

clearly experiencing some last-minute second-guessing with respect to the election outcome. Rates are likely to remain volatile this week and there is definitely the potential for pockets of “whip-saw” rate movement.

CHART 2: 1Y & 2Y SOFR SWAP RATES, PRIOR (5) TRADING SESSIONS



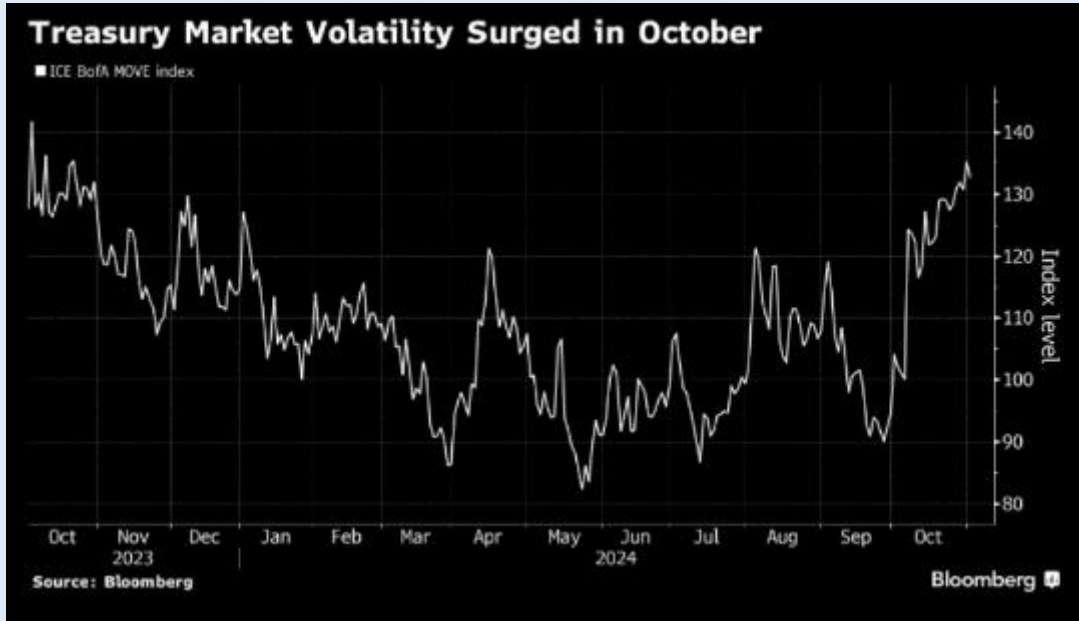
Source: Bloomberg, LLP | 1Y & 2Y SOFR SWAP RATES, PRIOR (5) TRADING SESSIONS

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



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

CHART 2B: TREASURY VOLATILITY SURGED DURING OCTOBER



Source: Bloomberg, LLP | MOVE VOLATILITY INDEX, PRIOR (12) MONTHS

CHART 3 & 3A: FOMC POISED TO CUT RATES 25 BPS THIS WEEK; RATE DECISION DUE THURSDAY AT 2:00 PM

Market consensus calls for a 25 bp rate cut at this week’s FOMC meeting. Odds for a 25 bp rate cut are close to 100%. Odds for a 25 bp rate cut in December are hovering around 86% - so far, traders are “pretty sure” the Fed will finish out the year with another 25 bp rate cut.

Most of the uncertainty surrounding the path forward for rates is focused on 2025. At the moment, odds for a 25 bp rate cut in January are only 49%. The broad range of strong economic data we saw in October calls into question just how far the Fed will need to go on rate cuts. The Fed has repeatedly stated that they will be “data dependent”. Since the September FOMC meeting, the 10Y Treasury yields is up close to 80 basis points. Additionally, there has been a significant market repricing on the Fed’s anticipated “neutral rate”, which has moved from ~2.82% in September to 3.63% currently – also ~80 basis points. A 3.63% neutral rate implies ~100 bps of rate cuts for 2025 – that is down from ~175 bps of rate cuts priced in right before the September FOMC meeting.

Forward pricing shifted slightly this morning. The forward curve currently reflects ~24.6 bps of rate cuts for November and ~46.1 bps for 2024, indicating that traders believe it is a virtual certainty that the FOMC will cut rates 25 bps on Thursday. Odds for a 25 bp rate cut in December are currently sitting at ~86%. The hotly contested presidential election will now take center stage for the rate markets.

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. Tomorrow’s election also remains a huge wildcard for the rate markets. Basically, the entire week is a risk event for the rate markets.

CHART 3: Forward Implied FOMC Rate Cut Expectations

Key:

- First column from left: FOMC meeting date
- Third column from left: Odds for a rate cut
- Fifth column from left: Implied Fed Funds rate

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
11/07/2024	-0.985	-98.5%	-0.246	4.584
12/18/2024	-1.844	-85.9%	-0.461	4.369
01/29/2025	-2.430	-58.6%	-0.608	4.222
03/19/2025	-3.142	-71.2%	-0.785	4.045
05/07/2025	-3.621	-47.9%	-0.905	3.925
06/18/2025	-4.153	-53.2%	-1.038	3.792
07/30/2025	-4.430	-27.7%	-1.108	3.722
09/17/2025	-4.703	-27.3%	-1.176	3.654
10/29/2025	-4.860	-15.7%	-1.215	3.615
12/10/2025	-5.014	-15.4%	-1.253	3.577

Source: Bloomberg, LLP | FOMC IMPLIED RATE CUTS AS OF 11/4/2024, 10:00 AM

CHART 3A: Market Dials Down 2025 Rate Cut Expectations



Source: Bloomberg, LLP | FOMC IMPLIED RATE CUTS THROUGH 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.

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.
