Flash Update: **US Rate Markets – Friday 2/7/2025**

- **Rates move slightly higher as market digests a mixed January Employment Report**
- **The January jobs report showed additions to non-farm and private payrolls missed expectations**
- **However, last month's data was revised higher, and January average hourly earnings were significantly higher-than-expected**
- **The Unemployment Rate remains at a "solid" 4.0%**
- **Overall, UST yields and SOFR swap rates had a muted initial reaction to the jobs data, then moved higher**
- **The 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**
- **Short-end SOFR swap rates are currently trading ~3-6 bps higher than last night's closing levels**
- **Long-end SOFR swap rates are up ~4-6 bps this morning**
- **2Y SOFR swap rates opened the week at 4.094%; they are currently trading at 4.098% (<1 bp WoW)**
- **10Y SOFR swap rates were trading at 4.085% on Monday morning; they are currently trading at 4.054% (-3.1 bps WoW)**

US Treasury yields and SOFR swap rates moved higher this morning, after the January jobs data showed that the US labor market remains solid, and is currently not a significant contributor to inflationary pressure. Traders has a somewhat muted initial reaction to the "mixed" employment data released this morning, then moved rates higher as the data sunk in. Additions to non-farm and private payrolls missed expectations, but the two prior month's payroll data was revised significantly higher, and the unemployment rate dropped to 4.0% - historically, still a *very* low unemployment rate. We will see Consumer Confidence data this morning at 10:00 am, but unless that dramatically misses expectations, the jobs data will be the primary market catalyst today.

The change in January employment and updated payrolls figures back to early 2023 show a moderating yet healthy labor market that continues to fuel the economy without contributing significantly to inflationary pressures. From my perspective, it also helps explain why the FOMC has signaled they are in a "wait-and-see" mode and are not in a hurry to lower borrowing costs further after three interest-rate cuts last year. Expectations for the next Fed rate cut continue to get bumped out further in the year – traders now see the Fed's first 2025 interest-rate cut in September.

My take: The January jobs report missed consensus expectations, but strong positive revisions to the prior two months and a drop in the unemployment rate make this a more solid print than the headline numbers suggest at first glance. That is the primary reason rates are moving a touch higher – the numbers this morning leave us in basically the same place we were before the data printed! I believe the Fed and the market will continue to be *heavily* data driven going forward, and to continue to closely monitor "political" policy developments.

Rate Summary: Short-term SOFR swap rates are trading ~3-6 bps higher than last night's close; Long-term SOFR swap rates are up ~4-6 bps this morning.

CHART 1: ***US RATES SNAPSHOT: 9:45 AM Eastern***

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

UST YIELDS SWAP SPREADS SOFR SWAP RATES

2Y	4.252	+0.041	-15.5096	+0.2604	4.0976	+0.0401
3Y	4.278	+0.045	-22.0301	+0.0718	4.0596	+0.0466
4Y	4.311	+0.049	-25.8175	+0.1825	4.0446	+0.0506
5Y	4.324	+0.048	-28.6162	+0.2426	4.0391	+0.0529
7Y	4.404	+0.050	-36.4410	+0.3720	4.0409	+0.0535
10Y	4.481	+0.047	-42.7066	+0.6684	4.0548	+0.0528
20Y	4.739	+0.045	-65.2937	+0.5168	4.0875	+0.0512
30Y	4.685	+0.048	-76.1000	+0.2992	3.9250	+0.0505

Source: Bloomberg, LLP | 9:45 AM NY Rates Snapshot

<u>CHART 2 & 2A:</u> SOFR SWAP MARKET REACTION TO JOBS DATA – RATES CREEP HIGHER AFTER MIXED JOBS DATA

SOFR swap rates drifted higher this morning after mixed January jobs data results. SOFR swap rates did not carve out a new trading range, but they have moved to the top of the recent trading range. This likely reflects traders adjusting Fed rates cuts to later this year. Before the number this morning, traders were still favoring a rate cut in June or July – now, traders do not expect the next Fed rate cut until the September FOMC meeting. Rates are likely to remain biased higher in the short term, given the renewed focus on inflation (read: tariffs) and the mixed, but solid jobs data.

<u>CHART 2:</u> *SOFR SWAP RATES, PRIOR (5) TRADING SESSIONS – SWAP RATES MOVE TO TOP OF RECENT TRADING RANGE*

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

<u>CHART 2:</u> *TREASURY YIELDS MOVE HIGHER AS TRADERS PARE FED RATE CUT BETS*

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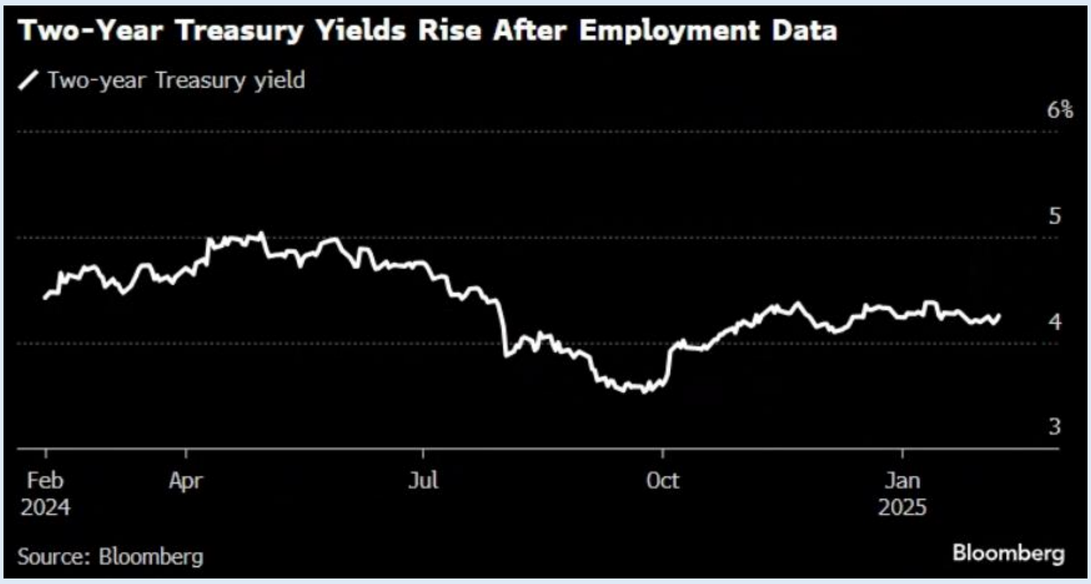

Source: Bloomberg, LLP | 2Y UST YIELD SINCE PRIOR 12 MONTHS

<u>CHART 3 & 3A:</u> January Employment Report Recap

The US added 143,000 jobs to non-farm payrolls in January, less than the forecasted 175k, but the prior month's already strong number was revised higher (to 307k from 256k). Additions to private payrolls also came in lower-than-expected (111k vs. 158k expected), but the prior month was also revised higher (to 273k from 223k). The unemployment rate dropped to 4.0% vs. 4.1% expected – the unemployment rate printed at 4.1% last month. Regarding the annual 'revisions' that were included in this morning's jobs data release (see yesterday's Market Update for details), the 2024 employment figures were revised lower, but showed that the labor market for the last two months of 2024 were strong. Officials said that the revisions did not have a "significant" impact on the data results.

<u>CHART 3:</u> ***January Employment Report Recap – Mixed Jobs Data Result Provides No Clear Direction For The FOMC***

Metric	Actual	Estimate
Change in payrolls (MoM)	+143k	+175k
Unemployment rate	4.0%	4.1%
Average hourly earnings (MoM)	+0.5%	+0.3%

Source: Bloomberg, LLP | January Employment Report Recap

<u>CHART 3A:</u> ***Change In Non-Farm Payrolls Dips In January, But Prior Months Revised Higher***

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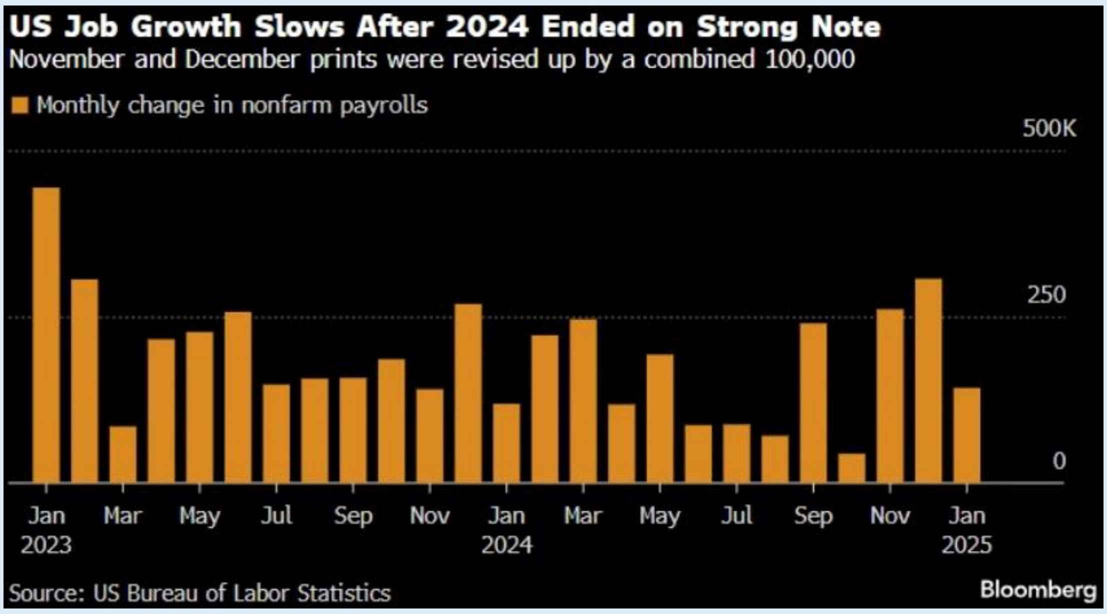

Source: Bloomberg, LLP | CHANGE IN NON-FARM PAYROLLS SINCE JAN 2023

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