

## AST DEFEASANCE RATE MARKET UPDATE

Good Morning! Please see below for the RCA | AST Defeasance *Rate Market Update* for May 17, 2023. Please let us know if you would like additional market color or have any questions.

[RATE MARKET UPDATE: May 17, 2023 | Debt-Ceiling Update; Housing Starts Data](#)

- [Debt-Ceiling drama continues in Washington](#)
- [However, both sides cautiously optimistic a deal will get done and a default averted](#)
- [As a result, market sentiment is improving this morning](#)
- [Housing Starts Data better than expected](#)
- [SOFR swap rates static this morning as the market awaits further updates from Washington](#)
- [Next FOMC meeting: June 14, 2023](#)

US stock futures rose and Treasuries steadied this morning as White House and congressional negotiators continued to try to resolve their differences and avert a US debt default. House Speaker McCarthy and President Biden both expressed cautious optimism for a bipartisan deal. Market participants expect debt-ceiling talks to intensify as negotiators seek a framework agreement for the President and House Speaker Kevin McCarthy to review upon the president's return from a truncated trip to Asia. The latest round of talks will feature a narrower group of negotiators in hopes of yielding a deal to avert an unprecedented US default. As mentioned, the President and lawmakers struck a cautiously optimistic tone following the closed-door meeting Tuesday, saying that while the two sides remained far apart, they were hopeful the new negotiating teams could find bipartisan middle ground. The Treasury Department is warning that the nation faces the disastrous prospect of a default as soon as June 1. "There was an overwhelming consensus, I think, among the congressional leaders that defaulting on the debt is simply not an option," Biden said following the meeting. But the president cautioned, "there's still work to do." Just this morning Speaker McCarthy said "I think at the end of the day we do not have a debt default". We will be monitoring this situation closely and will keep you apprised of any significant developments.

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

The Bloomberg graph below details the 2Y (white), 3Y (blue) and 5Y (orange) SOFR swap rate for the *prior 3 trading sessions*. You can see from the below graph that short end SOFR swap rates have traded in a relatively tight range over the past 3 days as market participants anxiously monitored the debt-ceiling situation in Washington.

The market had a mostly muted reaction to the Retail Sales data yesterday – the sales numbers were mixed, but overall market sentiment is that the US consumer is still spending, albeit at a slightly slower pace. The Retail sales data and the Housing Starts data this morning were not enough to move the market needle while the debt-ceiling situation looms in the background. As mentioned above, optimism increased this morning that a deal will be reached and a default averted – that should enable the market to resume focusing on the FOMC, forward rates and the outlook for the US economy. At the moment, SOFR swap rates are basically unchanged from last night's close.

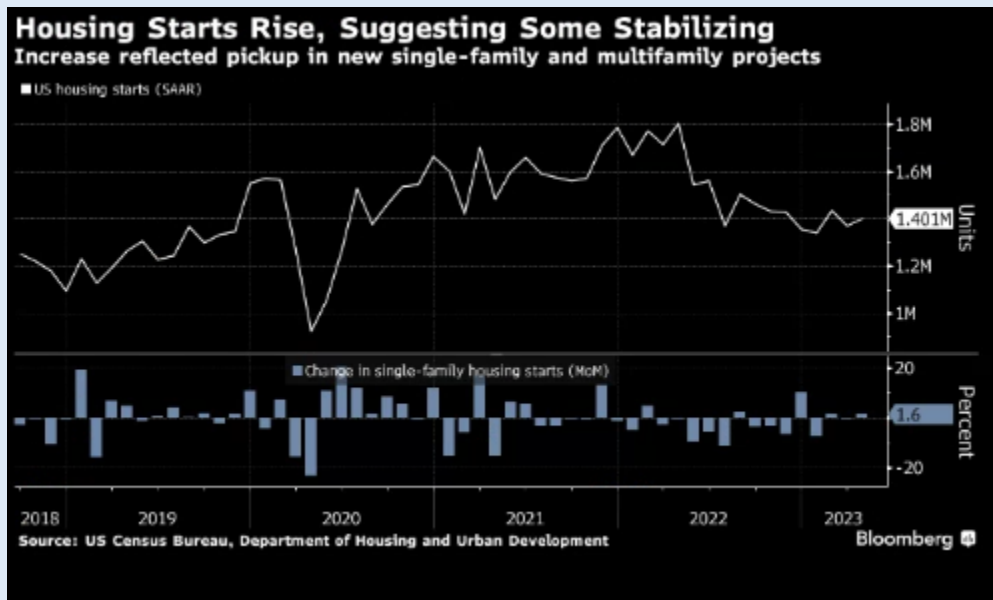


### [CHART 2: Housing Starts Data...Housing Starts Rise](#)

The Bloomberg chart below shows US housing starts increased in April, reflecting advances in single-family and multifamily home construction. Beginning home construction rose 2.2% and single-family homebuilding increased 1.6%. Applications to build, a proxy for future construction, fell 1.5% and permits for one-family dwellings increased. Builders are taking advantage of an historically low supply of existing homes for sale and some are

offering financing incentives to ease affordability constraints amid budding demand for new houses. That helps explain why homebuilder sentiment currently stands at a 10-month high. Still, prospective buyers face a number of headwinds that include only modest declines in home prices, still-high mortgage rates and tighter lending standards. While Federal Reserve officials have indicated they may pause their tightening campaign as soon as next month, the extent to which rates will remain elevated is still unclear.

Existing-home sales data for April will be released tomorrow (5/18), while a report on new-home purchases is due next week. *Stay tuned!*



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