



Weekly Review—January 29, 2021

As expected, Fed policy makers voted earlier this week to keep their benchmark overnight rate zero bound. Additionally, the Fed plans to continue their bond-buying program at the current pace of \$120 billion in monthly purchases until “substantial further progress” toward achieving its dual mandate of maximum employment and stable prices/inflation. In its statement, the Fed summarized their current outlook by stating “the ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.” Here’s a quick update as related to the Fed’s three tenets that drive their economic outlook – economic activity, employment and inflation.

Economic Activity

Yesterday’s release of Gross Domestic Product (GDP) – the broad-based measure of overall economic health – showed that economic activity grew at a 4% annualized rate in the fourth quarter just shy of street estimates calling for 4.2% growth. Although 4QTR20’s growth rate was materially less than third quarter’s record 33.4% growth, the 4.2% growth was nearly double the 2.3% average growth rate of the decade-long expansion that ended early last year.

Employment

As for the employment picture, December’s headline unemployment rate of 6.7% released earlier this month remained significantly higher than pre-COVID levels in the mid-3% range. Although January’s employment data is scheduled to be released next week, economists expect little improvement in the jobs market, if any.

Inflation

This morning’s release of the Fed’s preferred inflation measure – the Personal Consumption Expenditures price index (core PCE YoY) – showed that core inflation increased to 1.5% in December as compared to November’s 1.4%. Although 1.5% was slightly higher than street estimates of 1.3%, inflation remains well below the Fed’s “well-anchored” 2% inflation benchmark.

What does all this mean for interest rates? While short-term rates are expected to remain at/near current levels for several years – basically hitched to Fed policy – market pressure on longer term rates will likely increase over time causing a curve to steepen as economic growth and inflation expectations build. Currently at 96bps, the 2yr-10yr treasury yield spread will likely remain range bound at approximately 80-120bps as the Fed may decide to limit the upside by increasing its use of yield curve control if the market gets ahead of itself. Spreads near the higher end of the range present buying opportunities for those willing and able to invest money farther out on the curve.

Dennis Zimmerman Jr.

Senior Vice President

Manager – Asset/Liability Services

Commerce Bank – Capital Markets Group (CMG)

NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
02/01/2021	\$10,290,000	HEARTLAND COLL DIST 540 ILL TAXABLE 2021	2021-2028
02/01/2021	\$975,000	TONGANOXIE KS TMP NTS 2021A	2022
02/01/2021	\$1,605,000	SUBLETTE KS 2021	2022-2031
02/02/2021	\$3,075,000	BALDWIN CITY KS 2021A	2022-2040
02/02/2021	\$3,980,000	FORT SCOTT KS 2021A	2021-2025

ECONOMIC CALENDAR

Monday 2/1	Tuesday 2/2	Wednesday 2/3	Thursday 2/4	Friday 2/5
Markit US Manufacturing PMI	Wards Total Vehicle Sales	MBA Mortgage Applications	Initial Jobless Claims	Change in Nonfarm Payrolls
Construction Spending MoM		ADP Employment Change	Factory Orders	Unemployment Rate
ISM Manufacturing		Markit US Composite PMI	Durable Goods Orders	Trade Balance

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	4.75	3 Mo.	0.03
Discount Rate	0.25	0.25	2.25	6 Mo.	0.09
Fed Funds Rate	0.08	0.09	1.55	1-Year	0.14
IOER	0.10	0.10	1.55	2-Year	0.17
1-Month Libor	0.12	0.15	1.65	3-Year	0.21
11th Dist COFI	0.47	0.50	1.04	5-Year	0.33
1-Yr. CMT	0.08	0.11	1.53	7-Year	0.53
Dow	29,982.68	30,335.67	28,734.45	10-Year	0.84
NASDAQ	13,070.70	12,850.22	9,275.16	30-Year	1.55
S&P 500	3,714.24	3,727.04	3,273.40		
Bond Buyer	2.14	2.12	2.54		

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	0.05					1-Year	N/A	+45
6 Mo. Bill	0.07					2-Year	50	55
1-Year Bill	0.07					3-Year	50	62
2-Year Note	0.11	0	-7	-6		5-Year	62	72
3-Year Note	0.17	2	-3	-5	-6			
5-Year Note	0.43	2	8	6	2			
7-Year Note	0.76	4	15	12	7			
10-Year Note	1.07	10	28	24	17			
20-Year Bond	1.64							
30-Year Bond	1.83							

MBS Current Coupon Yields	
GNMA 30 Yr.	1.47%
FNMA 30 Yr.	1.41%
GNMA 15 Yr.	0.19%
FNMA 15 Yr.	0.80%

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.

*****If you no longer wish to receive this weekly review, please send an email to CapitalMarketsGroup@commercebank.com*****

The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.

The opinions expressed herein reflect that of the author and are not a complete analysis of every material fact respecting any company, industry, or security. The author's opinions do not necessarily reflect that of Commerce Bank or its affiliates. Information contained herein is from sources deemed reliable but cannot be guaranteed. Prices and/or yields are subject to change and investments are subject to availability. CDs are direct financial obligations of the issuing financial institution and are not, either directly or indirectly, an obligation of Commerce Bank. The information provided is not an official trade confirmation or account statement. The Capital Markets Group (CMG) of Commerce Bank is not acting as your 'municipal advisor' within the meaning of Section 15B of the Securities Exchange Act, and does not act in a fiduciary capacity. CMG does not provide tax advice; please refer to your tax professional. Investments in securities are NOT FDIC Insured; NOT Bank-Guaranteed and May Lose Value.