



Weekly Review—March 6, 2020

Last night a thief broke into my garage and stole my limbo stick...how low can you go? (groan) Interest rates across the globe continued to fall. The yield on the German 10yr bund hit an all-time low, trading around -0.70%; the yield on US 10yr briefly fell below 0.70%; and the US 30yr yield temporarily fell to around 1.25%. This is real fear at work. Investors always deal with uncertainty, but the markets currently demonstrate the scope of this uncertainty. This week reminds us why we should have a long-term outlook and the importance of a diversified portfolio and balance sheet structure. Breathe.

Call me, call me any, anytime. Agency callable bonds that had the potential to be called have been called this week. Coupons as low as the 1.30s are being called. Optionality executed as it should have, and investors were likely paid for that optionality at purchase. The real pain lies in the re-investment levels offered at this time. Optionality plays a key part in many portfolios, but so does less-volatile structures. Continue to diversify structures, issuers, durations, and types of fixed income securities and analyze the risk-reward of each security on its own merits.

You just call out (our) name...You've got a friend. The flipside of lower treasury yields is the lower cost to borrow. For banks, yes, lower market interest rates may strain net interest margins – but it is called net for a reason. There are two sides of the balance sheet and lowering funding costs could help stabilize net interest margins. The asset side is where banks make their money, no question; however, banks with risks to rising rates may be able to partially offset projected interest rate risk once rates rise again by locking in lower-cost funding. Please contact the CMG ALM Team to discuss your balance sheet structures and risks, we are here to help, this is what we do.

Everybody's working for the weekend. Finally, for all types of businesses, weeks and times like these are why we stress our balance sheets. Be prepared to answer the questions on the possible effects of the coronavirus on your earnings, your personnel, and your debt. Loan portfolio analysts do this all the time, now is their time to shine – bankers: stress the cash flows of your borrowers. Corporations, non-profits, municipalities, like bankers, now is the time to stress your earnings stream and most importantly, liquidity. There are many things to fear in the markets right now, a possible liquidity event is high on the list. Keep the long-term view and remember to breathe.

Have a wonderful and restful weekend!

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
03/09/2020	\$7,930,000	Bonner Springs KS 2020A UT GO BQ AA	2021-2040
03/09/2020	\$1,730,000	Bonner Springs KS Tmp Nts 2020-1 UT GO BQ SPI+	2021
03/09/2020	\$705,000	Brookville KS 2020 UT GO BQ NR	2020-2047
03/09/2020	\$945,000	Haysville KS TMP NTS 2020A UT GO BQ NR	2021
03/12/2020	\$3,520,000	Westwood KS 2020A UT GO BQ RATINGS APPLIED	2021-2040

ECONOMIC CALENDAR

Monday 3/9	Tuesday 3/10	Wednesday 3/11	Thursday 3/12	Friday 3/13
		MBA Mortgage Applications CPI MoM	PPI Final Demand MoM Initial Jobless Claims	U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	4.25	4.75	5.50	3 Mo.	0.50
Discount Rate	1.75	2.25	3.00	6 Mo.	0.53
Fed Funds Rate	1.09	1.59	2.40	1-Year	0.55
IOER	1.10	1.60	2.40	2-Year	0.57
1-Month Libor	1.01	1.67	2.48	3-Year	0.59
11th Dist COFI	0.98	1.04	1.17	5-Year	0.65
1-Yr. CMT	0.48	1.49	2.54	7-Year	0.80
Dow	25,864.78	29,379.77	25,673.46	10-Year	0.99
NASDAQ	8,575.62	9,572.15	7,505.92	30-Year	1.65
S&P 500	2,972.43	3,345.78	2,771.45		
Bond Buyer	2.31	2.53	4.09		

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	0.40					1-Year	N/A	+55
6 Mo. Bill	0.32					2-Year	60	70
1-Year Bill	0.32					3-Year	70	85
2-Year Note	0.45	10	26	12		5-Year	85	100
3-Year Note	0.49	9	35	22	8	MBS Current Coupon Yields		
5-Year Note	0.54	11	55	44	28	GNMA 30 Yr.	1.73%	
7-Year Note	0.66	23	57	48	34	FNMA 30 Yr.	1.89%	
10-Year Note	0.72	29	74	64	49	GNMA 15 Yr.	1.31%	
30-Year Bond	1.28					FNMA 15 Yr.	1.28%	

About the Author, Matthew Maggi



Prior to joining CMG in 2016, Matthew was the Corporate Treasurer at a \$1.2 billion publicly-traded community bank headquartered in Missouri. During his tenure, he developed and implemented balance sheet strategies to maximize margin while managing acceptable levels of interest rate risk, liquidity, and capital. Matthew not only managed the investment portfolio, but also conducted extensive loan portfolio performance analyses.

Previously, he was a Treasury Analyst for one of the largest privately held banks in the U.S. He monitored cash flow and liquidity and developed funding strategies. Matthew leverages his extensive balance sheet management experience to provide tactical and strategic solutions to maximize performance while mitigating risks for the community banks.

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