Flash Update: **US Rate Markets – Friday 3/28/2025**

- **US Treasury yields and SOFR swap rates moved lower this morning as traders position for the April 2 tariff deadline**
- **February headline PCE printed at expectations; However, core PCE, an inflation metric tracked closely by the FOMC, exceeded expectations**
- **The report also showed a significant drop in consumer spending in February**
- **Univ. of Michigan Consumer Sentiment Data prints this morning at 10:00 AM**
- **The consumer sentiment data may contribute to market volatility today**
- **Uncertainty continues to mount as President Trump's April 2ND tariff "Liberation Day" deadline looms**
- **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 down ~2-4 basis points**
- **Long-end SOFR swap rates are ~4-6 bps higher this morning**
- ***Expect elevated levels of intraday rate volatility to continue for the foreseeable future***

US Treasury yields and SOFR swap rates moved lower this morning after February PCE showed inflation remains stubborn. It is clear that progress on inflation has stalled – today's PCE data release did nothing to quell worries that restrictive US tariffs will fan inflation. 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 continued reluctance to carve out a new trading range this week. President Trump's April 2 tariff "Liberation Day" also looms ominously in the background. The market truly does not know what to expect. I do not see the market setting a new directional bias for rates until after the April 2 tariff announcements. 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.

Expect the possibility for elevated intra-day rate volatility to continue for the near-term.

Rate Summary: The **1Y** SOFR swap rate is down ~1-2 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading down ~2-4 bps. **5Y** and **10Y** SOFR swap rates are ~4-6 bps higher this morning.

CHART 1: ***US RATES SNAPSHOT: 9:30 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	3.963	-0.027	-16.5530	+0.0670	3.7992	-0.0284
3Y	3.951	-0.039	-22.2961	+0.2939	3.7288	-0.0363
4Y	3.999	-0.048	-27.2540	+0.4180	3.7238	-0.0397
5Y	4.040	-0.048	-30.2550	+0.5430	3.7390	-0.0427
7Y	4.167	-0.052	-38.1327	+0.2909	3.7867	-0.0492
10Y	4.301	-0.058	-44.4795	+0.4589	3.8575	-0.0545
20Y	4.678	-0.060	-69.3705	+0.5325	3.9852	-0.0564
30Y	4.657	-0.064	-78.3500	+0.7707	3.8741	-0.0567

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

CHART 2: SOFR SWAP RATES MOVE LOWER ON PCE, CONSUMER SPENDING DATA

SOFR swap rates dropped this morning on concerns that an uptick in inflation and a decrease in consumer spending continue to threaten the US economy. Fear that the US is heading toward

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stagflation (weak economic growth and higher inflation) pushed rates lower this morning and flattened the yield curve. For the week, short-term SOFR swap rates (1Y, 2Y & 3Y) are down ~5 bps – nothing dramatic. Market participants are still seeking direction.

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; Rates Remain Range Bound This Week***

Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES – PRIOR (5) Trading Sessions

CHART 3 & 3A: FEBRUARY PCE RECAP – REPORT SHOWS STUBBORN INFLATION

February PCE showed inflation rose at a stubborn pace and consumer demand was weaker-than-expected, illustrating a more "guarded" consumer amid growing concerns about "personal" finances and inflation. Headline PCE advanced 0.3% MoM (as expected) and from a year ago, it advanced 2.5% (as expected). However, core PCE, which excludes more volatile food and energy items, rose 0.4% (vs. 0.3% expected). YoY, core PCE increased 2.8%, above forecasts calling for 2.7%. The February PCE report points to stubborn inflation just as President Trump's planned tariffs risk stoking price pressures even further. His aggressive trade policy has also largely tanked sentiment among businesses and consumers. The drop in sentiment, combined with growing signs of household financial "stress", have raised concerns that the economy may fall into stagflation or even recession.

CHART 3: ***February PCE Recap – Core PCE Prints Warmer-Than-Expected***

Metric	Actual	Estimate
PCE price index (MoM)	+0.3%	+0.3%
Core PCE price index (MoM)	+0.4%	+0.3%
PCE price index (YoY)	+2.5%	+2.5%
Core PCE price index (YoY)	+2.8%	+2.7%
Real consumer spending (MoM)	+0.1%	+0.3%

Source: Bloomberg, LLP | February PCE Recap

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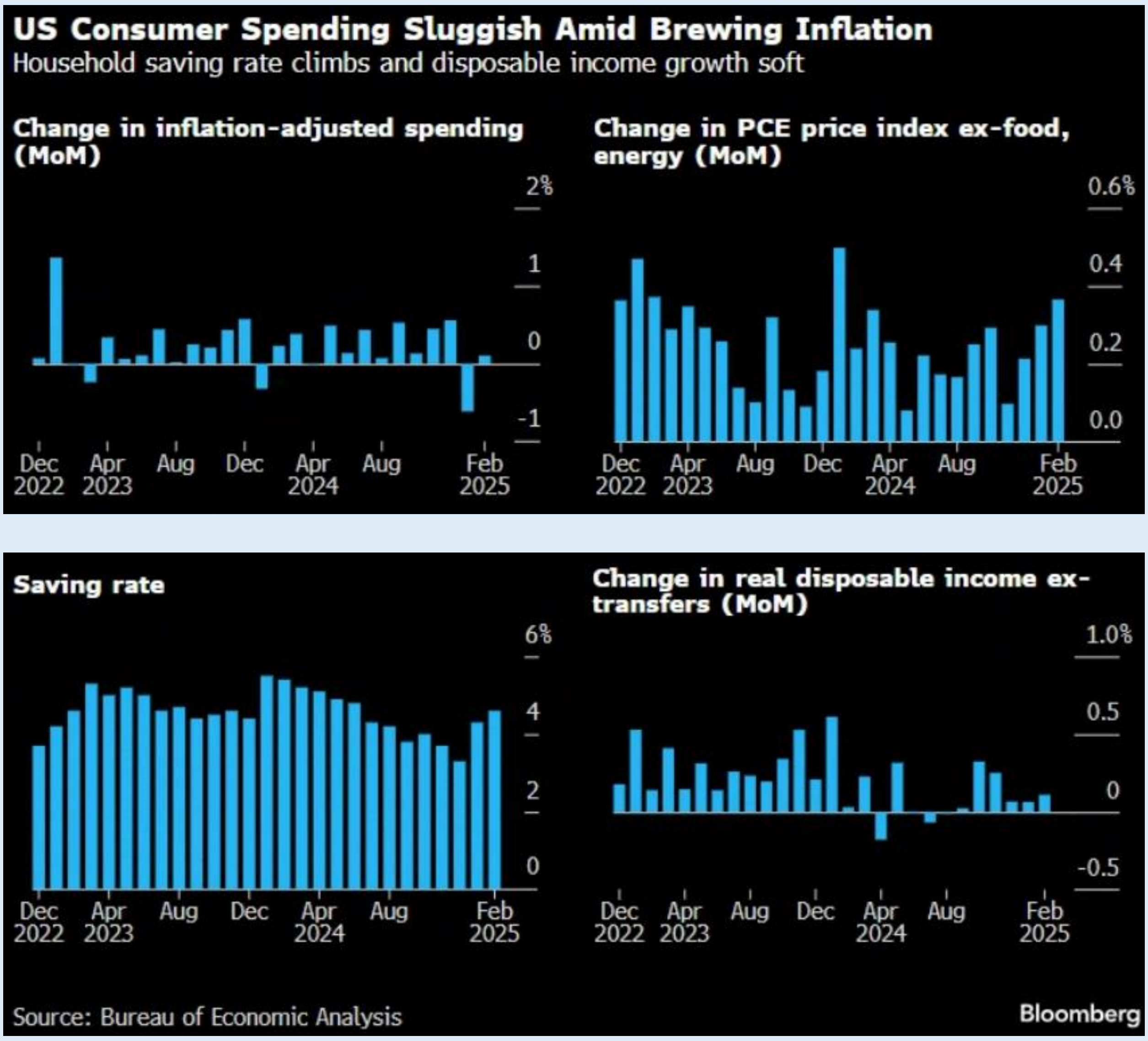
<u>CHART 3A:</u> ***Historical PCE, Consumer Spending & Savings Data***



Source: Bloomberg, LLP | Historical PCE, Consumer Spending & Savings Data Since December 2022

<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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