INTEREST RATE MARKET INSIGHT

APRIL 27, 2015

• We have an interesting week ahead, and even though most economists aren't anticipating a dramatic shift to forecasts or policy, the highlights come Wednesday with the Federal Reserve's FOMC wrap-up and a first look at Q1 2015 GDP. Traders are searching for more risk, and US equity indices are shaking off the downbeat earnings to send the S&P 500 and NASDAQ to all-time highs, the latter finally clearing its highs from the tech boom of 2000 on Thursday. In fifteen years, the technology and biotech heavy index has managed to compress its price-to-earnings ratio from about 90 to 30 today. Interest rates echoed the sentiment, with the Treasury yield curve steepening because the long end sold off, leaving the 10-year maturity yielding 1.91%. The 30-year swap spread has plummeted to its most negative level (-23 bps) since late 2012 in concert with the strength of the US dollar. As Greek politicians come to the table with EU lenders to capture scheduled aid, the finance ministers are demanding austerity measures and the Greek people when polled want compromise, so look for resolution and a debt payment in May. While Fitch just downgraded Japan from an A+ to A credit rating, the BoJ will likely remain accommodative when they convene later this week.

• The data for the week were mixed, with stronger than expected existing home sales (5.19MM SAAR) up 6.1% MoM and new home sales down 11% MoM to a 481,000 SAAR. The FHFA house price index rose 0.7% MoM and is up 5.4% YoY. Durable goods orders were buoyed by transportation deliveries, pushing the headline up 4% MoM as the core reading excluding aircraft and autos slipped 0.2% MoM. Manufacturing was weak in the report while the only core gain came from the computers and electronics category. Orders and business investment have contracted for six consecutive months. The flash manufacturing PMI from Markit slipped to 54.2 and the Kansas City Fed's manufacturing activity gauge remained negative, so the sluggishness is real, but most economists want another quarter of data to determine how much causality comes from weather. Initial jobless claims rose more than expected to a weekly rate of 295k, about 10,000 above the four-week moving average. Treasury announced that $90 billion of 2-, 5-, and 7-year notes will be auctioned in the week to come, as well as 2-year floaters, one week after particularly soft longer-dated sales. When EU paper beyond 7 years is negative in yield, our debt remains compelling.

• With consensus for Q1 GDP at 1% in the first viewing, we have some room for fireworks if the number deviates much from that level--recall the negative print from Q1 2014 due to weather. The S&P Case-Shiller home price index is released Tuesday, but the meat of the data comes after lunch on Wednesday. The 2 pm FOMC policy statement should include limited changes, while personal income and spending reports should show consumer pick-up in March and a core PCE inflation gauge at 1.4% YoY. ISM Manufacturing should rise to 52 from 51.5 in March, while construction spending is likely to rise 0.4%. Chicago PMI projects back into growth mode after two monthly declines in a row.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.18%	0.18%	0.17%	0.15%
3-month LIBOR	0.28%	0.28%	0.27%	0.23%
6-month LIBOR	0.41%	0.40%	0.40%	0.32%
12-month LIBOR	0.71%	0.68%	0.69%	0.55%
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	0.04%	0.02%	0.12%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.51%	0.51%	0.56%	0.44%
3-yr Treasury	0.83%	0.84%	0.90%	0.89%
5-yr Treasury	1.32%	1.31%	1.36%	1.74%
7-yr Treasury	1.67%	1.64%	1.67%	2.27%
10-yr Treasury	1.91%	1.87%	1.87%	2.68%
30-yr Treasury	2.61%	2.52%	2.47%	3.45%
2s-10s Spread	1.40%	1.36%	1.32%	2.24%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.75%	0.80%	0.53%
3-yr LIBOR Swap	Call	1.04%	1.09%	0.98%
5-yr LIBOR Swap	Call	1.43%	1.47%	1.77%
7-yr LIBOR Swap	Call	1.68%	1.70%	2.27%
10-yr LIBOR Swap	Call	1.90%	1.91%	2.71%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.39%	0.43%	0.32%
3-yr SIFMA Swap	Call	0.62%	0.67%	0.64%
5-yr SIFMA Swap	Call	1.01%	1.06%	1.32%
7-yr SIFMA Swap	Call	1.26%	1.32%	1.80%
10-yr SIFMA Swap	Call	1.52%	1.56%	2.25%

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

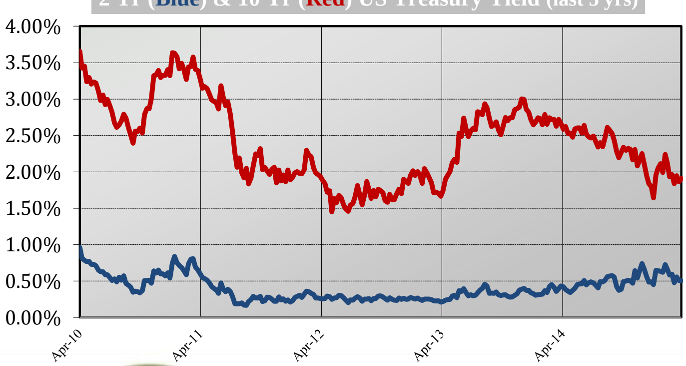
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	26	14	13	11
4-yr LIBOR Cap	63	33	19	29
5-yr LIBOR Cap	126	83	34	49
7-yr LIBOR Cap	267	178	86	102

Fwd Implied 3mL Rate	Last
Dec. 15	0.58%
Dec. 16	1.29%
Dec. 17	1.82%
Dec. 18	2.17%

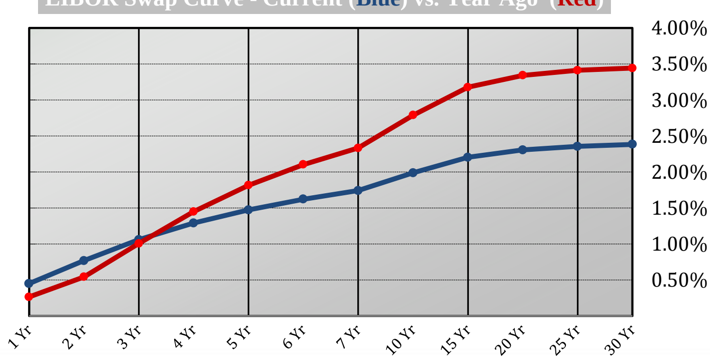
Conventions

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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