



Weekly Review—December 9, 2022

Tired of talking about inflation? Well, we still have a lot to go through until it becomes uninteresting. This morning's release of Producers Price Index (PPI) came in higher than expected and the previous release was revised upwards. The month-over-month headline figure remained unchanged from October's revised figure of 0.3%; however, the real story comes in the 0.4% print of the core PPI (ex food and energy). This is up from the 0.1% revised October number. Services continue to drive the price elevations we are experiencing and while the year-over-year figures show a downward trend, they are falling slower than anticipated by the surveyed economists. What does this mean for us?

The Fed's communication will continue to stress to markets that they expect to maintain higher overnight rates throughout 2023. Simply, do not expect the Fed to begin cutting rates anytime soon. The equity markets are screaming for a slowdown in moves by the Fed because higher inflation reduces asset values. (Present value of discounted cash flows). The bond market has been fairly accurate when painting the picture of near-term rate expectations and of what now looks like an unavoidable recession in the next year. The Fed will announce their next overnight rate hike next week, a 50-basis point increase is expected. The good news: it's not 75. The bad news: it means they still must fight inflation for a while. Keep this in mind when making investing and other financial decisions: we're not likely to see any reduction in short-term interest rates until 4Q 2023 or the first half of 2024.

We talk a lot about the yield curve. We have seen the 2-10 spread remain negative since July of this year. This is a classic indicator of the likelihood of an upcoming economic recession. We also know that the National Bureau of Economic Research (NBER) is the body which determines when the US is in recession. We also know that the NBER will tell us we are in a recession after it already began. I was reminded of something this interest rate cycle: the yield curve signals what is to come. At time of writing, the 2-10 spread is around a negative 78-basis points. When we see that spread switch back and consistently steepen (gain in positivity), we're in the recession.

Next Tuesday, we get CPI data, expectation are for further lowering of the year-over-year figure. We'll see what November figures show us and we'll likely still talk about inflation throughout the next year.

Have a great weekend!

Matthew Maggi
 Senior Vice President
 Commerce Bank – Capital Markets Group (CMG)
 800 548-2663 matthew.maggi@commercebank.com

NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
12/14/2022	\$6,655,00	MISSION KS 2022A UT GO BQ	2024-2033

ECONOMIC CALENDAR

Monday 12/12	Tuesday 12/13	Wednesday 12/14	Thursday 12/15	Friday 12/16
Monthly Budget Statement	CPI MoM/YoY Real Avg Weekly Earnings YoY NFIB Small Business Optimism	MBA Mortgage Applications FOMC Rate Decision Interest on Reserve Balances	Retail Sales Advance MoM Initial Jobless Claims Empire Manufacturing	S&P Global US Composite PMI S&P Global US Manufact. PMI S&P Global US Services PMI

	KEY INDICES			MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	7.00	7.00	3.25	3 Mo.	1.81
Discount Rate	4.00	4.00	0.25	6 Mo.	1.96
Fed Funds Rate	3.83	3.83	0.08	1-Year	2.44
IOER	3.90	3.90	0.15	2-Year	2.47
1-Month Libor	4.27	3.86	0.10	3-Year	2.49
11th Dist COFI (ECOFC)	1.59	1.38	0.22	5-Year	2.57
1-Yr. CMT	4.72	4.77	0.29	7-Year	2.63
Dow	33,476.46	32,513.94	35,754.69	10-Year	2.71
NASDAQ	11,004.62	10,353.17	15,517.37	30-Year	3.83
S&P 500	3,934.38	3,748.57	4,667.45		
Bond Buyer	3.63	3.65	2.05		

Treasuries & New Issue Agencies (<i>Spread to Treasuries</i>)					
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	4.27				
6 Mo. Bill	4.50				
1-Year Bill	4.69				
2-Year Note	4.31	11	81	80	
3-Year Note	4.07	15	85	82	80
5-Year Note	3.75	13	99	94	86
7-Year Note	3.68	50	105	98	88
10-Year Note	3.56	72	120	111	99
20-Year Bond	3.80				
30-Year Bond	3.54				

CMO Spreads to Treasuries		
	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	55
3-Year	75	85
5-Year	85	105

MBS Current Coupon Yields	
GNMA 30 Yr.	5.00%
FNMA 30 Yr.	5.05%
FNMA 15 Yr.	4.50%



About the Author, Matthew Maggi

Prior to joining CMG in 2016, Matthew was the Corporate Treasurer at a \$1.2 billion publicly-traded community bank headquartered in Missouri. During his tenure, he developed and implemented balance sheet strategies to maximize margin while managing acceptable levels of interest rate risk, liquidity, and capital. Matthew not only managed the investment portfolio, but also conducted extensive loan portfolio performance analyses.

Previously, he was a Treasury Analyst for one of the largest privately held banks in the U.S. He monitored cash flow and liquidity and developed funding strategies. Matthew leverages his extensive balance sheet management experience to provide tactical and strategic solutions to maximize performance while mitigating risks for the community banks.

*****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.



commercebank.com