



Weekly Review—December 11, 2020

Are interest rates going to rise or not? This is something fixed income investors continue to ask themselves. Why is it so important? It comes down to cash flows, the timing of those cash flows, and how much an investor earns given the positioning of investments within the portfolio. Fixed income investors look to the US Treasury curve for insights, or glimpses, of the future direction of yields and prices. They also consult economic news and data releases. One can be forgiven for thinking that typical economic indicators seem less impactful on investor's decisions. Despite increased jobless numbers, increased COVID-19 infections, and Congressional delay in more fiscal stimulus, the Treasury curve really has remained relatively stable. Why? One can argue the Federal Reserve's monetary stimulus and policy actions have removed a lot of the usual volatility that can occur as economic data is released – causing traditionalists to question tried and true strategies.

Reading this week, I found an article that addresses the role of the Fed in the US bond market and the effects of their actions. Fed Chairman Powell is being compared to former Chair Volcker due to his and the committee's actions during the pandemic. He is looked on as a hero by taking his predecessors' policy actions and going further, much further. Historians will likely be the judge of his status, but it appears the actions of the FOMC this year will provide plenty of documentation for them to evaluate.

Another article describes the effects caused by the Fed's policy actions on traditional bond trading. This ties to the idea that "this time it's different;" because the Fed is buying so many bonds and with the possibility of purchasing longer-maturity bonds, they are disrupting a classic steepener trade utilized by bond traders when indications of rising rates might occur soon. The Fed is often referred to as the "800-pound gorilla", or the elephant in the room due to the impact they have on the bond market through their vast purchasing power. If the Fed uses its purchasing power to purposely keep longer-term interest rates low, one could add the ginormous foot from Monty Python as a visual simile – stamping down the curve. This power goes against tradition and is causing traditional investment practices to come into question.

Finally, I came across this gem of an article about Ole Peters, a trained physicist, who is causing a little stir by questioning a fundamental principal of economics. Peters questions the reliance upon ergodicity within economic models. Essentially, this concept states that the average of all possible outcomes is the likely outcome to make decisions upon. This questioning is not new, but it does take a big swipe at tradition. I love stories like this, questioning the status quo, but time will tell if Peters is right, or just another forgotten theorist.

Please reach out to your CMG Investment Representative to discuss suitable investments for your interest rate outlook! Have a nice weekend.

Further Reading:

<https://www.bloomberg.com/news/articles/2020-12-11/everything-we-ve-learned-about-modern-economic-theory-is-wrong>

<https://www.bloomberg.com/news/articles/2020-12-11/jerome-powell-could-be-one-of-federal-reserve-s-most-transformational-chairmen?srnd=premium>

<https://www.bloomberg.com/news/articles/2020-12-11/bond-market-s-great-reflation-trade-upended-by-fed-intervention>

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
12/14/2020	\$4,660,000	COLUMBIA MO SD 2020 UT GO BQ AA+	2022-2033
12/14/2020	\$5,885,000	COLUMBIA MO SD 2020 COP BQ AA2	2021-2036
12/15/2020	\$5,500,000	SENCECA MO SD RVII 2020 UT GO BQ AA+	2024-2039
12/16/2020	\$4,195,000	KS PUBLIC WHOLESALE WTR UT GO BQ	2021-2037
12/17/2020	\$7,355,000	ATCHISON KS UT GO BQ A1	2021-2035

ECONOMIC CALENDAR

Monday 12/14	Tuesday 12/15	Wednesday 12/16	Thursday 12/17	Friday 12/18
	Empire Manufacturing Industrial Production MoM Import Price MoM	MBA Mortgage Applications Retail Sales MoM FOMC Rate Decision	Initial Jobless Claims Housing Starts Building Permits	Leading Index Current Account Balance

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	4.75	3 Mo.	0.04
Discount Rate	0.25	0.25	2.25	6 Mo.	0.13
Fed Funds Rate	0.09	0.09	1.55	1-Year	0.18
IOER	0.10	0.10	1.55	2-Year	0.20
1-Month Libor	0.15	0.13	1.72	3-Year	0.23
11th Dist COFI	0.50	0.52	1.10	5-Year	0.33
1-Yr. CMT	0.10	0.12	1.56	7-Year	0.54
Dow	30,046.37	29,397.63	27,911.30	10-Year	0.86
NASDAQ	12,377.87	11,786.43	8,654.05	30-Year	1.59
S&P 500	3,663.46	3,572.66	3,141.63		
Bond Buyer	2.13	2.24	2.74		

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	0.06					1-Year	N/A	+50
6 Mo. Bill	0.07					2-Year	53	60
1-Year Bill	0.08					3-Year	60	67
2-Year Note	0.12	1	4	3		5-Year	67	77
3-Year Note	0.17	4	10	9	6			
5-Year Note	0.36	8	24	22	17			
7-Year Note	0.62	10	33	27	20			
10-Year Note	0.89	20	49	42	33			
20-Year Bond	1.42							
30-Year Bond	1.63							

MBS Current Coupon Yields	
GNMA 30 Yr.	1.34%
FNMA 30 Yr.	1.39%
GNMA 15 Yr.	0.03%
FNMA 15 Yr.	0.84%

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.

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