

**Flash Update: US RATE MARKETS – THURSDAY SEPTEMBER 18, 2025**

- US Treasury yields and SOFR swap rates are drifting higher as market participants digest the Fed rate decision
- Rates initially dropped on the rate cut announcement, but wound up a touch higher after Chairman Powell's comments yesterday
- Chairman Powell's comments tempered expectations for a jumbo 50 bp rate cut this year, hence the uptick in rates this morning
- Economic and inflation data will remain a key focus for market participants going forward
- Fed officials will be back on the tape beginning tomorrow – *the market will be listening!*
- Tariffs and trade related developments will continue to captivate the market for the foreseeable future
- Short-end SOFR swap rates are trading up ~2-3 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading up ~3-5 bps, depending on tenor
- The next FOMC rate decision is due on Wednesday, October 29th 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 drifted higher this morning, as market participants pause to digest the Fed rate decision. Yesterday, the FOMC lowered the overnight benchmark rate by 25 basis points to 4.00% lower bound / 4.25% upper bound. Initially, rates dropped on the rate cut announcement. However, Chairman Powell's cautious and at times somewhat confusing post-meeting comments halted the decline in rates. Traders were initially hopeful Powell would be resoundingly dovish and signal a path of sustained rate cuts – Powell did not do that. In fact, he sounded cautious about further rate cuts, though he also hinted that further rate cuts could be warranted. That somewhat confusing message baffled traders and caused rates to tick higher yesterday afternoon. Powell did make it clear that a 50 bp rate cut is not on the table for the near term, and it was not seriously considered by the committee yesterday.

I expect the Fed and the market to be focused on the data going forward. Powell was clear that although they are worried about the labor market, they are also worried about rising inflation. That dilemma will make the Fed's job more challenging for the near term. Fed officials will also be back on the tape beginning tomorrow. I expect market participants will be listening closely.

**SOFR Swap Rate Summary:** The **1Y** SOFR swap rate is trading up ~2-3 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 ~3-4 bps. The very back-end of the swap curve is currently trading down ~3-5 bps.

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

**CHART 1: US RATES SNAPSHOT: 10:00 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  | 3.582 | +0.030 | -24.5139 | -0.3915 | 3.3378 | +0.0254 |
| 3Y  | 3.564 | +0.029 | -28.9760 | -0.2490 | 3.2764 | +0.0266 |
| 4Y  | 3.633 | +0.035 | -34.2450 | -0.3000 | 3.2835 | +0.0272 |
| 5Y  | 3.686 | +0.031 | -36.8569 | -0.3375 | 3.3171 | +0.0273 |
| 7Y  | 3.877 | +0.039 | -45.1165 | -0.7165 | 3.4270 | +0.0303 |
| 10Y | 4.126 | +0.038 | -52.2500 | -0.3973 | 3.6047 | +0.0337 |
| 20Y | 4.705 | +0.047 | -76.8746 | -0.7418 | 3.9380 | +0.0404 |
| 30Y | 4.740 | +0.050 | -82.2527 | -0.5115 | 3.9176 | +0.0434 |

Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES DRIFT HIGHER AS MARKET DIGESTS FED RATE DECISION

SOFR swap rates are drifting slightly higher this morning, as traders digest the FOMC rate decision and prepare for the next round of key economic data. Yesterday’s Fed meeting barely moved the market – 2-year SOFR swap rates opened yesterday at ~3.27% and they are currently trading at ~3.33%. From my perspective, the post-Powell uptick in swap rates reflects a realization by the market that the Fed’s forward path *is by no means certain*. We saw a somewhat wide disparity on the new dot-plot, so there are still a wide range of possible outcomes for this year. The uptick in rates tells me that the market is having second thoughts about two additional rate cuts this year. That said, short-end SOFR swap rates remain *very* close to the 2025 YTD lows, which is keeping most cap premiums near YTD lows as well.

CHART 2: Short-End SOFR Swap Rates Drift Higher As Market Pauses To Digest Fed Rate Decision



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 30 DAYS

CHART 2A: Long-End SOFR Swap Rates Edge Higher As Inflation Fears Linger



Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR 30 DAYS

### **CHART 3: FOMC RATE CUT EXPECTATIONS – MARKET EXPECTS TWO MORE RATE CUTS THIS YEAR**

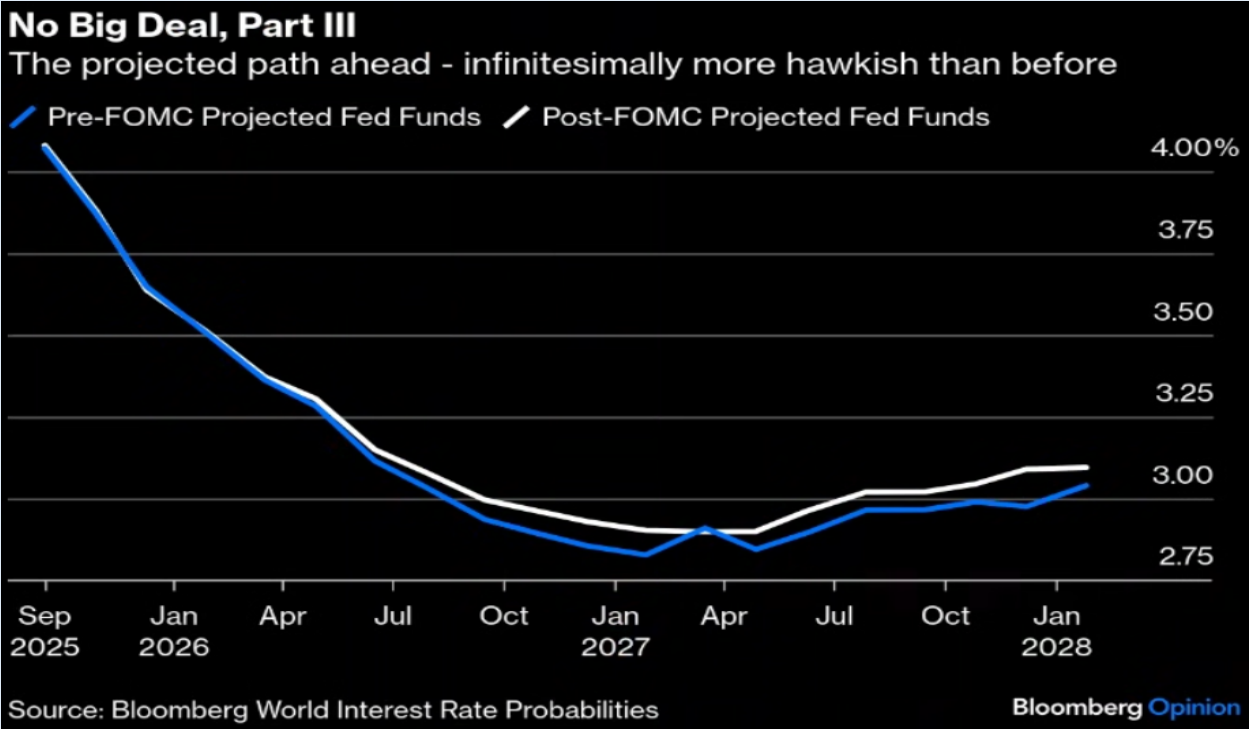
As we know, the FOMC cut the overnight benchmark rate 25 bps yesterday. The move was widely anticipated by the market, and the Fed did not disappoint. The revised median dot-plot showed participants expect two more 25 bp cuts this year. However, almost *half* of the FOMC expects just one or no more cuts this year. The official policy statement flagged growing downside employment risks, and Powell reiterated that view during the news conference. However, Fed officials marked up their 2025 growth estimate in the new economic projections (SEP) and lowered the unemployment rate estimates. The Fed revealed they now see core inflation remaining persistently higher than before, yet also see a need for more rate cuts. That somewhat conflicting and confusing message is the primary reason traders have paused to reassess what is next for the Fed.

Markets have come to a collective judgment that at the margin, the Fed was somewhat more hawkish than expected. On some level, Powell's comments yesterday sounded like he was positioning yesterday's rate cut as a "hawkish cut." He mentioned several times yesterday that the rate cut was more of a "risk management" cut and not prompted by any immediate concern for economic growth. From my perspective, the Fed cut rates for two reasons yesterday – to appease the market and the President, and to pre-emptively stave off the labor market weakness the Fed is clearly worried about. That said, the fact that markets hardly moved post-Fed meeting shows how little this meeting resolved in terms of the outlook for rates. In the candid words of Chair Jerome Powell, "it's challenging to know what to do," and "there are no risk-free paths now."

A word on Fed independence – I found it intriguing that Fed Governors Christopher Waller and Michelle Bowman, both with a chance to replace Powell next year, did not dissent. I believe that by not dissenting, Waller and Bowman showed they may not be willing to play the role of politically motivated robots. In my opinion, yesterday was a win for central-banking independence. The Fed sent a clear message yesterday – let us do our job without political interference.

Currently, forward market pricing implies **~42.9 bps** of cumulative rate cuts for 2025. That number was ~44.6 bps at yesterday's close. Odds for a 25 bp rate cut in October are currently sitting at ~85.5%. Implied odds that the Fed will skip a rate cut in October and hold off until December are ~14.5%. Cumulative rate cut pricing implies the market anticipates two additional rate cuts this year.

### **CHART 3: Fed Rate Cut Expectations Little Changed After FOMC Rate Decision**



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS THROUGH JAN 2028

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