



## Weekly Review—March 22, 2019

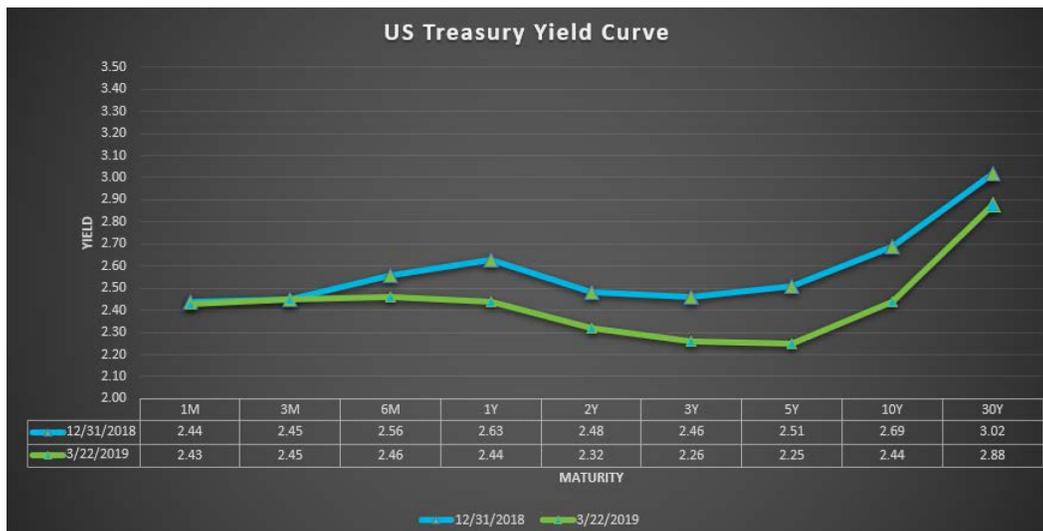
*Mama said there would be days like this...*Just when we thought things could not be more interesting, Germany's big data miss – PMI was much lower than expected, causing the yield on the 10Y Bund to turn negative again – and investors' (in) digestion of the Federal Reserve's FOMC comments this week contributed to the dreaded inversion of the 3-month treasury and the 10-year treasury yields (intraday). This is the measure economists look to for recession indication. It does not mean immediate recession, but it is one of the steps along the way.

*Fly by night, away from here (risk)*...The flight to quality, i.e. risk-off trade happened bigtime today. The rally in the treasury market, as investors moved away from riskier investments to the risk-free(ish) sector of US government debt, caused a fairly dramatic shift downward in yields. This market activity comes two days after the Fed confirmed that they did not expect to raise short-term interest rates in 2019. For months, the market signals regarding short-term interest rates were saying no more hikes. Today, investors are realizing the "why" behind the FOMC's decision – the economic outlook is not as positive, in fact, the Fed lowered its GDP growth expectations going forward. Realizing the economy appears to show signs of weakness, the investment in safer asset classes is driving home an important point: the business cycle may be coming to recession in the next year.

*Our house, in the middle of our street*...One positive is we may see an uptick in mortgage activity as rates for these loans will be more attractive to those who have been on the sidelines. Recent real estate market data has been *meh*, or tepid, this shift as well as the change from winter to spring (I think!) might get us something to smile about. Refinance activity might pick up as well, thus a pick up in prepayment speeds (CPR/PSA) on mortgage bonds. Recently, the MBS/CMO bonds have held wider spreads to treasuries when compared to other asset classes.

*You look wonderful tonight*...Let's take it slow. We have some time before any recession hits us and this is just one day. It's the weekend and it's time to relax. Breathe, eat, drink, and be merry! It's March Madness, I picked Gonzaga to win it all... *Whoa livin' on a prayer!* Enjoy your weekend, my friends.

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### NEW ISSUE MUNICIPAL CALENDAR

| Date       | Amount (\$)     | Description                            | Maturity             |
|------------|-----------------|--|----------------------|
| 03/26/2019 | \$55,000,000.00 | PARKWAY C-2 SD STLCO MO 2019 UT GO AAA | 2021-2027, 2038-2039 |
| 03/28/2019 | \$1,155,000.00  | KECHI KS TMP NTS 2019A UT GO BQ NR     | 2021                 |

| ECONOMIC CALENDAR |   |  |  |   |
|-------------------|---|--|--|---|
| Monday 3/25       | Tuesday 3/26                                      | Wednesday 3/27                             | Thursday 3/28                                | Friday 3/29   |
|                   | Housing Starts<br>Conf. Board Consumer Confidence | MBA Mortgage Applications<br>Trade Balance | GDP Annualized QoQ<br>Initial Jobless Claims | Personal Income<br>Personal Spending<br>U. of Mich. Sentiment |

|                | KEY INDICES |            |              | MUNI AA—BQ |      |
|----------------|-------------|------------|--------------|------------|------|
|                | Current     | Last Month | One Year Ago |            |      |
| Prime Rate     | 5.50        | 5.50       | 4.75         | 3 Mo.      | 1.43 |
| Discount Rate  | 3.00        | 3.00       | 2.00         | 6 Mo.      | 1.49 |
| Fed Funds Rate | 2.41        | 2.40       | 1.44         | 1-Year     | 1.55 |
| 1-Mo. Libor    | 2.49        | 2.49       | 1.86         | 2-Year     | 1.57 |
| 11th Dist COFI | 1.13        | 1.06       | 0.82         | 3-Year     | 1.60 |
| 1-Yr. CMT      | 2.45        | 2.55       | 2.06         | 5-Year     | 1.73 |
| Dow            | 25,502.32   | 26,031.81  | 23,957.89    | 7-Year     | 1.86 |
| NASDAQ         | 7,642.67    | 7,527.55   | 7,166.68     | 10-Year    | 2.13 |
| S&P 500        | 2,800.71    | 2,792.67   | 2,643.69     | 30-Year    | 2.95 |
| Bond Buyer     | 3.92        | 4.23       | 3.90         |            |      |

| Treasuries & New Issue Agencies <i>(Spread to Treasuries)</i> |            |         |          |           |            |
|---|------------|---------|----------|-----------|------------|
|   | Treasuries | Bullets | NC-6 Mo. | NC-1 Year | NC- 2 Year |
| 3 Mo. Bill  | 2.44       |         |          |           |            |
| 6 Mo. Bill  | 2.46       |         |          |           |            |
| 1-Year Bill   | 2.44       |         |          |           |            |
| 2-Year Note   | 2.33       | 3       | 17       | 11        |            |
| 3-Year Note   | 2.26       | 4       | 30       | 24        | 8          |
| 5-Year Note   | 2.26       | 8       | 48       | 41        | 26         |
| 7-Year Note   | 2.35       | 18      | 54       | 48        | 38         |
| 10-Year Note  | 2.46       | 34      | 69       | 60        | 52         |
| 30-Year Bond  | 2.89       |         |          |           |            |

| CMO Spreads to Treasuries |     |         |
|---------------------------|-----|---------|
|                           | PAC | Vanilla |
| 1-Year                    | N/A | +35     |
| 2-Year                    | 35  | 39      |
| 3-Year                    | 40  | 50      |
| 5-Year                    | 60  | 69      |

| MBS Current Coupon Yields |       |
|---------------------------|-------|
| GNMA 30 Yr.               | 2.91% |
| FNMA 30 Yr.               | 3.10% |
| GNMA 15 Yr.               | 2.72% |
| FNMA 15 Yr.               | 2.72% |

### 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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