



Flash Update: US RATE MARKETS – TUESDAY AUGUST 26, 2025

SOFR swap rates and US Treasury yields were mixed this morning and the yield curve steepened. The never-ending political drama surrounding the Fed is ramping up market uncertainty and fueling long-term inflation fears. President Trump seems intent on testing the limits of executive authority in the United States. Last night, President Trump “announced” he had fired Fed Governor Lisa Cook. She has refused to recognize his authority to fire her (Note: a Fed Governor has never been fired for cause before), setting the stage for a potentially prolonged legal battle.

President Trump’s attempts to wrest control of an independent Fed are unnerving investors and bond traders. Fear that Trump “appointed” Fed governors will be puppets for the whims of the administration are fueling long term inflation fears. The Fed’s perceived independence from government whims is a bedrock assumption of US markets, and any change to that perception could weigh on US credit ratings and investor confidence. S&P Global Ratings, in a note earlier this month affirming the US at AA+, warned that its sovereign credit rating could “come under pressure if political developments weigh on the strength of American institutions and the effectiveness of long-term policymaking or independence of the Federal Reserve.” There will be a lot more coming on this story, but it will only add to the uncertainty that currently permeates all aspects of the financial markets. *I believe we have not yet seen the full market reaction to this ongoing situation.*

Currently, short-end SOFR swap rates are down ~2-3 bps, and long-term swap rates are up ~1-3 bps. The rate move today has been fairly tepid, mostly due to light summer trading, but it signals what could be the beginning of a prolonged curve steepening – *if* bond traders and investors lose confidence in the independence of the Federal Reserve. My perspective: putting all politics aside, the requirement for appointing Fed officials should not be “loyalty” to the administration – it should be the polar opposite – non-political individuals with complete independence to implement monetary policy. Make no mistake, we are in dangerous waters, and this situation could have serious ramifications for the bond market. If investor confidence erodes, risk premiums will increase and rates, especially longer term rates, will increase. That would, in turn, drive mortgage rates higher.

Despite the Fed drama, 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 tomorrow, 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 down ~2-3 bps this morning. **2Y** and **3Y** SOFR swap rates are down ~2-3 bps this morning. **5Y** swap rates are down ~2 bps this morning, and **10Y** SOFR swap rates are currently trading up ~1 bp. 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: 9:00 AM Eastern

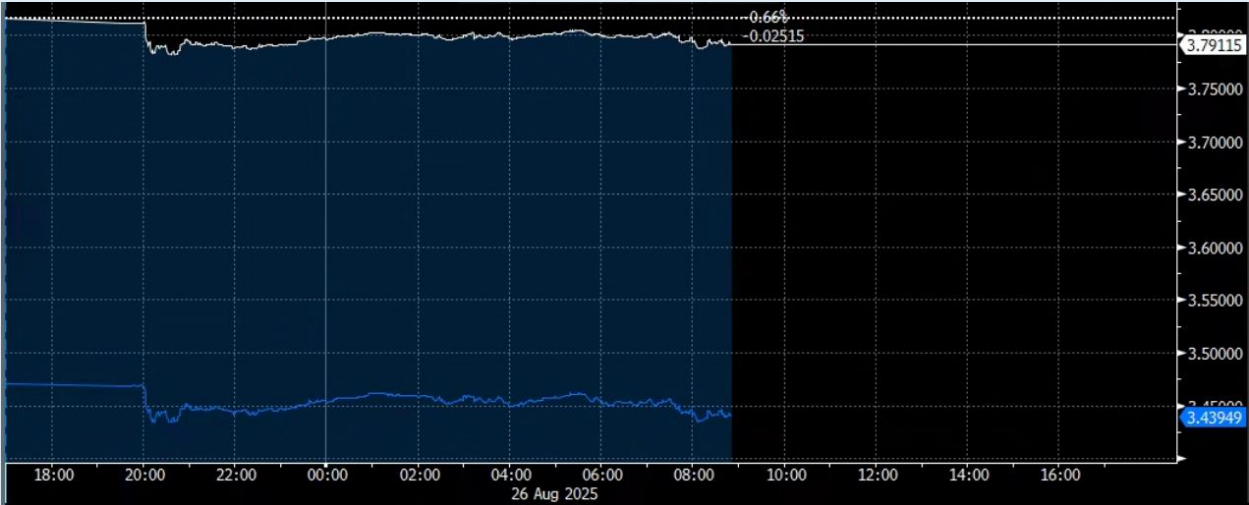
**For SOFR Swap Rates & Change-On-Day (In Bps) – Refer Two Far Right Columns (SOFR Swap Rates)*

UST YIELDS			SWAP SPREADS			SOFR SWAP		
RATES								

2Y	3.696	-0.027	-25.6500	-0.2194	3.4408	-0.0306
3Y	3.644	-0.028	-29.2565	-0.0617	3.3545	-0.0271
4Y	3.702	-0.025	-34.6885	-0.0635	3.3601	-0.0240
5Y	3.766	-0.019	-36.3697	-0.1063	3.4030	-0.0210
7Y	3.992	-0.010	-45.0725	-0.0989	3.5425	-0.0124
10Y	4.275	+0.000	-52.8559	-0.2962	3.7480	-0.0034
20Y	4.883	+0.021	-77.5501	-0.7308	4.1047	+0.0130
30Y	4.915	+0.025	-82.7413	-0.5600	4.0885	+0.0198

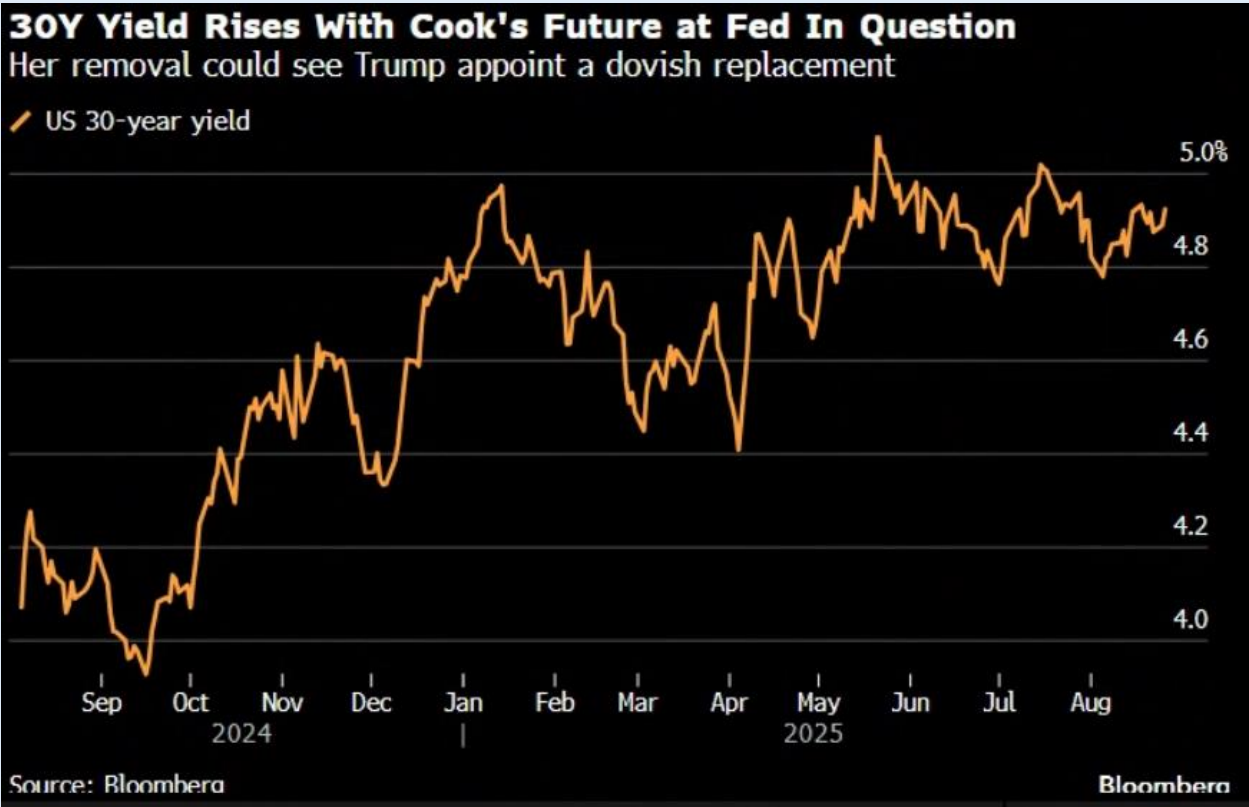
Source: Bloomberg, LLP | 9:00 AM NY Rates Snapshot

CHART 2: Short-End SOFR Swap Rates Edge Slightly Lower This Morning



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) SOFR SWAP RATES; 8/26 1-DAY TRADING CHART

CHART 2A: 10Y, 30Y Treasury Yields Rise On Trump-Stoked Inflation Fears



Source: Bloomberg, LLP | UST “LONG BOND” YIELD SINCE AUGUST 2024



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