

Flash Update: US Rate Markets – Tuesday 5/20/2025

- US Treasury yields and SOFR swap rates are holding mostly steady this morning as the market awaits fresh data and information
- Long-end rates ticked higher as the market assesses the implications of the U.S. credit rating downgrade
- On Friday, Moody's downgraded the U.S. credit rating to Aa1 from Aaa, reinforcing concerns about the U.S. economy
- Market participants are keeping close tabs on developments on the tariff front
- With a relatively light week for economic data, Fed-speak will be a primary focus for the market
- Short-end SOFR swap rates are currently trading flat to up ~1 basis point
- Long-end SOFR swap rates are trading up ~3-6 bps this morning, depending on the tenor
- *Expect rate markets to continue to be "headline" driven in the short term*
- *Elevated intraday rate volatility is possible for the foreseeable future*

US Treasury yields and SOFR swap rates held mostly steady this morning as market participants continue to assess the implications of the U.S. ratings downgrade. Traders are also waiting for fresh data and/or information before carving out a new trading range. The long-end of the curve continues to be the most impacted by the Moody's downgrade – longer-term rates continued to drift higher this morning.

The next few days are relatively light on the economic data front, so market participants are likely to focus on the implications of the credit rating downgrade and developments on the tariff front. There is, however, a jam-packed schedule of Fed officials speaking this week. Recent Fed-speak has leaned hawkish and officials continue to signal inflation concerns. Fed-speak could certainly impact the short-end of the curve this week. Should Fed officials continue to hammer home their inflation fears, we could see short-term rates drift higher. Otherwise, I expect rates, particularly on the short-end, to trade in a narrow trading range until traders see fresh data and/or information. Developments on the tariff front will also continue to captivate the market.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is flat to up ~1 basis point this morning. **2Y** and **3Y** SOFR swap rates are currently trading flat to up ~1-2 bps. **5Y** and **10Y** SOFR swap rates are up ~3-6 bps 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: 9:30 AM Eastern

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

UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
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2Y	3.985	+0.009	-22.0922	-0.3063	3.7656	+0.0063
3Y	3.966	+0.014	-27.8600	-0.6000	3.6901	+0.0116
4Y	4.036	+0.022	-33.8125	-0.4375	3.6919	+0.0171
5Y	4.089	+0.027	-36.7661	-0.5393	3.7236	+0.0231
7Y	4.289	+0.037	-46.9800	-0.4094	3.8204	+0.0329
10Y	4.495	+0.048	-54.2550	-0.3995	3.9535	+0.0422
20Y	4.991	+0.060	-82.3960	-0.5660	4.1685	+0.0534
30Y	4.964	+0.062	-88.0000	-0.3750	4.0853	+0.0573

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

CHART 2: SCHEDULE OF FED SPEECHES THROUGH 5/27/2025

There is a full plate of Fed officials scheduled to speak this week as we head into a long weekend for the markets. Today’s schedule of Fed speakers is particularly robust. There are some commencement speeches sprinkled into the schedule – Fed officials tend to ignore comments about monetary policy when giving a commencement address. That said, there are a number of Fed officials who *will* be speaking about the economy and monetary policy.

Fed comments have leaned hawkish recently, so the market will be paying close attention to what Fed officials have to say. A sustained hawkish tone from Fed officials could cast doubt on current forward pricing. Currently, forward market pricing implies two, 25 bp rate cuts this year (53.5 bps of cumulative cuts), beginning in September. Should traders start leaning toward one, 25 bp rate cut for 2025, short-end SOFR swap rates are likely to move higher – *and so are cap premiums*.

CHART 2: Fed-Speak Schedule Through 5/27/2025

Date	Time	A	M	R	Event
05/20	09:00				Fed's Bostic Gives Opening Remarks
05/20	09:00				Fed's Barkin Gives Speech at Richmond Fed Conference
05/20	09:30				Fed's Collins Hosts Fed Listens Event in New Hampshire
05/20	13:00				Fed's Musalem Speaks on Economy, Policy
05/20	17:00				Fed's Kugler Gives Commencement Address
05/20	19:00				Fed's Hammack, Daly Give Keynote, Bostic Moderates
05/18-05/21					Federal Reserve Bank of Atlanta's 2024 Financial Markets Conf
05/21	12:15				Fed's Barkin, Bowman Participate in Fed Listens
05/22	14:00				Fed's Williams Gives Keynote Remarks
05/23	09:35				Fed's Musalem, Schmid Speak in Fireside Chat
05/23	12:00				Fed's Cook Gives Speech on Financial Stability
05/25	14:40				Fed's Powell Gives Baccalaureate Remarks
05/27	04:00				Fed's Kashkari Speaks at Bank of Japan Event
05/27	20:00				Fed's Williams Speaks in Moderated Discussion in Tokyo

Source: Bloomberg, LLP | SCHEDULE OF FED SPEECHES THROUGH 5/27/2025

CHART 3 & 3A: SOFR SWAP RATES HOLD MOSTLY STEADY; LONG-END SWAP RATES DRIFT HIGHER

SOFR swap rates are holding mostly steady this morning, particularly on the short-end of the curve. Medium-to-long term swap rates, however, drifted slightly higher this morning as market participants continue to digest the Moody’s downgrade and consider the implications. Market participants are fearful that the U.S. credit rating downgrade will increase the cost of capital and reduce demand for U.S. Treasuries. That would likely lead to sustained higher yields for longer duration Treasuries, which means higher fixed borrowing costs.

I expect the upward pressure on medium-to-long term swap rates to continue for the short-term, but for now, I do not see rates moving materially higher. The 10Y swap has been bouncing around since the credit downgrade and I expect long-end rate volatility to continue. That said, 10Y volatility has calmed somewhat since Monday – the initial knee-jerk reaction to the Moody’s announcement has been dialed back a bit.

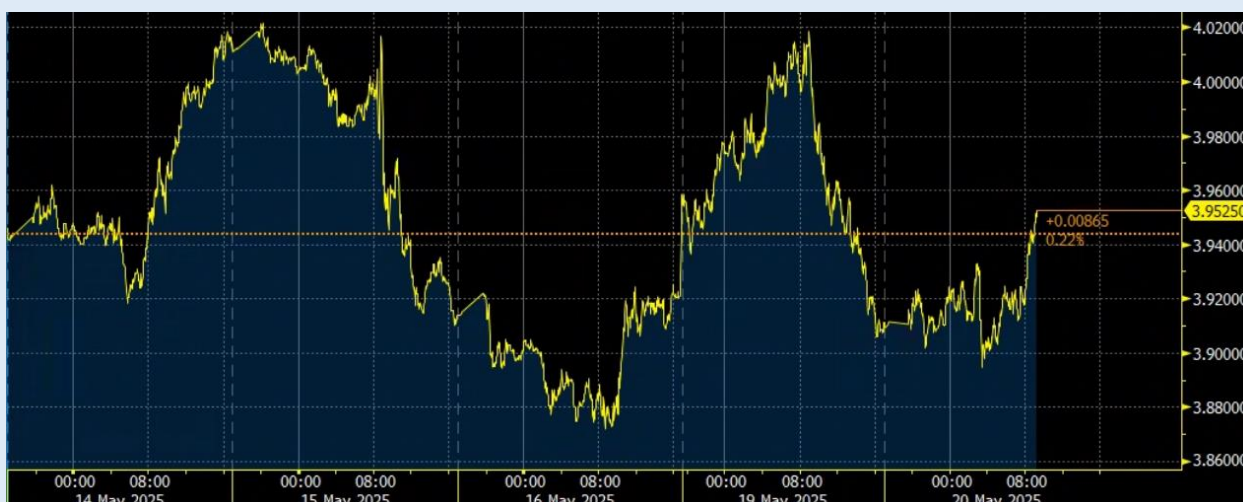
Short-term rates are likely to remain focused on monetary policy and developments on the tariff front. I expect short-term rates to trade in a relatively narrow channel until the market gets a better feel for the FOMC’s plans. The Fed-speak we get this week and early next week may help provide some direction.

CHART 3: SOFR Swap Rates Mostly Steady; Medium-To-Long-End Drifts Higher



Source: Bloomberg, LLP | 1Y (white), 2Y (blue), 3Y (orange) & 5Y (purple) SOFR SWAP RATES, PRIOR (10) TRADING SESSIONS

CHART 3A: 10-Year SOFR Swap Rate Volatile As Market Assesses U.S. Ratings Downgrade



Source: Bloomberg, LLP | 10Y (gold) SOFR SWAP RATE, PRIOR (5) TRADING SESSIONS

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