

RATE ENVIRONMENT

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MAY 30, 2017

THE MARKETS

Most Fed officials judged it would soon be appropriate to tighten monetary policy again, according to minutes from the May 3rd FOMC meeting. Policy makers also said they would like to start shrinking their balance sheet by year-end, and agreed to provide details of the plan in the near future. Fed Philadelphia president Harker, meanwhile, said June "is a distinct possibility" for a rate hike, and reiterated that Fed balance-sheet unwinding will probably start this year, while emphasizing the process will be gradual and predictable. At Friday's close, investors priced in an 80% chance of a move at the June 14 confab. Treasuries were unchanged as investors bet the Fed's tightening campaign will continue to proceed in a slow manner. U.S. equities recorded new highs, supported by strong first-quarter earnings. Oil prices were off, driven by lower-than-expected output cuts by major oil producers. In other news, foreign debt holdings of Treasuries have climbed to \$2.92 trillion this year, the highest level since June 2016, according to the Wall Street Journal.

THE ECONOMY

New home sales plunged 11.4% to a 569,000 annual pace in April; the supply rose to 5.7 months from 4.9 months. Existing home sales declined 2.3% to 5.57 million, as supply constraints hampered buyers. GDP grew at a 1.2% pace in Q1, revised from a 0.7% gain and durable goods orders slipped 0.4%.

Look for 180,000 new jobs in May when the government reports on labor market conditions on Friday. The unemployment rate is seen steady at 4.4% with wages growing 0.3%. Personal income and spending are both expected to rise 0.4% while consumer confidence is unchanged.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.00%	1.00%	2-Year Agency	1.35%	1.35%
Prime	4.00%	4.00%	5-Year Agency	1.82%	1.82%
2-Year Treasury	1.30%	1.28%	15-Year MBS	2.29%	2.28%
5-Year Treasury	1.79%	1.79%	30-Year MBS	2.98%	2.97%
10-Year Treasury	2.25%	2.23%	3-Month LIBOR	1.20%	1.17%

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	1.37%	4.07%		0.40%	0.08%	0.02%	1.06%
2-Year	1.53%	4.33%		1.16%	0.33%	0.08%	1.88%
3-Year	1.67%	4.59%		2.10%	0.62%	0.20%	2.62%
5-Year	1.88%	4.80%		4.58%	1.51%	0.61%	4.13%

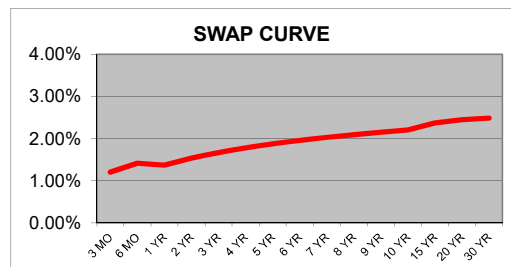
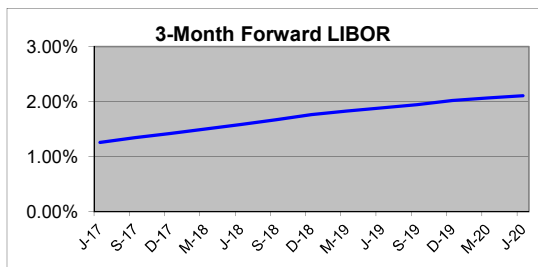
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 50.38	-6.22%	Dow Jones Ind Avg	21,080.28	6.67%
Commodities (CRB Index)	\$ 184.91	-3.95%	NASDAQ	6,210.19	15.36%
EURO (spot)	\$ 1.119	6.40%	S&P 500	2,415.82	7.91%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

Americans' overall financial well-being in 2016 continued on a modest upward path, although the improvement was less pronounced for those with less education, according to the Federal Reserve Board's latest Report on the Economic Well-Being of U.S. Households. Overall, 70% of respondents said they were either "living comfortably" or "doing okay," up 1% from 2015 and up 8% from 2013. The improvements are concentrated among adults with at least some college education. "The survey findings remind us that many American households are struggling financially, including fully 40% of those with a high school diploma or less," said Federal Reserve Board Governor Lael Brainard.

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