

Flash Update: US Rate Markets - Friday 3/1/2024

- Chairman Powell's two-day Congressional testimony and Q&A is scheduled for 3/6 & 3/7 @ 10:00 AM
- There are a host of Fed-officials scheduled to speak this afternoon and next week
- Rates are volatile today; Swap rates opened higher on Barkin's comments, then quickly moved lower after the 10:00 AM data

Good Morning -

US Treasury and SOFR swap rates opened flat to last night's close, then drifted higher on comments made by Richmond Fed President Barkin. However, rates dropped after economic data was released at 10:00 AM. Consumer Confidence and ISM Manufacturing missed expectations. Construction Spending results also missed the mark. Currently, swap rates across the curve are trading ~4-7 bps lower than last night's closing levels (See Chart 1). We may see rates continue to drift lower today to end the week.

In short, Barkin reiterated the FOMC's steadfast commitment to lowering inflation. When asked directly if the Fed would be cutting rates this year, Barkin's answer was "maybe". He also said the FOMC would not put too much emphasis on the January numbers, but they would be concerned if the next data series continued to show inflation drifting higher. In short, Barkin made it clear that currently, the Fed is in no rush to cut rates.

I was fortunate to hear Barkin's interview this morning. From my perspective, Barkin's comments leaned somewhat hawkish. He mentioned how encouraged the Fed is with the progress on inflation and strength of the economy – his exact words were "we should be cheering". His tone and remarks however, clearly portrayed a Fed that is still very concerned about inflation – they are determined to hit the 2.00% target and feel it is within reach this year. Barkin's comments supported the current Fed narrative: we are in neutral monetary policy mode. Any change to the current "wait-and see" policy would be data-driven, with the emphasis on employment and inflation data in particular.

<u>Next week is a big week for the rate markets.</u> 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 Employment 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 (See Chart 3). The numbers this week did not really provide any new information, which means that Chairman Powell's testimony to Congress will have even greater significance for the rates market.

Finally, watch the NYCB situation – they disclosed today that they had an issue with "internal controls" – that is never a good thing. NYCB has brought in a new management team, but should the market get spooked about "contagion", we may see a temporary flight-to-quality (read: lower rates) while market participants assess the situation. That could push rates lower.

Chart 1: US RATES SNAPSHOT: 11:00 AM Eastern

UST YIELDS | SOFR SWAP SPREADS | SOFR SWAP RATES

GV Ask/Chg		SOFR/GV		SOFR OIS		
2Y	4.527	0.092	-8.0800	+1.8200	4.4475	-0.0730
3Y	4.324	0.090	-16.5300	+0.9900	4.1613	-0.0795
4Y	4.236	0.092	-23.2000	+1.2300	4.0098	-0.0763
5Y	4.159 -	0.085	-23.6300	+1.3700	3.9233	-0.0726
7Y	4.190	0.081	-34.9100	+0.9800	3.8496	-0.0627
10Y	4.180 -	0.070	-37.3300	+0.4700	3.8100	-0.0633
20Y	4.453 -	0.060	-66.9400	+0.7100	3.7850	-0.0543
30Y	4.331 -	0.048	-73.0000		3.6018	-0.0483

Source: Bloomberg, LLP | 11:00 AM NY Rates Snapshot



Chart 2 & 2A: 1Y & 2Y SOFR SWAP RATES - PRIOR 30 DAYS

Despite heightened intra-day volatility, 1Y and 2Y SOFR swap rates have been trading in a relatively narrow 20 bp range over the prior 2 weeks. You can see that the market began repricing Fed rate cut expectations almost exactly one month ago. In the span of two weeks, the market removed more than 2 rate cuts from forward pricing. This week, the market bounced around in reaction to economic data releases and Fed-speak, but market participants were unwilling to break out of the range. At the moment, The FOMC and "the market" are actually on the same page – the FOMC has three potential rate cuts in their most recent "dot-plot" and the market is pricing in ~3.5 rate cuts. That is the closest the two camps have been in a long time. It also explains the range bound market. Now that the market and Fed are basically aligned, it becomes a waiting game. We simply will need to see more data.

4.6000
4.5000
4.3000
4.1000
4.1000
4.1000
4.1000

CHART 2: 2-YEAR SOFR SWAP - PRIOR 30 DAYS

Source: Bloomberg, LLP | 2Y SOFR Swap - PRIOR 30 DAYS

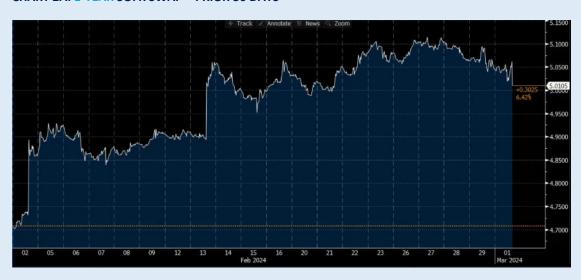


CHART 2A: 1-YEAR SOFR SWAP - PRIOR 30 DAYS

Source: Bloomberg, LLP | 1Y SOFR Swap – PRIOR 30 DAYS

Chart 3: FED SPEECH CALENDAR THROUGH 3/8/24

The table below details the calendar of Fed speaking engagements through March 8, 2024. You can see the schedule is *jam packed*. Fed-speak always has the potential to create volatility as the market reacts real-time to



the comments. The market may also have a delayed reaction to Fed comments made after market hours. Fed-speak will be front and center today and next week – prepare for a jumpy market.

FED SPEECH CALENDAR THROUGH MARCH 8, 2024



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