

Flash Update: US Rate Markets – Thursday 4/10/2025

- US Treasury yields and SOFR swap rates surged higher *yesterday* after President Trump reversed course on most US tariffs
- This morning, rates moved lower on a softer-than-expected March CPI print; MoM headline CPI *declined* 0.1%
- The docile CPI print this morning shifts the market's focus from inflation to economic growth, hence the drop in rates this morning
- President Trump's policy and trade initiatives will continue to create global market volatility and uncertainty in the near term
- *Expect rate markets to continue to be "headline" driven in the short term; expect increased rate volatility as a result*
- Forward pricing remains volatile; Market pricing now implies ~87.2 basis points of cumulative rate cuts for 2025
- Next up for data: PPI prints on Friday, 4/11 at 8:30 AM
- Short-end SOFR swap rates are currently trading down ~12-14 basis points
- Long-end SOFR swap rates are ~2-10 bps lower this morning, depending on the tenor
- **Expect elevated levels of intraday rate volatility to continue for the foreseeable future**

US Treasury yields and SOFR swap rates *surged* higher on President Trump's announcement that he was reversing course on *most* "Liberation Day" tariffs to allow time for negotiations. At one point after the announcement, the 2Y SOFR swap rate was up 25 basis points, as expectations for "extra" Fed rate cuts this year were removed from the forward curve. President Trump's tariff announcement helped soothe markets and calm fears that the US was rapidly heading toward a tariff-fueled recession.

This morning, rates reversed course and moved lower, mostly due to a softer-than-expected March CPI print. The decrease in CPI helped calm near-term inflation fears. The fact that rates did not drop more this morning, particularly in light of yesterday's dramatic rate increase, tells me the market was relieved inflation remains in-check, but is not yet *convinced* that will be the case going forward. Traders will see wholesale inflation data tomorrow – March PPI prints at 8:30 AM (see Chart 2C). Bottom line, the docile CPI print alleviates short-term fears of runaway inflation and will shift the market's focus to the impact of tariffs on US economic growth. That is the primary reason rates are lower this morning – traders seem reluctant to abandon hopes for multiple Fed rate cuts this year. As a result, short-end SOFR swap rates have been the most impacted this morning (see Chart 1).

Borrowers looking to hedge rate risk in the near term should keep a close eye on SOFR swap rates. A drop in swap rates may present an opportunity to execute interest rate hedges at attractive levels. A quick resolution to the global "trade war" may cause rates to reverse quickly, which will push cap premiums higher.

I expect the potential for elevated intra-day rate volatility to continue for the foreseeable future. Market uncertainty remains extremely high. There are simply too many unknowns at the moment to draw any firm conclusions. The market will remain "headline" driven for the foreseeable future, given the uncertain path forward. Economic data, news headlines and Fed-speak will continue to be viewed through a tariff tinted lens for the foreseeable future. Tariffs will remain the story for global markets.

PLEASE NOTE: Expect elevated intra-day rate volatility and whipsaw trading to continue for the near-term.

SOFR Swap Rate Summary: The 1Y SOFR swap rate is down ~9-11 bps this morning. 2Y and 3Y SOFR swap rates are currently trading down ~12-14 bps. 5Y and 10Y SOFR swap rates are ~2-10 bps lower this morning, depending on the tenor. ***Please note – market levels can change quickly (potentially very quickly!) in this type of market environment.***

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

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	3.810	-0.098	-25.5000	-3.6500	3.5590	-0.1335
3Y	3.831	-0.097	-32.9309	-4.0400	3.5031	-0.1394
4Y	3.908	-0.096	-37.7925	-3.7925	3.5182	-0.1290
5Y	3.960	-0.083	-40.9191	-3.0969	3.5504	-0.1169
7Y	4.117	-0.063	-48.2500	-2.2775	3.6370	-0.0885
10Y	4.306	-0.026	-55.7500	-2.8666	3.7499	-0.0592
20Y	4.805	+0.016	-86.3697	-3.5251	3.9448	-0.0207
30Y	4.771	+0.034	-91.7500	-3.6948	3.8546	-0.0066

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

CHART 2, 2A & 2B: March CPI Recap – Inflation Cools In March

US consumer inflation cooled broadly in March, providing *some* relief for market participants prior to widespread tariffs that risk contributing to price pressures. MoM headline CPI unexpectedly *dropped* 0.1% in March, beating expectations calling for a 0.1% increase. The decrease in MoM headline CPI was the first decrease in nearly *five years*. The price relief came from a decline in energy costs, used vehicles, hotel stays, airfares and motor vehicle insurance costs. Core CPI, which excludes more volatile food and energy costs, increased 0.1% during March, the least in nine months. Expectations were calling for an increase in MoM core CPI of 0.3%. YoY core CPI rose 2.8% - that is the tamest level in nearly four years and significantly beat expectations calling for a 3.00% YoY core CPI level.

The positive CPI data came as a huge relief to markets – there was real fear we could see a sudden tariff-related spike in inflation. Thus far, that is not the case. However, there is still tremendous concern that prolonged restrictive tariffs will increase prices, perhaps *significantly*. That fear will continue to lurk in the market until there is more clarity on US trade policy. Market participants will see PPI data tomorrow morning at 8:30 AM. It is possible that tariffs are creating inflation that is more pronounced at the wholesale level.

CHART 2: March CPI Recap – Soft Data Surprises Market

Metric	Actual	Estimate
CPI MoM	-0.1%	+0.1%
Core CPI MoM	+0.1%	+0.3%
CPI YoY	+2.4%	+2.5%
Core CPI YoY	+2.8%	+3.0%

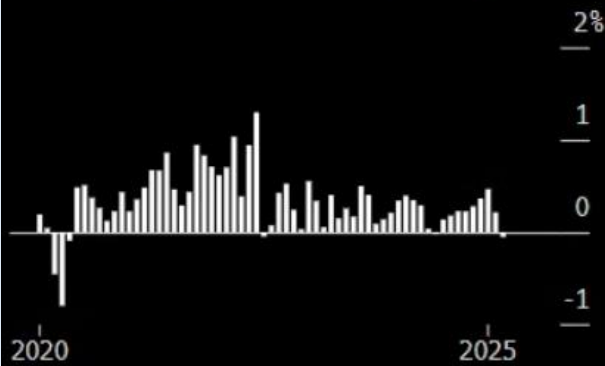
Source: Bloomberg, LLP | MARCH CPI RECAP

CHART 2A: Historical CPI Data – Inflation Broadly Cools In March

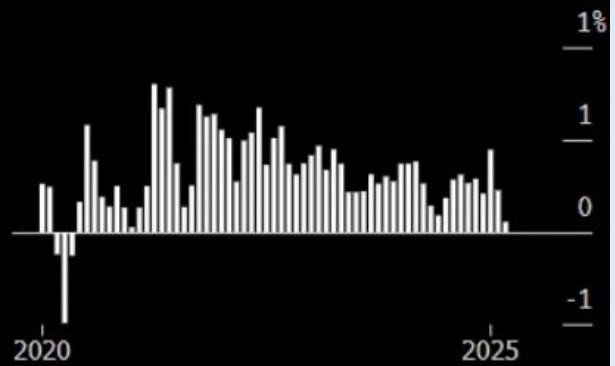
US Inflation Cools Across the Board in March

Economists predict higher prices in the months ahead as tariffs kick in

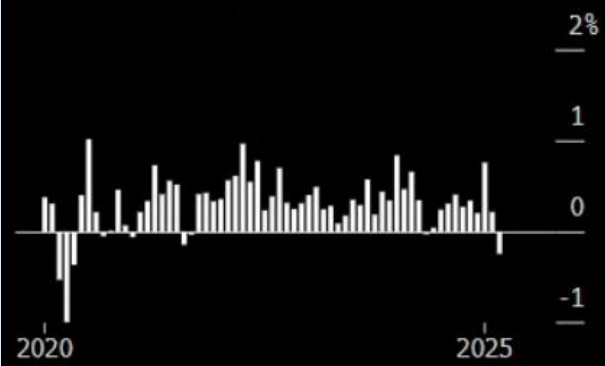
Consumer prices (monthly change)



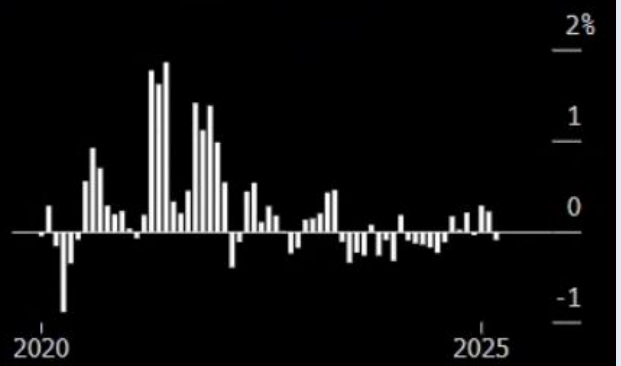
Excluding food and energy



Services excluding housing, energy



Goods excluding food, energy



Source: Bureau of Labor Statistics, Bloomberg

Bloomberg

Source: Bloomberg, LLP | HISTORICAL CPI DATA SINCE 2020

CHART 2B: March PPI – Market Expectations & Prior Month Results

Event	Period	Surv(M)	Actual	Prior
PPI Final Demand MoM	Mar	0.2%	--	0.0%
PPI Ex Food and Energy MoM	Mar	0.3%	--	-0.1%
PPI Ex Food, Energy, Trade MoM	Mar	0.3%	--	0.2%
PPI Final Demand YoY	Mar	3.3%	--	3.2%
PPI Ex Food and Energy YoY	Mar	3.6%	--	3.4%
PPI Ex Food, Energy, Trade YoY	Mar	--	--	3.3%

CHART 3 & 3A: SOFR SWAP RATES DROP ON SOFTER-THAN-EXPECTED CPI DATA; FED RATE CUT EXPECTATIONS SHIFT AGAIN

SOFR swap rates surged yesterday afternoon after President Trump’s tariff announcement. The announcement helped calm recession fears and led traders to once again reprice Fed rate cut expectations. Right now the market is susceptible to the “herd mentality” and may initially overreact to headlines. I think that may be what happened yesterday. The surge in rates may have been overdone – yes, the tariff announcement yesterday was a very positive development – however, from my perspective, it is *way too early* to draw any conclusions on the outcome – for economic growth *or* inflation.

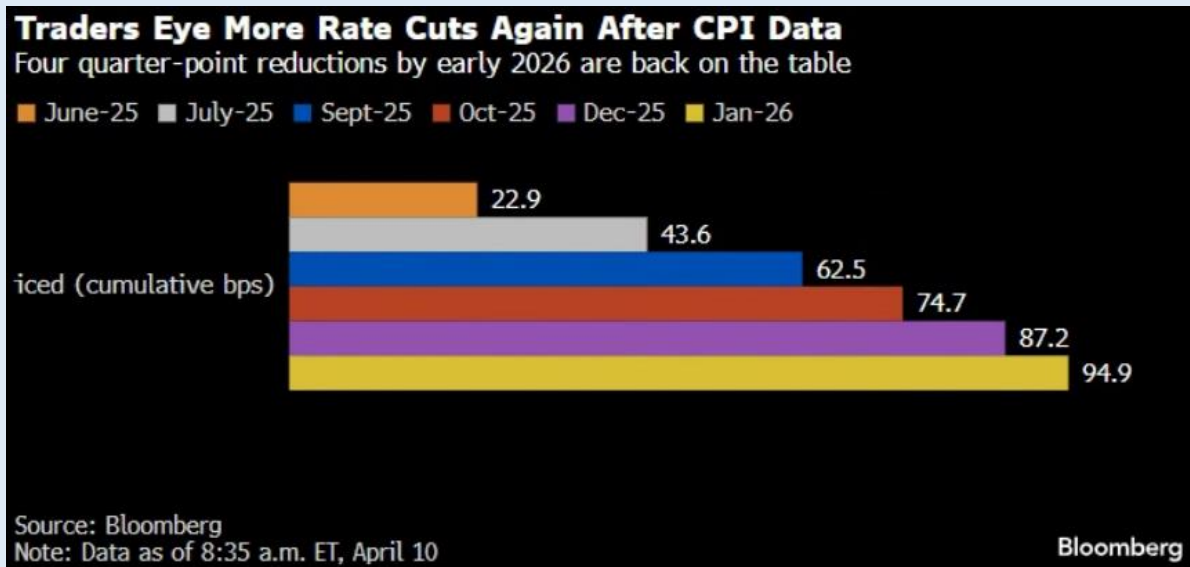
At one point yesterday afternoon, SOFR swap rates were up ~25 basis points! This morning, SOFR swap rates have moved lower. The softer-than-expected CPI data helped push rates lower this morning, but traders seem reluctant to go too far. *Prepare for elevated levels of rate volatility to continue for the near term.*

CHART 3: SOFR Swap Rates Drop As Soft CPI Print Quells Inflation Fears



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

CHART 3A: FOMC Rate Cut Expectations Shift Again – CPI Data Increases Odds For “Extra” Fed Rate Cuts This Year



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS FOR 2025

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