

# RATE ENVIRONMENT

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## THE MARKETS

Bond markets were hit by a fresh wave of selling as economic data were reported mostly better than expected. Bonds have sold off sharply since Trump's victory in the presidential election, as investors respond to the increased chances of fiscal stimulus. According to analysts, tax cuts and increased infrastructure spending could boost inflation as well as increase the supply of government bonds, which would erode the value of existing debt. As expected, minutes from the Fed's Nov. 1-2 meeting showed officials believed an interest-rate increase was possible "relatively soon" barring a change in the economic outlook. Following the release of the minutes, federal-fund futures placed a 94% likelihood of a rate increase in December. The next rate hike (0.25%) is forecast for the July 26 confab. Stocks continued to move higher as the Dow closed above 19,080 for the first time, the S&P 500 extended its first monthly gain since July and the Russell 2000 rallied for a 14th straight day to add to its record. The dollar, meanwhile, reached a 13-year high measured by the ICE Dollar Index.

## THE ECONOMY

Existing home sales rose more than expected, by 2% to 5.60 million units in October. New home sales declined 1.9%, however, to 563,000. Orders for business equipment climbed for the fourth month in the last five, advancing 0.4%. Consumer confidence as reported by the University of Michigan increased to 93.8, a six-month high.

The economy is seen adding 180,000 jobs in December, up from 161,000 in the prior month. The unemployment rate is expected to hold steady at 4.9%. The ISM is expected to say its manufacturing index edged up to 52.1 and personal income likely grew 0.4%. The government may say GDP advanced 3% in Q3, up from 2.9% in an earlier estimate.

## KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.50%	0.50%	2-Year Agency	1.14%	1.09%
Prime	3.50%	3.50%	5-Year Agency	1.94%	1.89%
2-Year Treasury	1.12%	1.07%	15-Year MBS	2.46%	2.36%
5-Year Treasury	1.83%	1.80%	30-Year MBS	3.13%	3.06%
10-Year Treasury	2.36%	2.34%	3-Month LIBOR	0.93%	0.91%

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 (0.50%)	90-Day LIBOR (2.50%)	90-Day LIBOR (0.50%)	90-Day LIBOR (2.00%)	
1-Year	1.11%	3.81%	0.44%	0.06%	0.03%	0.82%	
2-Year	1.33%	4.13%	1.33%	0.22%	0.06%	1.41%	
3-Year	1.53%	4.45%	2.45%	0.58%	0.16%	1.95%	
5-Year	2.28%	5.20%	5.51%	1.63%	0.50%	3.07%	

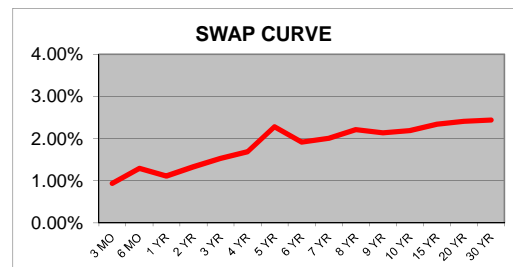
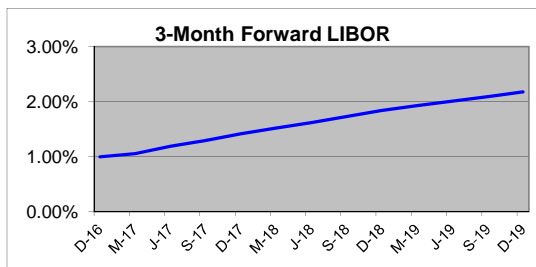
Source: Bloomberg, PNC

## OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 47.23	27.51%	Dow Jones Ind Avg	19,152.14	9.91%
Commodities (CRB Index)	\$ 186.97	6.15%	NASDAQ	5,398.92	7.83%
EURO (spot)	\$ 1.060	-2.48%	S&P 500	2,213.35	8.29%

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

The SEC approved FINRA's proposal requiring firms to disclose on retail customer confirmations the "mark-up" or "mark-down" for transactions in corporate and agency debt securities. The SEC at the same time has approved a similar proposal from the MSRB, which harmonizes the requirements across the FINRA and MSRB rulebooks and eases implementation for the securities industry. The confirmation will have to include the execution time and a reference (and hyperlink if the confirmation is electronic) to trade-price data in the security from TRACE, FINRA's Trade Reporting and Compliance Engine.

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