

# RATE ENVIRONMENT

ATLANTIC CAPITAL STRATEGIES, INC.

(781) 276-4966

JUNE 19, 2017

## THE MARKETS

As expected, the Fed raised their benchmark rate for the third time in six months, maintained their outlook for one more hike in 2017 and set out details for shrinking their balance sheet. "Near-term risks to the economic outlook appear roughly balanced, but the committee is monitoring inflation developments closely," the FOMC said on Wednesday. "The committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated." Chair Yellen said the Fed continues to believe that a strong labor market will push inflation up. Policy makers also issued forecasts showing another three quarter-point rate increases in 2018, similar to the previous projections in March. Markets currently place a 40% chance of another move by year-end. Treasuries were mostly higher in an uneventful week while tech stocks retreated after several analysts cautioned on valuations. Oil slipped to the lowest since November as gasoline supplies surged.

## THE ECONOMY

Wholesale prices were little changed in May from the prior month, reflecting declines in the cost of food and fuel. Consumer prices, meanwhile, were off 0.1%. Retail sales dropped 0.3% after a 0.4% increase in April. Sales were flat excluding auto and gas. Housing starts decreased 5.5% to a 1.09 million annual rate, the weakest since September.

Existing home sales are expected to slip 0.4% to 5.55 million in May. New home sales, meanwhile, should bounce back from April's 11.4% slump, advancing 5.5% to 600,000. Look for leading indicators to rise 0.4% in May.

## KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.25%	1.00%	2-Year Agency	1.34%	1.37%
Prime	4.25%	4.00%	5-Year Agency	1.83%	1.85%
2-Year Treasury	1.32%	1.35%	15-Year MBS	2.28%	2.29%
5-Year Treasury	1.75%	1.78%	30-Year MBS	2.89%	2.93%
10-Year Treasury	2.16%	2.21%	3-Month LIBOR	1.27%	1.23%

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 (1.00%)	90-Day LIBOR (2.50%)	90-Day LIBOR (1.00%)	90-Day LIBOR (2.50%)
1-Year	1.40%	4.10%		0.42%	0.08%	0.02%	1.04%
2-Year	1.53%	4.33%		1.18%	0.34%	0.07%	1.86%
3-Year	1.64%	4.56%		2.07%	0.57%	0.18%	2.60%
5-Year	1.82%	4.74%		4.41%	1.38%	0.60%	4.15%

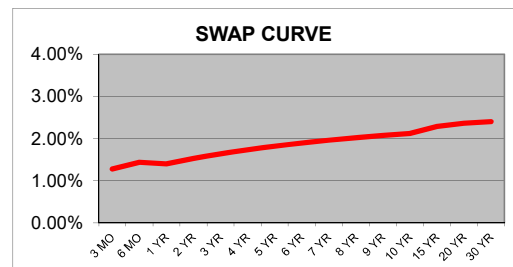
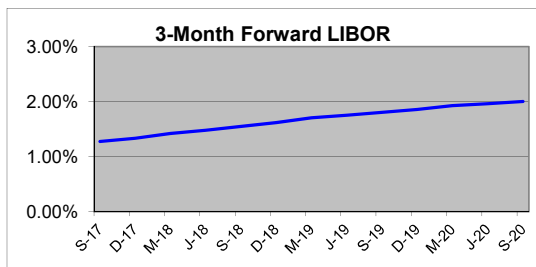
Source: Bloomberg, PNC

## OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 44.71	-16.77%	Dow Jones Ind Avg	21,384.28	8.21%
Commodities (CRB Index)	\$ 173.05	-10.11%	NASDAQ	6,151.76	14.28%
EURO (spot)	\$ 1.120	6.48%	S&P 500	2,433.15	8.68%

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

The Trump administration proposed a wide-ranging rethink of the rules governing the U.S. financial sector in a report that makes scores of recommendations that have been on the banking industry's wish list for years. The proposals would affect activities ranging from mortgage lending to Wall Street trading. Administration officials said their focus was on helping small and midsize lenders, as opposed to larger ones that might be considered "too big to fail" without a taxpayer bailout. "We tried to have the right balance between eliminating undue, burdensome regulations while not putting taxpayers at risk," Treasury Secretary Steven Mnuchin said.