of spending, was little changed.

The PCE data printed as expected this morning – that was good news for the market. However, the fact that January headline PCE rose at the fastest pace in nearly a year is *not* the best news. Today’s PCE data and yesterday’s GDP data bolster the Fed’s current “wait-and-see” approach and certainly does not argue for imminent rate cuts. With each successive piece of data we see, the Fed’s long stated “higher-for-longer” approach seems to be the appropriate monetary policy for the time being.

## PCE RECAP

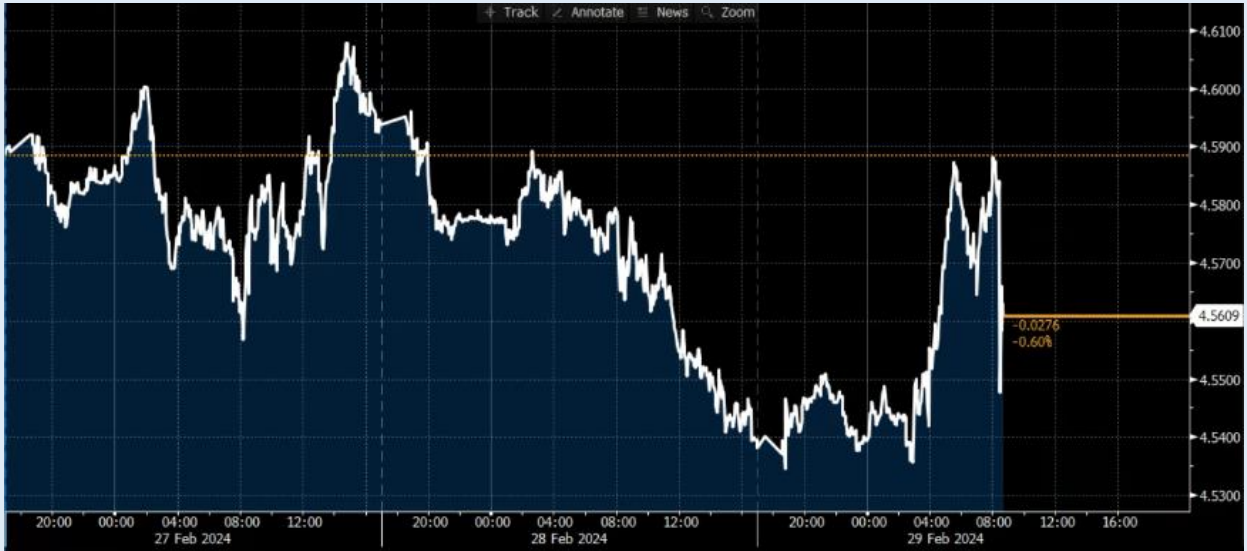
Metric	Actual	Estimate
Real consumer spending (MoM)	-0.1%	-0.1%
PCE price index (MoM)	+0.3%	+0.3%
Core PCE price index (MoM)	+0.4%	+0.4%
PCE price index (YoY)	+2.4%	+2.4%
Core PCE price index (YoY)	+2.8%	+2.8%

Source: Bloomberg, LLP | PCE Recap

### Chart 3: SOFR Swap Market Reaction to PCE

Traders had expected the data this week to be a catalyst for volatility. SOFR swap rates have been bouncing around in a tight, 8 basis point trading range this week. Currently, the FOMC dot-plot and forward market pricing are in sync. That was not the case even a few weeks ago, when the market was predicting more aggressive (and faster) rate cuts than the Fed. It was a bumpy and volatile ride while the market repriced FOMC expectations, but they got there and are now in line with the FOMC dot-plot. I think traders are satisfied with current swap market levels, so it may take something unexpected to break the market out of this range, at least until Powell’s testimony next week. There are a ton of Fed officials on the tape this week and next, but I do not expect any of them to significantly deviate from the FOMC “script”: The Fed is in a data-driven, meeting-by-meeting “wait-and see” mode and will continue to carefully track economic data, particularly the inflation and employment data. Rates are likely to remain range-bound until Chairman Powell’s testimony to Congress next week.

### 2Y SOFR SWAP – PRIOR 3 TRADING SESSIONS



Source: Bloomberg, LLP | 2Y SOFR Swap / PCE

**Disclaimer:** The information provided in this communication is intended for discussion purposes only. Nothing presented in this communication should be taken as a recommendation or forecast. All market data shown is indicative only and subject to change depending on current market conditions.

\*\*\*

**AST Defeasance Consultants**, one of the nation's leading commercial real estate consulting firms, was founded in 2007. We have extensive experience in commercial real estate defeasance, hedging, derivatives, and financial instruments. More than \$50 billion worth of transactions have been executed by the AST team. Only AST can combine innovation, expertise, and exceptional customer service.

**Rate Cap Advisors** was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.

\*\*\*