

Flash Update: US Rate Markets – Tuesday 3/4/2025

- Rates drop, as US tariffs spark global economic growth concerns
- US businesses prepare for “tariff retaliation” and potential trade-wars
- US Treasury yield curve continues to steepen in response to tariff-fueled growth concerns
- President Trump speaks to a joint session of Congress tonight at 9:00 PM
- President Trump’s speech tonight is definitely a risk event for the rate markets
- Market focus is likely to remain primarily on geopolitical risks this week
- President Trump’s policy and trade initiatives will likely continue to add to elevated market volatility and uncertainty
- Traders are also waiting for Friday’s release of the February Employment Report
- Next up for key economic data: February Employment Report prints Friday, 3/7 at 8:30 AM
- Short-end SOFR swap rates are currently trading down ~5-8 bps from Friday’s closing levels
- Long-end SOFR swap rates are ~3-5 bps lower this morning

US Treasury yields and SOFR swap rates moved lower this morning, sparked by tariff-fueled global economic growth concerns. The latest US tariff news is continuing to shake markets globally as concerns about economic growth risks increase. Traders have also adjusted forward pricing to account for three, 25 bp rate cuts this year. Today is a light data day, so the market’s focus will remain on the impact of US tariffs – and President Trump’s speech to a joint session of Congress tonight at 9:00 PM.

Prepare for elevated rate volatility this week as the market reacts to geopolitical developments and the initial impact of new US trade policies. Market participants will also be keeping an eye on the economic data – we get a host of secondary economic data this week, culminating with the release of the February Employment Report on Friday. There are also a number of Fed officials on the tape this week – the market will be listening. President Trump is giving a speech to a joint session of Congress tonight at 9:00 PM. That is definitely a risk-event for the rate markets and a wildcard for traders. There is palpable uncertainty in the market about the path forward for interest rates, the impact of President Trump’s new policy and trade initiatives and the US economy.

FOMC Update: Markets have come very close to pricing in three, 25 bp interest-rate cuts from the Federal Reserve this year. There are now ~74 basis points of easing priced in for 2025 – there was less than 50 basis points priced into the curve (~46 bps) at the beginning of last week. This is the first time three rate cuts have been priced into the curve this year. Clearly, economic growth concerns are prompting traders to expect more than two rate cuts this year.

Next up for key economic data: The February Employment Report prints on Friday, 3/7. That is another key near-term data point for the market. The next Fed “rate decision” is due on March 19th at 2:00 PM.

Rate Summary: 1Y SOFR swap rates are down ~4-5 bps this morning. 2Y and 3Y SOFR swap rates are currently trading down ~5-8 bps. 5Y and 10Y SOFR swap rates are ~3-5 bps lower this morning.

CHART 1: US RATES SNAPSHOT: 10:00 AM Eastern

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

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	3.879	-0.070	-16.1100	-0.7100	3.7191	-0.0790
3Y	3.862	-0.066	-21.8300	-0.9400	3.6450	-0.0734
4Y	3.895	-0.058	-26.2925	-0.7575	3.6260	-0.0637
5Y	3.913	-0.048	-28.7722	-0.6250	3.6262	-0.0552
7Y	4.019	-0.034	-36.8500	-1.1200	3.6518	-0.0460
10Y	4.132	-0.022	-43.0027	-1.3777	3.7030	-0.0372
20Y	4.485	+0.004	-68.2170	-2.1587	3.8034	-0.0197
30Y	4.455	+0.006	-77.5550	-1.6719	3.6803	-0.0115

Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2: SOFR SWAP RATES SLIDE LOWER ON ECONOMIC GROWTH CONCERNS

SOFR swap rates dropped this morning as economic growth concerns fueled by “trade wars” dominate global markets. Traders and portfolio managers reallocated assets to US Treasuries in anticipation of an economic slowdown fueled by restrictive global tariffs. Rates drifted lower yesterday and continued to move lower this morning. 1Y SOFR swap rates are down ~8 bps this week, and 2Y swap rates are down ~10 bps. I expect bonds to stay bid for the near-term as tariff-related concerns drive the market. The only thing that could steal the attention away from tariffs would be an employment number that blows the doors off of expectations. A strong jobs report Friday could help temporarily ease global growth concerns.

CHART 2: SOFR SWAP RATES DROP ON GLOBAL GROWTH CONCERNS



Source: Bloomberg, LLP | 1Y (white), 2Y (blue), 3Y (orange) & 5Y (purple) SOFR SWAP RATES – PRIOR (10) TRADING SESSIONS

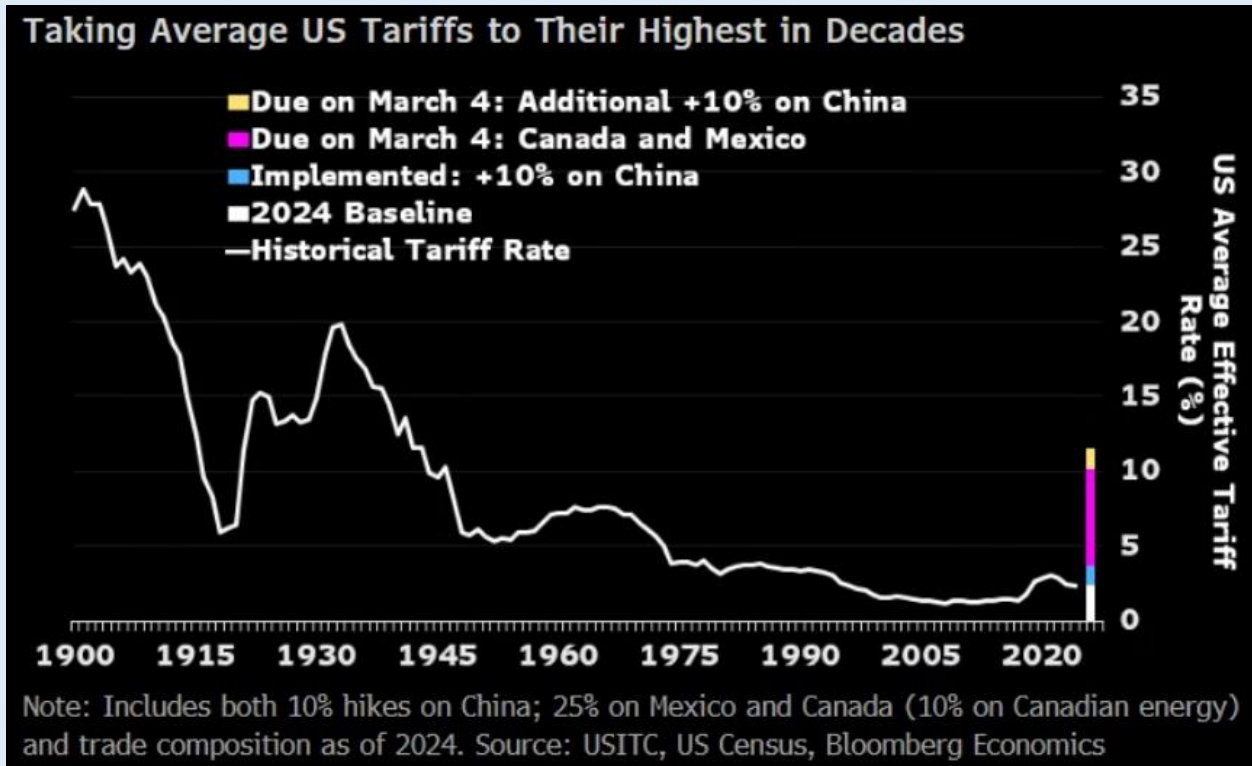
CHART 3: GLOBAL MARKETS MONITOR IMPACT OF US TARIFFS, GEOPOLITICAL RISK

The US has imposed broad tariffs on Canada and Mexico, plus an additional tariff hike on China. Additional tariffs are expected to be implemented on March 12th and April 2nd. Given President Trump’s haphazard and rapid-fire decisions, it is difficult to predict exactly what is in store for US trade policies. Here is what we do know: The new duties take average US tariffs to rates not seen in *decades* and significantly raise stagflation risks for the US. The new tariffs, if prolonged, also risk a severe economic blow to Canada and Mexico. What were merely threats have turned into action, and this may just be the beginning.

That said, we know from experience that President Trump’s decisions can change, and change quickly, depending on the concessions countries are willing to make. However, if these tariffs endure, consensus is growing that the impact will be significant. The new US tariffs will raise stagflation risks in the US. According to estimates used by the FOMC during the first Trump administration, a tariff shock of this magnitude could cut 1.3% from US GDP and add close to 0.8% to core PCE. Yes, those numbers are

dated and estimates only. However, they underscore the potential negative economic impact that could occur as a result of prolonged restrictive US trade tariffs and the retaliation that is sure to follow.

CHART 3: TARIFFS TAKE CENTER STAGE FOR THE RATE MARKETS



Source: Bloomberg, LLP | US HISTORICAL TARIFF RATE SINCE 1900

CHART 4: Schedule Of Fed Speeches Through March 7, 2025

Fed officials will be on the tape the remainder of the week – see below. The highlight of the week will be Chairman Powell’s speech on 3/7 at 12:30 PM. Powell will be speaking about the US economic outlook. Traders will *definitely* be listening. A lot has happened since we last heard from the Chairman. Note, Fed officials will enter their “quiet-period” beginning on 3/8 – we will not hear from another Fed official after that until Chairman Powell’s post-meeting press conference. The next FOMC rate decision is due on 3/19 at 2:00 PM.

CHART 4: Fed Speech Calendar Through 3/7/25

Date	Time	A	M	R	Event
03/04	14:20				Fed's Williams Speaks at Bloomberg Invest Forum
03/06	08:45				Fed's Harker Gives Speech on Economic Education
03/06	15:30				Fed's Waller Speaks on the Economic Outlook
03/06	19:00				Fed's Bostic Speaks on Economy, Birmingham
03/07	10:15				Fed's Bowman Speaks on Policy Transmission
03/07	10:45				Fed's Williams Speaks on Panel on Policy Transmission
03/07	12:20				Fed's Kugler Speaks on Rebalancing Labor Markets
03/07	12:30				Fed's Powell Speaks on the Economic Outlook
03/07	13:00				Fed's Kugler Appears on Panel Discussion
03/08-03/20					Fed's External Communications Blackout

Source: Bloomberg, LLP | FED SPEECH CALENDAR THROUGH 3/7/25

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