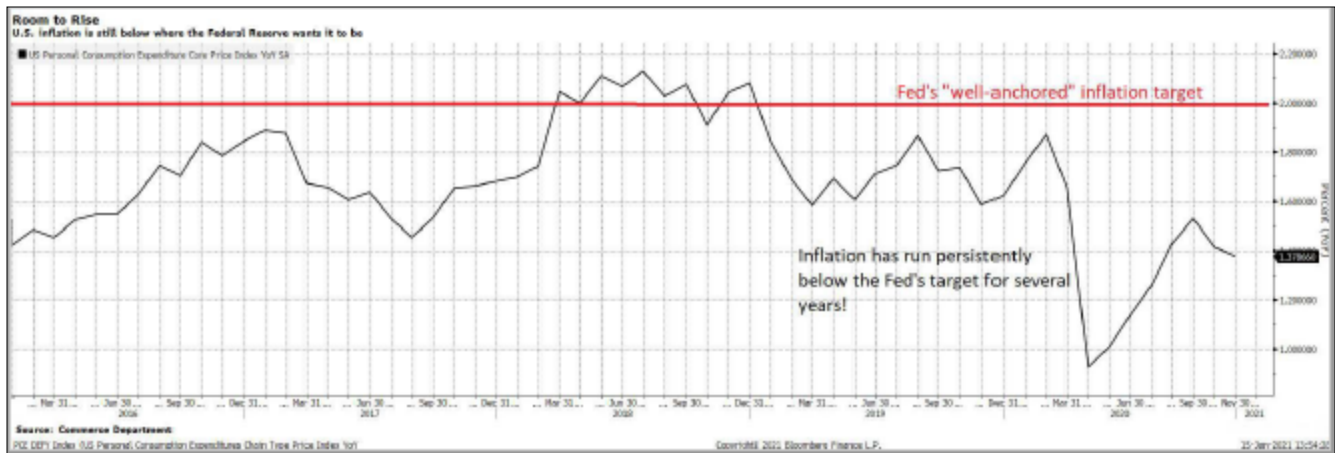
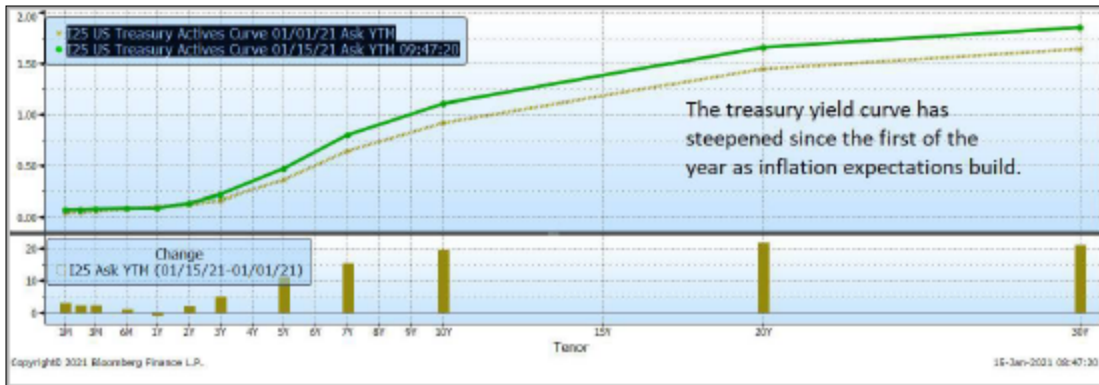


Weekly Review—January 15, 2021

The U.S. Treasury yield curve has steepened since the first of the year as inflation expectations build. The graph below shows longer-term treasury yields increased 20bps while the short end of the curve remains hitched to the Fed's current policy stance. Considering that the government has pumped trillions of stimulus dollars into the economy (& more is expected), it's reasonable for the market to be concerned about increased inflation. After all, inflation in its simplest form is "too many dollars chasing too few goods" – a quick shout-out to one of our asset/liability management (ALM) clients who reminded me of this fact during this week's ALM discussion.

While I agree that inflation will likely increase, the question is to what degree and its timing. After years of persistently low inflation, the Fed announced a new policy framework last fall, stating that it would be appropriate policy to keep rates near zero until inflation was on track to moderately exceed their 2% target – basically implementing what the Fed calls a "well-anchored" 2% inflation benchmark. Earlier this week, Chairman Powell reiterated the Fed's policy stance on inflation stating "in order to achieve inflation that averages 2% over time, following the periods when inflation has run persistently below 2%, we would likely aim to achieve inflation moderately above 2% for some time." Based on the Fed's preferred inflation metric (core PCE YoY – personal consumption expenditures – shown below), it could be years before inflation concerns cause policy makers to increase bench-mark overnight rates (a.k.a. – lift off!). The time to raise rates "is no time soon," Powell added.

Dennis Zimmerman Jr. | Senior Vice President | Manager – Asset/Liability Services | Commerce Bank – Capital Markets Group (CMG)



NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
01/19/2021	\$6,670,000	Bellaire TX UT GO Taxable AAA	2021-2038
01/21/2021	\$1,000,000	ISD 8 Comanche Co OK UT GO Taxable A+	2023

ECONOMIC CALENDAR

Monday 1/18	Tuesday 1/19	Wednesday 1/20	Thursday 1/21	Friday 1/22
Markets and Bank Closed For the Martin Luther King Jr. Holiday	Total Net TIC Flows Net Long-term TIC Flows	MBA Mortgage Applications	Initial Jobless Claims Housing Starts Building Permits	Markit US Manufacturing PMI Existing Home Sales Markit US Composite PMI

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	4.75	3 Mo.	0.04
Discount Rate	0.25	0.25	2.25	6 Mo.	0.13
Fed Funds Rate	0.09	0.09	1.54	1-Year	0.18
IOER	0.10	0.10	1.55	2-Year	0.21
1-Month Libor	0.13	0.16	1.68	3-Year	0.26
11th Dist COFI	0.47	0.5	1.04	5-Year	0.39
1-Yr. CMT	0.10	0.10	1.53	7-Year	0.61
Dow	30,814.26	30,199.31	29,030.22	10-Year	0.92
NASDAQ	12,998.50	12,595.06	9,258.70	30-Year	1.64
S&P 500	3,768.25	3,694.62	3,289.29		
Bond Buyer	2.21	2.13	2.63		

Treasuries & New Issue Agencies (<i>Spread to Treasuries</i>)						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	0.07					1-Year	N/A	+45
6 Mo. Bill	0.08					2-Year	50	55
1-Year Bill	0.09					3-Year	55	64
2-Year Note	0.13	-2	2	2		5-Year	62	74
3-Year Note	0.20	-1	9	7	4			
5-Year Note	0.45	2	26	22	16			
7-Year Note	0.77	4	32	28	20			
10-Year Note	1.09	12	34	22	11			
20-Year Bond	1.64							
30-Year Bond	1.84							

MBS Current Coupon Yields		
GNMA 30 Yr.		1.49%
FNMA 30 Yr.		1.53%
GNMA 15 Yr.		0.25%
FNMA 15 Yr.		0.91%

About the Author, Dennis Zimmerman



In 2015, Dennis joined Commerce Bank's Capital Markets Group as Manager of Asset/Liability Services. With his leadership, the Capital Market's ALM team provides asset/liability management consulting services to community banks.

Prior to joining Commerce, he was employed for nearly 26 years at one of the largest privately-held banks in Kansas. In addition to managing a \$775 million bond portfolio, his Asset/Liability Chairman responsibilities included managing margin, interest rate risk, liquidity and capital. Prior to becoming the bank's Finance Treasury Officer, he was a Registered Investment Representative and Supervising Principal in the bank's Capital Markets division.

As a seasoned professional, Mr. Zimmerman offers a comprehensive understanding of bank finance treasury, fixed income, complex financial analysis as well as regulatory and operational awareness. As a banker, he understands the challenge of balancing shareholder expectations within appropriate levels of risk.

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