

# RATE ENVIRONMENT

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## THE MARKETS

As expected, the Federal Reserve raised rates by 25 basis points and upgraded their forecast for growth in 2018, while sticking to a projection for three hikes in the coming year. “Averaging through hurricane-related fluctuations, job gains have been solid, and the unemployment rate declined further,” the FOMC said following a two-day meeting. Inflation will remain below the Fed’s 2 percent goal in the near term but “stabilize” around the target in the medium term, the central bank said. The Fed also confirmed monthly roll-offs from the balance sheet would step up in January to \$20 billion from \$10 billion. According to Bloomberg, traders are placing a 75% chance of another move at the March 21 meeting. Treasuries were mixed as market participants assessed muted inflation data as well as uncertainty around the Republican tax plan. Stocks rose, as all major equity gauges were higher. The Dow and Nasdaq rose 1.3% on the week, while the S&P 500 was 0.9% higher.

## THE ECONOMY

Consumer prices rose 0.4% in November as expected. The core rate was up 0.1% or 1.7% annualized. Producer prices, meanwhile, advanced 0.4% at both the headline and core level (2.4% annualized). Retail sales surged 0.8%, up from 0.5% in October. Industrial production advanced 0.2% as capacity utilization reached 77.1%.

Housing starts should fall back 3.3% to 1.25 million in November while permits should be off 3.5% to 1.27 million. Look for existing home sales to edge up 0.7% to 5.52 million as new home sales ease 5.1% to 650,000. Durable goods orders are seen up 1.7% and by 0.4% when excluding the transportation component.

## KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.50%	1.25%	2-Year Agency	1.86%	1.83%
Prime	4.50%	4.25%	5-Year Agency	2.22%	2.20%
2-Year Treasury	1.84%	1.80%	15-Year MBS	2.51%	2.48%
5-Year Treasury	2.16%	2.14%	30-Year MBS	2.97%	3.01%
10-Year Treasury	2.35%	2.38%	3-Month LIBOR	1.60%	1.54%

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 (2.00%)	90-Day LIBOR (2.75%)	90-Day LIBOR (2.00%)	90-Day LIBOR (2.75%)
1-Year	1.86%	4.56%	0.20%	0.10%	0.14%	0.79%
2-Year	2.03%	4.83%	0.70%	0.40%	0.30%	1.40%
3-Year	2.11%	5.03%	1.27%	0.73%	0.55%	2.04%
5-Year	2.20%	5.12%	2.60%	1.54%	1.30%	3.49%

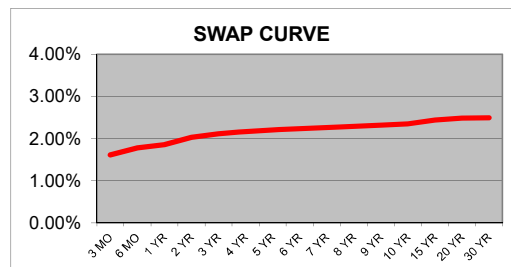
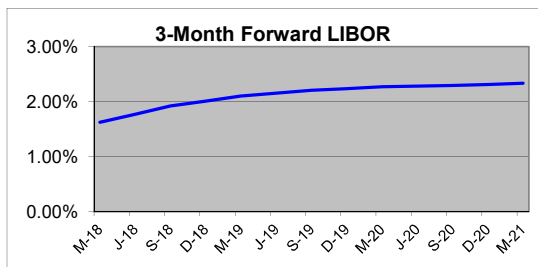
Source: Bloomberg, PNC

## OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 57.34	6.74%	Dow Jones Ind Avg	24,651.74	24.74%
Commodities (CRB Index)	\$ 184.52	-4.15%	NASDAQ	6,936.58	28.86%
EURO (spot)	\$ 1.175	11.72%	S&P 500	2,675.81	19.52%

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

The Federal Housing Finance Agency (FHFA) announced the maximum conforming loan limits for mortgages to be acquired by Fannie Mae and Freddie Mac in 2018. In most of the U.S., the 2018 maximum conforming loan limit for one-unit properties will be \$453,100, an increase from \$424,100 in 2017. For areas in which 115 percent of the local median home value exceeds the baseline conforming loan limit the maximum loan limit will be higher than the baseline loan limit. The new ceiling loan limit for one-unit properties in most high-cost areas will be \$679,650 — or 150 percent of \$453,100.

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