

Flash Update: US Rate Markets – Tuesday 2/4/2025

- Rates creep higher as market mulls impact of new trade tariffs
- The market is fearful that restrictive tariffs will increase inflation, damage corporate earnings and weaken economic growth
- President Trump’s policy initiatives, and their impact on inflation and the economy, will remain a primary focus for traders
- Market participants are also waiting for the December Employment Report, due Friday 2/7 at 8:30 AM
- We will see the December JOLTS jobs report this morning at 10:00 AM
- The JOLTS data will provide a “first look” at labor conditions at the end of 2024
- Short-end SOFR swap rates are trading ~1 bp higher than last night’s closing levels
- Long-end SOFR swap rates are up ~1-2 bps this morning

US Treasury yields and SOFR swap rates crept *slightly* higher this morning, as traders weighed the economic implications of President Trump’s aggressive new trade tariffs and parsed the latest batch of company earnings. Although it is far too early to know the specific implications of the new tariffs and a potentially prolonged trade war, *traders and investors are now on full alert*. Overall, the market consensus is that the new tariffs will not be positive for economic growth or inflation, and the “ripple” effect may have global economic implications.

From a data perspective, the big data “show” this week is Friday’s (2/7) release of the key December Employment Report. Traders will be paying very close attention the employment data released this week. We will see some “secondary” jobs data today – the JOLTS jobs report, which tracks job openings and quit levels, prints at 10:00 AM. The ADP “employment change” report prints tomorrow at 8:15 AM, and the ISM Services Index data, including “prices paid”, prints tomorrow at 10:00 AM. The Challenger “job cuts” data is released Thursday at 7:30 AM. Market participants will have plenty of data to digest this week, capped off by Friday’s Employment Report.

Rate Summary: Short-term SOFR swap rates are trading ~1 bp higher than last night’s close; Long-term SOFR swap rates are up ~1-2 bps 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	4.257 +0.009	-15.4580	+0.0220	4.1029	+0.0080
3Y	4.295 +0.008	-21.9700	-0.2870	4.0776	+0.0070
4Y	4.347 +0.011	-26.2600	-0.2600	4.0725	+0.0079
5Y	4.371 +0.010	-29.7500	-0.2304	4.0744	+0.0083
7Y	4.472 +0.007	-38.6896	+0.0512	4.0873	+0.0088
10Y	4.567 +0.013	-45.7500	-0.2578	4.1114	+0.0090
20Y	4.862 +0.015	-71.2500	-0.3005	4.1513	+0.0127
30Y	4.807 +0.016	-81.7500	-0.2500	3.9906	+0.0136

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

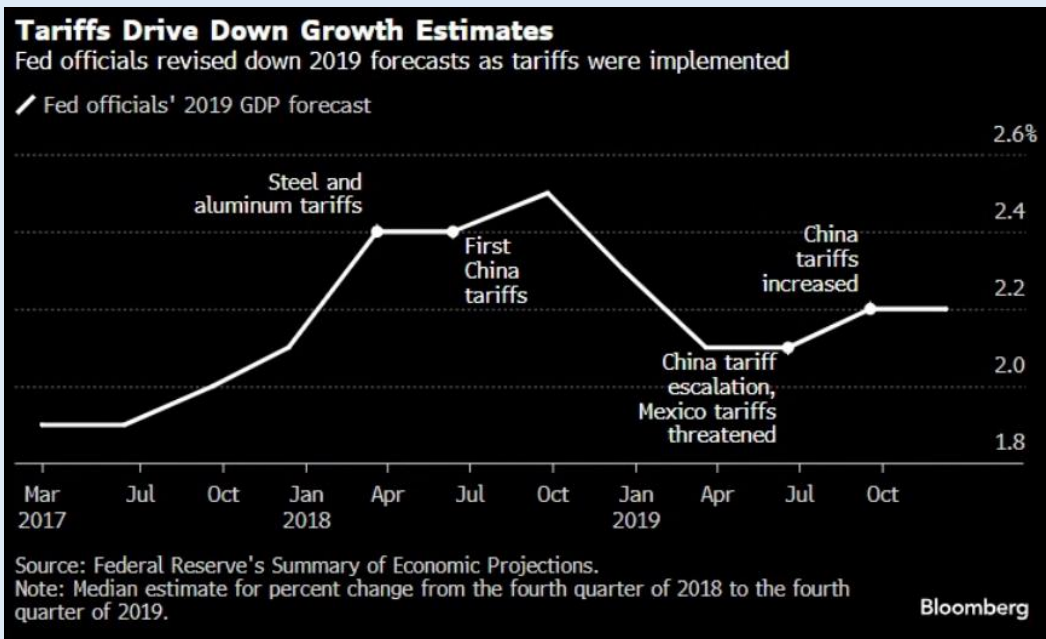
CHART 2, 2A & 2C: President Trump Unleashes New Trade Tariffs; Market Braces For “The Impact”; Tariff “Pause” Raises Hope

President Trump has taken steps to put import taxes at the center of US economic policy. Thus far, President Trump has levied imposing 10% tariffs on imports from China and 25% tariffs on goods from Canada and Mexico. However, Trump did “pause” the tariffs on Canda and Mexico, in the hopes a negotiated settlement can be reached instead. Trump has maintained he plans to use tariffs to revitalize

American manufacturing, raise revenue for the federal budget, and wield a powerful weapon of diplomacy in negotiations with foreign powers. The tariffs are anticipated to have significant economic effects, including reducing employment, provoking retaliatory tariffs, and increasing prices for consumers, with some recent estimates suggesting tariffs could add 0.1-0.2 percentage points to consumer price inflation and eliminate 250,000 full-time jobs.

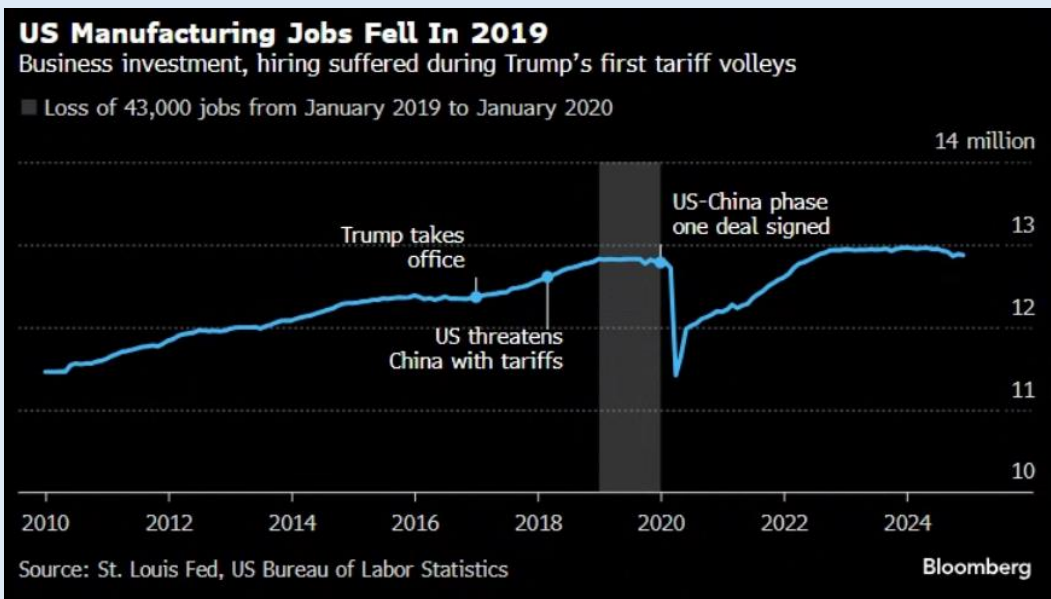
It is definitely way too early to determine the impact of the new trade tariffs, or how long they will last. The Bloomberg charts below show some of the impacts to the economy during the initial round of “Trump Tariffs” during his first term as President. In 2019, growth estimates were revised lower, retailers pre-emptively raised prices, manufacturing jobs fell and business investment dropped. I will let you draw your own conclusions about the impact of prolonged, restrictive trade tariffs – that said, we do have a very recent example we can examine.

CHART 2: Tariffs Can Slow Economic Growth



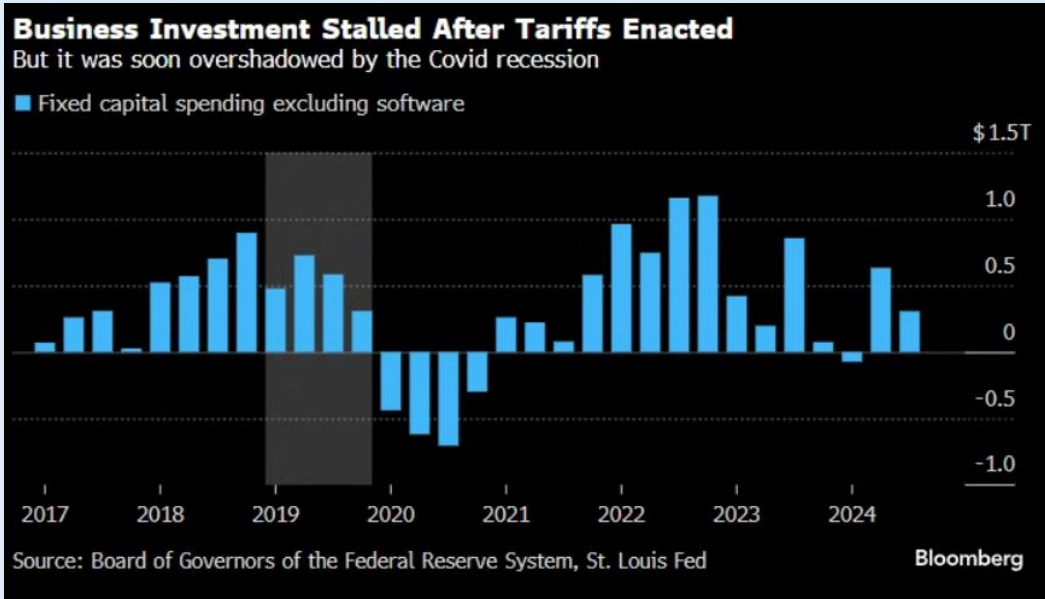
Source: Bloomberg, LLP | 2019 TARIFF IMPACT ON GROWTH ESTIMATES

CHART 2A: Tariffs Can Damage The Manufacturing Sector



Source: Bloomberg, LLP | US MANUFACTURING JOBS, 2010-2025; 2019 TARIFF IMPACT

CHART 2B: Tariffs Can Stall Business Investment



Source: Bloomberg, LLP | Business Investment 2017-2025; 2019 Tariff Impact

CHART 3: SOFR SWAP RATES DRIFT HIGHER ON TARIFF NEWS, MARKET AWAITS MORE INFORMATION

SOFR swap rates drifted higher this week on the trade tariffs news, but the subsequent 30-day “pause” in Canada and Mexico tariffs steadied rates and gave the market some breathing room. The tariff “pause” provided optimism that a diplomatic solution can be negotiated, thereby avoiding a prolonged trade war. The risk of higher inflation and damage to economic growth increases each day restrictive tariffs are in place. This is only the beginning – *we have likely yet to see the market’s full reaction to the new tariffs*. Right now, it feels like a “hope for the best, prepare for the worst” scenario. Clearly, the market is waiting for more information.

CHART 3: SOFR Swap Rates Drift Higher As Tariffs Take Effect; Overall, Rates Remain Range Bound As Market Awaits Info, Data



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

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