

Flash Update: US Rate Markets – Wednesday 3/26/2025

- US Treasury yields and SOFR swap rates hold mostly steady as market awaits economic data and tariff guidance
- Uncertainty is mounting as President Trump’s April 2ND “tariff deadline” looms
- Next Up For Data: Q4 GDP revisions are due tomorrow at 8:30 AM; February PCE is released Friday, 3/28 at 8:30 AM
- The PCE inflation data will be the key data focus for the market this week
- 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 ~1-2 basis points
- Long-end SOFR swap rates are ~2-3 bps higher this morning
- Expect elevated levels of intraday rate volatility to continue for the foreseeable future

US Treasury yields and SOFR swap rates held steady this morning, as the market awaits key inflation data due later this week and tracks the constantly shifting tariff landscape. The market remains concerned tariffs will create higher inflation and slower economic growth – they just cannot decide on which is the bigger risk at the moment, hence the reluctance to carve out a new trading range this week. President Trump’s April 2 tariff “Liberation Day” also looms ominously in the background.

Based on the recent inflation data, an economic slowdown seems the more likely short-term outcome. If Friday’s PCE inflation data beats expectations, focus will squarely shift to economic growth. In that scenario, SOFR swap rates are likely to move lower, particularly on the Fed-sensitive short-end of the curve. However, unless PCE *radically* departs from expectations (in either direction), I do not see the market establishing a new trading range or directional bias until they get more clarity on what is going to happen on April 2.

The next “significant” economic data we see will be tomorrow’s release of revised Q4 GDP, and more importantly, PCE inflation data on 3/28. Both data series are release at 8:30 AM. 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. The April 2nd tariff deadline looms, and the market truly does not know what to expect. **Expect the possibility for elevated intra-day rate volatility to continue for the near-term.**

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

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

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

	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.002 +0.008	-16.2154 +1.6686	3.8418 +0.0017
3Y	4.001 +0.011	-22.6045 -0.6295	3.7773 +0.0049
4Y	4.052 +0.015	-27.1925 -0.4780	3.7730 +0.0094
5Y	4.086 +0.018	-30.0000 -0.3750	3.7871 +0.0140
7Y	4.211 +0.024	-38.1939 -0.3907	3.8316 +0.0191
10Y	4.340 +0.028	-44.2692 -0.4988	3.8995 +0.0230
20Y	4.715 +0.032	-69.4456 -0.6556	4.0226 +0.0252
30Y	4.692 +0.034	-78.3750 -0.6250	3.9095 +0.0264

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

CHART 2: SOFR SWAP RATES STEADY AS MARKET AWAITS TARIFF NEWS, INFLATION DATA

SOFR swap rates held steady again this morning, as the market awaits key inflation data and tracks the latest tariff developments. SOFR swap rates are little changed for the week, particularly short-end swaps (1Y, 2Y & 3Y). There is still *a lot* happening at the moment for traders to digest, including US economic and trade policy rollouts, heightened geopolitical tensions and a shifting US economy. Those factors will remain the primary focus for the market in the short-term.

I expect the potential for elevated intra-day rate volatility to continue for the foreseeable future. Market uncertainty remains high – President Trump’s approach is too haphazard to predict with any accuracy. *The market will remain “headline” driven for the foreseeable future, given the uncertain path forward.* That is *the* major risk surrounding the April 2ND tariff deadline - market participants truly do not know what to expect, leading to tremendous uncertainty. The market wants *clarity* and will be reacting to headlines real-time.

CHART 2: SOFR Swap Rates Hold Mostly Steady As Market Awaits Data & Tracks Tariff Developments



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

CHART 3 & 3A: MARKET ADJUSTS RATE CUT EXPECTATIONS; ODDS DROPPING FOR A “THIRD” RATE CUT IN 2025

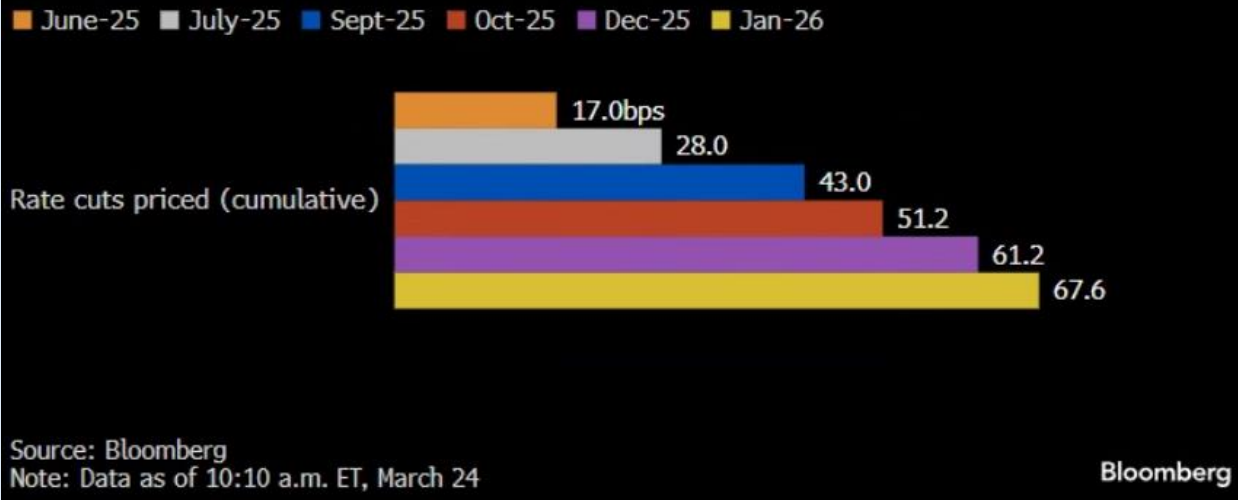
Market uncertainty remains high – the market feels as though it is on a razor’s edge. Fear that onerous tariffs will stifle economic growth has led traders to seek safe haven in US Treasuries. That led to lower bond rates across the curve until recently. President Trump’s erratic and ever-shifting tariff rollouts, however, have confounded the market – recently rates have been trading sideways in a broad range. Although the whip-saw movement in rates we witnessed the past several weeks has abated this week, rates are still going to be prone to increased volatility in the near term.

Given the tremendous market uncertainty, traders have dialed back rate cut expectations this week, slowly lowering the possibility of a third, 25 bp rate cut this year. Current forward pricing now shows traders pricing in ~60 basis points of rate cuts by year-end 2025, compared with ~68 basis points on Friday.

Despite the increased market “noise” recently, traders and market participants are listening carefully to what Fed officials have to say about economic growth, inflation, the jobs market and President Trump’s “new” trade policies. Yesterday, Atlanta Fed President Raphael Bostic said that he sees “just one” interest-rate cut this year, rather than two, as new tariffs impede the Fed’s fight against inflation. US 10-year Treasuries have traded in a *fairly* narrow range in March after the yield retreated from the 2025 high of ~4.80% in mid-January. The current 10Y UST yield is 4.35%.

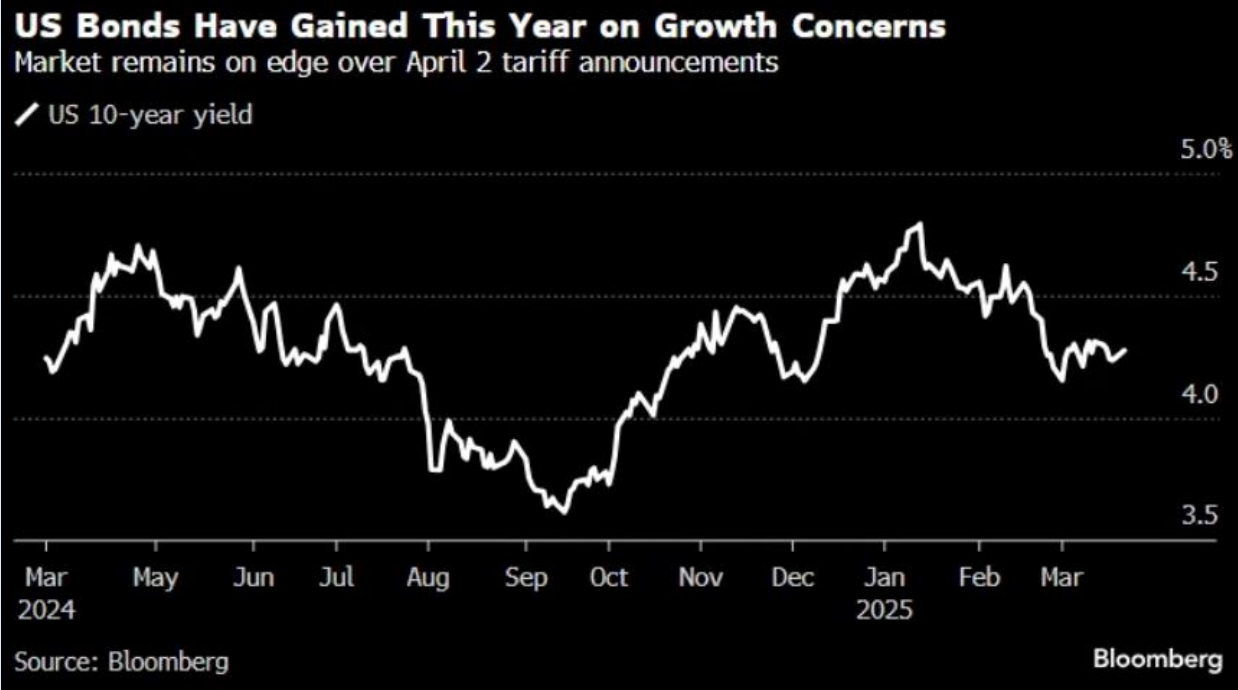
CHART 3: Market Dials Back Rate Cut Bets – Now Sees “Approximately” Two, 25 BP Rate Cuts In 2025

Traders Scale Back Rate-Cut Bets by Early 2026
 Markets pull back on wagers for three quarter-point cuts by January



Source: Bloomberg, LLP | Market FOMC Rate Cut Expectations Through January 2026

CHART 3A: Market Uncertainty Climbs As April 2 Tariff Deadline Approaches



Source: Bloomberg, LLP | UST 10Y Note Yield Since March 2024

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