

RATE ENVIRONMENT

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THE MARKETS

Fed officials signaled they were likely to raise rates at their June 13 meeting, while debating how to characterize an evolving policy strategy that may shortly reach a "neutral" level. If the economy performs as expected, "it would likely soon be appropriate for the committee to take another step" in raising rates, according to minutes of the FOMC's May 1-2 meeting. San Francisco Fed President Williams said recently he estimates the neutral rate to be 2.5%; March projections from the Committee show a median expectation of a 2.9% level. Bond prices rose as investors reassessed the economic landscape following dovish minutes from the Fed and new tariff proposals from the Administration. The benchmark 10-year note closed at 2.93%, down from a high of 3.11% reached on May 17. Stocks fell after the cancellation of a summit between the U.S. and North Korea, and as political concerns rattled European markets. Crude oil plummeted after OPEC said producers may boost output.

THE ECONOMY

New home sales dipped 1.5% in April to 662,000. Existing home sales, meanwhile, fell 2.5% to 2.46 million as the inventory of available homes declined 6%. Durable goods orders fell 1.7% in April though were up 0.9% ex-transportation. The University of Michigan's sentiment index eased to 98.

Look for 188,000 new jobs when the government reports on labor market conditions for May. The unemployment rate is seen holding at 3.9% with wages climbing 2.7%. The ISM is expected to say its manufacturing index edged up to 58.1 as new orders rebound. GDP likely rose 2.3% in the first quarter.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.75%	1.75%	2-Year Agency	2.50%	2.59%
Prime	4.75%	4.75%	5-Year Agency	2.83%	2.98%
2-Year Treasury	2.48%	2.58%	15-Year MBS	3.21%	3.32%
5-Year Treasury	2.76%	2.90%	30-Year MBS	3.64%	3.77%
10-Year Treasury	2.93%	3.06%	3-Month LIBOR	2.33%	2.32%

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	2.51%	5.21%	0.51%	0.21%	0.03%	0.21%
2-Year	2.71%	5.51%	1.51%	0.81%	0.11%	0.40%
3-Year	2.80%	5.72%	2.60%	1.47%	0.27%	0.70%
5-Year	2.87%	5.79%	4.72%	2.70%	0.78%	1.60%

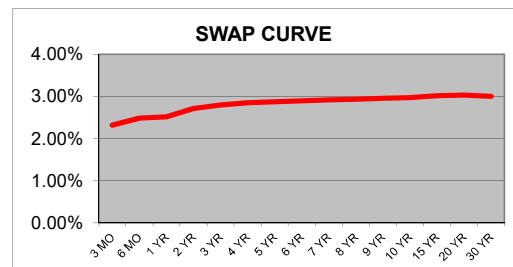
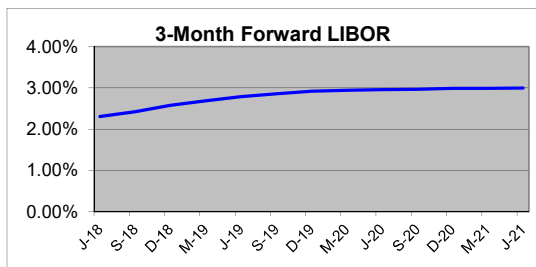
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 71.25	18.51%	Dow Jones Ind Avg	24,753.09	0.14%
Commodities (CRB Index)	\$ 203.78	5.12%	NASDAQ	7,433.85	7.68%
EURO (spot)	\$ 1.178	-1.85%	S&P 500	2,721.33	1.78%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The House voted 258-159 to approve S. 2155, the Senate's regulatory reform bill. The bill will provide Qualified Mortgage designation for mortgages held in portfolio by banks with less than \$10 billion in assets, raise the threshold for a systemically important financial institution from \$50 billion in assets to \$250 billion, simplify capital calculations for community banks, provide relief from appraisal requirements for smaller mortgages, and institute longer exam cycles for community banks. "Today's House vote marks a turning point in the banking policy debate in this country," said ABA President and CEO Rob Nichols.

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