RateCap Advisors

[Flash Update:] US RATE MARKETS – THURSDAY JANUARY 29, 2026

- **UST yields and SOFR swap rates are holding mostly steady this morning as traders digest yesterday's Fed news**
- **The Fed held the overnight rate steady and signaled they will proceed on a meeting by meeting basis**
- **Traders continue to *closely* monitor geopolitical developments in multiple "hot spots" (Greenland, Europe, Venezuela, Iran)**
- **The deteriorating situation in Iran, coupled with US threats, are capturing the market's attention this morning**
- **A potential government shutdown is also garnering market attention – another disruption to "data releases" could impact rates**
- **A SCOTUS ruling on tariffs is now anticipated to come "at some point in January" – the decision could come any day**
- **Fed officials will emerge from the "communications blackout" tomorrow, 1/30**
- **The next FOMC rate decision is due Wednesday, March 18, 2026 at 2:00 PM**
- ***Next up for data:* December PPI is released tomorrow, 1/30 at 8:30 AM**
- **Short-end SOFR swap rates are trading flat to down ~1 bp this morning, depending on tenor**
- **Long-end SOFR swap rates are currently trading up ~1-3 bps, depending on tenor**

US Treasury yields and SOFR swap rates are holding mostly steady this morning, as traders digest yesterday's Fed announcement and Chairman Powell's comments. The Fed held the overnight rate steady, and signaled they will be in a "wait and see mode" going forward. Chair Powell stressed there is no "pre-set course" for monetary policy – they will be making monetary policy decisions on a meeting by meeting basis and will remain data dependent. Overall, the market had a muted reaction to all the Fed news yesterday – rates remain range bound. The market is still seeking direction, or perhaps, we are currently at the "right" levels given all of the ongoing turmoil and uncertainty.

Traders will likely shift focus to several other "hot spots" that could impact US rates including a potential US government shutdown, a deteriorating political situation in Iran and the next series of key economic data. We will see December PPI released tomorrow at 8:30 AM. Expectations are as follows: Headline MoM, 0.2% (vs. 0.2% the prior month); Core MoM, 0.2% (vs. 0.0% prior); Headline YoY, 2.8% (vs. 3.0% prior); Core YoY, 2.9% (vs. 3.0% prior).

News the market is tracking includes:

- Geopolitical developments continue to weigh on market sentiment. Geopolitical tensions continue to run high, and that is not likely to abate anytime soon. Markets will continue to closely monitor the situations in Venezuela, Europe, Iran and Greenland. Geopolitical tensions escalated yesterday as the US stepped up its threats against the Iranian regime. That development once again has global markets nervous and uncertain.
- Markets will be tracking developments in the equities markets closely. There is still a sharp focus on the performance of the growing AI sector. Market sentiment is likely to be impacted by "tech" earnings for the foreseeable future.
- The Supreme Court ruling on President Trump's tariffs has not yet been released. The ruling 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.
- SCOTUS is also currently ruling on the legality of the President firing of the Fed's Lisa Cook. That ruling is also expected to come in the near term. Chair Powell said yesterday that this is "the most important legal case in the Fed's history". Stay tuned!
- 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. A sudden surge in purchases could 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 remain a key market focus moving forward.
- Traders will continue to track developments with the US dollar – the recent weakness, and reaction of the US government, has baffled markets. Sustained currency weakness can be inflationary. A weak dollar can lead to "pricier" imports and a deterioration in investor confidence.

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 flat to down ~1 bp this morning. **2Y** and **3Y** SOFR swap rates are currently trading flat to down ~1 bp. **5Y** and **10Y** SOFR swap rates are currently trading up ~1-2 bps. The very back-end of the swap curve is currently trading up ~1-3 bps from yesterday's closing levels. The yield curve steepened slightly this morning, driven by the back-end of the curve.

<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 Yield	Change	Swap Spread	Change	SOFR Swap Rate	Change
2Y	3.573	+0.003	-16.4600	-0.5000	3.4107	-0.0021
3Y	3.646	+0.005	-20.5000	-0.6050	3.4422	-0.0004
4Y	3.752	+0.008	-23.9075	-0.5040	3.5043	+0.0031
5Y	3.838	+0.010	-26.7253	-0.3503	3.5721	+0.0066
7Y	4.044	+0.015	-33.5410	-0.5760	3.7113	+0.0114
10Y	4.265	+0.021	-37.3839	-0.4696	3.8921	+0.0173
20Y	4.847	+0.035	-61.3198	-0.7398	4.2348	+0.0256
30Y	4.890	+0.035	-65.6747	-0.6399	4.2350	+0.0291

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

<u>CHART 2, 2A & 2B:</u> SOFR SWAP RATES STEADY AS MARKET DIGESTS POWELL COMMENTS; PATH FORWARD UNCERTAIN

SOFR swap rates are holding mostly steady this morning, as the market digests the results of the FOMC meeting and parses Chairman Powell's post-meeting comments. Markets had an overall muted reaction to the FOMC official statement and Chair Powell's comments, and I am not sure the market got the direction it was seeking.

Forces likely to impact swap rates in the near term include the worsening situation in Iran and the impact on oil prices, a potential US government shutdown and upcoming US economic data. We will see December PPI released tomorrow at 8:30 AM. Other key economic data on the horizon includes: January

ISM Manufacturing data on 2/02; December JOLTS jobs report on 2/03; January ISM Services data on 2/4; January CPI on 2/11; January Employment Report on 2/6.

Here are the current odds for a Fed rate cut at the next four meetings: March, 13.5%; April, 26.1%; June, 61.5%; July 73.8%. Right now, traders *do not* expect a rate cut in the first quarter of 2026, but they do suspect that the installment of a new Fed chief could green-light a rate cut in June. Currently, forward market pricing implies 47.4 bps of cumulative rate cuts in 2026 (~two, 25 bp rate cuts).

CHART 2: ***Short-End SOFR Swap Rates – Prior 30 Days***

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

CHART 2A: ***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 2B:</u> *Market Tracking Crude Oil Prices As Iran Situation Deteriorates*

Source: Bloomberg, LLP | BRENT CRUDE OIL FUTURES PRICING SINCE AUGUST 2025

<u>CHART 3, 3A & 3B:</u> FOMC HOLDS AS EXPECTED; SIGNALS WILL PROCEED ON A "MEETING BY MEETING" BASIS

Yesterday, the FOMC held the benchmark rate steady, as anticipated. The Fed Funds target range remains 3.50% - 3.75%. There were two dissenting votes from Waller and Miran, in favor of a rate cut. The FOMC toned down the official statement – they removed language saying downside risks to employment have risen and they added that the Unemployment Rate has shown signs of stabilization. The FOMC did flag inflation, saying it "remains somewhat elevated", but overall they presented a fairly upbeat assessment of the broader US economy. They did use the phrase, "in considering the timing an extent of future rate moves", which typically precedes an extended Fed pause.

Chairman Powell had a lot to say yesterday, but to my *huge* surprise, he *steadfastly* avoided commenting on the DOJ probe, political pressure, the Lisa Cook SCOTUS hearing or on his future plans. Basically he avoided comments on *anything* not related to monetary policy or the US economy. He said, "I've got nothing for you on that" *multiple* times during the Q&A. He is simply *not going to comment* on political or legal matters.

Highlights of Chair Powell's comments include:

-Economic growth is solid and on "firm footing for 2026"
-"Inflation remains elevated", but short-term forecasts are favorable
-Jobs market showing signs of stabilization and remains "broadly stable"
-Consumer Spending remains "resilient"
-Tariffs appear to be a "one-time" pass-through
-Fed is "well positioned to determine our next move on rates"
-He championed and stressed the need to maintain Fed independence and he urged his successor to be accountable to Congress

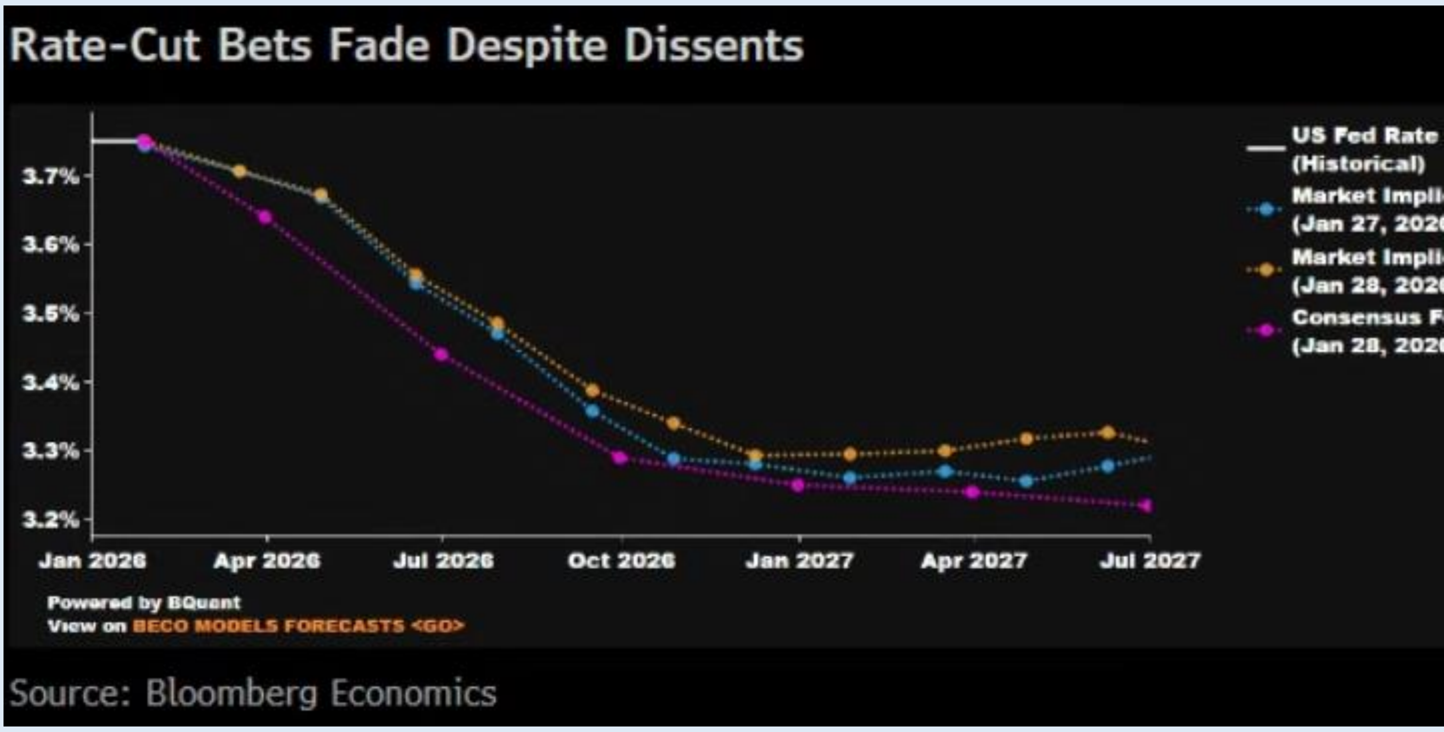
-Monetary policy decisions to be made on a "meeting by meeting basis", data dependent

Based on Chair Powell's comments yesterday, recent data and consensus forecasts, we may have seen the last of the rate cuts during Powell's Chairmanship. *More importantly, that likely means the Fed's impact on rates may be muted for at least the first quarter of 2026.* Right now, markets do not expect the Fed to do much of anything for at least the next few meetings, maybe longer. Markets may therefore look to *other* areas of the broader market for rate catalysts. Those may include fiscal policy changes, geopolitical developments, market forces (i.e. supply & demand, liquidity, risk premiums, etc.) and "FX" markets. The puzzling recent US dollar weakness could definitely impact rates and if it is sustained, could be inflationary. Economic data will also be a key focus for traders as we fully emerge from the government shutdown data void.

Admittedly, the Fed is likely to remain in the spotlight given the DOJ investigation, Lisa Cook SCOTUS hearing and a new Chairman on the horizon. In fact, the spotlight may only shine brighter on the Fed over the next several months. However, the Fed's *monetary policy decisions* are not likely to have a major impact on rates for the near term. At one point during the press conference, Chair Powell conceded we may be at the "higher-end of the plausible range for neutral" – that tells me that, as it stands right now, we may – *may* have one more rate cut to look forward to this year.

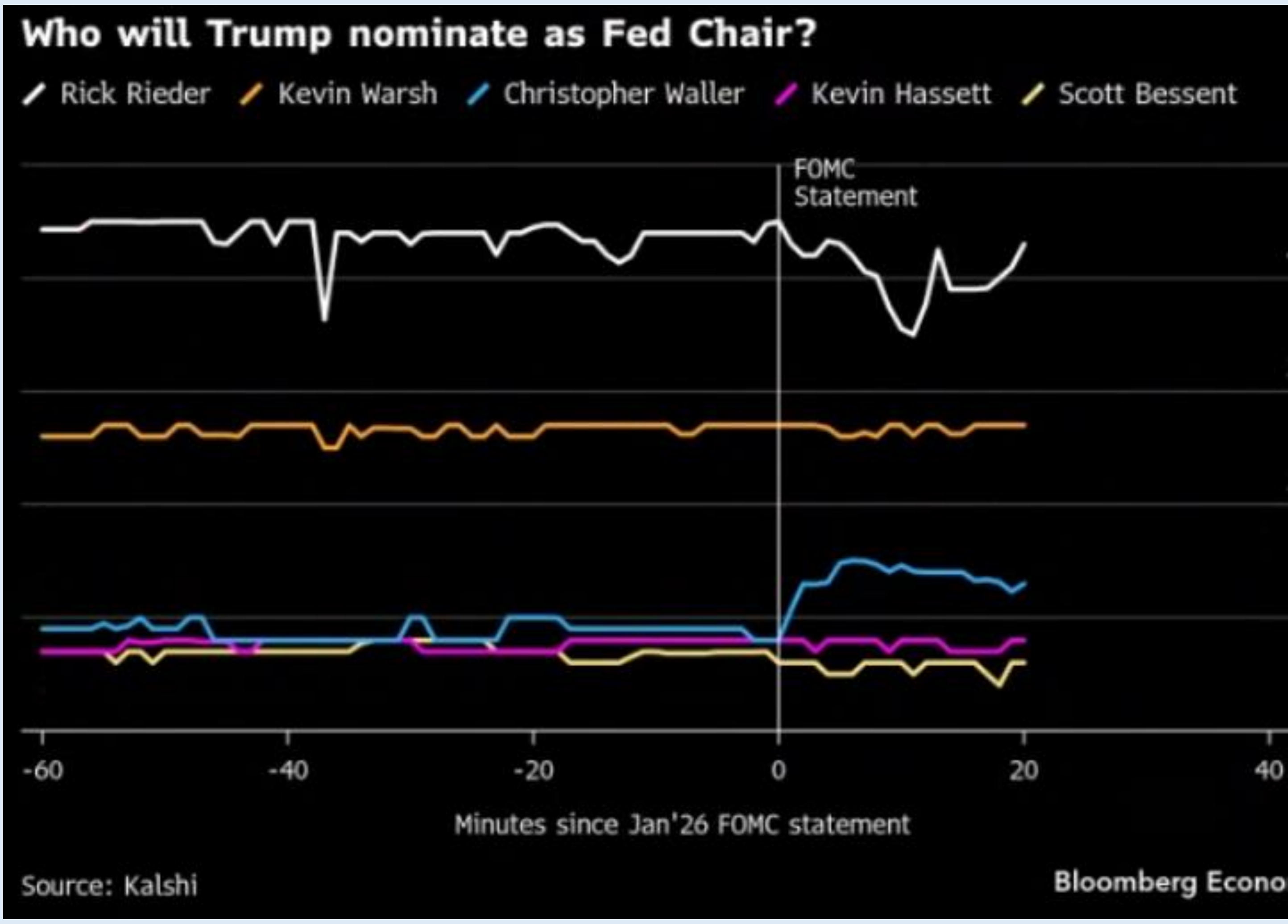
Big picture, I think the Fed will remain on the sidelines for the foreseeable future – perhaps the next several meetings.

CHART 3: ***Fed Rate Cut Bets Dialed Back As Fed Signals "Meeting By Meeting" Bias*; *Powell Says Fed "Well Positioned"***



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS THROUGH JULY 2027

CHART 3A: ***Market Ponders Who Will Be The Next Fed Chairman…President Trump's Decision Is Expected Soon***



Source: Bloomberg, LLP | FOMC CHAIRMAN "ODDS" INDEX

<u>CHART 3B:</u> ***Current Forward Implied Fed Funds & 1-Month Term SOFR Rates***

FOMC Forward SOFR		FOMC Forward FF	
01/28/26	3.64100	01/28/26	3.6129
03/18/26	3.60290	03/18/26	3.5743
04/29/26	3.49590	04/29/26	3.4566
06/17/26	3.41620	06/17/26	3.3790
07/29/26	3.32030	07/29/26	3.2755
09/16/26	3.25840	09/16/26	3.2216
10/28/26	3.23400	10/28/26	3.1754
12/09/26	3.20900	12/09/26	3.1653

Source: Bloomberg, LLP | CURRENT FWD IMPLIED FED FUNDS & 1M TERM SOFR RATES

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Rate Cap Advisors was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.

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