

Flash Update: US RATE MARKETS – TUESDAY MAY 5, 2026

- UST yields and SOFR swap rates are drifting lower this morning as traders anxiously monitor war developments
- The fragile US/Iran ceasefire is holding, despite recent clashes and escalating tensions in the region
- SOFR swap rates have been quietly creeping back toward the “war highs”; (2Y SOFR swap rate “war-high” was 3.79%; Currently, 3.771%)
- *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*
- April ISM Services & Prices Paid Data and the March JOLTS jobs report will be released this morning at 10:00 AM
- **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 down ~2-3 bps this morning, depending on tenor
- Medium-term SOFR swap rates are down ~1-3 bps currently, depending on tenor
- Long-end SOFR swap rates are down ~1-2 bps this morning, depending on tenor

US Treasury yields and SOFR swap rates are ticking a touch lower this morning, as traders anxiously monitor developments in the Middle East conflict. I think the slight dip in rates this morning reflects the market’s relief that recent skirmishes between the US and Iran have not led to a resumption of outright hostilities.

The fragile US/Iran ceasefire is holding, despite recent clashes and escalating tension in the region. The latest war developments come amid an impasse between Iran and the US – neither side is showing any indication of agreeing to a fresh round of peace talks soon. In short, Iran insists the US must lift a naval blockade on its ports for that to happen. The US, on the other hand, asserts the blockade is stifling Iran’s oil exports and squeezing its economy, forcing it into concessions. Clearly, the outcome of the war remains highly uncertain. Despite the dip in rates this morning, I expect rates to remain biased higher until we see some real progress on diplomatic efforts to end the war. Conversely, should hostilities resume, rates have plenty of room to move higher.

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 process 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 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*).

We will see a host of secondary data released this morning, including ISM Services and Prices Paid data for April and the March JOLTS jobs report, due at 10:00 AM. I do not expect the data to dramatically impact the market today. However, given the jittery market, we could see some impact, should the data miss expectations.

“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.
- SCOTUS is currently ruling on the legality of the President firing of the Fed’s Lisa Cook. There are some reports stating that SCOTUS is nearing a final decision on that case, which could have *far reaching* implications for the US Central Bank.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading down ~2-3 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading down ~2-3 bps. **5Y** and **10Y** SOFR swap rates are trading down ~1-3 bps on the day. The very back-end of the swap curve is currently trading down ~1-2 bps from yesterday’s closing levels.

Please note: Market levels can change rapidly – rate cap premiums are subject to a dynamic market that can change frequently.

CHART 1: US RATES SNAPSHOT: 9:00 AM Eastern

Chart 1 Key:

- **Far Left Columns:** US Treasury Yields & Change on Day (bps)
- **Center Columns:** SOFR OIS Swap Spreads (bps) & Change on Day (bps)
- **Far Right Columns:** SOFR OIS Swap Rates & Change on Day (bps)

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	3.929	-0.022	-15.9944	+0.0681	3.7709	-0.0221
3Y	3.954	-0.025	-21.5767	+0.4163	3.7389	-0.0216
4Y	4.014	-0.021	-26.7350	+0.3795	3.7421	-0.0216
5Y	4.062	-0.026	-29.5050	+0.3550	3.7684	-0.0213
7Y	4.240	-0.020	-38.5280	+0.2868	3.8549	-0.0193
10Y	4.419	-0.018	-43.2500	+0.3750	3.9865	-0.0164
20Y	5.000	-0.013	-73.5520	+0.4473	4.2650	-0.0107
30Y	5.003	-0.012	-77.1385	+0.3615	4.2328	-0.0081

Source: Bloomberg, LLP | 9:00 AM NY Rates Snapshot

CHART 2, 2A, 2B & 2C: SOFR SWAP RATES DIP AS TRADERS ANXIOUSLY MONITOR WAR DEVELOPMENTS

SOFR swap rates are ticking lower this morning, as market participants anxiously monitor war developments. Despite escalating tension between the US and Iran, the ceasefire is holding, and for the moment, so are oil prices. I think that is the main reason we are seeing rates tick lower this morning.

On a US Treasury-related note, the 30-year US Bond yield has been hovering around 5% after breaching the key level this week for the first time since July. A 30-year Bond yield over 5.00% suggests pressure in

the US bond market is not abating. A 30-year Bond yield of 5% or higher will likely increase fears about the budget and the growing debt-servicing costs for the US government.

As far as the Fed is concerned, the uncertain war outlook is muddying the prospects for interest-rate cuts. Recently, market pricing has flipped to pricing further tightening (*rate hikes*) from the FOMC – currently, swaps imply a 50% chance of a 25 bp rate hike in early 2027. Traders currently do not expect any movement in monetary policy during 2026. There is simply too much uncertainty to determine the path forward for monetary policy.

Key Swap Rate Movements Since The US/Iran War Began:

- The 2-year SOFR swap rate closed at **3.21%** on **Friday 2/27** – it is currently trading at **~3.771% (+56.1 bps)**.
- The 5-year SOFR swap rate closed at **3.22%** on **Friday 2/27** – it is currently trading at **~3.768% (+54.8 bps)**.
- The 10-year SOFR swap rate closed at **3.52%** on **Friday 2/27** – it is currently trading at **~3.986% (+46.6 bps)**.

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



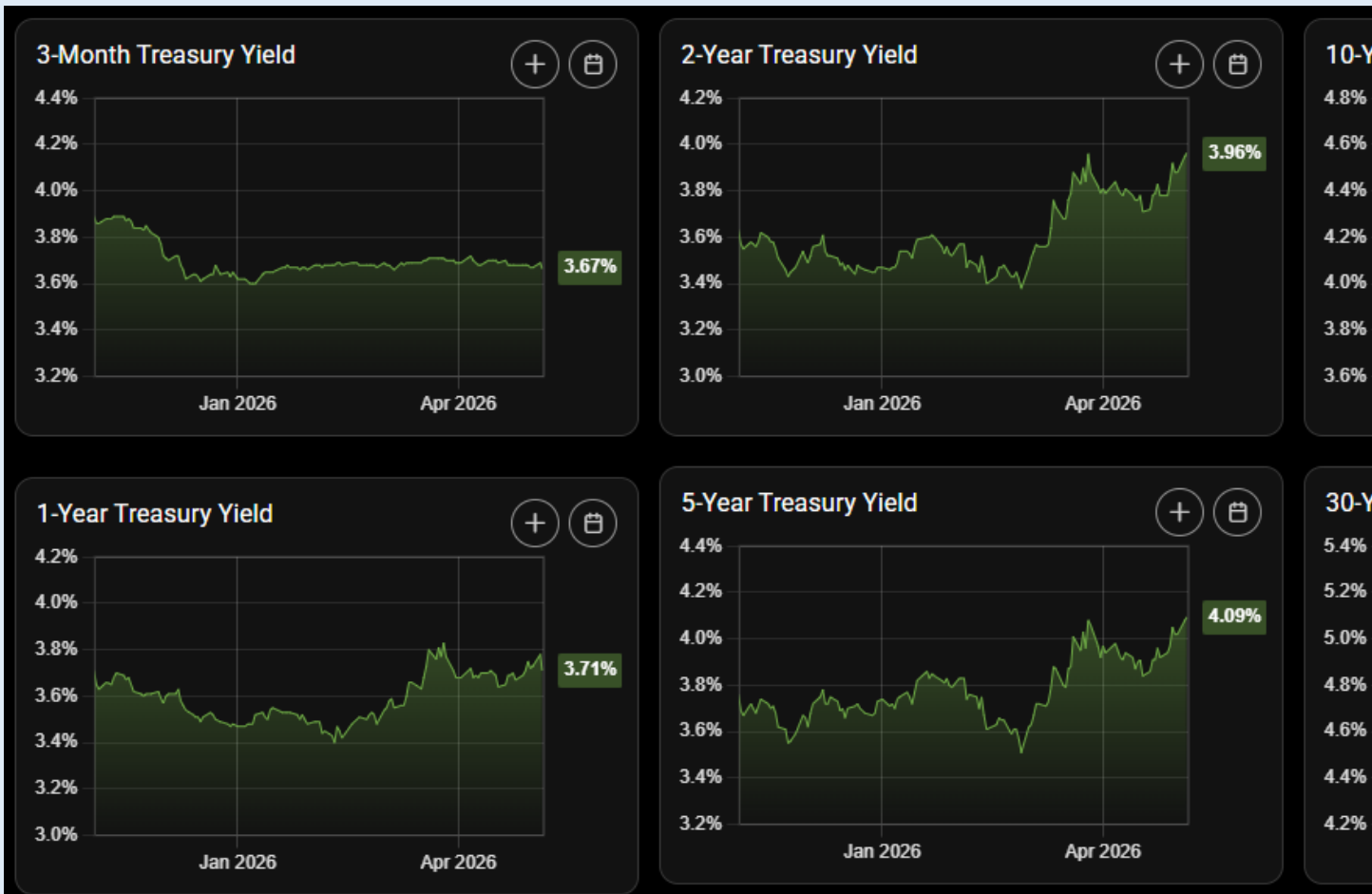
Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES; SINCE 2/27/2026

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

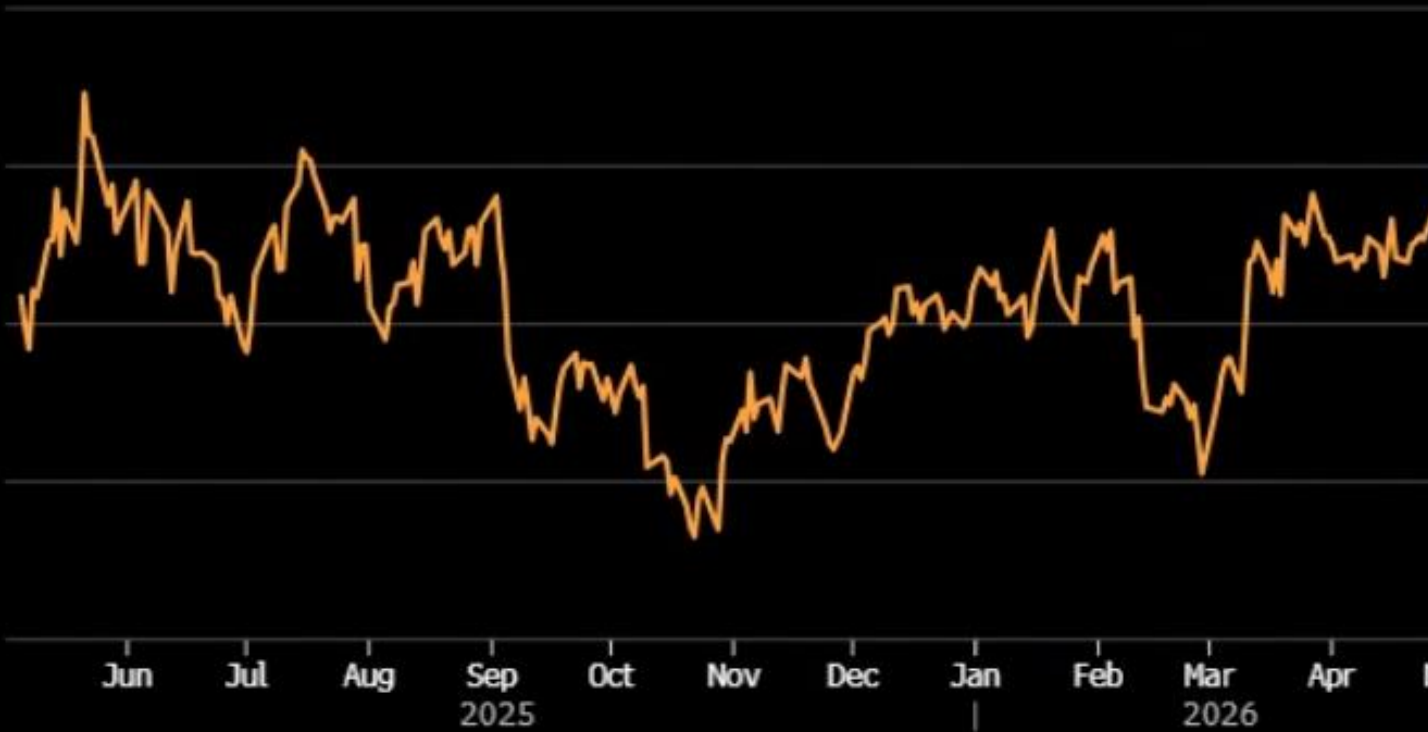


Source: StreetStats | US Treasury Bill, Note & Bond Yields; Prior 6-Months

CHART 2C: 30-Year US Treasury Bond Yield Tops 5% This Week

US Long Bond Yields Have Climbed Above 5% This Week Treasury 30-year yields are the highest since July

US 30-year yield



Source: Bloomberg

Source: Bloomberg, LLP | 30-YEAR US TREASURY BOND YIELD SINCE

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