RATE ENVIRONMENT

ATLANTIC CAPITAL STRATEGIES, INC. *(781) 276-4966* JULY 31, 2017

THE MARKETS

The FOMC said it expects to begin shrinking its bond holdings “relatively soon,” according to a statement released after a two-day meeting on Wednesday. The group noted the recent weakness in prices while suggesting that inflation should stabilize around 2 percent “over the medium term.” As expected, they left the fed funds rate target in a 1%-1.25% range. After the meeting, investors put a 3% probability of a rate increase in September, down slightly from before the statement was released. The probability of one rate increase by December now stands at around 40%, according to Bloomberg. Bond yields edged higher after data showed economic growth picked up in the second quarter. U.S. stock indexes climbed to new records after corporate earnings generally beat Wall Street expectations. The dollar continued its descent with inflation remaining soft and oil prices ticked higher on Friday, hitting a two-month high.

THE ECONOMY

GDP rose at a 2.6% annual rate in the second quarter, up from 1.2% in the prior period, as consumer spending was up 2.8%. Existing-home sales fell 1.8% in June from the prior month to a seasonally adjusted annual rate of 5.52 million, the National Association of Realtors said. Purchases of new homes increased 0.8% to a seasonally adjusted annual rate of 610,000.

Look for 178,000 net new jobs in July as the unemployment rate falls one notch to 4.3%. Wages are seen climbing at a 2.5% annual pace for another month. The ISM is expected to say that its manufacturing index eased 2 points to 55.8 while the services gauge inches down to 56.8. Personal income should rise 0.4% with spending higher by 0.2%.

KEY RATES

Issue	*Value*	*Last Week*	*Issue*	*Value*	*Last Week*
Fed Funds	1.25%	1.25%	2-Year Agency	1.35%	1.35%
Prime	4.25%	4.25%	5-Year Agency	1.85%	1.82%
2-Year Treasury	1.34%	1.36%	15-Year MBS	2.33%	2.30%
5-Year Treasury	1.83%	1.81%	30-Year MBS	2.98%	2.95%
10-Year Treasury	2.30%	2.24%	3-Month LIBOR	1.31%	1.31%

Source: Bloomberg

INTEREST RATE SWAPS / CAPS / FLOORS

Buyer Pays Fixed- Indications only based on quarterly settlements

	SWAP		*CAP*		*FLOOR*	
Term	*90-Day LIBOR*	*PRIME*	*90-Day LIBOR (1.75%)*	*90-Day LIBOR (2.75%)*	*90-Day LIBOR (1.75%)*	*90-Day LIBOR (2.75%)*
1-Year	1.45%	4.15%	0.17%	0.08%	0.28%	1.24%
2-Year	1.59%	4.39%	0.62%	0.31%	0.51%	2.25%
3-Year	1.71%	4.63%	1.12%	0.51%	0.80%	3.12%
5-Year	1.90%	4.82%	2.61%	1.24%	1.55%	4.87%

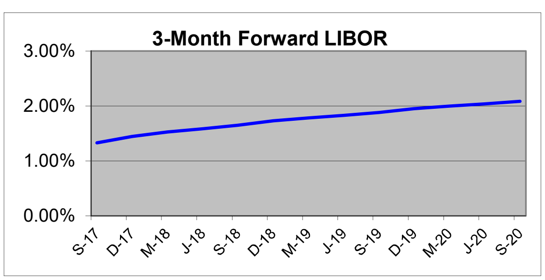
Source: Bloomberg, PNC

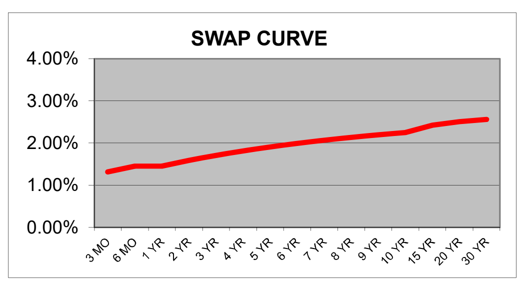
OTHER INDICATORS

	Value	*% Change YTD*		*Value*	*% Change YTD*
OIL (30 day futures)	$ 49.79	-7.32%	Dow Jones Ind Avg	21,830.31	10.46%
Commodities (CRB Index)	$ 182.12	-5.40%	NASDAQ	6,374.68	18.42%
EURO (spot)	$ 1.175	11.72%	S&P 500	2,472.10	10.42%

Source: Bloomberg

YIELD CURVES





Source: Bloomberg

IN THE NEWS

LIBOR will be phased out by the end of 2021, as U.K. regulators and banks look to replace the indicator with a more reliable system. Andrew Bailey, the head of the Financial Conduct Authority, said that the rate isn’t sustainable because of a lack of transactions providing data. “We do not think we will complete the journey to transaction-based benchmarks if markets continue to rely on Libor in its current form," Bailey said in a speech at Bloomberg’s London headquarters. "Panel bank support for current Libor until end-2021 will enable a transition that can be planned and can be executed smoothly."