

AST DEFEASANCE RATE MARKET UPDATE

Quick Market Flash

Good Morning – UST’s and SOFR swaps very quiet on the open. At the moment rates are flat (See Table 1) – maybe a basis point lower from Friday’s close. The market is waiting for the Retail Sales data released tomorrow and the critical CPI inflation report on Wed morning. The next FOMC meeting is July 26. Fed officials will be “blacked out” by mid-next week, but may have comments this week that could impact the rate market ahead of the July meeting. Several Fed officials are in fact scheduled to speak this week.

I would also note equity markets are nervous – we may see rates edge down a touch when the equity markets open this morning. Fears of additional Fed rate hikes are rekindling recession fears and geopolitical economic concerns continue to escalate, particularly in China and Europe. Interest rate volatility remains elevated and is likely to stay that way with a still active Fed and an uncertain market. (See chart 1.)

The Fed is expected to raise the overnight rate by 25 basis points at the July 26 meeting. Last week’s stronger than anticipated jobs data probably cements a 25 bp hike, unless the Retail Sales or CPI data present some positive (or negative!) surprises for the market. Stay tuned!

Table 1 – Rate Snapshot

You can see from the below Bloomberg rate table that US Treasuries and SOFR swap rates opened this morning flat to Friday’s closing rates. As mentioned, this is likely due to a cautious market awaiting key economic data ahead of the July FOMC meeting. There are several Fed officials on the tape today - coupled with equity market jitters, we may see some rate volatility as the day wears on.

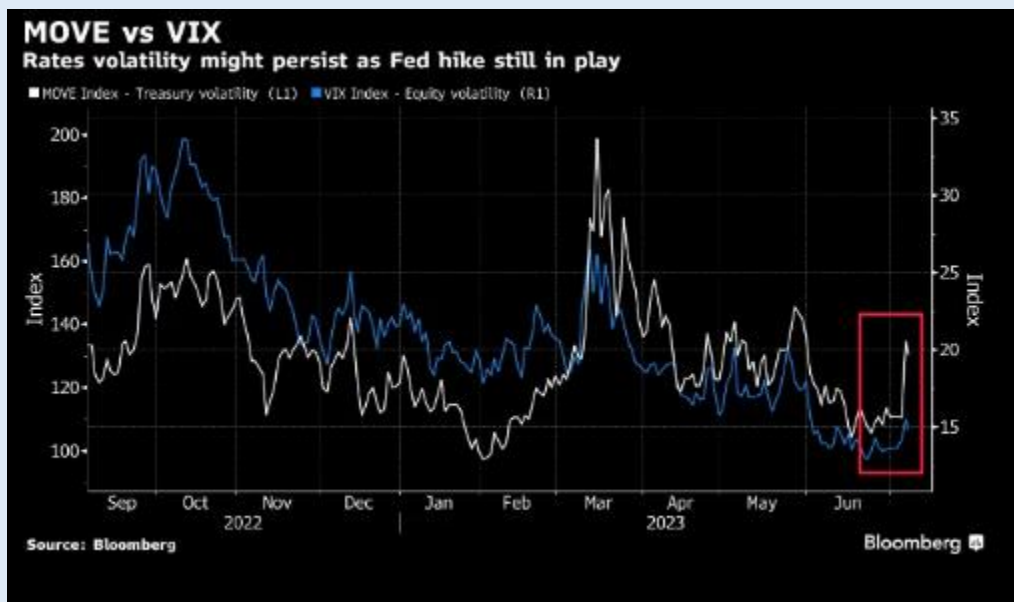
US Treasuries / SOFR Swap Spreads / SOFR Swap Rates

GV Ask/Chg	SOFR/GV	SOFR OIS
2Y 4.950 +0.005	-6.8600 -0.4200	4.8842 -0.0008
3Y 4.655 -0.007	-13.4400 +0.3500	4.5221 -0.0061
4Y 4.493 -0.009	-21.6300 -0.2500	4.2907 -0.0098
5Y 4.355 -0.005	-21.6300 -0.5000	4.1395 -0.0105
7Y 4.241 +0.016	-27.8400 -0.6800	3.9639 -0.0001
10Y 4.088 +0.025	-25.3800 -0.8800	3.8344 +0.0124
20Y 4.305 +0.033	-63.0100 -0.5700	3.6753 +0.0262
30Y 4.081 +0.036	-66.7900 -0.4200	3.4152 +0.0322

Source: Bloomberg, LLP

Chart 1 – Volatility Elevated for Equities and Rates

The Bloomberg chart below details the common measurements used by the market to gauge rate (white line = MOVE Index) and equity volatility (blue line = VIX Index). With a still active Fed and market uncertainty, rate volatility is likely to remain elevated through the summer and into September. With many factors impacting rates and the economy, the market will be ripe for sustained rate volatility as the market sorts out both the Fed’s short-term forward rate path and the medium to long term view on forward rates. You can see that both the VIX and MOVE indices show heightened volatility recently, though well below the levels witnessed during the banking crisis in March. Rate volatility is currently outpacing Equity volatility given the uncertainty surrounding the FOMC’s go-forward monetary policy. The takeaway here is that there is plenty of room for volatility (and rates!) to move higher.



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