



## Weekly Review—September 23, 2022

U.S. central bankers inflicted more pain on the economy this week by not only increasing overnight interest rates 75bps for the third consecutive time this cycle but by also signaling another 125bps remains in play. Thus, their median benchmark rate forecast increased to 4.6% by the end of 2023. Wednesday’s FOMC policy action made it crystal clear that policy makers plan to increase rates sharply and now view recession as a necessary trade-off to battle inflation that has persisted near its highest levels since the 1980s. As stated by the Fed chair, the “chances of a soft landing are likely to diminish to the extent that policy needs to be more restrictive or restrictive for longer” as the Fed remains “strongly committed to returning inflation to its 2% objective.” With annualized headline consumer inflation continuing to hover around 8%, quiet talk of the street is that the projected terminal fed fund rate may be closer to 5%.

So, when it comes to tightening - how much is too much as restrictive policy first weakens financial markets, then the economy, and finally inflation? Economists generally agree that monetary policy works with a lag. Meaning, it usually takes twelve to eighteen months after policy action before the full effect of the change impacts economic conditions. Understanding that the Fed just started raising rates in March, and the big increases have all come in the last four months, it’s too early to see the true economic impact caused by the Fed’s aggressively hawkish policy response. With that said, next year’s economic growth forecast still remains positive based a recent Bloomberg survey but has fallen below 1%.

The Fed’s increased hawkish tone drove treasury yields higher. At 4.15%, the 2-year treasury yield has increased to levels not seen since 2007 while the 10-year treasury yield of 3.70% marks a twelve year high. This week’s run up in treasury yields should be viewed as a buying opportunity. Continue the practice of dollar cost averaging by investing into higher rates. Consider positive convexity a friend.

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 |
|------------|-------------|----------------------------------|----------|
| 09/27/2022 | \$1,060,000 | CLEARWATER KS TEMP NOTE UT GO BQ | 2025     |
| 09/27/2022 | \$625,000   | KAY CNTY OK ISD 87 UT GO TAXABLE | 2025     |
|            |             |                                  |          |

**ECONOMIC CALENDAR**

| Monday 9/26                    | Tuesday 9/27                 | Wednesday 9/28            | Thursday 9/29             | Friday 9/30           |
|--------------------------------|------------------------------|---------------------------|---------------------------|-----------------------|
| Chicago Fed Nat Activity Index | Durable Goods Orders         | MBA Mortgage Applications | GDP Annualized 2Q (Final) | Personal Income       |
| Dallas Fed Manf. Activity      | Conf. Board Consumer Confid. | Wholesale Inventories MoM | Initial Jobless Claims    | Personal Spending     |
|                                | New Home Sales               | Pending Home Sales        | Personal Consumption      | U. of Mich. Sentiment |

| KEY INDICES            |           |            |              | MUNI AA-BQ |      |
|------------------------|-----------|------------|--------------|------------|------|
|                        | Current   | Last Month | One Year Ago |            |      |
| Prime Rate             | 6.25      | 5.50       | 3.25         | 3 Mo.      | 2.15 |
| Discount Rate          | 3.25      | 2.50       | 0.25         | 6 Mo.      | 2.30 |
| Fed Funds Rate         | 3.08      | 2.33       | 0.08         | 1-Year     | 2.79 |
| IOER                   | 3.15      | 2.40       | 0.15         | 2-Year     | 2.87 |
| 1-Month Libor          | 3.08      | 2.39       | 0.08         | 3-Year     | 2.90 |
| 11th Dist COFI (ECOFC) | 0.87      | 0.66       | 0.24         | 5-Year     | 2.95 |
| 1-Yr. CMT              | 4.15      | 3.32       | 0.08         | 7-Year     | 3.03 |
| Dow                    | 29,591.47 | 32,909.59  | 34,764.82    | 10-Year    | 3.28 |
| NASDAQ                 | 10,867.93 | 12,381.30  | 15,052.24    | 30-Year    | 4.09 |
| S&P 500                | 3,693.26  | 4,128.73   | 4,448.98     |            |      |
| Bond Buyer             | 2.25      | 2.28       | 0.05         |            |      |

| 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  | 3.20       |         |          |           |            | 1-Year                    | N/A | +30     |
| 6 Mo. Bill  | 3.87       |         |          |           |            | 2-Year                    | 35  | 50      |
| 1-Year Bill   | 4.08       |         |          |           |            | 3-Year                    | 83  | 85      |
| 2-Year Note   | 4.17       | 15      | 1        | 1         |            | 5-Year                    | 90  | 105     |
| 3-Year Note   | 4.18       | 4       | 5        | 2         | 1          |                           |     |         |
| 5-Year Note   | 3.96       | 8       | 18       | 14        | 6          |                           |     |         |
| 7-Year Note   | 3.86       | 20      | 25       | 18        | 8          |                           |     |         |
| 10-Year Note  | 3.70       | 50      | 40       | 31        | 20         |                           |     |         |
| 20-Year Bond  | 3.88       |         |          |           |            |                           |     |         |
| 30-Year Bond  | 3.61       |         |          |           |            |                           |     |         |

  

| MBS Current Coupon Yields |       |
|---------------------------|-------|
| GNMA 30 Yr.               | 5.26% |
| FNMA 30 Yr.               | 5.41% |
| GNMA 15 Yr.               | 5.07% |
| FNMA 15 Yr.               | 4.73% |

**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.