

Flash Update: US RATE MARKETS – THURSDAY SEPTEMBER 25, 2025

- US Treasury yields and SOFR swap rates edged higher on a stronger-than-expected Final 2Q GDP revision
- 2Q GDP was revised higher to 3.8% (vs. 3.3% prior) and the Core Prices Paid component was revised to 2.6% (vs. 2.5% prior)
- The strong GDP revision signals economic growth remains solid; The uptick in prices paid signals inflation remains sticky
- Fed-speak is still in focus: Eight Fed officials will be “on the tape” today – *the market will be listening!*
- Tariffs and trade related developments will continue to captivate the market for the foreseeable future
- Economic and inflation data will remain a key focus for market participants going forward
- Ongoing political pressure on the Fed will also weigh on markets for the near term
- Short-end SOFR swap rates are trading up ~3-4 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading up ~2-4 bps, depending on tenor
- Next up for key data: August PCE inflation data prints tomorrow, 9/26 at 8:30 am
- 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 moved higher this morning after the final 2Q GDP figures were revised higher. 2Q GDP was revised to 3.8% (from 3.3%) and the Core Prices Paid component was revised to 2.6% (from 2.5%). Rates moved higher in response to the strong GDP revision. The 3.8% revised GDP figure represents the fastest pace of economic growth in two years. Weekly jobless claim also posted better-than-expected at 218k – expectations called for 233k. Jobless claims fell to the lowest level since mid-July, underscoring how companies remain reticent to lay off workers. The combination of the strong GDP revision and tepid jobless claims pushed rates higher, particularly on the Fed-sensitive short-end of the curve.

Markets are also bracing for the release of the August PCE inflation data tomorrow at 8:30 AM. As we know, the Fed tracks that data closely – it is their “preferred” inflation gauge. Market expectations are calling for a YoY Headline PCE of 2.7% (vs. 2.6% prior) and a YoY Core PCE of 2.9% (unchanged). We will also see Personal Income and Personal Spending data released tomorrow morning. Market participants will also be paying close attention to the full plate of Fed-speakers on tap for the rest of the week. There are eight different Fed officials scheduled to speak today. So far this week, Fed officials haven’t really provided any dramatic new insights, but rates have drifted higher, which tells me there is concern the Fed may be more cautious on additional rate cuts than the market anticipates. The market has also removed expectations for a 50 bp rate cut this year. My take on the Fed-speak this week is that it has definitely leaned more cautious than I expected.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading up ~3-4 bps this morning. **2Y** and **3Y** SOFR swap rates are up ~3-4 bps this morning. **5Y** and **10Y** SOFR swap rates are currently trading up ~2-4 bps. The very back-end of the swap curve is currently trading up ~1-2 bps.

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

CHART 1: US RATES SNAPSHOT: 9:30 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 | 3.639 +0.035 | -22.5611 -0.0713 | 3.4139 +0.0340 |
| 3Y | 3.641 +0.037 | -28.6804 -0.0609 | 3.3543 +0.0347 |
| 4Y | 3.703 +0.035 | -33.7500 | 3.3585 +0.0341 |
| 5Y | 3.751 +0.032 | -36.2592 -0.0092 | 3.3894 +0.0332 |
| 7Y | 3.937 +0.035 | -44.8400 -0.4200 | 3.4906 +0.0297 |
| 10Y | 4.172 +0.025 | -51.6262 -0.0063 | 3.6556 +0.0244 |
| 20Y | 4.728 +0.011 | -76.6294 -0.1572 | 3.9628 +0.0095 |
| 30Y | 4.754 +0.004 | -82.2755 -0.0347 | 3.9310 +0.0025 |

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

CHART 2, 2A & 2B: SOFR SWAP RATES TICK HIGHER ON STRONG 2Q GDP REVISION; TRADERS DIAL-DOWN RATE CUT EXPECTATIONS

SOFR swap rates moved higher this morning on a better-than-expected GDP revision and solid weekly jobs data. From my perspective, the recent uptick in swap rates reflects a realization by the market that the Fed’s forward path *is by no means certain*. Traders are now dialing back rate cut expectations – the ~39.1 bps of rate cuts priced into the curve signals traders now expect *one* more 25 bp rate cut this year, but are ~50/50 on another. There are still a wide range of possible “rate” outcomes for this year. The uptick in rates tells me that the market is having second thoughts about two additional rate cuts this year. I also don’t think it is a stretch to say traders have taken a 50 bp rate cut off the table. Lingering inflation fears are keeping rates propped up as well.

For the week, short-term swap rates have steadily drifted higher. A cautious tone from Fed officials and solid economic data are the primary reasons for the uptick in short-term rates over the past 10 days. The 2-year SOFR swap rate opened Monday at ~3.331% and is currently trading at ~3.413%. Long-term swap rates have also moved higher recently, mainly due to growing fears about inflation. The 10-year SOFR swap rate opened the week at ~3.601% and is currently trading at 3.656%.

Currently, forward market pricing implies ~39.1 bps of cumulative rate cuts for 2025. That number was ~43.2 bps at yesterday’s close. Odds for a 25 bp rate cut in October have dipped to ~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 is having second thoughts regarding two additional rate cuts in 2025. Traders have also basically removed the possibility of a 50 bp rate cut this year – at least for now!

CHART 2: Short-End SOFR Swap Rates – Prior 10 Trading Sessions



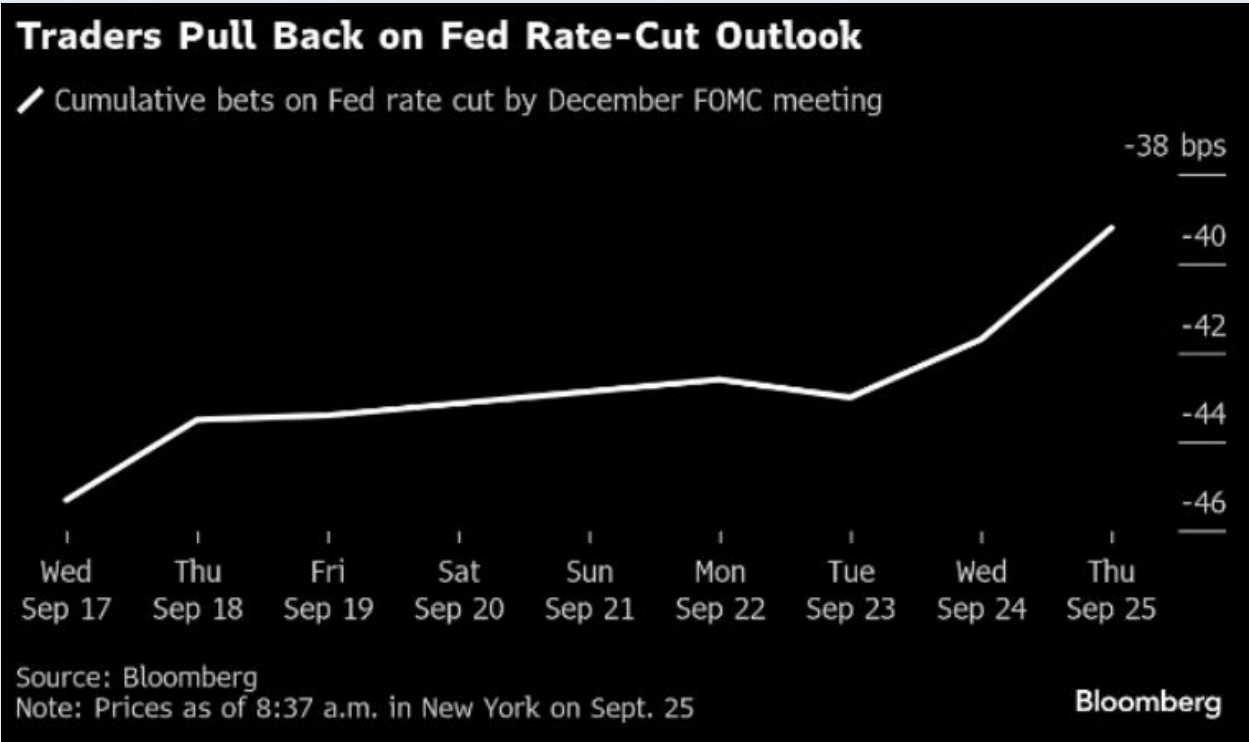
Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 10 DAYS

CHART 2A: Long-End SOFR Swap Rates – Prior 10 Trading Sessions



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

CHART 2B: Traders Dial-Down Rate Cut Expectations



Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS FOR 2025



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