

RATE ENVIRONMENT

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THE MARKETS

Federal Reserve officials were concerned that weakness in manufacturing and trade could trigger cutbacks in hiring and consumer spending when they lowered rates last month. "Risks to the outlook associated with global economic growth and international trade were still seen as significant despite some encouraging developments," said minutes of the Oct. 29-30 policy meeting. Most thought a "wait-and-see" approach would be appropriate in the months ahead. "All participants judged that negative interest rates did not appear to be an attractive tool in the United States," according to the minutes. Investors expect the Fed to hold rates steady at its meeting on Dec. 10-11, and futures markets see a 50% probability of one more rate cut by the middle of next year. Treasury yields were modestly lower in uneventful trading sessions. Stocks recovered Friday on cautious optimism for trade negotiations, though still posted losses for the week. Crude oil and the dollar were mostly unchanged.

THE ECONOMY

Building permits surged 5% in October to 1.46 million, the highest level since 2007. Existing home sales, meanwhile, rose 1.9% to 5.46 million. Leading indicators, however, declined 0.1%. The University of Michigan's sentiment index advanced to 96.9 as consumers remain optimistic.

New home sales are seen roughly flat at 705,000 in October as the FHFA price index advances 0.2%. Look for personal income to rise 0.2% while the PCE core deflator edges up 0.1%. Durable goods orders are expected to slip 0.4%.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.75%	1.75%	2-Year Agency	1.64%	1.63%
Prime	4.75%	4.75%	5-Year Agency	1.66%	1.68%
2-Year Treasury	1.61%	1.61%	15-Year MBS	2.29%	2.29%
5-Year Treasury	1.62%	1.65%	30-Year MBS	2.70%	2.72%
10-Year Treasury	1.77%	1.83%	3-Month LIBOR	1.92%	1.90%

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 (1.75%)	90-Day LIBOR (2.50%)	90-Day LIBOR (1.75%)	90-Day LIBOR (2.50%)
1-Year	1.74%	4.44%		0.10%	0.05%	0.24%	0.91%
2-Year	1.61%	4.41%		0.22%	0.07%	0.74%	2.01%
3-Year	1.57%	4.49%		0.48%	0.17%	1.32%	3.13%
5-Year	1.56%	4.48%		1.18%	0.49%	2.59%	5.36%

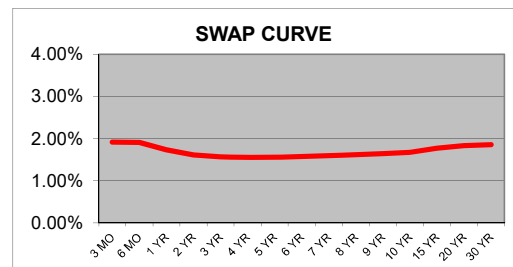
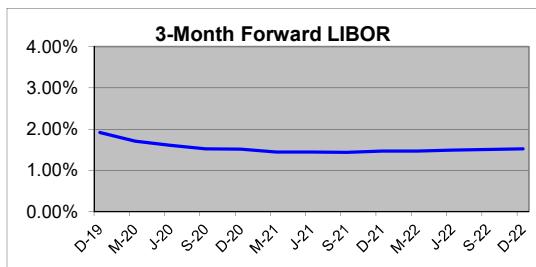
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 57.77	27.22%	Dow Jones Ind Avg	27,875.62	19.50%
Commodities (CRB Index)	\$ 180.37	6.22%	NASDAQ	8,519.89	28.40%
EURO (spot)	\$ 1.102	-3.89%	S&P 500	3,110.29	24.06%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The Federal Reserve Board released its current assessment of the resilience of the U.S. financial system in the Financial Stability Report (November 2019). Investor appetite for risk generally appears to have returned to a level in the middle of its historical range but remains elevated for some important classes of assets. Debt loads of businesses are historically high. The core of the financial sector appears resilient, with leverage low and funding risk limited relative to the levels of recent decades. Overall, the level of vulnerabilities in the financial system has moved little since the May report.