

**Flash Update: US RATE MARKETS – THURSDAY DECEMBER 11, 2025**

- UST yields and SOFR swap rates are drifting lower this morning as the market reacts to yesterday's Fed rate cut
- Weaker-than-expected jobless claims data released this morning is also contributing to the dip in rates today
- Yesterday, the FOMC cut the overnight benchmark rate 25 basis points to 3.50% lower bound / 3.75% upper bound
- Chairman Powell, however, signaled that going forward the FOMC would be in a "wait-and-see" mode
- Overall, the market's reaction to the FOMC rate cut was lower rates; 2Y SOFR swaps are down ~10 bps since the Fed announcement
- Fed officials currently see one 25 bp rate cut next year, and one 25 bp rate cut in 2027
- Powell also hinted that the 3.50% Fed Funds rate was "in a range of plausible estimates for a neutral rate"
- Overall, the latest economic projections from the Fed were upbeat, and they see inflation as "sticky" but not moving materially higher
- Fed officials will emerge from the pre-meeting "quiet period" tomorrow 12/12
- Next up for the market will be the *flood* of data released between now and the next FOMC meeting
- Chairman Powell noted the committee would be tracking the data carefully, and would make decisions on a meeting-by-meeting basis
- The next FOMC rate decision is due Wednesday, January 28, 2026 at 2:00 PM
- Short-end SOFR swap rates are trading down ~3-5 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading down ~4-5 bps, depending on tenor

US Treasury yields and SOFR swap rates are drifting a touch lower this morning as the market continues to digest the Fed rate cut, Chairman Powell's comments, the new SEP and a revised "dot-plot". Rates dipped immediately following the rate cut announcement, then hovered at those levels during Powell's press conference. Bottom line, the Fed cut, the new "dot-plot" and Powell's comments were mainly in line with what the market expected. This morning, rates continue to slide after weaker-than-expected weekly jobless claims.

Overall, the market mostly shrugged off the rate cut announcement and Chair Powell's comments. He did not really say anything too provocative, and the rate cut was widely expected to occur. Powell mentioned the "tension" between the Fed's dual mandate – an upside risk to inflation and a downside risk to employment. With that in mind, he signaled that the Fed will be in a "wait-and-see" monetary policy mode for the near term and perhaps longer. He also stressed that the Fed will be data driven, with a meeting-by-meeting approach to any additional adjustments to monetary policy. Powell said, "the FOMC is well positioned to wait and see how the economy evolves".

He stated the FOMC's projections for Fed Funds is 3.40% by year end 2026, and 3.10% by year-end 2027 – those levels are basically unchanged from September. That translates to one 25 bp rate cut next year (2026) and one 25 bp rate cut in 2027. The thing he said (a few times) that stood out to me was, "*we are in a plausible range of estimates for a neutral rate*" – that sounds like the Fed is done, or very close to done cutting rates. One of the biggest factors causing Fed dissension at the moment is a lack of consensus on where the Fed's "neutral" rate should be set for this cycle.

He did ease concerns that the next Fed move would be a rate hike saying, "a rate hike is not anyone's current base case for the next Fed move". As far as Powell takeaways, one thing is clear to me – *the Fed is more worried about the labor market than they are about inflation*. Powell mentioned several times that there are downside risks to employment and upside risks to inflation, but he generally sounded more worried about a gradual deterioration in the jobs market. I think that is the primary reason the Fed cut rates yesterday, and why they will remain rate cut "biased" for 2026.

I expect rates to be data driven for the near term – there is flood of “current” and back-dated data due between now and the next Fed meeting in January. Traders have been data starved – they will be paying close attention to the upcoming data. So will the Fed!

**SOFR Swap Rate Summary:** The **1Y** SOFR swap rate is trading down ~2-3 bps this morning. **2Y** and **3Y** SOFR swap rates are currently down ~3-5 bps this morning. **5Y** and **10Y** SOFR swap rates are currently trading down ~4-5 bps. The very back-end of the swap curve is currently trading down ~4-5 bps from yesterday’s closing levels. *Please note: Market levels can change rapidly – rate cap premiums are subject to a dynamic market that can change frequently.*

**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						
2Y	3.499	-0.040	-17.1416	+0.2826	3.3285	-0.0361
3Y	3.539	-0.047	-21.6875	+0.3925	3.3229	-0.0441
4Y	3.617	-0.047	-25.3100	+0.2745	3.3570	-0.0474
5Y	3.679	-0.052	-27.5009	+0.1241	3.4048	-0.0505
7Y	3.874	-0.052	-35.0440	+0.1110	3.5253	-0.0508
10Y	4.102	-0.044	-39.8650	-0.2400	3.7041	-0.0491
20Y	4.710	-0.044	-65.8403	-0.3076	4.0531	-0.0458
30Y	4.751	-0.036	-70.8750	-0.7500	4.0428	-0.0432

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

**CHART 2 & 2A: SOFR SWAP RATES SLIDE LOWER AFTER WEEKLY JOBLESS CLAIMS MISS EXPECTATIONS**

SOFR swap rates are drifting lower this morning, following a Fed rate cut prompted decline in rates yesterday afternoon. The dip in rates this morning is primarily due to weaker-than-expected weekly jobless claims data released this morning. It is “fresh” data that perhaps underscores the gradual labor market weakening that Powell flagged in his comments yesterday. Rates are likely to bounce round in the current range for the very near term – I do not see traders bold enough to carve out a new range – they need to see some current data! The next “big” data event will the release of the *November* Employment Report on Tuesday 12/16 – all eyes will be on that report!

**CHART 2: Short-End SOFR Swap Rates – Prior 10 Days**



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 10 DAYS

**CHART 2A: Long-End SOFR Swap Rates – Prior 10 Days**



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

**CHART 3 & 3A: MARKET SEES UNCERTAIN PATH FORWARD FOR FOMC; FED ECONOMIC PROJECTIONS UPBEAT**

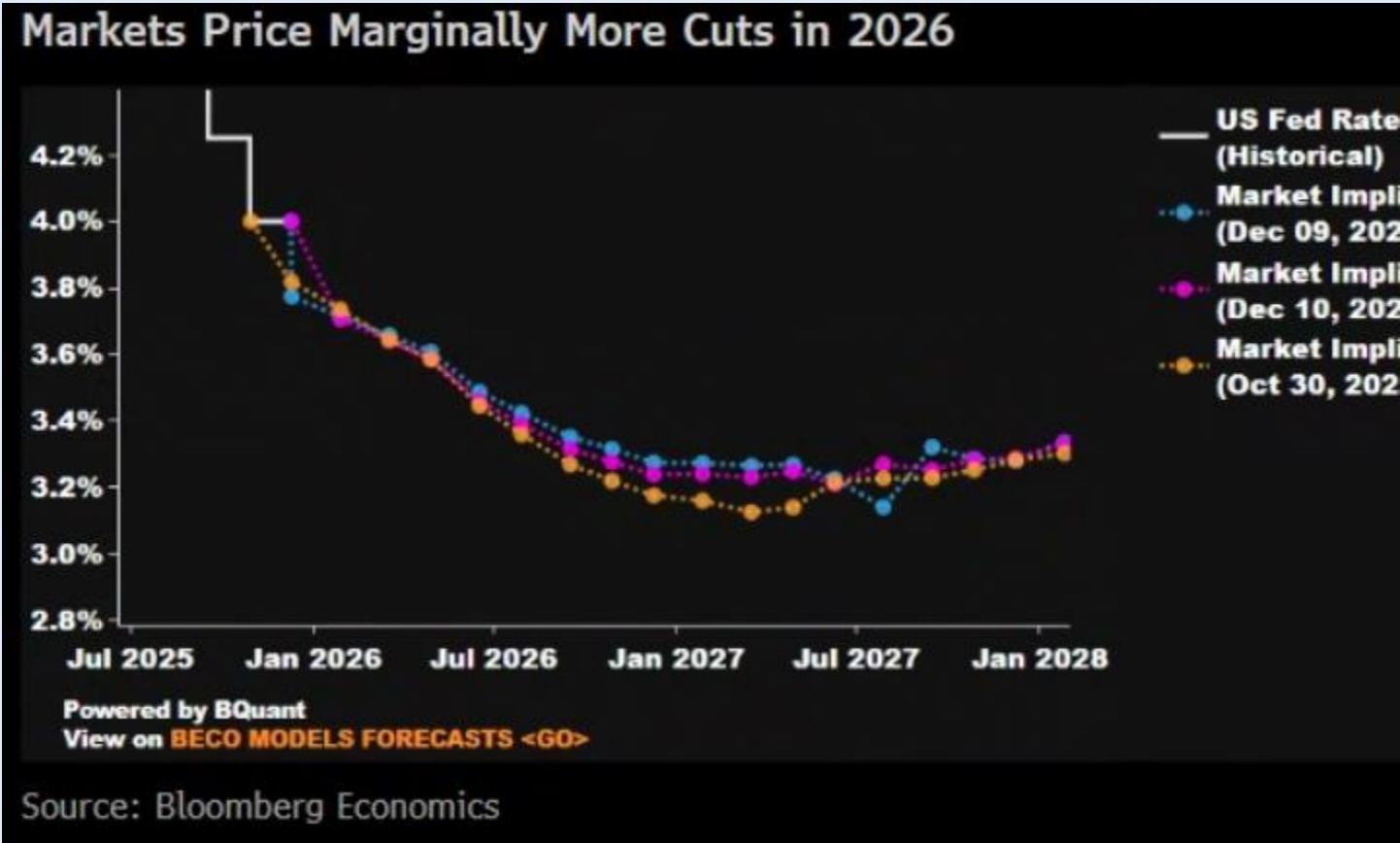
Markets are currently pricing in two 25 bp rate cuts for next year, whereas the Fed “dot-plot” implies only one rate cut next year. Barring an unexpected, sudden deterioration in the labor market, I believe it will be *a few* meetings at least until the next rate cut. The Fed’s economic projections were upbeat – they project solid growth, sticky but stable inflation, and a gradually cooling jobs market. None of that



says “imminent rate cut” to me. I would also note there was some resistance within the FOMC to cutting rates yesterday – at least 6 officials would have preferred *not* to cut rates. That fact, coupled with the upbeat SEP and revised “dot-plot”, makes it hard to argue for a rate cut anytime soon.

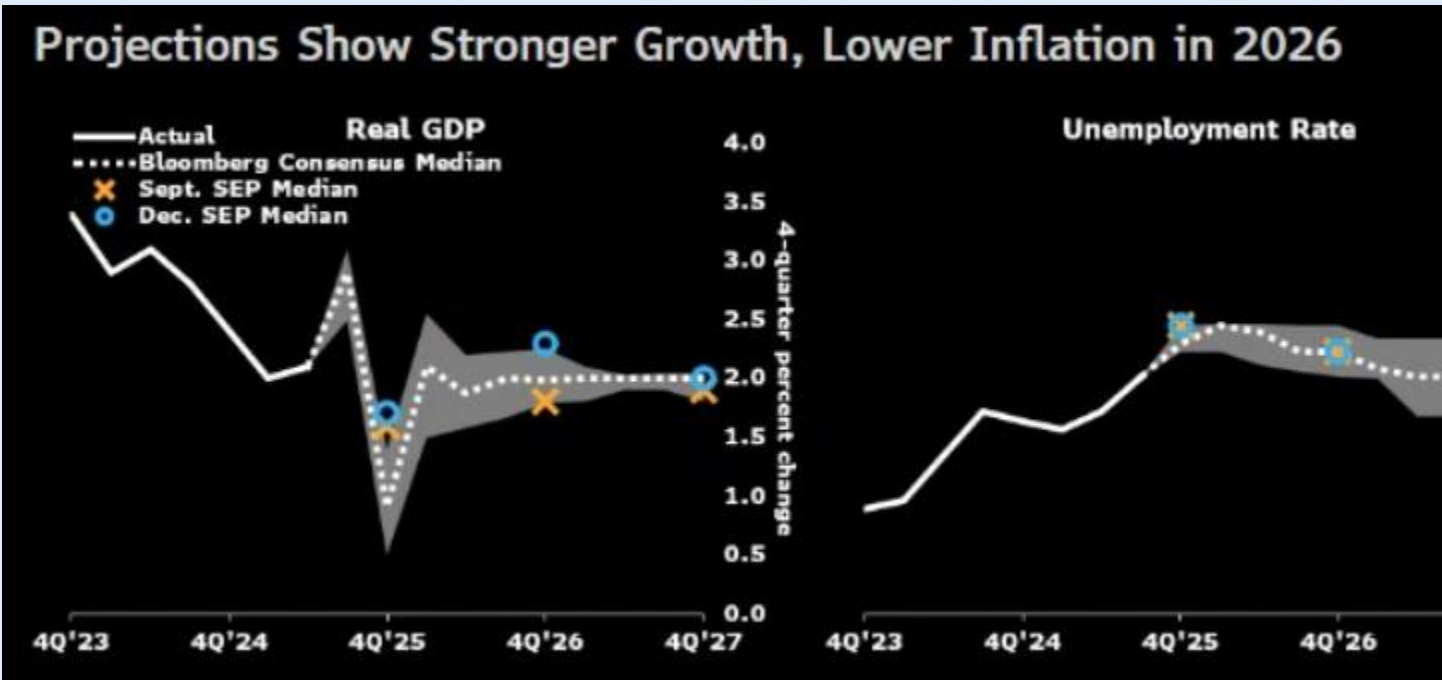
Interestingly, the odds for a rate cut spiked noticeably in June, just after Jay Powell ends his role as FOMC Chairman. Traders clearly feel the odds for rate cuts increase after a Trump-appointed Chairman takes the Fed’s reigns.

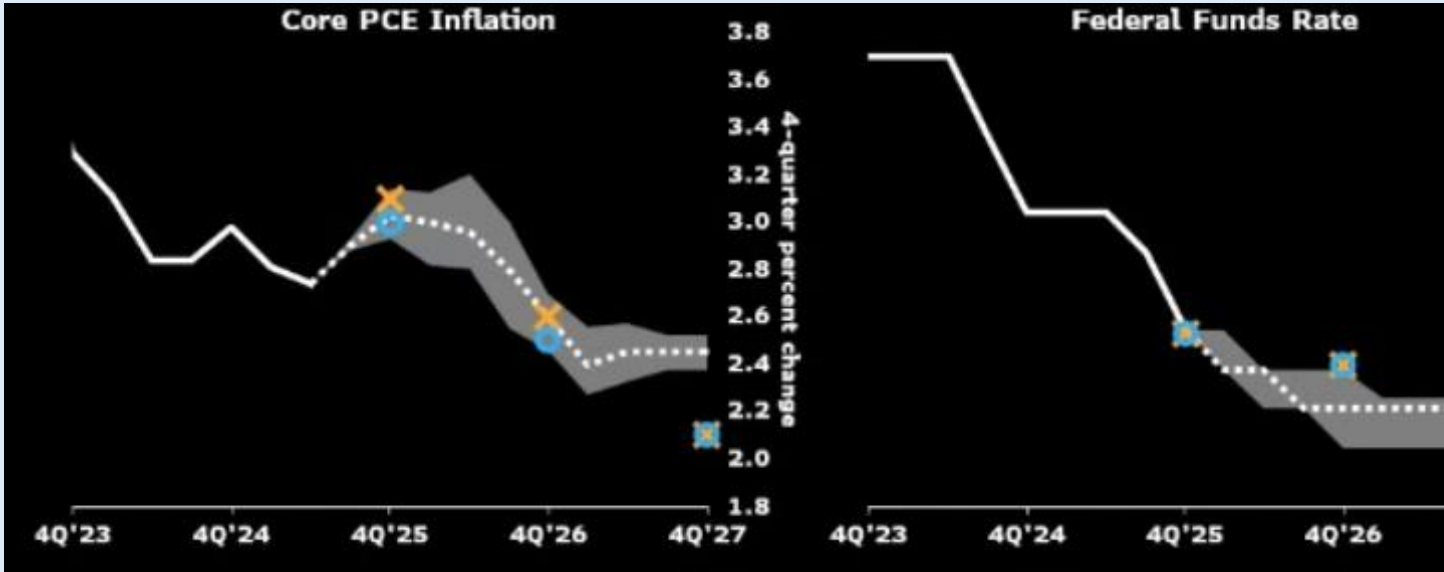
CHART 3: Market Sees Two Rate Cuts In 2026; Fed “Dot-Plot” Implies Only One



Source: Bloomberg, LLP | Fed Rate Cut Expectations Through January 2028

CHART 3A: FOMC Economic Projections Upbeat; Fed Funds Rate Seen At 3.40% By Year-End 2026





Source: Bloomberg, LLP | FED ECONOMIC PROJECTIONS (GDP, UNEMPLOYMENT RATE, CORE PCE, FED FUNDS RATE) THROUGH 2027

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