

Flash Update: US Rate Markets – Friday 1/17/2025

- Rates edged slightly higher this morning on better-than-anticipated housing data
- Housing Starts and Building Permits came in stronger-than-expected, but traders largely ignored the data
- Market participants are still reacting to Wednesday's CPI data and the dovish Fed-speak heard this week
- The positive inflation data and dovish Fed-speak have revived Fed-rate cut hopes for 2025
- Market participants will now shift focus to President-elect Trump's inauguration and more importantly, his policy initiatives
- Fed officials will be in their pre-meeting "external communications blackout" from 1/18 through 1/30
- The next FOMC rate decision is due on January 29th at 2:00 PM
- Short-end SOFR swap rates are trading ~1-2 bps *higher* than night's closing levels
- Long-end swap rates are *down* ~1 basis point this morning
- Overall, SOFR swap rates are holding mostly steady this morning – expect swap rates to bounce around today as the market positions for next week's inauguration

US Treasury yields and SOFR swap rates started the morning a touch lower, then reversed course and ticked slightly higher on much stronger-than-anticipated housing data. Rates edged lower yesterday after Fed comments indicated rate cuts are by no means off the table for 2025. The revived optimism surrounding Fed rate cuts carried over to this morning – traders didn't totally ignore the strong housing data, but traders are still clearly focused on the positive CPI data we got on Wednesday. However, traders appear to be particularly cautious about pushing rates lower – that said, market participants do not seem prepared to take rates materially lower, or higher at the moment. This morning's muted reaction to the Housing Data is evidence of that caution. There is still too much uncertainty surrounding Fed rate cuts and the potential impact of President-elect Trump's policy initiatives for the market to draw any firm conclusions about the path forward for interest rates. Short-term SOFR swap rates are up ~1-2 basis points currently; Long-term SOFR swap rates are down ~1 bp this morning.

Additionally, there are some recent signals that FOMC members are not completely in sync about the path forward for rate cuts. The timing of the next rate cut also seems to be up for a fierce debate among FOMC members. Yesterday, the Fed's Goolsby implied that given favorable inflation data the Fed could cut three or even four times this year, and perhaps as early as the March meeting. However, the Fed's Hammack said yesterday that when it comes to making further cuts, "we can be very patient". Note: Hammack dissented at the last Fed meeting and did not support the 25 bp rate cut. This adds a new wrinkle to Fed rate cut decisions this year – until the December meeting, Fed policy adjustments had been unanimous. This will only add to the drama surrounding the path forward for monetary policy adjustments. Nonetheless, markets have steadied as data and comments from Fed officials suggest the central bank will have room to cut interest rates this year. Swap markets now expect ~40 basis points worth of rate cuts from the Fed in 2025 – at the start of this week, market pricing did not even reflect a full 25 bp rate cut this year!

Please note Fed officials will be entering their "quiet period" ahead of the 1/29 FOMC meeting. Yesterday was the last day for Fed-speak until the end of the month. As such, traders will be focused on economic data and more importantly, the impact of President-elect Trump's new policies. We do not see any significant economic data until after the FOMC meeting (GDP 1/30; PCE 1/31), so traders will be laser focused on what President Trump will do in his first few weeks in office. *From my perspective, given the myriad forces currently impacting the market, there is the potential for elevated rate volatility over the next 30 days.*

CHART 1: US RATES SNAPSHOT: 10:00 AM Eastern

****SOFR Swap Rates & Change-On-Day (In Bps) Two Far Right Columns***

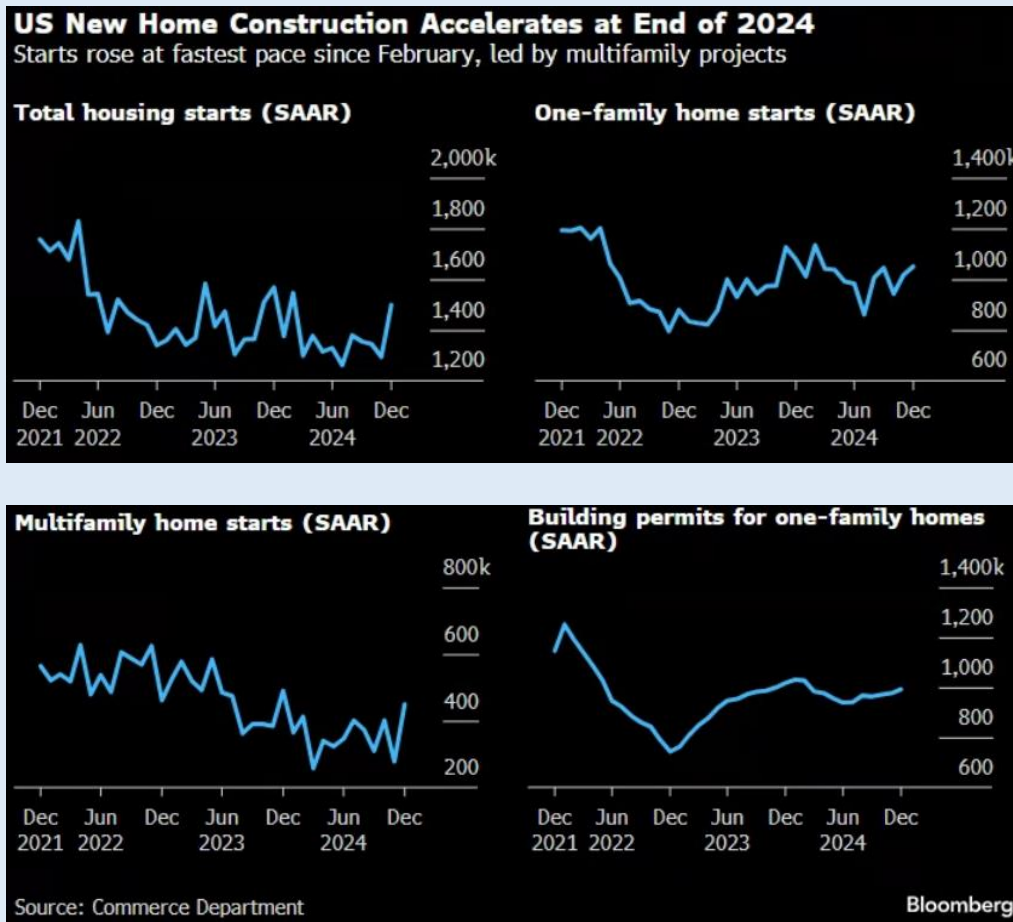
	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.261 +0.031	-13.8495 -0.5795	4.1238 +0.0252
3Y	4.323 +0.028	-20.9588 -0.1088	4.1140 +0.0268
4Y	4.390 +0.019	-25.1675 +0.4725	4.1164 +0.0270
5Y	4.410 +0.013	-29.0000 +1.0070	4.1220 +0.0248
7Y	4.510 +0.004	-37.5462 +1.1073	4.1354 +0.0143
10Y	4.605 -0.009	-44.6250 +1.1250	4.1595 +0.0035
20Y	4.910 -0.016	-71.0715 +1.0624	4.2012 -0.0049
30Y	4.837 -0.019	-80.1250 +1.1250	4.0363 -0.0072

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

CHART 2 & 2A: HOUSING STARTS AND BUILDING PERMITS BEAT EXPECTATIONS

December Housing Starts and Building Permits results both beat expectations, welcome news for the housing market. More encouraging for the commercial real estate sector, the significant increase in Housing Starts was led by the multi-family sector. In fact, Housing Starts in the US climbed in December to the fastest pace since early 2024, reflecting a surge in multifamily projects. Construction of new multifamily projects, such as apartments, surged nearly 62% IN December. This is positive news for the housing sector – we could see this trend continue if the FOMC cooperates with further rate cuts in 2025. Based on the dovish slant to Fed-speak this week, optimism for “multiple” Fed rate cuts has been revived.

CHART 2: Housing Starts & Building Permits Beat Expectations, Led By Multi-Family Sector



Source: Bloomberg, LLP | December Housing Starts & Building Permits Data

CHART 3: SOFR SWAP RATES STEADY AS FED RATE CUT BETS REVIVE

SOFR swap rates initially dipped lower this morning across the curve, as rate cut optimism has been increasing since the better-than-expected CPI data printed on Wednesday. However, the strong housing data released at 8:30 AM caused Fed-sensitive short-term swap rates to reverse course and tick a touch

higher than last night's close (See Chart 3 below, far right). Longer-term swap rates continued to drift lower on the positive economic and inflation data we saw this week.

CHART 3: 1Y, 2Y & 3Y SOFR SWAP RATES, PRIOR (30) DAYS



Source: Bloomberg, LLP | 1Y (WHITE), 2Y (GREEN) & 3Y (ORANGE) SOFR SWAP RATES, PRIOR (30) DAYS

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