Flash Update: US Rate Markets – Wednesday 3/19/2025

- **US Treasury yields and SOFR swap rates drift slightly higher this morning ahead of a highly anticipated "Fed Day"**
- **The market's focus today is the March FOMC rate decision, due this afternoon at 2:00 PM**
- **The Fed is expected to keep the overnight rate unchanged at the March meeting – 4.25% lower bound / 4.50% upper bound**
- **Traders are anxiously waiting to see the new Fed "dot-plot" and economic projections**
- **FOMC Chairman Powell's post-meeting press conference is scheduled for 2:30 PM**
- **President Trump's policy and trade initiatives will likely continue to create market volatility and uncertainty in the near term**
- **Short-end SOFR swap rates are currently trading up ~1 bp**
- **Long-end SOFR swap rates are ~1 bp lower this morning**
- ***Expect elevated levels of intraday rate volatility to continue for the foreseeable future***

US Treasury yields and SOFR swap rates ticked slightly higher this morning, as market participants brace for this afternoon's Fed rate decision. The FOMC will announce the results of the March meeting at 2:00 PM. In addition to the "official" FOMC statement, we will also see a new "dot-plot" from the Fed, and fresh economic projections, which traders are keen to review. Given the tremendous volatility and uncertainty we are experiencing currently, both are *highly* anticipated by the market. Market participants are also anxiously awaiting FOMC Chairman Powell's post-meeting press conference. This may be one of Chairman Powell's most important press conferences.

The market's focus will remain on the US political landscape and President Trump's new economic policy and trade decisions for the foreseeable future. Economic data will continue to be viewed through a "tariff tinted" lens for the foreseeable future. Expect elevated intra-day rate volatility to continue for the near-term. There is no economic data scheduled for release today – it's *all* eyes on the Fed. The next economic data we will see will be Existing Home Sales and weekly jobless claims data, scheduled for release tomorrow, 3/20 at 8:30 AM.

Rate Summary: The **1Y** SOFR swap rate is *up* ~1-2 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading up ~1-2 bps. **5Y** and **10Y** SOFR swap rates are ~1 bp lower this morning.

CHART 1: ***US RATES SNAPSHOT: 9:00 AM Eastern***

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

UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.052 +0.013	-16.7800	-0.0480	3.8867	+0.0120
3Y	4.023 +0.008	-20.8490	+0.1110	3.8165	+0.0103
4Y	4.061 +0.010	-25.3600	+0.2675	3.7989	+0.0103
5Y	4.079 +0.005	-28.1241	+0.3632	3.7987	+0.0092
7Y	4.182 +0.001	-36.1855	+0.4300	3.8226	+0.0042
10Y	4.279 -0.004	-40.9909	+0.5079	3.8696	-0.0010
20Y	4.611 -0.012	-64.5300	+0.6500	3.9673	-0.0057
30Y	4.575 -0.011	-73.3447	+0.4053	3.8419	-0.0076

Source: Bloomberg, LLP | 9:00 AM NY Rates Snapshot

CHART 2: SOFR SWAP RATES DRIFT A TOUCH HIGHER AHEAD OF FOMC RATE ANNOUNCMENT

SOFR swap rates ticked a touch higher this morning as a jittery market awaits this afternoon's FOMC rate announcement. There is a lot happening at the moment for the market to digest including US

economic and trade policy "changes", heightened geopolitical tensions and a shifting US economy. Those factors will remain a primary focus for the market, but the "big show" this week is definitely this afternoon's FOMC rate decision.

During the prior 30 days swap rates have "whipsawed" around considerably – the 1Y SOFR swap rate is down ~15 bps and 2Y & 3Y SOFR swap rates are down ~25 bps during that time period. Rates *had* been moving lower on growth fears, but renewed inflation concerns and a creeping feeling that the Fed may be on hold until late this year caused rates to drift higher this week.

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. *There is definitely the potential for more of the "whip-saw" trading patterns we have seen recently as market participants sort out what is next for rates.*

CHART 2: ***SOFR Swap Rates Hold Mostly Steady, As A Jittery Market Awaits FOMC Rate Decision***

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

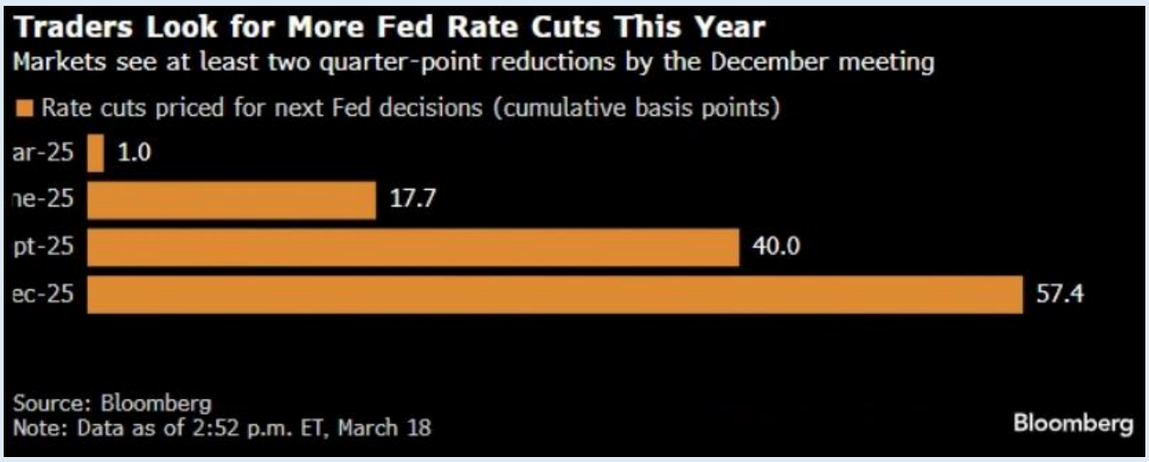
CHART 3: FOMC PREVIEW – FED EXPECTED TO HOLD OVERNIGHT RATE UNCHANGED

Recently, rates have drifted higher, as market participants may have gotten too dovish on the prospects for multiple rate cuts this year. Two weeks ago Chair Powell said "the economy is fine" – market participants will be scrutinizing his comments this afternoon, and the FOMC's revised economic projections and dot-plot, for cracks in that view. What we have learned recently is that the rates market seems willing to shift gears rapidly – we have seen it repeatedly over the past couple of months. From my perspective, the data since the last Fed meeting hasn't made a compelling case for additional rate cuts – what seems to have changed, and changed dramatically, is the range of possible outcomes.

While markets imply virtually no possibility for a rate cut today, uncertainty has been increasing about the rest of the year (to say the least!). As of yesterday's close, traders were pricing in ~57 bps (or about two, 25 bp rate cuts) for 2025, beginning in September. Traders had been pricing in approximately three rate cuts just one week ago.

**Apologies for the glitch in the below chart graphics. The bars represent current rate cut expectations for the March, June, September and December 2025 Fed meetings.*

CHART 3: ***Traders Expect Two, 25 BP Rate Cuts This Year, Starting In September***



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS – TRADERS

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