

RATE ENVIRONMENT

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THE MARKETS

Federal Reserve policy makers said they will consider tightening policy at their next meeting in December, without making a commitment to act this year, as the economy continues to expand at a “moderate” pace. “Labor market indicators, on balance, show that underutilization of labor resources has diminished since early this year,” the FOMC said Wednesday following a two-day meeting. Treasuries fell after the announcement as investors marked up the possibility of a rate hike this year. Investors see a 54% chance of a move in December, compared with just eight percent one month ago. The yield on the benchmark 10-year note closed at 2.16%, up sharply from 2.03% on Tuesday. The S&P 500 Index edged up on the week to 2,079, while recording the best monthly gain (8.3%) since 2011. The dollar jumped 0.8% to its highest level since Aug. 7 while crude oil rose 5.1%.

THE ECONOMY

New home sales fell 11.5% in September to 468,000, well below consensus (549,000) expectations. Bookings for capital goods excluding aircraft dropped 0.3% after a 1.6% dip in August. The S&P/Case-Shiller home price index showed year-over-year growth of 5.1%. The Conference Board's index of consumer confidence declined to 97.6 in October from 102.6 a month earlier. GDP advanced 1.5% in the third quarter as a smaller gain in inventories offset a 3.2% advance in consumption. Both personal income and spending inched up 0.1%.

Economists see the labor market bouncing back in October, with 179,000 net new jobs and the unemployment rate holding at 5.1%. Wages are expected to rise 0.2% after a flat reading in September. The ISM's manufacturing gauge is seen falling below the key 50 threshold to 49.7 though their service index should show 56.5. Look for the trade deficit to ease slightly to \$47 billion.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.25%	0.25%	2-Year Agency	0.78%	0.71%
Prime	3.25%	3.25%	5-Year Agency	1.67%	1.59%
2-Year Treasury	0.84%	0.61%	15-Year MBS	2.02%	2.09%
5-Year Treasury	1.43%	1.35%	30-Year MBS	2.74%	2.77%
10-Year Treasury	2.02%	2.03%	3-Month LIBOR	0.32%	0.32%

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 (0.50%)	90-Day LIBOR (2.50%)	90-Day LIBOR (0.50%)	90-Day LIBOR (2.00%)
1-Year	0.73%	3.43%	0.18%	0.06%	0.07%	1.32%
2-Year	0.90%	3.70%	0.80%	0.21%	0.17%	2.20%
3-Year	1.07%	3.99%	1.79%	0.54%	0.33%	2.94%
5-Year	1.36%	4.28%	4.77%	1.71%	0.71%	4.30%

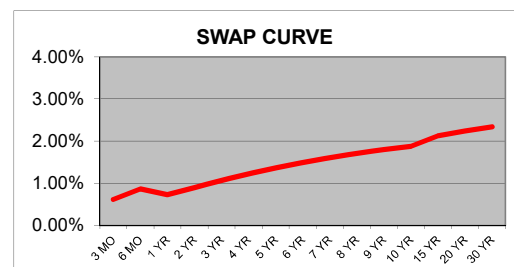
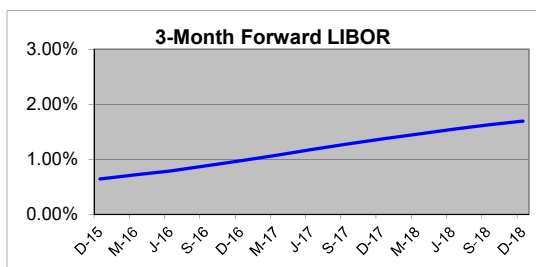
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 46.59	-12.54%	Dow Jones Ind Avg	16,052.04	-9.94%
Commodities (CRB Index)	\$ 195.61	-14.94%	NASDAQ	4,506.10	-4.85%
EURO (spot)	\$ 1.104	-8.78%	S&P 500	1,899.05	-7.77%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The Mortgage Bankers Association announced that it expects \$905 billion in purchase mortgage originations during 2016, a ten percent increase from 2015. "We are projecting that home purchase originations will increase in 2016 as the housing market continues towards more typical levels of turnover based on steadily rising demand and improvements in the supply of homes for sale and under construction," said Michael Fratantoni, MBA's Chief Economist. "We are forecasting that strong household formation, improving wages and a more liquid housing market will drive home sales and purchase originations in the coming years."