

Flash Update: US RATE MARKETS – MONDAY MARCH 16, 2026

- **UST yields and SOFR swap rates ticked lower this morning, as concerns about economic growth begin to outpace inflation concerns**
- ***Weaker-than-expected economic data released on Friday keeps the door open for a Fed rate cut in the second half of the year, as economic growth concerns begin to weigh on the market***
- **The next FOMC rate decision is due Wednesday, March 18 at 2:00 PM; Chairman Powell's press conference will immediately follow the rate announcement at 2:30 PM**
- **Fed officials remain in the pre-meeting communications "quiet period" until March 19th**
- **The market reaction to the SCOTUS "tariff ruling" has been largely muted as traders await more details and information**
- **Traders will continue to track volatile equity markets, specifically the technology and AI sectors**
- **Market participants will continue to monitor developments with the DOJ investigation into the US Central Bank**
- ***Next up for key data:* February PPI data is due for release on Wednesday, March 18 at 8:30 AM**
- **Short-end SOFR swap rates are trading down ~3-5 bps this morning, depending on tenor**
- **Long-end SOFR swap rates are currently down ~1-4 bps, depending on tenor**

US Treasury yields and SOFR swap rates are dropping this morning, as fear that the war will damage global economic growth, perhaps significantly, is beginning to outpace fear that the war will lead to dramatically higher inflation. The friction between potential higher inflation and potential damage to economic growth will continue to grow as long as the war rages on. If traders begin to believe that weaker economic growth is the likely outcome, that would make a strong case for Fed rate cuts, and we would see rates begin to drop, perhaps materially. *I expect the market to continue to be "headline" driven.*

Besides the ongoing Middle East conflict, the big market news this week will be the FOMC rate announcement on Wednesday. Market participants *do not* expect the Fed to move rates, but they will be very interested to see the new SEP, Dot-Plot and official statement. Traders will also be laser focused on Chairman Powell's comments at his post-meeting press conference. Yes, he is "on his way out", but he is the mouthpiece for the Fed, and he often refers to "committee thinking" when making his comments. A lot has changed since the last Fed meeting – market participants are eager to hear the Fed's perspective. Fed officials will emerge from the pre-meeting quiet period on 3/19, so we will see a deluge of Fed commentary in the days immediately following the meeting.

As you would expect, market participants will continue to nervously monitor the latest war developments. The main underlying market fear is that the conflict in the Middle East will lead to a full-blown "energy crisis", where global production is severely impacted and oil prices *surge* for a sustained amount of time. So far, the outlook is not encouraging. *However, the longer the war drags on and oil prices remain elevated, the greater the threat to global economic growth, including the US.* That may actually wind up being a bigger threat than higher inflation. There is also a growing threat of stagflation – the war could damage global economic growth *and* lead to higher inflation. The revision to GDP and sticky inflation figures we saw Friday certainly whisper "stagflation", and we have yet to experience the full inflation and economic growth impacts of the war. Stagflation would make the Fed's job *even more* challenging.

There is definitely the possibility for whip-saw movements in rates this week, and I anticipate volatility will remain at elevated levels.

News the market is tracking includes:

- Geopolitical developments continue to weigh on market sentiment. The US/Iran "war" will likely dominate market sentiment this week. The end result of the US attack on Iran is difficult to

concerns, creating pockets of elevated rate volatility. Friday’s battery of weaker-than-expected economic data helped renew hope for a September rate cut – that is the primary catalyst for lower rates this morning. However, sticky US consumer inflation and escalating global inflation worries surrounding the Middle East war kept traders from overreacting to the data and are helping to hold rates *mostly* in check.

I still expect rates to remain asymmetrically biased higher as long as “oil fears” dominate the market – however, there is the very real possibility that we may see economic weakness before we see higher inflation, so we may see a shift in market bias if that continues. At some point, if economic growth is cratering, that would likely trump inflation fears and call for additional Fed rate cuts. Should that transpire, those rate cuts may wind up coming a lot sooner than what is priced into the curve. Currently, market pricing does not imply another rate cut until September.

Rates are moving off the war-spawned highs, thanks to weaker-than-expected economic data released on Friday. The significant revision to Q4 GDP really captured the market’s attention. If we actually started off 2026 in a weaker economic position than initially thought, that could require rate cuts sooner rather than later. The 2-year SOFR swap rate closed at 3.21% on Friday 2/27 – it is currently trading at **~3.51%** (+30 bps). The 10-year SOFR swap rates has experienced a similar move – it closed Friday 2/27 at 3.52% and is currently trading at **~3.78%** (+26 bps).

CHART 2: Short-End SOFR Swap Rates – Prior 30 Days



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 30 DAYS

CHART 2A: Long-End SOFR Swap Rates – Prior 30 Days



Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR 30 DAYS

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