



What an exciting week!

Employment picture...

The jobs market has remained surprisingly resilient over the last six months as it has endured the most aggressive Fed tightening cycle since the 1980s aimed at slowing the economy. Today's employment report released by the Department of Labor showed more of the same. Specifically, October's jobs report revealed that payrolls increased 261k last month on estimates of only a 193k gain. While the unemployment rate increased from 3.5% to 3.7%, average hourly earnings rose 0.4% month over month – beating street estimates of 0.3%. Although the annualized earning increase of 4.7% was down from September's 5%, the stronger than expected monthly increase in wages should give policy makers little reason to pause rate tightening.

Monetary Policy ...

As expected, the Fed delivered its fourth consecutive 75bps rate increase while confirming they plan to “stay on course until the job is done,” according to Fed Chair Powell. Although policy makers did formally acknowledge that policy effects work with a lag, they expect rate hikes to continue.

Economic conditions & interest rates...

According to a survey of top economists, the probability of recession in the next 12 months now stands at 60% as the aggressively hawkish policy response is expected to further weigh on economic conditions. As for interest rates, the projected benchmark terminal rate has increased to nearly 5.25% – with some street estimates targeting 6% – causing short-term treasury yields to move higher. Although intermediate and longer-term yields have also increased this week, the pace has not kept up with the increase in short-term yields causing further inversion in the treasury curve. The 2/10 negative spread (the difference between the two-year yield vs. the ten-year yield) has widened to approximately 60bps. The inverted curve often foreshadows an economic recession.

Hopefully history repeats itself??

Remembering back to my college days, the history instructor described the 1970's as a period of malaise as the country was suffering from high inflation, increased jobs losses, heightened energy concerns, elevated government spending and a plethora of socioeconomic issues. Assuming history repeats itself, current economic conditions will eventually improve (like it did in the 80's). Monetary policy will again become boring. Asset/Liability Committee (ALCO) discussion will no longer be “spirited” – even though the ALCO meeting IS the most important meeting in the bank! And life will get back to normal!

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 |
|------------|-------------|------------------------------|-----------|
| 11/07/2022 | 6,620,000 | GODDARD KS-1-REF UT GO BQ | 2024-2043 |
| 11/07/2022 | 35,690,000 | BLUE SPRINGS MO-REV REVS AA- | 2023-2052 |
| | | | |

ECONOMIC CALENDAR

| Monday 11/7 | Tuesday 11/8 | Wednesday 11/9 | Thursday 11/10 | Friday 11/11 |
|-----------------|------------------------------|--|---|---------------------|
| Consumer Credit | NFIB Small Business Optimism | MBA Mortgage Applications Wholesale Inventories MoM | CPI MoM/YoY Initial Jobless Claims Monthly Budget Statement | Happy Veterans Day! |

| KEY INDICES | | | | MUNI AA-BQ | |
|------------------------|-----------|------------|--------------|------------|------|
| | Current | Last Month | One Year Ago | | |
| Prime Rate | 7.00 | 6.25 | 3.25 | 3 Mo. | 2.56 |
| Discount Rate | 4.00 | 3.25 | 0.25 | 6 Mo. | 2.71 |
| Fed Funds Rate | 3.82 | 3.05 | 0.07 | 1-Year | 3.19 |
| IOER | 3.90 | 3.15 | 0.15 | 2-Year | 3.27 |
| 1-Month Libor | 3.85 | 3.19 | 0.09 | 3-Year | 3.31 |
| 11th Dist COFI (ECOFC) | 1.35 | 1.11 | 0.23 | 5-Year | 3.37 |
| 1-Yr. CMT | 4.76 | 4.15 | 0.14 | 7-Year | 3.47 |
| Dow | 32,403.22 | 30,316.32 | 36,124.23 | 10-Year | 3.60 |
| NASDAQ | 10,475.25 | 11,176.41 | 15,940.31 | 30-Year | 4.50 |
| S&P 500 | 3,770.55 | 3,790.93 | 4,680.06 | | |
| Bond Buyer | 4.06 | 4.02 | 2.10 | | |

| 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 | 4.37 | | | | | 1-Year | N/A | +40 |
| 6 Mo. Bill | 4.59 | | | | | 2-Year | 45 | 55 |
| 1-Year Bill | 4.76 | | | | | 3-Year | 90 | 95 |
| 2-Year Note | 4.69 | 16 | 81 | 80 | | 5-Year | 95 | 120 |
| 3-Year Note | 4.62 | 10 | 85 | 82 | 80 | | | |
| 5-Year Note | 4.33 | 9 | 98 | 93 | 86 | | | |
| 7-Year Note | 4.23 | 35 | 106 | 99 | 89 | | | |
| 10-Year Note | 4.12 | 75 | 121 | 112 | 100 | | | |
| 20-Year Bond | 4.45 | | | | | | | |
| 30-Year Bond | 4.19 | | | | | | | |

| MBS Current Coupon Yields | | |
|---------------------------|--|-------|
| GNMA 30 Yr. | | 5.69% |
| FNMA 30 Yr. | | 5.96% |
| FNMA 15 Yr. | | 5.16% |

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.