



Weekly Review—February 25, 2022

The plot thickens as this week’s geopolitical events have put economists on notice – looking for additional increases in key inflation data. While the largest impact of Russia’s invasion into Ukraine will be felt in Europe, analysts point to the potential increase in gas/energy prices worldwide. Also concerning is the possibility of increased fertilizer prices. Meaning, food costs could also increase from their current elevated levels. Understanding that both food & energy prices are key drivers of inflation, increased costs would likely reduce consumer discretionary – slowing economic growth.

Normally this week’s events would warrant policy makers to pause their tightening efforts. But given our already high level of inflation with the increased prospect of more coming, the Fed does not have the luxury of time. Policy makers agree. Yesterday we heard from several Fed officials that, despite the dangers emanating from the Russia-Ukraine conflict, their plan to tighten remains on course. “With the economy at full employment and inflation far above target, we should signal that we are moving back to neutral at a fast pace,” Fed Governor Waller stated in his remarks at an event in California. “A 50-basis point hike would help do that” if data on jobs and prices stay hot in coming weeks, he said. Cleveland Fed President Mester stated that recent “geopolitical events add upside risk to the inflation forecast even as they put some downside risk to the near-term growth forecast.” Her comment best illustrates the Fed’s challenge. Unfortunately, monetary policy action is ill-fitted to solve both high inflation and slowing economic growth at the same time. Meaning, the Fed’s expected demand-side policy action of increasing rates to help reduce inflation will likely come at the cost of economic growth. The Atlanta Fed’s GDPNow estimates 1st quarter economic growth at 1.3% giving the Fed little wiggle room to fight inflation – remember 4QTR2021 GDP was 7%!

Looking ahead, maybe those on Capitol Hill should consider using fiscal supply-side solutions to help battle inflation rather than relying solely on a more restrictive monetary policy to reduce demand. Reducing taxes while cutting red tape (deregulation) increases production/supply – eventually causing prices to fall. Unfortunately, supply-side policy actions take time to take hold. As such, there’s no simple solution to our current economic challenge! Stay tuned...

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

NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
03/01/2022	\$91,025,000	KANSAS DEV FIN AUTH-D-REF	2023-2044
03/01/2022	\$9,475,000	KS DEV FIN AUTH -A-1-REV	2024-2053

ECONOMIC CALENDAR

Monday 2/28	Tuesday 3/1	Wednesday 3/2	Thursday 3/3	Friday 3/4
Wholesale Inventories	Markit US Manufacturing PMI	MBA Applications	Initial Jobless Claims	Change in Nonfarm Payrolls
MNI Chicago PMI	ISM Manufacturing	ADP Employment Change	Factory Orders	Unemployment Rate
Dallas Fed Manf. Activity	Construction Spending MoM		Durable Goods Orders	Average Hourly Earnings MoM

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	3.25	3 Mo.	0.76
Discount Rate	0.25	0.25	0.25	6 Mo.	0.81
Fed Funds Rate	0.08	0.08	0.07	1-Year	0.84
IOER	0.15	0.15	0.10	2-Year	1.11
1-Month Libor	0.21	0.11	0.12	3-Year	1.23
11th Dist COFI	0.22	0.22	0.46	5-Year	1.42
1-Yr. CMT	1.08	0.58	0.08	7-Year	1.61
Dow	34,058.75	34,297.73	31,402.01	10-Year	1.73
NASDAQ	13,694.63	13,539.29	13,119.43	30-Year	2.19
S&P 500	4,384.65	4,356.45	3,829.34		
Bond Buyer	2.51	2.25	2.44		

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	0.32					1-Year	N/A	+35
6 Mo. Bill	0.68					2-Year	35	40
1-Year Bill	1.11					3-Year	55	60
2-Year Note	1.60	2	1	0		5-Year	68	78
3-Year Note	1.78	4	5	2	1			
5-Year Note	1.89	7	19	14	6			
7-Year Note	1.97	10	26	18	8			
10-Year Note	1.98	23	40	31	19			
20-Year Bond	2.37							
30-Year Bond	2.28							

MBS Current Coupon Yields	
GNMA 30 Yr.	2.77%
FNMA 30 Yr.	2.99%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	2.37%

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.