

AST DEFEASANCE RATE MARKET UPDATE

Friday, March 24, 2023

[RATE MARKET UPDATE: MARCH 24, 2023 | Bank Woes Still In Focus; Rates Drop](#)

- [Global banking sector woes continue to concern market](#)
- [Risk-averse mood spreads overnight](#)
- [Rates significantly lower as trading opens this morning](#)

There is no rest for a weary market! Ongoing concerns about the global banking sector created a risk-averse mood overnight. The resulting flight-to-quality sent U.S. Treasury rates significantly lower. SOFR swap rates also dropped: 2Y SOFR swaps down ~-25 bps, 3Y SOFR Swaps ~-20 bps and 5Y SOFR swaps ~-17 bps. The risk-off market sentiment is likely to continue today – we are heading into the weekend and there is no major economic data scheduled for release today. The rate drop overnight and this morning is the result of a nervous market that needs confidence restored and fears calmed. We have been cautioning to expect continued elevated rate volatility - *heightened levels of rate volatility will likely continue for the near term – there is still a tremendous amount of uncertainty and fear in the broader markets*. In short, banking sector woes, particularly in the U.S. and Europe, continue to create uncertainty and fear in the market. Fed and Treasury officials will need to continue to reassure markets in order to boost confidence and reduce market volatility. Treasury Secretary Yellen tried to offset earlier disconcerting comments on deposit insurance by assuring the markets that they are prepared to take significant “additional action” if warranted to prevent further contagion. The rate market, as evidenced by the drop in rates this morning, was not persuaded by Yellen’s reassurances. Treasury officials want to avoid committing to any “permanent” changes to deposit insurance, but it may take just that to calm and stabilize markets. Also, expect more Fed officials to hit the tape now that the meeting is over and the press blackout has lifted.

Looking ahead to next week, the big scheduled events are the release of U.S. 4Q GDP and PCE inflation data on Thursday 3/30 (8:30 am). Both numbers are closely watched by the FOMC and have the capacity to move the rate market. As mentioned, Fed officials are also back from the pre-meeting press blackout and are again free to speak to the press, give speeches and attend events. The market will be listening closely to what Fed officials have to say. We have six weeks before the next FOMC meeting so the market will be thirsty for information, reassurance and guidance from monetary policy makers.

[CHART 1: 2Y & 3Y SOFR SWAP RATES – Prior \(3\) Days](#)

The Bloomberg chart below details 2Y and 3Y SOFR Swap rate movement over the prior three days. You can see the drop in rates began when European markets opened and continued this morning into the U.S. market open. Traders are seeking a safe haven to park assets for the weekend given recent market turmoil and continued uncertainty surrounding U.S. and European financial institutions. Please also note the white dotted line in the below chart – that is the 2Y Swap rate on 3/21 – 2y swap rates are down ~15% in the past three days.



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