

Flash Update: US Rate Markets – Wednesday 3/5/2025

- Rates open lower again, as US tariffs continue to weigh on global markets
- The new tariffs are apparently “in flux” adding to market uncertainty
- Traders are preparing for another round of tariff headlines today, adding to market jitters
- ADP payrolls report printed much weaker-than-forecasted, further contributing to the decline in rates this morning
- Market focus is likely to remain primarily on geopolitical/tariff risks this week
- President Trump’s policy and trade initiatives will likely continue to create “tariff” volatility and uncertainty in the near term
- 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 ~6-8 bps from Friday’s closing levels
- Long-end SOFR swap rates are ~3-6 bps lower this morning

US Treasury yields and SOFR swap rates moved lower this morning as the market continues to grapple with new US tariffs and the potential retaliation from our trade partners. Also contributing to lower rates this morning was the February ADP payrolls report, which printed much lower-than-expected (77k vs. 142k expected). There are another slew of numbers due at 10:00 AM: Durable Goods, Capital Goods Orders, Factory Orders, S&P Global PMI and the ISM Services Index data series.

This could be another volatile day. There is also wide speculation we may see “tariff relief” announced this afternoon – I do not think that tanking the equity markets and destabilizing global growth is what President Trump had in mind. These tariffs feel like a work in progress and as such, they are creating tremendous uncertainty in the market. I repeat: This could be another volatile day.

Prepare for elevated rate volatility to continue all week, as the market reacts to geopolitical developments and the initial impact of new US trade policies (or perhaps, *shifting* 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, including Chairman Powell – the market will be listening. 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.

Next up for key economic data: The February Employment Report prints on Friday, 3/7 at 8:30 AM. 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 ~5-7 bps this morning. 2Y and 3Y SOFR swap rates are currently trading down ~6-8 bps. 5Y and 10Y SOFR swap rates are ~3-6 bps lower this morning. The yield curve continues to steepen, driven by the short-end.

CHART 1: US RATES SNAPSHOT: 9:30 AM Eastern

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

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	3.914	-0.076	-15.9500	+0.3100	3.7568	-0.0717
3Y	3.915	-0.071	-21.6440	+0.2260	3.6995	-0.0689
4Y	3.962	-0.065	-25.9495	+0.0870	3.6915	-0.0649
5Y	3.984	-0.061	-28.7368	+0.0112	3.6981	-0.0608
7Y	4.094	-0.053	-37.1800	-0.2561	3.7243	-0.0529
10Y	4.206	-0.038	-43.5000	-0.7500	3.7727	-0.0456
20Y	4.551	-0.022	-68.6905	-0.9951	3.8644	-0.0327
30Y	4.519	-0.018	-78.2983	-0.7943	3.7369	-0.0270

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

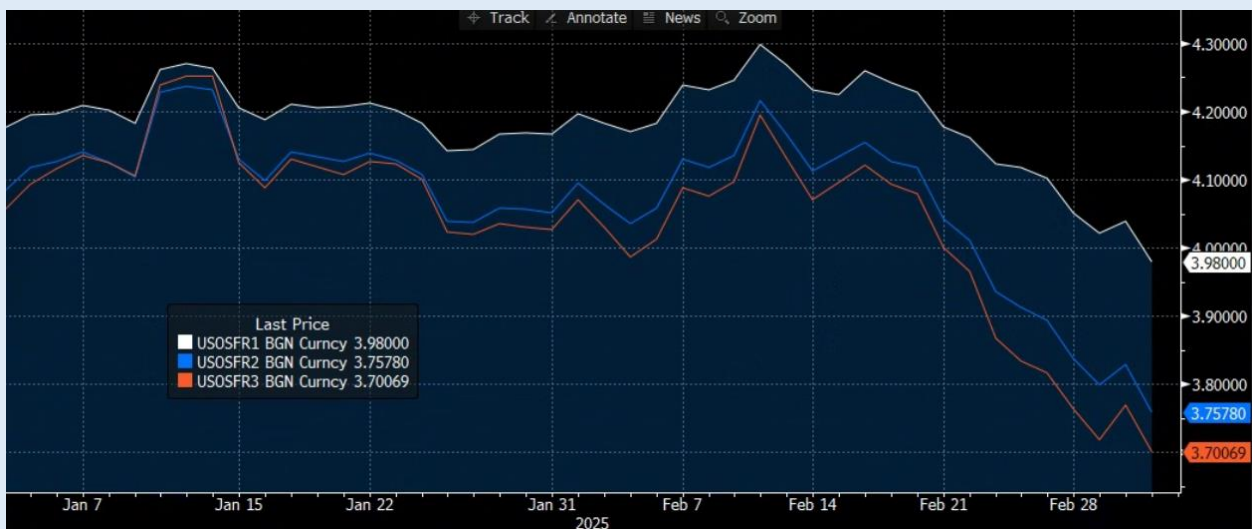
CHART 2: SOFR SWAP RATES SLIDE LOWER AS TARIFFS WEIGH ON MARKET

SOFR swap rates dropped again this morning as economic growth concerns fueled by “trade wars” dominate global markets. Traders continue to reallocate assets to US Treasuries in anticipation of an economic slowdown fueled by restrictive global tariffs. The weaker-than-expected ADP jobs report only added to market jitters and helped push swap rates lower this morning.

Rates drifted lower yesterday and continue to move lower this morning. 1Y SOFR swap rates are down ~10 bps this week, and 2Y swap rates are down ~12 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. A weaker-than-expected jobs report would only add to growth concerns and rates would slide lower in response.

Traders continue to bet on three, 25 bp rate cuts this year – and they are flirting with pricing-in *four*. The market’s repricing of rate cut expectations is primarily tariff driven, so there is the possibility that rate cut bets could be lowered at some point. Expect increased swap rate volatility this week, particularly if the “tariff” narrative changes. I expect it will, and perhaps frequently.

CHART 2: SOFR SWAP RATES AT LOWS FOR 2025



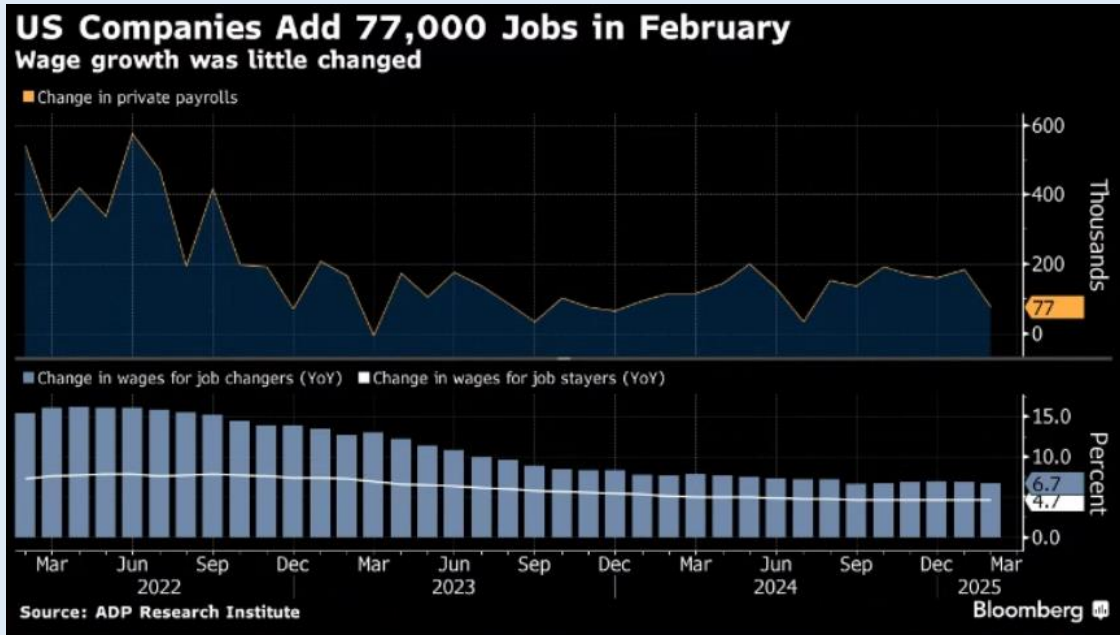
Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES – YEAR-TO-DATE 2025

CHART 3: FEBRUARY ADP PAYROLLS REPORT MISSES EXPECTATIONS

Hiring at US companies slowed in February to the lowest level since July, led by job cuts in the service sector and in regions of the US that were hit by severe winter weather. The February ADP report showed private-sector payrolls increased by 77,000 in February, down from a revised 186,000 in January and below consensus expectations calling for 140,000. The report also showed that private sector wage growth was largely contained.

This morning's ADP report adds to other recent data pointing to a slowdown in the labor market. Applications for unemployment benefits in the most recent period reached the highest level this year amid a growing number of job cuts at companies including federal contractors. We have yet to see the impact of government sector layoffs. The weaker ADP report does not necessarily portend a weaker-than-expected Employment Report, but is certainly adding to concern that the jobs market may finally be cooling off.

CHART 3: ADP Payrolls Data Disappoints Market, Rates Move Lower



Source: Bloomberg, LLP | HISTORICAL ADP PAYROLL DATA SINCE FEB 2022

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
03/06	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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