



At next week's Fed meeting, the Federal Open Market Committee (FOMC) is expected to continue its current tightening path by increasing benchmark overnight rates 75bps. Policy makers are purposely wanting to slow economic demand to battle surging prices that have persisted longer than expected. June's consumer price index (CPI) rose 9.1% from a year earlier in a broad-based advance, the largest gain since 1981. If the Fed does deliver another 75bps move next week, the combined 150bps increase over June and July would represent the steepest rise in Fed rates since the early 1980s when Fed chair Volcker battled sky-high inflation. Based on a recent Bloomberg survey, economists expect that the Fed will begin slowing the upward trajectory of rates with a 50bps hike in September followed by 25bps increases in November and/or December. Assuming policy makers are able to continue their current hawkish policy of front-loading hikes, benchmark rates could be 3.25% to 3.50% by year end.

With the Fed's continued "unconditional" commitment to reduce persistently high inflation, recession concerns continue to build. According to Bloomberg, the probability of recession in the next two years has increased to 48% vs. 33% just two weeks ago. In the same survey, 40% of economists believe that economic growth will be zero or negative for a time but not an officially declared recession. Only 12% of those surveyed expect an economic soft landing. The bond market is also pricing in an economic downturn as the treasury yield curve continues to invert. At a negative 20bps, the 2/10 spread is now at a level last seen in the fall of 2006...just prior to the Great Recession.

If you haven't already, consider adding downside protection to your bond portfolio. Meaning, prepare for lower interest rates by limiting optionality on purchased bonds. Depending on your overall risk profile, consider increasing duration. The economic downturn could force the Fed to shift policy from restrictive to accommodative sooner than later! The market expects the Fed will begin reducing rates in 2023.

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

### NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
07/28/2022	\$865,000	KECHI KS UT GO BQ	2023-2042

**ECONOMIC CALENDAR**

Monday 7/25	Tuesday 7/26	Wednesday 7/27	Thursday 7/28	Friday 7/29
Chicago Fed Nat Activity Index	Conf. Board Consumer Confid.	MBA Mortgage Applications	GDP Annualized QoQ	Personal Income/Spending
Dallas Fed Manf. Activity	Richmond Fed Manufact. Index	Durable Goods Orders	Initial Jobless Claims	MNI Chicago PMI
	New Home Sales	FOMC Rate Decision	Personal Consumption	U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	4.75	4.75	3.25	3 Mo.	0.89
Discount Rate	1.75	1.75	0.25	6 Mo.	1.04
Fed Funds Rate	1.58	1.58	0.10	1-Year	1.45
IOER	1.65	1.65	0.15	2-Year	1.78
1-Month Libor	2.26	1.63	0.09	3-Year	1.90
11th Dist COFI (ECOFC)	0.49	0.38	0.28	5-Year	2.11
1-Yr. CMT	3.01	2.92	0.07	7-Year	2.43
Dow	31,899.29	30,483.13	34,823.35	10-Year	2.66
NASDAQ	11,834.11	11,053.08	14,684.60	30-Year	3.39
S&P 500	3,961.63	3,759.89	4,367.48		
Bond Buyer	3.36	3.57	2.03		

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	2.38					1-Year	N/A	+30
6 Mo. Bill	2.91					2-Year	35	45
1-Year Bill	2.97					3-Year	72	83
2-Year Note	2.96	7	1	1		5-Year	82	93
3-Year Note	2.92	5	5	2	1			
5-Year Note	2.86	8	18	14	6			
7-Year Note	2.86	26	25	19	8			
10-Year Note	2.78	44	40	31	19			
20-Year Bond	3.22							
30-Year Bond	2.98							

  

MBS Current Coupon Yields	
GNMA 30 Yr.	3.95%
FNMA 30 Yr.	4.16%
GNMA 15 Yr.	3.76%
FNMA 15 Yr.	3.56%

**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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