# RATE ENVIRONMENT

**ATLANTIC CAPITAL STRATEGIES, INC.** *(781) 276-4966* **June 6, 2016**

## THE MARKETS

In an interview, Charles Evans, the Chicago Fed president, said two rate hikes are likely in 2016. "Timing's not really that critical for my viewpoint, as long as by the end of this year we're at just a little under 1 percent," Evans added. Fed Governor Lael Brainard, meanwhile, called for patience before lifting interest rates as she said the jobs report shows the labor market has slowed. According to futures trading, the probability for a June hike is now 6 percent, while July is at 42 percent. Across the pond, the ECB kept its monetary policy unchanged and announced that the corporate bond purchase program will start on June 8. Their economic projections were unchanged, and President Draghi noted that downside risks had receded due to monetary policy action. Treasuries surged after a report showed the U.S. economy added the fewest workers in six years. The two-year note fell 11 basis points to 0.78% while the ten-year issue was off 14 basis points at 1.71%. Stocks were mixed and the dollar fell to the lowest level since early May.

## THE ECONOMY

Nonfarm payrolls rose by a seasonally adjusted 38,000 in May. The unemployment rate, meanwhile, fell to 4.7% from 5.0% in April. Personal income and spending grew 0.4% and 1.0%, respectively. The Conference Board's index of consumer confidence slipped to 92.6 in May, down from the revised April reading of 94.7. The ISM manufacturing index increased to 51.3 in May; new orders were unchanged while prices paid surged.

Consumer confidence as measured by the University of Michigan is seen flat at 94.5 while Bloomberg's survey should rise to 44. Wholesale inventories are expected to advance in April by 0.1% and unit labor costs are seen 3.9% higher.

## KEY RATES

| *Issue* | *Value* | *Last Week* | *Issue* | *Value* | *Last Week* |
|---|---|---|---|---|---|
| Fed Funds | 0.50% | 0.50% | 2-Year Agency | 0.85% | 0.94% |
| Prime | 3.50% | 3.50% | 5-Year Agency | 1.35% | 1.45% |
| 2-Year Treasury | 0.78% | 0.89% | 15-Year MBS | 1.84% | 1.88% |
| 5-Year Treasury | 1.23% | 1.38% | 30-Year MBS | 2.48% | 2.61% |
| 10-Year Treasury | 1.71% | 1.85% | 3-Month LIBOR | 0.68% | 0.63% |

*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 | 0.81% | 3.51% | 0.35% | 0.08% | 0.04% | 1.04% |
| 2-Year | 0.94% | 3.74% | 0.96% | 0.19% | 0.09% | 1.91% |
| 3-Year | 1.05% | 3.97% | 1.74% | 0.43% | 0.26% | 2.77% |
| 5-Year | 1.22% | 4.14% | 3.84% | 1.26% | 0.83% | 4.57% |

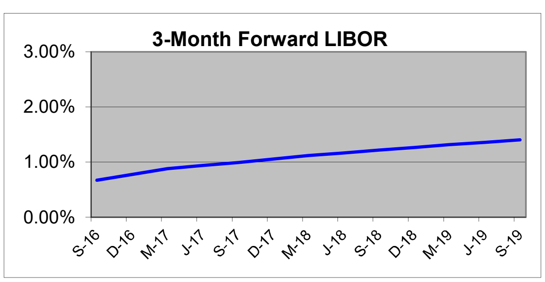
*Source: Bloomberg, PNC*

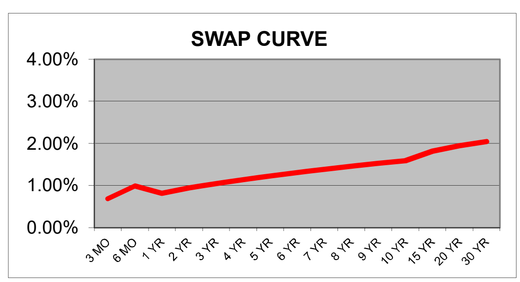
## OTHER INDICATORS

| | *Value* | *% Change YTD* | | *Value* | *% Change YTD* |
|---|---|---|---|---|---|
| OIL (30 day futures) | $ 48.62 | 31.26% | Dow Jones Ind Avg | 17,807.06 | 2.19% |
| Commodities (CRB Index) | $ 188.67 | 7.11% | NASDAQ | 4,942.52 | -1.29% |
| EURO (spot) | $ 1.137 | 4.57% | S&P 500 | 2,099.13 | 2.70% |

*Source: Bloomberg*

## YIELD CURVES




*Source: Bloomberg*

## IN THE NEWS

Commercial banks insured by the FDIC reported net income of $39.1 billion in the first quarter of 2016, down $765 million (1.9 percent) from a year earlier. The decline in earnings was due to a $4.2 billion increase in provisions for loan losses and a $2.2 billion decline in noninterest income. The increase in provisions is primarily attributable to rising levels of troubled loans to commercial and industrial borrowers, particularly in the energy sector. The decline in noninterest income reflects weakness in trading income at a few large banks, as well as lower income from asset servicing.