

**Flash Update: US Rate Markets – Friday 12/6/2024**

- Rates edged lower on a slightly weaker-than-expected November Employment Report
- The slightly weaker jobs data increased the odds that the Fed will proceed with a 25 bp rate cut at the December meeting
- Odds for a 25 bp rate cut at the December meeting have increased to ~82%
- Next up for data: November CPI inflation data is set for release Wednesday, 12/11 at 8:30 AM
- With inflation back in focus, traders will be paying close attention to the CPI results
- Next FOMC rate decision is due Wednesday 12/18 at 2:00 PM
- Fed-sensitive short-end SOFR swaps are currently trading ~4-6 bps lower this morning
- Long-term SOFR swap rates are ~2-4 basis points lower currently

US Treasury yields and SOFR swap rates edged lower this morning on a slightly weaker-than-expected November Employment Report. SOFR swap rates are currently ~2-6 bps lower across the curve (See Chart 1). The Fed-sensitive short-end of the curve has experienced the most dramatic move this morning – 1Y and 2Y SOFR swap rates are down ~6 bps this morning. The rate move this morning is definitely a “sigh of relief” from the market. They got the “slightly” weaker number they wanted – weak enough to keep the Fed on track to lower rates another 25 bps on Dec 18<sup>th</sup>, but strong enough to provide confidence the jobs market remains solid. Market participants will now shift focus to next week’s critical CPI inflation data. The November CPI report is due Wednesday, 12/18 at 8:30 AM. The “mixed” employment data we saw this morning adds even more weight to next week’s inflation data.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.087	-0.057	-18.7700	-0.1500	3.9002	-0.0586
3Y	4.044	-0.053	-24.5560	+0.0868	3.7989	-0.0558
4Y	4.048	-0.059	-30.0000	+0.0650	3.7326	-0.0549
5Y	4.020	-0.054	-32.8714	+0.1067	3.6920	-0.0535
7Y	4.073	-0.052	-41.3264	+0.5476	3.6602	-0.0478
10Y	4.138	-0.038	-47.7360	-0.1110	3.6610	-0.0404
20Y	4.401	-0.027	-71.2625	+0.0375	3.6890	-0.0260
30Y	4.314	-0.020	-79.1584	-0.0334	3.5238	-0.0198

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 & 2A: EMPLOYMENT REPORT RECAP; RATES MOVE LOWER ON “MIXED” DATA RESULT**

The US labor market stabilized last month after a hurricane and strike constrained October, with a solid advance in payrolls helping to temper concerns of a worsening slowdown in labor demand. Nonfarm payrolls increased 227,000 last month (vs. 220k expected) following an upwardly revised 36,000 gain in October. However, the unemployment rate ticked up to 4.2%, vs. 4.1% expected. Wage growth increased 0.4% in November, slightly above expectations.

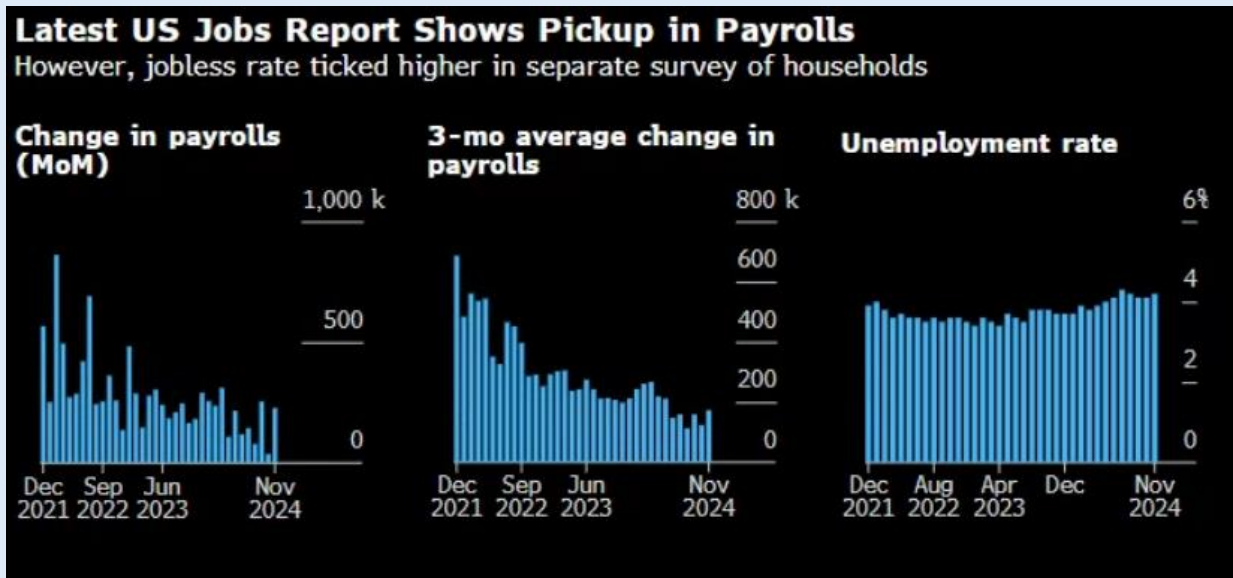
The data this morning supports the view that the US labor market is gradually slowing down – at least when compared to the overheated conditions post-pandemic. Chair Jerome Powell said earlier this week that the central bank’s decision to start rate cuts with a half-point move in September was meant to send a “strong signal” of the Fed’s intention to support the labor market. At the moment, I see no reason why the Fed would reverse that position.

**CHART 2: November Employment Report Recap**

Metric	Actual	Estimate
Change in payrolls (MoM)	+227,000	+220,000
Unemployment rate	4.2%	4.1%
Average hourly earnings (MoM)	+0.4%	+0.3%

Source: Bloomberg, LLP | NOVEMBER EMPLOYMENT REPORT RECAP

**CHART 2A: Historical Employment Report Data – Mixed Data Portends Weaker Jobs Market**



Source: Bloomberg, LLP | HISTORICAL EMPLOYMENT DATA

**CHART 3 & 3A: SOFR SWAP RATES SLIDE LOWER ON JOBS DATA**

SOFR swap rates moved lower this morning and are sitting at the low end of the recent trading range. The mixed employment data released this morning prompted traders to bolster odds for a December rate cut. It is not clear if the market is carving out a new, slightly lower trading range, or if today’s rate move is more of a temporary relief rally.

**CHART 3: 2Y (white) & 3Y (gold) SOFR Swap Rates – Prior (5) Trading Sessions**

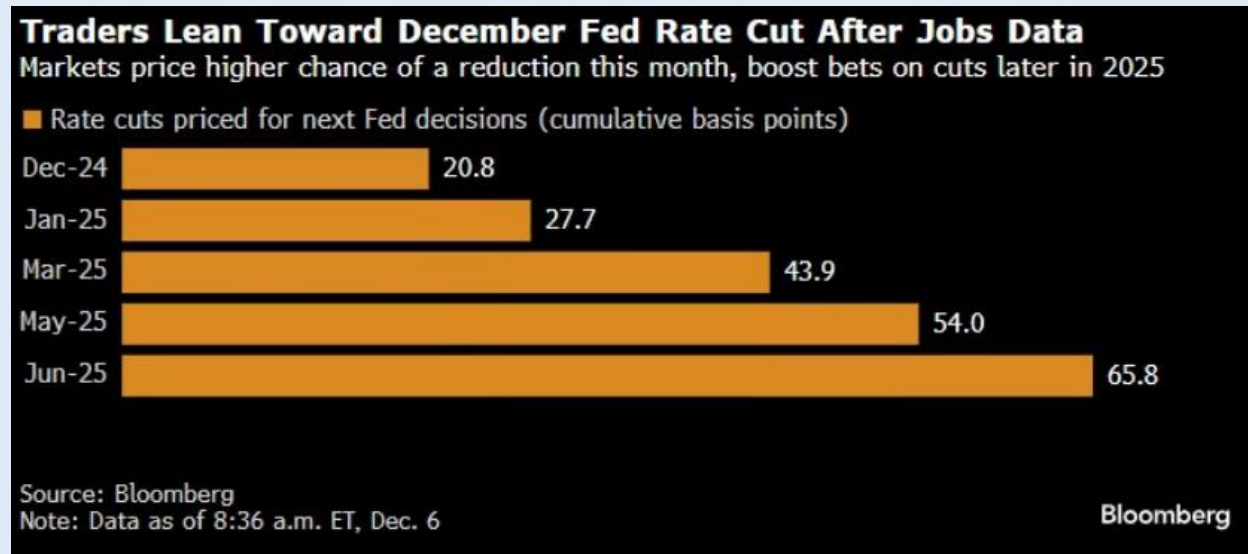


Source: Bloomberg, LLP | 2Y & 3Y SOFR SWAP RATES, PRIOR (5) TRADING SESSIONS

**CHART 4: FED RATE CUT EXPECTATIONS – 25 BP DECEMBER RATE CUT EXPECTED; UNCERTAINTY RULES FOR 2025**

Markert expectations for Fed rate cuts ticked higher this morning after the jobs data printed. Odds for a 25 bp Fed rate cut in December increased to ~82% - those odds were sitting at ~70% at the beginning of the week. The prevailing market sentiment is that the Fed is keen to get 100 bps of rate cuts in this year. However, there is still lingering uncertainty about what the FOMC has planned for rate cuts next year. You can see from the graph below that market participants are unsure about rate cuts in January 2025 and, to a lesser extent, March 2025. The strong economy, resilient consumer, stable inflation and a solid jobs market are all reasons that the Fed may step back from rate cuts after the December meeting and move into a “wait-and-see” mode. That will give them time to see the lagging effects of the prior rate cuts and get a better feel for the impact of President-elect Trump’s new policies.

**CHART 4: Fed Rate Cut Expectations – Odds For A December Rate Cut Increase to ~82%**



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS THROUGH JUNE 2025

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