

Flash Update: US RATE MARKETS – MONDAY MAY 11, 2026

- **UST yields and SOFR swap rates are drifting higher this morning as the latest US peace proposal was rejected by Iran**
- **President Trump called Iran’s response to the US peace plan “unworkable”**
- **The two sides remain far apart on a framework to end the war and reopen the Strait of Hormuz**
- **Market participants and traders have shifted into a “wait-and-see” mode as they anxiously monitor war developments and prepare for tomorrow’s CPI release**
- ***The US/Iran war remains the primary focus for the rate markets***
- **Next up for Key Data: April CPI is due for release tomorrow, 5/12 at 8:30 AM**
- **Short-term SOFR swap rates are trading up ~1-3 bps this morning, depending on tenor**
- **Medium-term SOFR swap rates are up ~2-3 bps currently, depending on tenor**
- **Long-end SOFR swap rates are up ~2-3 bps this morning, depending on tenor**

US Treasury yields and SOFR swap rates are drifting higher this morning, as the market pauses to assess the outlook for the US-Iran war. The market’s optimism that a peace deal could be reached soon has been shaken by the latest diplomatic failure. Over the weekend, Iran rejected the latest US peace plan, and President Trump called Iran’s response “unworkable”. The two sides remain far apart on a framework to end the conflict and reopen the critical Strait of Hormuz.

Today’s rate move follows the market theme we have been tracking recently: progress towards a US/Iran peace deal and/or lower oil prices will likely lead to lower rates and more stable markets. Conversely, if we see indications that the peace deal will *not* happen, the next round of negotiations is significantly delayed or hostilities resume, we are likely to get higher oil prices and higher rates. *Traders will continue to anxiously monitor war developments as the “negotiation” news unfolds.*

Tomorrow at 8:30 AM, market participants will see CPI results for April. Given the renewed focus on inflation due to the war in the Middle East, traders will be paying close attention to the inflation data we see this week (note: April PPI is released on Wednesday, 5/13 at 8:30 AM). Markets are growing increasingly worried that, should the war drag on, and oil prices remain elevated, the Fed’s next move may be a rate hike. A lower-than-anticipated CPI result tomorrow could push rates lower. Conversely, should CPI miss expectations to the upside, inflation “fear” will intensify, and rates are likely to tick higher.

Expectations for tomorrow’s CPI results are as follows: Headline MoM, 0.6% (vs. 0.9% the prior month); Core MoM, 0.3% (vs. 0.2% prior); Headline YoY, 3.7% (vs. 3.3% prior); Core YoY, 2.7% (vs. 2.6% prior). Given the uncertain war outlook, I do not expect CPI to dramatically move the market. However, a higher-than-expected CPI result tomorrow would further underscore the threat of higher inflation that we are now facing. As we know, consumers have been grappling with higher gasoline prices since the onset of the war.

“Key News” the market is tracking includes:

- Geopolitical developments continue to weigh on markets. The US/Iran “war” continues to dominate market sentiment this week.
- ***The US Justice Department has dropped the investigation into the US Central Bank and Chairman Powell, likely clearing the way for Kevin Warsh to be confirmed as the next FOMC Chairman.*** From the market’s perspective, there are still *many* questions surrounding both Mr. Warsh’s monetary policy views, and what is next for Jay Powell.
- 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. Overall market sentiment, and perhaps even economic performance, could be impacted by “tech” earnings for the foreseeable future.

- The 10-year SOFR swap rate closed at **3.52%** on **Friday 2/27** – it is currently trading at **~3.979%** (+45.9 bps).

CHART 2: Short-End SOFR Swap Rates – Since 2/27/2026 (Start of War)



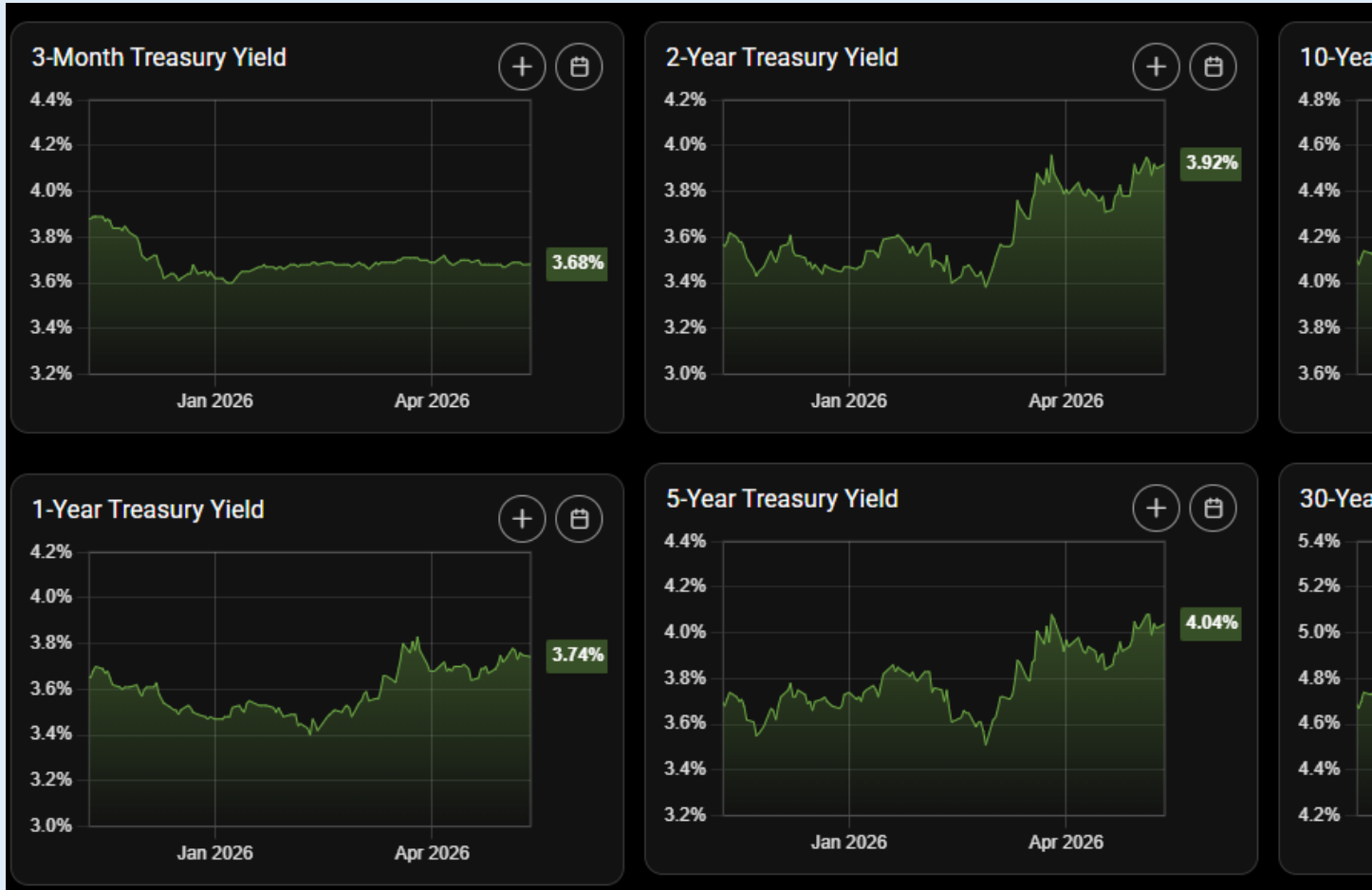
Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES; SINCE 2/27/2026

CHART 2A: Long-End SOFR Swap Rates – Since 2/27/2026 (Start of War)



Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES; SINCE 2/27/2026

CHART 2B: US Treasuries: Yield Overview Since November 2025



Source: StreetStats | US Treasury Bill, Note & Bond Yields; Prior 6-Months

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