__Flash Update:__ US Rate Markets – Tuesday 4/8/2025

- **US Treasury yields and SOFR swap rates edged higher this morning, as key US trade partners signal willingness to negotiate**
- **US markets did recover *somewhat* overnight, on a slight uptick in global risk sentiment – traders are shifting assets from US Treasuries into equities this morning in search of stock "bargains"**
- **However, global market participants remain fearful 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**
- **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 ~97 basis points of cumulative rate cuts for 2025**
- **Next up for data: The March FOMC meeting minutes are released tomorrow, 4/9 at 2:00 PM; CPI prints 4/10 at 8:30 AM; PPI prints on Friday, 4/11 at 8:30 AM**
- **Short-end SOFR swap rates are currently trading up ~6-8 basis points**
- **Long-end SOFR swap rates are ~5-8 bps higher this morning**
- ***__Expect elevated levels of intraday rate volatility to continue for the foreseeable future__***

US Treasury yields and SOFR swap rates edged higher this morning, as global markets recovered *somewhat* from a massive equity market rout and almost unprecedented rate volatility spurred by a flight-to-quality. Traders are dipping their toes back into risk assets (particularly equites) after one of the most brutal stock selloffs in recent years. Market participants were encouraged by Japan's willingness to negotiate with the US - the market "tea-leaves" hint that President Donald Trump might be willing to ease his position on trade terms after Japan pushed ahead with talks. That is certainly a nugget of "positive" news in a highly uncertain and unstable situation.

President Trump made a series of comments Monday about his planned tariffs, yet he offered little clarity about what he is seeking in exchange for lowering levies. There is still massive speculation about whether he is willing to offer relief at all. President Trump rejected an EU proposal to drop tariffs on all bilateral trade in industrial goods with the US, and he threatened to slap China with an additional 50% import tax. Fear that President Trump's aggressive and erratic tariff rollout will stifle global economic growth and/or fan inflation continues to *dominate* global markets.

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 though 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 up ~4-6 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading up ~6-8 bps. **5Y** and **10Y** SOFR swap rates are ~5-8 bps higher this morning. **Please note – market levels can change quickly (potentially *very* quickly!) in this type of market environment.**

LOS ANGELES, CA NEW YORK, NY BALTIMORE, MD
TELEPHONE 212.500.0922 FAX 310.856.9495

<u>CHART 1:</u> *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	3.825	+0.061	-23.5000	+1.2500	3.5912	+0.0712
3Y	3.823	+0.061	-28.9475	+1.6935	3.5355	+0.0772
4Y	3.883	+0.063	-33.8275	+1.6875	3.5410	+0.0795
5Y	3.932	+0.067	-36.7500	+1.5553	3.5651	+0.0799
7Y	4.070	+0.059	-44.4547	+1.5077	3.6283	+0.0728
10Y	4.231	+0.048	-51.2500	+1.5743	3.7212	+0.0630
20Y	4.691	+0.033	-81.3950	+2.2150	3.8790	+0.0545
30Y	4.654	+0.035	-87.8926	+1.6074	3.7769	+0.0507

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

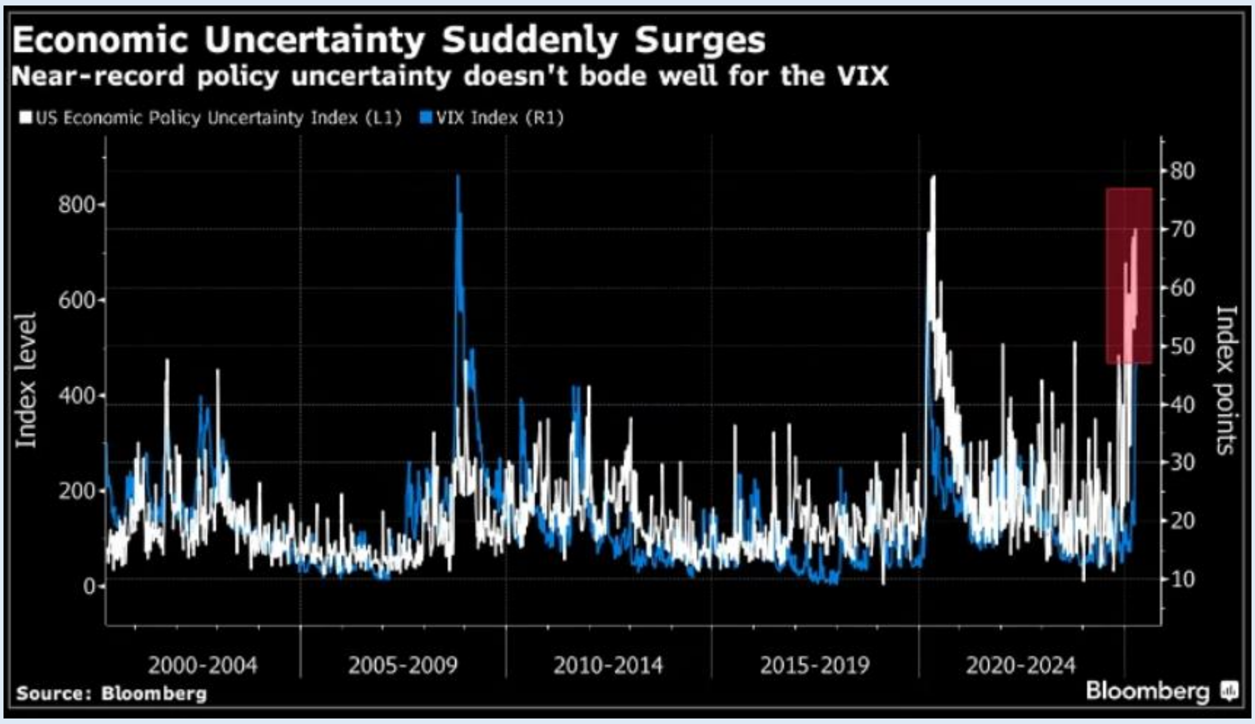
<u>CHART 2 & 2A:</u> Economic Uncertainty Index Remains Near All-Time High; Volatility Expected To Remain Elevated

The relative lull in markets last night came as a relief to traders after a wild day of trading in the US. With little clarity on whether President Donald Trump is willing to offer relief on his tariffs, implied rate volatility has soared to its most extreme level since October 2023. Currency fluctuations are at the highest levels in two years, and the VIX equity volatility index has hit an eight-month high. Markets remain uncertain due to continuously shifting US tariff threats and potential retaliatory measures, despite a growing number of US trade partners signaling a willingness to negotiate. Fear and uncertainty surrounding the path forward for US tariffs has pushed the Economic Policy Uncertainty index to near all-time highs.

My perspective is that without a major positive development, the pervasive market uncertainty created by continuously changing US tariff threats and the scope of potential retaliatory measures will remain a major detriment to global economic growth. For me, the bottom line is that any “relief rallies” in risk assets will likely be short-lived. The bias for rates is still heavily skewed to the downside in the near term. Yesterday’s choppy and volatile market did not surprise me at all - markets remain desperate for any sign that the Trump administration will tone down or negotiate its tariff demands. *Prepare for elevated levels of volatility and uncertainty to remain for the foreseeable future.*

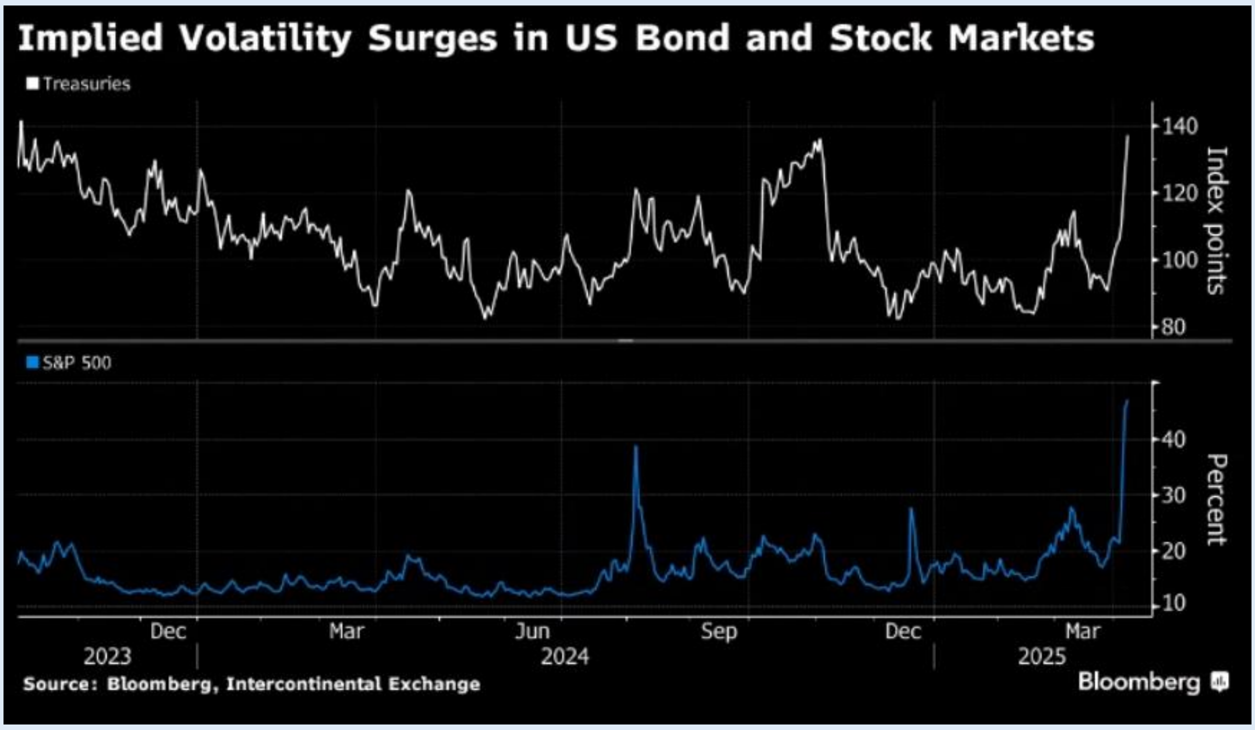
<u>CHART 2:</u> *Economic Uncertainty Remains Near All-Time High*

LOS ANGELES, CA NEW YORK, NY BALTIMORE, MD
TELEPHONE 212.500.0922 FAX 310.856.9495



Source: Bloomberg, LLP | ECONOMIC POLICY UNCERTAINTY INDEX SINCE 2000

<u>CHART 2A:</u> ***Market Expects More Volatility; Implied Rate Volatility Surges***



Source: Bloomberg, LLP | IMPLIED TREASURY YIELD AND EQUITY VOLATILITY SINCE OCTOBER 2023

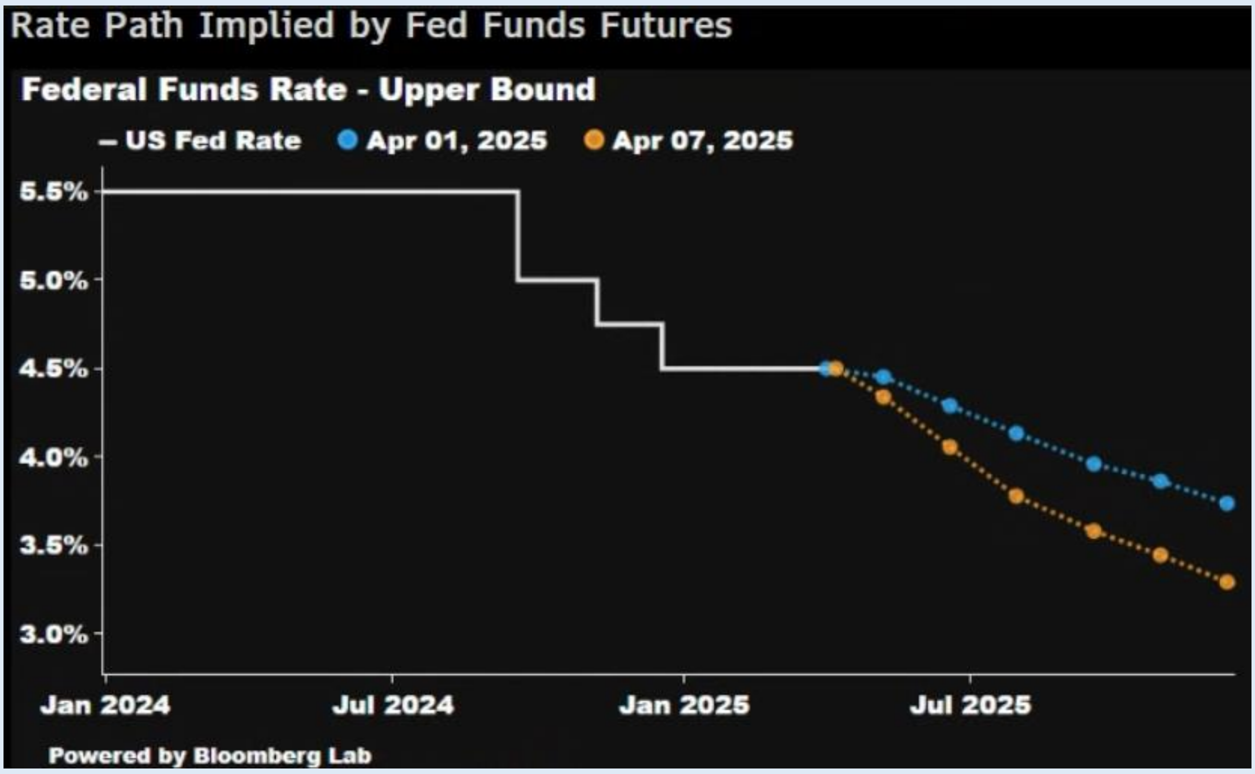
<u>CHART 3 & 3A:</u> SOFR Swap Rates Stabilize After Most Volatile Trading Day In Five Years

Yesterday registered as the most volatile trading day for rates in the prior five years. Constantly shifting tariff announcements and Fed rate cut re-pricing are creating tremendous rate volatility. Yesterday morning, traders had just over five, 25 bp rate cuts priced into the curve. This morning, Fed-funds futures are implying ~97 bps of cumulative rate cuts for 2025. That whipsaw repricing tells me market uncertainty remains extremely elevated – markets are desperately trying to find the "right level". However, the constantly shifting US tariff narrative makes that a Herculean task for market participants. I expect rate volatility to remain elevated for the near term, with "headline driven" pockets of whipsaw trading.

Currently, market consensus is that the Federal Reserve will <u>not</u> intervene to stem market losses. From the Fed's perspective, inflation is still running above target and tariff-induced price hikes are still on the horizon. Despite recent market "stress", FOMC officials have said that they have thus far not seen bouts of illiquidity that might cause them to intervene, and current economic data still points to a stable US economy – for now. I believe the Fed is unlikely to lower interest rates unless there is a clear sign of a severe recession or financial stability risk. Even in that case, the Fed may be prompted to use other monetary policy tools and not cut rates. Until the tariff "inflation risk" and "recession risk" are quantified, I do not see the FOMC being in any hurry to cut rates in the near term.

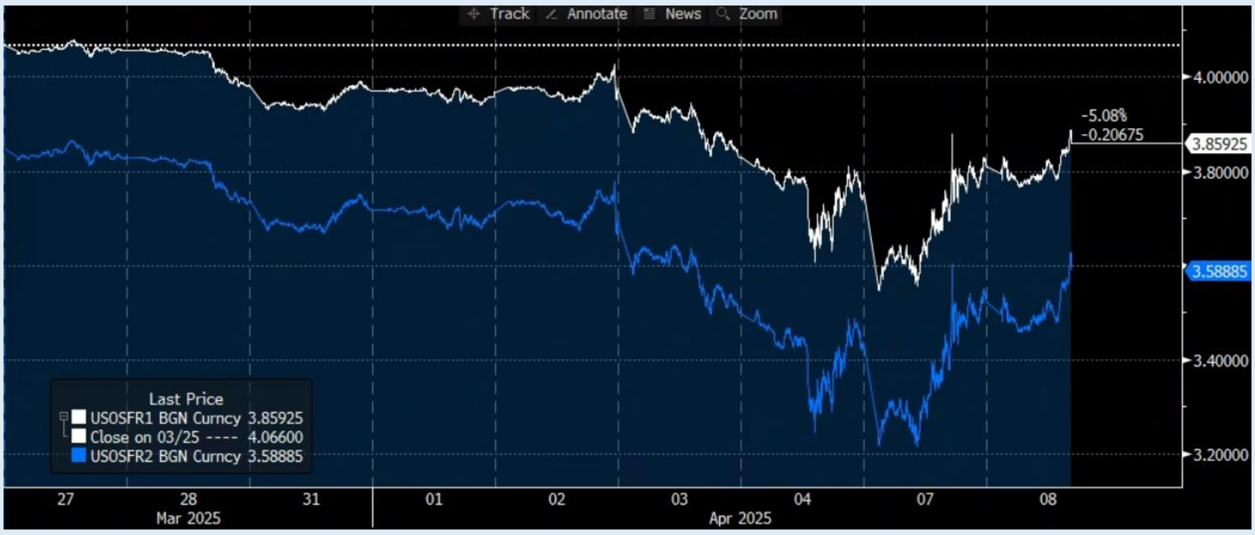
SOFR swap rates edged higher this morning, mainly due to traders emerging from a "flight-to-quality" to dip their toes back into risk markets, like stocks. Traders are being tempted to seek equity market bargains after the massive sell-off we have witnessed since the April 2 tariff announcements. I do not expect today's uptick in swap rates to be sustained – not with the massive uncertainty permeating global markets. My "gut" tells me this is only the beginning and it may take some time for global markets to stabilize – that includes the rate markets.

__CHART 3:__ ***Rate Cut Expectations Continue To Shift Amid Massive Market Volatility***



Source: Bloomberg, LLP | FOMC RATE CUT EXPECTATIONS FOR 2025 AS OF APRIL 8, 2025

__CHART 3A:__ ***Fed-Sensitive 1-Year & 2-Year SOFR Swap Rates Remain Volatile As Market Looks For Clarity***



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

Disclaimer: *The information provided in this communication is intended for discussion purposes only. Nothing presented in this communication should be taken as a recommendation or forecast. All market data shown is indicative only and subject to change depending on current market conditions.*

***

AST Defeasance Consultants, one of the nation's leading commercial real estate consulting firms, was founded in 2007. We have extensive experience in commercial real estate defeasance, hedging, derivatives, and financial instruments. More than $50 billion worth of transactions have been executed by the AST team. Only AST can combine innovation, expertise, and exceptional customer service.

Rate Cap Advisors was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.

***