RateCap Advisors

__Flash Update:__ **US RATE MARKETS – MONDAY OCTOBER 20, 2025**

- **US Treasury yields and SOFR swap rates drifted lower this morning as the market awaits economic data**
- **The US government shutdown enters Day 20; There is currently no ETA for a resolution, though negotiations are ongoing**
- ***Due to the shutdown, Leading Indicators data for September will not be released today***
- **Non-government, private-sector economic data will continue to be released during the shutdown**
- **Short-end SOFR swap rates are trading down ~1-2 bps this morning, depending on tenor**
- **Long-end SOFR swap rates are currently trading down ~2-3 bps, depending on tenor**
- **Next up for key data: *TBD***
- **Fed officials will be in the pre-meeting "quiet-period" from October 18 – October 30**
- **The next FOMC rate decision is due on Wednesday, October 29th at 2:00 PM**

SOFR swap rates and US Treasury yields ticked a touch lower higher this morning, as market participants contemplate the path forward for interest rates beyond 2025. Yes, there are many market "wildcards" in play at the moment, but there does seem to be a strong consensus among traders, market participants, investors and economists that the Fed is going to cut rates two more times this year. The Fed's most recent dot plot also favors two more rate cuts this year. That "consensus" is primarily based on the recent evidence that the US labor market is losing steam. The aforementioned "market contemplation" has more to do with expectations for 2026. The longer the absence of economic data muddies the trading waters for market participants, the greater the potential for fear and uncertainty. That could lead to a spike in volatility as the market "catches up" to the data - particularly if the data reveals any unexpected "surprises".

Market participants are likely to continue to be on edge this week as they monitor geopolitics, US trade negotiations, corporate earnings reports and the ongoing US government shutdown. *Most importantly, we need the government shutdown to end and the data flow to begin.* Markets are holding onto hope that the shutdown can be resolved in time for the FOMC to see the most recent economic data prior to the meeting next week. I will delve deeper into the potential "Fed impact" of the government shutdown and lack of economic data as the week progresses.

__SOFR Swap Rate Summary:__ The **1Y** SOFR swap rate is trading down ~1 bp this morning. **2Y** and **3Y** SOFR swap rates are down ~1 bp this morning. **5Y** and **10Y** SOFR swap rates are currently trading down ~1-2 bps. The very back-end of the swap curve is currently trading down ~2-3 bps.

__Please note:__ **Market levels can change quickly - potentially, __very quickly__ - in this type of market environment.**

__CHART 1:__ ***US RATES SNAPSHOT: 9:30 AM Eastern***

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

UST YIELDS | SWAP SPREADS | SOFR SWAP RATES

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2Y	3.457	+0.000	-23.7793	-0.3926	3.2205	-0.0042
3Y	3.461	-0.006	-28.1600	-0.2580	3.1815	-0.0071
4Y	3.523	-0.010	-32.2425	-0.1380	3.2002	-0.0092
5Y	3.581	-0.011	-34.1308	-0.0058	3.2400	-0.0109
7Y	3.769	-0.012	-41.7807	+0.0003	3.3513	-0.0140
10Y	3.991	-0.016	-46.7500	-0.0029	3.5246	-0.0175
20Y	4.552	-0.025	-70.1965	+0.2505	3.8493	-0.0236
30Y	4.580	-0.026	-75.4922	-0.0232	3.8252	-0.0258

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

<u>CHART 2 & 2A:</u> SOFR SWAP RATES DRIFT LOWER AS MARKET REMAINS IN A "WAIT-AND-SEE" MODE

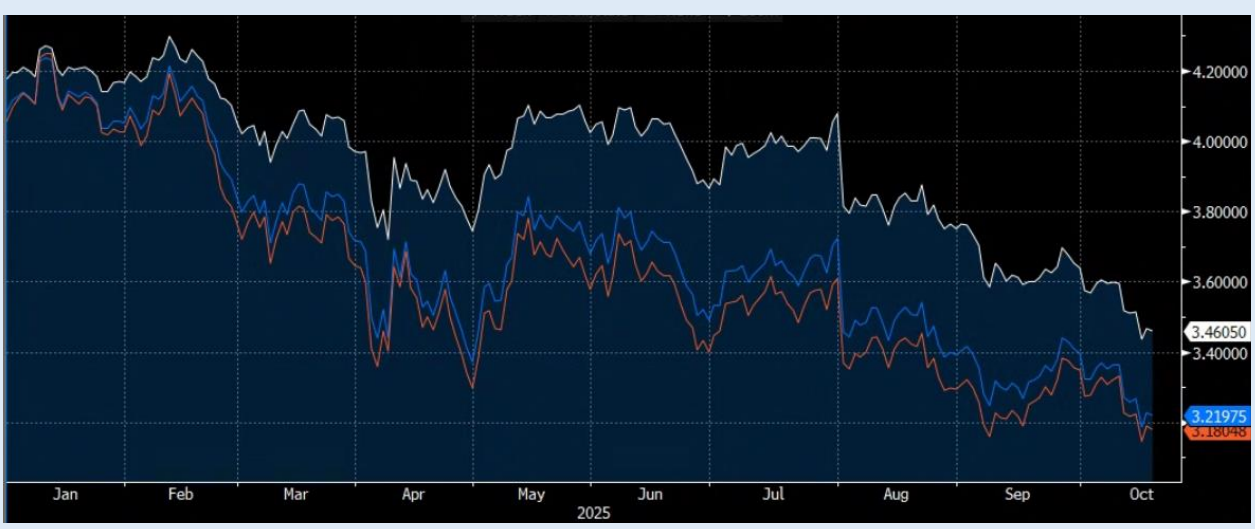
SOFR swap rates are drifting slightly lower this morning, as traders monitor the shutdown and the busy corporate earnings season. Traders are still mostly flying blind on the economic data front. Last week, 2-year SOFR swaps dropped ~5 basis points, and 10-year swap rates dropped ~3 basis points. Despite pockets of whipsaw rate volatility last week, rates did not move materially week-on-week.

Note: <u>SOFR swap rates are sitting *very* close to year-to-date lows</u>. *(See Chart 2 & Chart 2A)*

Odds for a 25 bp rate cut in October are sitting at ~98.9%. The odds for a 25 bp rate cut in December are currently ~94.3%, up slightly from last week. The odds for a 50 bp cut in December have decreased slightly to ~5.7%. Current cumulative rate cut pricing implies the market remains confident the Fed will cut rates 25 bps in October *and* December.

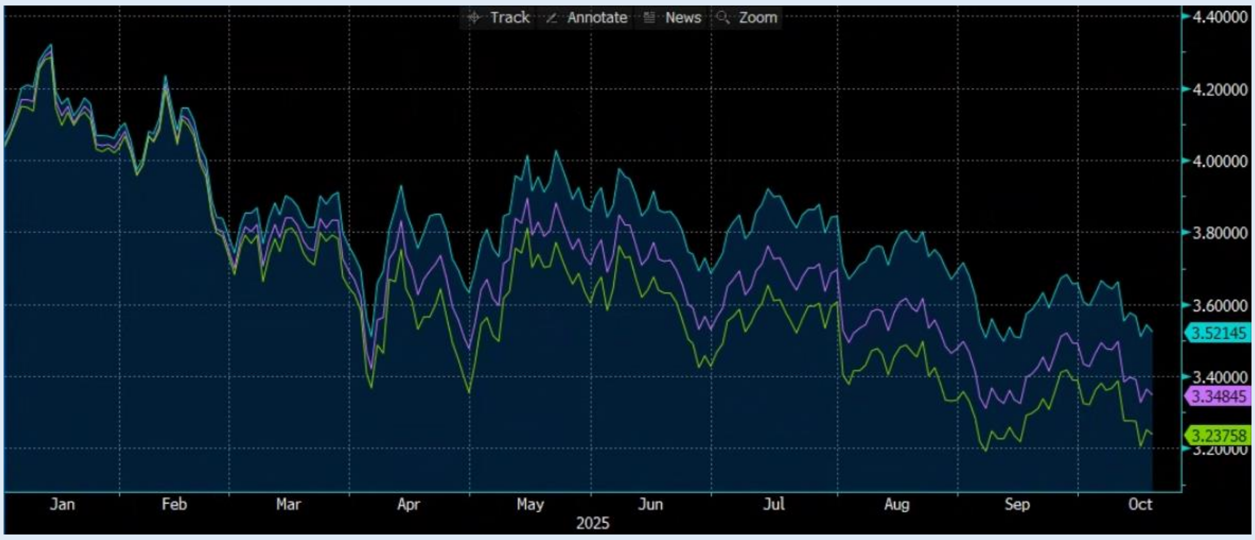
Currently, forward market pricing implies **~50.5 bps** of cumulative rate cuts for 2025. That number was ~51.1 bps at Friday's close. The fact that the implied cumulative rate cuts number is above 50 bps signals traders are beginning to flirt with the possibility of a 50 bp cut in December. Traders are being cautious in the absence of economic data, but there is a growing feeling the Fed may be tempted to cut rates 50 bps in December due to a weakening labor market. Right now, the odds for a 50 bp cut in December are negligible. We will see how this tracks over the next week or so.

<u>CHART 2:</u> *Short-End SOFR Swap Rates – Year-To-Date 2025*



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, YTD 2025

<u>CHART 2A:</u> *Long-End SOFR Swap Rates – Year-To-Date 2025*



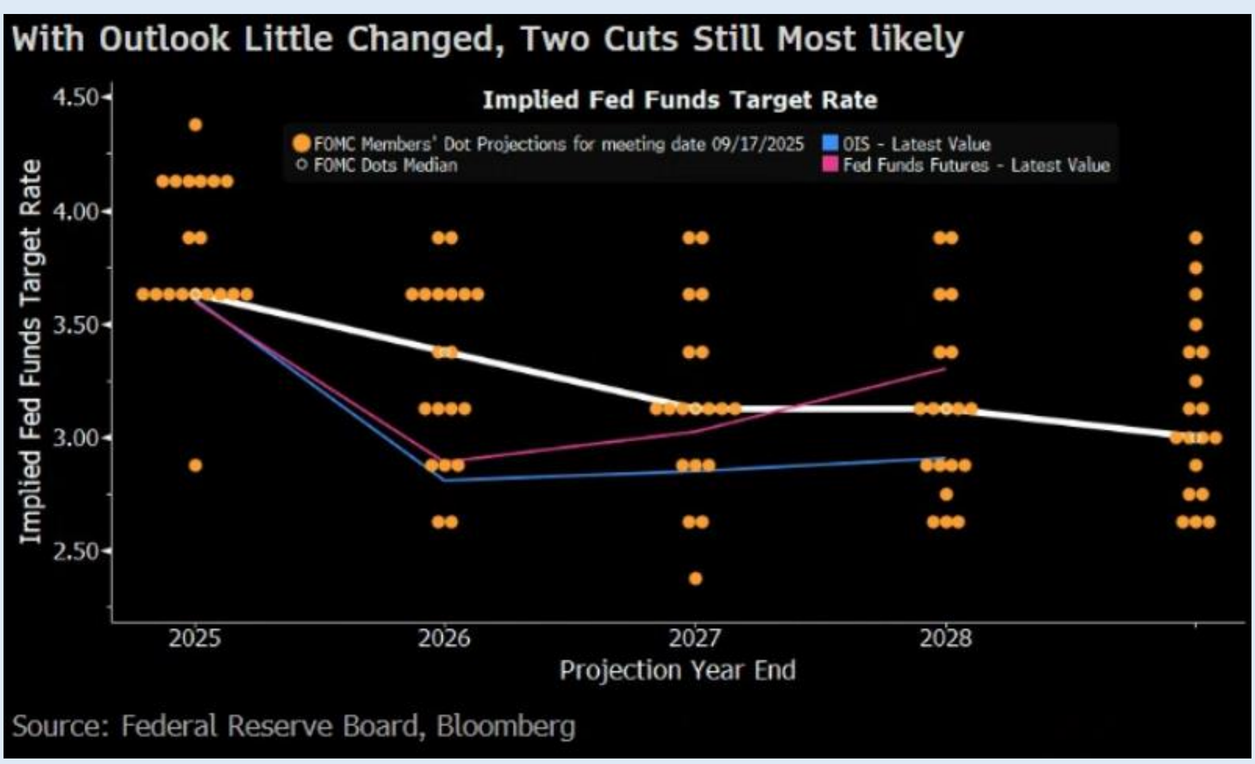
Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, YTD 2025

<u>CHART 3 & 3A:</u> MARKET EXPECTS TWO MORE FED RATE CUTS THIS YEAR; ECONOMISTS SEE INFLATION LITTLE CHANGED NEXT YEAR

Last week Chairman Powell said that even as the government shutdown is affecting many data releases, it is "fair to say that the outlook for employment and inflation does not appear to have changed much" since the Sept. 16-17 meeting. He added that data available prior to the shutdown showed that "growth in economic activity may be on a somewhat firmer trajectory than we expected". Powell also said that available data and surveys "continue to show that goods price increases primarily reflect tariffs rather than broader inflationary pressures." From my perspective that indicates that the US central bank is ready to cut interest rates again this month because, *right now*, a weakening job market outweighs inflation and economic growth fears. I believe that is why the September dot-plot still implies two more rate cuts this year and why economists and traders still see two more rate cuts this year. The jobs market seems to be the primary focus for central bankers and market participants as we steam towards the October FOMC meeting.

Economists see the outlook for headline CPI little changed for the coming year. Stable inflation, albeit higher than the Fed's target, would permit the Fed to continue to cut rates next year, should the jobs market continue to deteriorate during 2026.

<u>CHART 3:</u> *FOMC and Market See Two More Rate Cuts This Year*



Source: Bloomberg, LLP | SEPTEMBER FED DOT PLOT

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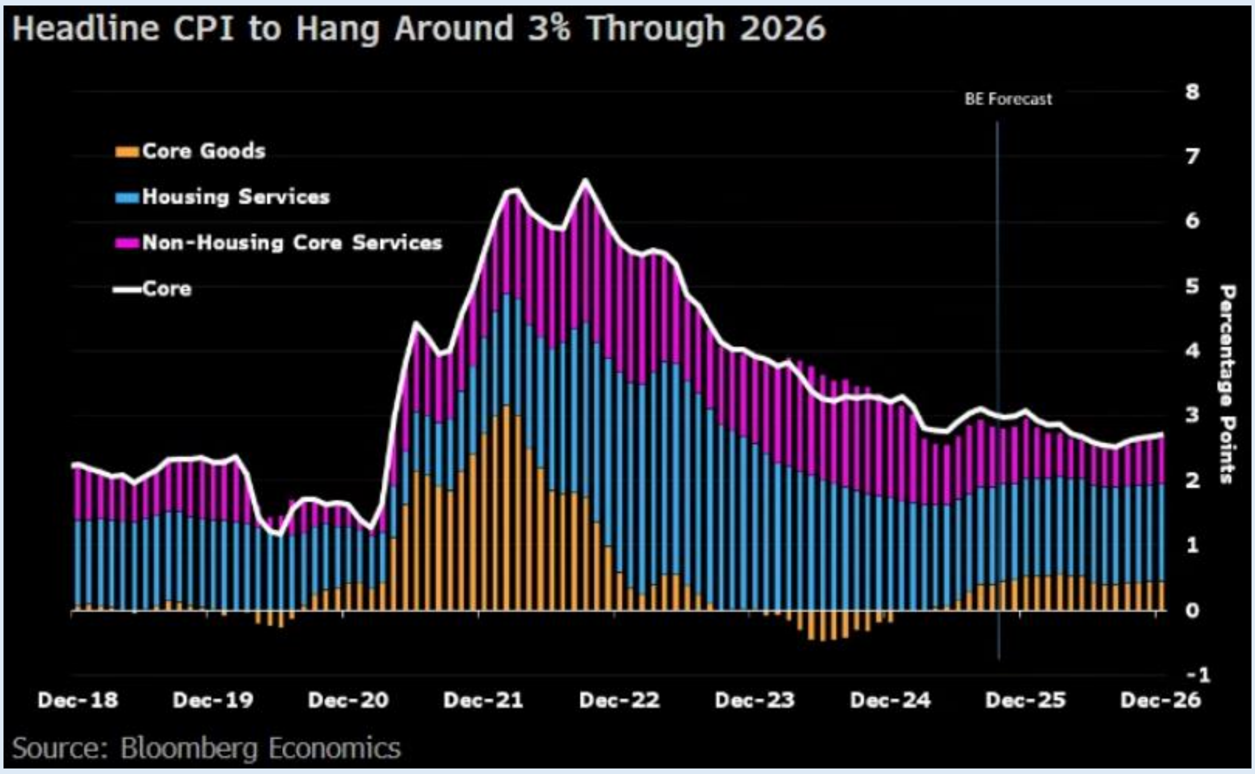
CHART 3A: *Economists See Inflation Little Changed For 2026*



Source: Bloomberg, LLP | BLOOMBERG ECONOMICS - HEADLINE CPI PROJECTIONS THROUGH DECEMBER 2026

Disclaimer: *The information provided in this communication is intended for discussion purposes only. Nothing presented in this communication should be taken as a recommendation or forecast. All market data shown is indicative only and subject to change depending on current market conditions.*

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