

Flash Update: US RATE MARKETS – MONDAY AUGUST 4, 2025

- US Treasury yields and SOFR swap are holding mostly steady this morning as the market assesses the path forward for interest rates
- SOFR swap rates dropped materially on Friday after a much softer-than-anticipated July Employment Report
- Significant revisions to the prior three month's jobs data also weighed on market sentiment
- The soft employment data greatly increased the odds for a September Fed rate cut
- 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 ~1-2 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*

SOFR swap rates and US Treasury yields drifted slightly lower this morning as the market assesses the path forward for interest rates. Rates plunged on Friday after a much weaker-than-expected July Employment Report and significant downward revisions to the prior three months results. Should inflation remain static, the weakening labor market should provide the catalyst for the Fed to cut rates in September. You may hear whispers that based on Friday's data, an "emergency" Fed rate cut is warranted – I think that is *extremely* premature talk. I do not see the Fed overreacting to one data point. Additionally, labor statistics are notorious for being revised frequently (as we *just* witnessed). From my perspective, Friday's soft jobs data makes a compelling case for a September rate cut. The problem is, we will see a *ton* of additional data before the next Fed meeting, so it is too early to draw any firm conclusions about the path forward for rates. Right now, rates are clearly biased lower based on increasing Fed rate cut expectations. Despite the "summer trading" environment, there is definitely the possibility we see pockets of elevated intraday volatility this week as the market reacts to news and information – particularly out of Washington DC.

This is a relatively light week for economic data and for earnings reports, so all eyes are likely to be focused on President Trump's "reaction" to Friday's labor market data. Additionally, the Fed announced on Friday that Adriana Kugler will step down from her position as a governor, giving President Trump an opportunity to install a policymaker who aligns with his demands for lower interest rates. Also on Friday, Trump fired chief labor statistician Erika McEntarfer hours after labor market data showed weak jobs growth based in part on steep downward revisions for May and June. The fallout of both of those decisions are likely to continue to play out in the coming weeks. I expect rates to rattle around in this new range until the noise abates and the market can determine what's next for interest rates.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading down ~1-2 bps 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 ~1-2 bps. The very back-end of the swap curve is currently trading down ~1-2 bps. Volatility has increased based on today's market activity. Traders are clearly attempting to establish a new trading range after weeks of range bound trading. Since Thursday's close, 1Y SOFR swap rates are down ~27.4 bps; 2Y swap rates are down ~27.7 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)*

UST YIELDS			SWAP SPREADS			SOFR SWAP		
RATES								

2Y	3.667	-0.015	-22.5556	+0.0433	3.4430	-0.0141
3Y	3.637	-0.017	-28.7500	-0.0395	3.3507	-0.0178
4Y	3.679	-0.022	-34.0000	-0.1150	3.3482	-0.0198
5Y	3.736	-0.021	-35.4048	-0.0368	3.3839	-0.0211
7Y	3.943	-0.018	-44.3000	-0.3660	3.5025	-0.0228
10Y	4.198	-0.019	-51.6228	-0.4978	3.6835	-0.0234
20Y	4.777	-0.014	-77.7910	-0.5039	4.0000	-0.0212
30Y	4.804	-0.018	-84.0059	-0.1309	3.9644	-0.0203

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

CHART 2 & 2A: SOFR SWAP RATES HOLD MOSTLY STEADY AS MARKET ASSESSES THE OUTLOOK FOR INTEREST RATES

SOFR swap rates are holding mostly steady this morning as the market pauses to assess the path forward for interest rates. Short-end rates edged a touch lower this morning, but nothing dramatic. Friday’s significant drop in rates was sparked by rising US unemployment and slower job creation. As a result, traders boosted bets on Fed rate cuts to support the economy. Traders rushed into US Treasuries despite worries about the inflationary effect of President Trump’s tariffs, which have kept policy makers in a “wait-and-see” monetary policy mode. This week is light on economic data, so the employment “story” is likely to dominate the market the early part of this week and perhaps beyond. President Trump’s ongoing reaction remains a *huge* wildcard for the market. That wildcard is likely to keep the bias toward lower rates.

CHART 2: Short-End SOFR Swap Drift Lower As Market Digests Jobs Data



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

CHART 2A: Long-End Swap Rates Edge Lower As Traders Assess Market Outlook

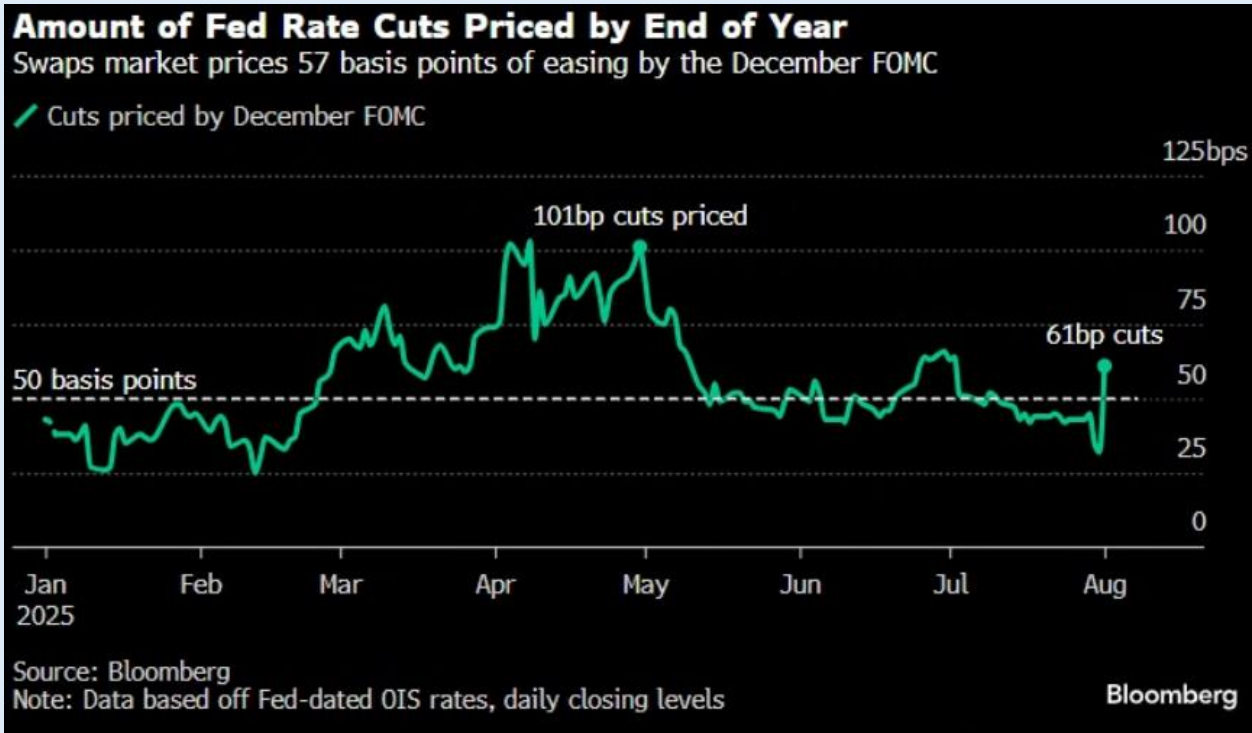


Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR (10) DAYS

CHART 3 & 3A: RATE CUT EXPECTATIONS SURGE ON WEAK JOBS REPORT AND DOWNWARD REVISIONS

Currently, forward market pricing implies **~57.1 bps** of cumulative rate cuts for 2025. That number was ~60.9 at Friday's close. The odds for a September rate cut surged to ~85.5% on the back of the weak employment data and significant downward revision to prior month's results. Currently, the market *firmly* favors two, 25 bp rate cuts in 2025. A September rate cut is *definitely* back on the table. The odds for a 50 bp rate cut in October or December are also increasing (~65.8% for October & ~90.3% for December) based on the lackluster July jobs data and downward revisions. A weak August Employment Report would likely increase the odds for a 50 basis point rate cut in September.

CHART 3: Forward Pricing Implies Possibility For Three Rate Cuts This Year...One Of Those Rate Cuts Could Be 50 BPS

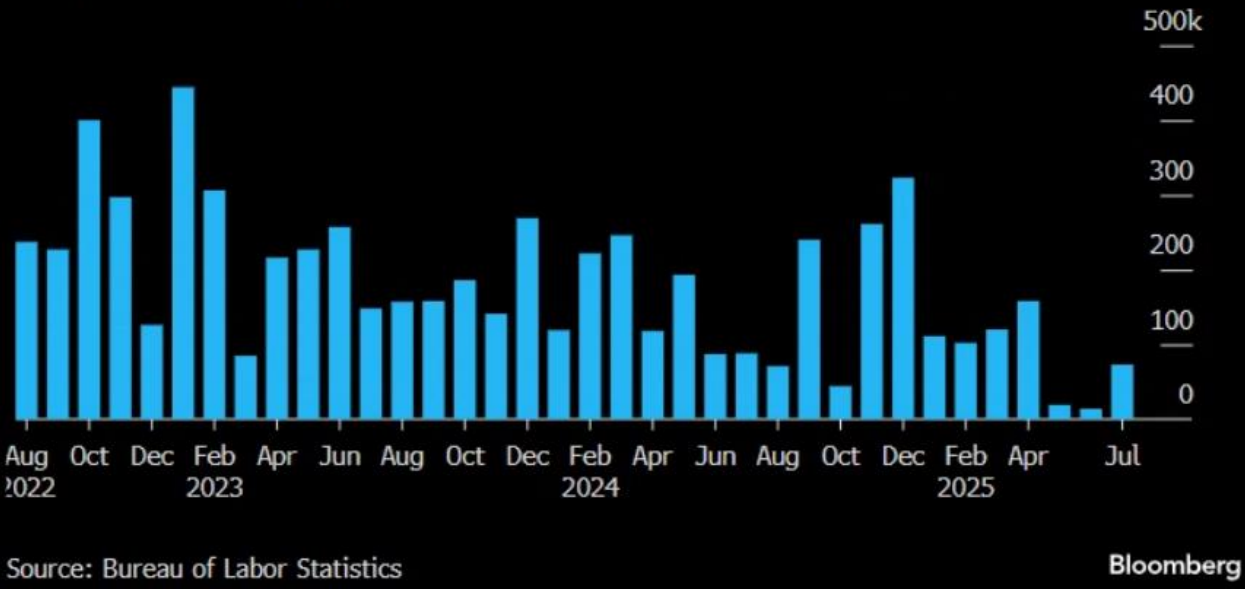


Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS FOR 2025 (AS OF CLOSE 8/1/2025)

CHART 3A: Weak Jobs Data & Downward Revisions Portend Additional Rate Cuts

US Labor Market Slows Sharply Over Past Three Months
May and June figures were revised lower by nearly 260,000 jobs

Change in nonfarm payrolls (MoM)



Source: Bloomberg, LLP | HISTORICAL EMPLOYMENT REPORT DATA FROM AUGUST 2022

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