

Flash Update: US Rate Markets – Thursday 11/7/2024

- Rates drift lower this morning as the market awaits today’s FOMC rate decision
- Short-end SOFR swap rates are currently trading down ~5 bps; Long-term swap rates are down ~2-5 basis points
- The FOMC is widely expected to announce a 25 basis point rate cut this afternoon at 2:00 PM
- The presidential election result is *not* likely to impact *today’s* FOMC rate decision
- However, the election results could impact the Fed’s forward guidance; Powell’s press conference is highly anticipated
- *Expect volatile rate markets to continue for the near term – it will take time for the market to digest the election results and FOMC rate decision*

US Treasury yields and SOFR swap rates stabilized overnight, then drifted slightly lower this morning as market participants await this afternoon’s highly anticipated FOMC rate decision. *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 drifted ~5 bps lower this morning. Long-term swap rates are down ~2-5 bps this morning. ***Expect rates to remain volatile for the near term as the market continues to digest the election results and FOMC rate decision.***

Fed officials are widely anticipated to lower the benchmark overnight rate by 25 basis points today 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 and inflation 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. An uptick in inflation would also likely slow the pace of Fed rate cuts, and could potentially *halt* rate cuts for an extended period of time. Market participants are hoping that the FOMC and Chairman Powell will provide some clear forward guidance this afternoon. The presidential election result is *not* likely to impact today’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.* Uncertainty will be the key market theme for the foreseeable future.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.216	-0.046	-20.3400	-0.1350	4.0151	-0.0470
3Y	4.181	-0.050	-24.1050	+0.4250	3.9405	-0.0485
4Y	4.220	-0.057	-29.8750	+0.7500	3.8991	-0.0492
5Y	4.213	-0.061	-33.5000	+1.1133	3.8785	-0.0496
7Y	4.297	-0.072	-42.4650	+2.2720	3.8736	-0.0479
10Y	4.375	-0.057	-48.3658	+1.3842	3.8915	-0.0444
20Y	4.668	-0.043	-74.3747	+1.2088	3.9264	-0.0320
30Y	4.563	-0.042	-80.2500	+2.1462	3.7619	-0.0261

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: Rates Stabilize Ahead Of FOMC Rate Decision

Overall, SOFR swap rates stabilized overnight and are currently drifting lower ahead of this afternoon’s FOMC rate decision. 2Y SOFR swap rates are down ~5 bps from last night’s close, but are bouncing around in a tight trading range. Of note, the BOE (Bank of England) cut rates 25 bps this morning, so that may also be leading to slightly lower short term US swap rates in anticipation of this afternoon’s 25 bp FOMC rate cut. However, it is important to note that the BOE did cite forward inflation concerns and signaled a slower pace of rate cuts moving forward. There is growing speculation that the Fed will also signal they will be “slower to lower” going forward. I expect a range bound market until we hear from the Fed this afternoon. *The US presidential election result, coupled with a cautious, “slower-to-lower” Fed, would be a recipe for higher rates and a steeper yield curve.*

CHART 2: 1Y (white), 2Y (gold) & 3Y (orange) SOFR SWAP RATES, PRIOR (30) DAYS



Source: Bloomberg, LLP | 1Y, 2Y & 3Y SOFR SWAP RATES, PRIOR (30) DAYS

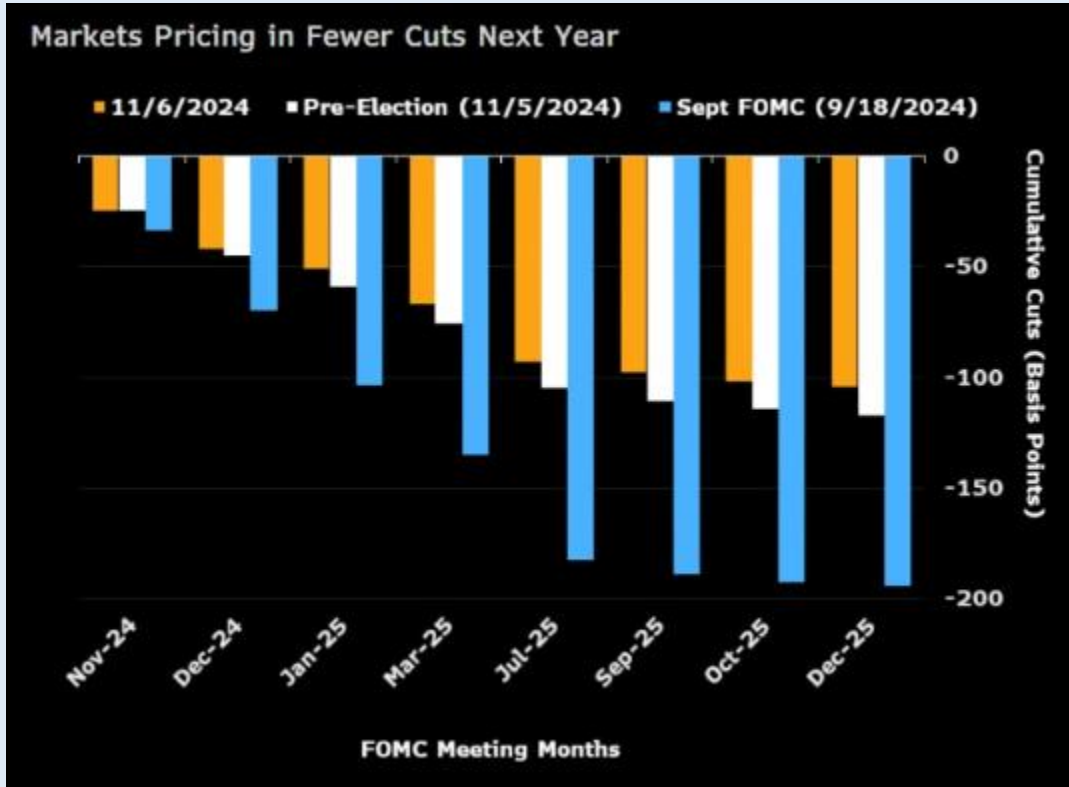
CHART 3 & 3A: FOMC Preview: 25 BP Cut Today, But Market Dials Back Rate Cut Expectations

The FOMC is widely anticipated to cut the benchmark rate 25 basis points this afternoon. The Fed has acknowledged that they believe the Fed Funds rate is still too high when compared to the level of inflation. That is the main reason that the FED will proceed with a 25 bp rate cut this afternoon. Signs that the labor market is cooling off also provides the Fed with ammunition for a 25 bp rate cut today. However, uncertainty surrounding the jobs market, the recent strong economic and inflation data, a slight uptick in inflation recently and the presidential election result make it difficult to predict the path ahead for the FOMC. The aforementioned factors have also caused traders to dial back rate cut expectations. Since early October, market participants have removed almost 100 bps of Fed rate cuts from forward pricing. The Bloomberg graph shown below clearly illustrates the shift in market sentiment. Keep in mind that the Fed, and Chairman Powell, may also soon be facing increased and unwanted political criticism and scrutiny, which will only make their job more challenging.

All eyes will be on Chairman Powell’s post-meeting press conference – it is *highly* anticipated. He is not expected to directly speak to the election results, although it is almost impossible to believe it will not come up during the Q&A portion of his presser. I believe he will do his best, per usual, to avoid getting dragged into any political intrigue. I expect Chairman Powell to signal a slower pace for rate cuts, but stress that the Fed will remain data dependent and ready to adjust monetary policy as necessary.

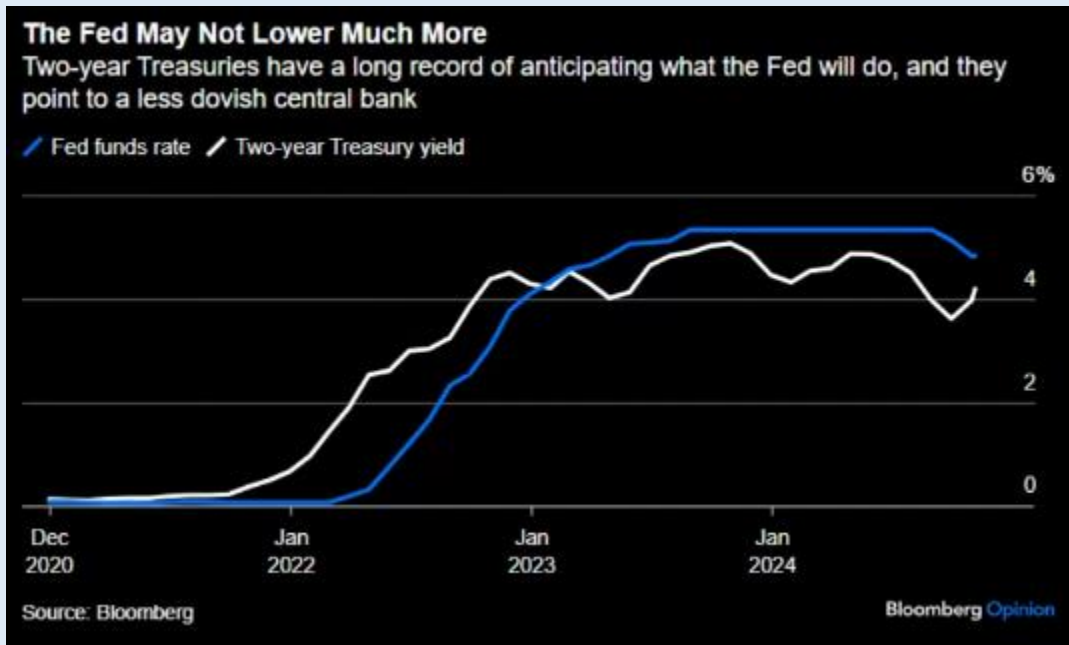
Bottom line: The market is getting a ton of information to digest this week, so prepare for choppy, volatile markets as traders react real time to data, the Fed and the remaining election results.

CHART 3: Fed Rate Cut Expectations Through December, 2025



Source: Bloomberg, LLP | Fed Rate Cut Expectations Through 2025

CHART 3A: 2Y Treasury Yield Points To A Less Aggressive, “Slower-To-Lower” FOMC



Source: Bloomberg, LLP | BLOOMBERG OPINION – FED RATE CUTS

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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