

Flash Update: US RATE MARKETS – THURSDAY MARCH 5, 2026

- UST yields and SOFR swap rates ticked higher again this morning as the war in the Middle East intensifies
- Fears that the Iran “situation” will lead to prolonged production disruptions and sustained higher oil prices resulting in dramatically higher inflation continue to dominate the rate markets
- Fed rate cut expectations continue to be scaled back by traders on “uncertain” inflation expectations and better-than-expected US economic data
- Yesterday, ADP private payroll data printed better-than-forecasted and layoffs were lower-than-anticipated – Jobless Claims data released this morning beat expectations
- The favorable economic data is helping to reduce Fed rate cut expectations and leading to higher short-end rates
- 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 tomorrow, 3/6 at 8:30 AM
- Short-end SOFR swap rates are trading up ~3-5 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently up ~1-3 bps, depending on tenor

US Treasury yields and SOFR swap rates advanced this morning for the fourth straight day amid increasing disruptions to energy markets from the war in the Middle East. The increase in rates this week is part of a global bond sell-off that shows no signs of abating. Fear that a prolonged spike in energy prices will reignite global inflation is reducing Fed rate cut expectations and driving rates higher across the yield curve. Oil prices continued to climb overnight, with Brent crude oil prices approaching \$83.00 a barrel.

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 2/27 – it is currently trading at 3.41% (+20 bps). The 10-year SOFR swap rates has experienced a similar move – it closed Friday night at 3.52% and is currently trading at ~3.69% (+17 bps).

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 energy markets stabilize.*

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.***

Market participants will see January Retail Sales data released tomorrow morning at 8:30 AM. Given the laser sharp market focus on the war in the Middle East, I do not expect the data to have a dramatic market impact. There is always the possibility that the data wildly diverges from expectations, but that is not anticipated with tomorrow's Retail Sales release. Expectations for January Retail Sales results are as follows: Advanced Retail Sales MoM, -0.3% (vs. 0.0% the prior month); Retail Sales less autos MoM, 0.0% (vs. 0.0% prior). It is clear to me that US consumers are holding on to their wallets a bit tighter these days, but I am not sure if it is transitory or if consumers are finally heading to the sidelines. As we know, resilient consumer spending has been one of the main engines of the economy for the past few years.

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 up ~3-4 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading up ~3-5 bps. **5Y** and **10Y** SOFR swap rates are trading up ~3-4 bps on the day. The very back-end of the swap curve is currently trading up ~1-3 bps from yesterday's closing levels. *Expect increased levels of rate volatility today.*

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: 9:15 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	3.585 +0.038	-17.4400 +0.2900	3.4114 +0.0387
3Y	3.598 +0.041	-22.3853 +0.0997	3.3761 +0.0420
4Y	3.670 +0.043	-26.9575 +0.0425	3.3937 +0.0435
5Y	3.725 +0.043	-29.3920 -0.0778	3.4330 +0.0435
7Y	3.920 +0.043	-38.3250 -0.2650	3.5375 +0.0390
10Y	4.134 +0.039	-44.3000 -0.3172	3.6922 +0.0342
20Y	4.712 +0.029	-70.9319 -0.6469	4.0045 +0.0211
30Y	4.753 +0.018	-75.6275 -0.3875	3.9983 +0.0147

Source: Bloomberg, LLP | 9:15 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES MOVE HIGHER AS INFLATION FEARS GROW

SOFR swap rates are ticking higher again this morning as the war in the Middle East intensifies. Rates are moving higher as energy market led inflation fears dominate the market. 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 and the favorable economic data we have seen recently. The long-end of the swap curve is rising on war-related inflation fears. *Due to the high level of market uncertainty, I expect those scenarios to be the market bias for the near term.*

Current market odds for Fed rate cuts at the next three meetings are as follows: March, 2.7%; April, 10.7%; June, 32.7%; July, 48.4%. Yesterday those numbers were: 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.

CHART 2: Short-End SOFR Swap Rates – Prior 10 Days



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

CHART 2A: Long-End SOFR Swap Rates – Prior 10 Days



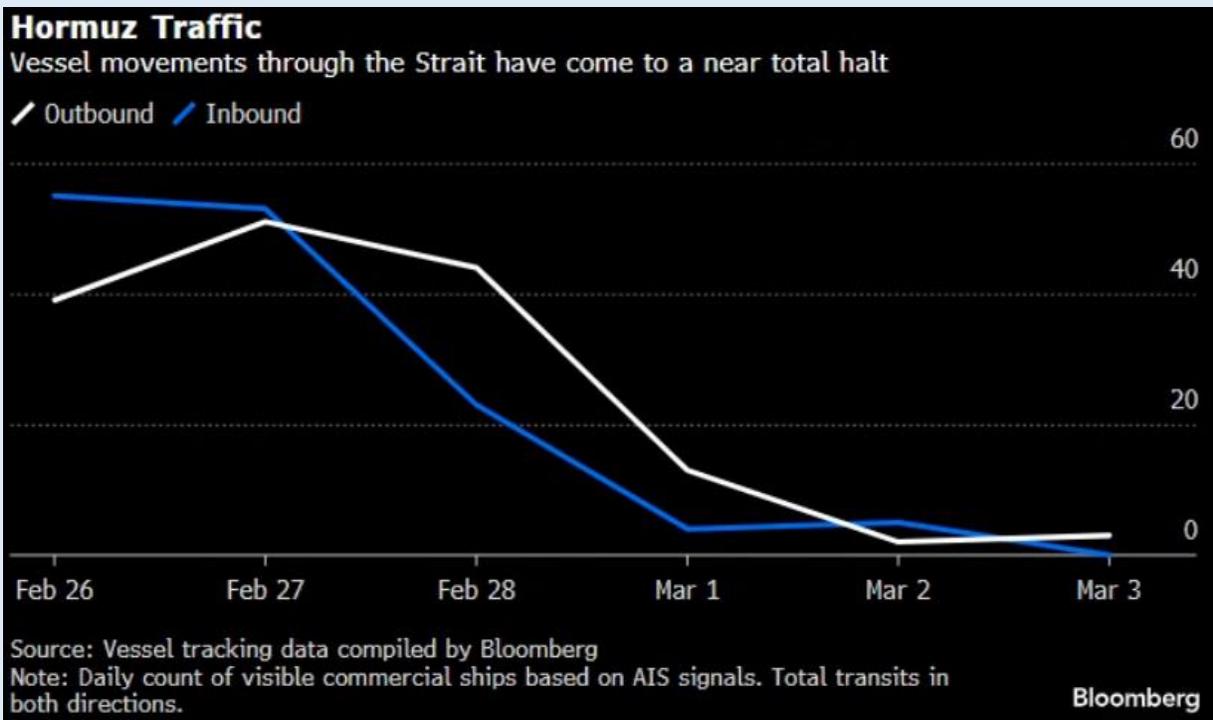
Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR 10 DAYS

CHART 3 & 3A: OIL PRICES CONTINUE TO MOVE HIGHER; INFLATION ANGST GROWS

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. At the moment, the inflation side of the coin is dominating market sentiment. Oil prices continue to rise, with Brent crude oil now approaching \$83.00 a barrel.

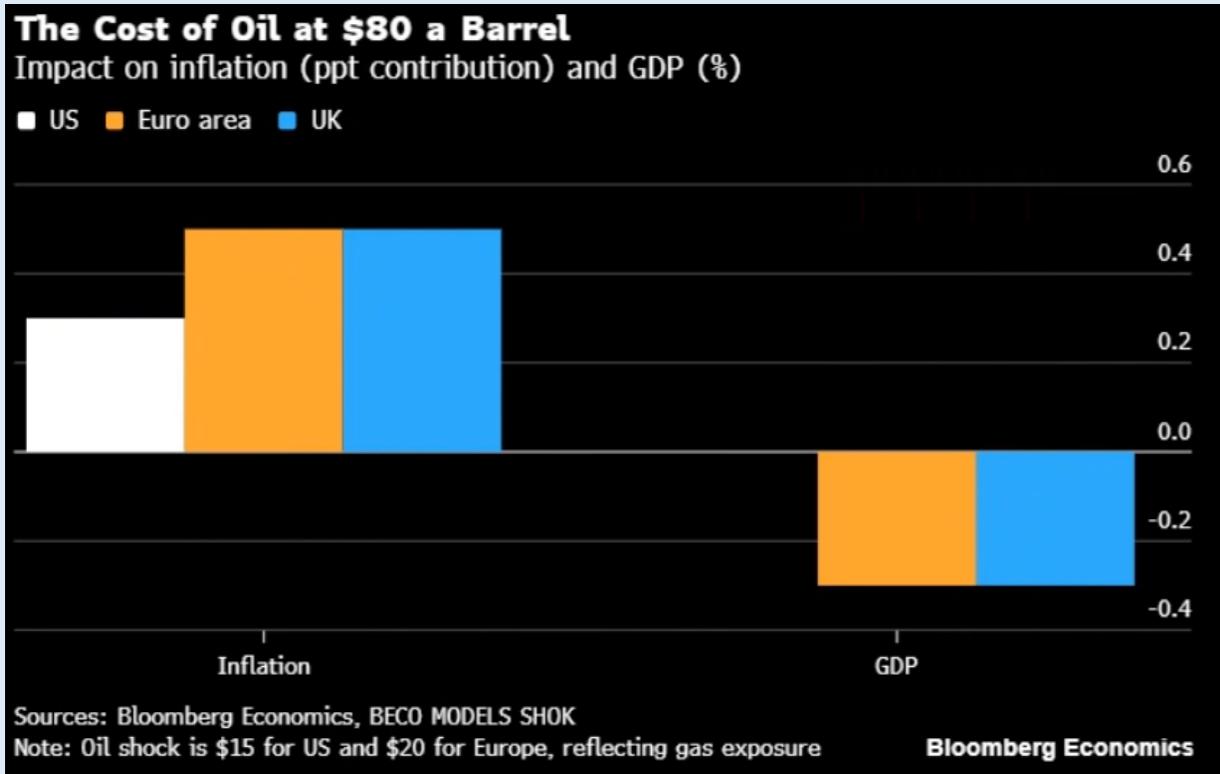
Bottom line, if this war is not resolved quickly and decisively, it threatens to deal a severe blow to a global economy. For the US, higher oil prices would muddy the monetary policy waters for the Federal Reserve and place them in a difficult situation to navigate. They could potentially be faced with higher inflation, slower growth and an Administration that is demanding lower rates. That is a tough agenda to manage!

CHART 3: Disruptions In Energy Markets Fan Inflation Fears



Source: Bloomberg, LLP | STRAIT OF HORMUZ TRAFFIC SINCE 2/26/2026

CHART 3A: Disruptions In Energy Markets Can Increase Inflation, Decrease GDP



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

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