

RATE ENVIRONMENT

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APRIL 24, 2017

THE MARKETS

The Federal Reserve isn't likely to roil the market when the central bank starts to reduce its \$4.5 trillion balance sheet, Vice Chairman Fischer said Monday. "My tentative conclusion to reducing the size of our balance sheet is that we appear less likely to face major market disturbances now than we did in the case of the taper tantrum," Fischer said. Traders, meanwhile, are pulling back bets the Fed will raise interest rates in June as inflation expectations fall. The odds of a hike have fallen back to about 44 percent from more than 60 percent earlier this month, according to Bloomberg. The TIPS spread, a gauge of inflation expectations, tumbled to 1.37% last week from a high of 2.19% in February. The two-year spread over the federal funds rate has narrowed to 20 basis points from 44 at the start of the year. Markets were little changed for the week as investors took a cautious stance ahead of France's presidential election.

THE ECONOMY

Housing starts fell in March to a four-month low, down 6.8% to 1.21 million. Total industrial production, meanwhile, gained 0.5% on a record jump in utility output. Capacity utilization rose to 76.1% from 75.7% in February. Existing home sales rose 4.4% to 5.71 million.

First quarter GDP is seen up 0.6% with consumer spending advancing 1.4% and investment growing 4.2%. Look for new home sales to slip 0.8% in March to 588,000 while durable goods orders rise 1.0%. Consumer confidence should hold steady at 125.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.00%	1.00%	2-Year Agency	1.25%	1.27%
Prime	4.00%	4.00%	5-Year Agency	1.80%	1.82%
2-Year Treasury	1.20%	1.21%	15-Year MBS	2.30%	2.31%
5-Year Treasury	1.77%	1.77%	30-Year MBS	3.00%	2.98%
10-Year Treasury	2.24%	2.24%	3-Month LIBOR	1.16%	1.16%

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 (1.00%)	90-Day LIBOR (2.50%)	90-Day LIBOR (1.00%)	90-Day LIBOR (2.50%)
1-Year	1.40%	4.10%		0.37%	0.07%	0.02%	1.10%
2-Year	1.59%	4.39%		1.11%	0.34%	0.10%	1.97%
3-Year	1.75%	4.67%		2.01%	0.64%	0.24%	2.78%
5-Year	1.97%	4.89%		4.53%	1.58%	0.71%	4.41%

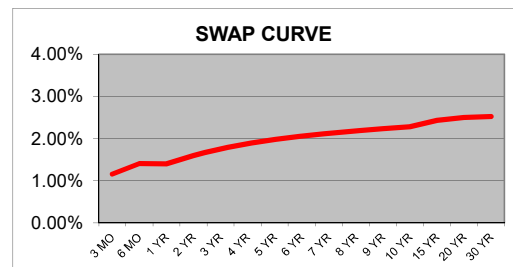
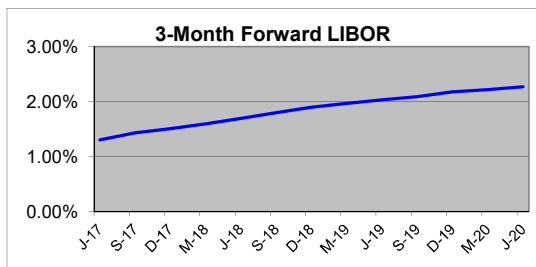
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 50.11	-6.72%	Dow Jones Ind Avg	20,547.76	3.97%
Commodities (CRB Index)	\$ 182.39	-5.26%	NASDAQ	5,910.52	9.80%
EURO (spot)	\$ 1.069	1.65%	S&P 500	2,348.69	4.91%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

Freddie Mac announced total multifamily origination volumes could increase by three- to six-percent this year, and even top \$295 billion, depending on movements in the 10-Year Treasury rate. According to a new Multifamily Pricing and Volume Outlook for 2017, prepared by the Freddie Mac Multifamily Research Group, if the 10-Year Treasury rate stays in the range of 2.5 percent, multifamily volume is estimated to grow to around \$295 billion. While final numbers for 2016 volume are not reported yet, this would equate to six percent growth from Freddie Mac's 2016 estimated total mortgage origination volume of \$280 billion. *Freddie Mac*

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