

**Flash Update: US Rate Markets – Friday 4/4/2025**

- US Treasury yields and SOFR swap rates plummet as global trade war intensifies
- China imposed deep retaliatory tariffs overnight, possibly only the beginning of similar responses to new US tariffs
- Market participants fear that a prolonged global trade war will fan inflation and *significantly* impede economic growth
- President Trump’s policy and trade initiatives will continue to create global market volatility and uncertainty in the near term
- The March Employment Report printed slightly better-than-expected, signaling the “pre-tariffs” jobs market remained resilient
- Market participants largely ignored the labor data; Focus remains squarely on the global reaction to new US tariffs
- **FOMC Chairman Powell speaks on the economic outlook this morning at 11:30 AM**
- Short-end SOFR swap rates are currently trading down ~14-17 basis points
- Long-end SOFR swap rates are ~10-14 bps lower this morning
- **Expect elevated levels of intraday rate volatility to continue for the foreseeable future**

US Treasury yields and SOFR swap rates collapsed this morning as global tariff woes mount. China announced deep retaliatory tariffs against the US overnight, leading to speculation that it may only be the beginning of similar responses from around the globe. Fear that President Trump’s aggressive and erratic tariff rollout will stifle global economic growth and/or fan inflation continues to *dominate* the global markets.

FOMC Chairman Powell is set to speak at 11:30 AM on the economic outlook. Initially, short-term rates were down ~20 bps this morning – the decent jobs report and anticipation of Chairman Powell’s speech curtailed the decline in rates and they are stabilizing for the moment.

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. Fed rate cut expectations are also shifting *dramatically* in the face of fears the US is headed for a tariff-fueled recession this year – and perhaps quickly.

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.

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.

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

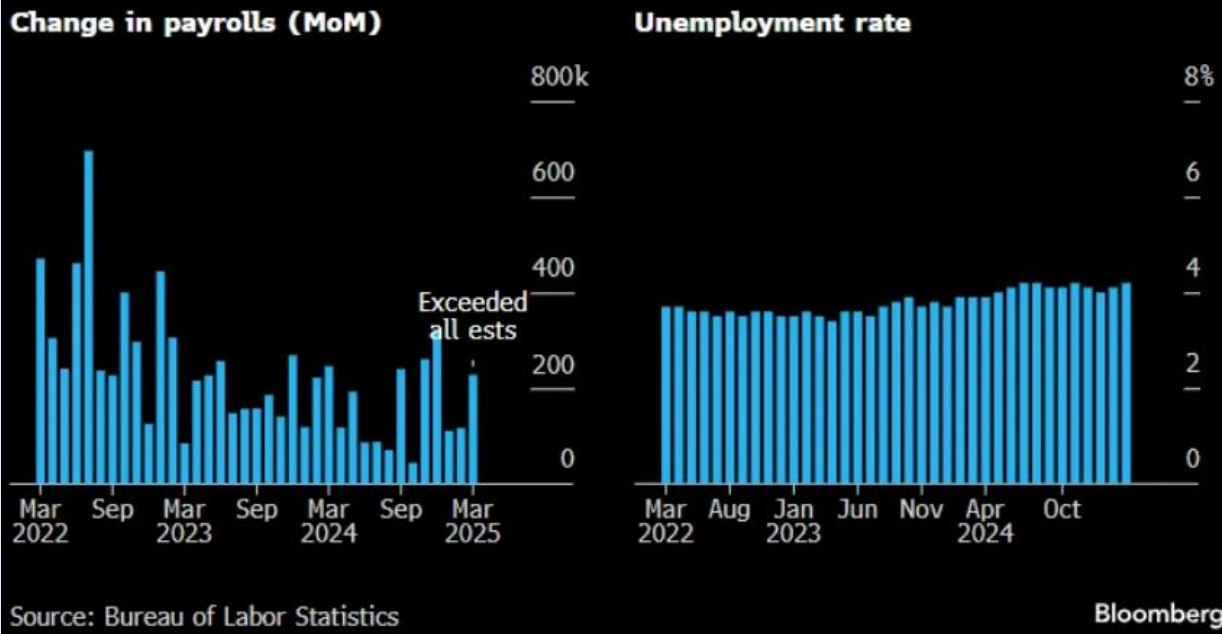
**SOFR Swap Rate Summary:** The 1Y SOFR swap rate is down ~10-12 bps this morning. 2Y and 3Y SOFR swap rates are currently trading down ~12-16 bps. 5Y and 10Y SOFR swap rates are ~8-14 bps lower this morning. **Please note – market levels can change quickly (potentially very quickly!) in this type of market environment.**

Since Monday, the Fed-sensitive 2Y SOFR swap rate is down ~32 basis points. 1Y swap rates are down ~26 bps over the same time frame. 1Y SOFR swap rates are now sitting at the lows for 2025.



## US Job Growth Accelerates

Gain in March payrolls was broad, while jobless rate ticked up



Source: Bloomberg, LLP | HISTORICAL EMPLOYMENT DATA SINCE MARCH 2022

### CHART 3 & 3A: FED RATE CUT EXPECTATIONS SHIFT DRAMATICALLY ON TARIFF-FUELED RECESSION FEARS

Given the tremendous fear and uncertainty surrounding the impact of a global trade war, Fed rate cut expectations have shifted *dramatically* since Monday. Traders have ramped up rate cut bets for 2025. The forward curve now implies ~112 bps, or just over four, 25 bp rate cuts for 2025. I read several economic forecasts this morning calling for *five*, 25 bp rate cuts this year. From my perspective, this is clearly the market hoping that the FOMC “comes to the rescue”. Odds are now ~99% for a rate cut in June *and* July. Given the massive shift in market sentiment, I would not be surprised to start hearing talk calling for a 50 bp rate cut in June! We will hear from Chairman Powell this morning at 11:30 AM – he will be speaking on the economic outlook. The market will be listening.

Here is a quick breakdown of current rate cut expectations as implied by Fed Funds futures:

- JUNE - 25 BP RATE CUT ODDS: 100%
- JULY - 25 BP RATE CUT: 100%
- SEPTEMBER - 25 BP RATE CUT: 84%
- OCTOBER - 25 BP RATE CUT: 74%
- DECEMBER - 25 BP RATE CUT: 64%

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

#### Rate Cut Expectations On April 4, 2025

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
05/07/2025	-0.368	-36.8%	-0.092	4.222
06/18/2025	-1.422	-105.4%	-0.355	3.958
07/30/2025	-2.425	-100.3%	-0.606	3.708
09/17/2025	-3.262	-83.7%	-0.816	3.498
10/29/2025	-3.835	-57.3%	-0.959	3.355
12/10/2025	-4.472	-63.7%	-1.118	3.196

Source: Bloomberg, LLP | FOMC RATE CUT EXPECTATIONS FOR 2025 AS OF APRIL 4, 2025

#### Rate Cut Expectations On April 2, 2025

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 AS OF **APRIL 2, 2025**

**CHART 3A: 2-Year SOFR Swap Rates Plummet As Traders Ramp Up Rate Cut Bets**

**2-Year SOFR Swap Rate Movement Prior (3) Trading Sessions**



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

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