

RATE ENVIRONMENT

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THE MARKETS

Bond prices rose as fears about growing political risk caused investors to seek the safety of government bonds. Worries that increasingly restrictive trade policies could cut into global economic growth have kept bond yields under pressure in recent weeks. Treasuries briefly sold off on Wednesday after Fed Chairman Powell said solid economic growth supports additional interest rate increases. "With unemployment low and expected to decline further, inflation close to our objective, and the risks to the outlook roughly balanced, the case for continued gradual increases in the federal funds rate is strong," he said. According to Bloomberg, markets are placing a 61% chance of another 25 basis point increase at the September FOMC gathering. A rebound in oil prices boosted stocks on Friday, though major indexes posted losses on concerns over escalating trade friction. Crude oil surged to \$69.18 a barrel after OPEC members tentatively agreed to a production deal.

THE ECONOMY

Housing starts gained 5% to 1.35 million in May after a 3.1% decline the prior month. Existing home sales eased 0.4% to 5.43 million after falling 2.7% in April. Leading indicators, meanwhile, inched up 0.2%.

New home sales are seen up 1.2% to 670,000 in July as the S&P/CS home price index advances 6.8%. Look for a flat reading in durable goods orders with consumer confidence easing to 98. Both personal income and spending are expected to register 0.4% gains in May.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	2.00%	2.00%	2-Year Agency	2.58%	2.57%
Prime	5.00%	5.00%	5-Year Agency	2.82%	2.86%
2-Year Treasury	2.56%	2.55%	15-Year MBS	3.20%	3.23%
5-Year Treasury	2.77%	2.80%	30-Year MBS	3.64%	3.65%
10-Year Treasury	2.90%	2.92%	3-Month LIBOR	2.33%	2.33%

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	2.61%	5.31%	0.58%	0.25%	0.03%	0.16%
2-Year	2.81%	5.61%	1.65%	0.90%	0.12%	0.37%
3-Year	2.88%	5.80%	2.78%	1.58%	0.27%	0.68%
5-Year	2.91%	5.83%	4.86%	2.80%	0.81%	1.64%

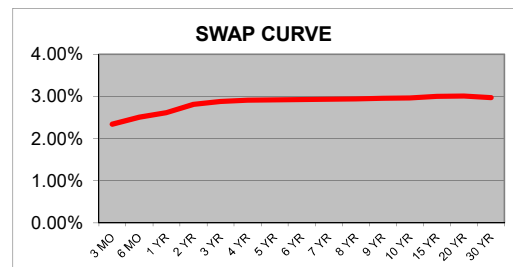
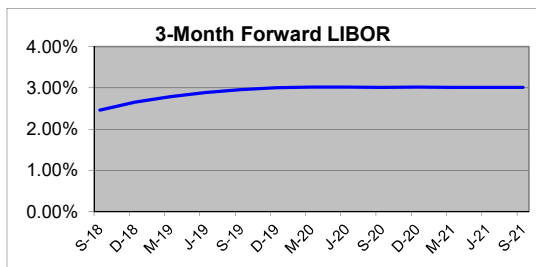
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 69.18	15.07%	Dow Jones Ind Avg	24,580.89	-0.56%
Commodities (CRB Index)	\$ 197.53	1.89%	NASDAQ	7,692.82	11.44%
EURO (spot)	\$ 1.166	-2.83%	S&P 500	2,754.88	3.04%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The Comptroller of the Currency Joseph Otting discussed priorities for the agency during testimony before the House. "We have an opportunity to consider a transformational CRA framework that would expand and provide clarity regarding the bank activities that receive CRA consideration; revisit the concept of assessment areas; and increase the transparency of how bank CRA performance is measured by using quantitative standards that are applied consistently," he said. He added banks should manage risks associated with offered products, and stated that all credit products should be underwritten based on reasonable policies and practices.

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