

Flash Update: US Rate Markets – Monday 2/10/2025

- Rates mostly steady as the market prepares for key inflation data and Chairman Powell’s testimony this week
- The January employment data keeps at least one Fed rate cut on the table for 2025, but by no means provides a clear path forward for the FOMC
- Market expectations for the next Fed rate cut have shifted to September 2025
- President Trump’s trade initiatives will likely continue to add to market volatility and uncertainty
- Next up for data: CPI inflation data prints Wednesday, 2/12 at 10:00 AM; PPI prints Thursday, 2/13 at 10:00 AM
- FOMC Chairman Powell gives his semi-annual testimony in Washington, D.C. this week
- Short-end SOFR swap rates are currently trading ~1-3 bps lower than last night’s closing levels
- Long-end SOFR swap rates are down ~1-2 bps this morning

US Treasury yields and SOFR swap rates held mostly steady this morning – rates drifted a bp or two lower, nothing dramatic. Market participants are waiting for the key inflation data we see this week, beginning tomorrow. Traders are also closely monitoring President Trump’s trade initiatives and waiting for Chairman Powell’s semi-annual testimony in Washington, D.C., which begins tomorrow.

Chairman Powell will deliver his semi-annual testimony at a time when most Fed officials are signaling they are not in any hurry to further ease policy. The January jobs data showed nonfarm payrolls moderated last month and revisions show US job gains were softer but still solid in 2024 – nothing that dramatically changes the Fed outlook for the remainder of this year. The inflation data due this week (CPI, PPI) may help support current market pricing for just one Fed rate cut this year.

Political developments will also continue to capture the market’s attention. Powell’s testimony, particularly the Q&A, could be politically charged and President Trump’s intention to announce a 25% levy on steel and aluminum today added to already tense political sentiment. Additionally, President Trump has threatened the possible unveiling of reciprocal tariffs on “everyone” this week. The President’s aggressive and rapid-fire decision making is adding to an already tense and uncertain market.

Rate Summary: Short-term SOFR swap rates are trading ~1-3 bps lower than last night’s close; Long-term SOFR swap rates are down ~1-2 bps this morning.

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

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.258	-0.031	-15.7290	+0.3843	4.1036	-0.0265
3Y	4.281	-0.032	-22.8180	-0.1080	4.0559	-0.0326
4Y	4.305	-0.035	-26.3250	-0.2400	4.0365	-0.0350
5Y	4.315	-0.033	-28.7650	-0.3913	4.0293	-0.0356
7Y	4.393	-0.027	-36.0600	-0.3650	4.0343	-0.0316
10Y	4.473	-0.022	-42.0000	-0.4100	4.0535	-0.0257
20Y	4.736	-0.012	-64.1880	-0.2950	4.0953	-0.0143
30Y	4.686	-0.008	-74.9800	-0.2300	3.9369	-0.0091

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

CHART 2: SOFR SWAP RATES STEADY AS MARKET AWAITS DATA, FED-SPEAK

SOFR swap rates held mostly steady this morning as market participants await fresh inflation data and the full plate of Fed-speak scheduled for this week. Short-end SOFR swap rates are ~6-8 bps higher over the past 10 days, and most of that move occurred at the end of last week. Longer term swap rates are actually down a handful of basis points over the past ten days – the uncertainty permeating the market is flattening the swap curve. Be prepared for periods of elevated rate volatility this week – we will see critical inflation data in the middle of the week and Chairman Powell’s testimony is also highly anticipated by market participants. I do not think Chairman Powell will give the market a reason to break out of the current range, but the inflation numbers might, especially if they show an uptick in inflation.

CHART 2: SOFR SWAP RATES STEADY AHEAD OF KEY INFLATION DATA; CHAIRMAN POWELL TESTIMONY DUE THIS WEEK



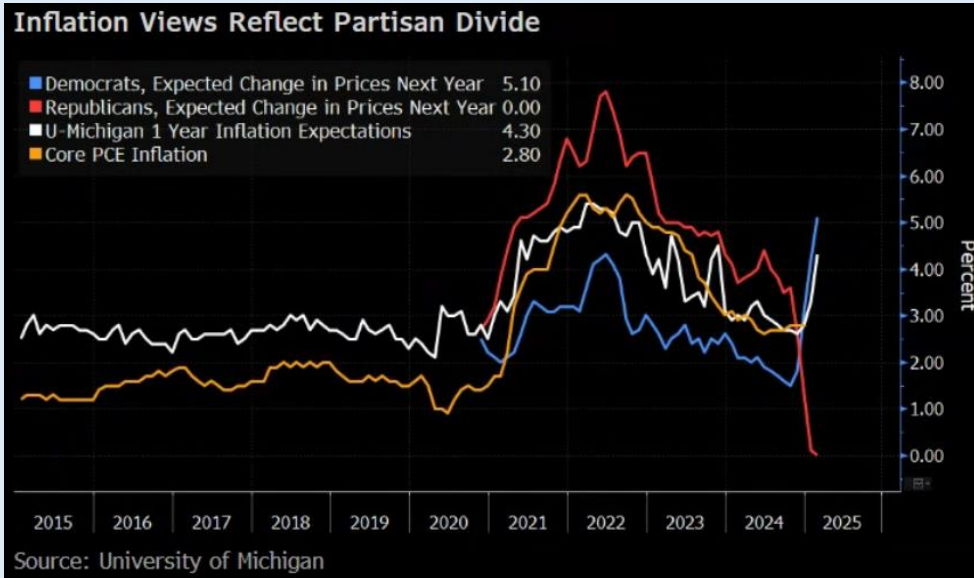
Source: Bloomberg, LLP | 1Y (white) & 2Y (gold) & 3Y (orange) SOFR SWAP RATES – PRIOR (10) TRADING SESSIONS

CHART 3: LATEST INFLATION EXPECTATIONS SHOW POLITICS INFLUENCING PROJECTIONS

The University of Michigan data we saw on Friday showed that 1-year forward inflation expectations surged to 4.3% (vs. 3.3% prior), the highest reading since November 2023. That is part of the reason that swap rates moved higher on Friday. As far as the market “consensus” on inflation, views appear to differ sharply between Democrats and Republicans, with the former especially concerned about inflation. Republicans, on the other hand, see no increase in inflation over the next 12 months.

We are definitely living in a “charged” political environment right now, so I found the “partisan” divide on inflation fascinating. I do not know for certain to what extent political views influence market projections and trading decisions – no one does. However, the partisan “divide” makes the inflation data all the more interesting and important this week, and shines a bright spotlight on Chairman Powell’s testimony. Stay tuned!

CHART 3: INFLATION EXPECTATIONS SHOW PARTISAN BIAS, ADDING TO MARKET UNCERTAINTY



Source: Bloomberg, LLP | INFLATION EXPECTATIONS REFLECT A PARTISAN DIVIDE

CHART 4: FOMC CHAIRMAN POWELL GIVES HIS SEMI-ANNUAL TESTIMONY IN WASHINGTON D.C. THIS WEEK

Fed officials are back on the tape in force this week. *The highlight for Fed-speak this week will be Chairman Powell’s semi-annual testimony in Washington, D.C.* Chairman Powell speaks before the Senate Banking Committee tomorrow (2/11) at 10:00 AM, and before the House Financial Services Committee on Wednesday (2/12) at 10:00 AM. Chair Powell will make a prepared statement followed by a lengthy Q&A with politicians. Traders will be paying *very close* attention to what Fed officials have to say in the coming weeks – *particularly* Chair Powell’s semi-annual testimony.

Market participants are hungry for information and insight into the Fed’s current thinking. We could see pockets of elevated rate volatility this week, particularly during Powell’s testimony. Given the current political climate, the Q&A portion of the testimony may be contentious, perhaps even confrontational at times. I expect Powell to stand firm and stick to the script – the Fed is in a “wait-and-see” policy mode and in no hurry to cut rates again anytime soon. I also expect Powell to push back against any political pressure or bullying.

CHART 4: SCHEDULE OF FED SPEECHES THROUGH 2/14/2025

Date	Time	A	M	R	Event
02/11	08:50				Fed's Hammack Speaks on Economic Outlook
02/11	10:00				Fed's Powell Testifies to Senate Banking
02/11	15:30				Fed's Williams Gives Keynote Remarks
02/11	15:30				Fed's Bowman Speaks on Bank Regulation
02/12	10:00				Fed's Powell Testifies to House Financial Services
02/12	12:00				Fed's Bostic Speaks on Economic Outlook
02/12	17:05				Fed's Waller Speaks on Stablecoins
02/14	15:00				Fed's Logan Speaks in Moderated Q&A

Source: Bloomberg, LLP | SCHEDULE OF FED SPEECHES THROUGH 2/14/2025

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