

Flash Update: US Rate Markets – Wednesday 2/26/2025

- Rates held steady this morning as market participants await key economic data due this week
- The release of tech earnings reports will also be in focus for the market today – Nvidia posts earnings results this afternoon
- Market sentiment is shifting as the threat of tariffs increases the likelihood of an economic slowdown
- Market participants are growing more confident that the US economy is weakening and interest-rate reductions will resume
- Currently, the forward curve implies ~47 bps of cumulative rate cuts in 2025, just about two “full” 25 bp rate cuts
- Market pricing now shows a 28% chance for a 25 bp rate cut in May; That is up from 8% two-weeks ago
- Next up for data: Q4 GDP prints at 8:30 AM on 2/27; PCE inflation data prints at 8:30 AM on 2/28
- President Trump’s policy and trade initiatives will likely continue to add to market volatility and uncertainty
- Short-end SOFR swap rates are currently trading up ~1-1.5 bps from last night’s closing levels
- Long-end SOFR swap rates are down less than 1 bp this morning

US Treasury yields and SOFR swap rates held steady as the market awaits key economic data and corporate earnings reports. Rates have been moving lower the past week, fueled by weaker-than-expected economic data and increased FOMC rate cut bets. Rates stabilized this morning as traders prepare for the release of key economic data due tomorrow and Friday. The market also paused this morning after House Republicans passed a budget blueprint calling for major tax cuts – that could be good for the overall economy. However, there is still a shifting “rate” sentiment in the market – traders are now preparing for an economic slowdown and lower long term rates. The vast uncertainty present in the market is likely to add to elevated rate volatility in the near term.

Concern is deepening over the new US administration’s economic and trade policies and their potential impact on global growth. There is also increasing market angst over the fraying of long-established US economic and political alliances. President Trump signaled Monday that tariffs on Mexican and Canadian imports will proceed. The situation in Ukraine is also becoming more geopolitically contentious. A split with the US and its allies over Ukraine deepened as President Trump withdrew condemnation of Russia’s invasion of Ukraine three years ago. At the moment, the “tariff discussion” and deteriorating geopolitical environment are the main negative market catalysts. There is increasing fear that the US is finally headed for an economic slowdown.

Next up for key economic data: Q4 GDP (second revision) prints tomorrow, 2/27, and we see the all-important PCE inflation data on Friday, 2/28. As we know, the FOMC pays close attention to the PCE data. Looking ahead further, the February Employment Report prints on Friday, 3/7. That is another key near-term data point for the market. Expectations for the second revision of Q4 GDP are calling for 2.3% (unchanged) and a Core PCE Price Index of 2.5% (unchanged).

Right now, we are seeing a jittery and highly uncertain market grappling with many possible market catalysts. That is the primary reason we are seeing a flight to safe haven assets. Rate traders are taking a cautious approach and from my perspective, waiting for more data and information.

Rate Summary: 1Y SOFR swap rates are currently up ~1-2 bps this morning. 2Y and 3Y SOFR swap rates are currently trading up ~1-1.5 bps. 5Y and 10Y SOFR swap rates are down less than 1 bp this morning.

CHART 1: US RATES SNAPSHOT: 9:30 AM Eastern

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

	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.111 +0.017	-16.2090 -0.0990	3.9491 +0.0144
3Y	4.094 +0.008	-21.8873 +0.0096	3.8757 +0.0079
4Y	4.115 +0.001	-26.2285 -0.0640	3.8494 +0.0034
5Y	4.127 +0.006	-28.7500 +0.1120	3.8405 -0.0004
7Y	4.212 +0.003	-36.3901 -0.4911	3.8488 -0.0043
10Y	4.292 -0.002	-41.5090 -0.5090	3.8776 -0.0084
20Y	4.590 -0.008	-65.4543 -0.5063	3.9365 -0.0115
30Y	4.542 -0.012	-75.0000 +0.1000	3.7933 -0.0122

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

CHART 2: SOFR SWAP RATES UPDATE: SOFR SWAPS STEADY AHEAD OF KEY DATA DUE THIS WEEK

SOFR swap rates held steady this morning as the market awaits the release of key economic data tomorrow and Friday. Swap rates had been sliding lower for the past week, so this morning’s trading pattern feels like a “pause” before a deluge of economic data and corporate earnings reports are released. That said, the market will have some information to chew on today: we see New Home Sales & Building Permits data released at 10:00 AM and the Fed’s Bostic speaks at 12:00 PM on the US economic outlook. In addition, rate and equity markets are both *eagerly* awaiting tech earnings reports – Nvidia releases earnings results this afternoon. Nvidia’s results are expected to beat estimates – if they don’t we could see traders looking to reallocate from equities to Treasuries, which could push rates lower as investors seek a safe haven. A strong result for Nvidia could help to reignite the tech rally and draw investors from UST’s to stocks. That would result in slightly higher Treasury yields and SOFR swap rates. The Nvidia results could have a significant impact on interest rate movements in the very near term.

CHART 2: SOFR Swap Rates Steady As Market Awaits Key Data



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

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.

AST Defeasance Consultants, one of the nation's leading commercial real estate consulting firms, was founded in 2007. We have extensive experience in commercial real estate defeasance, hedging, derivatives, and financial instruments. More than \$50 billion worth of transactions have been executed by the AST team. Only AST can combine innovation, expertise, and exceptional customer service.

Rate Cap Advisors was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.

