

**Flash Update: US Rate Markets – Friday 11/15/2024**

- Solid Retail Sales data and cautious comments from Chairman Powell push rates higher this morning
- October Retail Sales data was solid, but September’s results were revised significantly higher
- Chairman Powell’s comments yesterday had a cautious tone and hinted that the Fed may slow the pace of rate cuts
- Fed-sensitive short-end SOFR swaps are currently trading ~1-3 bps higher
- Long-term swap rates are ~3-5 basis point higher this morning
- For the week, 2Y SOFR swap rates are ~9 bps higher
- Expect the choppy rate markets to continue as traders react to the election, Fed-speak and economic data

Solid Retail Sales data for October, coupled with cautious comments yesterday from Chairman Powell, combined to push rates higher this morning. US Retail Sales advanced 0.4% in October, boosted by a jump in auto purchases, while other categories signaled some momentum heading into the holiday season. September Retail Sales were revised up to 0.8% from 0.4%, a significant and strong revision. Yesterday, Jerome Powell signaled the FOMC was in no rush to cut interest rates, and unease continues to build over the composition of President-elect Donald Trump’s cabinet. SOFR swap rates are currently up ~1-5 basis points across the curve (See Chart 1). Expect the choppy rate markets we have seen recently to continue, as market participants react to political developments, economic data and Fed-speak. Odds for a 25 bp December rate cut have dropped back down to ~55%.

Yesterday, Chairman Powell said “the economy is not sending any signals that we need to be in a hurry to lower rates”. He also said the recent performance of the US economy has been “remarkably good,” giving central bankers room to lower interest rates at a careful pace. The prospect of slower rate cuts, coupled with the growing trepidation surrounding the impact of President-elect Trump’s new fiscal policies will likely keep rates biased higher for the near term. There is no obvious catalyst on the immediate horizon that would lead to materially lower interest rates. However, there are a number of possible near-term catalysts that could drive rates higher.

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

	<b>UST YIELDS</b>	<b>SWAP SPREADS</b>	<b>SOFR SWAP RATES</b>
2Y	4.358 +0.013	-21.2852 +0.4874	4.1475 +0.0180
3Y	4.333 +0.022	-25.8964 +0.0664	4.0763 +0.0254
4Y	4.374 +0.034	-32.1250 +0.0120	4.0290 +0.0323
5Y	4.364 +0.040	-36.3944 -0.0103	4.0010 +0.0390
7Y	4.428 +0.045	-45.0600 +0.1148	3.9789 +0.0458
10Y	4.485 +0.049	-50.5141 +0.2359	3.9807 +0.0507
20Y	4.750 +0.053	-76.7063 -0.4676	3.9847 +0.0492
30Y	4.636 +0.050	-82.7500 -0.1750	3.8098 +0.0476

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

**CHART 2 & 2A: OCTOBER RETAIL SALES RECAP – RETAIL SALES SOLID, SEPTEMBER DATA REVISED HIGHER**

US Retail Sales advanced in October, boosted by a jump in automobile purchases, while other categories signaled building momentum heading into the holiday season. The value of retail purchases, unadjusted for inflation, increased 0.4% after an upwardly revised 0.8% gain in September. Excluding automobiles, sales for October edged up 0.1%. *Retail Sales ex-autos was revised to 1.00% from 0.5%, and the Control Group figure was revised to 1.2% from 0.7%.* The significant upward revisions suggest consumers

entered the final months of the year with strong momentum, which may portend a solid holiday-shopping season. However, inflation remains stubborn and several retailers are already considering hiking prices in anticipation of higher tariffs on imported goods under President-elect Donald Trump. I think that is the primary reason that the market did not react even more positively to the sales data released this morning.

**CHART 2: October Retail Sales Recap – Consumer Remains Resilient**

Metric	Actual	Estimate
Retail sales (MoM)	+0.4%	+0.3%
Sales ex. autos, gas (MoM)	+0.1%	+0.3%
'Control group' sales (MoM)	-0.1%	+0.3%

Source: Bloomberg, LLP | OCTOBER PPI RECAP

**CHART 2A: Retail Sales Poised For Strong Fourth Quarter**



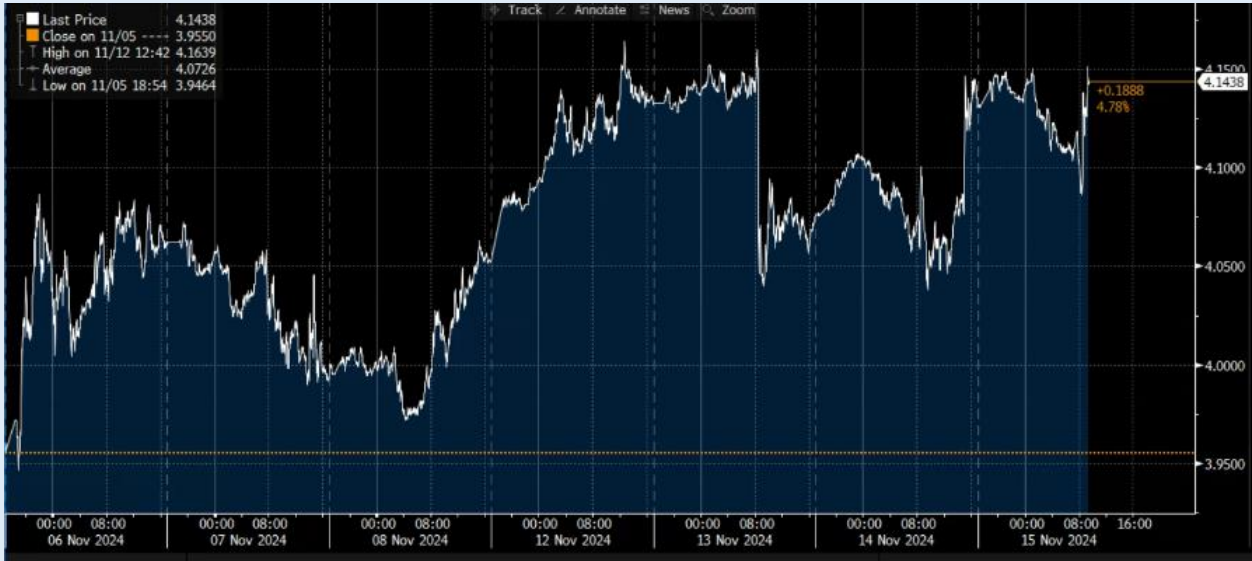
Source: Bloomberg, LLP | RETAIL SALES HISTORICAL DATA

**CHART 3: SOFR SWAP RATES MOVE HIGHER; SWAP RATES LIKELY TO REMAIN BIASED HIGHER FOR THE NEAR TERM**

SOFR swap rates drifted higher this week as data showed stubborn inflation, solid retail sales and sustained demand in the labor market. You can see below how the week evolved – we started the week off with higher rates on stronger-than-anticipated consumer sentiment data, but rates bounced around as the market digested the inflation numbers. Rates moved higher yesterday afternoon on Chairman Powell’s cautious tone regarding rate cuts. This morning rates are drifting a touch higher, but are largely subdued given the intraday volatility we have witnessed the past few weeks. SOFR swap rates are likely to remain choppy as the markets absorbs new data and tracks President-elect Trump’s policy developments and cabinet appointments. He has already raised eyebrows with some of his nominations.

Next week we do not see any “key” data, but there is a host of secondary economic data set for release including: Housing Starts and Building Permits data on 11/19; Existing Home Sales data on 11/21; S&P Global Manufacturing & Services PMI data on 11/22.

**CHART 3: 2Y SOFR Swap Rates, Prior (7) Trading Sessions**



Source: Bloomberg, LLP | 2Y SOFR SWAP RATES, PRIOR (7) TRADING SESSIONS

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