

July. This morning’s PCE data should help ease concerns about inflation flaring-up again after a brief increase in prior months.

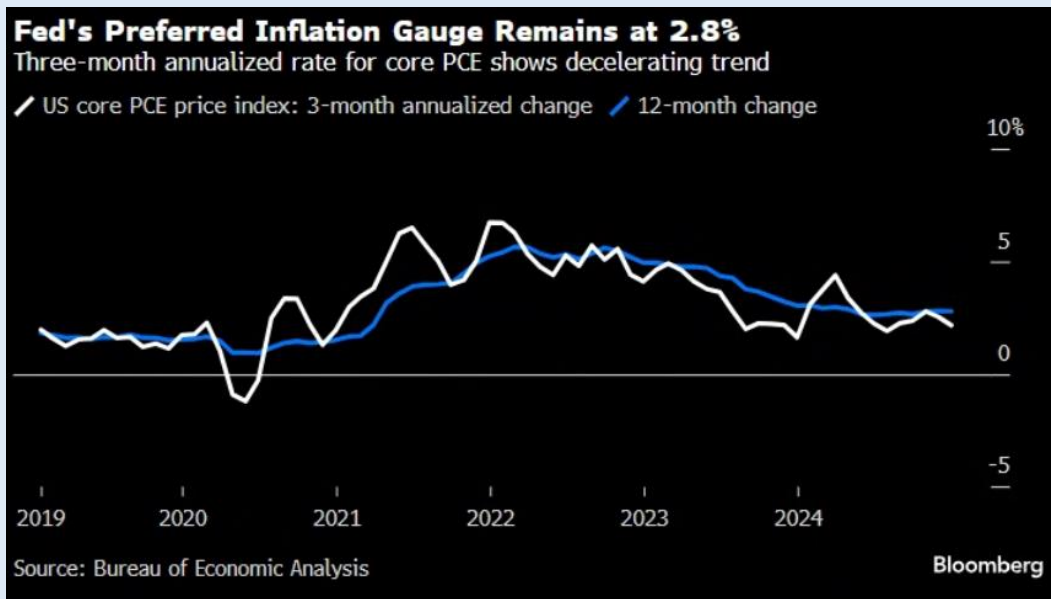
The December PCE data also showed robust gains in spending after upward revisions to the prior month. Adjusted for inflation, personal spending rose 0.4%, a second month of solid growth. However, real disposable income barely rose for a second consecutive month. That may indicate consumers are tapping into savings more to support spending, as the personal savings rate fell to the lowest in two years. Overall, the December PCE report was viewed as “positive” by the market and should go a long way towards calming market fears about a possible sustained uptick in inflation.

CHART 2: December PCE Recap

Metric	Actual	Estimate
PCE price index (MoM)	+0.3%	+0.3%
Core PCE price index (MoM)	+0.2%	+0.2%
PCE price index (YoY)	+2.6%	+2.6%
Core PCE price index (YoY)	+2.8%	+2.8%
Real consumer spending (MoM)	+0.4%	+0.3%

Source: Bloomberg, LLP | DECEMBER PCE RECAP

CHART 2A: Historical Core PCE Data Since 2019



Source: Bloomberg, LLP | HISTORICAL “CORE” PCE SINCE 2019

CHART 3: SOFR SWAP MARKET REACTION TO PCE DATA MUTED – MARKET REGROUPS

Overall, SOFR swap rates had a very muted reaction to this morning’s PCE, ECI, Personal Income and Personal Spending data. SOFR swap rates are trading close to unchanged on the day. Virtually all of the data we saw this morning printed in-line with expectations. That said, although PCE printed at expectations, the data was slightly higher than the prior month. Although inflation remains subdued in terms of an increase, it remains “sticky” – as we know, a lingering concern for the Fed. In my opinion that is why we did not see rates move lower after the PCE data printed. Yes, the numbers this morning were a relief, but they certainly did not show any real progress towards the Fed’s 2.00% goal.

The Fed will continue to monitor inflation closely, particularly the impact of President Trump’s aggressive new tariffs. This morning, the Fed’s Bowman said, “I would like to see progress in lowering inflation resume before we make further adjustments to the target range”. She added that she “prefers a cautious, gradual approach to policy adjustments”. Bowman also said the Fed’s “current policy stance

provides the opportunity to review further indicators of economic activity and get clarity on the administration’s policies and their effects on the economy.” Clearly, the Fed has not reached any firm conclusion on the path forward for inflation – or on the potential impact of President Trump’s new economic and trade policies.

CHART 3: Swap Rates Mostly Unchanged After PCE, ECI Data Meet Expectations



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES – PRIOR (5) TRADING SESSIONS

CHART 4: BLOOMBERG FORWARD TREASURY YIELD PROJECTIONS – 1/31/2025

I stumbled across this chart in Bloomberg this morning, and given the amount of data and information we received this week, I thought I would include the latest Bloomberg Treasury yield forecast for your information. The chart shows projections for 3m Term SOFR and for various US Treasury maturities. The projections are for the next two years, through 12/31/2026.

If you know me, you know I have never put too much stock into forward projections, but I was struck by the fact that economists do not expect any dramatic movement in US Treasury yields over the next two years. That could imply an expectation that we are in a “new normal” for rates – it could also mean (and it frequently does!) that there is simply *tremendous* uncertainty about the path forward for rates. I think that is the more likely scenario – I will leave you to draw your own conclusions.

CHART 4: Bloomberg Treasury Rate Forecast - 1/31/2025

BI Rates Yield Forecasts					
Forecast	3m SOFR	2s	5s	10s	30s
Actual 1/30/25	4.29	4.20	4.30	4.49	4.73
3/31/2025	4.29	4.14	4.17	4.22	4.42
6/30/2025	4.01	4.28	4.27	4.27	4.49
9/30/2025	4.00	4.31	4.35	4.40	4.67
12/31/2025	3.98	4.49	4.45	4.52	4.65
3/31/2026	3.70	4.50	4.38	4.40	4.60
6/30/2026	4.04	4.52	4.71	4.64	5.05
9/30/2026	4.33	4.61	4.81	4.70	4.95
12/31/2026	4.56	4.76	4.91	4.93	5.14

Source: Bloomberg Intelligence

Source: Bloomberg, LLP | Bloomberg Forward US T-Yield Projections Through Dec 2026 – As Of 1/31/2025



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