Hi «Name»,

Good Morning! Please see below for the RCA | AST Defeasance Rate Market Update for February 22, 2023. Please let us know if you would like additional market color or have any questions. We are also always happy to provide indications for your defeasance needs, or for interest rate caps, swaps or other derivative hedging products. Please feel free to reach out anytime! ***-RCA | AST Interest Rate Hedging Desk***

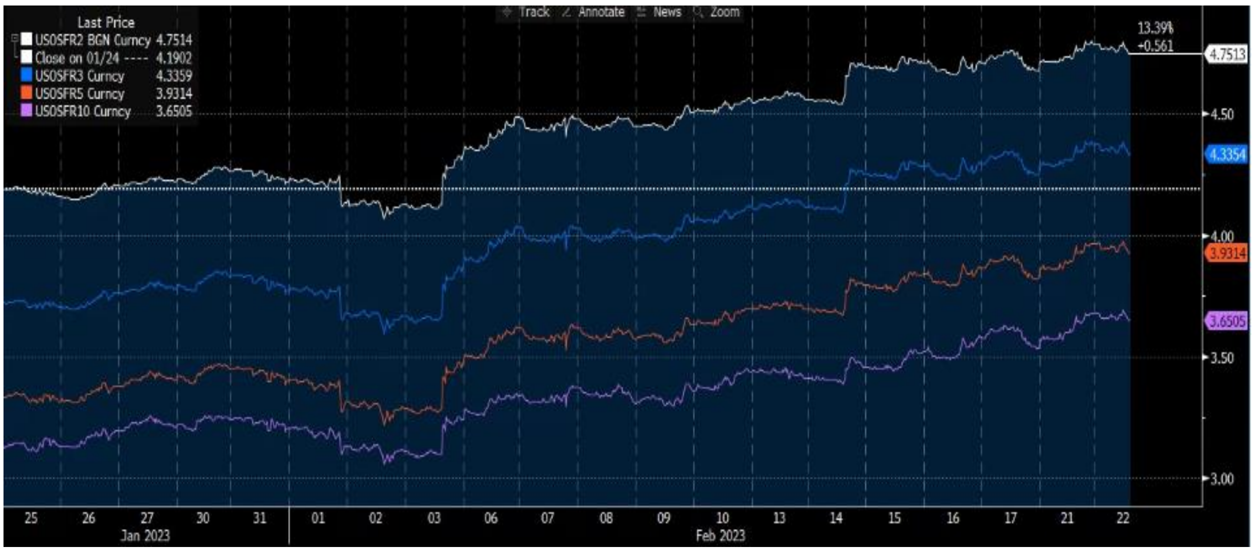
RATE MARKET UPDATE | February 22, 2023:

- **U.S. Treasury and SOFR Swap rates continue to drift higher**
- **Hawkish Fed-speak continues; Fed officials have been clear they will continue to raise rates until inflation is controlled**
- **FOMC Meeting Minutes (Feb 1 Meeting) released this afternoon at 2:00 pm**
- **GDP data released tomorrow at 8:30 am**

Rates continued to march higher this week as market participants shifted FOMC rate hike expectations yet again. An equity selloff deepened yesterday amid growing signs global central banks, including the FOMC, are far from ending their fight against inflation. This view was underscored by successive hawkish comments by Fed officials last week and earlier this week. Rising geopolitical tensions and earnings shocks, set against positive economic data and a hawkish Fed are adding to the market's uncertainty. US central bankers will publish minutes of their Feb. 1 meeting at 2 p.m. today, which may reveal how many of them see the need for larger rate hikes. The minutes may also potentially shed some light on the committee's thinking on the Fed's target terminal rate and how long they plan to keep rates at that level. The yield curve remains inverted – despite shifting FOMC expectations, there are still lingering jitters that the magnitude and aggressive pace of the FOMC's rate hikes to date will have a lagging effect that could accelerate a U.S. economic downturn or worse, a sustained recession. Thus far a "soft landing" scenario seems the most possible outcome, but as we know things can change quickly. The meeting minutes are unlikely to be a major market moving event, but as we have seen a nervous market can and will overreact. Tomorrow's GDP data will also be closely watched, particularly the "price" components of the data. Headline GDP is projected at +2.9% and the GDP Core PCE is expected to measure 3.9%. Weaker GDP, lower PCE could cause rates to pause or even back up slightly as the market digests the implications of the data. A stronger than forecast GDP or a higher PCE number would affirm the market's reaction over the past three weeks and likely lead to rates marching higher, particularly on the short end of the curve.

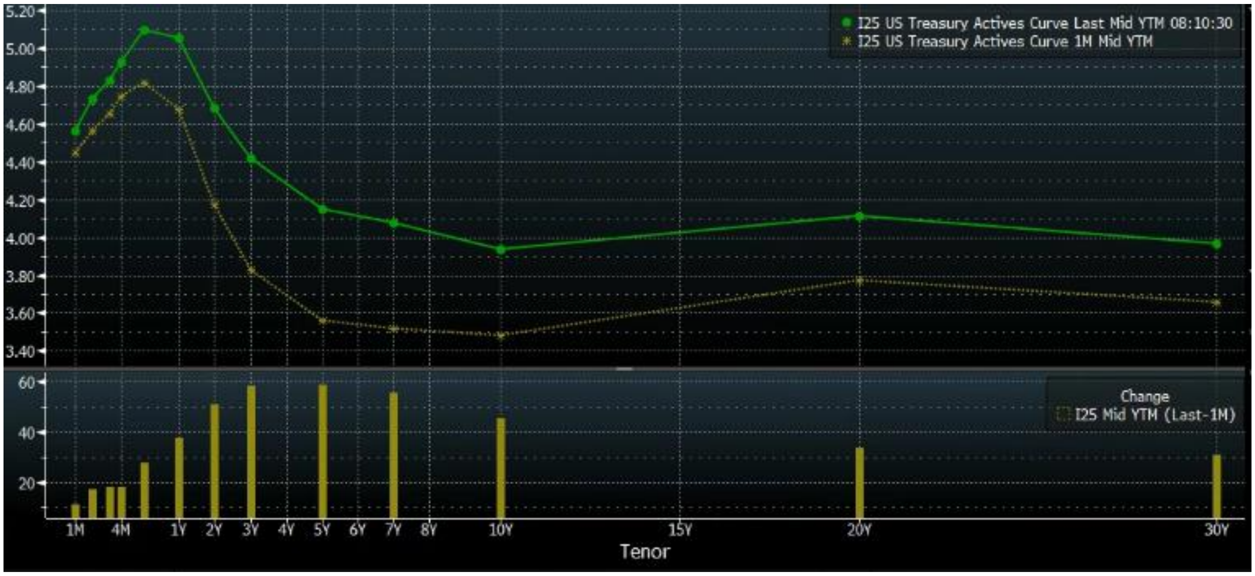
GRAPH 1: *1-Month Change – SOFR Swap Rates*

The Bloomberg graph below illustrates the month-on-month change in SOFR swap rates. I wanted to highlight this chart as it illustrates the change in market sentiment since the last FOMC meeting on Feb 1. Hawkish Fed comments (and even some recent mention of a 50 bp hike at the next meeting), coupled with strong economic data, have kept upward pressure on term rates across the curve. The market has clearly capitulated to the FOMC and is pricing in more rate cuts than originally anticipated for 2023. However, we will see if the market truly believes after the release of the FOMC meeting minutes later today and GDP data tomorrow morning. The FOMC-sensitive 2-Year SOFR swap rate increased 56 basis points over the past 30 days (+13.3%), clearly illustrating the current market's "acceptance" that the FOMC will continue to raise rates and do not currently plan to cut rates anytime soon. Fed officials have also been adamant that once they get to a satisfactory terminal rate, they plan to hold rates at that level for "some time". Please keep in mind that the FOMC does not just cut rates on a whim or on some predetermined schedule – there has to be a reason to adjust monetary policy.



GRAPH 2: ***U.S. Treasury Yield Curve – Change Over Prior 30-days***

The following Bloomberg graph shows the movement in the shape of the U.S. Treasury yield curve over the past month. You can see from the graph that the belly of the curve (2-10 years) has been impacted the most by the sentiment shift in the market. Please also note the uptick in the 6-month rate – the jump in the 6-month rate is evidence that the market has repriced FOMC expectations for the first half of the year. The market is now calling for the overnight rate to increase 75 bps before July 2023. Rates have ticked higher since the last Fed meeting on a slew of positive economic data and hawkish Fed speak. Monetary policy makers have been hammering home a consistent, but familiar message recently: they plan to stay the course on rate increases until inflation is contained and there are currently no plans to cut rates this year.



Best Regards,

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