

Flash Update: US Rate Markets – Monday 1/27/2025

- US Treasury yields fall to lowest levels this year as tech risk fuels safe-haven bid
- Traders prepare for a “big week”; Tech-sector woes add to the mix of market catalysts they will see this week
- FOMC rate announcement due Wednesday, 1/29 at 2:00 pm
- 4Q GDP results are due Thursday, 1/30 at 8:30 am
- December PCE inflation data is due Friday, 1/31 at 8:30 am
- Fed officials will emerge from the quiet-period and be back “on-the-tape” on 1/31
- Prepare for elevated rate volatility this week!
- SOFR swap rates are currently down 6-9 basis points from Friday’s closing levels

US Treasury yields and SOFR swap rates slid *materially* lower overnight (8-12 bps across the curve). Rates subsequently stabilized, then resumed moving lower after the US bond market opened at 8:30 am. They are definitely biased lower, at least for today. **Rates are currently holding steady after the US equity markets opened at 9:30 am (See Chart 1).** SOFR swap rates are off the overnight lows – right now down ~6-9 bps across the curve.

Overnight, US equities slumped, with Nasdaq futures briefly losing more than 5% on concern that a cheaper artificial intelligence (AI) model from China threatens the dominance of US technology. Nvidia Corp. plunged 12% in US premarket trading, setting it up for the biggest drop on record in terms of market capitalization if the move holds. The volume of Nasdaq 100 futures contracts changing hands was about *four times* the 30-day average. S&P 500 futures sank as much as 3% and Bitcoin slid below \$100,000. The buzz over “DeepSeek” emerged over the weekend, with tech analysts saying the Chinese company’s AI model provides comparable performance to the world’s best “chatbots” at a fraction of the price.

At one point overnight, the yield on 10-year US bonds fell as much as 12 basis points — the most in almost two weeks — to 4.50%, while the Fed-sensitive two-year rate dropped 10 basis points to 4.17%, the lowest in over a month, as investors sought safe-haven assets. Tech will remain in focus for traders, with four of the Magnificent Seven stocks — Apple Inc., Microsoft Corp., Meta Platforms Inc. and Tesla Inc. — scheduled to release results this week. ***Prepare for volatility today!***

Reminder, FOMC rate announcement is due Wed, 1/29 at 2:00 PM, followed by Chairman Powell’s post-meeting press conference. Fed officials are seen holding rates steady this week as inflation remains above target and the path of Trump’s economic policies remains highly uncertain. No rate cut is anticipated.

Major economic data is due the second half of the week (GDP 1/30, PCE 1/31). The GDP data will provide the first glimpse into economic growth for Q4 2024. The PCE data will be particularly important – it is the Fed’s preferred inflation tracker. With inflation back in focus, market participants will be paying close attention the PCE results. Fed officials will be back “on-the-tape” later this week (1/31). President Trump continues to hit the ground running on new policies and executive orders.

No matter how you slice it, this is a ***huge*** week for the rate markets.

CHART 1: US RATES SNAPSHOT: 9:45 AM Eastern

****SOFR Swap Rates & Change-On-Day (In Bps) Two Far Right Columns***

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	4.199	-0.066	-16.8922	-0.7792	4.0320	-0.0753
3Y	4.249	-0.077	-23.1720	-0.4845	4.0200	-0.0807
4Y	4.309	-0.084	-27.3825	-0.4125	4.0223	-0.0850
5Y	4.340	-0.085	-31.1548	-0.0311	4.0291	-0.0850
7Y	4.436	-0.089	-38.9520	+0.5530	4.0475	-0.0845
10Y	4.542	-0.079	-46.4650	+0.0350	4.0788	-0.0785
20Y	4.848	-0.064	-72.1335	+0.0709	4.1283	-0.0643
30Y	4.791	-0.055	-82.1038	-0.1038	3.9705	-0.0568

Source: Bloomberg, LLP | 9:45 AM NY Rates Snapshot

CHART 2: SOFR SWAP RATES PLUNGE, THEN STABILIZE, ON TECH SECTOR WOES

US Treasury yields and SOFR swap rates plunged overnight in a “flight-to-quality” asset reallocation. Fears that American dominance in the AI sector could be compromised by a much cheaper, but equally powerful Chinese version spooked equity and bond markets overnight. Tech stocks got crushed and traders headed for the US Treasury safe-haven. It’s too early to judge the long term impact to the US tech sector (or on interest rates or the economy), but it is definitely not good news for US AI interests. For the time being, I expect increased rate volatility and a slight bias toward lower rates. The FOMC rate announcement and/or the important data we see could snap the market out of the current “tech focus”, but that will likely only add to volatility.

CHART 2: 1Y & 2Y SOFR SWAP RATES, PRIOR (3) TRADING SESSIONS



Source: Bloomberg, LLP | 1Y (WHITE), 2Y (BLUE) SOFR SWAP RATES, PRIOR (3) TRADING SESSIONS

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