RateCap Advisors

__Flash Update:__ **US RATE MARKETS – WEDNESDAY MARCH 4, 2026**

- **UST yields and SOFR swap rates are holding mostly steady this morning as global markets nervously monitor the ongoing war in the Middle East**
- **Rates did retreat slightly yesterday afternoon on safe-haven trading, but remain biased higher due to heightened inflation concerns**
- **Fears that the Iran "situation" will lead to production disruptions, higher oil prices and higher inflation continue to dominate the rate markets**
- **There is a news report out stating that operatives from Iran's Ministry of Intelligence reached out "indirectly" to the C.I.A. with an offer to discuss terms for ending the conflict**
- **US President Trump has guaranteed safe passage for ships traveling through the Strait of Hormuz**
- **The market reaction to the SCOTUS "tariff ruling" has been largely muted as traders await more details and information**
- **Traders will continue to track volatile equity markets, specifically the technology and AI sectors**
- **Market participants will continue to monitor developments with the DOJ investigation into the US Central Bank**
- ***All that said, the war in the Middle East will continue to captivate the market's attention for the near term***
- **The next FOMC rate decision is due Wednesday, __March 18, 2026 at 2:00 PM__**
- ***Next up for key data:* January Retail Sales data is released on Friday, 3/6 at 8:30 AM**
- **Short-end SOFR swap rates are trading flat to up ~1-2 bps this morning, depending on tenor**
- **Long-end SOFR swap rates are currently flat to up ~1-2 bps, depending on tenor**

US Treasury yields and SOFR swap rates are holding mostly steady this morning as the market pauses to assess what comes next in the war in the Middle East. The news is coming fast and furious, and at times it is difficult to separate the signal from the noise, the fact from fiction. As such, uncertainty surrounding the duration, intensity and impact of the conflict remains *extremely* elevated. Basically, the war continues to rage on, and for markets, global inflation fears sparked by the ongoing Middle East conflict continue to eclipse a flight-to-quality. The 2-year SOFR swap rate closed at 3.21% on Friday – it is currently trading at 3.33% (+12 bps). The 10-year SOFR swap rates has experienced a similar move – it closed Friday night at 3.52% and is currently trading at ~3.63% (+11 bps).

President Trump said Tuesday that the US International Development Finance Corporation would offer insurance to help ensure the flow of energy and other commercial trade in the Gulf. President Trump also proclaimed that the United States Navy will begin escorting tankers through the Strait of Hormuz "as soon as possible" if necessary. "No matter what, the United States will ensure the FREE FLOW of ENERGY to the WORLD," the President posted on social media. President Trump's assurances helped calm jitters in some markets initially, but overall, traders remain skeptical the plan will allow oil flows to quickly return to normal levels.

The overriding themes attached to the Middle East war remain uncertainty related to the Gulf's regional stability, and fears high sustained oil prices will lead to a sudden spike in inflation – perhaps quickly and perhaps *significantly*. The renewed and sudden inflation threat is forcing traders to rethink (reduce!) Fed rate cut expectations, and it is pushing Treasury yields higher. Rates across the curve are likely to be biased higher until the oil market stabilizes. Market participants will continue to nervously monitor the latest war developments. The underlying market fear is that the conflict in the Middle East will lead to a full-blown "energy crisis", where global production is severely impacted and oil prices *surge*.

There is definitely the possibility for whip-saw movements in rates this week, and I anticipate volatility will remain at elevated levels. Rates are likely to be biased higher until the oil market stabilizes.

News the market is tracking includes:

- Geopolitical developments continue to weigh on market sentiment. The US/Iran "war" will likely dominate market sentiment this week. The end result of the US attack on Iran is difficult to forecast at this time. Currently, the major impacts thus far have been higher oil prices, higher rates, and a surge in geopolitical tensions.
- SCOTUS is also currently ruling on the legality of the President firing of the Fed's Lisa Cook. There are some reports stating that SCOTUS is nearing a final decision on that case, which could have *far reaching* implications for the US Central Bank.
- The US Justice Department investigation into the US Central Bank and Chairman Powell will remain a key market focus moving forward.
- Market participants continue to closely track developments in the US equities markets. There is still a *sharp* focus on the performance of the growing AI sector. Market sentiment is likely to be impacted by "tech" earnings for the foreseeable future.
- The market continues to monitor US political developments. Traders are watching for signs of another potential government shutdown. *US political developments will remain front-and-center for the market for the foreseeable future*.
- Traders and investors continue to assess the market implications of the recent SCOTUS ruling on President Trump's tariffs. Market participants await more data and information.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading flat to up ~1 bp this morning. **2Y** and **3Y** SOFR swap rates are currently trading flat to up ~1-2 bps. **5Y** and **10Y** SOFR swap rates are trading flat to up ~1-2 bps on the day. The very back-end of the swap curve is currently trading flat to up ~1-2 bps from yesterday's closing levels.

***Please note:* Market levels can change rapidly – rate cap premiums are subject to a dynamic market that can change frequently.**

CHART 1: ***US RATES SNAPSHOT: 8:45 AM Eastern***

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

UST YIELDS | SWAP SPREADS | SOFR SWAP RATES

2Y	3.508	+0.000	-17.6750	-0.0430	3.3320	-0.0012
3Y	3.514	+0.000	-22.6587	-0.1567	3.2886	-0.0012
4Y	3.588	+0.004	-27.0950	-0.1835	3.3079	-0.0002
5Y	3.642	+0.001	-29.1600	-0.1311	3.3510	+0.0013
7Y	3.840	+0.006	-37.7200	-0.2620	3.4650	+0.0027
10Y	4.069	+0.010	-44.0398	-0.3998	3.6299	+0.0045
20Y	4.665	+0.012	-70.3987	-0.5587	3.9621	+0.0063
30Y	4.718	+0.014	-75.4000	-0.6410	3.9647	+0.0069

Source: Bloomberg, LLP | 8:45 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES DRIFT HIGHER AS MIDDLE EAST CONFLICT IGNITES INFLATION FEARS

SOFR swap rates are holding mostly steady this morning. Rates are bouncing around, but most of the curve is trading flat to up ~1-2 bps this morning. We could see rates drift lower today if the equity markets open significantly lower and we finally see some safe-haven trading.

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Fears that the Middle East conflict could dramatically increase oil prices and lead to a spike in global inflation remain high, but President Trump's assurances that the US would protect traffic flowing through the Strait of Hormuz did calm market jitters somewhat. As we know, when the Middle East is in conflict, all eyes shift to the impact on oil production and oil prices. If stability returns to the region quickly, and oil production and price pressures abate, *we may still see a flight-to-quality led drop in rates, particularly if the equity markets deteriorate.* I still expect rates to be biased higher as long as "oil fears" dominate the market.

In short: The short-end of the swap curve is rising due to reduced Fed rate cut expectations directly attributable to the spike in oil prices. The long-end of the swap curve is rising on war-related inflation fears. Due to the high level of market uncertainty, I expect that scenario to be the market bias for the near term. Today, traders seem to be pausing to breathe and assess!

Current market odds for Fed rate cuts at the next three meetings are as follows: March, 2.7%; April 12.8%; June 38.9%; July 57.2%. The April, June and July rate cut odds are down significantly from just a week ago.

<u>CHART 2:</u> *Short-End SOFR Swap Rates – Prior 10 Days*

Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 10 DAYS

<u>CHART 2A:</u> *Long-End SOFR Swap Rates – Prior 10 Days*

Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR 10 DAYS

<u>CHART 3, 3A, 3B1 & 3B2:</u> MARKETS NERVOUSLY MONITOR ENERGY MARKETS

The market's main fear at the moment is that sustained high oil prices will boost inflation and slow economic growth, making it challenging for central bankers to manage monetary policy. Bottom line, if this war is not resolved quickly and decisively, it threatens to deal a severe blow to a global economy still grappling with the impact of US tariffs. For Europe, sustained higher energy prices would likely lead the economy to the edge of recession. For the US, higher oil prices would muddy the monetary policy waters for the Federal Reserve and place them in a difficult situation to navigate.

<u>CHART 3:</u> ***Inflation Outlook Hinges On Duration And Intensity Of Conflict***

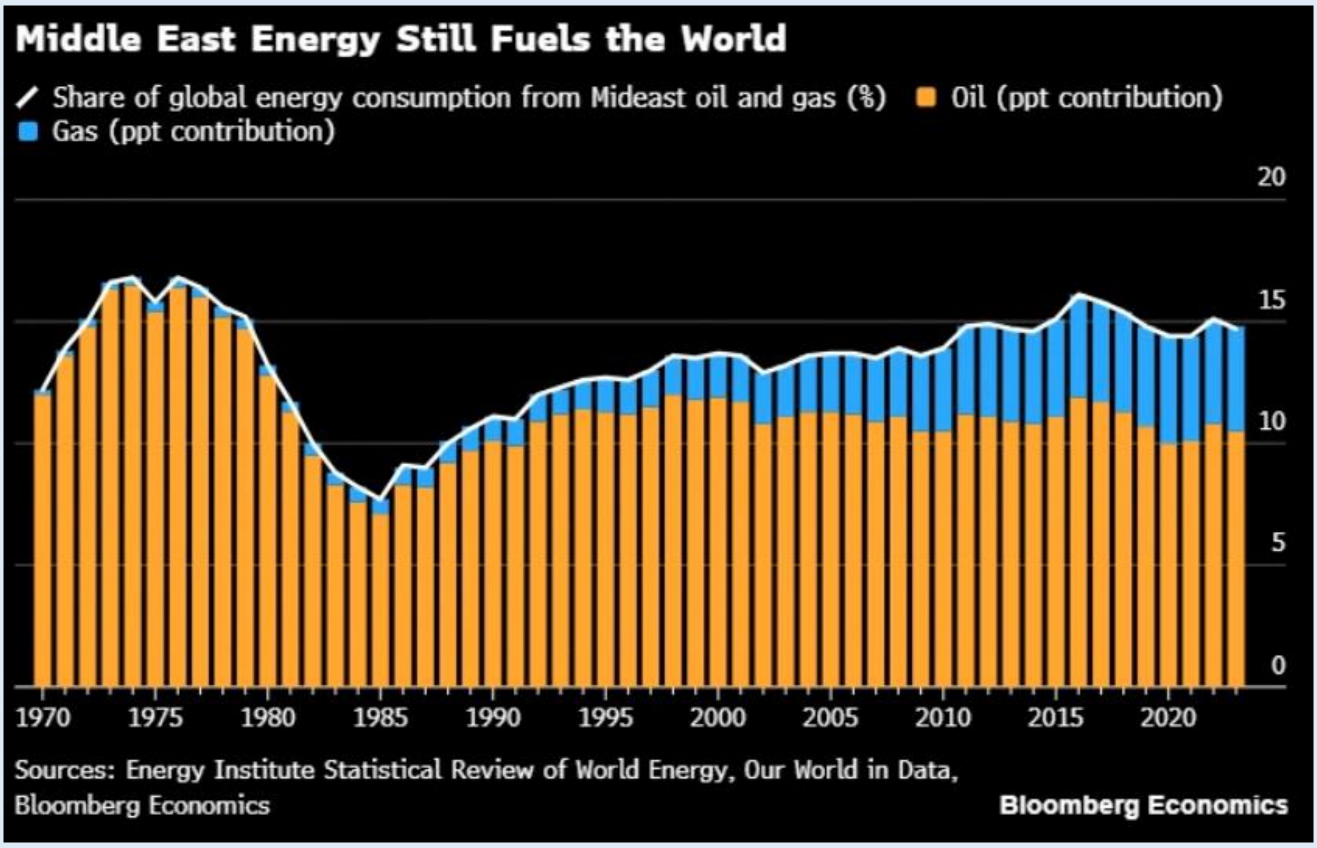
Four Futures for the Middle East War

Scenario	Likelihood	Resulting oil price (per barrel)	Economic impact
War - intensified attacks on energy	Low to medium	$108	Significant boost to inflation, blow to growth, central banks' reaction depends on inflation expectations
War - limited attacks on energy	Medium to high	$80	Modest boost to inflation and blow to growth, limited central bank reaction
Ceasefire	Medium to high	$65	Limited
Islamic Republic collapses	Low	$65	Limited

Source: Bloomberg Economics — **Bloomberg Economics**

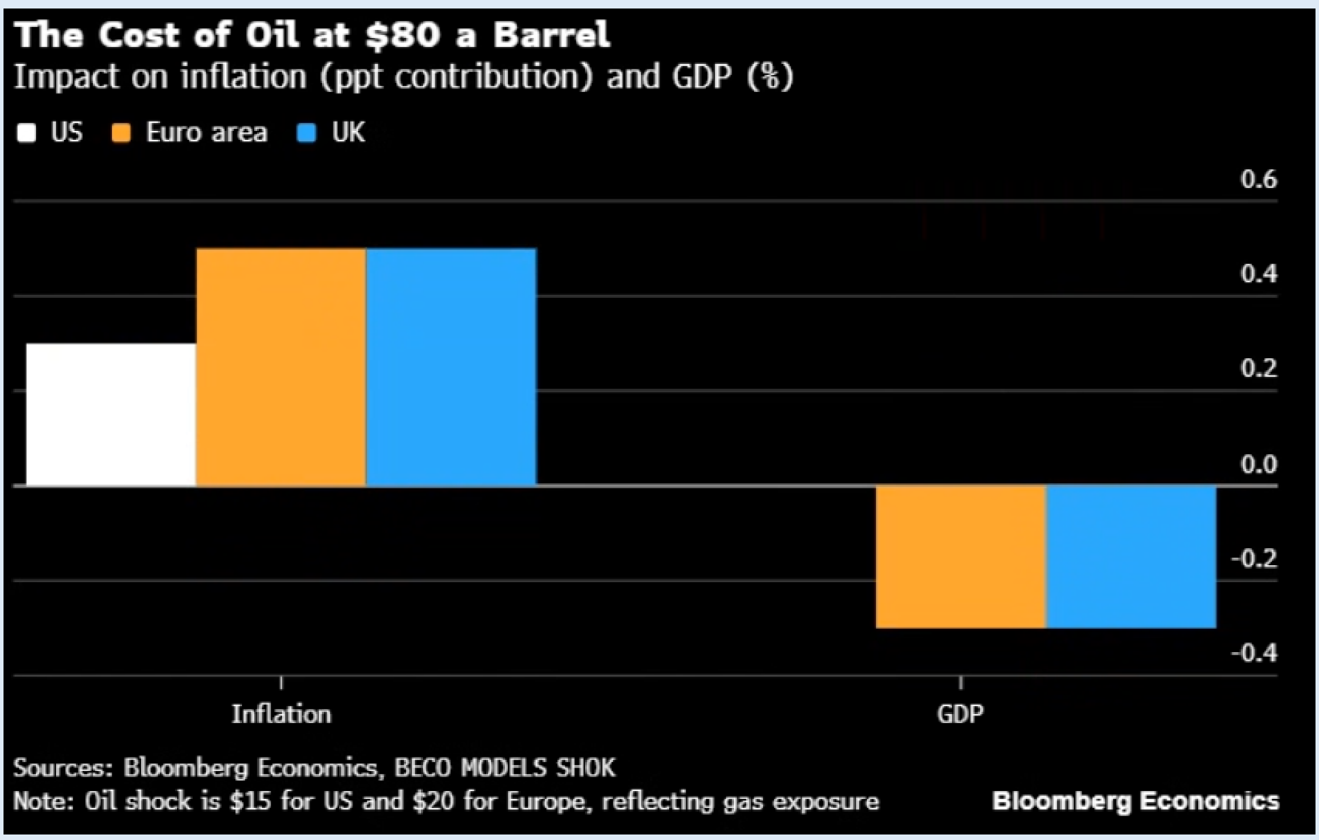
Source: Bloomberg, LLP | POSSIBLE US/IRAN WAR OUTCOMES AND IMPACT ON INFLATION – BLOOMBERG ECONOMICS

<u>CHART 3A:</u> ***Middle East Still Has Key Role In Global Energy Markets***



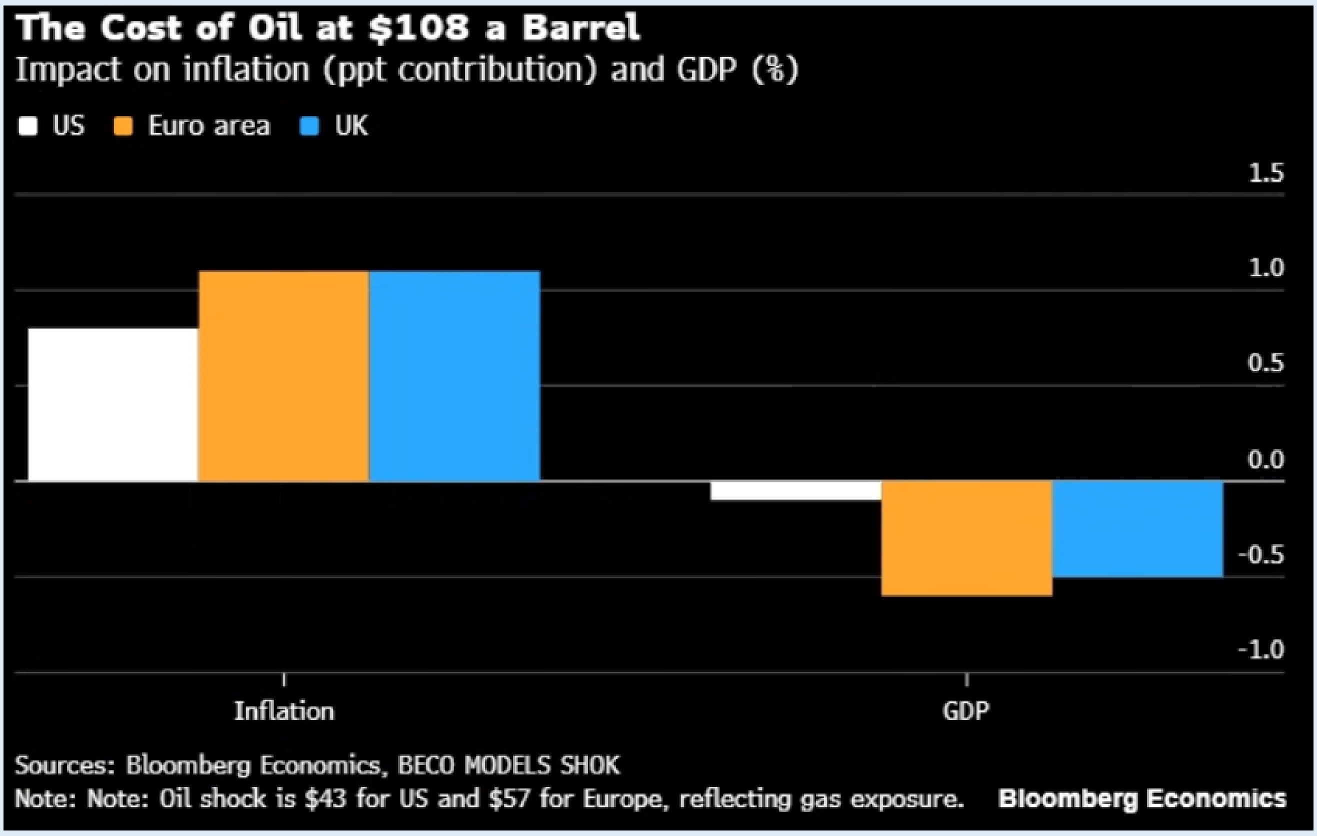
Source: Bloomberg, LLP | MIDDLE EAST – SHARE OF GLOBAL OIL AND GAS MARKETS

<u>CHART 3B1:</u> ***Disruption In Energy Markets Can Increase Inflation, Decrease GDP***



Source: Bloomberg, LLP | POTENTIAL IMPACT ON INFLATION WITH OIL AT $80.00 PER BARREL

<u>CHART 3B2:</u> ***Disruption In Energy Markets Can Increase Inflation, Decrease GDP***



Source: Bloomberg, LLP | POTENTIAL IMPACT ON INFLATION WITH OIL AT $108.00 PER BARREL

Disclaimer: *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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Rate Cap Advisors was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.

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