RateCap Advisors

Flash Update: US Rate Markets – Friday 3/15/2024

- **Rates drift higher this morning, capping off a volatile week for rates**
- **All eyes on FOMC meeting next week; Wed 3/20 at 2:00 PM**
- **The FOMC will be releasing a new "dot-plot" and revised economic projections post-meeting**
- **Traders and economists are still calling for three 25 bp rate cuts this year, beginning at the June meeting**
- **Secondary economic data released today (Import/Export Price Data) show continued sticky inflation**

Good Morning –

US Treasury and SOFR swap rates opened a touch higher this morning (See Chart 1), capping off a "quietly" volatile week for rates. Here is a quick rundown on SOFR swap rate increases this week: **1Y Swap +9 bps; 2Y Swap +18 bps; 3Y Swap +22 bps**. Yesterday's hotter-than-expected PPI inflation data and solid Retail Sales figures further supported the Fed's "wait-and-see" monetary policy position. Stubborn inflation and an overall resilient economy are likely to keep the Fed on hold – the question is for how long. The forward curve is still pricing in 3 rate cuts for this year, beginning in June. Economists also expect three 25 basis point rate cuts this year, beginning at the June meeting. The FOMC's current consensus "dot-plot" shows 3 possible rate cuts beginning later this year. The Fed will release a *new* "dot-plot" at next week's meeting, and revised economic projections. Both will be extremely important in setting the tone for rates for the remainder of the year. We do not see any significant economic data released prior to the Fed meeting, with the exception of February Building Permits and Housing Starts data on 3/19. Barring anything unforeseen, rates are likely to bounce around in a tight range until the FOMC meeting on Wednesday.

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	4.725	+0.032	-11.1600	+0.7600	4.6135	+0.0340
3Y	4.504	+0.041	-16.2300	+0.0600	4.3437	+0.0404
4Y	4.417	+0.038	-23.4800	-0.0800	4.1828	+0.0398
5Y	4.327	+0.038	-24.3800	-0.1300	4.0844	+0.0358
7Y	4.334	+0.035	-34.6500	-0.3600	3.9881	+0.0298
10Y	4.314	+0.023	-38.1300	-0.2300	3.9348	+0.0224
20Y	4.559	+0.022	-67.4000	-0.8400	3.8859	+0.0126
30Y	4.444	+0.011	-75.0800	-0.2000	3.6938	+0.0086

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

Chart 2 & 2A:

Chart 2: *Forward Curve and Economists Agree: First 25 bp Rate Cut At June FOMC Meeting*

The Bloomberg chart below shows a comparison between the survey taken in December and the most recent survey for March. In December, economists were leaning towards *more* than three 25 basis point rate cuts this year. According to poll respondents, the recent uptick in inflation and still strong jobs market and consumer

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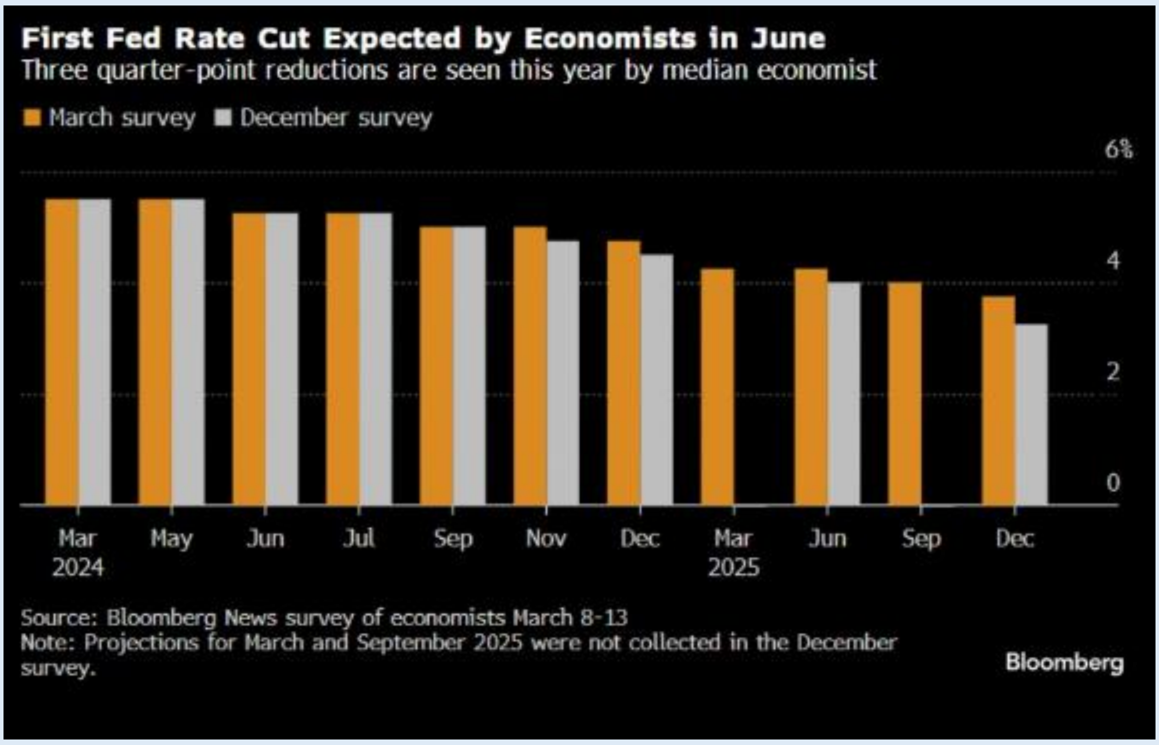
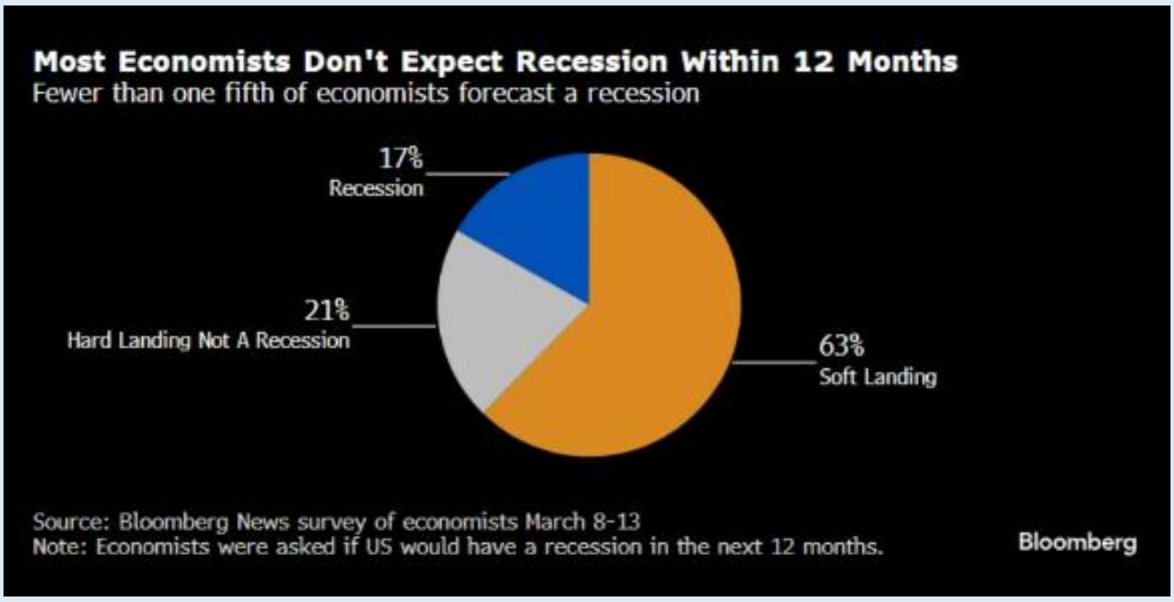
caused economists to dial-back rate cut expectations. The majority of economists are now calling for three 25 bp rate cuts beginning in June – that also reflects current market pricing. I still feel that the market's "enthusiasm" for a rate cut may be clouding the reality. Yes, surprises and unforeseen events may always be lurking around the next corner. Barring that scenario, *the Fed needs a compelling reason to cut rates anytime soon.* Given current economic conditions and stubborn inflation, I do not see that "reason to cut" on the immediate horizon. We will hopefully get at least some of the answers we need next week from the Fed and Chairman Powell's press conference. The Fed trifecta of Chairman Powell, a new "dot-plot" and revised economic projections will provide a ton of information for the market to process.



Source: Bloomberg, LLP | Bloomberg Economist Survey Results – 2024 Projected FOMC Rate Cuts

Chart 2A: *"Soft-Landing"? Economists Say Yes!*

I found the chart below compelling. Until recently, economists and forecasters had been shouting "recession is coming!" from the rooftops for all to hear. As we now know, they were wrong – the US economy has proven to be extremely resilient, even in the face of high inflation and massive rate hikes. The economy has been powered by a robust jobs market and strong consumer demand. Recently, we have seen data that suggests the economy may be showing signs of cooling down. For example, the February Retail Sales numbers released yesterday were a strong +0.6%, but expectations called for +0.8%, and last month's numbers were revised lower. From my perspective the US economy *is* showing signs that it is cooling-off. According to the latest Bloomberg survey, economists agree. 63% of economists surveyed believe the economy will achieve a soft-landing in the next 12 months. Only 17% are calling for a full-fledged recession and 21% believe we will see a hard-landing. The FOMC will release revised economic projections next week, so we see their current thoughts on the economy and their expectations going forward.



Source: Bloomberg, LLP | Bloomberg Economists – 2024 Outlook

<u>Chart 3:</u> *A "Quietly" Volatile Week Sees Swap Rates Creep Higher*

The below graph shows 2Y and 3Y SOFR swap rates for the prior 30 days. 2Y SOFR swaps are ~15 bps higher than they were 30 days ago. Despite the choppy intraday volatility we have witnessed, that is not a major move. It is clear the market is waiting for guidance from the FOMC and trying not to overreact to the data. That said, swap rates have quietly crept higher this week as we approach next week's Fed meeting. Yesterday's PPI data caused the biggest rate increase of the week, as market participants were hoping for more encouraging inflation news. Rates are likely to remain in a tight range ahead of the FOMC meeting. The fact that rates are at the top of the recent range tells me the market is nervous that the Fed will revise the "dot-plot" lower. That could push rates higher as the market "reprices" the forward curve. *Stay tuned!*

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