

# RATE ENVIRONMENT

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## THE MARKETS

Fed policy makers expressed concern that the fall in commodity prices and volatility in financial markets increasingly posed risks to the economy. "Participants judged that the overall implications of these developments for the outlook for domestic economic activity was unclear but they agreed that uncertainty had increased," according to minutes of the FOMC's Jan. 26-27 meeting. "Many saw these developments as increasing downside risks." Officials agreed that labor-market indicators had been "encouraging," while data on spending and production were "disappointing." In a speech Wednesday, St Louis Fed president Bullard said inflation expectations have fallen further and he now believes that the Fed has "more leeway in its normalization program" and sees it as unwise to continue a normalization strategy. Stocks rallied, with the Dow Jones Industrial Average rising more than 400 points, as the year's most-battered shares continued to recover and energy shares climbed with oil prices. Treasuries were modestly lower even as inflation data was stronger than expected.

## THE ECONOMY

Producer prices edged up 0.1% in January, above expectations for a 0.3% decline. Consumer prices were flat while the core rate increased 0.3% or 2.2% on an annual basis. Housing starts fell 3.8% to 1.1 million units, though permits were flat at 1.2 million. Industrial production rose 0.9%, boosted by the motor vehicle sector.

Existing home sales are seen off 1.1% to 5.4 million; they surged 14.7% in December. Look for new home sales to fall back 3.5% to 525,000. The S&P/Case-Shiller home price index, meanwhile, should show a 5.5% gain. Personal income is expected to rise 0.4% in January with personal spending up 0.2%.

## KEY RATES

| Issue            | Value | Last Week | Issue         | Value | Last Week |
|------------------|-------|-----------|---------------|-------|-----------|
| Fed Funds        | 0.50% | 0.50%     | 2-Year Agency | 0.82% | 0.77%     |
| Prime            | 3.50% | 3.50%     | 5-Year Agency | 1.41% | 1.36%     |
| 2-Year Treasury  | 0.76% | 0.71%     | 15-Year MBS   | 1.89% | 1.84%     |
| 5-Year Treasury  | 1.24% | 1.20%     | 30-Year MBS   | 2.54% | 2.56%     |
| 10-Year Treasury | 1.76% | 1.74%     | 3-Month LIBOR | 0.62% | 0.62%     |

Source: Bloomberg

## INTEREST RATE SWAPS / CAPS / FLOORS

Buyer Pays Fixed- Indications only based on quarterly settlements

| SWAP   |              |       | CAP                  |                      | FLOOR                |                      |
|--------|--------------|-------|----------------------|----------------------|----------------------|----------------------|
| Term   | 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 | 0.72%        | 3.42% | 0.21%                | 0.05%                | 0.06%                | 1.26%                |
| 2-Year | 0.81%        | 3.61% | 0.63%                | 0.13%                | 0.21%                | 2.38%                |
| 3-Year | 0.91%        | 3.83% | 1.35%                | 0.35%                | 0.46%                | 3.42%                |
| 5-Year | 1.14%        | 4.06% | 3.75%                | 1.25%                | 1.11%                | 5.34%                |

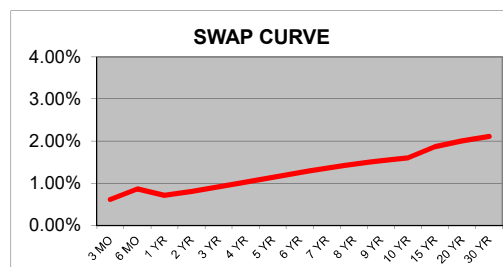
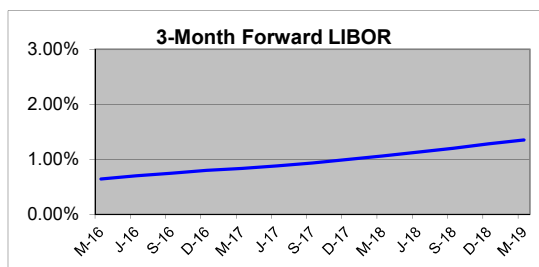
Source: Bloomberg, PNC

## OTHER INDICATORS

|                         | Value     | % Change YTD |                   | Value     | % Change YTD |
|-------------------------|-----------|--------------|-------------------|-----------|--------------|
| OIL (30 day futures)    | \$ 29.64  | -19.98%      | Dow Jones Ind Avg | 16,391.99 | -5.93%       |
| Commodities (CRB Index) | \$ 159.63 | -9.37%       | NASDAQ            | 4,504.43  | -10.04%      |
| EURO (spot)             | \$ 1.113  | 2.39%        | S&P 500           | 1,917.78  | -6.18%       |

Source: Bloomberg

## YIELD CURVES



Source: Bloomberg

## IN THE NEWS

The January 2016 Federal Reserve Senior Loan Officer Survey on Bank Lending indicated that banks tightened standards on C&I and commercial real estate loans in the fourth quarter of 2015. The survey indicated that demand for C&I loans had weakened somewhat and demand for CRE loans strengthened somewhat during the fourth quarter on net. The survey found a moderate easing of standards on some categories of residential mortgage loans as well as on auto loans. Moderate net fractions of banks reported weaker demand across most categories of residential real estate loans.

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