

**Flash Update: US RATE MARKETS – MONDAY MAY 4, 2026**

- UST yields and SOFR swap rates are drifting higher this morning as traders weigh the myriad forces at work in the rate markets
- Oil prices are ticking higher as tension heats up in the Middle East, clouding the outcome of the US/Iran war
- SOFR swap rates have been quietly creeping back toward the “war highs”; (2Y SOFR swap rate “war-high” was 3.79%; Currently, 3.75%)
- ***The US/Iran war remains the primary focus for the rate markets***
- Fear of higher war-induced inflation continues, but there is a growing fear a prolonged conflict will materially damage global economic growth
- ***Traders continue to grapple with a range of possible outcomes for the war in the Middle East***
- ***Next up for Key Data:*** The April Employment Report will be released on Friday, 5/8 at 8:30 AM
- Short-term SOFR swap rates are trading *up* ~2-4 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* ~1-2 bps this morning, depending on tenor

US Treasury yields and SOFR swap rates are ticking higher this morning, as Middle East tension returned over the weekend. Oil prices ticked higher on reports that Iran attacked a US naval vessel. The US is denying the reports. The US has also pledged to “escort” ships through the Strait of Hormuz, setting the stage for renewed hostilities. Thus far, diplomatic efforts to reach a peace plan have been unsuccessful. The outcome of the war remains highly uncertain.

The myriad forces currently at work in the market make it extremely challenging to chart the path forward for interest rates. I would point out that SOFR swap rates have been quietly creeping back up toward the “war highs” we witnessed in March (*See Chart 2, 2A & 2B*). *On a personal note*, I filled my car up over the weekend and it cost almost \$75 – approximately \$6.00 a gallon! That dose of reality really brought home the inflation risk we are facing.

My view has not changed: I still feel that in the coming days, the primary market theme we have witnessed will continue: “confirmed” news that a long-term “peace plan” is progressing will lead to a bias toward lower swap rates and oil prices; conversely, *factual* news that diplomatic efforts are stalled, failing, or may drag on indefinitely will likely shift the bias toward higher swap rates and push oil prices higher. As the price of oil goes, so go rates, at least for the time being. Renewed military hostilities would also likely lead to higher rates.

The longer this war drags on, the greater the possibility we see the “double whammy” – higher inflation *and* lower economic growth. Traders are grappling with that right now. So far, the threat of dramatically higher inflation is winning, hence the uptick in rates we have seen over the past week. *I advise staying nimble if you have upcoming caps or swaps to execute – market dynamics can and will change quickly.*

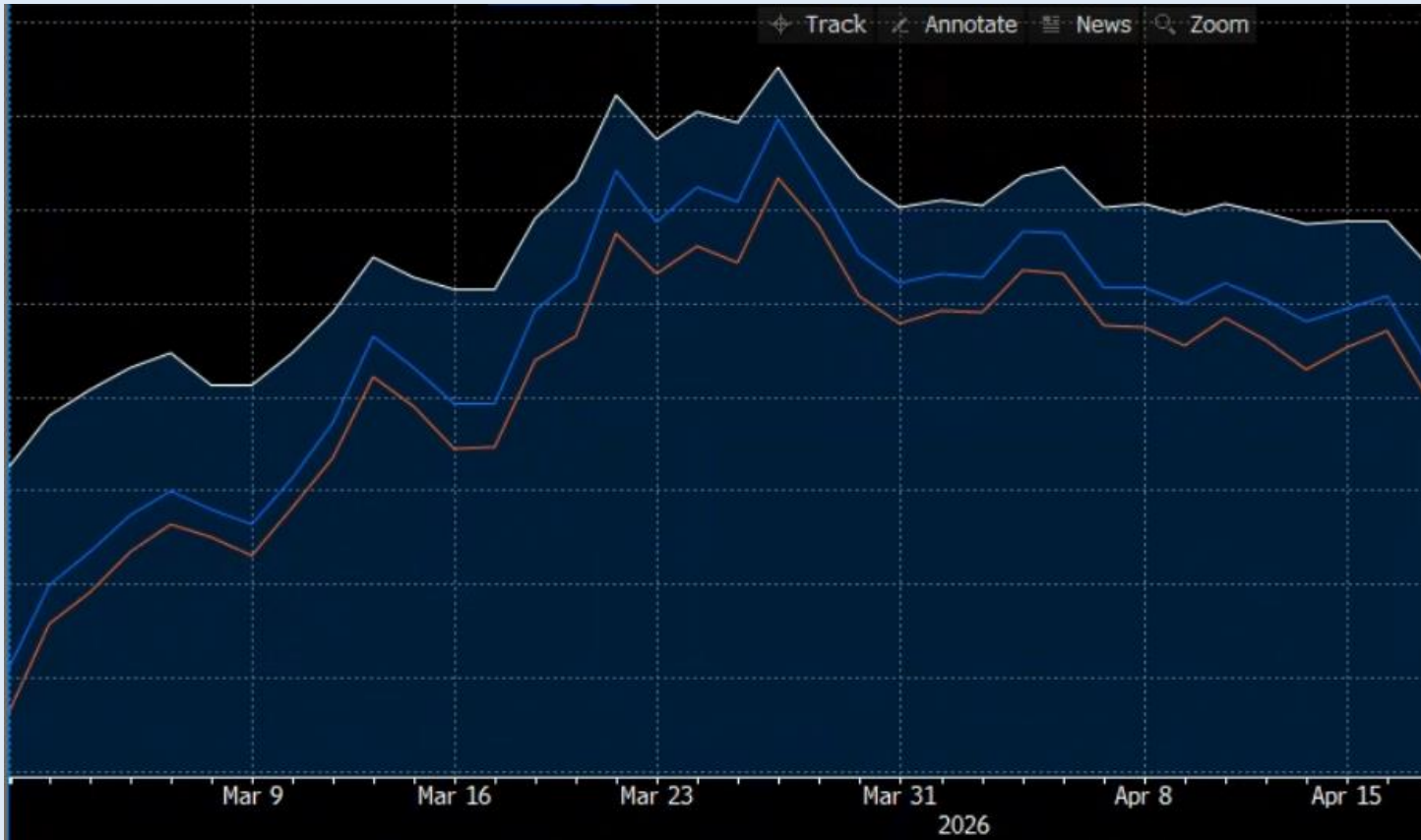
**“Key News” the market is tracking includes:**

- 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.
- Traders are growing increasingly concerned with the record-setting “partial” government shutdown currently underway. Traders are still hoping the situation is resolved quickly.



- The 10-year SOFR swap rate closed at **3.52%** on **Friday 2/27** – it is currently trading at **~3.956%** (+43.6 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 October 2025**

