

GV Ask/Chg	SOFR/GV	SOFR OIS
2Y 3.995 +0.007	-15.3060 +0.0943	3.8440 +0.0062
3Y 3.966 -0.002	-20.4000 +0.4547	3.7652 +0.0014
4Y 3.993 -0.015	-24.9460 +0.6790	3.7363 -0.0041
5Y 4.002 -0.018	-27.5250 +0.8573	3.7274 -0.0083
7Y 4.094 -0.021	-35.2160 +1.2795	3.7425 -0.0084
10Y 4.191 -0.018	-40.9997 +1.0003	3.7825 -0.0072
20Y 4.508 -0.017	-64.6305 +1.3822	3.8630 -0.0037
30Y 4.478 -0.012	-74.7500 +1.0000	3.7310 -0.0015

Source: Bloomberg, LLP | 11:00 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES – PRIOR 30 DAYS; RATE VOLATILITY TICKS HIGHER

SOFR swap rates opened the week higher, after briefly moving lower on Friday on geopolitical fear created by the contentious Trump/Zelenskiy “press conference”. The good news is that despite the slight pop in rates this morning, SOFR swap rates are still sitting nears the 2025 lows. 1Y swap rates are ~11 bps lower than where they were 30 days ago, and 2Y swap rates are ~13 bps lower over the prior 30 days. It is tough to predict where swap rates go from here. Rates will be fighting a battle of conflicting forces this week, with a healthy dose of economic data sprinkled on top. Increased geopolitical risk could spark safe-haven trading, leading to lower rates. Fears that aggressive new tariffs could spark inflation could keep the bias toward higher rates. The employment and other economic data we see this week, coupled with an active Fed-speak calendar, will also keep US data in focus for rate traders.

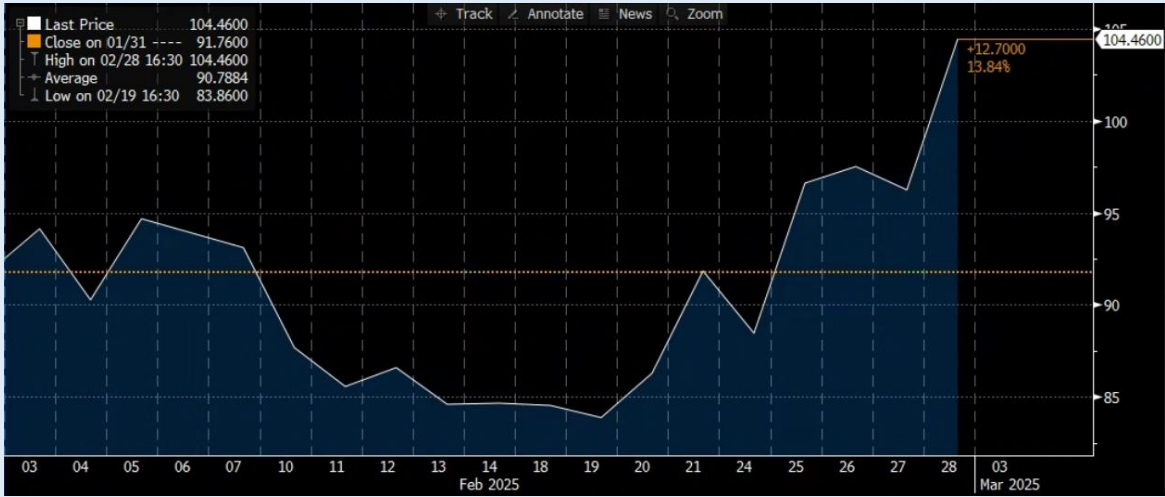
Rate volatility increased over the past 30 days, in response to the uncertainty created by the variables discussed above. The spike in volatility has kept pressure on cap premiums, despite the slow drift down in rates over the prior 30 days. Generally speaking, implied volatility is the measure of confidence, or lack thereof, that market participants have in current rate expectations. The higher the implied volatility reading is, the greater the range of expected outcomes. That is why higher implied rate volatility leads to higher cap premiums.

CHART 2: SOFR SWAP RATES DRIFT HIGHER THIS MORNING, THEN STABILIZE



Source: Bloomberg, LLP | 1Y (white), 2Y (blue), 3Y (orange) & 5Y (purple) SOFR SWAP RATES – PRIOR 30 DAYS

CHART 2A: RATE VOLATILITY TICKS HIGHER ON MARKET UNCERTAINTY



Source: Bloomberg, LLP | "MOVE" TREASURY VOLATILITY INDEX – PRIOR (30) DAYS

CHART 3: MIXED ISM MANUFACTURING DATA HALTS UPTICK IN RATES

Mixed ISM Manufacturing data released at 10:00 am has reversed this morning’s uptick in rates and pushed rates a tad lower. ISM Manufacturing New Orders dropped to 48.6 vs. 54.6 expected, while the Prices Paid component surged to 62.4 vs. 56.1 expected. Medium and long term swap rates have drifted back down and are trading close to unchanged from Friday’s close – maybe down a bp or so. Short-end (1-3 year) SOFR swap rates are up a bp or so. Volatility is slightly higher.

The mixed ISM manufacturing results are a concern because slower manufacturing demand with higher prices can mean stagflation. I think there is too much going on at the moment for the market to fixate on the ISM numbers, but it does add to an already complex and uncertain path forward for interest rates.

CHART 3: ISM MANUFACTURING RESULTS HINT AT "STAGFLATION"



Source: Bloomberg, LLP | FEBRUARY ISM MANUFACTURING DATA

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