Flash Update: **US Rate Markets – Monday 1/13/2025**

- **Rates drift higher as market awaits key inflation data due this week**
- **Friday's red-hot jobs report likely puts Fed rate cuts on the back burner for the foreseeable future**
- **Rates are currently biased higher, and the US Treasury yield curve continues to steepen**
- **Next Up for data: PPI inflation data is due tomorrow at 8:30 AM; CPI inflation data is released on 1/15 at 8:30 AM**
- **The next FOMC rate decision is due on January 29th at 2:00 PM**
- **Short-end SOFR swap rates are trading ~1-2 bps higher than last night's closing levels**
- **Long-end swap rates are up ~1-2 basis points this morning**

US Treasury yields and SOFR swaps rates drifted higher this morning, as market participants continue to digest Friday's red-hot jobs report and await key inflation data due later this week. Currently, SOFR swap rates are up ~1-2 basis points across the curve (See Chart 1). Rates surged on Friday after a significantly stronger-than-expected jobs report, leading to speculation that the Fed will be on hold for the foreseeable future, forcing traders to once again reprice Fed rate cut expectations (See Charts 3, 3A).

The Fed's focus has returned firmly to inflation following an upturn in recent months, with several officials recently signaling they may hold rates steady for a while after lowering borrowing costs by a full percentage point in 2024. This week's inflation data, combined with Friday's jobs data, could set the tone for rates, and for rate cuts, for the foreseeable future. Should the inflation numbers this week continue to show "stickiness" (between 2.5% - 3.00%), the FOMC will be in no hurry to lower rates anytime soon. Current market pricing does not show a rate cut this year until September or more likely, October. The strong labor market and sticky inflation is more of the same of what we witnessed the second half of 2024 – the Fed has been vocal that they do not want to risk cutting rates too quickly, thereby increasing labor market demand and spiking inflation.

We will see PPI inflation data released tomorrow at 8:30 AM. The *key* CPI inflation report is released on Wednesday, 1/15 at 8:30 AM. *The inflation data this week is anticipated to show an uptick in inflation.* That would certainly *not* help the prospects for rate cuts, and could push medium-and-long-term rates even higher. Expectations for tomorrow's PPI data are as follows: Headline PPI MoM, 0.4% expected (vs. 0.4% prior); Core PPI MoM, 0.3% (vs. 0.2% prior); Headline PPI YoY, 3.5% (vs. 3.0% prior); Core PPI YoY, 3.8% (vs. 3.4% prior). Market participants are definitely hoping the inflation data comes in below expectations!

CHART 1: ***US RATES SNAPSHOT: 10:00 AM Eastern***

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.390	+0.011	-14.7171	+0.6014	4.2441	+0.0167
3Y	4.481	+0.014	-22.5799	+0.3001	4.2569	+0.0185
4Y	4.562	+0.015	-27.2990	+0.2010	4.2650	+0.0189
5Y	4.592	+0.017	-32.2500	+0.1547	4.2701	+0.0186
7Y	4.691	+0.015	-41.7350	-0.0209	4.2763	+0.0166
10Y	4.774	+0.014	-48.7296	-0.0796	4.2876	+0.0141
20Y	5.036	+0.017	-74.4919	-0.2765	4.2928	+0.0131
30Y	4.954	+0.007	-84.3593	+0.3907	4.1115	+0.0117

Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2, 2A, 2B & 2C: **Term Rates Biased Higher; Yield Curve Steepens**

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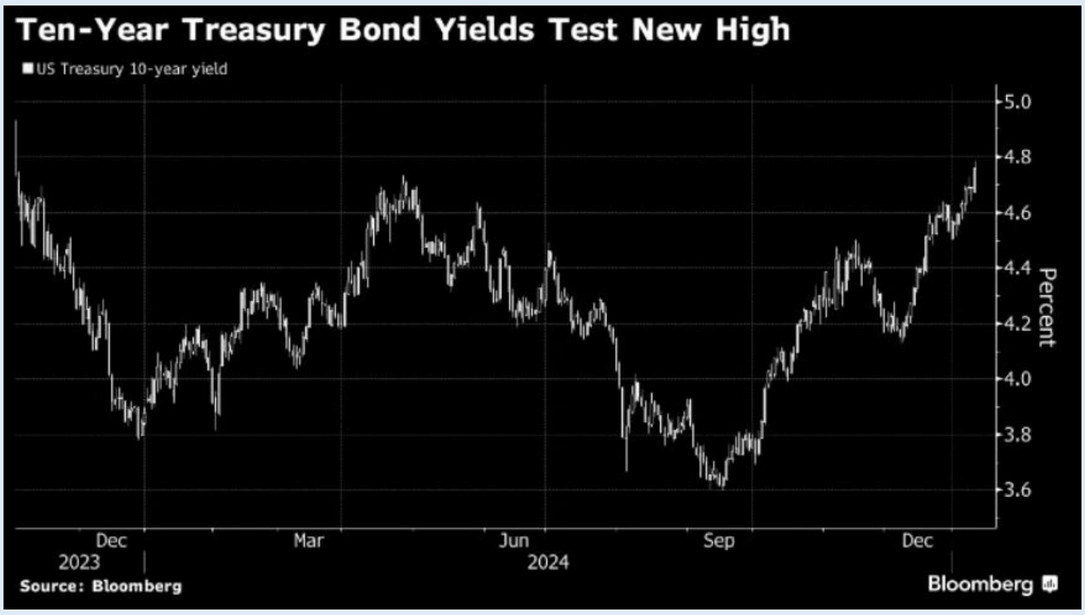
US Treasury yields and SOFR swap rates continued to rise after a blowout US employment report reinforced bets among traders and Wall Street economists that the Fed will hold off on further interest rate cuts for the foreseeable future. Rates gapped higher on Friday after data showed the labor market grew robustly in December, sending the 30-year bond's yield above 5% for the first time in more than a year. Yields on benchmark 10-year bonds rose as much as four basis points this morning and touched 4.80%, the highest level since November 2023. Friday's rate move built upon a recent selloff in global bonds as investors grow increasingly anxious over the prospect of lingering inflation and widening fiscal deficits — including in the US as President-elect Donald Trump returns to the White House.

The rate on 10-year Treasury notes has soared more than a percentage point in four months and now is within sight of the 5% barrier last breached briefly in 2023 and otherwise not seen since before the global financial crisis nearly two decades ago. For those unsettled by the relentless rise in government bond yields in the US recently, the message from the market is getting clearer by the day: Get used to it, this may be the new normal. The Treasury yield curve also continues to steepen from the long-end, keeping pressure on term-borrowing and mortgage rates. Due to an adjustment in swap spreads, the SOFR swap curve remains relatively flat – the spread between 2-year and 10-year swaps is close to zero. That is a *clear* sign of the tremendous uncertainty that currently exists in the rate markets.

CHART 2: ***1Y (white), 2Y (blue), 3Y (orange), 5Y (purple) & 10Y (gold) SOFR Swap Rates – Prior (6) Months***

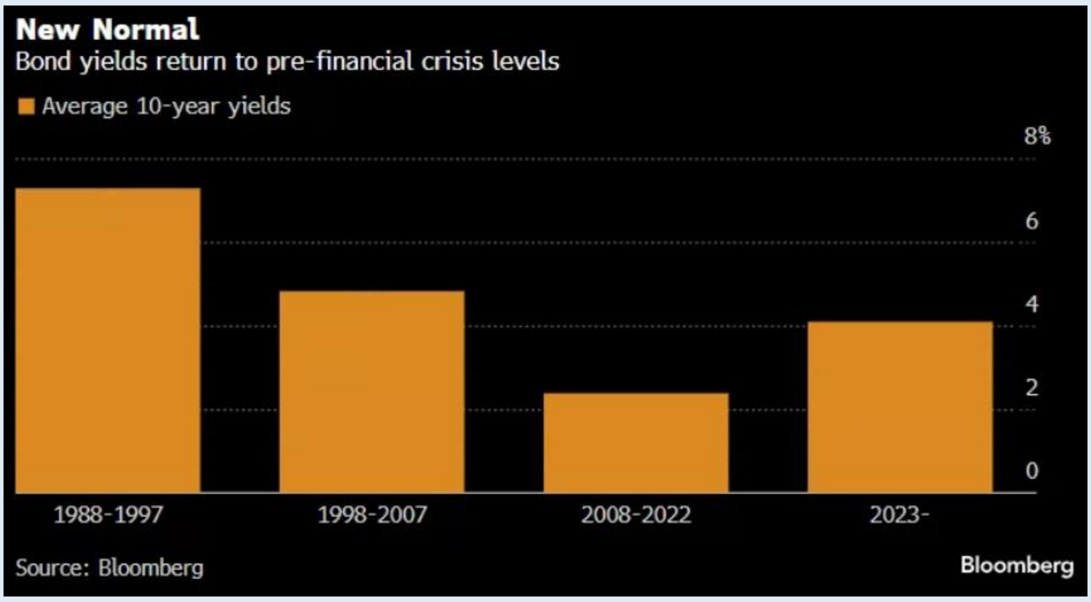
Source: Bloomberg, LLP | 1Y, 2Y, 3Y, 5Y & 10 YEAR SOFR SWAP RATES – PRIOR (6) MONTHS

CHART 2A: ***10-Year Treasury Yields Biased Higher***



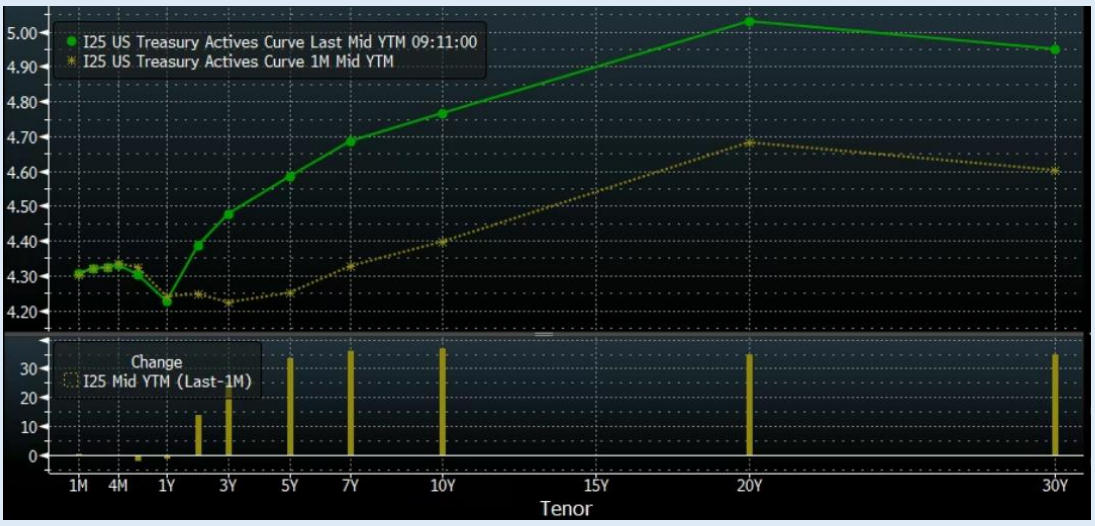
Source: Bloomberg, LLP | 10Y UST NOTE YIELD SINCE NOVEMBER 2023

CHART 2B: ***Rate Market Facing A New Normal? Treasury Yields Return To Pre-Crisis Levels***



Source: Bloomberg, LLP | Average 10-Year Treasury Yields Since 1988

CHART 2C: ***US Treasury Yield Curve Continues To Steepen***



Source: Bloomberg, LLP | US Treasury Yield Curve: Today (green line) vs. 1-Month Ago (gold line)

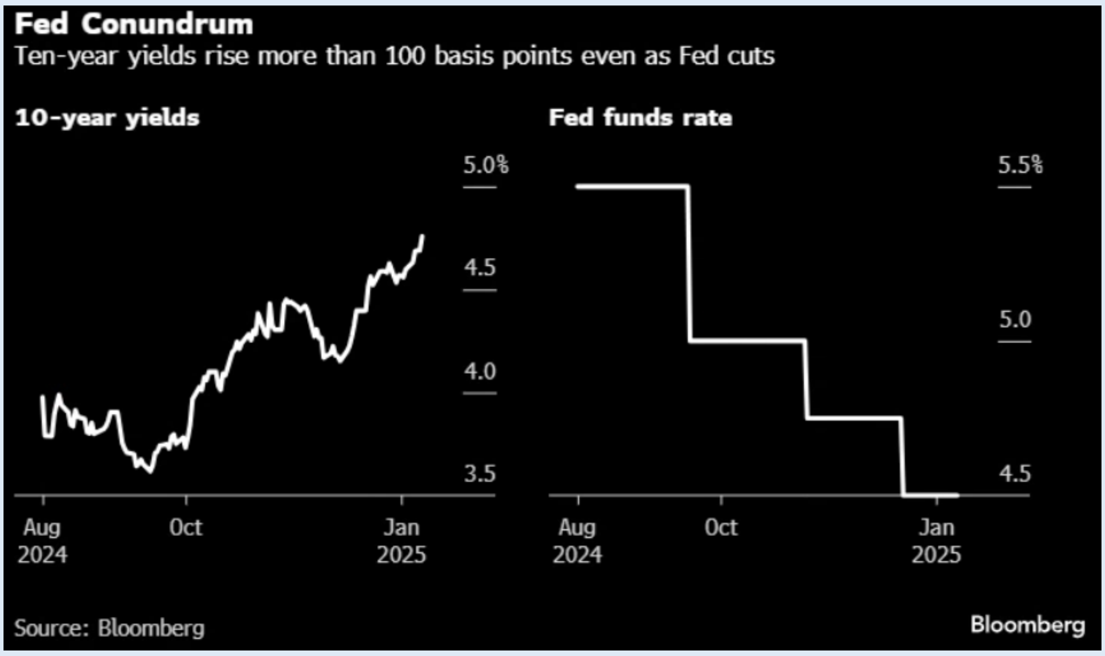
CHART 3 & 3A: FED RATE CUT EXPECTATIONS DIALED-BACK FOR 2025

As of this morning, swaps traders are pricing in about 26 basis points of Fed rate cuts for 2025, compared to about 38 basis points before Friday's jobs data. A quarter-point reduction is fully priced in for ~September, and it was briefly pushed out to as far as October. That is a far cry from the "first-quarter" rate cut the market expected just a couple of months ago.

From my perspective, the whole 2025 rate narrative seems to be evolving in a different direction than the market had anticipated. Instead of a series of rate cuts to combat a cooling labor market and slowing economy, we are now looking at a Fed that may be on hold indefinitely, due to a resilient (or perhaps even, strong?) economy, consumer and labor market. The yield curve was expected to steepen this year, but driven by the short-end due to Fed rate cuts. Instead, we are seeing the curve steepen from the long end, with rate cuts now likely on the back-burner. Sprinkle in sticky inflation data and an incoming president whose new policies may fan inflation – well, you can see how the narrative on the rate markets for this year has dramatically shifted in the first two weeks of 2025.

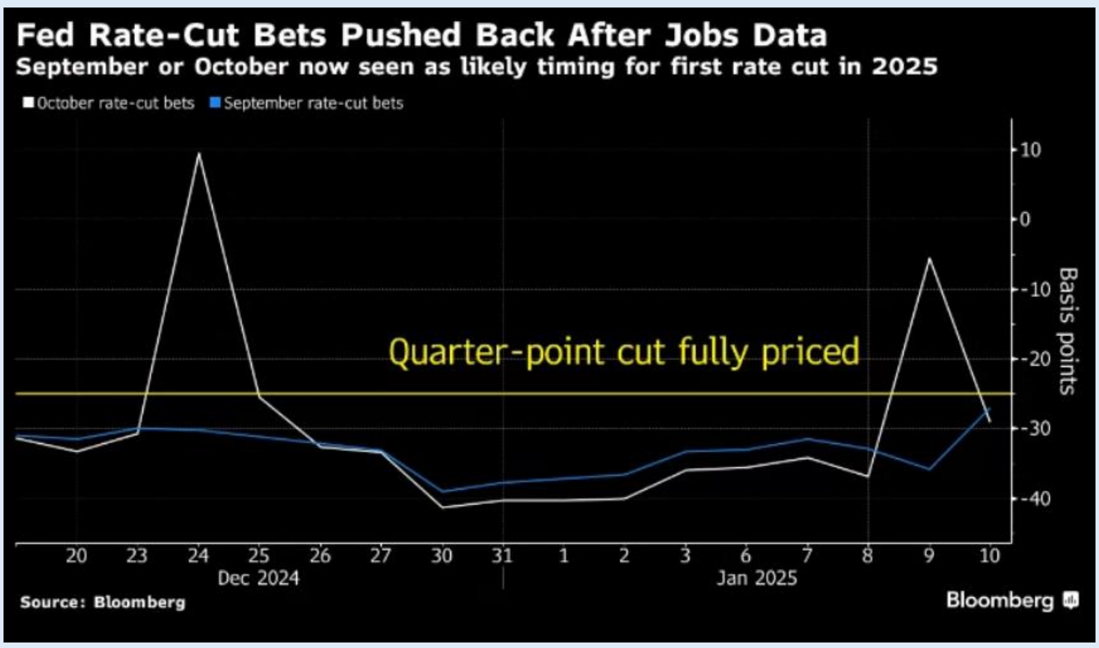
Needless to say, it is too early to draw any firm conclusions on the path forward for rates and the FOMC this year. This week's inflation data will provide another round of *critical* data for the market to digest.

CHART 3: ***Despite FOMC rate cuts, 10Y Yields Continue To Move Higher***



Source: Bloomberg, LLP | FED RATE CUTS TO DATE VS. CORRESPONDING 10Y UST NOTE YIELD MOVEMENT

CHART 3A: ***Next Rate Cut Not Expected Until ~September/October 2025***



Source: Bloomberg, LLP | MARKET CUMULATIVE RATE CUT PRICING FOR 2025 (AS OF 1/13/25)

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