

Flash Update: US Rate Markets – Wednesday 11/20/2024

- **Rates drift higher this morning on “slower-to-lower” Fed-speak; Easing geopolitical tensions also help edge rates higher**
- **Yesterday, Russian President Vladimir Putin was reported to be willing to talk with US President-elect Donald Trump about a cease-fire deal in Ukraine.**
- **Economic data is light this week, keeping the market focused on Fed-speak**
- **Earlier today, Kansas City Fed chief Schmid said he is “uncertain how far interest rates will fall”**
- **Traders continue to dial down expectations for interest rate cuts**
- **Forward pricing currently implies 75 basis points of additional rate cuts by the end of 2025**
- **President-elect Trump’s cabinet selections remain a primary focus for market participants**
- **It is possible President-elect Trump will attempt to influence the FOMC to lower rates, keeping the outlook for rate cuts uncertain**
- **Fed-sensitive short-end SOFR swaps are currently trading ~1 bp higher this morning**
- **Long-term SOFR swap rates are ~1-2 basis point higher this morning**

US Treasury yields and SOFR swap rates moved higher this morning on easing geopolitical tensions and Fed-speak indicating the FOMC may take a more gradual approach to rate cuts. Yesterday, rates dropped after Ukraine carried out its first strike within Russian territory with Western-supplied missiles. However, fears of a broader escalation in the conflict quickly abated, leading to higher rates this morning. Apprehension continues to build over the composition of President-elect Trump’s cabinet, particularly his selection for Treasury Secretary. Speculation surrounding the potential impact of his new policies is also keeping the rate markets off-balance. SOFR swap rates are currently up ~1-2 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, geopolitical developments and Fed-speak. Rates are likely to remain biased higher for the near term.

With a light week for key economic data, market participants will be paying close attention to Fed-Speak. There are a number of Fed officials scheduled to speak this week. Fed-speak indicating the FOMC will be “slower-to lower” has been contributing to the uptick in rates we have seen recently as traders dial-down rate cut expectations. This morning, Kansas City Fed President Jeffrey Schmid said that he is “uncertain how far interest rates will fall”, signaling the Fed may take a more gradual approach to rate cuts. Schmid is not an FOMC voting member this year, but he is next year. Last week, 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. President-elect Trump’s “approach” to the FOMC is also a wildcard for the market. It is no secret that Trump wants lower rates, and sooner-rather-than-later. That may not be what the FOMC is thinking. Tension between the Fed and President-elect Trump is likely to lead to elevated volatility.

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: 10:45 AM Eastern

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	4.289 +0.008	-19.9165 +0.1135	4.0930 +0.0102
3Y	4.249 +0.008	-24.5530 +0.1170	4.0052 +0.0097
4Y	4.274 +0.007	-30.7500 +0.2550	3.9530 +0.0103
5Y	4.268 +0.006	-34.6474 +0.4920	3.9230 +0.0113
7Y	4.335 +0.009	-43.3750 +0.4210	3.9044 +0.0142
10Y	4.408 +0.011	-49.4000 +0.5719	3.9146 +0.0172
20Y	4.693 +0.013	-75.6250 +0.8979	3.9380 +0.0205
30Y	4.599 +0.017	-82.9225 +0.3866	3.7710 +0.0210

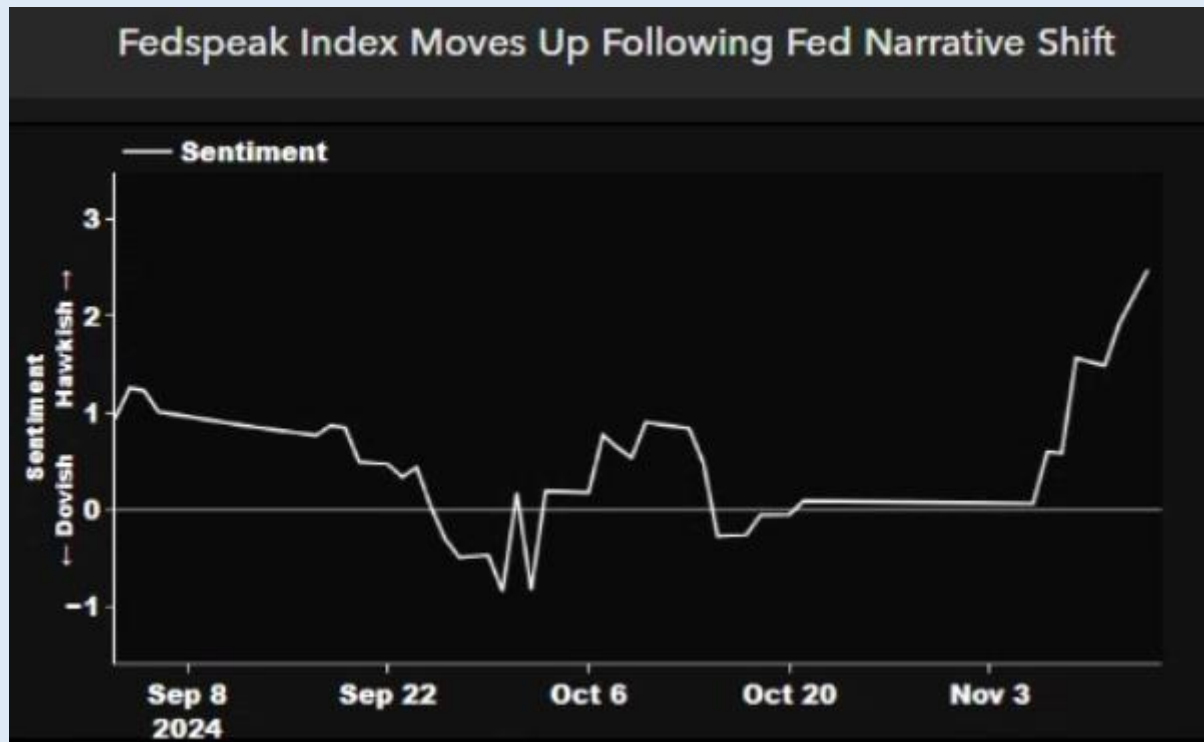
Source: Bloomberg, LLP | 10:45 AM NY Rates Snapshot

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: RECENT FED-SPEAK INDICATES FOMC MAY TAKE A MORE GRADUAL APPROACH TO RATE CUTS

Bloomberg's Fed-speak index has edged "hawkish" since the November rate cut, suggesting officials are adopting a more measured stance toward additional interest rate cuts. The shift was driven particularly by Fed Chair Jerome Powell's Nov. 14 remarks. Chairman Powell's comments emphasized patience given the economy's overall strength, while noting that the inflation data for October showed "a bigger bump than we expected." There are a number of Fed officials scheduled to speak this week, including Fed policymakers Michael Barr and Michelle Bowman. Traders are hoping their comments may offer clues on the central bank's next steps. Traders have recently pared bets on further interest-rate cuts, with markets pricing in just three 25 bp reductions by year-end 2025, compared to as many as five a month ago. A 25 bp rate cut in December that was seen as almost certain earlier this month now hangs in the balance. Current odds for a 25 bp rate cut in December are sitting at 55%.

CHART 2: Bloomberg Fed-Speak Index Signals Shifting Fed Narrative



Source: Bloomberg, LLP | Fed-Speak Index

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

Over the past 30 days, SOFR swap rates have moved steadily higher. Speculation surrounding the impact of President-elect Trump's policies and fears that the FOMC may be "slower-to-lower" continue to be the main catalysts for higher rates. The possibility that the Fed may take a more gradual approach to

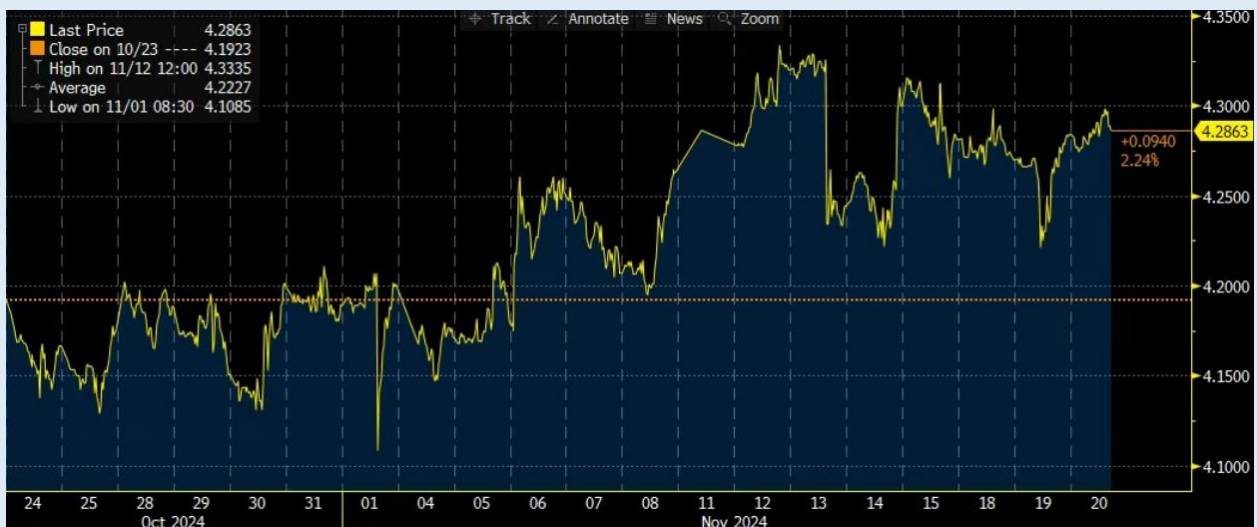
rates cuts has been fueled by the strong economic data and sticky inflation figures we have seen recently. We are not quite at the recent highs for rates, but they are significantly higher than the lows we witnessed in September. Expect elevated rate volatility and choppy markets to continue for the near term.

CHART 3: 2Y (white), 3Y (blue) & 5Y (orange) SOFR Swap Rates, Prior (30) Days



Source: Bloomberg, LLP | 2Y, 3Y & 5Y SOFR SWAP RATES, PRIOR (30) DAYS

CHART 3A: 1Y SOFR Swap Rate, Prior (30) Days



Source: Bloomberg, LLP | 1Y SOFR SWAP RATE, PRIOR (30) DAYS

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.

AST Defeasance Consultants, one of the nation's leading commercial real estate consulting firms, was founded in 2007. We have extensive experience in commercial real estate defeasance, hedging, derivatives, and financial instruments. More than \$50 billion worth of transactions have been executed by the AST team. Only AST can combine innovation, expertise, and exceptional customer service.

Rate Cap Advisors was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.
