



Weekly Review—April 10, 2020

Last week Fed Chairman Powell stated that the Fed was determined not to “run out of ammunition” when battling the economic effects of COVID-19. As such, below please find a high-level summary of recent Fed actions:

Cut short-term interest rates – On March 3, the FOMC cut benchmark interest rates 0.50% lowering the range to 1.00%-1.25%. According to their press release, Fed action was warranted as “the coronavirus posed evolving risks to economic activity.” On March 15, they cut rates another 1% to effectively zero. Their action was the result of a sharp deterioration in the committee’s near-term U.S. economic outlook. According to the meeting minutes, policy makers noted that “financial markets had exhibited extraordinary turbulence and stresses.” In terms of forward guidance, the Fed announced that they plan to keep overnight rates zero-bound until the “committee is confident that the economy has weathered recent events and is on track to achieve its dual mandate.”

Lowered the Discount Window Borrowing Rate – By reducing its primary credit overnight borrowing rate from 1.75% to 0.25%, the FOMC is encouraging banks to borrow directly from the Fed as a source of short-term funding. Furthermore, the stigma associated with borrowing from the Fed – as the lender of last resort – has all but been eliminated as regulators are actively encouraging institutions to borrow at the discount window.

Suspended Bank Reserve Requirements – the percentage of deposits that banks normally must hold as reserves to meet cash needs has been eliminated in hopes to encourage lending. Although this action will likely have minimal effect on actual lending, it was at least worthy of a shout out.

Relaxed Capital Requirements – The Fed suggested that banks consider reducing their capital buffers which would increase the institutions lending capacity.

Unlimited Quantitative Easing (QE) – Last used in response to the ‘08-09 financial crisis, the Fed resumed the practice of purchasing securities in the secondary market to increase the money supply and encourage lending and investments. While the Fed initially planned to purchase only Treasury and mortgage-related securities, other investment sectors such as commercial MBS have been added.

Various Lending Facilities –

1. Primary Dealer Credit Facility (PDCF) lends to primary security dealers to help credit markets function more effectively during stressed periods when dealers are often times inclined to avoid riskier assets and hold cash.
2. Money Market Mutual Fund Liquidity Facility (MMLF) loans money to financial institutions to purchase assets from prime money market funds – thus providing liquidity. This back stop was recently expanded to provide liquidity not only to banks but also municipalities (via the acceptance of select muni debt & commercial paper) in stressed conditions.
3. Short-term Repo operations provides liquidity to firms in exchange for Treasury and other agency-backed securities.
4. Primary Market Corporate Credit Facility (PMCCF) allows the Fed to lend directly to major corporations by buying new issue bonds and/or making loans.
5. Secondary Market Corporate Credit Facility (SMCCF) gives the Fed the ability to purchase existing corporate debt and bond ETFs that invest in investment-grade corporate bonds. Both the PMCCF and SMCCF provide corporations additional sources of credit in times of stress.
6. Commercial Paper Funding Facility (CPFF) first used in 2008 provides liquidity to the commercial paper market (i.e. corporations) as the result of the Fed direct involvement.
7. SBA’s Paycheck Protection Program (PPP) is the key component of the CARES Act and provides short-term liquidity to help businesses remain viable and allow their employees to pay their bills. SBA’s Economic Injury Disaster Loan (EIDL) facility is a source of longer-term liquidity for qualified borrowers.
8. Main Street New Loan Facility provides liquidity to small and medium size firms.
9. Term Asset-Backed Securities Loan Facility (TALF) originally used in response to the Great Recession, this lending program indirectly provides support to households, consumers and small businesses by supporting the issuance of asset-backed securities.
10. Municipal Lending Facility provides liquidity to state and local governments.

Yesterday, Chairman Powell summed up the above actions when he stated that the Fed will “continue to use these (lending) powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery.” Because the above laundry-list of actions does not yet include the kitchen sink, one could assume that more might be coming! Stay tuned...

If you would like additional detail on any of the above-mentioned Fed actions, feel free to reach out to your CMG sales rep or any member of the ALM team. We’ll further explore together. As a fellow banker, I appreciate your commitment to helping your communities weather this storm.

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NEW ISSUE MUNICIPAL CALENDAR

| Date | Amount (\$) | Description | Maturity |
|------------|---------------|--------------------------------------|-----------|
| 04/13/2020 | \$1,085,000 | HESSTON KS 2020 UT GO BQ NR | 2021-2030 |
| 04/13/2020 | \$125,000,000 | USD #229 JOCO KS 2020A UT GO Aaa AA+ | 2021-2040 |
| 04/13/2020 | \$12,765,000 | USD #229 JOCO KS 2020B UT GO Aaa AA+ | 2021-2030 |
| 04/13/2020 | \$5,250,000 | SALINA KS 2020A UT GO Aa3 | 2021-2035 |
| 04/13/2020 | \$7,080,000 | SALINA KS TMP NTS 2020-1 UT GO MIG1 | 2021 |

ECONOMIC CALENDAR

| Monday 4/13 | Tuesday 4/14 | Wednesday 4/15 | Thursday 4/16 | Friday 4/17 |
|-------------|------------------------|---|---|---------------|
| | Import Price Index MoM | MBA Mortgage Applications Retail Sales Advance MoM Empire Manufacturing | Initial Jobless Claims Continuing Claims Housing Starts | Leading Index |

| KEY INDICES | | | | MUNI AA-BQ | |
|----------------|-----------|------------|--------------|------------|------|
| | Current | Last Month | One Year Ago | | |
| Prime Rate | 3.25 | 4.25 | 5.50 | 3 Mo. | 0.83 |
| Discount Rate | 0.25 | 1.75 | 3.00 | 6 Mo. | 0.91 |
| Fed Funds Rate | 0.05 | 1.09 | 2.41 | 1-Year | 0.95 |
| IOER | 0.10 | 1.10 | 2.40 | 2-Year | 0.97 |
| 1-Month Libor | 0.83 | 0.86 | 2.48 | 3-Year | 0.99 |
| 11th Dist COFI | 0.99 | 0.98 | 0.81 | 5-Year | 1.03 |
| 1-Yr. CMT | 0.25 | 0.31 | 2.42 | 7-Year | 1.11 |
| Dow | 23,719.37 | 25,018.16 | 26,157.16 | 10-Year | 1.33 |
| NASDAQ | 8,153.58 | 8,344.25 | 7,964.24 | 30-Year | 2.20 |
| S&P 500 | 2,789.82 | 2,882.23 | 2,888.21 | | |
| Bond Buyer | 2.57 | 2.31 | 3.85 | | |

| 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 | 0.20 | | | | | 1-Year | N/A | +70 |
| 6 Mo. Bill | 0.22 | | | | | 2-Year | 75 | 85 |
| 1-Year Bill | 0.20 | | | | | 3-Year | 90 | 105 |
| 2-Year Note | 0.21 | 15 | 46 | 29 | | 5-Year | 105 | 120 |
| 3-Year Note | 0.28 | 19 | 50 | 38 | 22 | | | |
| 5-Year Note | 0.40 | 30 | 69 | 58 | 39 | | | |
| 7-Year Note | 0.58 | 44 | 75 | 63 | 45 | | | |
| 10-Year Note | 0.71 | 62 | 95 | 83 | 60 | | | |
| 30-Year Bond | 1.33 | | | | | | | |

| MBS Current Coupon Yields | |
|---------------------------|-------|
| GNMA 30 Yr. | 1.14% |
| FNMA 30 Yr. | 1.69% |
| GNMA 15 Yr. | 0.85% |
| FNMA 15 Yr. | 1.09% |

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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