Flash Update: **US RATE MARKETS – FRIDAY JANUARY 16, 2026**

- **UST yields and SOFR swap rates are edging a touch higher this morning on hawkish Fed-speak**
- **Traders continue to *closely* monitor geopolitical developments in multiple "hot spots"**
- **The developing situation in Iran is captivating traders globally and is likely to remain a front-and-center market catalyst**
- **Traders will continue to monitor developments in the DOJ Criminal investigation into Chair Powell and the US Central Bank**
- **The market reaction to the Powell announcement has been somewhat muted so far, but market jitters are elevated**
- **The Supreme Court did not rule on "tariffs" this week – the decision was postponed and is now TBD**
- **A SCOTUS ruling on tariffs is now anticipated to come "at some point in January" – the decision could come any day**
- **The tariff ruling could potentially create additional rate volatility as the market reacts to the Supreme Court's decision**
- **Next up for data: 3Q GDP revisions print on Thursday, 1/22 at 8:30 AM**
- **Beginning tomorrow, 1/17, Fed officials enter the pre-meeting "communications blackout"**
- **The next FOMC rate decision is due Wednesday, January 28, 2026 at 2:00 PM**
- **Short-end SOFR swap rates are trading up ~1-2 bps this morning, depending on tenor**
- **Long-end SOFR swap rates are currently trading up ~1-2 bps, depending on tenor**

US Treasury yields and SOFR swap rates are a touch higher this morning, as cautious Fed-speak this week dimmed hopes for a rate cut in the first half of the year. Futures implied odds for a January rate cut have dropped this week to a paltry 5.1%. Rates have drifted higher this week, mostly due to "cautious" Fed-speak and an elevated UST risk premium. For the week, 2-Year SOFR swap rates are up ~4 basis points.

Other news the market is tracking:

- Geopolitical developments. Geopolitical tensions are running high, and that is not likely to abate anytime soon. Markets are paying particular attention to the situations in Venezuela and Iran. The unrest in Iran has intensified this week, and is garnering global attention.
- The Supreme Court ruling on tariffs has not yet been released. The ruling was postponed and is now expected to come at "some point in January". The SCOTUS ruling could definitely have market implications. Currently, market participants and economists believe the Supreme Court will rule *against* the President. Economists are unsure about the market impact of the decision – either way, the ruling is a potential catalyst for elevated rate volatility.
- President Trump has "asked" Fannie Mae and Freddie Mac to purchase ~$200 billion in mortgage-backed securities in order to facilitate lower mortgage rates. The market impact is uncertain at the moment, but if this does happen, it could certainly impact rates and the shape of the yield curve, at least in the short-term. We will continue to track this developing story.
- The US Justice Department investigation into the US Central Bank and Chairman Powell is likely to be a key market focus moving forward. Chairman Powell has been defiant and has pushed back hard on the subpoenas, saying they are "political retribution" for not lowering rates and amount to "intimidation". He has stated he will not resign. Ultimately, we are in uncharted waters on this – at the least, it is likely to increase volatility and uncertainty while the situation plays out. President Donald Trump said this morning that he does not plan to fire Federal Reserve Chair Jerome Powell despite a Justice Department probe into the central bank's renovation.
- The Fed's pre-meeting external "communications blackout" begins tomorrow, January 17th. We will not hear from a Fed official again until after the FOMC meeting on January 28th. There are three Fed officials on the tape today (Collins, Bowman, Jefferson), beginning at 11:00 AM. Hawkish Fed-speak this week has slowly pushed yields higher.

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Bottom-line, there are <u>many</u> potential market catalysts for traders to monitor and manage at the moment.

<u>SOFR Swap Rate Summary:</u> The **1Y** SOFR swap rate is trading up ~1-2 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading up ~1-2 bps. **5Y** and **10Y** SOFR swap rates are currently trading up ~2-3 bps. The very back-end of the swap curve is currently trading up ~1-2 bps from yesterday's closing levels. ***<u>Please note:</u> Market levels can change rapidly – rate cap premiums are subject to a dynamic market that can change frequently.***

<u>CHART 1:</u> ***US RATES SNAPSHOT: 9:30 AM Eastern***

**For SOFR Swap Rates & Change-On-Day (In Bps): <u>Refer Two Far Right Columns (SOFR Swap Rates)</u>*

UST YIELDS | SWAP SPREADS | SOFR SWAP RATES

	UST Yields		Swap Spreads		SOFR Swap Rates	
2Y	3.576	+0.011	-16.3145	+0.0133	3.4129	+0.0099
3Y	3.634	+0.016	-20.1665	-0.2850	3.4332	+0.0127
4Y	3.711	+0.016	-23.0000	-0.2765	3.4815	+0.0148
5Y	3.787	+0.020	-24.9900	-0.3598	3.5386	+0.0160
7Y	3.981	+0.024	-31.3229	-0.5329	3.6690	+0.0163
10Y	4.191	+0.021	-34.3750	-0.3750	3.8481	+0.0168
20Y	4.769	+0.025	-57.7154	-0.6204	4.1937	+0.0190
30Y	4.820	+0.023	-63.1638	-0.4138	4.1895	+0.0205

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

<u>CHART 2, 2A & 2B:</u> SOFR SWAP RATES TICK TOWARD TOP OF RECENT TRADING RANGE

SOFR swap rates are holding mostly steady this morning – right now swap rates are a tick or two higher. The slight uptick in rates the past couple of days is primarily due to hawkish Fed-Speak. Fed officials enter the pre-meeting quiet period beginning tomorrow, so the market was likely "soaking up" the Fed-speak while officials are still able to provide public comments.

Swap rates remain stuck in a range, although we have definitely been drifting toward the top of the range over the prior ten days, particularly on the short-end of the curve. With rate cut hopes dimming at the moment, traders have been slowly unwinding the possibility of a third rate cut this year, which has the most impact on the Fed-sensitive short-end of the yield curve.

<u>CHART 2:</u> ***Short-End SOFR Swap Rates – Prior 30 Days***

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Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 30 DAYS

<u>CHART 2A:</u> ***Long-End SOFR Swap Rates – Prior 30 Days***

Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR 30 DAYS

<u>CHART 3 & 3A:</u> RECENT HAWKISH FED-SPEAK DIMS HOPES FOR A RATE CUT IN THE FIRST HALF OF 2026

This week, a broad sample of Federal Reserve officials signaled a willingness to "pause" interest-rate cuts at their upcoming policy meeting, citing a labor market that appears to be stabilizing and ongoing inflation pressures. Five presidents of regional Fed banks, who in recent months have found themselves on *opposite* sides of the policy debate, indicated the US central bank is now well positioned to wait for more data before acting again.

The Fed-speak this week follows reports showing that the Unemployment Rate ticked down to 4.4% in December, and inflation data suggesting the Fed's preferred inflation measure (PCE) may still be close to

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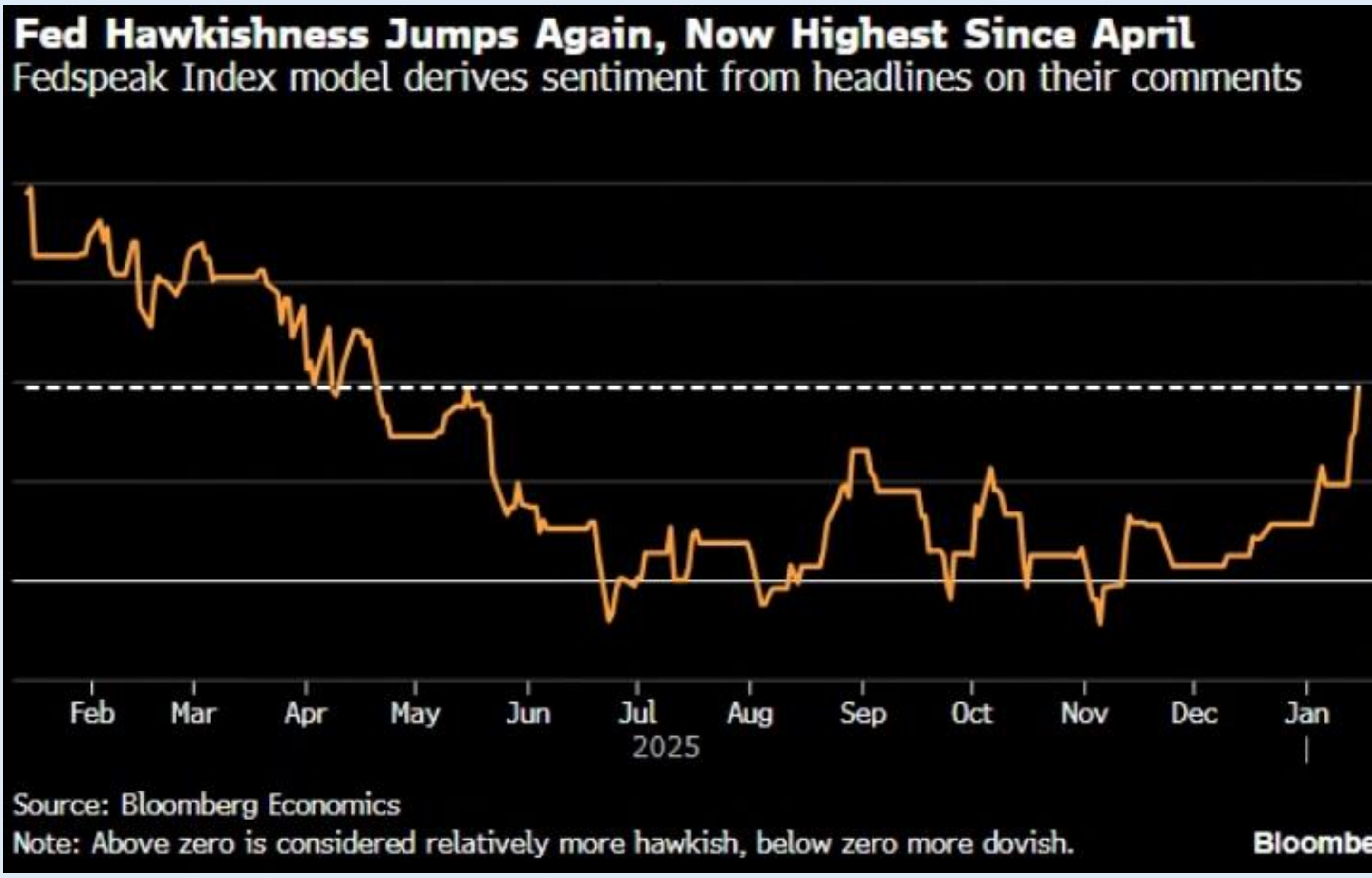
3%, which is a full percentage point above its target. Many of the policymakers who spoke publicly this week backed a pause, with some saying the Fed is "well positioned to wait for more data" before acting again, and that policy is in a "good place", with no need to "rush" to make changes.

Investors do not anticipate another rate cut before June, according to futures. The Fed's latest set of economic projections, published in December, showed officials see just one quarter-point reduction in 2026, according to their median "dot-plot" estimate.

CHART 3: ***Hawkish Fed-Speak Dims Hopes For Rate Cuts In The First Half Of 2026***



Source: Bloomberg, LLP | BLOOMBERG FED-SPEAK INDEX SINCE JANUARY 2025

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