

RATE ENVIRONMENT

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THE MARKETS

A continued slide in bond prices pushed the yield on the benchmark 10-year Treasury note above 2.6% to its highest level in more than three years, even as Congress moved closer to a government shutdown. Treasuries have come under pressure, according to analysts, with inflation picking up domestically, global growth rising, and central banks tightening monetary policy. Minutes from the ECB December meeting, meanwhile, indicated a near-term end to the bank's bond-buying program. In the U.S., rising inflation projections have lifted expectations for Fed rate increases. Fed funds futures show a 56% chance the central bank will raise rates three times this year, up from 32% a month ago, according to the CME Group. Stocks rose for another week, supported by the shares of cyclical companies. The S&P energy sector has returned over 5% this year, compared to a decline of 4% in 2017. Oil prices rallied, as the U.S. EIA reported that the amount of crude oil in storage declined by 6.9 million barrels in the week ended Jan. 12.

THE ECONOMY

Housing starts dipped 8.2% to 1.19 million and the NAHB housing market index slipped two points to 72. Industrial production fell 0.1% while capacity utilization increased to 77.9. The University of Michigan said its sentiment index was down two points to 94.4.

GDP for Q4 is expected to register 2.9% growth, down from 3.2% in the prior period. New home sales should fall back 8% in December to 675,000 while existing home sales are flat at 5.7 million. Leading indicators are expected to advance 0.5%.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.50%	1.50%	2-Year Agency	2.09%	2.03%
Prime	4.50%	4.50%	5-Year Agency	2.50%	2.40%
2-Year Treasury	2.06%	1.99%	15-Year MBS	2.77%	2.64%
5-Year Treasury	2.45%	2.35%	30-Year MBS	3.27%	3.12%
10-Year Treasury	2.64%	2.55%	3-Month LIBOR	1.75%	1.72%

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 (2.00%)	90-Day LIBOR (2.75%)	90-Day LIBOR (2.00%)	90-Day LIBOR (2.75%)
1-Year	2.05%	4.75%		0.28%	0.13%	0.06%	0.59%
2-Year	2.27%	5.07%		0.93%	0.52%	0.17%	0.98%
3-Year	2.40%	5.32%		1.65%	0.95%	0.34%	1.42%
5-Year	2.53%	5.45%		3.22%	1.89%	0.92%	2.55%

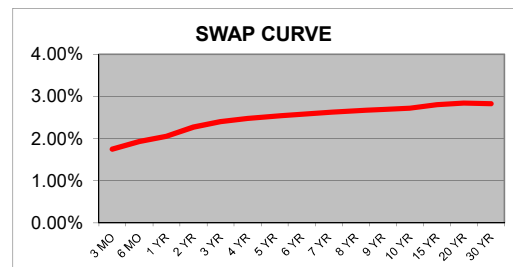
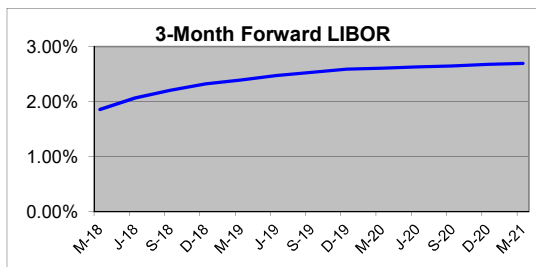
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 63.37	5.41%	Dow Jones Ind Avg	26,071.72	5.47%
Commodities (CRB Index)	\$ 195.50	0.85%	NASDAQ	7,336.38	6.27%
EURO (spot)	\$ 1.222	1.84%	S&P 500	2,810.30	5.11%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The CFPB announced that it is issuing a "call for evidence" to ensure the Bureau is fulfilling its appropriate functions to best protect consumers. In coming weeks, the Bureau will be publishing a series of Requests for Information seeking comment on enforcement, supervision, rulemaking, market monitoring, and education activities. "In this New Year, and under new leadership, it is natural for the Bureau to critically examine its policies and practices to ensure they align with the Bureau's statutory mandate. Moving forward, the Bureau will consistently seek out constructive feedback and welcome ideas for improvement," said Bureau Acting Director Mick Mulvaney.

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