



Weekly Review—October 23, 2020

Earlier this month Fed Chairman Powell stated that the U.S. economic outlook remains “highly uncertain.” While his forecast is likely based on the Fed’s internal modeling, I thought it might be beneficial to examine the economic outlook from the street perspective. Bloomberg conducts a survey of top economists every month seeking input on key economic metrics. The table below reveals the results from this month’s survey. Here’s a brief overview of their findings.

Economic Growth – as measured by GDP

Although first and second quarter economic growth contracted – meeting the textbook definition of a recession – GDP is expected to increase 29% and 4% in the third and fourth quarters, respectively. Over time, GDP is expected to “normalize” in the upper 2% range – consistent with pre-COVID growth.

Inflation – as measured by PCE (yoY%)

As compared to pre-COVID levels, the Fed’s preferred inflation gauge is expected to be little changed heading into 2022. The lack of wage pressure seen in the declining average hourly earnings forecast will likely weigh on overall upward inflationary pressures. Based on this inflationary outlook, the Fed will certainly face a long road ahead as it marches towards its long-term 2% average inflation benchmark. Meaning, the Fed is expected to keep its benchmark overnight rate zero-bound for several years. Although not evidenced in this survey, some economists believe that the Fed will hold policy through 2025.

Labor Market

After reaching a high of 13% in the second quarter, the unemployment rate is expected to gradually decline over the next several quarters – dropping below 9% by year end and under 6% into 2022. Although the jobs market is expected to slowly improve, sub 6% unemployment is materially higher than pre-COVID levels in the mid-to-upper 3% range. The 3% handle marked a period of maximum employment – achieving one of the Fed’s dual monetary policy mandates.

Interest Rates

Evidenced by the flat Central Bank Rate, the market expects no change in short-term interest rates into 2022 – consistent with the Fed’s current forward guidance. While short rates will likely remain at current levels, the treasury curve exhibits a rates up bias evidenced via the near doubling of the 10-Year Note yield. Additionally, the spread between the 2-year yield and the 10-year yield is expected to slowly widen to 80bps into 2022 vs. 3rd quarter’s 55bps. While a 25bps widening isn’t a lot, it is evidence of a possibly steeper curve – something that bankers hope to see.

The above forecasts are based on the premise that things go right. Meaning, the economy continues to reopen, the pandemic is held in check, a vaccine becomes available sooner than later and the coming election is orderly – just to name a few. Anything different could materially impact the street’s outlook. In today’s volatile environment, it’s important that market participants keep abreast of the latest economic forecasts.

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

Economic Forecasts										
Country/Region/World	Contributor		Contributor Composite		Probability of Recession					
United States	Browse		Private		30.0%					
Indicator	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22
Economic Activity										
Real GDP (YoY%)	2.3	0.3	-9.0	-3.5	-3.4	-1.3	9.4	3.6	3.5	3.2
Real GDP (QoQ% SAAR)	(2.4)	-5.0	-31.4	29.2	4.0	3.7	3.6	3.2	3.2	2.7
Consumer Spending ...	1.6	-6.9	-33.2	36.1	3.6	3.0	3.5	3.2	3.0	2.7
Government Spendin...	2.4	1.3	2.5	0.8	0.4	0.5	0.8	1.1	1.0	0.6
Private Investment (...)	-3.7	-9.0	-46.6	26.5	9.9	6.5	5.7	5.4	5.0	5.0
Exports (QoQ% SAAR)	3.4	-9.5	-64.4	58.7	9.7	7.9	5.0	5.4	4.2	4.2
Imports (QoQ% SAAR)	-7.5	-15.0	-54.1	65.5	10.0	7.0	6.0	5.0	4.6	4.3
Price Indices										
CPI (YoY%)	2.1	2.1	0.3	1.2	1.2	1.4	2.6	2.0	2.0	2.0
PCE Price Index (YoY%)	1.5	1.7	0.6	1.2	1.2	1.4	2.1	1.8	1.8	1.9
Core PCE (yoY%)	1.7	1.8	1.0	1.4	1.5	1.5	2.0	1.6	1.7	1.7
Labor Market										
Unemployment (%)	3.5	3.8	13.0	8.8	7.7	7.2	6.9	6.5	6.1	5.9
Non Farm Payrolls (000s ...)	184	-1373	4781	661	602	386	331	283	270	250
Average Hourly Earnings ...	3.0	3.4	4.9	4.7	3.9	3.1	0.1	1.0	1.8	2.6
Interest Rates										
Central Bank Rate (%)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30
3-Month Rate (%)	1.91	1.45	0.30	0.23	0.30	0.33	0.34	0.35	0.39	0.44
2-Year Note (%)	1.57	0.25	0.15	0.13	0.20	0.25	0.29	0.33	0.38	0.46
10-Year Note (%)	1.92	0.67	0.66	0.68	0.76	0.87	0.96	1.05	1.14	1.26

NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
10/27/2020	\$9,710,000	Newton KS 2020B UT GO AA-	2021-2040
10/27/2020	\$1,920,000	Newton KS 2020C UT GO AA-	2021-2030
10/27/2020	\$31,910,000	Park Hill SD MO UT GO AA+ STATE AID AA UNDER	2021-2030
10/27/2020	\$4,365,000	Andover KS B UT GO BQ AA-	2021-2033
10/28/2020	\$29,155,000	O'Fallon MO A REVS	2021-2040
10/28/2020	\$12,295,000	O'Fallon MO B REVS TAXABLE	2021-2030

ECONOMIC CALENDAR

Monday 10/26	Tuesday 10/27	Wednesday 10/28	Thursday 10/29	Friday 10/30
New Home Sales	Durable Goods Orders	MBA Mortgage Applications	GDP Annualized QoQ	Personal Income
Chicago Fed Nat Activity Index	Conf. Board Cons. Confidence	Wholesale Inventories MoM	Core PCE QoQ	Personal Spending
Dallas Fed Manf. Activity	Richmond Fed Manf. Index		Initial Jobless Claims	U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	5.00	3 Mo.	0.08
Discount Rate	0.25	0.25	2.50	6 Mo.	0.17
Fed Funds Rate	0.09	0.09	1.85	1-Year	0.22
IOER	0.10	0.10	1.80	2-Year	0.24
1-Month Libor	0.15	0.15	1.82	3-Year	0.26
11th Dist COFI	0.53	0.65	1.16	5-Year	0.38
1-Yr. CMT	0.12	0.12	1.59	7-Year	0.71
Dow	28,335.57	26,763.13	26,833.95	10-Year	1.11
NASDAQ	11,548.28	10,632.99	8,119.79	30-Year	1.95
S&P 500	3,465.39	3,236.92	3,004.52		
Bond Buyer	2.37	2.22	2.75		

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	0.11					2-Year	55	65
1-Year Bill	0.12					3-Year	66	75
2-Year Note	0.15	2	5	6		5-Year	75	85
3-Year Note	0.20	5	16	15	12			
5-Year Note	0.36	14	33	31	27			
7-Year Note	0.61	19	46	41	34			
10-Year Note	0.84	30	69	62	52			
20-Year Bond	1.41							
30-Year Bond	1.65							

MBS Current Coupon Yields	
GNMA 30 Yr.	1.46%
FNMA 30 Yr.	1.40%
GNMA 15 Yr.	0.30%
FNMA 15 Yr.	1.03%

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.