RateCap Advisors

__Flash Update:__ US Rate Markets – Wednesday 3/12/2025

- **US Treasury yields and SOFR swap rates move higher this morning despite a lower-than-expected CPI print**
- **Traders are reallocating assets to equities from UST's as the "safe-haven" trade continues to unwind**
- **Fears that prolonged tariffs will lead to higher inflation and weaker economic growth continue to permeate market sentiment**
- **President Trump's policy and trade initiatives will likely continue to create volatility and uncertainty in the near term**
- **Next up for data: February PPI is released tomorrow, 3/13 at 8:30 AM**
- **Fed officials are subject to their pre-meeting "quiet period" until after the 3/19 FOMC meeting**
- **Short-end SOFR swap rates are currently trading up ~3-5 bps**
- **Long-end SOFR swap rates are ~3-5 bps higher this morning**
- ***Expect elevated levels of intraday rate volatility to continue for the foreseeable future***

US Treasury yields and SOFR swap rates drifted higher this morning, despite a lower-than-expected February CPI print. From my perspective, the increase in rates morning was primarily caused by an asset reallocation from Treasuries back into equities. This morning's rate move also tells me traders are not convinced inflation will remain in-check in the face of burdensome tariffs.

Market focus will remain on the US political landscape and President Trump's new economic policy and trade decisions for the foreseeable future. The April 2nd tariff "deadline" looms on the horizon. February PPI data prints tomorrow 3/13 at 8:30 AM. Here is a quick rundown of consensus expectations for February PPI: Headline MoM, 0.3% (vs. 0.4% prior); Core MoM, 0.3% (vs. 0.3% prior); Headline YoY, 3.3% (vs. 3.5% prior); Core YoY, 3.4% (vs. 3.4% prior).

__Rate Summary:__ **1Y** SOFR swap rate is up ~3-5 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading up ~3-5 bps. **5Y** and **10Y** SOFR swap rates are ~3-5 bps higher this morning. *For the week, 1Y SOFR swap rates are up ~9 bps; 2Y swap rates are up ~12 bps.*

Expect rates to remain volatile!

__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	3.984	+0.041	-16.3260	+0.7643	3.8219	+0.0472
3Y	3.987	+0.039	-21.6630	+0.8326	3.7720	+0.0481
4Y	4.043	+0.039	-26.0115	+0.9255	3.7719	+0.0493
5Y	4.075	+0.040	-29.1164	+0.8827	3.7850	+0.0495
7Y	4.200	+0.038	-37.8000	+0.8945	3.8248	+0.0485
10Y	4.316	+0.037	-43.2790	+0.9469	3.8848	+0.0468
20Y	4.664	+0.033	-67.5000	+1.3157	3.9899	+0.0464
30Y	4.628	+0.032	-76.2706	+1.3394	3.8657	+0.0464

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

__CHART 2, 2A & 2B:__ FEBRUARY CPI RECAP – LOWER-THAN-EXPECTED CPI PRINT CALMS SHORT-TERM INFLATION FEARS

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US consumer prices rose at the slowest pace in four months in February, offering some reprieve after months of stalling inflation progress.
Headline CPI increased 0.2% in February (vs. 0.3% expected), and YoY headline CPI increased 2.8% (vs. 2.9% expected). Core CPI, which excludes more voltile food and energy categories, rose 0.2% in February (vs. 0.3% expected). Core CPI YoY printed at 3.1%, slightly below estimates calling for 3.2%. The 3.1% year-on-year core CPI increase is the smallest since April 2021, back when inflation first started surging. The headline 2.8% rise is the smallest since last November.

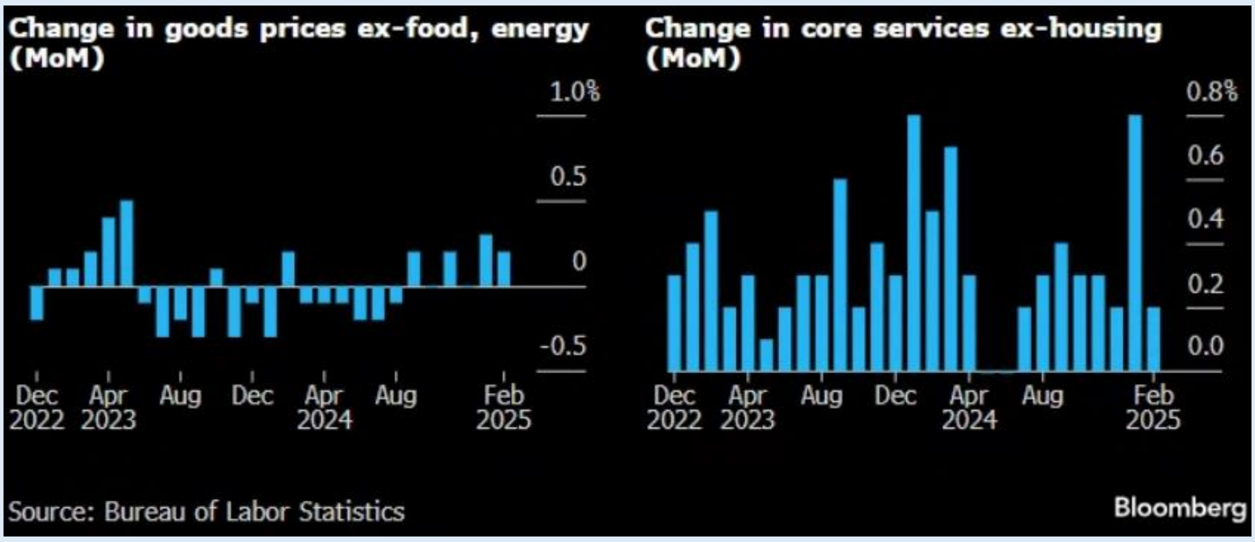
This morning's lower-than-expected CPI print does provide some short-term relief for market participants – despite the tariff-spurred "doom and gloom" sentiment permeating the markets, the sky is not falling just yet. That said, despite the relief this morning's number provides, inflation is expected to rise again due to tariffs, and the Federal Reserve is waiting for clarity on the administration's actions and inflation trajectory. I also believe that an uptick in inflation may be led by the "producer" level – market participants will be tracking the results of tomorrow's PPI closely. I do not think we are out of the voltility woods yet – market fear and uncertainty remain at elevated levels.

<u>CHART 2:</u> ***February CPI Recap – February CPI Results Beat Expectations***

Metric	Actual	Estimate
CPI MoM	+0.2%	+0.3%
Core CPI MoM	+0.2%	+0.3%
CPI YoY	+2.8%	+2.9%
Core CPI YoY	+3.1%	+3.2%

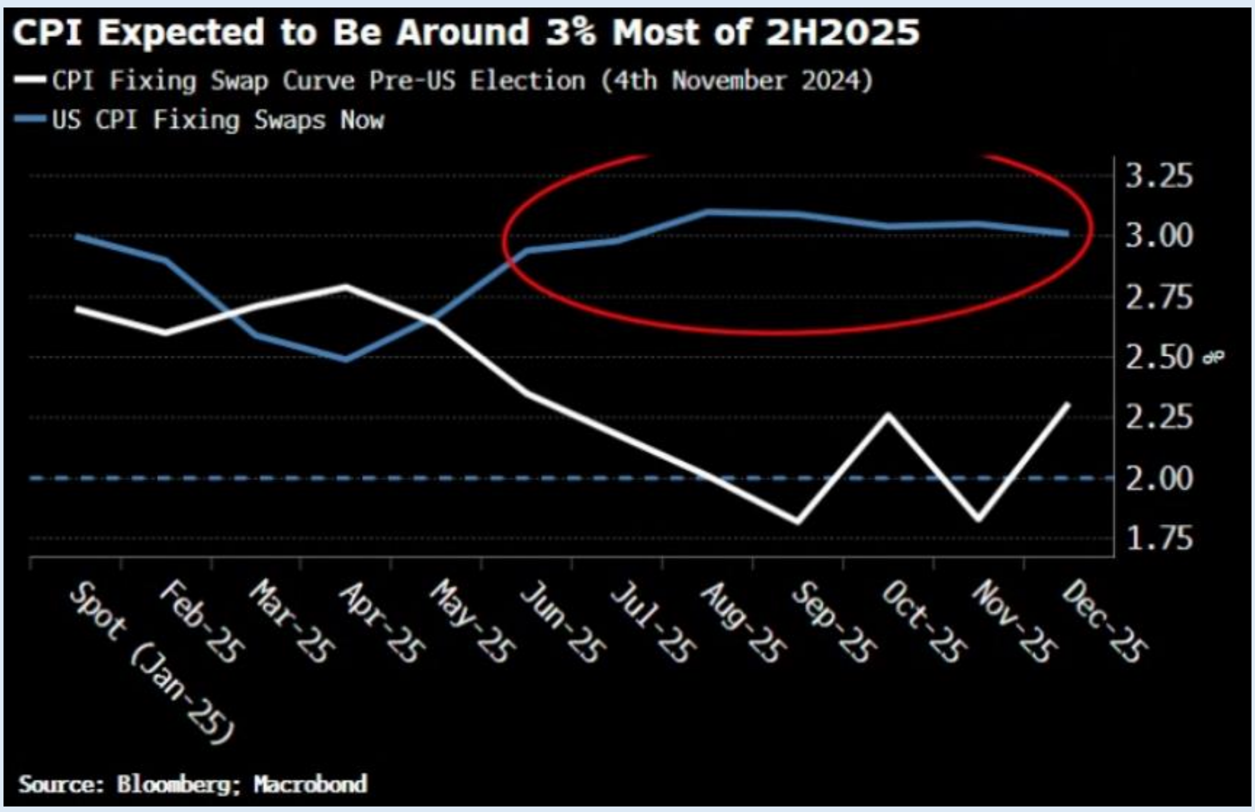
Source: Bloomberg, LLP | FEBRUARY CPI RECAP

<u>CHART 2A:</u> ***Historical CPI Data***



Source: Bloomberg, LLP | HISTORICAL CPI DATA SINCE DECEMBER 2022

<u>CHART 2B:</u> ***CPI Expected To Hover Around 3% For The Remainder Of 2025***



Source: Bloomberg, LLP | 2025 CPI EXPECTATIONS

<u>CHART 3 & 3A:</u> SOFR SWAP RATES MOVE HIGHER AS TRADERS REALLOCATE ASSETS FROM US TREASURIES TO US EQUITIES

SOFR swap rates moved higher this morning, after a better-than-expected CPI print calmed market fears that inflation was poised to tick higher. The favorable CPI data prompted market participants and investors to shift assets from safe-haven Treasuries into US equities. Swap rates would typically drop in the face of lower-than-expected inflation data, but the lure of the equity markets caused traders to sell Treasuries, leading to higher rates this morning.

I expect intra-day rate volatility to remain elevated. *The market will be "headline" driven for the foreseeable future, given the uncertain path forward.* The market wants *clarity* and will be reacting to headlines real-time. Tomorrow, traders will see February PPI data followed by February Retail Sales data early next week. You can also layer in the upcoming Fed meeting and the myriad geopolitical factors impacting markets at the moment. There is a lot happening at the moment! There is definitely the potential for more of the "whip-saw" trading patterns we have seen recently – the below Bloomberg graph clearly shows the recent elevated intra-day volatility in short-term SOFR swap rates.

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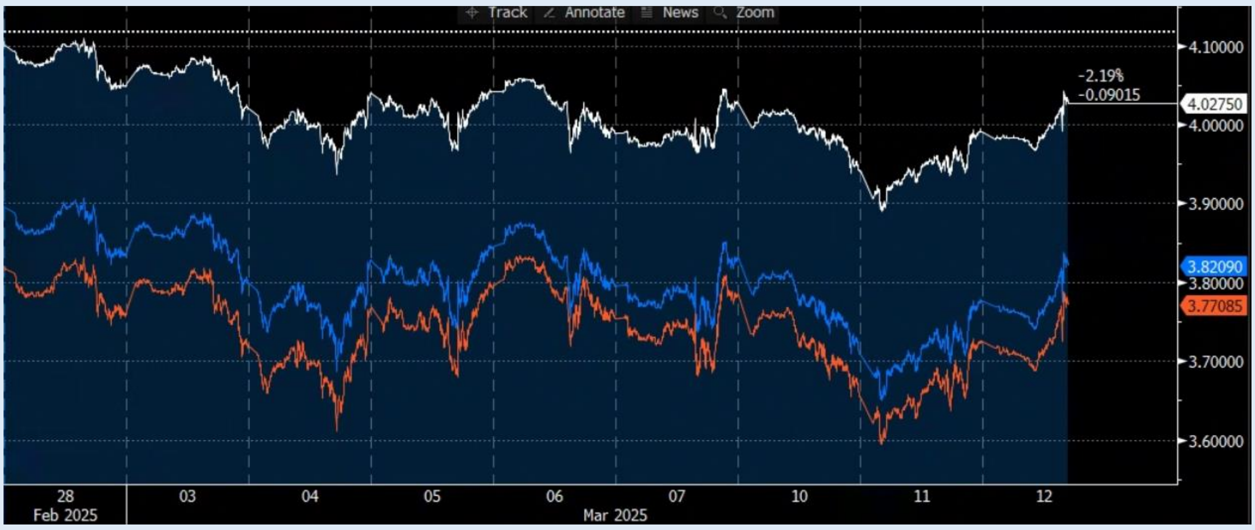
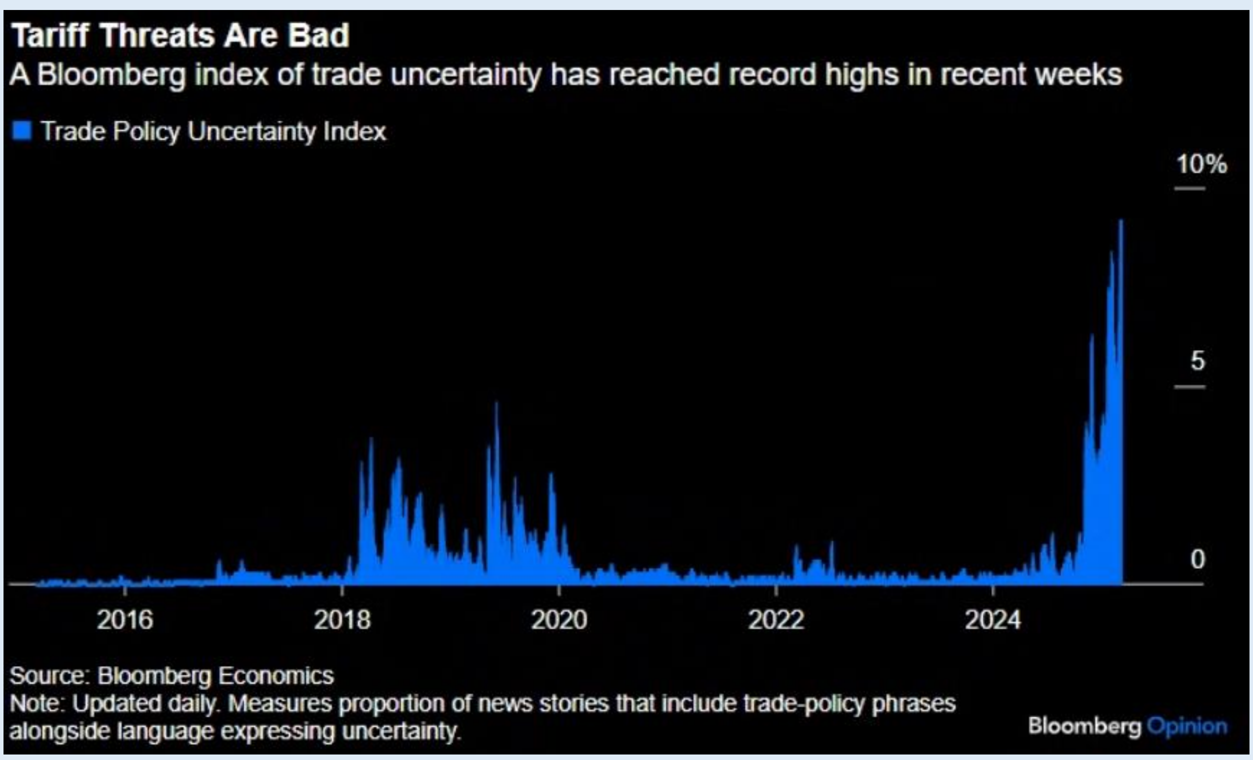
Forward pricing currently reflects ~73.7 basis points of Fed rate cuts by the end of 2025 – that's down from earlier this week. The next full 25 bp rate cut is not fully priced in until June. However, odds for a rate cut in May have dropped to 35%. The FOMC is widely expected to keep rates steady at its March 18-19 gathering, mirroring a lack of policy adjustment at the January meeting.

<u>CHART 3:</u> *SOFR Swap Rates Drift Higher Despite Favorable Inflation Data*



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

<u>CHART 3A:</u> *Trade Uncertainty Index Remains At All-Time High*



Source: Bloomberg, LLP | TRADE UNCERTAINTY INDEX

<u>Disclaimer:</u> *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.*

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