

Flash Update: US RATE MARKETS – WEDNESDAY JULY 23, 2025

- US Treasury yields and SOFR swap rates ticked slightly higher this morning on positive “trade” news
- Early this morning, Treasury Secretary Bessent announced that the US has reached a trade agreement with Japan
- The positive trade announcement sparked a “risk on” sentiment, leading to slightly higher rates this morning
- SOFR swap rates have been largely range bound the past two weeks as traders look ahead to next week’s Fed rate decision
- Market participants seem handcuffed by the high level of “rate” uncertainty currently permeating the market
- Short-end SOFR swap rates are trading up ~1-2 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading up ~1-3 bps, depending on tenor
- The next FOMC rate decision is due on Wednesday, July 30th at 2:00 PM
- *Expect rate markets to continue to be headline and data driven*
- *Elevated intraday rate volatility and/or sudden market movements are still possible for the near term*

Rates ticked a bp or two higher this morning after Treasury Secretary Bessent announced that the US had reached a trade agreement with Japan. I do not see the market overreacting to the news – I think the slight increase in rates reflects a reallocation from US Treasuries to equities – a classic “risk on” pattern. The stock market liked the trade news and equity markets look poised to rally significantly today. If that momentum continues, we may see rates drift higher as traders and portfolio managers sell Treasuries and buy equities. That said, barring anything unforeseen, I expect rates to remain range bound until the FOMC rate decision next week.

This is a relatively light week for primary economic data – the next big event is next week’s July FOMC meeting. This morning, we will see New Home Sales data released at 10:00 AM. Tomorrow, S&P Global US Manufacturing & Services PMI, New Home Sales and Building Permits data will be released at 10:00 AM. On Thursday, Durable Goods data is released at 8:30 AM. The economic data due for release this week is not anticipated to move the rate markets materially. Market participants are looking ahead to the FOMC rate decision and Chairman Powell’s press conference on July 30.

Fed officials remain in the pre-meeting “quiet period”, so the next time we hear from a Fed official will be Chairman Powell’s post-meeting press conference. The majority of economists and market participants *do not* expect a rate cut next week.

Focus this week will be on the broad range of corporate earnings reports due for release. Market participants will be looking for signals that tariffs are negatively impacting corporate earnings results. Given the proximity of the next Fed meeting, I don’t expect market participants to overreact to the earnings reports, and so far, that has been the case. Expect rates to continue to trade in a narrow range this week, but remain susceptible to “headline” volatility. However, if anti-Fed rhetoric ramps up again, or if corporate earnings are unexpectedly weak, rates could drift lower ahead of the FOMC meeting.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading up ~1-2 bps this morning. **2Y** and **3Y** SOFR swap rates are up ~1-2 bps this morning. **5Y** and **10Y** SOFR swap rates are currently trading up ~1-3 bps. The very back-end of the swap curve is currently trading up ~2-3 bps.

Please note: Market levels can change quickly - potentially, very quickly - in this type of market environment.

CHART 1: US RATES SNAPSHOT: 9:15 AM Eastern

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

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UST YIELDS | SWAP SPREADS | SOFR SWAP RATES

2Y	3.842	+0.008	-24.4807	+0.2243	3.5991	+0.0121
3Y	3.791	+0.011	-29.2200	+0.5250	3.4986	+0.0144
4Y	3.839	+0.015	-34.8650	+0.2600	3.4963	+0.0138
5Y	3.897	+0.013	-36.5084	+0.1166	3.5337	+0.0147
7Y	4.112	+0.016	-45.8500	+0.2730	3.6540	+0.0166
10Y	4.360	+0.016	-52.9584	+0.4166	3.8319	+0.0196
20Y	4.919	+0.018	-77.8510	+0.6450	4.1419	+0.0229
30Y	4.934	+0.016	-83.3600	+0.7650	4.1010	+0.0239

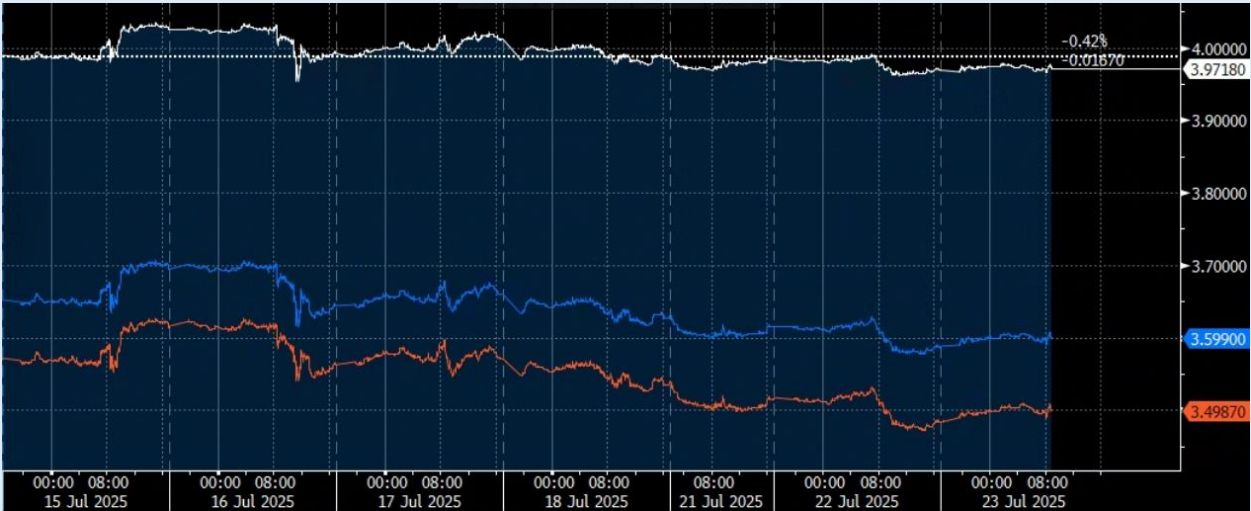
Source: Bloomberg, LLP | 9:15 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES DRIFT SLIGHTLY HIGHER, BUT REMAIN RANGE BOUND

SOFR swap rates drifted slightly higher this morning on news that the US has reached a trade agreement with Japan. Overall, rates are slightly lower than where they were sitting last week at this time. 2Y SOFR swap rates were trading at 3.644% last Wednesday – they are currently trading at 3.599%. 10Y SOFR swap rates closed at 3.895% last Wednesday and are now at 3.832%. Barring anything unforeseen, we may not see traders bold enough to carve out a new trading range until after the July FOMC meeting. Market uncertainty remains high – I believe the recent low volatility, range-bound market environment is simply a lull in the action.

Currently, forward market pricing implies ~45.5 bps of cumulative rate cuts for 2025. That number was ~46.2 at yesterday’s close. The current odds for a July rate cut have dropped to ~4.7%; the odds for a September cut held steady at ~58.7%. The odds for an October rate cut are sitting at ~80.0%, and the odds for a December cut are currently holding steady at ~93.6%. There is some market speculation that the Fed could cut rates 50 bps in December (odds = ~42.7%). Currently, the market still favors two, 25 bp rate cuts in 2025, but those rate cuts are not anticipated to occur until the October and/or December FOMC meetings. A September rate cut is also still a possibility, although those odds have decreased over the past two weeks.

CHART 2: Short-End SOFR Swap Rates Tick Slightly Higher, But Remain Range Bound



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR (7) DAYS

CHART 2A: Long-End Swap Rates Drift Higher On Positive Trade News



Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR (7) DAYS

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