



## Weekly Review—February 28, 2020

All eyes are on the coronavirus this week as fears of its contagion currently have financial markets firmly in a stranglehold. Fears of a global economic slowdown resulting from travel, supply chain, and consumption disruptions have forced equities well into correction territory while pushing longer-term Treasury yields to historic lows. The 10-year Treasury Note is currently trading at a 1.15% yield while the long-bond is at 1.66%. Understanding that the Fed's current lower-bound fed fund target rate of 1.50% is helping prop up short-term interest rates, the treasury curve's current inversion sends policy makers a screaming message to lower rates. According to current federal fund contracts, the futures market has priced in benchmark rate reductions at the March, June & September FOMC meetings.

With the Fed's next policy-setting meeting scheduled for March 17-18, it might be appropriate to review this week's coronavirus comments by current (& 1 former) FOMC members:

St Louis Fed President Bullard speaking in Arkansas - "Further policy rate cuts are a possibility if a global pandemic actually develops with health effects approaching the scale of ordinary influenza, but this is not the baseline case at this time."

Chicago Fed President Evans speaking in Mexico City - "I think it would be premature, until we have more data and have an idea of what the forecast is, to think about monetary policy action. But we're monitoring it very closely, and if we see something that does require adjustment, I'm confident we'll give that all the consideration it needs."

Former Chair Yellen speaking in Michigan - "We could see a significant impact on Europe, which has been weak to start with, and it's just conceivable that it could throw the United States into a recession." Additionally, "if it doesn't hit in a substantial way in the United States, that's less likely. We had a pretty solid outlook before this happened -- and there is some risk, but basically I think the U.S. outlook looks pretty good."

Dallas Fed President Kaplan in a Wall Street Journal interview - "We are still in the heat of this and there's just a lot of uncertainty, so anytime you are in the middle of something where there's a lot of uncertainty and you know that in the next three or four weeks some of that uncertainty is going to get cleared up, either for better or worse, I think it pays to be patient."

Fed Vice Chair Clarida speaking in Washington - The virus is likely to have a "noticeable impact" on Chinese growth at least in the first quarter. "The disruption there could spill over to the rest of the global economy. But it is still too soon to even speculate about either the size or the persistence of these effects, or whether they will lead to a material change in the outlook." Furthermore, "the U.S. economy is in a good place," Clarida said. The FOMC "will proceed on a meeting-by-meeting basis and will be monitoring the effects of our recent policy actions along with other information bearing on the outlook as we assess the appropriate path of the target range for the federal funds rate."

Atlanta Fed President Bostic speaking to CNBC - "We know it's going to be disruptive to China, to production, to a lot of the supply chain. When I talk to businesses here, what they tell me is that it's going to be a short-run disruption" and "they're not expecting an extended negative impact." He then stated, "so I think this is going to be a short-term hit. We'll get the economy back to its usual level" after that passes." But - "while we have that as our baseline, we're always open and monitoring to make sure that there aren't new things that are coming up that have some deeper implications for the economy."

Because the impact to the U.S. economy is still speculative at this point, the Fed seems to be comfortable maintaining its "wait & gather more information" posture for now. Next week's Fed speak could be materially different assuming policy makers succumb to the market's demand for lower rates.

Let me know if you have questions.

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### NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
03/02/2020	\$1,875,000	Elwood KS UT GO BQ NR	2020-2048
03/03/2020	\$6,500,000	Creve Coeur MO Fire Dist UT GO BQ Aaa	2034-2040
03/04/2020	\$1,100,000	Basehor KS UT GO BQ AA+	2021-2030

**ECONOMIC CALENDAR**

Monday 3/2	Tuesday 3/3	Wednesday 3/4	Thursday 3/5	Friday 3/6
Markit US Manufacturing PMI		MBA Mortgage Applications	Initial Jobless Claims	Trade Balance
Construction Spending MoM		ADP Employment Change	Factory Orders	Change in Nonfarm Payrolls
ISM Manufacturing			Durable Goods Orders	Unemployment Rate

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	4.75	4.75	5.50	3 Mo.	0.70
Discount Rate	2.25	2.25	3.00	6 Mo.	0.73
Fed Funds Rate	1.58	1.55	2.40	1-Year	0.75
IOER	1.60	1.55	2.40	2-Year	0.77
1-Month Libor	1.58	1.65	2.49	3-Year	0.78
11th Dist COFI	1.04	1.04	1.17	5-Year	0.81
1-Yr. CMT	0.97	1.53	2.55	7-Year	0.89
Dow	25,409.36	28,722.85	25,916.00	10-Year	1.06
NASDAQ	8,567.37	9,269.68	7,532.53	30-Year	1.71
S&P 500	2,954.08	3,276.24	2,784.49		
Bond Buyer	2.27	2.54	4.19		

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	1.24					1-Year	N/A	+45
6 Mo. Bill	1.10					2-Year	50	60
1-Year Bill	0.96					3-Year	62	75
2-Year Note	0.89	9	17	5		5-Year	75	90
3-Year Note	0.89	5	30	20	1			
5-Year Note	0.93	10	48	38	21			
7-Year Note	1.05	16	51	42	28			
10-Year Note	1.14	27	68	58	47			
30-Year Bond	1.66							

  

MBS Current Coupon Yields	
GNMA 30 Yr.	2.07%
FNMA 30 Yr.	2.19%
GNMA 15 Yr.	1.61%
FNMA 15 Yr.	1.62%

**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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