

AST DEFEASANCE RATE MARKET UPDATE

Thursday, March 23, 2023

Good Morning! Please see below for the RCA | AST Defeasance *Rate Market Update* for April 21, 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: April 21, 2023 | Week In Review

- Rates mixed this morning; Overall slightly higher from yesterday's close
- Rates remained range bound this week
- Economic data also remains mixed; Business activity unexpectedly jumps

Rates opened mixed this morning, but moved higher after US business activity rose significantly more than forecast. The S&P Global Composite purchasing managers index increased to 53.5 in April, an 11-month high. A number above 50 typically indicates economic expansion. The unexpected jump in business activity was spurred by stronger services and manufacturing. This morning's data also showed businesses increased prices at the fastest pace in seven months, rekindling inflation worries. Overall, rates remained range bound this week – mixed data and hawkish Fed-speak has kept the market off balance and has not provided any definitive path forward for the FOMC. As a result, rates have been bouncing around a range as traders assess the data and the potential impact on forward rates. On some level, the market is getting to the point with Fed-speak where it has become “in one ear, out the other”. The Fed has been beating the hawkish inflation drum for many months!

The dichotomy between the FOMC and market remains – the market is still hoping that a May 3 rate hike will be the last one in the cycle and that rate cuts may occur in the second half of this year – the FOMC is trying to communicate they will remain vigilant on fighting inflation (which still remains too high) and are not prepared to cut rates anytime soon. We expect rate volatility to continue as the market sorts out what is next for monetary policy. Fed officials will be blacked out next week ahead of the May 3 meeting so there are no speeches or public appearances scheduled. Next week we do see a full range of data. At this point any data next week is unlikely to impact the May 3 rate decision, but there is always the possibility that an unexpected number print can generate rate volatility. The numbers next week are likely to set the market tone for the June FOMC meeting.

Some highlights for next week:

4/24 Manufacturing Data

4/25 New Home Sales; Manufacturing Data

4/26 Durable Goods; Wholesale Inventories

4/27 GDP; Pending Home Sales

4/28 ECI; PCE Price Deflator; Personal Spending

There are also several Fed districts that will report on business activity, manufacturing and business conditions next week, so it will be a busy week for economic data. As mentioned, unless we see a wildly divergent number, next week's data is likely to have more impact on market forecasts for the June FOMC meeting. At the moment the market expects the FOMC to raise rates 25 basis points at the May 3 meeting.

TABLE 1: Week-on-Week SOFR Swap Rate Movement

SOFR Swap Term	4/14/23 Closing Rate	4/21/23 Rate	WoW Change
1 Year	4.88%	4.87%	-1 bp
2 Year	4.21%	4.17%	- 4 bps
3 Year	3.83%	3.77%	-6 bps
5 Year	3.49%	3.44%	- 5 bps
10 Year	3.31%	3.27%	- 4 bps

CHART 1: 2Y & 3Y SOFR Swap Rates – Prior 7 Days

The Bloomberg graph below details 2Y (white line) and 3Y (blue line) SOFR swap rates for the past 7 days. The market did see some intra-day volatility this week, but overall SOFR swap rates stayed in a range for most of the week. The 2Y SOFR swap rate is up ~11% over the prior 30 days.

2Y & 3Y SOFR SWAP RATES: PRIOR 7 DAYS

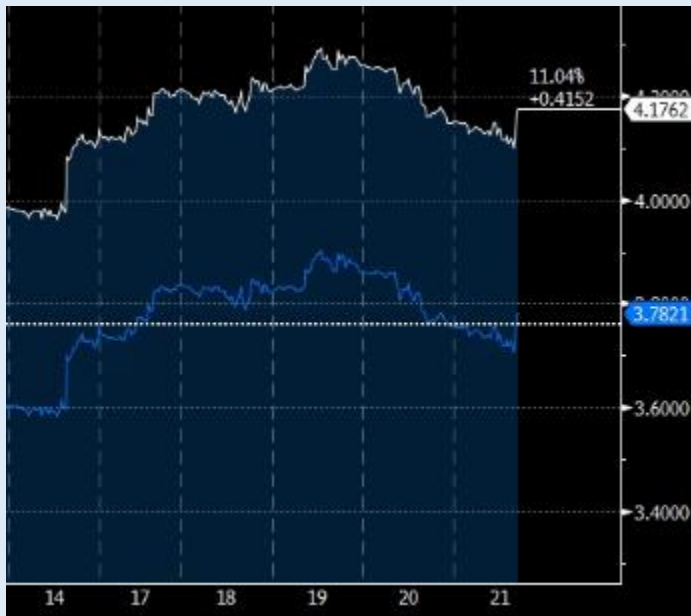


CHART 2: Fed Funds Forecast: Bloomberg Economists Survey

The following Bloomberg table shows economists’ forecasts for the Fed Funds rate as surveyed by Bloomberg from April 14 to April 19. All figures are as of the end of the quarter. I thought it was interesting that there are still a wide range of expectations for the FOMC – economists are largely in synch for the near term but become more divergent as time progresses. This underscores the uncertainty that remains in the market. Uncertainty can be a primary catalyst for volatility and as mentioned, we expect continued rate volatility for the foreseeable future. We will hopefully get some more clarity on the Fed’s current thinking at the press conference following the May 3 meeting.

	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	2023	2023	2023	2024	2024	2024	2024	2025	2025	2025
# of replies	71	71	73	67	65	59	59	35	35	35
Median	5.25%	5.25%	5.25%	4.75%	4.25%	4.00%	3.50%	3.25%	3.00%	3.00%
Average	5.25%	5.21%	5.09%	4.69%	4.25%	3.83%	3.62%	3.36%	3.21%	3.07%
High Forecast	5.50%	5.50%	5.75%	5.75%	5.50%	5.25%	5.25%	5.00%	5.00%	5.00%
Low Forecast	4.75%	4.25%	3.50%	3.25%	2.00%	1.25%	1.25%	1.25%	1.25%	1.25%

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