

Flash Update: US RATE MARKETS – FRIDAY SEPTEMBER 12, 2025

- US Treasury yields and SOFR swap rates edged higher this morning as the market prepares for the FOMC meeting next week
- Tariffs and trade related developments will continue to weigh on the market for the foreseeable future
- *Next up for key data:* August Retail Sales data is released on Tuesday, 9/16 at 8:30 AM
- 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 ~2-4 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 ticked higher this morning, as market participants pause to prepare for the FOMC rate decision due next week. My perspective is that the data we have seen this week likely locks-in a 25 bp rate cut next week. Odds for a 25 bp September rate cut are now ~92.5%. Odds for a 50 bp rate cut in September have settled at ~7.5%.

Please note Fed officials are in the pre-meeting quiet period. The next time we hear from a Fed official will be Chairman Powell’s post-meeting press conference. The FOMC rate decision is due Wednesday, 9/17 at 2:00 PM.

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 ~2-3 bps. The very back-end of the swap curve is currently trading up ~3-4 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	3.556 +0.015	-25.4275	-0.1220	3.3020	+0.0111
3Y	3.519 +0.017	-29.6100	-0.1463	3.2249	+0.0149
4Y	3.578 +0.021	-34.9875	-0.1760	3.2207	+0.0182
5Y	3.620 +0.024	-37.2500	-0.2200	3.2474	+0.0208
7Y	3.805 +0.036	-45.3600	-0.4960	3.3524	+0.0299
10Y	4.060 +0.039	-52.8913	-0.2663	3.5329	+0.0368
20Y	4.652 +0.042	-77.6219	-0.4449	3.8764	+0.0360
30Y	4.690 +0.036	-83.0000	-0.2100	3.8611	+0.0339

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

CHART 2, 2A & 2B: SOFR SWAP RATES DRIFT SLIGHTLY HIGHER AS MARKET BRACES FOR FOMC MEETING

SOFR swap rates ticked slightly higher this morning, as market participants brace for the FOMC rate decision due next week. There is a lingering “general feeling” that rate cut expectations have gotten too aggressive. As such, traders seem reluctant to take rates much lower ahead of the FOMC meeting.

Please note, SOFR swap rates are trading *very* close to 2025 year-to-date lows. Declining swap rates have led to a significant reduction in cap premiums over the past two months, particularly for caps inside of three years. 10-Year US Treasury yields are near their lowest level since April, which is helping to lower mortgage rates and improve sentiment.

Currently, forward market pricing implies **~71.3 bps** of cumulative rate cuts for 2025. That number was ~71.8 bps at yesterday’s close. Odds for a 25 bp September rate cut have stabilized at ~92.5%. Traders have now *firmly* priced in a 25 bp rate cut for next week. Cumulative rate cut pricing now suggests we may see more than two, 25 bp rate cuts this year, or perhaps one jumbo 50 bp rate cut. Odds for a 50 bp rate cut in September are sitting at ~7.5%.

CHART 2: Short-End SOFR Swap Rates Edge Higher As Market Pauses Ahead Of FOMC Rate Decision



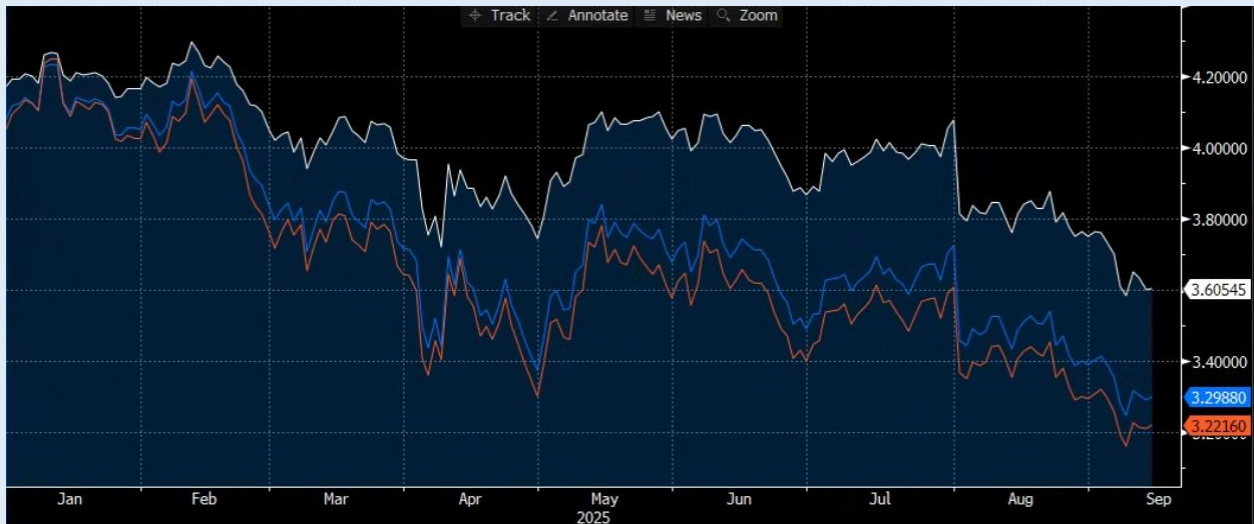
Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR (5) DAYS

CHART 2A: Long-End Swap Rates Slightly Higher As Market Digests Inflation Data



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

CHART 2B: Short-End SOFR Swap Rates Trading Very Close To YTD Lows...



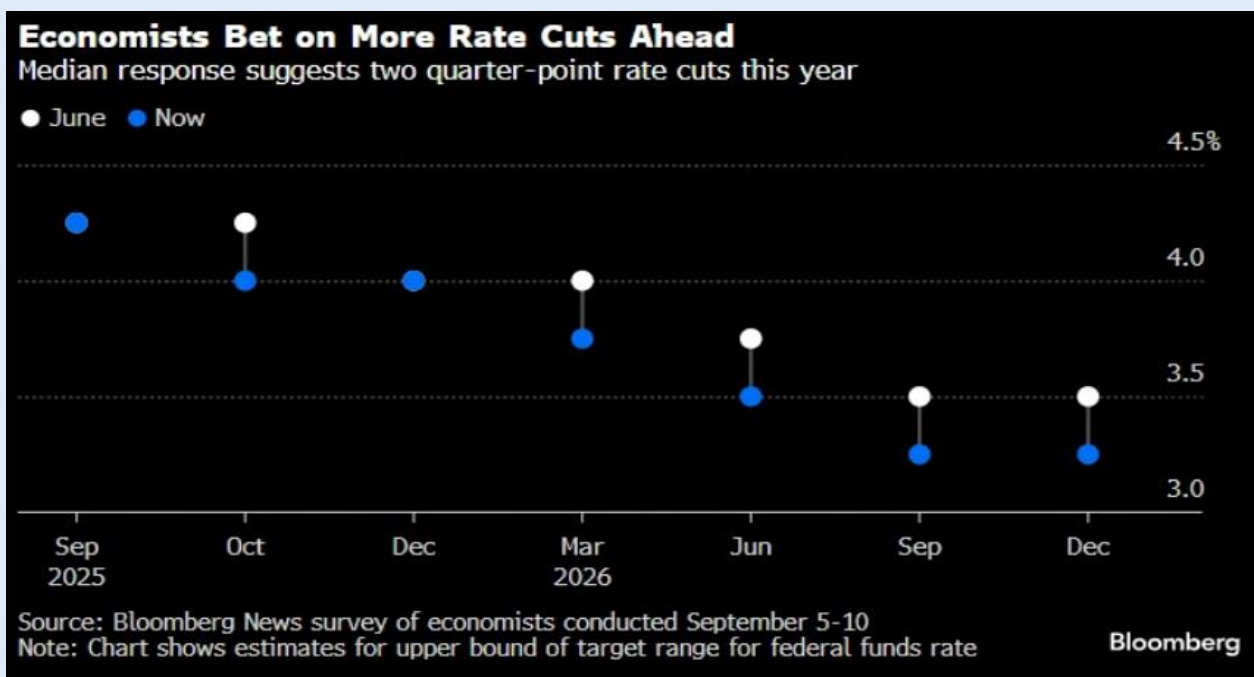
Source: Bloomberg, LLP | 1Y (green), 2Y (purple) & 3Y (light blue) SOFR SWAP RATES, YEAR-TO-DATE 2025

CHART 3 & 3A: ECONOMISTS SEE TWO, 25 BP RATE CUTS THIS YEAR

A survey of Bloomberg economists revealed two key themes: 1. Economists expect only two, 25 bp rate cuts this year and 2. Economists are worried about maintaining Fed independence – the economists surveyed see a real threat to an independent Central Bank. I included Chart 3 to show there may be less “consensus” on rate cut expectations than previously thought. There are many market participants and economists who feel the Fed will continue to proceed with caution for the remainder of 2025 – that probably means two, 25 bp rate cuts, in September and December.

Bottom line, the data we saw this week leans stagflationary for me. On the one hand we have a cooling jobs market, and the weakness may be accelerating. On the other, we have *stubborn* consumer inflation – the 0.4% monthly increase in CPI was the most in four years. From my perspective the recent economic and inflation data support a 25 bp rate cut next week. I think the market is getting ahead of itself in calling for a 50 bp cut. I am not ruling out a third rate cut this year, I just believe the Fed would, if necessary, prefer to spread the rate cuts out over three meetings. I do not think the Fed will want to risk a jumbo rate cut that could accelerate inflation.

CHART 3: Economists Do Not See A Third Rate Cut This Year

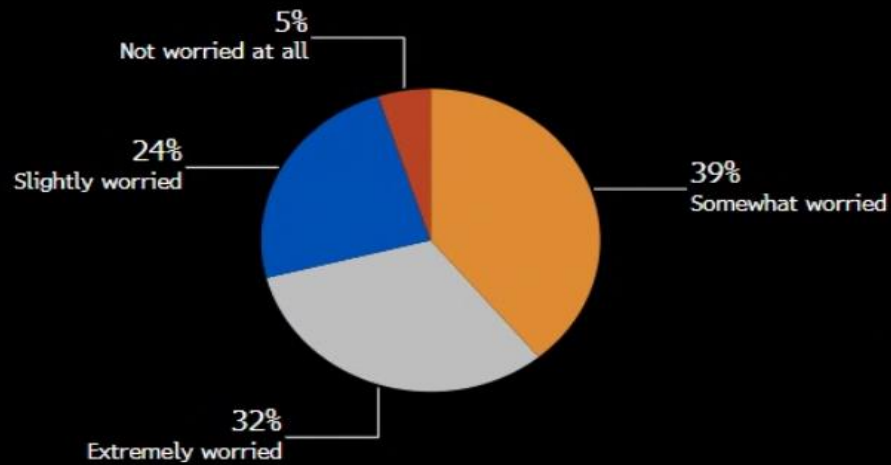


Source: Bloomberg, LLP | FOMC RATE CUT EXPECTATIONS – BLOOMBERG ECONOMISTS

CHART 3A: Economists Expect Political Pressure Could Threaten Fed Independence Next Year

Economists Are Worried About Political Pressures

How worried are you that in the next year monetary policy decisions will become influenced by political loyalties?



Source: Bloomberg News survey of economists conducted September 5-10

Bloomberg

Source: Bloomberg, LLP | SURVEY OF BLOOMBERG ECONOMISTS – THREAT TO FED INDEPENDENCE

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