



Weekly Review—March 25, 2022

Evidenced by the increase in treasury yields since last week’s Fed meeting, the bond market is expecting the Fed to pursue a very aggressive tightening cycle to fight inflation. As shown below, treasury yields have increased as much as 38bps since last week’s initial hike whereas Fed officials raised its benchmark overnight rate by a quarter point marking the first increase since 2018 and projected six more such hikes this year to 1.875% with a terminal rate of 2.75% by the end of 2023.

This week’s upward move in interest rates was largely the market’s response to hawkish comments from several Fed officials indicating their willingness to tighten monetary policy at an even faster pace if necessary to control inflation. Cleveland Fed President Mester, who favors raising rates to 2.50% this year, stated that the Fed will “need to do some 50 basis-point moves” to get there. “I don’t want to presuppose every meeting from here to July, but I do think we need to be more aggressive earlier rather than later.” Fed Chairman Powell left the door open to sizable rate increases at more than one FOMC meeting when he stated, “if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25bps at a meeting or meetings, we will do so.” St. Louis Fed President Bullard has repeatedly said U.S. monetary policy needs to tighten quickly to stop putting upward pressure on inflation that is already too high, reiterating his call for benchmark rates to rise above 3% this year. And, San Francisco Fed President Daly said there might be need for a 50bps hike at the Fed’s next meeting in May. Although U.S. central bankers continue to talk rates higher, they have likely found themselves in a box. The actual level of policy tightening necessary to rein in inflation will materially slow (if not stop!) economic growth.

From the balance sheet perspective, this week’s increase in rates should be viewed as an opportunity to dollar cost average into higher investment rates. As such, continue to selectively add duration to the portfolio via new purchase bonds. When adding duration, consider limiting negative convexity as protection from falling rates.

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



NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
03/31/2022	\$ 27,910,000.00	WICHITA KS -308 -TMP NTS SP-1+	2027

ECONOMIC CALENDAR

Monday 3/28	Tuesday 3/29	Wednesday 3/30	Thursday 3/31	Friday 4/1
Wholesale Inventories MoM Dallas Fed Manf. Activity	Conf. Board Cons. Confidence FHFA House Price Index MoM JOLTS Job Openings	GDP Annualized QoQ (4Q final) ADP Employment Change MBA Mortgage Applications	Personal Income Personal Spending Initial Jobless Claims	Change in Nonfarm Payrolls Unemployment Rate S&P Global US Manf. PMI

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	0.50	0.25	0.25	6 Mo.	1.30
Fed Funds Rate	0.33	0.08	0.08	1-Year	1.62
IOER	0.40	0.15	0.15	2-Year	1.83
1-Month Libor	0.45	0.19	0.11	3-Year	1.95
11th Dist COFI	0.22	0.22	0.46	5-Year	2.10
1-Yr. CMT	1.67	1.08	0.07	7-Year	2.23
Dow	34,861.24	34,058.75	32,619.48	10-Year	2.39
NASDAQ	14,169.30	13,694.62	12,977.68	30-Year	2.64
S&P 500	4,543.06	4,384.65	3,909.52		
Bond Buyer	2.67	2.51	2.35		

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	0.52					1-Year	N/A	+35
6 Mo. Bill	0.96					2-Year	35	42
1-Year Bill	1.62					3-Year	55	63
2-Year Note	2.26	3	1	1		5-Year	68	77
3-Year Note	2.50	5	4	1	0			
5-Year Note	2.52	8	19	14	5			
7-Year Note	2.53	13	25	18	8			
10-Year Note	2.46	33	40	31	19			
20-Year Bond	2.75							
30-Year Bond	2.59							

MBS Current Coupon Yields		
GNMA 30 Yr.		3.40%
FNMA 30 Yr.		3.48%
GNMA 15 Yr.		2.84%
FNMA 15 Yr.		2.80%

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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