

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

- **US Treasury yields and SOFR swap rates dropped as President Trump announces restrictive new tariffs**
- **The tariff announcement sent global equity markets lower and has led to materially lower rates this morning**
- **Market participants fear that a prolonged global trade war will fan inflation and impede economic growth**
- **President Trump’s policy and trade initiatives will likely continue to create market volatility and uncertainty in the near term**
- **Next up for data: March Employment Report is due tomorrow, April 4th at 8:30 AM**
- **Short-end SOFR swap rates are currently trading down ~14-17 basis points**
- **Long-end SOFR swap rates are ~9-15 bps lower this morning**
- **Expect elevated levels of intraday rate volatility to continue for the foreseeable future**

US Treasury yields and SOFR swap rates dropped significantly this morning in reaction to the new tariff’s announced yesterday by President Trump. Fear that President Trump’s aggressive and erratic tariff rollout will damage economic growth and/or fan inflation continues to dominate the global markets.

As long as economic growth fears permeate the market I expect the directional bias to lean toward lower rates. The volatile global trade environment creates a “risk-off” sentiment – when that happens, traders seek safe haven until more clarity is provided. That is likely push Treasury yields and SOFR swap rates lower in the near term.

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

We will see the March Employment Report released tomorrow, 4/4 at 8:30 AM. Expectations are calling for a 140k addition to nonfarm payrolls (vs. 151k prior) and an unemployment rate of 4.1% (unchanged from prior). Traders will be paying close attention to the jobs data. The wildcard for tomorrow’s employment data is that it will include the recent federal layoffs – it has been tough for the market to gauge what the impact of a reduced federal work force means for the job market and broader economy. The Fed will also be paying close attention to the data. A weak jobs report, coupled with tariff-fueled growth fears, could get the Fed off the sidelines and back in the game sooner than expected this year.

Expect the possibility for elevated intra-day rate volatility to continue for the near-term.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is down ~8-10 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading down ~14-17 bps. **5Y** and **10Y** SOFR swap rates are ~9-15 bps lower this morning.

CHART 1: US RATES SNAPSHOT: 9:30 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	3.729	-0.129	-19.0000	-1.4428	3.5410	-0.1446
3Y	3.682	-0.148	-25.0966	-1.6141	3.4349	-0.1634
4Y	3.706	-0.151	-30.1250	-2.3750	3.4096	-0.1694
5Y	3.737	-0.148	-32.2900	-2.2358	3.4147	-0.1679
7Y	3.857	-0.139	-39.2700	-2.0200	3.4661	-0.1544
10Y	4.014	-0.117	-46.1333	-2.5027	3.5550	-0.1391
20Y	4.458	-0.073	-73.6600	-3.7010	3.7239	-0.1048
30Y	4.439	-0.061	-80.7500	-3.3500	3.6328	-0.0911

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

CHART 2 & 2A: SOFR SWAP RATES AND US TREASURY YIELDS DROP AS NEW TARIFFS FUEL ECONOMIC GROWTH FEARS

SOFR swap rates dropped this morning on renewed fears restrictive US tariffs will curtail global economic growth and if prolonged, could lead to a recession and/or stagflation. Rates moved lower immediately following President Trump's announcement and they continue to move lower this morning. We may see another round of rate volatility after the US equity markets open at 9:30 AM. 1-year, 2-year and 3-year SOFR swap rates are currently sitting at the lows for 2025.

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 remain "the story" for global markets.

CHART 2: SOFR Swap Rates Move Lower As Tariff Fear & Uncertainty Reign



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

CHART 2A: 10-Year US Treasury Yields Approach Key 4.00% Level



Source: Bloomberg, LLP | US Treasury Note Yield – Prior (12) Months

CHART 3: TARIFFS TO LOOM OVER RATE MARKETS FOR THE FORSEEABLE FUTURE

Yesterday, President Trump announced steep new tariffs on all exporters to the US, with tariff rates ranging from 10% to over 50%. President Trump’s stated objective is to counter large trade imbalances with the US. Yesterday’s announcement has sparked threats of retaliation from other countries, including China and the EU. The tariff announcement *immediately* led to a selloff in global financial markets, with US equity futures slumping as much as 4%. Rates across the globe also moved lower.

Many economists, traders and US business leaders have warned that the restrictive new tariffs could lead to higher US prices, slower growth, and even a recession. Global economists are predicting that many countries could end up in a recession if the tariff rates stay on for an extended period of time. It is far too early to predict how “Liberation Day” ultimately pans out – right now it is safe to say fear and uncertainty reign.

Currently, traders have ramped up rate cut bets for 2025. The forward curve now implies 86.7 bps, or just over three, 25 bp rate cuts for 2025. Odds are increasing that the next rate cut may come sooner than anticipated. Recent market pricing has implied the next rate cut would not be in play until the September Fed meeting – today’s pricing shows traders believe the next rate cut may come as early as June.

CHART 3: Traders Increase Bets For Fed Rate Cuts This Year

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
05/07/2025	-0.316	-31.6%	-0.079	4.245
06/18/2025	-0.903	-58.6%	-0.226	4.098
07/30/2025	-1.625	-72.2%	-0.406	3.918
09/17/2025	-2.340	-71.5%	-0.585	3.739
10/29/2025	-2.855	-51.5%	-0.714	3.610
12/10/2025	-3.468	-61.3%	-0.867	3.457

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

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