Flash Update: **US Rate Markets – Thursday 10/31/2024**

- **Rates hold steady this morning as PCE and ECI data show inflation remains *relatively* subdued**
- **A slight uptick in YoY Core PCE to 2.7% caught the market's attention**
- **Personal Spending beat expectations; The US consumer continues to power the economy**
- **Weekly jobless claims fell to a five-month low**
- **Short-end SOFR swap rates are up ~1 bp this morning**
- **The "big" data event for the week, however, is the October Employment Report due tomorrow, 11/1 at 8:30 AM**
- **The presidential election will remain front-and-center for the rate markets as we draw closer to election day**
- ***Expect choppy rate markets and pockets of intraday rate volatility to continue for the near term***

US Treasury yields and SOFR swap rates held steady this morning on solid consumer spending data and a slight uptick in Core PCE. The Employment Cost Index (ECI) came in under expectations signaling that wage inflation remains subdued. Fed-sensitive short-end SOFR swap rates (1-3 years) are currently up ~1 bp this morning. *SOFR Swap rates are likely to continue to bounce around today as the market digests the data.*

Forward pricing is mostly unchanged this morning. The forward curve currently reflects ~23.4 bps of rate cuts for November and ~42.8 bps for 2024, indicating that traders still firmly believe the FOMC will cut rates 25 bps in November – odds for a 25 bp rate cut in November are sitting at ~98%. Traders appear to be unwilling to consider the Fed may hold off on a rate cut next week. That said, traders continue to trim forward rate cut bets, but not materially. There is a growing sentiment the Fed may be "slower to lower", but traders are holding on to hopes the Fed is preparing for a series of rate cuts. We will hear more about that from the Fed next week. Should the Fed signal a slower path forward for rates cuts, rates will increase in response.

The "big" data event for the market this week is tomorrow's release of the October 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 lock in a 25 bps rate cut next week. However, should the jobs report print stronger-than-expected, SOFR swap rates are likely to drift higher. Expectations for tomorrow's jobs report are calling for a 4.10% Unemployment Rate (unchanged from the prior month) and 105k addition to non-farm payrolls (vs. 254k the prior month). *Keep in mind that the jobs data may be distorted by the recent labor strikes and the devastating hurricane season, so there is a broad range of possible outcomes. Tomorrow's number is definitely a "wildcard" and a risk event for the market.*

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 may 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.*

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

UST YIELDS SWAP SPREADS SOFR SWAP RATES

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2Y	4.191	+0.009	-22.0239	+0.0251	3.9715	+0.0091
3Y	4.161	+0.015	-27.0988	-0.4088	3.8909	+0.0094
4Y	4.181	+0.009	-32.7700	-0.2700	3.8405	+0.0095
5Y	4.174	+0.012	-36.2496	-0.3913	3.8130	+0.0085
7Y	4.234	+0.008	-44.1919	-0.6199	3.7927	+0.0012
10Y	4.300	+0.000	-50.2493	-0.7493	3.7998	-0.0059
20Y	4.617	-0.002	-79.4774	-1.0909	3.8249	-0.0134
30Y	4.493	-0.011	-83.1221	-0.6221	3.6630	-0.0160

Source: Bloomberg, LLP | 10:00 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***

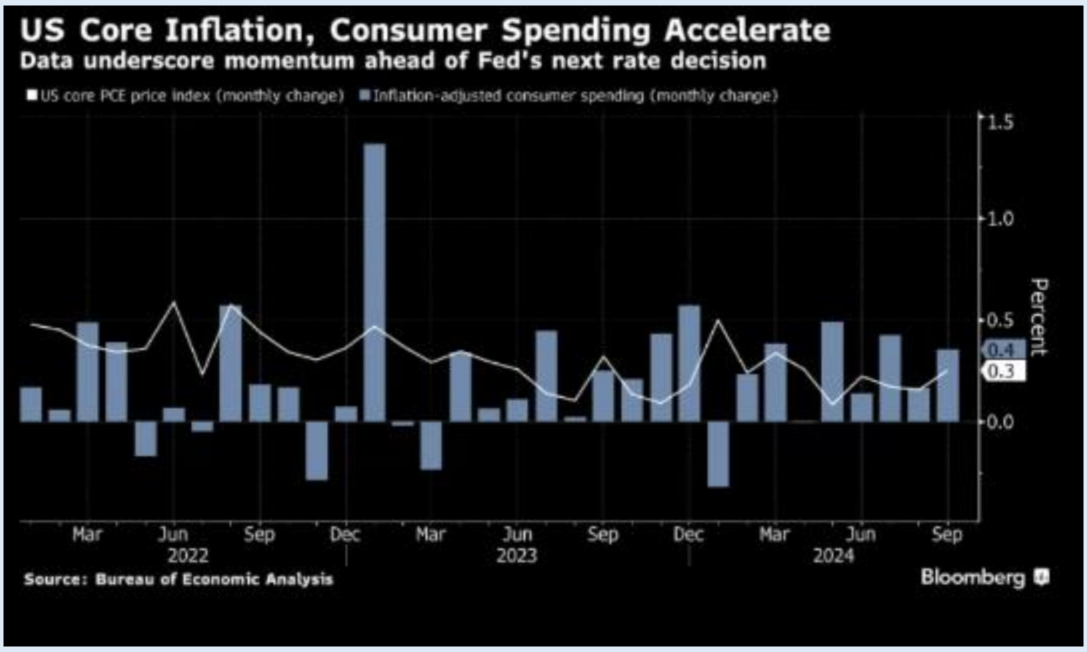
<u>CHART 2:</u> PCE, ECI, Personal Spending & Personal Income Recap

The FOMC's preferred measure of underlying US inflation, PCE, posted its biggest monthly gain since April, bolstering the case for a slower pace of interest-rate cuts following last month's jumbo reduction. Core PCE, which strips out volatile food and energy items, increased 0.3% in September, and 2.7% from a year earlier. The YoY Core PCE increase of 2.7% was slightly above expectations calling for a 2.6% print.

Inflation-adjusted consumer spending advanced 0.4%, an acceleration from the prior month and supported by continued growth in wages and salaries. The Employment Cost Index (ECI) rose 0.8% in September, the smallest advance since mid-2021. The more temperate ECI reading aligns with Fed Chair Jerome Powell's assessment last month that "the labor market is not a source of elevated inflationary pressures."

Today's data caps off a month of upside surprises in key economic reports that will likely augur a cautious approach to interest-rate cuts in the months ahead.

<u>CHART 2:</u> ***Inflation Ticks Higher; Personal Spending Remains Robust; Employment Costs Subdued***

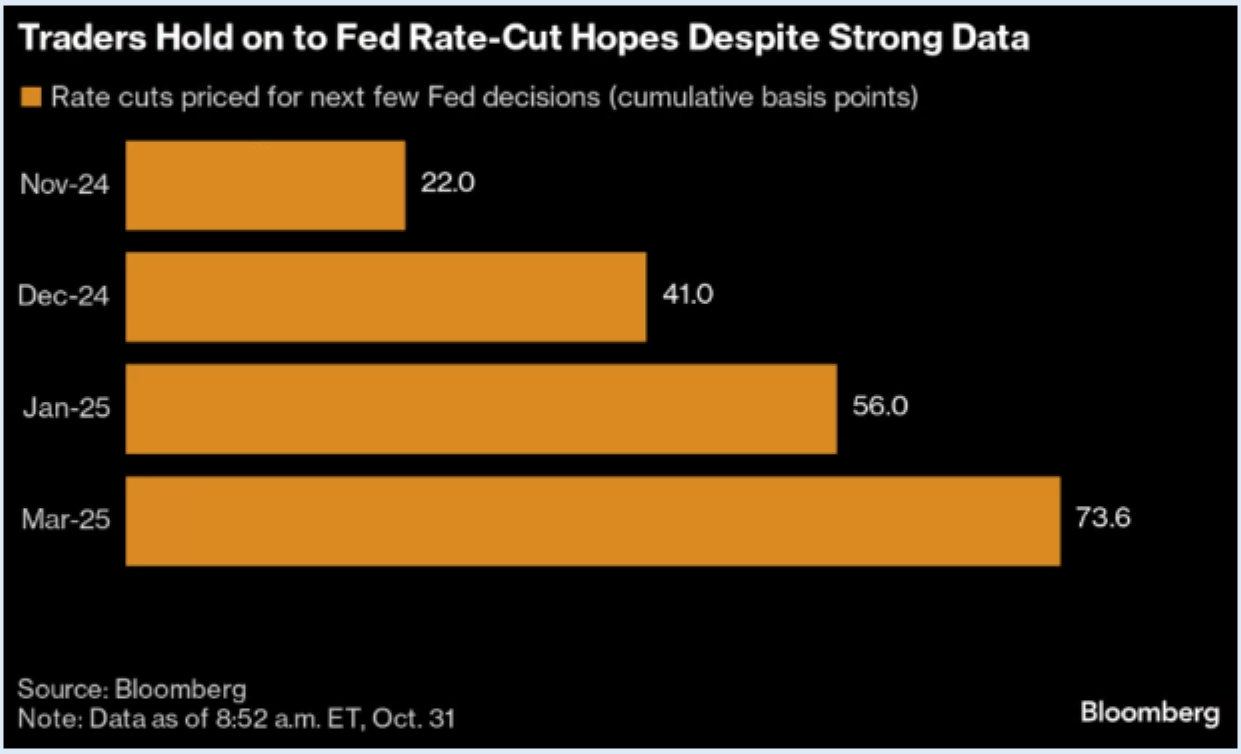


Source: Bloomberg, LLP | PCE, PERSONAL SPENDING HISTORICAL DATA

<u>CHART 3:</u> Market Ignores Strong Economic Data; Traders Appear Reluctant To Adjust Fed Rate Cut Expectations

Traders appear reluctant to adjust expectations calling for a swift succession of Fed rate cuts. However, the broad range of strong economic data we have seen this month calls into question just how far the Fed will need to go on rate cuts. The slight uptick in inflation also supports pumping the brakes on rate cuts, or at least slowing the pace. *Bottom line: From my perspective, there is a real risk the market will* *need to recalibrate their rate cut expectations very quickly if it turns out the economy needs far less support than they previously thought.*

<u>CHART 3:</u> Market Fed Rate Cuts Expectations Little Changed This Week



Source: Bloomberg, LLP | Fed Rate Cut Expectations to March-2025

Disclaimer: *The information provided in this communication is intended for discussion purposes only. Nothing presented in this communication should be taken as a recommendation or forecast. All market data shown is indicative only and subject to change depending on current market conditions.*

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