

Flash Update: US Rate Markets – Thursday 1/9/2025

- Rates edge lower ahead of tomorrow’s release of the December Employment Report
- The jobs report is highly anticipated by market participants and may set the tone for rates for the first quarter of 2025
- Trepidation continues to build in the market surrounding President-elect Trump’s economic and trade objectives
- There are five Fed officials speaking today, so we may see pockets of intraday volatility
- The next FOMC rate decision is due on January 29th at 2:00 PM
- Short-end SOFR swap rates are trading ~2-3 bps lower than last night’s closing levels
- Long-end swap rates are down ~3-4 bps this morning

US Treasury yields and SOFR swaps rates edged lower this morning, as traders and market participants await tomorrow’s release of the December Employment Report. Chairman Powell recently stated that the Fed would continue to *closely* monitor the jobs data, and that a significant weakening of the labor market could prompt the FOMC to accelerate rate cuts. Tomorrow’s employment report is highly anticipated by the market, and it could set the tone for rates for the first quarter of 2025. Expectations for tomorrow’s Employment Report are as follows: Unemployment Rate, 4.2% (vs. 4.2% prior month); Change In Non-Farm Payrolls, 165k (vs. 227k prior month); Average Hourly Earnings, 0.3% MoM / 4.00% YoY (vs. 0.4% & 4.00% prior month). A weaker-than-expected number should keep rate hopes alive for 2025 – rates would likely shift lower. A stronger-than-anticipated jobs report could cast further doubt on rate cuts this year, and as a result push swap rates higher.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.254	-0.030	-15.9725	+0.0165	4.0962	-0.0292
3Y	4.323	-0.029	-23.0410	-0.0540	4.0935	-0.0303
4Y	4.399	-0.030	-27.5410	-0.1660	4.1022	-0.0313
5Y	4.431	-0.030	-31.8285	-0.2035	4.1133	-0.0325
7Y	4.545	-0.032	-40.9160	-0.1560	4.1371	-0.0335
10Y	4.657	-0.033	-48.3800	-0.0050	4.1730	-0.0343
20Y	4.955	-0.038	-73.6200	+0.1250	4.2187	-0.0368
30Y	4.894	-0.038	-83.7706	-0.0083	4.0572	-0.0378

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

CHART 2 & 2A: MARKET RATE CUT EXPECTATIONS DIALED-DOWN FOR 2025

At the start of 2024, market participants were anticipating a series of rate cuts throughout the year. At the start of 2025, the view on Fed rate cuts is markedly different. Currently, traders are pricing in only one 25 bp rate cut for 2025. Continued economic strength and relatively stable inflation (at the moment at least) have prompted the Fed to take a cautious and more gradual approach to further rate cuts. They are walking a fine line between cutting too much or too soon and accelerating inflation vs. cutting too slowly or not enough and risking a significant economic slowdown, or worse, a recession.

Market participants have dramatically shifted rate cut expectations for 2025 since the September FOMC meeting. For the most part, Fed and market rate cut expectations are mostly in line – the most recent FOMC dot-plot implies two 25 bp rate cuts for 2025, and market participants are currently pricing in only one 25 bp rate cut. I included this chart to illustrate the *dramatic* shift in rate cut expectations from ~3-months ago! Current market pricing *could* indicate that the uncertainty surrounding 2025 is prompting traders to take a conservative “wait-and see” view of rate cuts – pricing can and will be adjusted as data and information arrive. On the other hand, current pricing could indicate that inflation fears are very real, and the market is altogether rethinking the forward path for rate cuts. From my perspective, the wait-and-see mode seems the most viable explanation. Keep in mind that overly “optimistic” market

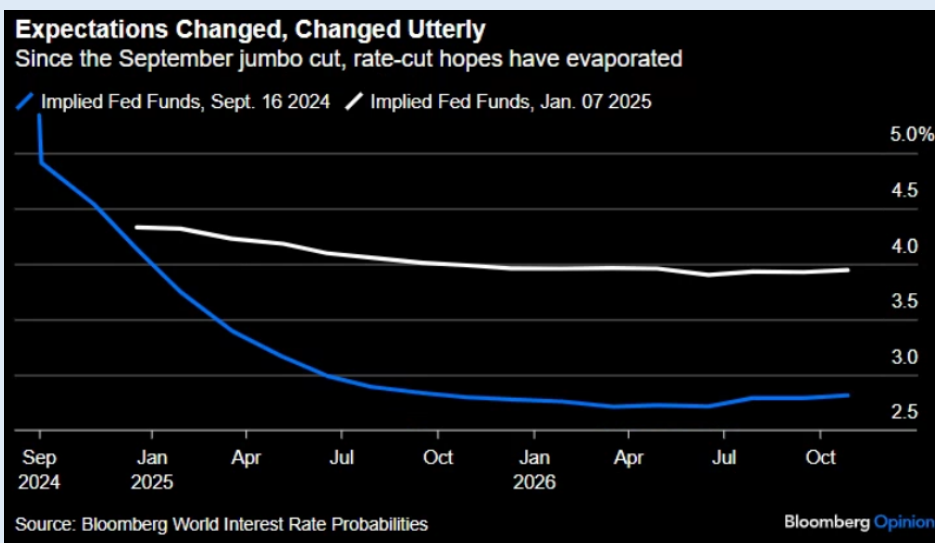
rate cut pricing burned traders twice during 2024. Market participants are keen to avoid that scenario again in 2025.

CHART 2: FOMC Rate Cut Expectations: Market Currently Pricing In One 25 bp Rate Cut For 2025



Source: Bloomberg, LLP | Market Fed Rate Cut Expectations – 2025 (As of 1/7/2025)

CHART 2A: Traders Now Anticipate Significantly Slower Pace To FOMC Rate Cuts In 2025



Source: Bloomberg, LLP | Market Fed Rate Cut Expectations – 2025 & 2026 (As of 1/7/2025)

CHART 3: SOFR SWAP RATES EDGE LOWER AHEAD OF KEY EMPLOYMENT REPORT

SOFR swap rates edged lower this morning, as market participants await tomorrow’s December Employment Report. Swap rates had been drifting higher recently as uncertainty and fear surrounding President-elect Trump’s economic and trade objectives increases. You can see from the chart below that rates moved up after the December FOMC meeting as it became increasingly apparent the Fed was planning to significantly slow the pace of rate cuts going forward. Swap rates out to three years are hovering just above the 30-Day average. We will see if this new range holds after the jobs data is released tomorrow - there is the potential for SOFR swap rates to carve out a new range after the employment report is released.

CHART 3: 1Y (white), 2Y (blue) & 3Y (orange) SOFR Swap Rates – Prior (30) Days



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

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