

## Weekly Review—March 18, 2022

And so, it begins. The FOMC announced the initial rate hike of the year on Wednesday. Because the 25 basis point increase was communicated clearly by the Chair Powell, markets have been relatively subdued. The current market futures for Fed Funds shows the next hike should occur in May, followed by a succession of increases at each meeting going forward through February of 2023. If these moves occur, the overnight Fed Funds could be at a range of 2.00%-2.25% in less than a year. The Fed relies on data; we should expect some flexibility in the rates as economic data is released.

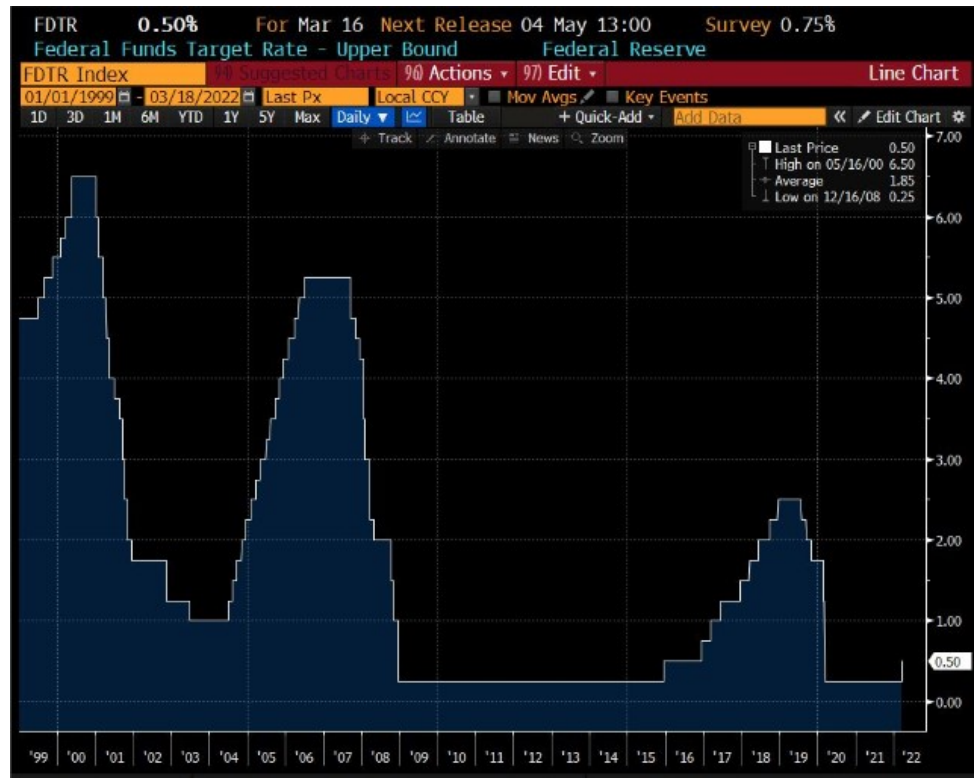
Per the Bloomberg chart below of the Fed Funds Target Rate – Upper Bound (FDTR), we see the pattern of the FOMC’s pricing behavior during the last three periods of rate hikes. The first occurred from June 1999 through May of 2000 where the FOMC increased the rate on Fed Funds six times in 11 months with the final hike of 50 basis points. The second period of rate hikes took place from July 2004 through July 2006 where the FOMC increased the rate on Fed Funds 17 times in 24 months. Finally, the most recent period of rate hikes began in December 2015 and ended December 2018 where the FOMC increased the rate on Fed Funds nine times over three years. The market is predicting the current period of rate hikes to be similar to June 1999 through May 2000.

As compelling as the nature of rate hikes are, the bond market also examines the length of time before rates come down again and the length of time where rates were kept at near zero. In the first period examined, the first rate decrease came eight months after the peak of 6.50%. The second rate decrease occurred 15 months after hitting the peak of 5.25%. Finally, the third rate decrease came just seven months after the peak of 2.50%. The combined nine years of zero interest rates over the past two cycles remain in the minds of investors and provides some support for hesitancy regarding just how much the Fed will move and how soon will they begin to cut rates again.

Investing during the rate increases may provide the opportunity to extend duration to lock in the higher rates to receive a higher coupon payment and protect value during the next period of rate decreases. Reach out to your Investment Representative to discuss suitable options for your fixed income portfolio.

Have a nice weekend!

Matthew Maggi  
 Senior Vice President  
 Commerce Bank – Capital Markets Group (CMG)  
 800 548-2663  
[matthew.maggi@commercebank.com](mailto:matthew.maggi@commercebank.com)



### NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
03/21/2022	\$1,260,000	ATCHISON KS -A UT GO BQ AI	2023-2037
03/21/2022	\$8,625,000	MAIZE KS -B-TEMP NTS UT GO SP-1+	2025

**ECONOMIC CALENDAR**

Monday 3/21	Tuesday 3/22	Wednesday 3/23	Thursday 3/24	Friday 3/25
Chicago Fed Nat Activity Index	Richmond Fed Manufact. Index	MBA Mortgage Applications New Home Sales New Home Sales MoM	Initial Jobless Claims Durable Goods Orders S&P Global Manufact, PMI	U. of Mich. Sentiment Pending Home Sales MoM

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.50	3.25	3.25	3 Mo.	1.15
Discount Rate	0.25	0.25	0.25	6 Mo.	1.22
Fed Funds Rate	0.08	0.08	0.07	1-Year	1.25
IOER	0.40	0.15	0.10	2-Year	1.48
1-Month Libor	0.45	0.14	0.11	3-Year	1.60
11th Dist COFI	0.22	0.22	0.46	5-Year	1.77
1-Yr. CMT	1.30	1.05	0.07	7-Year	1.95
Dow	34,755.00	34,079.18	32,862.30	10-Year	2.12
NASDAQ	13,893.84	13,548.07	13,116.17	30-Year	2.61
S&P 500	4,463.12	4,348.87	3,915.46		
Bond Buyer	2.53	2.54	2.40		

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	0.39					1-Year	N/A	+35
6 Mo. Bill	0.79					2-Year	35	42
1-Year Bill	1.22					3-Year	55	63
2-Year Note	1.96	2	1	1		5-Year	68	77
3-Year Note	2.15	2	5	2	1			
5-Year Note	2.15	9	19	14	6			
7-Year Note	2.18	12	25	18	8			
10-Year Note	2.15	34	40	31	19			
20-Year Bond	2.54							
30-Year Bond	2.43							

MBS Current Coupon Yields	
GNMA 30 Yr.	3.06%
FNMA 30 Yr.	3.29%
GNMA 15 Yr.	2.66%
FNMA 15 Yr.	2.65%

**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.

\*\*\*If you no longer wish to receive this weekly review, please send an email to [CapitalMarketsGroup@commercebank.com](mailto: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.



commercebank.com