

RATE ENVIRONMENT

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THE MARKETS

Chicago Fed President Evans said a rate increase could be warranted this year as the economy picks up steam, even though he's still worried inflation is too low. "I do think that perhaps one rate increase could be appropriate this year," Evans told reporters. That followed comments by San Francisco President Williams, who said the economy could stand as many as two hikes this year. According to fed funds futures, the probability of a September rate move is 26%, compared to 18% one week ago. The odds increase to 48% by year-end. Across the pond, the Bank of England cut its main interest rate to 0.25% from 0.50% and revived its long-dormant bond-buying program. In a statement, the BOE said the outlook for growth had "weakened materially" following the Brexit. Treasuries pulled back as traders speculate the latest jobs report gives the Fed a little more room to raise rates. U.S. stocks advanced Friday, with the Nasdaq Composite Index surpassing its record close.

THE ECONOMY

Nonfarm payrolls rose by 255,000 last month, the Labor Department said. Wages for private-sector workers matched their strongest pace in seven years, more Americans entered the labor force during the month and the jobless rate held steady 4.9%. The ISM manufacturing survey edged lower to 52.6 in July; the new orders component was flat at 56.9. The services index, meanwhile, fell to 55.5 as the employment reading was down.

Retail sales are expected to climb 0.3% in July after surging 0.6% the prior month. Not including food and energy, sales are seen up 0.4%. Look for producer prices to gain 0.1% after a 0.6% advance in June. The University of Michigan is expected to say its sentiment index rose to 91.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.50%	0.50%	2-Year Agency	0.84%	0.74%
Prime	3.50%	3.50%	5-Year Agency	1.26%	1.17%
2-Year Treasury	0.72%	0.67%	15-Year MBS	1.71%	1.67%
5-Year Treasury	1.13%	1.03%	30-Year MBS	2.37%	2.29%
10-Year Treasury	1.59%	1.46%	3-Month LIBOR	0.79%	0.76%

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	0.92%	3.62%	0.23%	0.05%	0.05%	1.10%
2-Year	0.99%	3.79%	0.59%	0.11%	0.11%	2.17%
3-Year	1.05%	3.97%	1.10%	0.24%	0.31%	3.22%
5-Year	1.18%	4.10%	2.68%	0.70%	0.91%	5.28%

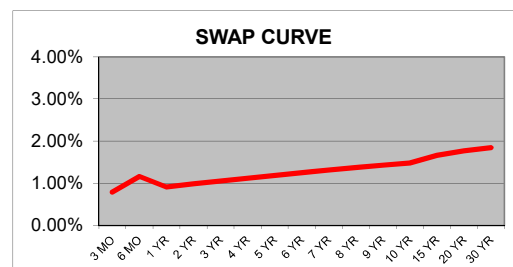
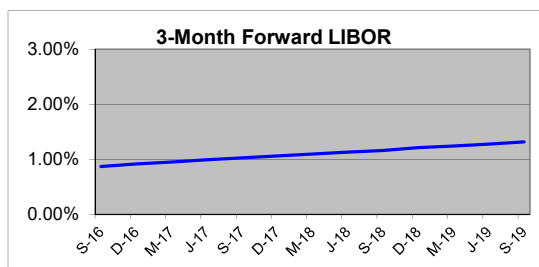
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 41.80	12.85%	Dow Jones Ind Avg	18,543.53	6.42%
Commodities (CRB Index)	\$ 181.80	3.21%	NASDAQ	5,221.12	4.28%
EURO (spot)	\$ 1.109	1.99%	S&P 500	2,182.87	6.79%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The July 2016 Senior Loan Officer Opinion Survey on bank lending practices indicates that both supply and demand for credit were little changed, on net, in the second quarter. Banks continued to tighten standards for commercial and industrial (C&I) business lending and real estate (CRE) loans amid a rebound in C&I loan demand. Consumer credit demand improved across all loan types, while changes in lending standards were mixed. Over the second quarter of 2016, banks reported stronger demand for most categories of home-purchase loans.

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