



Weekly Review—September 10, 2021

The Fed has made it clear that the path to higher short-term rates starts with the taper. Meaning, policy makers will likely begin the process of reducing, or tapering, their current monthly purchases of \$80B in Treasuries and \$40B in mortgage-backed securities before increasing its benchmark overnight rate. While not expected to begin the process of reducing the \$120B in quantitative easing (QE) at this month's FOMC meeting, the Fed is expected to signal a start yet this year. At the conclusion of last month's FOMC meeting, Fed Chairman Powell believed that "if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year." As stated last fall, the central bank would continue the current pace of bond buying until officials concluded they had achieved "substantial further progress" toward their goals of 2% average inflation and maximum employment. With this month's policy meeting less than two weeks away, it might be beneficial to review this week's Fed speak:

New York Fed President & Vice Chairman Williams – FOMC voting member

Speaking virtually, "I think it's clear that we have made substantial further progress on achieving our inflation goal," Mr. Williams said. "There has also been very good progress toward maximum employment." As such, "it would be appropriate" to begin tapering before the year is out.

Cleveland Fed President Mester – FOMC non-voting member

Speaking virtually, Fed President Mester stated "I would like us to begin tapering sometime this year, and wind down the purchases over the first half of 2022."

Fed Governor Bowman – FOMC voting member

Speaking to the ABA, Bowman commented that "if the data comes in like I expect that it will, then it will likely be appropriate for us to begin the process of scaling back our asset purchases this year."

Dallas Fed President Kaplan – FOMC non-voting member

In a virtual event, Kaplan stated that "I don't see a fundamental change in the outlook; if I get to the meeting and continue to feel that way, I'd be advocating that we should announce a plan for adjusting these purchases in the September meeting and begin shortly thereafter, maybe in October."

Evidenced in the above Fed messaging/forward guidance, the taper is coming as policy makers don't want to be in a position where they are still increasing their \$8.4 trillion asset portfolio when an interest-rate increase might be needed to keep inflation in check.

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
09/13/2021	\$9,000,000	RAYMORE MO UT GO BQ RATING APPLIED	2022-2040
09/13/2021	\$695,000	HAYSVILLE KS-A UT GO BQ NR	2022-2041
09/14/2021	\$6,295,000	ST LOUIS CNTY MO-D-REV-TXBL AA	2022-2024
09/14/2021	\$10,135,000	ST LOUIS CNTY MO-E-REV-REF AA	2024-2027
09/14/2021	\$405,000	CLEARWATER KS UT GO BQ NR	2023-2042
09/15/2021	\$18,105,000	FRANKLIN CO KS UNIF SD#289-A UT GO A	2022-2046

ECONOMIC CALENDAR

Monday 9/13	Tuesday 9/14	Wednesday 9/15	Thursday 9/16	Friday 9/17
Monthly Budget Statement	CPI MoM/YoY NFIB Small Business Optimism	MBA Mortgage Applications Empire Manufacturing Industrial Production MoM	Retail Sales Advance MoM Initial Jobless Claims Philadelphia Fed Bus. Outlook	U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	3.25	3 Mo.	0.05
Discount Rate	0.25	0.25	0.25	6 Mo.	0.08
Fed Funds Rate	0.08	0.10	0.09	1-Year	0.10
IOER	0.15	0.15	0.10	2-Year	0.13
1-Month Libor	0.08	0.10	0.16	3-Year	0.21
11th Dist COFI	0.26	0.28	0.65	5-Year	0.46
1-Yr. CMT	0.07	0.08	0.14	7-Year	0.76
Dow	34,607.46	35,264.67	27,534.58	10-Year	1.06
NASDAQ	15,115.50	14,788.09	10,919.59	30-Year	1.69
S&P 500	4,458.55	4,436.75	3,339.19		
Bond Buyer	2.15	2.04	2.22		

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	0.03					1-Year	N/A	+40
6 Mo. Bill	0.04					2-Year	45	50
1-Year Bill	0.06					3-Year	52	60
2-Year Note	0.21	0	-12	-13		5-Year	60	70
3-Year Note	0.45	1	-9	-12	-13			
5-Year Note	0.82	1	5	0	-7			
7-Year Note	1.12	4	12	5	-5			
10-Year Note	1.35	8	27	18	7			
20-Year Bond	1.87							
30-Year Bond	1.94							

MBS Current Coupon Yields		
GNMA 30 Yr.		1.88%
FNMA 30 Yr.		1.79%
GNMA 15 Yr.		0.44%
FNMA 15 Yr.		1.11%

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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