

RATE ENVIRONMENT

ATLANTIC CAPITAL STRATEGIES, INC.

(781) 276-4966

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THE MARKETS

Fed Chair Yellen said the ongoing improvement in the economy would warrant another rate increase "in the coming months," though she stopped short of endorsing June. St. Louis Fed President Bullard, meanwhile, said labor markets are relatively tight and may put upward pressure on inflation. "By nearly any metric, U.S. labor markets are at or beyond full employment," Bullard said, adding that he wanted to see more economic data before deciding when to move. Interest rate futures are pricing in a one-third chance of a rate hike in June and about a 60% likelihood by July. Bond yields were unchanged even after first-quarter economic growth was adjusted upward. Treasuries were supported last week amid strong investor demand at two- and five-year auctions, where dealers only received 22% of securities. Stocks rose, with the Nasdaq posting its largest weekly gain since February. Oil advanced for another week, breaching \$50 a barrel for the first time since October.

THE ECONOMY

New home sales increased 16.6% to 619,000 in April, well above median (511,000) expectations; months' supply fell to 4.7. The FHFA home price index rose 0.7% in March, or an annual pace of 6.1%. The monthly trade deficit widened to \$57.5 billion from \$57.1 billion in March. Orders for durable goods rose 3.4% though fell 0.8% not including the defense segment. The second estimate Q1 GDP growth was reported at 0.8%, up from the advance estimate of 0.5%.

Economists will carefully scrutinize the May jobless report for clues about the labor market; the consensus is calling for 170,000 new workers with the unemployment rate unchanged at 5%. Personal income should rise 0.4% while personal spending is seen surging 0.6%. Look for the ISM to say its manufacturing index held at just under 51.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.50%	0.50%	2-Year Agency	0.99%	0.94%
Prime	3.50%	3.50%	5-Year Agency	1.46%	1.45%
2-Year Treasury	0.90%	0.89%	15-Year MBS	1.95%	1.88%
5-Year Treasury	1.39%	1.38%	30-Year MBS	2.63%	2.61%
10-Year Treasury	1.85%	1.85%	3-Month LIBOR	0.65%	0.63%

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 (0.50%)	90-Day LIBOR (2.50%)	90-Day LIBOR (0.50%)	90-Day LIBOR (2.00%)
1-Year	0.90%	3.60%	0.32%	0.05%	0.04%	1.05%
2-Year	1.08%	3.88%	0.95%	0.19%	0.10%	1.92%
3-Year	1.21%	4.13%	1.76%	0.45%	0.26%	2.76%
5-Year	1.36%	4.28%	3.99%	1.32%	0.83%	4.52%

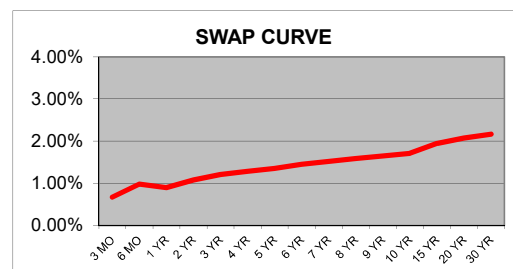
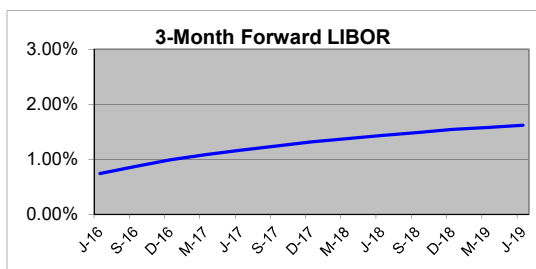
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 49.24	32.94%	Dow Jones Ind Avg	17,873.22	2.57%
Commodities (CRB Index)	\$ 183.14	3.97%	NASDAQ	4,933.51	-1.47%
EURO (spot)	\$ 1.111	2.21%	S&P 500	2,099.06	2.69%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

Freddie Mac released its Multi-Indicator Market Index®, indicating a robust opening to the spring home buying season across many parts of the country. Deputy Chief Economist Len Kiefer said, "The U.S. housing market is poised to have its best year in a decade and the spring home buying season is off to a strong start. Pent up demand for homes and near record-low mortgage rates are bolstering housing markets across the country. The National MiMi currently stands at 83.8, the highest since September of 2008. Home purchase applications are up nearly 14 percent from one year ago, mortgage delinquencies continue to trend down, and robust employment growth are all positive signs."

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