

## Flash Update: US Rate Markets – Wednesday 11/6/2024

- Donald J. Trump declared winner of the election and next President of the United States
- Republicans also take Senate majority; House control still “up for grabs”
- SOFR swap rates moved significantly higher overnight on the election results
- **Short-end SOFR swap rates are currently up ~12-14 bps; Long-term swap rates are up ~14-18 basis points**
- Next up for the market: The FOMC rate decision is announced tomorrow, 11/7 at 2:00 PM
- The election result is *not* likely to impact tomorrow’s Fed’s rate decision, but it could impact forward guidance
- Current odds for a 25 bp rate cut tomorrow remain at ~97%, but 2025 rate cut bets have been trimmed back
- **Expect volatile rate markets to continue for the near term – it will take time for the market to digest the election results**

US Treasury yields and SOFR swap rates popped higher overnight as market participants reacted to the Trump victory. *We continue to advise our clients that there is the potential for elevated rate volatility and whip-saw rate movements this week.* Short-end SOFR swap rates jumped overnight and are currently trading ~12-14 bps higher. Long-term swap rates are up ~14-18 bps this morning – long term swaps are more sensitive to a shifting economic and political outlook. ***I expect rates to remain volatile for the near term as the market digests the election results and braces for tomorrow’s FOMC rate decision.***

Donald Trump’s victory creates deep uncertainties into the US economic outlook. Uncertainties that could alter the Federal Reserve’s monetary policy decisions in the coming months. Trump’s victory also renews questions about how fiercely he might pressure the central bank during his second term in the White House. In his campaign, Trump promised to wield tariffs more aggressively against US trading partners, deport millions of undocumented immigrants and extend his 2017 tax cuts. Those policies, if enacted, could put upward pressure on prices, wages and the federal deficit, according to many market estimates. It is also possible that the FOMC could be subjected to an unwanted “political spotlight” should Trump follow his previous pattern of publicly attacking Fed Chair Jerome Powell. Republicans now control the US Senate. The House, however, is still up for grabs – should Republicans win the House majority, rates are likely to move higher – Republican control would increase the likelihood Trump will be able to enact his policies.

Fed officials are widely anticipated to lower the benchmark overnight rate by 25 basis points tomorrow at 2:00 PM, a move that will come on the heels of a 50 basis point rate cut in September. Fed officials have projected one more quarter-point cut this year, in December, and an additional full point (100 bps) of reductions in 2025. Central bankers, however, may now approach the question of when and how much to cut rates more cautiously as they assess if and how Trump’s economic proposals will be turned into actual policies. Generally speaking, the Trump win portends higher rates due to his support for looser fiscal policy, tax cuts and steep tariffs.

From my perspective, there is still a real risk the market will need to recalibrate rate cut expectations very quickly if it turns out the economy needs far less support than they previously thought, or if inflation increases. On the flip side, should Trump’s policies stifle economic growth, the Fed may need to cut rates faster than currently projected. Uncertainty will be the key market theme for the foreseeable future! Market participants are hoping the FOMC and Chairman Powell will provide some clear guidance tomorrow. The presidential election result is *not* likely to impact tomorrow’s rate decision – the FOMC is still expected to cut rates 25 bps – but it could alter the Fed’s forward guidance. The market will be listening.

### CHART 1: US RATES SNAPSHOT: 10:30 AM Eastern

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.291	+0.115	-21.6800	+0.8800	4.0758	+0.1209
3Y	4.262	+0.129	-25.9500	+1.1450	4.0043	+0.1408
4Y	4.303	+0.141	-32.5000	+0.6700	3.9600	+0.1490
5Y	4.304	+0.156	-36.8262	+0.0493	3.9369	+0.1558
7Y	4.390	+0.181	-46.6900	-1.4250	3.9260	+0.1702
10Y	4.459	+0.191	-52.2038	-0.7038	3.9370	+0.1792
20Y	4.740	+0.183	-78.3750	+0.7500	3.9592	+0.1912
30Y	4.637	+0.201	-84.9375	-0.8125	3.7887	+0.1937

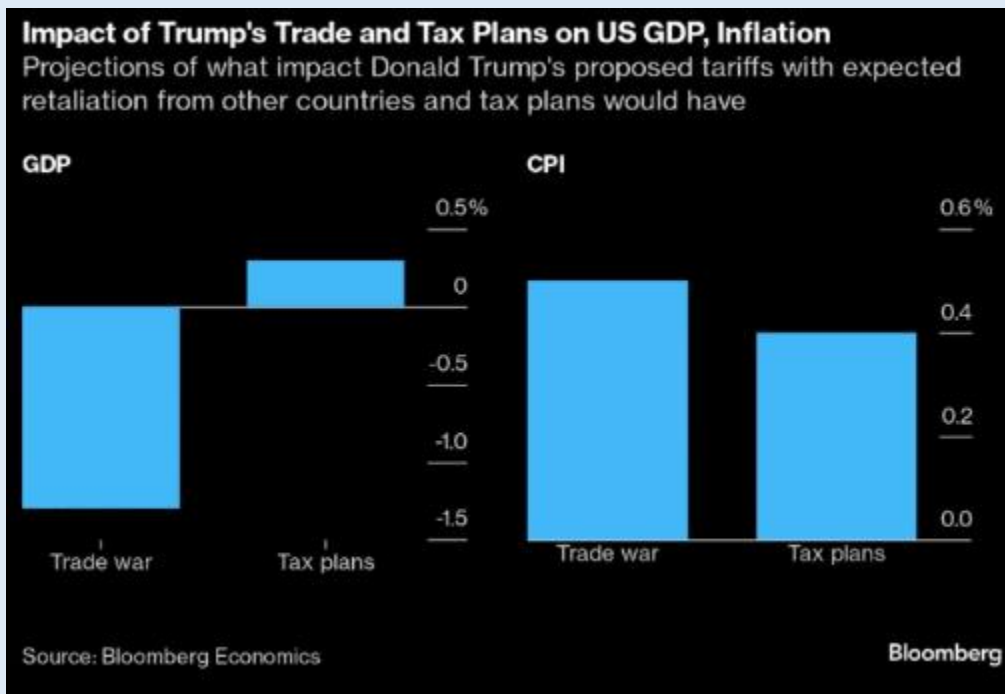
Source: Bloomberg, LLP | 10:30 AM NY Rates Snapshot

**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 & 2A: Trump Presidency Could Mean Lower Growth, Elevated Inflation and Higher Rates**

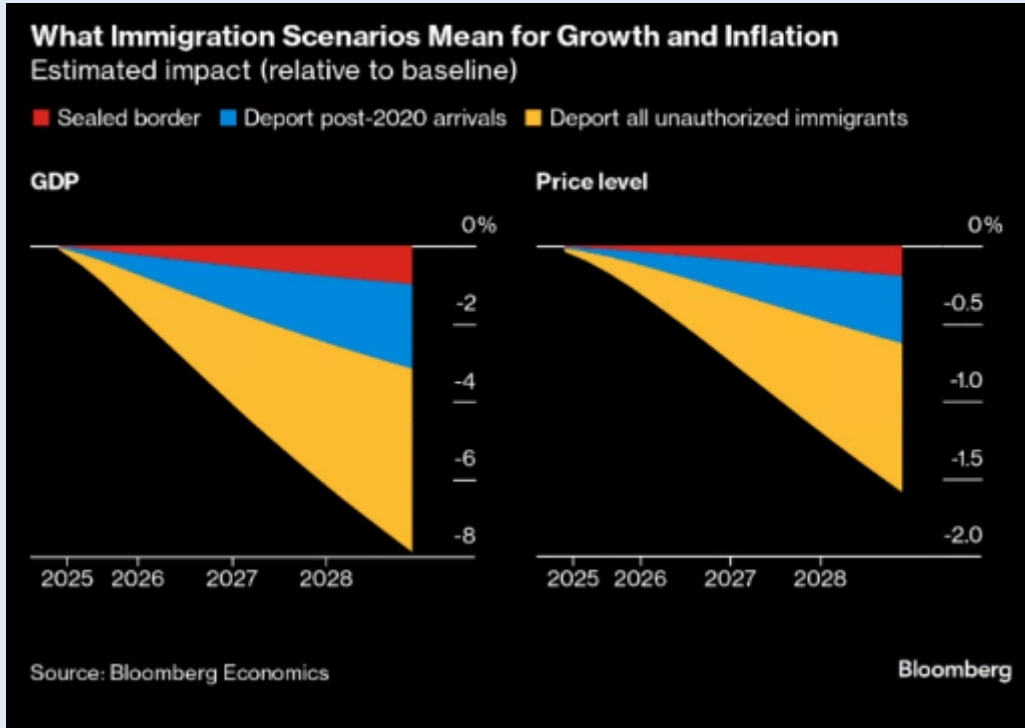
President Trump has promised an escalation of tariffs on all US imports and the biggest mass deportation of migrants in history. Most economists say inflation will rise as a result of restrictive tariffs, because consumers will pay higher costs that are passed on by importers who pay the tariffs. He has also stated that he “wants a say” in Federal Reserve policy. Many economists believe that platform adds up to higher inflation and slower growth ahead. Trump also promised sweeping tax cuts during the campaign. His ability to deliver them may hinge on the outcome in the House – a contest that currently remains up for grabs. Republicans won control of the Senate in last night’s elections. A “divided” government would require the new president to bargain more intensively with Congress over fiscal policy. However, a Republican controlled government increases the odds that Trump’s policies are implemented. Right now, this is all speculation – the market, however, is already reacting. The truth is that there is still tremendous uncertainty about the path forward for the economy, and for rates.

**CHART 2: Projected Impact of Trump’s Proposed Policies**



Source: Bloomberg, LLP |

**CHART 2A: Changes To Immigration Policies Could Impact Economic Growth**

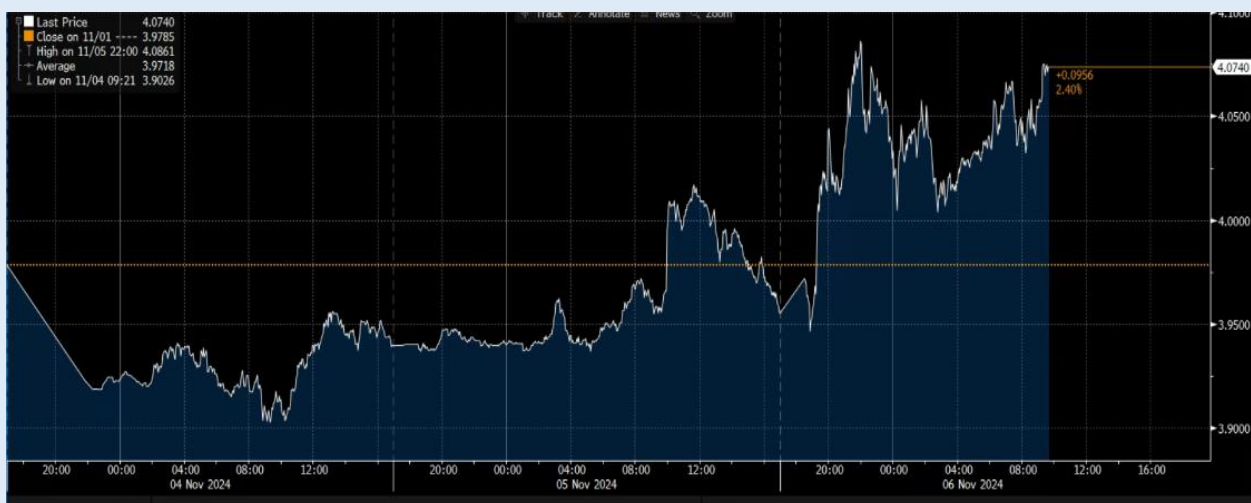


Source: Bloomberg, LLP | Immigration Policy Impact Scenarios

**CHART 3 & 3A: Market Reaction To Trump Victory: Higher Rates**

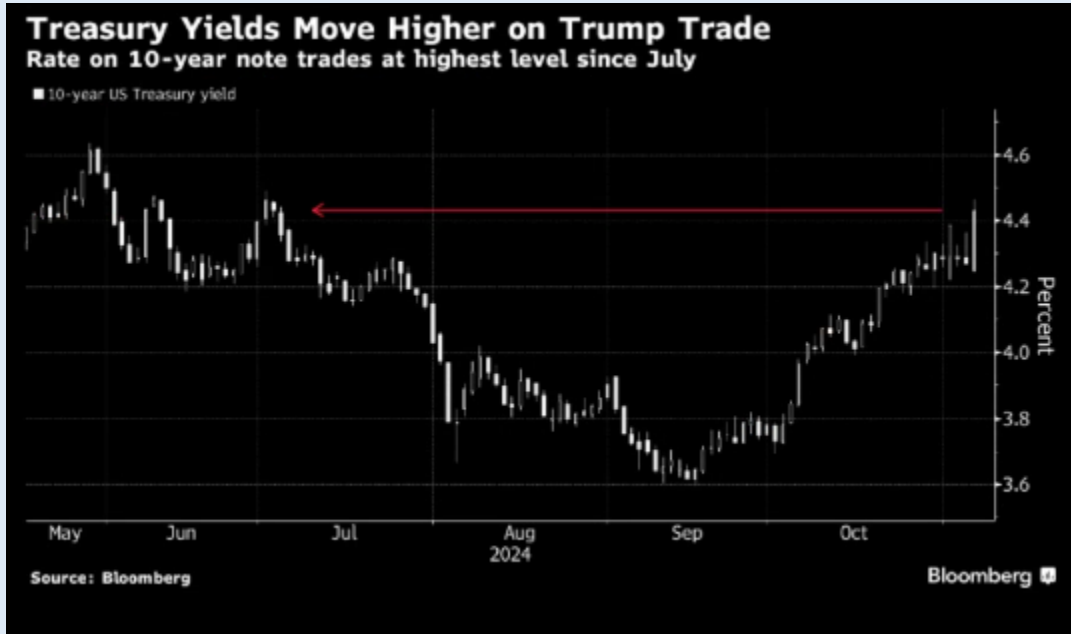
SOFR swap rates across the curve increased significantly overnight and continue to move higher this morning. Market participants are lifting rates in anticipation of the new fiscal, tax and trade policies expected under a Trump presidency. Rates had been drifting higher for the past several weeks (particularly longer term rates) in anticipation of a Trump victory (See Chart 3A). I expect rate markets to remain volatile as the market digests the election results and contemplates the path forward for rates. Rates are likely to remain biased higher in the near term – we may even see a delayed reaction to the election results once we get through tomorrow’s Fed announcement. There is still a *tremendous* amount of uncertainty swirling around in the market. **The market is getting a ton of information to digest this week, so prepare for choppy markets as traders react real time to data, the Fed and the remaining election results.** One thing we do know: Donald Trump will once again be the President of the United States.

**CHART 3: 2Y SOFR Swap Rates, Prior (3) Trading Sessions – Swap Rates Move Higher...**



Source: Bloomberg, LLP | 2Y SOFR SWAP, PRIOR (3) TRADING SESSIONS

**CHART 3A: 10Y Treasury Yield At Highest Level Since July**



Source: Bloomberg, LLP | 10Y UST NOTE YIELD SINCE MAY 2024

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