



## Weekly Review—December 17, 2021

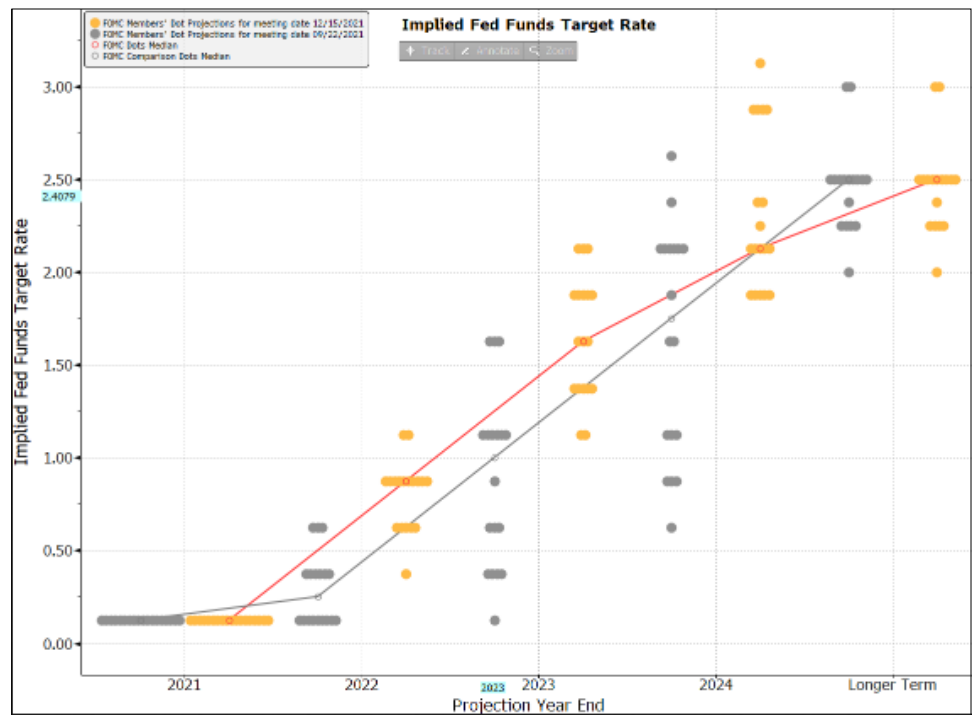
This week was all about the Fed and monetary policy. With easy money, massive fiscal stimulus and supply chain disruptions helping push inflation to levels not seen in 30 years, policy makers announced it plans to double the current pace of its reduction in monthly bond purchases (a.k.a. taper) and indicated an increased trajectory in benchmark interest rates. Evidenced in the chart below, the December Dot Plot reveals that although longer-term rate expectations remain unchanged from their September meeting, the Fed now projects a more aggressive tightening rate cycle. Specifically, officials expect to raise the fed funds rate three times next year and three times in 2023 based on median projections. In September, officials were split on the need for any rate increases in 2022. According to the FOMC’s statement released earlier this week, their abrupt shift in policy reflects “inflation developments and the further improvement in the labor market.”

While the accelerated taper came as little surprise to the market, the increased trajectory of short-term rates was more hawkish than some economists had expected. Other economists viewed the pivot in policy as the Fed’s validation that inflation is truly a threat to the outlook. When compared to their 2% long term inflation goal, the FOMC projects PCE inflation of 2.6% and core PCE of 2.7% in 2022. December’s 2.7% core PCE forecast was up from the Fed’s September projection of 2.3%. In 2023, core PCE is expected to remain elevated. Policy makers no longer consider inflation as “transitory!”

With the Fed expected to hike rates more aggressively on the front end of the cycle, the hope is a lower terminal rate and a soft economic landing where the Fed controls inflation. With that said, overly aggressive tightening could lead to recession as economic expansions don’t die of old age. As former Fed Chair Bernanke stated, “I like to say they get murdered.” The culprits typically involve government policy missteps.

As a heads-up, the next CMG Weekly Commentary will be published January 7.  
Enjoy the holidays!

Dennis Zimmerman Jr.  
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Commerce Bank – Capital Markets Group (CMG)



### NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
12/20/2021	\$18,285,000	JOPLIN MO SCHS-REF UT GO AA+ ST AID/A+	2028-2029,2032
12/25/2021		MERRY CHRISTMAS	

## ECONOMIC CALENDAR

Monday 12/20	Tuesday 12/21	Wednesday 12/22	Thursday 12/23	Friday 12/24
Leading Index	Current Account Balance	GDP 3Q Annualized QoQ Core PCE QoQ MBA Mortgage Applications	Personal Income/Spending Initial Jobless Claims PCE Core Deflator Mom/YoY	Markets Closed

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	3.25	3 Mo.	0.12
Discount Rate	0.25	0.25	0.25	6 Mo.	0.15
Fed Funds Rate	0.08	0.08	0.09	1-Year	0.17
IOER	0.15	0.15	0.10	2-Year	0.27
1-Month Libor	0.10	0.09	0.15	3-Year	0.40
11th Dist COFI	0.23	0.23	0.50	5-Year	0.65
1-Yr. CMT	0.26	0.17	0.09	7-Year	0.97
Dow	35,366.56	35,931.05	30,303.37	10-Year	1.15
NASDAQ	15,169.68	15,921.57	12,764.75	30-Year	1.69
S&P 500	4,620.55	4,688.67	3,722.48		
Bond Buyer	2.05	2.10	2.13		

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	0.04					1-Year	N/A	+35
6 Mo. Bill	0.11					2-Year	35	45
1-Year Bill	0.23					3-Year	45	55
2-Year Note	0.62	3	1	1		5-Year	55	65
3-Year Note	0.90	2	5	1	1			
5-Year Note	1.15	4	18	14	6			
7-Year Note	1.31	7	26	18	8			
10-Year Note	1.39	20	40	31	19			
20-Year Bond	1.85							
30-Year Bond	1.82							

MBS Current Coupon Yields	
GNMA 30 Yr.	2.01%
FNMA 30 Yr.	2.02%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	1.37%

### 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)\*\*\***

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