

AST DEFEASANCE RATE MARKET UPDATE

Good Morning! Please see below for the RCA | AST Defeasance *Rate Market Update* for April 25, 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 25, 2023 | Market Braces for Data](#)

- Rates drift lower as market endures earning season and braces for important economic data later this week
- A volatile earnings season is making the market nervous, leading some traders to reallocate to US Treasuries
- A wide range of economic data is released this week which may create elevated rate volatility
- GDP Thursday (4/27), PCE inflation data Friday (4/29) are the highlights
- FOMC rate decision May 3, 2023 @ 2 PM

Rates continued to drift lower this morning as traders reallocate assets to US Treasuries. This is a pattern we have seen all week as traders brace for a volatile earnings release week (178 companies report earnings this week), the release of important economic data all week and the looming FOMC meeting. Market participants remain cautious and a high level of uncertainty remains with respect to the path for forward rates. Traders are optimistic the FOMC will be done raising rates after May 3 – that is also a reason we are seeing rates drifting lower. However, the overall economic data remains mixed, making it difficult to predict how the Fed will view forward monetary policy. The GDP and PCE numbers will be closely watched by the market and the FOMC. We expect the continued possibility of elevated rate volatility as the market navigates earnings season and the aforementioned battery of economic data released this week. Market consensus is that the FOMC will raise rates 25 basis points at the next meeting. The data this week will likely have more of an impact on the June meeting and beyond. SOFR swap rates are down across the curve ~5-8 basis points this morning.

Some Economic Release highlights for this week:

4/25 New Home Sales; Manufacturing Data

4/26 Durable Goods; Wholesale Inventories

4/27 GDP; Pending Home Sales

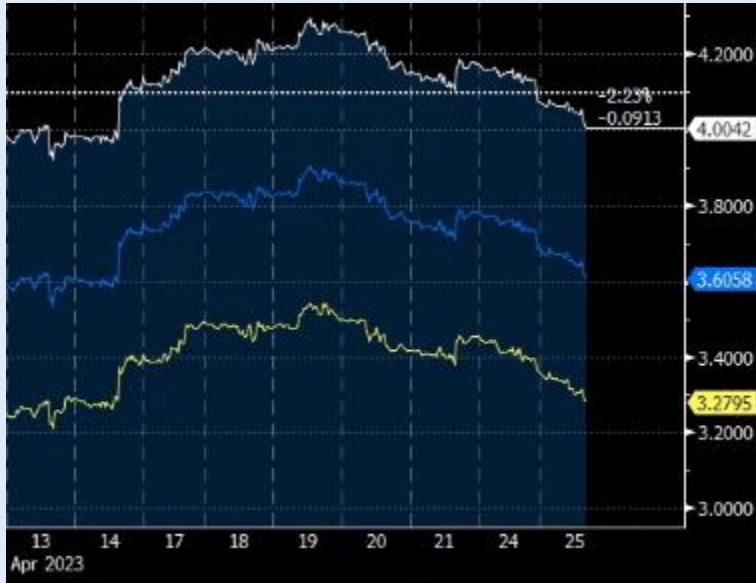
4/28 ECI; PCE Price Deflator; Personal Spending

*There are also several Fed districts that will report on business activity, manufacturing and business conditions this week, so it will be a busy week overall for economic data.

[CHART 1: 2Y, 3Y & 5Y SOFR Swap Rates – Prior 9 Trading Sessions](#)

The Bloomberg graph below details the 2Y (white line), 3Y (blue line) and 5Y (gold line) SOFR swap rates for the past 9 trading days. You can see the rate drift lower that I mentioned above. Traders are now pricing the peak for US interest rates in June and then a *decline* in the 4th quarter to end the year at ~4.5%. The continued shifts in Fed projections underscore the lack of forward direction at the start of a busy week for economic data and corporate earnings. Yesterday's data showed US manufacturing was weaker than economists forecast. US GDP data is forecast to reveal slower growth; Core PCE, the Fed's "preferred" inflation gauge, is expected to show price growth cooled. If this is the case the market is likely to continue to drift lower. If the reverse is true, we could see rates move higher as the market considers the implications for the June FOMC meeting and forward rates.

2Y, 3Y & 5Y SOFR SWAP RATES: Prior 9 Trading Sessions



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