

Flash Update: US Rate Markets – Tuesday 3/19/2024

- FOMC Meeting Wednesday, March 20 at 2:00 PM Eastern
- FOMC Chairman Powell's press conference (and Q&A) to immediately follow at ~2:30 PM Eastern
- Housing Starts and Building Permits data prints better-than-expected; Good news for housing sector

Overall, rates remain quiet ahead of Wednesday's FOMC meeting. Rates did slide lower this morning, mostly due to institutional repositioning prior to the Fed meeting. (See Chart 1). I do not expect rates to move materially ahead of tomorrow's FOMC meeting, and volatility will likely remain subdued as well. *The market is waiting for guidance and information from the Fed.*

The Fed rate decision is due at 2:00 PM tomorrow, followed by Chairman Powell's press conference and Q&A at ~2:30 PM. Consensus calls for the Fed to hold rates unchanged for the fifth straight meeting. Market participants will be particularly focused on the new Fed "dot-plot" – there are growing market concerns that the Fed may reduce the amount of rate cuts "projected" for this year. The FOMC will also release revised economic projections, which will provide valuable insight into the Fed's overall view on the economy and inflation.

We did get some encouraging news from the housing sector this morning. New home construction bounced back sharply last month, signaling builders are benefiting from slightly more favorable mortgage rates and a scarcity of existing houses for sale. Residential Housing Starts increased 10.7% in February, the largest since May, and Building Permits, a proxy for future construction, rose to a 1.52 million rate, the fastest since August. Both building permits and housing starts figures for January were revised higher. Single-family home construction increased to a two-year high, while multifamily home starts rose 8.3% after a steep drop the prior month.

GV Ask/Chg		SOFR/GV		SOFR OIS	
2Y	4.698 -0.034	-10.0300	+0.1300	4.5986	-0.0317
3Y	4.484 -0.033	-15.7700	+0.3700	4.3285	-0.0290
4Y	4.411 -0.024	-23.2000	+0.1800	4.1703	-0.0256
5Y	4.319 -0.023	-24.5000	+0.1200	4.0737	-0.0220
7Y	4.326 -0.018	-34.4100	+0.3100	3.9840	-0.0145
10Y	4.312 -0.012	-37.5000	+0.5000	3.9380	-0.0065
20Y	4.562 +0.002	-66.3800	+0.4300	3.9003	+0.0053
30Y	4.453 +0.004	-74.1300	+0.5000	3.7126	+0.0101

Chart 1: US RATES SNAPSHOT: 10:30 AM Eastern

Source: Bloomberg, LLP | 10:30 AM NY Rates Snapshot

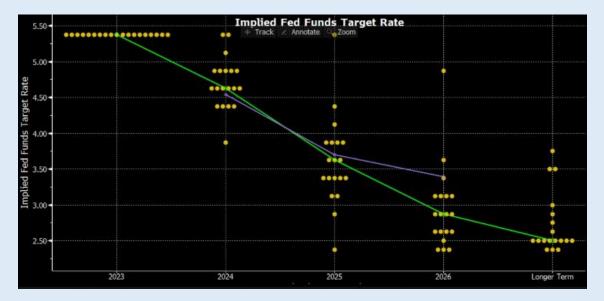
Chart 2: FOMC Preview – Revised "Dot-Plot", New Economic Projections and Chairman Powell's Press Conference

The most recent FOMC "dot-plot" is shown below for reference. It currently implies three potential 25 bp rate cuts and a year-end FF rate of ~4.75%. The Fed will be releasing a fresh "dot-plot" at tomorrow's meeting. Given the recent uptick in inflation, speculation is growing that the FOMC may revise the dot-plot higher – meaning less rates cuts and a higher year-end Fed Funds rate. Should the Fed pare rate cuts from the "dot-plot", swap rates are likely to move higher. The market will be forced to reprice the forward curve to account for less rate cuts. We will break down the new "dot-plot" and the market implications later this week. Chairman Powell's press conference will



once again be the main event. Will he stand firm on inflation and rule out near term rate cuts, or will he lean dovish in anticipation of tougher economic times ahead? *Stay tuned*!

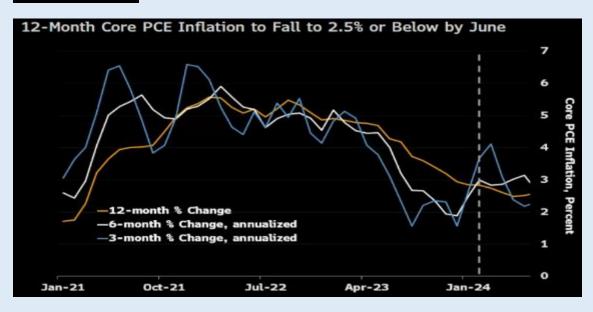
Existing FOMC "Dot-Plot"



Source: Bloomberg, LLP | Existing FOMC "Dot-Plot"

<u>Chart 2A:</u> Economists See Encouraging Outlook For Core PCE...Does The Fed Agree?

Core PCE, the Fed's preferred inflation gauge, is currently forecast to be at or below 2.5% by June. The Fed has *strongly* hinted recently that they are prepared to cut rates before inflation reaches 2.00%. The Fed will release revised economic projections tomorrow, including forecasts for PCE. Should the Fed concur with economists, it would likely increase market odds for a 25 bp June rate cut. From my perspective, I still do not think there is a compelling reason for the Fed to cut rates anytime soon. The risk remains that the market is still ahead of the Fed on rate cuts and will need to correct.



Core PCE Forecasts

Source: Bloomberg, LLP | Core PCE Projections – Bloomberg Economists



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