

RATE ENVIRONMENT

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APRIL 30, 2018

THE MARKETS

The yield on the 10-year Treasury note reached 3% last week, marking a four-year high amid signs that growth and trade policy are adding to inflationary pressure. Analysts have pointed to surging prices for oil and other commodities as a major factor for the bond market selloff. Investors are increasingly betting the Fed may raise rates four times this year, more than initially forecast. Fed funds futures suggest a 48% probability the Fed will move three more times this year, up from 33% a month ago. In Europe, the ECB opted to leave interest rates untouched and continue with its plan to buy €30bn-worth of bonds until the end of September. Equity prices closed mostly unchanged in a volatile week. While first-quarter earnings have been stronger than expected, the selloff in bond markets is preventing stocks from rising further, according to market participants. Oil prices continued to climb, shuffling off data showing an unexpected rise in crude oil inventories.

THE ECONOMY

Existing home sales rose to a four-month high, advancing 1.1% to a 5.6 million annual pace. New home sales, meanwhile, gained 4% to 694,000. GDP increased 2.3% in Q1, down from 2.9% in the prior period. Consumption was up 1.1%, business investment increased 6.1% and the price index edged up 2%. Durable goods orders rose 2.6% and the University of Michigan sentiment index held at 114.9.

Look for 185,000 new jobs in April with the unemployment rate falling one notch to 4%. Hourly earnings are expected to be up 2.7% with the workweek holding at 34.5. Personal income and spending are both seen increasing 0.4%, and the trade balance should ease slightly to \$56 billion. Look for the ISM manufacturing index to drop slightly to 58.6.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.75%	1.75%	2-Year Agency	2.52%	2.49%
Prime	4.75%	4.75%	5-Year Agency	2.85%	2.83%
2-Year Treasury	2.49%	2.46%	15-Year MBS	3.20%	3.19%
5-Year Treasury	2.80%	2.80%	30-Year MBS	3.65%	3.66%
10-Year Treasury	2.96%	2.96%	3-Month LIBOR	2.36%	2.36%

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	2.54%	5.24%	0.48%	0.20%	0.04%	0.21%
2-Year	2.74%	5.54%	1.44%	0.77%	0.12%	0.41%
3-Year	2.84%	5.76%	2.52%	1.43%	0.27%	0.71%
5-Year	2.91%	5.83%	4.58%	2.65%	0.80%	1.62%

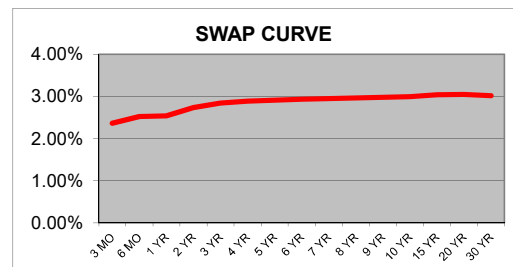
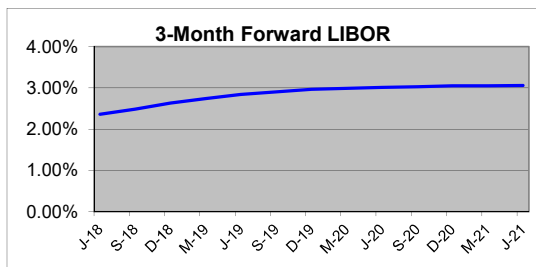
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 68.10	13.27%	Dow Jones Ind Avg	24,311.19	-1.65%
Commodities (CRB Index)	\$ 201.39	3.88%	NASDAQ	7,119.80	3.13%
EURO (spot)	\$ 1.213	1.09%	S&P 500	2,669.91	-0.14%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

U.S. commercial real estate industry performance will likely be stronger than previously anticipated through 2018, said the Urban Land Institute. Although the outlook for stronger growth in the economy could be accompanied by higher inflation and higher interest rates, the rate hikes are unlikely to diminish 2018 real estate returns, the report said. "The outlook for individual property sector fundamentals generally continues to reflect the characteristics of the current real estate cycle," said PwC Director of Real Estate Research Andrew Warren, a survey participant. "Fundamentals either are steadily improving or appear to have stabilized at sustainable levels."