Flash Update: **US Rate Markets – Friday 11/8/2024**

- **As anticipated, the FOMC cut the overnight benchmark rate 25 basis points yesterday to 4.50% (lower)/4.75% (upper)**
- **Overall, the market reaction to the "as expected" Fed announcement was muted**
- **Powell was noncommittal regarding a December rate cut, opening the door for a potential rate cut pause in December**
- **Powell was upbeat on the economy, labor market, consumer spending and inflation**
- **Rates stabilized this morning after a volatile and uncertain week for the rate markets**
- **Traders will now shift focus to the next series of economic data; Powell reiterated the Fed will remain "data dependent"**
- **The next Fed rate decision is due on 12/18/2024 – roughly six weeks from today**
- **Currently, odds for a 25 basis point rate cut in December are sitting at 72%**
- **Short-end SOFR swap rates are currently trading *up* ~1 bp; Long-term swap rates are *down* ~2-7 basis points this morning**

Treasury yields and SOFR swap rates stabilized overnight after a volatile and uncertain week for the rate markets. Yesterday, the FOMC lowered the overnight rate 25 basis points to 4.50% (lower bound) / 4.75% (upper bound). The market reaction to the Fed rate cut was muted - the move was widely anticipated by market participants. Chairman Powell's post-meeting press conference was upbeat and overall, uneventful for the market. Market focus will now shift to the next series of economic and inflation data and await the next chapter for President Trump. Short-end SOFR swap rates are up ~1 bp this morning. Long-term swap rates are down ~2-7 bps this morning. The mixed market this morning signals that the shape of the yield curve continues to adjust as the market prepares for new economic policies and initiatives under President Trump.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.200	+0.000	-20.1245	+0.4001	3.9996	+0.0039
3Y	4.145	-0.012	-24.3300	+0.2970	3.9032	-0.0093
4Y	4.163	-0.023	-30.0570	+0.2730	3.8427	-0.0190
5Y	4.139	-0.031	-33.4300	+0.3050	3.8053	-0.0294
7Y	4.200	-0.048	-42.1050	+0.2020	3.7796	-0.0460
10Y	4.267	-0.059	-48.3636	+0.0149	3.7849	-0.0588
20Y	4.560	-0.071	-74.6400	+0.1300	3.8138	-0.0706
30Y	4.457	-0.072	-80.7606	-0.0199	3.6503	-0.0732

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: FED CUTS OVERNIGHT RATE 25 BPS, SIGNALS DATA DEPENDENT, MEETING-BY-MEETING APPROACH GOING FORWARD

The Fed, as anticipated, delivered a quarter-point interest-rate cut on Thursday, the second-straight rate cut. For the year, the FOMC has cut the overnight rate 75 basis points. Market expectations and the Fed's dot-plot are still predicting one more 25 basis point rate cut this year. While the FOMC is expected to lower rates further in the coming months, investors and economists have pared back rate cut expectations, partly in response to Trump's election. Trump has promised to deploy more aggressive tariffs, crack down on immigration and extend tax cuts — policies that could put upward pressure on prices and long-term interest rates. Strong economic data and sticky core inflation have also prompted market participants to dial-back rate cut bets.

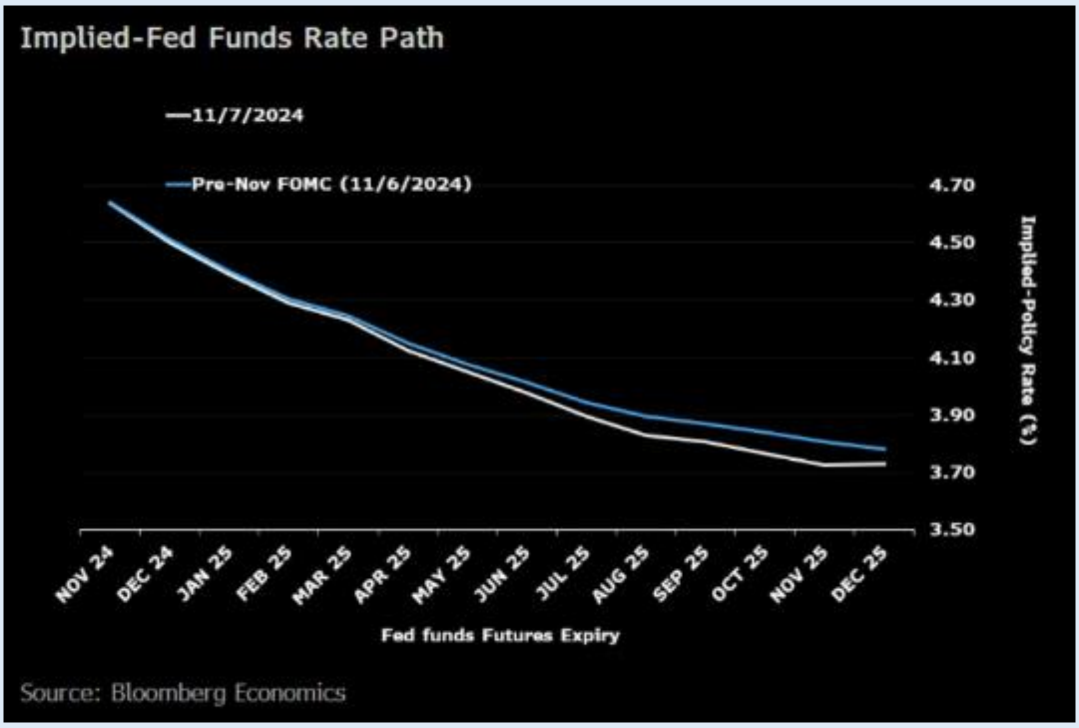
In his post-meeting press conference, Chairman Powell was upbeat on the economy, inflation projections and the progress the FOMC has made the prior two years. Powell reiterated that future monetary policy decisions will depend on incoming economic data, and he stated several times that the Fed will not try to anticipate fiscal or trade policy. Regarding future rate cuts, Powell said that the Fed is "not on any pre-set course and we will continue to make decisions on a meeting-by-meeting basis". He added: "As the economy evolves, we will adjust monetary policy accordingly". He also pointed out the Fed is prepared to "speed-up" or "slow-down" as necessary. He mentioned several times that the Fed is very wary about cutting rates too quickly or too slowly.

Powell was upbeat on the economy – he said that the economy, overall, is "strong", that the labor market is "solid" and that the growth of consumer spending is "resilient". Regarding inflation, Powell said that although core inflation is a bit stickier than the Fed expected, inflation remains "well anchored". Powell also added that the "labor market is not a source of significant inflationary pressures". Powell's positive assessment of the labor market and uncertainty surrounding Trump's policies opened the door for a "pause" in rate cuts in December. As mentioned, Powell noted the economy has been stronger than expected, and also pointed to a higher-than-hoped September inflation reading. Though he insisted all options remain on the table, the comments opened the possibility the Fed might take a pause from lowering rates at its December gathering — the final meeting of the year.

Powell outright refused to answer any political questions at his presser, and said that he would not "get into any of the political things today". When asked if he would resign if President Trump asked him, he replied an emphatic "no"! The stage is set for added FOMC drama next year, but at this point it is all speculation. That said, the FOMC may be under heightened political scrutiny going forward.

What does all this mean for rates in the near term? SOFR swap rates are likely to continue to bounce around as the market awaits economic data and the new administration. At the moment, Fed projections and market expectations are closely aligned. Should the market feel a pause is coming in December, rates will drift higher. If a 25 bp rate cut in December is supported by incoming data, rates are likely to drop. Trump policy changes are merely speculation at this point, and we have six weeks of economic data to digest prior to the next Fed meeting. With the election mostly in the rear-view mirror, expect volatility to calm down from the elevated pre-election levels we experienced. How long that lasts will depend on the data and evolving political landscape. From my perspective, the "policy storm" is definitely on the horizon!

<u>CHART 2:</u> Fed Rate Cut Expectations Through December, 2025

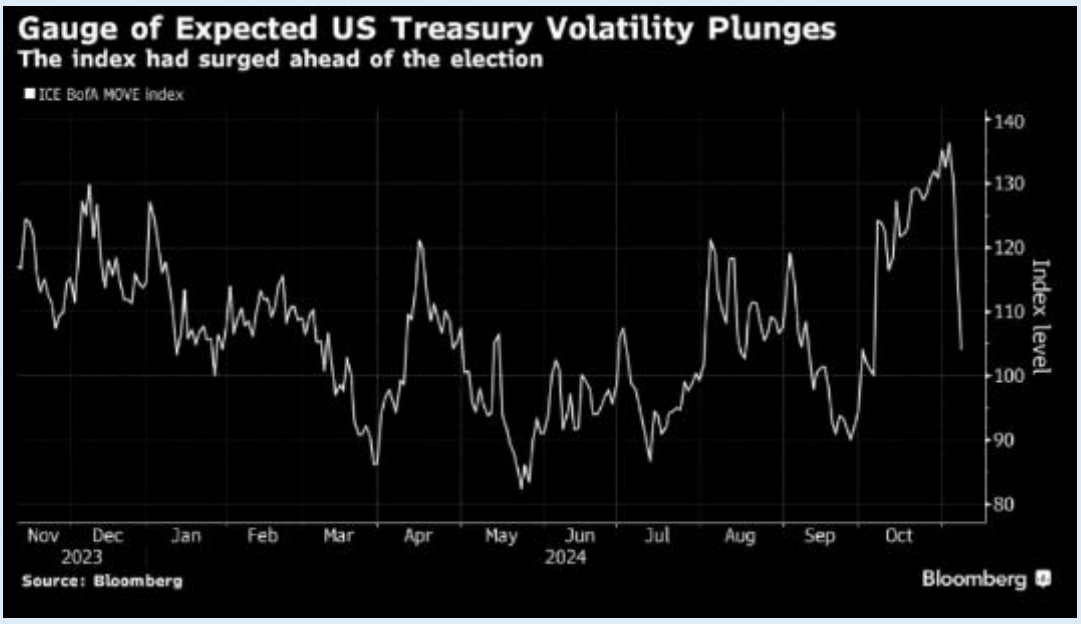


Source: Bloomberg, LLP | Implied Fed Funds Rate Path Through 2025

<u>CHART 3 & 3A:</u> RATES AND VOLATILITY STABILZE AFTER A LONG WEEK FOR RATE TRADERS

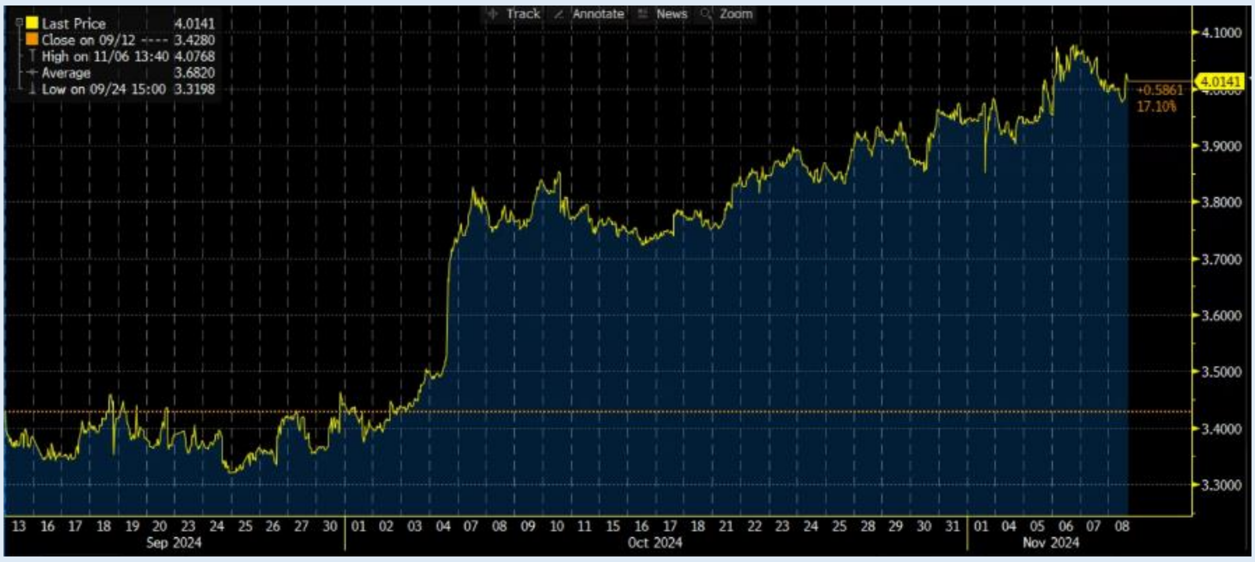
Rates stabilized this morning after a volatile week for rate markets, and the shape of the yield curve continues to adjust in anticipation of a shifting political and economic landscape. Post-election, market participants expect more subdued rate volatility, at least for the near term. We will begin to see the next series of economic data next week. October CPI results will be released on 11/13. An uptick in core CPI would add to speculation that the Fed could hold off on a rate cut in December. SOFR swap rates bounced around this week, but have settled down this morning – 2Y SOFR swap rates are up ~4 bps this week.

<u>CHART 3:</u> *Treasury Volatility Anticipated To Decline Post-Election*



Source: Bloomberg, LLP | PROJECTED TREASURY VOLATILITY

<u>CHART 3A:</u> ***Rates Stabilize After A Volatile Week For Rate Markets***



Source: Bloomberg, LLP | 2Y SOFR SWAP RATES SINCE MID-SEPTEMBER

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