

## AST DEFEASANCE RATE MARKET UPDATE

Good Morning! Please see below for the RCA | AST Defeasance *Rate Market Update* for September 6, 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, swaptions, or other derivative hedging products. Please feel free to reach out to us anytime!

### RATE MARKET UPDATE:

- Rates market quiet as traders mull the FOMC's next move and await key economic data next week
- Recent economic data points to a still healthy US economy and tight job market
- Next FOMC rate decision due on September 20, 2023 at 2:00 PM
- A busy "speech" week for Fed officials ahead of the blackout period next week (See Chart 2)

U.S. Treasury and SOFR swap rates opened *slightly* lower this morning as traders mull the FOMC's next move and wait for additional economic data. Recent economic data has been positive, underscoring the strength of the US economy, but inflation has remained stubbornly elevated. We see some secondary economic and inflation data this morning and there are a host of Fed officials on the tape this week, so the market will have some information and Fed commentary to analyze and process. Last week's economic and inflation data made it clear that the US economy is in good shape and inflation is creeping lower or at least remaining stable and not increasing. This combination will likely embolden the FOMC to pause at the September meeting – that keeps one more 25 bp rate hike at the ready, should inflation start to trend higher. The Fed's challenge at this late stage of the game is not to go too far and risk derailing what has been a very resilient US economy. Forecasts for 3Q US GDP are being revised higher and as we know the US labor market remains tight. As mentioned, the market will be paying close attention to Fed officials on the tape this week and are looking ahead to next week's CPI (9/13), PPI (9/14) and Retail Sales (9/14) data. Those numbers will be critical for setting the market tone heading into the FOMC meeting on the 20<sup>th</sup>.

### CHART 1: 2Y, 3Y & 5Y SOFR Swap Rates – Prior 30 Days

The below Bloomberg graph details 2y (white), 3y (green) and 5y (blue) SOFR swap rates for the prior 30 days. As you can see from the graph below, despite some intra-day volatility at times, rates remain range-bound. The range-bound nature of the current rate market underscores the uncertainty surrounding forward rates that still permeates the market. Odds for a rate hike in September have dropped to near zero, but the market is still loosely pricing in one more 25 bp rate hike this year. In addition, if the economy remains healthy, the timing for the first rate cut may be moved even further into the future. You do not need to jump start an economy that is humming along nicely. As a result, rates have been largely stuck in a yield range of approximately 15/20 basis points. The market has tended to seesaw in whatever direction the prevailing data of the day leans – more importantly, however, those directional moves have not been substantial. That tells me traders lack the conviction to move the market dramatically either way until we see the data next week and hear from Mr. Powell and friends on September 20<sup>th</sup>.



Source: Bloomberg, LLP

### CHART 2: Fed Speech Calendar

The below Bloomberg table lists the upcoming FOMC speeches and public engagements for this week. Beginning next week, Fed officials will enter the “blackout” period and will be silent until after the Sep 20 meeting. The Fed speeches and commentaries this week may provide additional clues into the FOMC’s mindset on forward rates and the economy. As you can see from below, some of the speeches target specific “non-market” topics, like payments, but many of the speeches may provide a glimpse into forward monetary policy, particularly Bostic’s speech on the economy tomorrow afternoon. The Federal Reserve also releases the Beige Book today. The Beige Book is a qualitative review of economic conditions drawing on reports from 12 district banks. It is published eight times annually before meetings of the Federal Open Market Committee, which uses the results in its planning and decision-making processes. The Beige Book provides anecdotal information about the current economic landscape. This information is helpful because it gives the FOMC a sense of what is happening across regions. Many regional economic statistics are only compiled and released after a lag, so the Beige Book provides the FOMC more immediate feedback. *Stay tuned!*

Date	Time	A	M	R	Event
21)	09/06 08:30				Fed's Collins Speaks on Economy, Policymaking
22)	09/06 09:00				Ex-Fed Official Bullard Speaks at NABE
23)	09/06 14:00				Federal Reserve Releases Beige Book
24)	09/06 15:00				Fed's Logan Takes Part in Community Listening Session
25)	09/07 10:00				Fed's Harker Speaks on Future of Fintech
26)	09/07 11:45				Fed's Goolsbee Delivers Welcome Remarks at Chicago Fed Event
27)	09/07 14:00				St. Louis Fed Hosts Public Engagement on Presidential Search
28)	09/07 15:30				Fed's Williams Speaks at Bloomberg Market Forum
29)	09/07 15:45				Fed's Bostic Speaks on Economic Outlook
30)	09/07 16:55				Fed's Bowman Speaks on Panel About Future of Money
31)	09/07 19:00				Fed's Bostic Speaks on Economic Mobility
32)	09/07 19:05				Fed's Logan Speaks on Monetary Policy in Dallas
33)	09/08 09:00				Fed's Barr Speaks About Payments Innovation

Source: Bloomberg, LLP

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