

RATE ENVIRONMENT

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THE MARKETS

Dwindling optimism about trade weighed on stocks, with major indexes recording a second straight week of losses. Shares were pressured in particular on a news report that the White House is assessing limiting investments in China. Nevertheless, U.S. stocks are on pace for a monthly gain, with the S&P up 2% thus far in September and the Nasdaq 1% higher. Treasuries advanced on signs that trade tensions could hinder economic growth. The benchmark 10-year note yield closed at 1.68%, down four basis points for the week. Chicago Fed President Evans, meanwhile, said the central bank doesn't need to cut interest rates again because two recent reductions should be enough to lift inflation above the 2% target. "We're pretty well positioned now," he said, adding that he sees price pressures reaching 2.2%. That sentiment was mostly echoed by Fed Governor Brainard, who told a House panel that the economy was supported by a strong consumer and solid labor market. Traders are currently placing a 75% chance of another rate cut by year-end.

THE ECONOMY

New home sales climbed 7.1% to 713,000, surpassing all estimates, and the S&P CoreLogic house price index rose at a 3.2% annual pace. In a third estimate of 2Q GDP, growth was unchanged at 2% and the price index rose 2.4%. The trade deficit widened in August by less than forecast to \$72.8 billion. Personal income was up 0.4% in August and spending edged up 0.1%.

The government will report on the labor market on Friday; economists are calling for 140,000 new jobs with the unemployment rate holding at 3.7%. The ISM is expected to say its manufacturing index rose above the key 50 level while the services gauge remained at 56.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	2.00%	2.00%	2-Year Agency	1.65%	1.70%
Prime	5.00%	5.00%	5-Year Agency	1.61%	1.65%
2-Year Treasury	1.63%	1.68%	15-Year MBS	2.24%	2.29%
5-Year Treasury	1.56%	1.60%	30-Year MBS	2.62%	2.64%
10-Year Treasury	1.68%	1.72%	3-Month LIBOR	2.10%	2.16%

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	1.84%	4.54%		0.08%	0.05%	0.60%	1.32%
2-Year	1.64%	4.44%		0.13%	0.06%	1.49%	2.89%
3-Year	1.56%	4.48%		0.25%	0.10%	2.46%	4.50%
5-Year	1.51%	4.43%		0.63%	0.28%	4.45%	7.67%

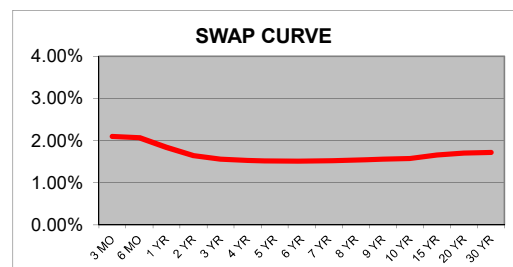
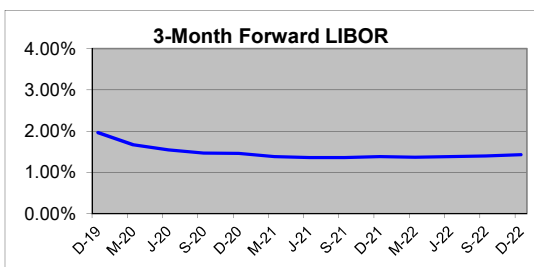
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 55.91	23.12%	Dow Jones Ind Avg	26,820.25	14.98%
Commodities (CRB Index)	\$ 175.72	3.49%	NASDAQ	7,939.63	19.66%
EURO (spot)	\$ 1.094	-4.60%	S&P 500	2,961.79	18.14%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (CBLR), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banks. In order to qualify for the CBLR framework, a community banking organization must have a tier-1 leverage ratio of greater than 9 percent, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities.

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