

RATE ENVIRONMENT

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THE MARKETS

Stocks fell as Friday's jobs report caused some investors to bet the Federal Reserve will raise short-term interest rates at the FOMC meeting on September 17. The S&P 500 lost 67 points, or 3.4%, to 1921 and the Nasdaq dropped 145 points, or 3.0%, to 4683. The whipsawing of stocks in recent sessions had raised speculation that the Fed would delay its plans to hike rates. Richmond Fed President Lacker said that the payrolls number was solid and doesn't change the picture for monetary policy. Mr. Lacker, a voting FOMC member, has generally supported the case for higher rates. Fed funds futures showed Friday a 34% likelihood of a rate increase at the September meeting, compared with 27% before the jobs report. The odds had been around 50% a month ago. The yield curve flattened as bond investors migrated out of short-term notes and into longer maturities. The two-year note reached as high as 0.73%, near the highest level of the year.

THE ECONOMY

Employers added 173,000 workers in August and the jobless rate dropped to 5.1%. The gain in payrolls followed advances in July and June that were 44,000 stronger than previously reported. Earnings climbed more than forecast and workers put in a longer workweek. The ISM manufacturing index fell to 51.5 in August, led by a decline in new orders. The services measure went to 59.0 from 60.3 in July, as the employment component was down. Construction spending grew 0.7% in July, however, boosted by private non-residential activity.

Producer prices are seen down 0.1% in August though up a similar amount when food and energy are excluded. The University of Michigan is expected to say its confidence index held at 91.8. Look for a 0.3% advance in wholesale inventories as import prices ease 1.7%.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.25%	0.25%	2-Year Agency	0.76%	0.77%
Prime	3.25%	3.25%	5-Year Agency	1.59%	1.59%
2-Year Treasury	0.84%	0.70%	15-Year MBS	1.98%	2.20%
5-Year Treasury	1.43%	1.47%	30-Year MBS	2.74%	2.88%
10-Year Treasury	2.02%	2.13%	3-Month LIBOR	0.33%	0.33%

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 (0.50%)	90-Day LIBOR (2.50%)	90-Day LIBOR (0.50%)	90-Day LIBOR (2.00%)
1-Year	0.73%	3.43%	0.17%	0.06%	0.07%	1.08%
2-Year	0.90%	3.70%	0.83%	0.22%	0.17%	2.03%
3-Year	1.07%	3.99%	1.92%	0.62%	0.30%	2.75%
5-Year	1.36%	4.28%	5.17%	1.91%	0.60%	3.96%

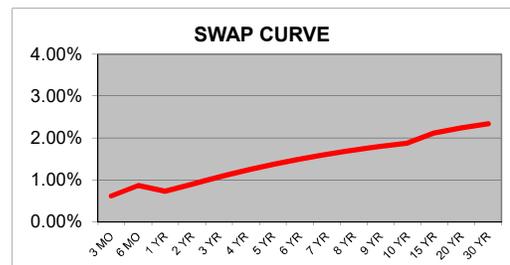
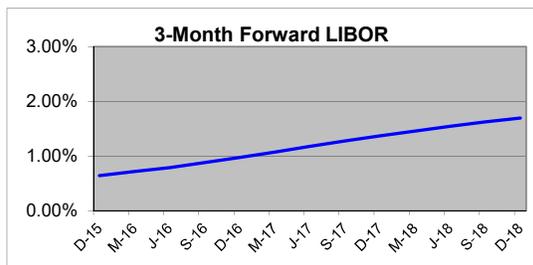
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 46.05	-13.55%	Dow Jones Ind Avg	16,057.93	-9.90%
Commodities (CRB Index)	\$ 196.70	-14.46%	NASDAQ	4,506.78	-4.84%
EURO (spot)	\$ 1.115	-7.87%	S&P 500	1,897.59	-7.84%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

Commercial banks and savings institutions insured by the FDIC reported aggregate net income of \$43.0 billion in the second quarter of 2015, up \$2.9 billion (7.3 percent) from a year earlier and the highest quarterly income on record. The increase in earnings was mainly attributable to a \$3.6 billion rise in net operating revenue. "Bankers generally reported another quarter of higher earnings, improved asset quality, and increased lending," FDIC Chairman Martin Gruenberg said. "There were fewer problem banks, and only one bank failed during the second quarter."

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