

# RATE ENVIRONMENT

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## THE MARKETS

The yield on the benchmark 10-year U.S. Treasury note moved back above 2% Friday after a solid jobs report eased some of the pressure on the Federal Reserve to move aggressively on monetary policy. Yields slipped mid-week, reaching 1.95%, on speculation the Fed will start cutting rates soon in response to slowing global growth and muted inflation. Fed funds futures, nevertheless, imply that traders see an 8% chance of a 50 basis point reduction at the next FOMC meeting on July 31, according to the CME Group. Investors continue to place a zero-percent bet of no rate cut at the meeting. Major stock indexes fell from their records Friday after the better-than-forecast June jobs report clouded expectations about the Fed's next policy step. Oil prices extended their losses as investors shrugged off an OPEC production cut and focused on worries over slowing demand. Gold prices plunged on Friday for the largest one-day decline in more than a year.

## THE ECONOMY

Payrolls rose 224,000 in June and the jobless rate inched up to 3.7%. Wages gained 3.1% and the participation rate reached 62.9%. The ISM said its services index fell two points to 55.1 while the manufacturing gauge dipped to 51.7. The trade deficit surged to \$55.5 billion and factory orders were off 0.7%.

The core CPI is seen increasing 0.2% in June for a 2.0% annual rate. Similar figures for producer prices are forecast at 0.2% and 2.1%, respectively. Look for consumer sentiment to remain unchanged with mortgage applications down 0.1% from the prior week.

## KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	2.50%	2.50%	2-Year Agency	1.89%	1.77%
Prime	5.50%	5.50%	5-Year Agency	1.88%	1.80%
2-Year Treasury	1.86%	1.75%	15-Year MBS	2.30%	2.28%
5-Year Treasury	1.83%	1.76%	30-Year MBS	2.74%	2.74%
10-Year Treasury	2.04%	2.00%	3-Month LIBOR	2.30%	2.33%

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 (2.25%)	90-Day LIBOR (3.00%)	90-Day LIBOR (2.25%)	90-Day LIBOR (3.00%)
1-Year	2.10%	4.80%		0.28%	0.06%	0.41%	1.11%
2-Year	1.90%	4.70%		0.64%	0.10%	1.10%	2.44%
3-Year	1.83%	4.75%		0.89%	0.23%	1.89%	3.83%
5-Year	1.82%	4.74%		1.96%	0.76%	3.42%	6.45%

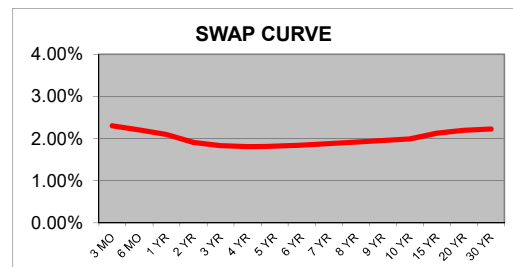
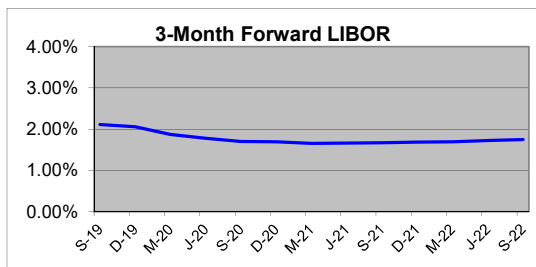
Source: Bloomberg, PNC

## OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 57.51	26.65%	Dow Jones Ind Avg	26,922.12	15.41%
Commodities (CRB Index)	\$ 180.78	6.47%	NASDAQ	8,161.79	23.01%
EURO (spot)	\$ 1.123	-2.11%	S&P 500	2,990.41	19.28%

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

Spurred by lower mortgage interest rates, prepayment activity has surged recently to the highest level since 2016, according to Black Knight. "Overall prepayment activity, driven by home sales and mortgage refinances, has more than doubled over the past four months," president Ben Graboske said in a statement. "While we've observed increases across nearly every investor type, product type, credit score bucket and vintage, some changes stand out," he noted. "ARM prepayment rates have now jumped to their highest level since 2007 as borrowers have sought to shed the uncertainty of their adjustable-rate products."

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