



## Weekly Review—August 28, 2020

When it comes to establishing monetary policy, the Federal Open Market Committee (FOMC) is tasked with fostering economic conditions that achieve the statutory dual mandate of maximum sustainable employment and stable prices. In 2012, the Fed announced an explicit inflation target of 2% as part of their longer-run goals and monetary policy strategy. In 2016, the FOMC clarified that its inflation target is symmetric (in other words, it isn't a floor or a ceiling). At that time, the FOMC stated that "the Committee would be concerned if inflation were running persistently above or below this objective." Since establishing their 2% target in 2012, inflation – as measured by their preferred metric – has averaged only 1.4% with a low of 0.9% and a high of 2.1%.

As part of this week's virtual Fed symposium, policy makers added additional clarity to their symmetric inflation target by stating that "the Committee seeks to achieve inflation that averages 2% over time, and therefore judges that, following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time."

According to the Fed, communicating an inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored. In 2016, Fed President Bullard stated in a Regional Economists write up that "modern economic theory says that inflation expectations are an important determinant of actual inflation." He further explained, "firms and households take into account the expected rate of inflation when making economic decisions, such as wage contract negotiations or firms' pricing decisions. All of these decisions, in turn, feed into the actual rate of increase in prices." Thus, stating an inflation goal—and maintaining credibility with respect to that goal—helps the FOMC manage the public's expectations when it comes to inflation. In turn, this helps in achieving price stability as per the Fed's mandate.

While this week's change in inflation messaging may sound as if the FOMC is doing nothing more than splitting hairs, this change in policy will have a material impact on how the Fed sets its benchmark interest rate. As such, when it comes to interest rates – we have likely entered a "lower for even longer" rate cycle. This month's [Points to Ponder](#) article – written by our own Ross Elford – provides a deeper dive into this inflation issue.

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

### NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
09/01/2020	\$6,795,000	VALLEY CENTER KS GO BQ AA-	2021-2033
09/03/2020	\$2,235,000	EVANSDALE IA GO TAXABLE TBD	2023-2039
09/03/2020	\$2,265,000	EVANSDALE IA GO BQ TBD	2024-2039

## ECONOMIC CALENDAR

Monday 8/31	Tuesday 9/1	Wednesday 9/2	Thursday 9/3	Friday 9/4
Dallas Fed Manf. Activity	Markit US Manufacturing PMI ISM Manufacturing Construction Spending	ADP Employment Change MBA Mortgage Applications Factory Orders	Initial Jobless Claims Trade Balance Continuing Claims	Change In Nonfarm Payrolls Unemployment Rate

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	5.25	3 Mo.	0.07
Discount Rate	0.25	0.25	2.75	6 Mo.	0.16
Fed Funds Rate	0.09	0.09	2.12	1-Year	0.20
IOER	0.10	0.10	2.10	2-Year	0.22
1-Month Libor	0.16	0.17	2.14	3-Year	0.24
11th Dist COFI	0.68	0.76	1.14	5-Year	0.36
1-Yr. CMT	0.10	0.14	1.77	7-Year	0.60
Dow	28,653.87	26,379.28	26,036.10	10-Year	0.95
NASDAQ	11,695.63	10,402.09	7,856.88	30-Year	1.76
S&P 500	3,508.01	3,218.44	2,887.94		
Bond Buyer	2.20	2.10	2.97		

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	0.09					1-Year	N/A	+50
6 Mo. Bill	0.10					2-Year	55	65
1-Year Bill	0.11					3-Year	60	70
2-Year Note	0.13	6	8	7		5-Year	68	80
3-Year Note	0.15	8	19	17	13			
5-Year Note	0.27	16	38	35	29			
7-Year Note	0.49	24	49	44	37			
10-Year Note	0.71	33	67	61	52			
20-Year Bond	1.26							
30-Year Bond	1.48							

MBS Current Coupon Yields		
GNMA 30 Yr.		1.53%
FNMA 30 Yr.		1.43%
GNMA 15 Yr.		0.29%
FNMA 15 Yr.		0.92%

### 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.

**\*\*\*If you no longer wish to receive this weekly review, please send an email to [CapitalMarketsGroup@commercebank.com](mailto:CapitalMarketsGroup@commercebank.com)\*\*\***

The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.

The opinions expressed herein reflect that of the author and are not a complete analysis of every material fact respecting any company, industry, or security. The author's opinions do not necessarily reflect that of Commerce Bank or its affiliates. Information contained herein is from sources deemed reliable but cannot be guaranteed. Prices and/or yields are subject to change and investments are subject to availability. CDs are direct financial obligations of the issuing financial institution and are not, either directly or indirectly, an obligation of Commerce Bank. The information provided is not an official trade confirmation or account statement. The Capital Markets Group (CMG) of Commerce Bank is not acting as your 'municipal advisor' within the meaning of Section 15B of the Securities Exchange Act, and does not act in a fiduciary capacity. CMG does not provide tax advice; please refer to your tax professional. Investments in securities are NOT FDIC Insured; NOT Bank-Guaranteed and May Lose Value.