

Weekly Review—September 11, 2020

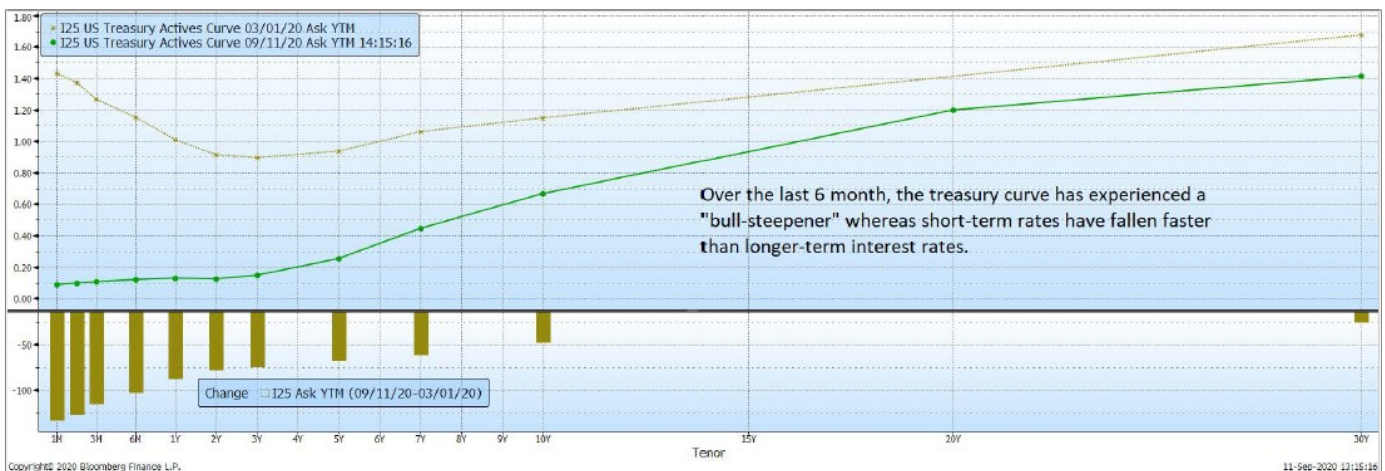
In the last six months, the Fed has gone to great lengths to mitigate the long-term economic damage caused by the pandemic-induced economic recession. Not only did they quickly reduce their benchmark overnight rate to near zero, the Fed responded with unprecedented determination by unveiling a series of emergency programs aimed at stabilizing financial markets and providing relief directly to companies, as well as state and local governments. Fed Chairman Powell pledged back in April to use the Fed's powers "forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery."

While monetary policy quickly adapted to the weakened economic outlook, so did interest rates. Evidenced in the graph below, short-term treasury yields have fallen nearly 150bps while intermediate rates are down as much as 50-75bps. The long bond yield is off 25bps. From the Fed's perspective, the treasury market has responded as expected by providing borrowers access to reduced funding costs in hopes to further stimulate economic activity. Furthermore, the treasury curve has normalized by shifting from being inverted (whereas short-term rates were higher than longer term interest rates) to being positively sloped. As a refresher, an inverted treasury curve is generally seen as a predictor of a looming economic recession while a positively sloped curve is normally associated with a healthy, growing economy. Taking it one step further, the steeper the curve - the greater the economic growth &/or inflation expectations.

While the current treasury curve is positively sloped as longer-term rates are higher than shorter term, the curve remains relatively flat on the front end as short-term rates are benchmarked to current monetary policy expectations. Looking forward, expect changes in the steepness of the curve as intermediate and longer-term rates adjust based on the economic outlook. For those responsible for managing your portfolio's interest rate sensitivity, don't overlook the importance of running non-parallel shifts in rates such as bull flattener and bear steepener scenarios. If you're not familiar with these rate scenarios, seek guidance from your asset liability team. This stuff is in their wheelhouse.

If you haven't already, take a moment to thank the hero's in your life - those that have or are serving our nation - as they have chosen to keep us safe.

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



NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount (\$)	Description	Maturity
09/14/2020	\$2,460,000	HAYSVILLE KS UT GO BQ A3	2021-2040
09/15/2020	\$20,800,000	KEARNEY MO UT GO Aa3	2021-2040
09/16/2020	\$4,045,000	CONCORDIA KS UT GO BQ A+	2021-2040
09/17/2020	\$4,425,000	LANSING KS UT GO BQ A1	2021-2028
09/17/2020	\$105,000,000	WENTZVILLE MO R-IV UT GO AA+	2030-2040

ECONOMIC CALENDAR				
Monday 9/14	Tuesday 9/15	Wednesday 9/16	Thursday 9/17	Friday 9/18
	Empire Manufacturing Industrial Production	MBA Mortgage Applications Retail Sales Advance MoM FOMC Rate Decision	Housing Starts Initial Jobless Claims Continuing Claims	Leading Index U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	5.25	3 Mo.	0.04
Discount Rate	0.25	0.25	2.75	6 Mo.	0.13
Fed Funds Rate	0.09	0.10	2.13	1-Year	0.17
IOER	0.10	0.10	2.10	2-Year	0.19
1-Month Libor	0.15	0.16	2.05	3-Year	0.21
11th Dist COFI	0.65	0.68	1.16	5-Year	0.34
1-Yr. CMT	0.15	0.13	1.81	7-Year	0.62
Dow	27,665.64	27,686.91	27,134.04	10-Year	0.99
NASDAQ	10,853.54	10,782.82	8,169.68	30-Year	1.79
S&P 500	3,340.97	3,333.69	3,000.93		
Bond Buyer	2.22	2.02	2.85		

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	0.10					1-Year	N/A	+50
6 Mo. Bill	0.11					2-Year	55	65
1-Year Bill	0.13					3-Year	60	72
2-Year Note	0.13	3	8	8		5-Year	70	80
3-Year Note	0.15	8	19	17	12			
5-Year Note	0.25	14	37	35	28			
7-Year Note	0.44	24	49	44	36			
10-Year Note	0.66	31	66	61	51			
20-Year Bond	1.19							
30-Year Bond	1.41							

MBS Current Coupon Yields	
GNMA 30 Yr.	1.46%
FNMA 30 Yr.	1.37%
GNMA 15 Yr.	0.13%
FNMA 15 Yr.	0.87%

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*****

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.