

## **Flash Update: US Rate Markets – Tuesday 10/29/2024**

- **Rates edge higher as traders brace for economic and inflation data due this week**
- **SOFR swap rates are up ~1-3 bps this morning across the curve**
- **Market participants are preparing for a full plate of important economic data and corporate earnings reports due this week**
- **The data this week kicks-off with the release of the September JOLTS jobs report this morning at 10:00 AM**
- **The “big” data event for the week is the Employment Report due Friday 11/1 at 8:30 AM**
- **3Q GDP prints Wednesday 10/30 at 8:30 AM; PCE inflation data is due Thursday, 10/31 at 8:30 AM**
- **There is also a host of secondary, but important economic data set for release this week**
- **The upcoming election remains front-and-center for the rate markets**
- ***Expect choppy rate markets to continue for the near term***

US Treasury yields and SOFR swap rates edged higher this morning as traders brace for a flood of economic data due this week. The data kicks-off with this morning’s JOLTS jobs report at 10:00 AM. Given the Fed’s emphasis on the jobs market, we may get a market reaction to JOLTS, but it is more likely the market will wait for the more important numbers we will see beginning tomorrow.

Short-end SOFR swap rates (1-3 years) opened 1-2 bps higher this morning – nothing material. Overall, swap rates are up ~1-3 across the curve this morning. Make no mistake, this is a *big* week for economic data. The data released this week will be the last “significant” economic and inflation data the Fed will see prior to the November meeting. The prospect of less aggressive Federal Reserve interest-rate cuts will continue to weigh on markets.

The upcoming presidential election will also remain front and center for the market this week. We are not likely to get much new information from the candidates this week, but we could see some increased volatility as traders position for the possible outcome. *I expect the choppy rate markets to continue for the near term as traders work through the lingering uncertainty surrounding the election and the FOMC’s next rate move. Should momentum continue to build for “no rate cut” in November, SOFR swap rates are likely to move higher, and so are cap premiums.*

Recent strong economic data, coupled with a slight uptick in inflation, has led to speculation that the Fed could “hold off” on a rate cut in November. Uncertainty surrounding the outcome of the presidential election is also contributing to a growing sentiment that the Fed could skip a rate cut in November. That said, forward pricing currently reflects ~24.1 bps of rate cuts for November and ~42.3 bps for 2024, indicating that traders firmly believe the FOMC will cut rates 25 bps in November – odds for a 25 bp rate cut in November are sitting at ~97%. Fed officials are in the pre-meeting “blackout” period, so we will not hear from any Fed officials until Chairman Powell’s post-meeting press conference next week.

As mentioned, this is a *big* week for the rate markets! The “big” data events for the market this week are Wednesday’s release of 3Q GDP, Thursday’s release of the September PCE inflation data and Friday’s release of the October Employment Report. Of the three, Friday’s Employment Report will likely draw the most market attention, followed closely by the PCE data. Barring a major surprise with GDP and/or PCE, the main risk event for rates this week is Friday’s Employment Report.

Friday’s jobs report may be *the* data that determines the Fed’s next move. As we know, the Fed is paying *very* close attention to the jobs market. A weak jobs report would likely increase the odds that the Fed cuts rates 25 bps at the November meeting. However, should the jobs report print stronger-than-expected, and should PCE show an uptick in inflation, SOFR swap rates are likely to drift higher. An uptick in core PCE would only add to speculation that the Fed could skip a rate cut in November. A significant 3Q GDP surprise could also impact the market, but that is not expected. 3Q GDP is anticipated to show 3.0% economic growth. There is also a host of secondary, but important economic data set for release this week. Here’s a quick rundown: JOLTS jobs report is released on 10/29; ADP jobs report is released on 10/30; Personal Income & Personal Spending are released on 10/31. Market participants will also see a flood of corporate earnings reports this week, which could add to rate volatility.

**CHART 1: US RATES SNAPSHOT: 9:30 AM Eastern**

	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.169 +0.032	-22.7087 -0.9627	3.9380 +0.0136
3Y	4.124 +0.032	-26.8698 -1.1448	3.8569 +0.0207
4Y	4.161 +0.036	-32.8620 -1.2370	3.8147 +0.0246
5Y	4.158 +0.039	-36.1400 -1.3900	3.7975 +0.0265
7Y	4.237 +0.040	-44.3500 -1.3500	3.7964 +0.0282
10Y	4.322 +0.041	-49.8750 -1.1250	3.8246 +0.0290
20Y	4.663 +0.038	-78.7500 -1.0800	3.8766 +0.0258
30Y	4.564 +0.035	-83.8500 -1.0753	3.7263 +0.0236

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

**Note:** First column is the current market level, second column is the change on the day; 'Red' = Lower; 'Green' = Higher; 'White' denotes active trading

**CHART 2: SOFR Swap Rates Hold Steady As Market Participants Prepare For A "Big Week"**

SOFR swap rates held mostly steady this morning, as traders brace for the full plate of important economic data released this week. SOFR swap rates are currently ~1-3 bps higher across the curve. Rates popped up in early October after the strong jobs report, but have since remained stuck in a ~10 bp range. You can see from the below graph that SOFR swap rates are currently sitting near the top of the trading range. *Uncertainty surrounding the forward path for rates is likely to continue to cause choppy rate markets with spikes of intraday volatility.* The close presidential election race is also weighing on market sentiment, as traders contemplate the economic and monetary policy impact of a new president. Please note that due to Election Day, the next FOMC rate decision is due *Thursday, November 7th at 2:00 PM.*

**CHART 2: 1Y (white), 2Y (green), 3Y (orange), 5Y (purple) & 10Y (gold) SOFR Swap Rates – Prior (30) Days**

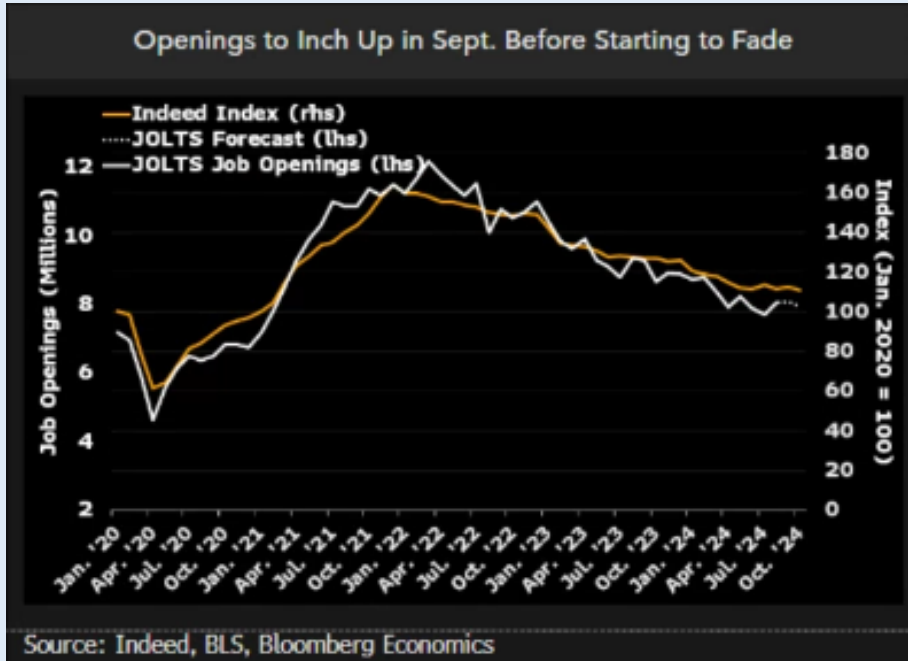


Source: Bloomberg, LLP | 1Y, 2Y, 3Y, 5Y & 10Y SOFR SWAP RATES – PRIOR (30) Days

**CHART 3: JOLTS Report Expected To Show Improvement In Job Openings**

Bu most measurements, labor demand was robust in September, supporting a surge in hiring and decline in unemployment. As such, economists expect the job-openings data to show a corresponding increase in vacancies. The JOLTS data prints this morning at 10:00 AM. A stronger-than-expected JOLTS number could push rates higher as the market contemplates the Fed's next rate move. There is growing speculation that the Fed may be "slower to lower", particularly if we get a broad range of strong economic data this week.

**CHART 3: Historical JOLTS Data**



Source: Bloomberg, LLP | HISTORICAL JOLTS DATA

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