

**Flash Update: US RATE MARKETS – FRIDAY SEPTEMBER 26, 2025**

- US Treasury yields and SOFR swap rates are holding mostly steady this morning after an “as expected” PCE print
- Year-On-Year Core PCE printed at 2.9%, meeting consensus expectations
- However, this morning’s PCE data underscores that inflation remains “sticky” and far from the Fed’s 2.00% target
- Tariffs and trade related developments will continue to captivate the market for the foreseeable future
- Economic, employment 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 flat to up ~1 bp this morning, depending on tenor
- Long-end SOFR swap rates are currently trading flat to up ~1 bp, depending on tenor
- Next up for key data: The September Employment Report is released on Friday, 10/3 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 are holding mostly steady this morning. August PCE printed at expectations, and Personal Income and Personal Spending data printed a bit better-than-expected. Despite the “hype” heading into the PCE release this morning, the market basically shrugged off the data. I do not think the data this morning really changes anything, but it does reinforce the uncertainty surrounding the path forward for interest rates. Yes, the FOMC just cut rates and the market expects them to cut again this year. Ideally, I believe the Fed would like to cut one more time this year as well. However, the economic data since the Fed meeting has been positive and despite the “as expected” PCE print this morning, sticky inflation remains a *primary* concern for the Fed. Strong economic data and sticky inflation are not the ideal recipe for additional rate cuts. Fed officials were vocal this week that they have not and are not moving the inflation target higher – it remains at 2.00%.

From my perspective, I see a challenging path forward for the Fed – they made proceed far more cautiously on additional rate cuts than the market anticipates. Market focus will now shift to next week’s release of the September Employment Report on Friday 10/3. Given the tepid, but sticky inflation data we saw this morning, a soft jobs report could be enough to cajole another rate cut out of the Fed in October.

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

**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	3.649	-0.007	-21.3456	+0.2772	3.4367	-0.0032
3Y	3.650	-0.005	-26.9300	+0.7420	3.3813	+0.0005
4Y	3.711	-0.004	-31.7500	+0.9205	3.3869	+0.0043
5Y	3.754	-0.004	-33.9891	+1.0433	3.4182	+0.0069
7Y	3.940	+0.000	-42.9375	+0.2422	3.5180	+0.0081
10Y	4.168	-0.002	-48.8624	+1.0126	3.6792	+0.0073
20Y	4.720	-0.001	-74.1490	+0.6228	3.9790	+0.0049
30Y	4.741	-0.007	-79.8749	+1.0430	3.9432	+0.0032

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

CHART 2, 2A & 2B: SOFR SWAP RATES STEADY AS MARKET DIGESTS INFLATION DATA, FED-SPEAK

SOFR swap rates are holding mostly steady as the market digests the economic data we have seen this week. Traders are also listening closely to Fed officials for clues about the direction of monetary policy. The large majority of “Fed-speak” this week has indicated the Fed plans to move forward cautiously. Fed Bank of Richmond President Tom Barkin said this morning that while unemployment and inflation have both moved away from the FOMC’s targets, he sees only limited risk of further deterioration on both fronts. “We’re very much focused on trying to land the plane here and balancing inflation and unemployment,” Barkin said. He added, “both of them have ticked in the wrong direction, but on the other hand, the downside is limited, and we’re just going to have to adjust our stance as we learn more.”

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 7-10 days. The 2-year SOFR swap rate opened Monday at ~3.33% and is currently trading at ~3.44% (+11 bps). Long-term swap rates have also moved higher recently, mainly due to lingering fears about inflation. The 10-year SOFR swap rate opened the week at ~3.60% and is currently trading at 3.68% (+8 bps).

Currently, forward market pricing implies ~39.6 bps of cumulative rate cuts for 2025. That number was ~39.3 bps at yesterday’s close. Odds for a 25 bp rate cut in October are sitting at ~87.7%. Implied odds that the Fed will skip a rate cut in October and hold off until December are ~12.3%. 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

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

CHART 2B: PCE Prints As Expected, But Inflation Remains Sticks And Higher Inflation Fears Linger

Metric	Actual	Estimate
PCE price index (MoM)	+0.3%	+0.3%
Core PCE price index (MoM)	+0.2%	+0.2%
PCE price index (YoY)	+2.7%	+2.7%
Core PCE price index (YoY)	+2.9%	+2.9%
Real consumer spending (MoM)	+0.4%	+0.2%

Source: Bloomberg, LLP | AUGUST PCE RECAP

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