

Flash Update: US RATE MARKETS – MONDAY AUGUST 25, 2025

- US Treasury yields and SOFR swap rates moved higher this morning as the market digests Chair Powell's speech
- As the dust settles, market participants are toning down their initial reaction to Powell's comments, hence the uptick in rates this morning
- Traders initially interpreted Powell's speech as "dovish"; Rates dropped in response and the odds for a September rate cut increased
- Focus for the near term will be on economic data and comments by Fed officials as we approach the September FOMC meeting
- Tariffs and trade related developments will continue to captivate the market for the foreseeable future
- Rising geopolitical risk is also a growing concern for the market, particularly the situations in Ukraine and the Middle East
- Next up for data: 2Q GDP data is due 8/28; July PCE data is released on 8/29; The August Employment Report prints on 9/5
- Short-end SOFR swap rates are trading up ~1-3 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading up ~2-3 bps, depending on tenor
- The next FOMC rate decision is due on Wednesday, September 17 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*

SOFR swap rates and US Treasury yields are drifting higher this morning as the market digests Chairman Powell's Jackson Hole speech and contemplates the outlook for rate cuts. Markets will continue to have a "summer trading" feel as we approach the end of the season. Lighter volume and a lack of catalysts often lead to range bound markets and reduced volatility. That said, we do see some important economic data released later this week that may directly impact the likelihood for a September rate cut. 2Q GDP data revisions are due on 8/28 and the Fed's preferred inflation gauge, PCE, is released on 8/29. Should 2Q GDP be revised lower and PCE print at-or-lower-than-expected, odds for a September rate cut will increase.

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 ~2-3 bps this morning. **5Y** and **10Y** SOFR swap rates are currently trading up ~2-3 bps. The very back-end of the swap curve is currently trading up ~2-3 bps. Rate volatility remains relatively subdued given the summer trading environment.

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

CHART 1: US RATES SNAPSHOT: 10:15 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	3.728	+0.030	-25.9111	-0.3951	3.4694	+0.0269
3Y	3.675	+0.031	-29.4617	-0.2218	3.3817	+0.0277
4Y	3.723	+0.026	-34.6135	-0.2000	3.3871	+0.0276
5Y	3.789	+0.029	-36.0145	-0.1298	3.4300	+0.0285
7Y	4.007	+0.035	-44.6500	-0.3770	3.5628	+0.0292
10Y	4.283	+0.029	-52.5363	-0.1613	3.7604	+0.0300
20Y	4.876	+0.033	-77.2960	-0.4012	4.1022	+0.0290
30Y	4.904	+0.029	-82.6304	-0.1804	4.0797	+0.0282

Source: Bloomberg, LLP | 10:15 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES DRIFT HIGHER AS MARKET DIGESTS POWELL’S COMMENTS

SOFR swap rates moved higher this morning as market participants continue to digest Chairman Powell’s Jackson Hole comments. Powell’s comments were initially received enthusiastically by traders and rates dropped, particularly on the short-end of the curve. However, as market participants absorbed the speech, optimism waned, and rates steadied. Once that initial rate cut euphoria faded, traders realized a September rate cut is not a forgone conclusion.

Short-term rates were most impacted by Powell’s comments. Longer term rates are still grappling with forward inflation jitters, so the impact of Powell’s speech was more muted. As a result, the yield curve steepened. We are likely to continue to see a slightly steeper yield curve as the long-end grapples with lingering forward inflation concerns. For the near term, traders will be paying particular attention to the upcoming economic data and will be listening closely to Fed officials. I believe the key to a September rate cut will be the economic data we see over the next two weeks. An “as expected” PCE reading on 8/29 and a weak jobs report on 9/5 probably provide the green light for the Fed to cut rates 25 bps in September.

Currently, forward market pricing implies ~53.9 bps of cumulative rate cuts for 2025. That number was ~54.4 at Friday’s close. Due to the market’s reaction to Chairman Powell’s Jackson Hole speech on Friday, odds for a 25 bp September rate cut surged to ~86.2% – those odds were sitting at ~68% prior to Chair Powell’s comments. In short, the net effect of Powell’s speech was an increase in the odds for a September rate cut, rather than an uptick in the amount of cumulative rate cuts (bps) priced-in for 2025.

CHART 2: Short-End SOFR Swap Rates Edge Higher As Market Parses Powell’s Speech



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

CHART 2A: Long-End Swap Rates Steady As Traders Await Economic Data



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

CHART 3, 3A & 3B: FED TO REMAIN IN FOCUS AS MARKET PREPARES FOR RATE CUTS

Chairman Powell’s Jackson Hole comments pushed rates lower, particularly on the Fed-sensitive short-end of the curve. Here is a highlight of his comments that were largely interpreted by the market as dovish:

- The shifting balance of risk “may warrant adjusting our policy stance”
- The reasonable base case is tariff effects “will be relatively short-lived”
- The slowdown in job growth is “much larger than previously believed”
- Economic growth “slowed notably in the first half of the year”
- Powell signaled that conditions may warrant interest rate cuts as the Fed proceeds “carefully”

In short, Powell’s speech increased the odds for a September rate cut. Rates dropped initially, but traders did not overreact – the 2Y swap rate dropped from ~3.54% to ~3.44% on Friday, and is currently trading at ~3.47%. From my perspective, Powell’s speech put a September rate cut back on the table.

I thought that Powell’s speech simply showed that the Fed is ready to cut rates, but I believe the timing is still to be determined. If you listened carefully, Powell’s speech was peppered with “hawkish” warnings:

- Powell stated that inflation risks remain to the upside and jobs risks remain to the downside (stagflation is problematic for the Fed!)
- With the Fed’s dual goals in tension, the Fed will take a “balanced approach” to their dual mandate
- The stability of the Unemployment Rate allows the Fed “to proceed carefully”
- Tariffs have begun to push up prices in “some categories”
- The labor market is in a “curious type of balance”

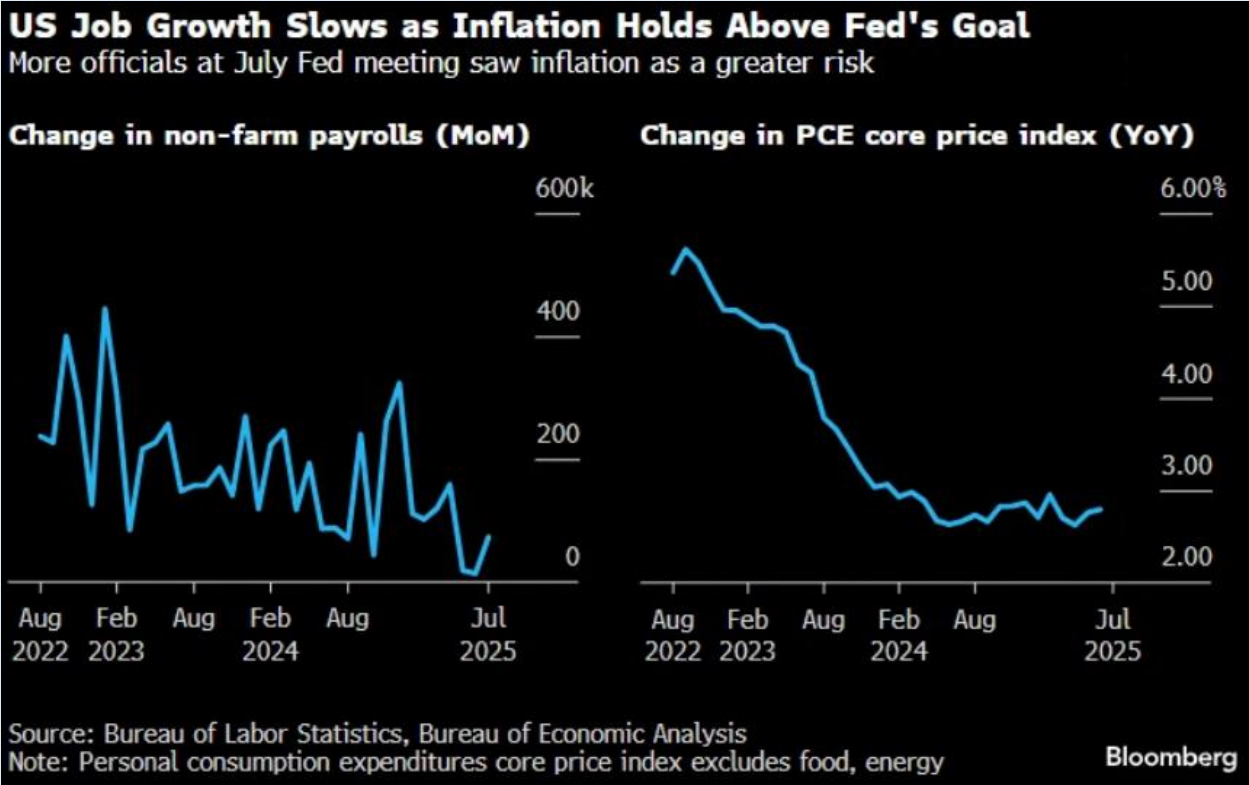
Those comments certainly do not sound like Chair Powell is dead-set on a September rate cut! Bottom-line, the upcoming economic data is going to be the key factor in determining if we get a September rate cut or not. If we see weak jobs and static inflation, we are likely to see a 25 bp rate cut at the next Fed meeting. If we see stable employment but a noticeable uptick in inflation, a September rate cut is by no means guaranteed. That is the primary reason traders are proceeding with caution.

CHART 3: Calendar Of Fed Speeches Through 9/1/2025

Date	Time	A	M	R	Event
08/25	15:15				Fed's Logan Speaks at Bank of Mexico Centennial Conference
08/25	19:15				Fed's Williams Gives Keynote Remarks
08/26	00:01				Fed's Barkin Repeats Remarks on the Economy
08/27	00:01				Fed's Barkin Repeats Repeats Remarks on the Economy
08/28	18:00				Fed's Waller Speaks on Monetary Policy

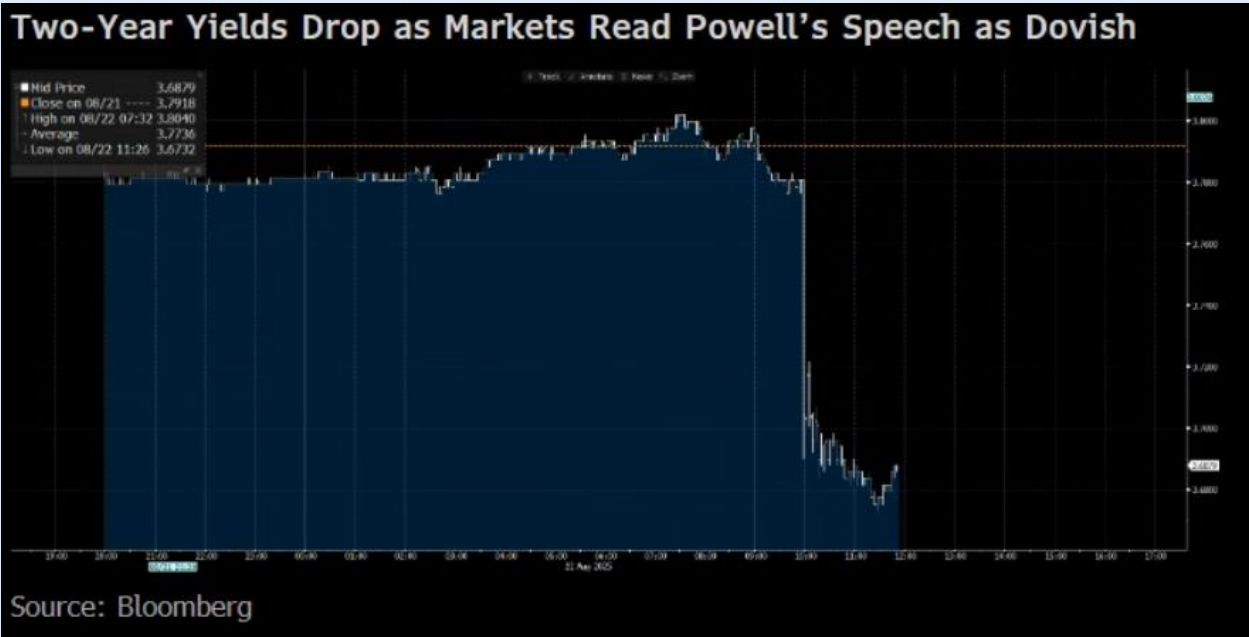
Source: Bloomberg, LLP | Schedule of Fed Speeches Through 9/1/2025

CHART 3A: Fed Rate Cut Expectations...A September Rate Cut Is By No Means “Guaranteed”



Source: Bloomberg, LLP | HISTORICAL EMPLOYMENT AND PCE DATA SINCE AUGUST 2022

CHART 3B: Rate Cut Optimism Jumps On Powell’s Jackson Hole Speech & Rates Drop...Now, Traders Need Data To Back It Up



Source: Bloomberg, LLP | 2Y TREASURY NOTE YIELD FOR 8/22/2025 – MARKET REACTION TO POWELL’S JACKSON HOLE SPEECH

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