



With intermediate-term treasury yields up as much as 25bps since the first of July, bond market volatility continues as traders struggle to assess the likelihood of a Fed-generated soft economic landing vs a full-on recession. Most investors agree that the Fed's current tightening posture will weigh on economic growth. Question is: Can the Fed slow demand enough to reduce historically high inflation without causing economic growth to materially contract? The odds of a US recession in the next year stand at 33%, according to latest survey of economists by Bloomberg. Similar pessimism is evident in interest-rate future markets whereas investors are betting the Fed will reverse course next year, halting rate hikes sooner than officials forecast and beginning to cut rates by mid-2023.

Who decides when we're in a recession? Although the textbook definition of a recession is two consecutive quarters of negative GDP, the National Bureau of Economic Research (NBER) is tasked in making the call and defines it more broadly as a "significant decline in economic activity that is spread across the economy and lasts more than a few months." Any such declaration usually comes well after the fact. Meanwhile, the expected path of interest rates remains highly uncertain.

June's employment report, which was released earlier today, best illustrates the volatility in treasury rates. The stronger-than-expected job's data is expected to give the Fed little reason to stop aggressively hiking rates. Two-year treasury yields initially jumped 13bps while 10-year yields rose nearly 10bps resulting in further inversion. The inversion of the treasury curve is another indication that the Fed's current policy response could end in recession. Although not inevitable, Fed Chair Powell said that a "U.S. recession is a possibility." Consider this week's run up in rates another bond buying opportunity as intermediate and longer-term treasury yields are once again above 3%.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
07/11/2022	\$17,450,000	ALLEN CNTY KS USD 258 GO A	2023-2047
07/14/2022	\$4,855,000	LAWRENCE CNTY MO COP BQ A-	2023-2042
07/14/2022	\$3,250,000	SPRING HILL KS GO BQ TBD	2023-2042

ECONOMIC CALENDAR				
Monday 7/11	Tuesday 7/12	Wednesday 7/13	Thursday 7/14	Friday 7/15
	NFIB Small Business Optimism	CPI MoM/YoY MBA Mortgage Applications Federal Reserve Beige Book	PPI MoM/YoY Initial Jobless Claims Continuing Claims	Empire Manufacturing Retail Sales MoM U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	4.75	4.00	3.25	3 Mo.	1.05
Discount Rate	1.75	1.00	0.25	6 Mo.	1.20
Fed Funds Rate	1.58	0.83	0.10	1-Year	1.61
IOER	1.65	0.90	0.15	2-Year	1.94
1-Month Libor	1.87	1.16	0.10	3-Year	2.08
11th Dist COFI (ECOFC)	0.49	0.38	0.28	5-Year	2.23
1-Yr. CMT	2.96	2.26	0.08	7-Year	2.53
Dow	31,338.15	32,910.90	34,421.93	10-Year	2.76
NASDAQ	11,635.31	12,086.27	14,559.79	30-Year	3.37
S&P 500	3,899.38	4,115.77	4,320.82		
Bond Buyer	3.37	3.03	2.04		

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	1.87					1-Year	N/A	+30
6 Mo. Bill	2.61					2-Year	35	40
1-Year Bill	2.87					3-Year	70	80
2-Year Note	3.08	9	1	0		5-Year	75	90
3-Year Note	3.10	5	4	1	0			
5-Year Note	3.08	6	19	14	6			
7-Year Note	3.11	21	25	18	8			
10-Year Note	3.04	40	41	32	20			
20-Year Bond	3.49							
30-Year Bond	3.22							

MBS Current Coupon Yields	
GNMA 30 Yr.	4.18%
FNMA 30 Yr.	4.53%
GNMA 15 Yr.	3.71%
FNMA 15 Yr.	3.86%

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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