

Flash Update: US Rate Markets – Tuesday 1/28/2025

- Rates steady as market prepares for tomorrow’s FOMC rate announcement and fresh economic and inflation data
- Traders continue to monitor developments in the equity markets, particularly in the tech sector
- FOMC rate announcement due tomorrow, 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
- Given the large amount of data and inflation we see this week, there is the potential for elevated rate volatility
- Short-end SOFR swap rates are trading flat to last night’s closing levels
- Long-end swap rates are *up* ~1 bp this morning

US Treasury yields and SOFR swap rates opened a touch higher this morning, but mostly held steady as market participants await tomorrow’s FOMC rate announcement and Chairman Powell’s press conference. Market participants are also waiting for fresh data, which we will see later this week. However, we do not see the new economic data until *after* the FOMC meeting (Q4 GDP prints 1/30; DEC. PCE prints 1/31 – both at 8:30 am).

We may see periods of elevated rate volatility the remainder of the week – traders will have a ton of information and data to process, not to mention President Trump’s ongoing rapid fire policy initiatives and the added drama of the recent tech-sector woes. We are likely to see rates trade in a very tight range today – up or down a bp or two. The *real* action could begin after the FOMC rate announcement tomorrow at 2:00 pm – it may continue the remainder of the week.

Rate Summary: Short-term SOFR swap rates are trading flat to last night’s close; Long-term SOFR swap rates are up ~1 bp this morning.

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

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.197	-0.002	-16.0675	+0.0725	4.0380	-0.0012
3Y	4.244	+0.000	-22.3705	-0.1180	4.0220	-0.0013
4Y	4.307	-0.002	-26.9550	-0.0500	4.0236	+0.0003
5Y	4.340	+0.002	-31.0000	-0.0137	4.0300	+0.0016
7Y	4.439	+0.005	-39.1175	+0.0819	4.0482	+0.0052
10Y	4.542	+0.007	-46.4795	+0.0555	4.0786	+0.0081
20Y	4.843	+0.013	-72.0600	-0.1150	4.1246	+0.0118
30Y	4.784	+0.014	-81.9516	+0.0484	3.9650	+0.0132

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

CHART 2: SOFR SWAP RATES HOLD STEADY AS MARKET PREPARES FOR FOMC RATE ANNOUNCEMENT & FRESH DATA

Despite pockets of elevated intraday volatility over the past 30 days, short-end SOFR swap rates are trading close to unchanged during that timeframe. Traders are clearly waiting to hear from the FOMC, and from Chairman Powell. Market participants are also anxiously awaiting the GDP and PCE data results we see later this week. We won’t see the GDP (1/30) and PCE (1/31) data until *after* the Fed meeting, so the market will be squarely focused on the FOMC rate decision and Chairman Powell’s press conference. We will also get to experience first-hand President Trump’s reaction to the FOMC rate decision. As

mentioned, that is *definitely* a wild card. While the Fed has steadfastly stated they will not capitulate to political pressure, the market is not under any such constraints. SOFR swap rates are holding steady this morning ahead of tomorrow’s FOMC rate announcement at 2:00 PM.

CHART 2: 1Y, 2Y & 3Y SOFR SWAP RATES, PRIOR (30) DAYS



Source: Bloomberg, LLP | 1Y (WHITE), 2Y (BLUE) & 3Y (ORANGE) SOFR SWAP RATES, PRIOR (30) DAYS

CHART 3: FOMC MEETING PREVIEW

The FOMC is widely anticipated to announce tomorrow that they will hold rates steady, the first pause since they began the rate-cut cycle in September. Fed-speak since the December meeting has leaned hawkish, economic data has been stronger-than-expected and inflation remains in check, at least for the time being. All of those factors support a pause by the Fed – the bigger question remains: Is it an “extended” pause, or will the Fed get back to business and cut rates again in the first half of the year? The answer to that question will likely be provided by upcoming economic and inflation data. The Fed is still squarely focused on the jobs market and inflation – their dual mandate. It is also clear that the FOMC and Chairman Powell will be subjected to increased political scrutiny and pressure to lower rates. Given past statements, Powell does not plan to capitulate to political pressure. Despite the increased political noise, the FOMC will remain data dependent. We will get the first glimpse of that “data” later this week when we see Q4 GDP results and December PCE inflation data.

Currently, market participants still (barely) favor two, 25 bp rate cuts in 2025, although current pricing reflects ~1.5 rate cuts for the year, so traders and investors are by no means convinced. Fed Funds futures imply a year-end 2025 overnight rate of 3.86%. Market participants anticipate the next rate cut to come at the June or July FOMC meeting, although they only give that a 50/50 chance currently.

CHART 3: FOMC Rate Cut Expectations – Fed Funds Futures



Description	Last
Jan25	4.3300
Feb25	4.325
Mar25	4.300
Apr25	4.255
May25	4.195
Jun25	4.135
Jul25	4.060
Aug25	4.010
Sep25	3.980
Oct25	3.935
Nov25	3.890
Dec25	3.860

Source: Bloomberg, LLP | Fed Funds Futures Contracts – 1/28/2025

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