RateCap Advisors

Flash Update: **US RATE MARKETS – THURSDAY JULY 31, 2025**

- **US Treasury yields and SOFR swap rates ticked a touch lower this morning as the market digested a broad range of economic data**
- **Economic data released this morning printed largely as expected; However, the slight uptick in inflation is a concern for market participants**
- **The FOMC left rates unchanged yesterday and signaled they remain in "wait-and-see" monetary policy mode**
- **The vote was not unanimous; Two committee members voted to cut the overnight rate 25 basis points**
- **The majority of FOMC members signaled they need to see more data before adjusting monetary policy**
- **Chairman Powell cited the "solid" economy, balanced job market and expectations of higher inflation as the primary reasons for why the Fed did not cut rates yesterday**
- **President Trump's August 1st tariff "deadline" looms, adding to market uncertainty**
- **An extension of high tariffs makes it more likely that economic growth and/or inflation could be negatively impacted**
- **Next up for data: July Employment Report is released tomorrow, 8/1 at 8:30 AM**
- **Short-end SOFR swap rates are trading down ~1-2 bps this morning, depending on tenor**
- **Long-end SOFR swap rates are currently trading down ~2-3 bps, depending on tenor**
- ***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 remain largely unchanged this morning, despite the release of a broad range of economic and inflation data. Yesterday, the FOMC left the benchmark rate unchanged and signaled they remain in a "wait-and-see" monetary policy mode. Powell's comments, however, pushed rates higher – his opening statement and subsequent Q&A did not inspire confidence that a rate cut is coming in the near term. By the end of the trading session, SOFR swap rates were up 6-9 basis points across the curve. The data released this morning came in largely as expected, but the slight uptick in PCE and ECI are concerns for market participants.

Tomorrow, we will see the July Employment Report results at 8:30 AM. Expectations for tomorrow's release of the July jobs report are as follows: Change in Non-Farm Payrolls, 104k (vs. 147k the prior month); Change in Private Payrolls, 100k (vs. 74k prior); Unemployment Rate, 4.2% (vs. 4.1% prior). Chairman Powell said *several* times yesterday that the FOMC is paying close attention to the labor market. Weaker-than-expected jobs data would likely push rates a touch lower, whereas better-than-expected jobs data would support the Fed's current monetary policy stance – rates could drift slightly higher in that scenario. I do not expect a dramatic reaction either way – we have a long way to go until the next Fed meeting in September.

Reminder: President Trump's August 1st "tariff deadline" looms. He has emphatically stated that the deadline *will not* be extended, so there is some apprehension and uncertainty in the market about what to expect tomorrow. Tomorrow's "tariff deadline" is definitely a wildcard for market participants.

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

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

CHART 1: ***US RATES SNAPSHOT: 10:30 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

2Y	3.926	-0.015	-23.6128	+0.2287	3.6911	-0.0134
3Y	3.872	-0.015	-30.0500	-0.3900	3.5721	-0.0192
4Y	3.904	-0.012	-35.5375	-0.0990	3.5539	-0.0178
5Y	3.944	-0.018	-37.1499	+0.2324	3.5750	-0.0163
7Y	4.130	-0.019	-46.5450	-0.0500	3.6655	-0.0209
10Y	4.348	-0.021	-53.5000	-0.3607	3.8147	-0.0259
20Y	4.873	-0.020	-79.0765	-0.8871	4.0830	-0.0300
30Y	4.878	-0.021	-85.1033	-0.8509	4.0275	-0.0306

Source: Bloomberg, LLP | 10:30 AM NY Rates Snapshot

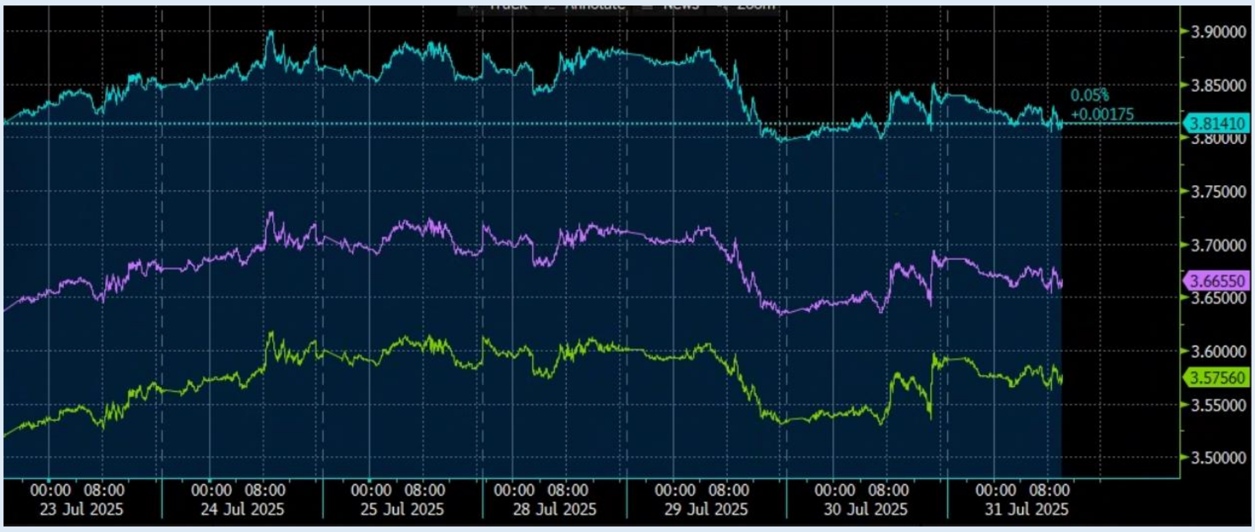
<u>CHART 2 & 2A:</u> SOFR SWAP RATES HAVE MUTED REACTION TO ECONOMIC DATA

SOFR swap rates ticked a touch lower this morning as traders digest the broad range of economic and inflation data released today and the results of yesterday's Fed meeting. Rates moved higher yesterday after Powell's comments signaled the majority of FOMC members believe current monetary policy is appropriate. Short-end swap rates are holding mostly steady this morning – the numbers did little to change Fed rate cut expectations. The drop in longer-term swap rates this morning outpaced the short-end. I think that is mostly due to a mini flight-to-quality ahead of tomorrow's Employment Report release and "tariff deadline".

<u>CHART 2:</u> *Short-End SOFR Swap Rates Mostly Steady As Market Digests Economic & Inflation Data*

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

<u>CHART 2A:</u> *Long-End Swap Rates Edge Lower As Market Prepares For Jobs Data, "Tariff Deadline"*



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

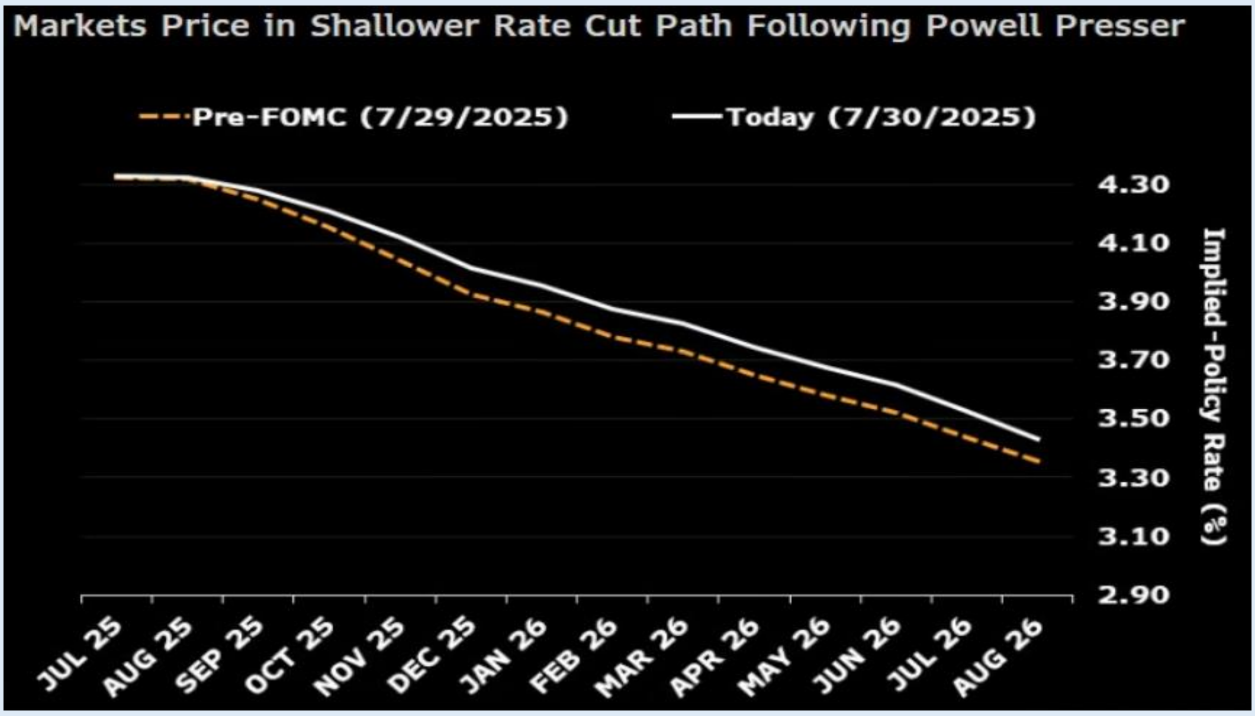
CHART 3 & 3A: FOMC HOLDS BENCHMARK RATE STEADY; POWELL WON'T COMMIT TO RATE CUT TIMETABLE

Swap rates moved higher yesterday after Chairman Powell's comments made it clear that the Fed remains in a "wait-and-see" mode. I thought Powell made a compelling case to hold rates steady – economic growth is solid, the labor market is largely balanced, the consumer is holding up and inflation is sticky, but not moving materially higher. Yes, there are signs that the labor market and consumer spending may be gradually weakening, but there are also a broad range of forecasts calling for higher inflation. That uncertainty is the primary reason the Fed did not cut rates yesterday, and unless things change materially, they are unlikely to cut rates in September. I still believe the Fed should cut rates 25 bps as soon as possible – I do not think a 25 bp reduction in rates would materially change the inflation outlook or overheat the economy. It would also narrow the differential between the Fed Funds rate and the rate of inflation, which would help consumers.

The decision to hold rates steady yesterday was not a majority decision – two FOMC voting members dissented and called for a 25 bp rate cut. It was the first time two FOMC members dissented since 1993. I would point out that both of them were appointed by President Trump – I will let you draw your own conclusion. (Note: Powell was appointed by President Trump as well!) Bottom line, the dissension and debate within the Fed is the best chance we have for an accelerated rate cut (read: September rate cut). We will see two months of data before the next FOMC meeting and momentum can build from within for a rate cut. To get a rate cut, we need to see continued progress on the trade front, solid economic growth and at the least, static inflation. Admittedly, a tall order!

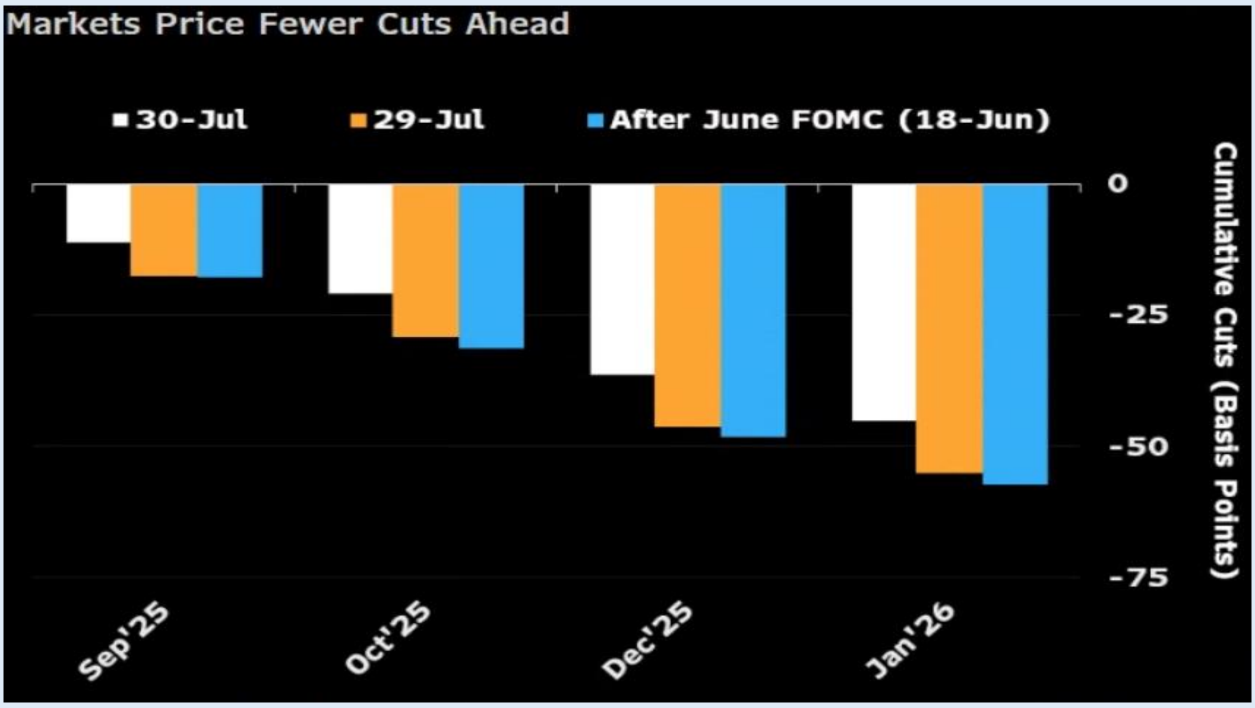
Currently, forward market pricing implies **~36.1 bps** of cumulative rate cuts for 2025. That number was ~43.2 at yesterday's open – rate cut expectations were scaled back after Chairman Powell's comments. The odds for a September cut dropped significantly to 39.8%. Currently, the market still favors two, 25 bp rate cuts in 2025, but those rate cuts are not anticipated to occur until the October and/or December FOMC meetings.

CHART 3: ***FOMC Recap – Fed Leaves Overnight Rate Unchanged, Remains In "Wait-And-See" Mode***



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS - PACE OF RATE CUTS

CHART 3A: ***Market Expectations For Magnitude and Pace Of Fed Rate Cuts Diminish***



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS – CUMULATIVE RATE CUTS

CHART 4: ECONOMIC DATA RECAP: PCE, ECI, PERSONAL INCOME & PERSONAL SPENDING

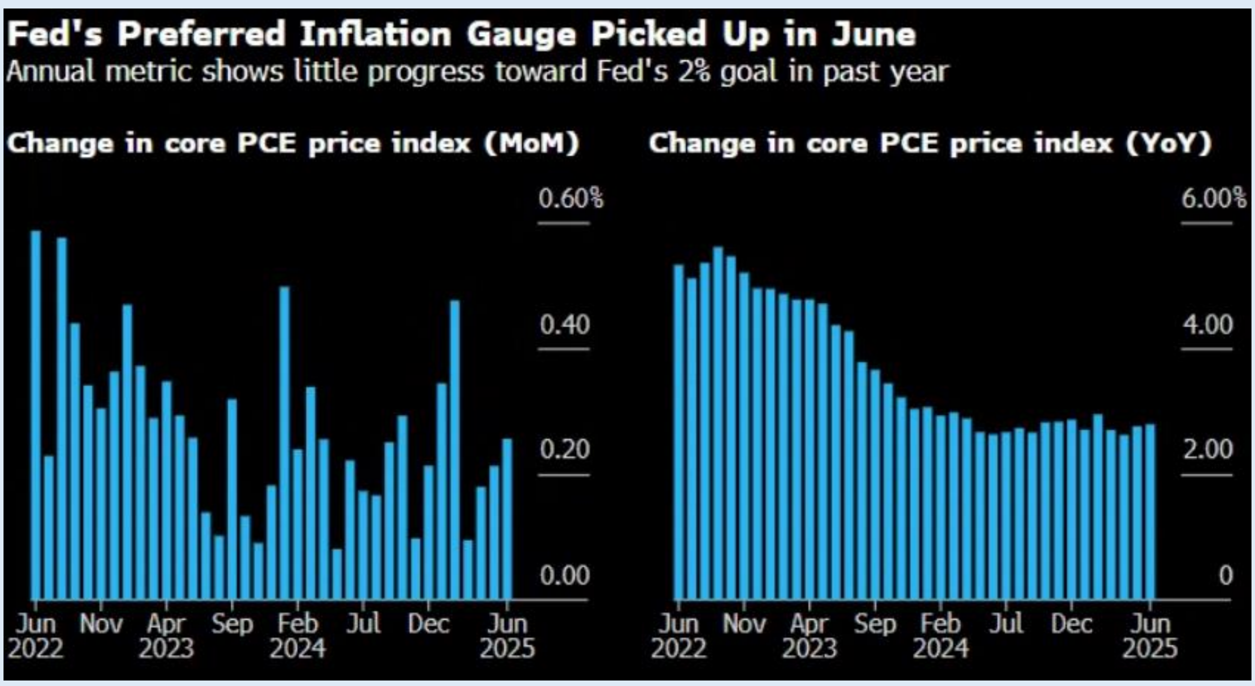
The FOMC's preferred measure of underlying inflation, PCE, accelerated in June to one of the fastest paces this year while consumer spending barely rose, underscoring the dueling forces dividing policymakers over the path of interest rates. Core PCE, which excludes food and energy items, rose 0.3% in June and advanced 2.8% on an annual basis, an increase that underscores the limited progress made on taming inflation in the past year. The Employment Cost Index (ECI), also printed slightly above expectations at 0.9%, indicating an uptick in employment costs. Personal income edged higher, but personal spending missed expectations. The data released this morning illustrates the dichotomy in the economy that has Fed officials split over the course of monetary policy. On the one hand, progress on inflation has essentially stalled and central bankers fear that President Donald Trump's tariffs will exert greater upward pressure on prices. On the other, a significant drop in consumer spending due to a softening labor market risks a broader slowdown in the economy. Bottom line, the Fed needs more time and more data to decide which is the greater threat.

CHART 4: ***Economic Data Prints Largely "As Expected"...However, Uptick In Inflation Continues***

Event	Period	Surv(M)	Actual
Challenger Job Cuts YoY	Jul	--	139.8%
Personal Income	Jun	0.2%	0.3%
Personal Spending	Jun	0.4%	0.3%
Real Personal Spending	Jun	0.1%	0.1%
PCE Price Index MoM	Jun	0.3%	0.3%
PCE Price Index YoY	Jun	2.5%	2.6%
Core PCE Price Index MoM	Jun	0.3%	0.3%
Core PCE Price Index YoY	Jun	2.7%	2.8%
Employment Cost Index	2Q	0.8%	0.9%
Initial Jobless Claims	Jul 26	224k	218k
Initial Claims 4-Wk Moving Avg	Jul 26	--	221.00k
Continuing Claims	Jul 19	1953k	1946k

Source: Bloomberg, LLP | ECONOMIC DATA RECAP FOR 7/31/2025

CHART 4A: ***Historical PCE Data – Uptick In PCE A Concern For Market Participants***



Source: Bloomberg, LLP | HISTORICAL PCE DATA SINCE JUNE 2022

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