

# RATE ENVIRONMENT

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NOVEMBER 26, 2018

## THE MARKETS

Stocks closed lower in a quiet week amid fresh trade fears between the U.S. and China. Global equities have been volatile in recent weeks, with particularly large swings in shares of Asian companies hurt by rising tariffs. The fall in oil prices accelerated, with Brent crude oil reaching levels not seen since 2017, dropping to \$59 a barrel as light trading volumes amplified ongoing concerns about rising supply. The market volatility is casting more doubt on how aggressive the Fed can be in raising rates amid a strengthening dollar and fading support from fiscal stimulus, according to some analysts. Nevertheless, Fed funds futures currently places a 71% chance of a quarter-point hike when the FOMC meets on December 19. This compares with 62% as recently as October 31. Some officials have expressed concerns about the current pace of tightening. Atlanta president Bostic said that policy makers should take "a tentative approach" to raising rates, given their proximity to neutral.

## THE ECONOMY

Housing starts increased 1.5% in October to 1.23 million on a rebound in apartments. Existing home sales, meanwhile, rose 1.4% for the first gain in seven months. Durable goods orders were off 4.4% after a mostly flat reading in the prior month. The University of Michigan said its sentiment index eased slightly to 97.5.

In another revision to Q3 GDP, the government is expected to upgrade growth to 3.6%. The closely watched core PCE index is seen down one notch to 1.9% in October. Look for new home sales to advance 5.8% to 585,000 as the FHFA price index is up 0.4%. Personal spending is expected to show a 0.4% gain.

## KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	2.25%	2.25%	2-Year Agency	2.83%	2.83%
Prime	5.25%	5.25%	5-Year Agency	2.98%	2.98%
2-Year Treasury	2.81%	2.81%	15-Year MBS	3.45%	3.43%
5-Year Treasury	2.88%	2.90%	30-Year MBS	3.94%	3.92%
10-Year Treasury	3.05%	3.08%	3-Month LIBOR	2.68%	2.63%

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 (2.25%)	90-Day LIBOR (3.00%)	90-Day LIBOR (2.25%)	90-Day LIBOR (3.00%)
1-Year	2.90%	5.60%	0.66%	0.28%	0.04%	0.16%
2-Year	3.00%	5.80%	1.69%	0.93%	0.18%	0.48%
3-Year	3.01%	5.93%	2.65%	1.47%	0.42%	0.96%
5-Year	3.02%	5.94%	4.53%	2.48%	1.12%	2.12%

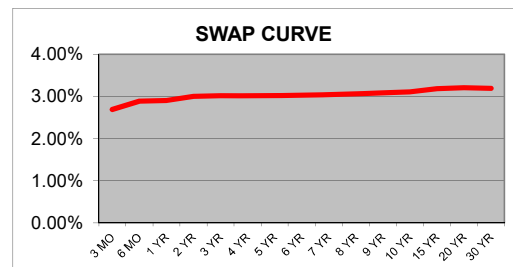
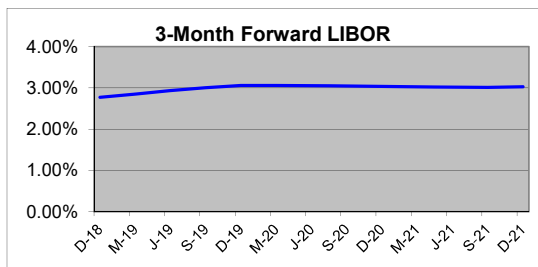
Source: Bloomberg, PNC

## OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 50.39	-16.18%	Dow Jones Ind Avg	24,285.95	-1.75%
Commodities (CRB Index)	\$ 179.60	-7.36%	NASDAQ	6,938.98	0.52%
EURO (spot)	\$ 1.133	-5.58%	S&P 500	2,632.56	-1.54%

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

The FDIC proposed easing rules for small banks as part of an administration effort to loosen restrictions put in place after the financial crisis. Under a plan approved by the FDIC, banks under \$10 billion in assets could be subject to a single leverage ratio for their capital holdings. The minimum ratio small banks must meet to get the relief would be 9% of equity to total assets. "Our largest, most systemically important banks would continue to be subject to the most rigorous standards, and their smaller, less systemically important peers would be subject to standards tailored to their risk profile," FDIC Chairman Jelena McWilliams said. *Wall Street Journal*

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