

# RATE ENVIRONMENT

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## THE MARKETS

Treasuries were mostly unchanged last week as investors weighed policy implications of the new Administration. The 10-Year Treasury yield reached a one-month high of 2.55% on Wednesday, as the "reflation trade" driven by the prospect of expansive fiscal stimulus regained some momentum. Market yields eased amid solid demand from a \$28 billion sale of seven-year notes and as economic reports were mostly weaker than expected. The Federal Reserve meets this week and no changes are expected for the policy statement. Federal funds futures currently place a 74% chance of a 25 basis point increase at the June 14 meeting, with another hike expected by year-end. The Dow Jones Industrial Average closed above 20000 for the first time, propelled by investor bets that Washington will follow through with business-friendly plans such as tax cuts and regulatory relief. Stocks were also supported as nearly three-quarters of companies reporting earnings thus far have exceeded estimates.

## THE ECONOMY

GDP rose at a 1.9% pace in Q4 following the prior quarter's 3.5% gain. Personal consumption was up 2.5%, compared to 3.0% in Q3. Existing home sales declined by 2.8% to 5.49 million units in December. New home sales, meanwhile, plunged 10.4% to 536,000. The University of Michigan said its index of sentiment increased to 98.5 from 98.2 in December.

The ISM should say its manufacturing index held at 55 in January while the Conference Board reports consumer confidence eased slightly. Look for personal income to rise 0.4% as personal spending gains 0.5%, both up sharply from the prior month. Look for construction spending to edge up 0.2%.

## KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.75%	0.75%	2-Year Agency	1.30%	1.28%
Prime	3.75%	3.75%	5-Year Agency	2.05%	2.05%
2-Year Treasury	1.22%	1.20%	15-Year MBS	2.52%	2.49%
5-Year Treasury	1.94%	1.95%	30-Year MBS	3.20%	3.18%
10-Year Treasury	2.49%	2.48%	3-Month LIBOR	1.04%	1.04%

Source: Bloomberg

## INTEREST RATE SWAPS / CAPS / FLOORS

*Buyer Pays Fixed- Indications only based on quarterly settlements*

Term	SWAP			CAP		FLOOR	
	90-Day LIBOR	PRIME		90-Day LIBOR (0.50%)	90-Day LIBOR (2.50%)	90-Day LIBOR (0.50%)	90-Day LIBOR (2.00%)
1-Year	1.26%	3.96%		0.60%	0.07%	0.02%	0.61%
2-Year	1.51%	4.31%		1.67%	0.28%	0.05%	0.99%
3-Year	1.71%	4.63%		3.15%	0.75%	0.12%	1.40%
5-Year	2.00%	4.92%		6.68%	2.03%	0.41%	2.36%

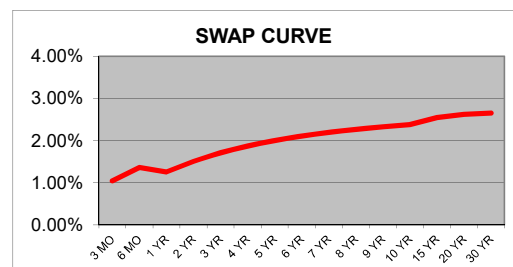
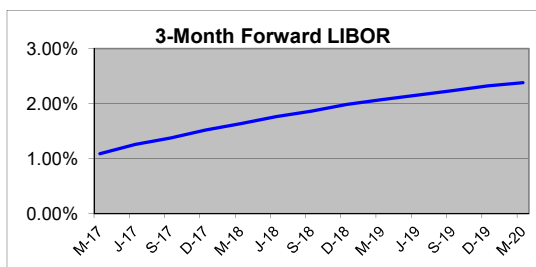
Source: Bloomberg, PNC

## OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 53.30	-0.78%	Dow Jones Ind Avg	20,093.78	1.68%
Commodities (CRB Index)	\$ 193.43	0.48%	NASDAQ	5,660.78	5.16%
EURO (spot)	\$ 1.087	3.36%	S&P 500	2,294.69	2.50%

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

The Federal Reserve released a progress report outlining steps moving forward related to the ongoing initiatives to enhance the speed, efficiency and security of the U.S. payment system. The progress report highlights collaborative efforts in support of strategies pursued by the Fed in conjunction with various private sector businesses, financial services providers, financial institutions, consumer groups and government agencies. "The Fed's priority is to advance improvements that are in the public interest so that consumers and businesses alike have access to efficient, real-time and highly secure payments in the United States," said Esther George, president and chief executive officer of the Federal Reserve Bank of Kansas City.

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