

Flash Update: US Rate Markets – Friday 2/28/2025

- Rates drift slightly lower after “as expected” January PCE print
- January Core PCE data showed a MoM increase of 0.3% and a YoY increase of 2.6%
- Personal Income surged, but Personal Spending decreased more-than-expected
- The personal savings rate also moved higher, indicating the US consumer is spending more cautiously
- The mixed economic data released this morning led to an overall muted response by the rate markets
- Next up for data: February Employment Report prints Friday, 3/7 at 8:30 AM
- President Trump’s policy and trade initiatives will likely continue to add to elevated 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 drifted slightly lower, but mostly held steady this morning after an “as expected” January PCE data print. The PCE results eased market concerns (temporarily?) about rising inflation, but did not provide any clear direction about the path forward for interest rates – hence the mostly muted market response this morning. Uncertainty still reigns in the market, but at least for the time being, traders can relax about an imminent spike in inflation. The market’s focus is likely to remain on the impact of President Trump’s policy and trade initiatives on the economy and inflation. Next week’s February Employment Report is also highly anticipated by market participants and investors. Fed-speak is also likely to remain in focus for the market – traders are keen to hear what Fed officials think about this week’s data releases and political developments. Overall, there is still a growing market sentiment that the US economy is headed for a slowdown.

As far as the Fed is concerned, today’s data likely keeps the potential for two, 25 bp Fed rate cuts on the table for the latter part of 2025. Market pricing currently implies a 65% chance for two rate cuts this year.

Next up for key economic data: The February Employment Report prints on Friday, 3/7. That is another key near-term data point for the market. The next Fed rate decision is due on March 19th at 2:00 PM.

Rate Summary: 1Y SOFR swap rates are currently down ~1-2 bps this morning. 2Y and 3Y SOFR swap rates are currently trading down ~1-3 bps. 5Y and 10Y SOFR swap rates are down ~2-3 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	4.030	-0.021	-15.7503	+0.2467	3.8748	-0.0190
3Y	4.006	-0.023	-21.0215	+0.6185	3.7959	-0.0199
4Y	4.034	-0.028	-25.8500	+0.3035	3.7678	-0.0243
5Y	4.045	-0.027	-28.6114	+0.1605	3.7599	-0.0275
7Y	4.143	-0.027	-36.8000	+0.2050	3.7756	-0.0269
10Y	4.237	-0.023	-42.2461	-0.0777	3.8158	-0.0236
20Y	4.554	-0.012	-65.7112	-0.2362	3.8971	-0.0167
30Y	4.521	-0.011	-75.6230	-0.0835	3.7651	-0.0124

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

CHART 2 & 2A: JANUARY PCE RECAP – INFLATION DATA MEETS EXPECTATIONS, CALMS MARKETS

The FOMC’s “preferred” measure of underlying inflation rose at a relatively mild pace in January, providing some relief to market participants after a string of reports suggested inflationary pressures are heating up again. Personal income surged, but personal spending decreased more-than-expected and personal savings increased, suggesting US consumers pulled back on spending. Core PCE, which excludes more volatile food and energy items, rose 0.3% in January (as expected). From a year ago, Core PCE increased 2.6%, matching the smallest annual increase since early 2021. The January PCE data will help ease growing market tensions regarding inflation. “Inflation-adjusted” consumer spending (also known as Real Consumer Spending), fell 0.5% in January, marking the biggest monthly decline in almost four years. There is strong speculation that extreme winter weather may have dampened consumer spending after a robust holiday season.

CHART 2: January PCE Recap

Metric	Actual	Estimate
PCE price index (MoM)	+0.3%	+0.3%
Core PCE price index (MoM)	+0.3%	+0.3%
PCE price index (YoY)	+2.5%	+2.5%
Core PCE price index (YoY)	+2.6%	+2.6%
Real consumer spending (MoM)	-0.5%	-0.1%

Source: Bloomberg, LLP | JANUARY PCE RECAP

CHART 2A: Historical Core PCE, Personal Spending, Personal Income & Personal Savings Data



Source: US Bureau of Economic Analysis

Bloomberg

Source: Bloomberg, LLP | HISTORICAL PCE, PERSONAL SPENDING, PERSONAL INCOME AND PERSONAL SAVINGS DATA

CHART 3: SOFR SWAP MARKET REACTION TO JANUARY PCE PRINT

SOFR swap rates drifted slightly lower, but held mostly steady after an “as expected” PCE print this morning. The market breathed a sigh of relief after the number – speculation that inflation could reignite was rampant in the market. This morning’s data releases should help calm down that alarm. Short-end swap rates are currently trading down ~1-2 bps and longer term swaps have drifted down ~2-3 bps this morning. SOFR swap rates remain near the lows for 2025.

Going forward, President Trump’s policy and trade initiatives will likely remain center stage for the market. Next week’s jobs report will also be very important for market participants. We saw growth and inflation data this week – the market is keen to get an update on the labor market. Fed-speak will also remain in focus for the market – traders are eager to hear what Fed officials think about today’s data.

CHART 3: SOFR Swap Rates Slightly Lower, But Holding Steady After “As Expected” PCE Print



Source: Bloomberg, LLP | 1Y (white) & 2Y (blue), 3Y (orange) & 5Y (purple) SOFR SWAP RATES – PRIOR (10) TRADING SESSIONS

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