# Interest Rate Market Insight

November 24, 2014

• Is this the most American week of the year, as media and family call for eating and shopping with abandon? Regardless, we wish everyone the best and safe travel, and we are thankful for the opportunity to do so. If it seems like long interest rates have been tightly range bound and equities have melted up for weeks on end, it's because that's exactly what is happening. More record highs for the Dow and S&P 500 came on one of the strongest one-month rallies in the last six decades after the mid-October intra-day crash that crushed the S&P 500 down near 1800 and the 10-year yield below 1.90%. Expect the interest rate range to expand as we near the close of 2014, with probable steepening of a yield curve that is sloped up 180 bps from 2s - 10s, some 70 bps flatter than a year ago. Last week gave us another reason to believe the goldilocks markets might continue--foreign central bank stimuli ramped up in Europe, China, and Japan, which should go a long way towards offsetting the step back the Federal Reserve will take in the coming year. China's central bank cut their short term borrowing rate from 6% to 5.6% in what could be the first of many reductions, which also sent many European yields to new record lows ahead of budget deliberations this week.

• Q3 earnings ended with roughly 10% bottom line gains and 3% top line advances, which were stronger than analyst consensus. The data of last week was solid, led by a Philly Fed survey that more than doubled consensus at a whopping 40.8, spiking homebuilder sentiment (58 MoM from 54), and leading indicators advancing 0.9% MoM. Housing starts were basically flat and in line with estimates, existing home sales rose some 2% MoM, and PPI and CPI inflation gauges rose faster than expected at their cores, but still remain below Fed thresholds. TIC data showed foreign demand for long term US assets tripling MoM to over $160 billion on piping hot Treasury demand. The FOMC minutes were measured, highlighting a balanced risk profile in the US along with expected softness in Europe and Asia and noting labor as sluggish despite a declining unemployment rate. While consensus still says that the FOMC target rate will rise 25-75 bps in 2015 and term interest rates will follow it higher, the Fed remains unconstrained by tightening pressure, and demand for Treasuries from central and commercial banks, insurers, and pension funds should remain robust relative to issuance schedules. In short, reality may not follow the futures plan next year.

• Markets remain sanctified and closed Thursday, with an early close Friday. The diminished trading schedule will be overlaid by many important data points, including a revision to Q3 GDP (3.3% QoQ annualized growth expected with 1.3% QoQ price increases), durable goods orders that should be flat on the headline and ex- transportation, and personal income and spending both increasing and flowing through to core PCE inflation (+0.4%, +0.3%, and +0.2% MoM consensus, respectively). S&P Case-Shiller and FHFA home prices should tick up roughly 0.5% MoM and new home sales should rise to a 470k annualized sales rate. Consumer confidence and sentiment should hit five-year highs.

| Index Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 1-month LIBOR | 0.16% | 0.15% | 0.15% | 0.17% |
| 3-month LIBOR | 0.23% | 0.23% | 0.23% | 0.24% |
| 6-month LIBOR | 0.33% | 0.33% | 0.32% | 0.35% |
| 12-month LIBOR | 0.56% | 0.56% | 0.54% | 0.58% |
| Fed Funds Target | 0.25% | 0.25% | 0.25% | 0.25% |
| Prime Rate | 3.25% | 3.25% | 3.25% | 3.25% |
| SIFMA Muni Swap Index | Call | 0.05% | 0.04% | 0.06% |

| Treasury Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 2-yr Treasury | 0.50% | 0.51% | 0.36% | 0.27% |
| 3-yr Treasury | 0.94% | 0.96% | 0.78% | 0.55% |
| 5-yr Treasury | 1.61% | 1.61% | 1.43% | 1.36% |
| 7-yr Treasury | 2.02% | 2.02% | 1.88% | 2.10% |
| 10-yr Treasury | 2.31% | 2.32% | 2.22% | 2.79% |
| 30-yr Treasury | 3.02% | 3.05% | 2.99% | 3.89% |
| 2s-10s Spread | 1.81% | 1.81% | 1.86% | 2.51% |

| Taxable Swap Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 2-yr LIBOR Swap | Call | 0.71% | 0.61% | 0.37% |
| 3-yr LIBOR Swap | Call | 1.12% | 0.98% | 0.62% |
| 5-yr LIBOR Swap | Call | 1.70% | 1.56% | 1.42% |
| 7-yr LIBOR Swap | Call | 2.05% | 1.94% | 2.11% |
| 10-yr LIBOR Swap | Call | 2.38% | 2.29% | 2.75% |

| Tax-Exempt Swap Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 2-yr SIFMA Swap | Call | 0.41% | 0.35% | 0.23% |
| 3-yr SIFMA Swap | Call | 0.72% | 0.64% | 0.42% |
| 5-yr SIFMA Swap | Call | 1.22% | 1.15% | 1.08% |
| 7-yr SIFMA Swap | Call | 1.60% | 1.54% | 1.72% |
| 10-yr SIFMA Swap | Call | 1.96% | 1.92% | 2.32% |

All else equal, amortizing swaps and caps will have lower rates and costs, respectively. Please call for specific structure pricing requests.

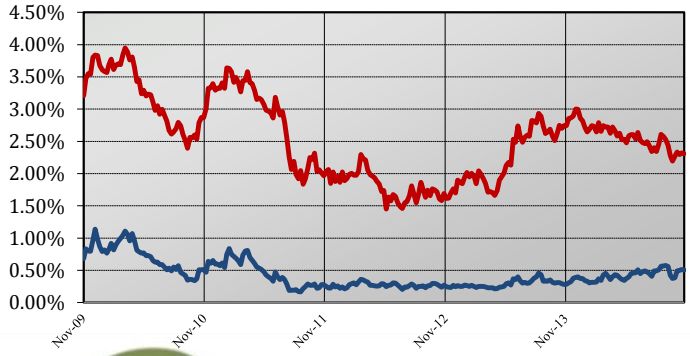
| Agency Rate Caps (in bps) | LIBOR = 3% | LIBOR = 4% | LIBOR = 5% | LIBOR = 6% |
|---|---|---|---|---|
| 3-yr LIBOR Cap | 37 | 19 | 12 | 12 |
| 4-yr LIBOR Cap | 91 | 48 | 36 | 18 |
| 5-yr LIBOR Cap | 159 | 94 | 50 | 30 |
| 7-yr LIBOR Cap | 339 | 209 | 115 | 71 |

| Fwd Implied 3mL Rate | Last |
|---|---|
| Dec. 14 | 0.24% |
| Dec. 15 | 0.79% |
| Dec. 16 | 1.77% |
| Dec. 17 | 2.47% |

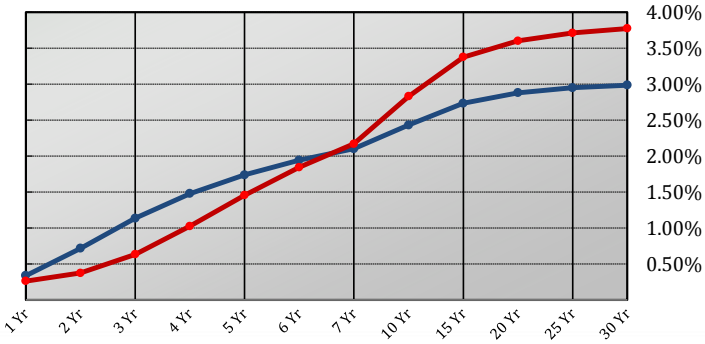
*Conventions*

Source: Bloomberg. LIBOR swaps use 1-month LIBOR, monthly payments, act/360 for both legs. SIFMA swaps reset weekly and pay monthly, act/act. For %of LIBOR swaps, multiply the %used by the taxable swap rate. No amortization.

2 Yr (Blue) & 10 Yr (Red) US Treasury Yield (last 5 yrs)




LIBOR Swap Curve - Current (Blue) vs. Year Ago (Red)

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