## Flash Update: US Rate Markets – Wednesday 12/4/2024

- **Rates drift slightly higher this morning as market awaits economic data and Chairman Powell's remarks later today**
- **FOMC Chairman Powell speaks today at ~1:30 PM – market participants will be listening!**
- **Recent Fed-Speak has signaled officials are still debating a December rate cut**
- **November ADP jobs report printed slightly below expectations; prior month was revised significantly lower**
- **The Fed's Beige Book is due for release today at 2:00 PM**
- **Key data this week: The November Employment Report is set for release Friday, 12/6 at 8:30 AM**
- **Fed-sensitive short-end SOFR swaps are currently trading ~1-2 bps higher this morning**
- **Long-term SOFR swap rates are ~1-3 basis points higher currently**

US Treasury yields and SOFR swap rates moved higher this morning as market participants looked ahead to remarks from Federal Reserve Chair Jerome Powell for clues on the outlook for interest rates. Chairman Powell is scheduled to speak this afternoon at ~1:30 PM Eastern. Traders are also bracing for the broad range of economic data due this week, culminating with the November Employment Report release on Friday at 8:30 AM. We will see manufacturing and services data released this morning at 10:00 AM – traders will be looking for signs of increased price pressures in those sectors.

Currently, SOFR swap rates are ~1-3 bps higher across the curve (See Chart 1). *Expect periods of elevated rate volatility to continue for the near term.*

### CHART 1: *US RATES SNAPSHOT: 9:45 AM Eastern*

| | UST YIELDS | | SWAP SPREADS | | SOFR SWAP RATES | |
|---|---|---|---|---|---|---|
| 2Y | 4.188 | +0.008 | -18.8250 | -0.7773 | 4.0000 | +0.0001 |
| 3Y | 4.153 | +0.012 | -25.0460 | -0.6155 | 3.9035 | +0.0067 |
| 4Y | 4.160 | +0.018 | -30.2775 | -0.3955 | 3.8411 | +0.0132 |
| 5Y | 4.134 | +0.022 | -33.0000 | -0.3636 | 3.8035 | +0.0175 |
| 7Y | 4.195 | +0.029 | -42.2870 | -0.5390 | 3.7745 | +0.0237 |
| 10Y | 4.254 | +0.029 | -47.8692 | -0.2342 | 3.7761 | +0.0271 |
| 20Y | 4.519 | +0.025 | -72.0125 | +0.2275 | 3.8002 | +0.0262 |
| 30Y | 4.427 | +0.025 | -79.4941 | +0.0073 | 3.6330 | +0.0248 |

**Source: Bloomberg, LLP | 9:45 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***

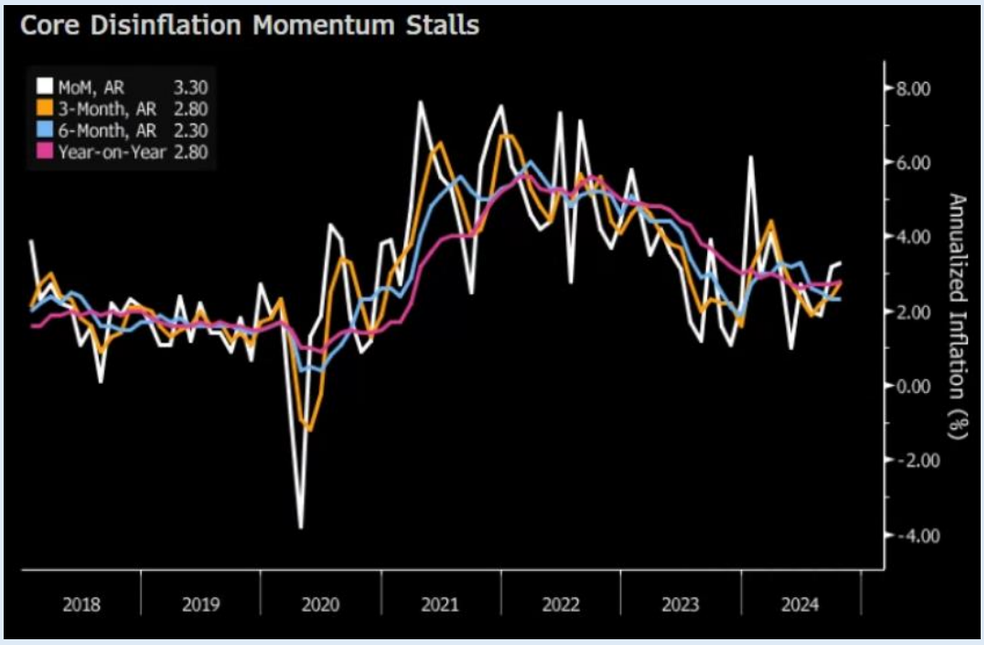
### CHART 2: DECEMBER RATE CUT IS "NOT CERTAIN", BUT REMAINS "ON THE TABLE"

Recent Fed-speak has continued to fan uncertainty surrounding a December rate cut. Market odds for a 25 bp rate cut at the December FOMC meeting are currently sitting at ~76%, the highest they have been in recent weeks. However, the cautious tone of Fed-speak this week has increased the market's concern that the Fed may skip a rate cut in December. This morning, Federal Reserve Bank of St. Louis President Musalem said it may be time for policymakers to slow the pace of interest rate cuts amid higher than desired inflation and declining concerns over the labor market. Musalem also said it will likely be appropriate to keep lowering rates over time, but backed a patient approach, saying the risks of cutting rates too quickly are greater than those of easing too little. San Fransisco Fed President Daly said that a December rate reduction is not certain, but remains "on the table".

Sticky core inflation is also a growing concern for the Fed. Although on the surface Fed officials are keeping an optimistic tone regarding progress on inflation, recent Fed-speak reveals renewed inflation concerns. Musalem said that inflation data released since September suggest a greater risk that progress on prices "could stall, or possibly reverse." I still think the Fed will cut 25 bps at the December meeting.

The Fed's objective was 100 bps of rates cuts this year, and it feels like the Fed is keen to get that accomplished.

**CHART 2:** ***Sticky Core Inflation A Growing Concern For The Fed***




**Source: Bloomberg, LLP | HISTORICAL CORE INFLATION READINGS**

***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.

***