

The First Tee...

Bond Bombshell...bonds endured their worst loss in over 50 years during the 1st quarter:

- The rising threat of an inflation resurgence, combined with largest projected U.S. GDP growth since the 1980's, resulted in government bonds maturing 25-years and longer to lose 14%:
 - The 10-year benchmark T-Note yield has almost tripled since last August (pressuring corporate and loan rates):
 - There are growing predictions the 10-year T-Note yield could breach 2% by year-end...which would be the highest since July 2019.
- **Fed Facilitation...**Central Bank officials are less concerned about prices over-heating than the market:
 - Transitory has become a favored Fed buzzword for describing an inflation uptick...the FOMC has also created a policy cushion by allowing price growth to run above target without impacting its easy money/low rate strategy:
 - The Fed only has direct control over short-term rates, while longer-term yields are based on market expectations for economic growth and inflation...this scenario has been challenged the past few years due to the Fed expanding its balance-sheet, buying longer bonds.
 - The “neutral rate” (the level monetary policy is neither accommodative or restrictive and keeps the economy at maximum employment and inflation close to the 2% target) has been at 2.5% since mid-2019, is providing a virtual cap on interest rates:
 - The rate on the 10-year Treasury Note has averaged 2.11% over the past decade (compared to a 10.5% average during the 1980's).
- **Debt and Debt Service Dilemmas...**accelerated by pandemic spending, government debt has doubled since 2007 to a post WW II record of over \$20 trillion...last year's budget deficit was a peacetime record at almost 16% of GDP:
 - The surge in the size of government bonds auctions will continue to place upward pressure on interest rates as the public and private sectors absorb the added supply...surprisingly, debt servicing costs are declining:
 - It certainly is beneficial to the government to keep rates low to counter the amount of debt-service costs, but despite the expanding amount of bonds, total interest paid is declining due to the maturity of higher couponed issues:
 - Interest on the national debt fell last year to \$345 billion (1.6% of GDP) with new coupon rates ranging from .125% to 1.875%:
 - U.S. Treasury note and bonds maturing this year have coupon rates ranging from 1.125% to 8.125% (a positive arbitrage for the Treasury Dept).
 - Treasury rates would need to average 2.5% for all maturities to reverse the current trend of falling debt servicing cost.
 - Treasury Secretary Janet Yellen has stated the size of the government's interest payments are the best guide to how much spending room there is...as a share of the economy, this cost is no higher than it was in 2007:
 - All the new debt being issued will eventually cause total financing payments to increase, which over time will reduce the government's flexibility in allocating discretionary portions of the budget (one of the arguments for raising taxes).
 - **At the current low interest rates, the cost of servicing government debt is negative** (after adjusting for inflation)!!!

Releasing the Kraken...Bitcoin, a speculator's dream currency or a monster commodity:

- The value of Bitcoin could reach \$1 million in the next decade according to Jesse Powell:
 - Powell's statement is self-serving as he is the CEO of Kraken, the largest U.S. based cryptocurrency exchange:
 - Bitcoin has seen a meteoric rise in value over the past year, increasing by 900% since last April...from \$6351 to a new record high last Friday at \$63,410...Powell believes Bitcoin will eventually replace all of the major government issued fiat currencies:
 - Kraken is a benefactor of higher prices on Bitcoin as it receives more fees from increased trading volume.
- **Stability is currently not in Bitcoin's DNA...**Powell admits the potential for daily market value swings by as much as 50%:
 - Adherents and skeptics have diverse interpretations of what Bitcoin actually constitutes:
 - Bitcoin bulls view the cybercurrency as a legitimate asset class they believe in the future will exceed the market-cap of the dollar, euro, and other currencies...the dollar is currently the world's reserve currency and the benchmark for global trade.
 - Bitcoin critics assert the digital currency is a giant, stimulus-fueled bubble destined to burst like the 2017/2018 cycle:
 - In 2017, Bitcoin rose in value by 2313%, and declined by 834% the following year (*a Dramamine manufacturers dream!*)
- **Becoming more mainstream...**Bitcoin's acceptance is gathering momentum as firms and retailers get on-board allowing digital money to be used for payments...with larger market integration comes more scrutiny:
 - Bitcoin is not regulated and has been a means for criminal activity such as money laundering and illicit drug transactions:
 - Gary Gensler, head of the SEC, stated the Commission's goal is to ensure the cryptocurrency markets are free of fraud and manipulation.

At the turn...

The Back Nine...

Lumber versus Logs...the main difference between the two comes down to a saw...but the price between the raw material and finished product has taken divergent paths (lumberjacking the price?):

- The stumpage fee (what lumber companies pay to landowners for trees) was \$22.75 per short-ton (in Louisiana on 3/31):
 - This is the lowest price since 2011...an abundance of harvest ready trees has kept stumpage fees extremely low in the south:
 - The south accounts for half of the lumber production in the U.S (23.6 billion board feet) ...sawmills are running at 93% of capacity.
- Sawdust is wooden gold...lumber futures are up 85% so far this year...the spread between futures and stumpage fees has doubled, exceeding \$1100 per 1000 board feet...the price of lumber is up 300% from April 2020:
 - Harvest ready trees exceed capacity throughout the south...it is very expensive to transport heavy logs, supplies going to sawmills and the fees charged are highly localized, making it difficult for landowners to negotiate higher prices.
 - The low stumpage fees and unprecedented demand for lumber has created a surge in profits for sawmills:
 - The share price of Canada's West Fraser Timber Co. (the world's largest lumber company) have tripled in the past 12 months.

Rainmakers...1st qtr. was profitable to be long equities and commodities...bonds, not so much:

- Data format: April 1, 2020 / January 1, 2021 / April 1, 2021:

Equities

Dow: 21917 / 30606 / 32981
S&P 500: 2584 / 3756 / 3972
NASDAQ: 7700 / 12888 / 13246
Russell 2000: 1153 / 1974 / 2223

Commodities

CRB: 121 / 167 / 184
Oil: \$20.48 / \$48.52 / \$59.16
Gold: \$1628 / \$1898 / \$1707
Copper: \$222 / \$351 / \$399
Natural Gas: \$1.64 / \$2.53 / \$2.60
Bitcoin: \$6481 / \$28996 / \$58960

Borrowing Benchmarks

Libor:

1mo: .984% / .143% / .111%
3mo: 1.433% / .238% / .194%

SOFR: (U.S Secured Overnight Financing Rate)

1day: .01% / .07% / .01%

Treasuries Issues

3mo: .06% / .09% / **-.005%**
6mo: .13% / .09% / .01%
1yr: .14% / .10% / .05%
2yr: .22% / .12% / .15%
3yr: .27% / .17% / .33%
5yr: .36% / .36% / .93%
7yr: .53% / .65% / 1.40%
10yr: .67% / .93% / 1.73%
20yr: 1.15% / 1.45% / 2.31%
30yr: 1.33% / 1.65% / 2.40%

Currencies

Euro: 1.103 / 1.221 / 1.173
Yen: 107.54 / 103.25 / 110.72
Peso: 23.672 / 19.914 / 20.432
Canadian \$: 1.406 / 1.272 / 1.256
Yuan: 7.082 / 6.527 / 6.552

Grain Futures

Corn: \$3.41 / \$4.84 / \$5.64
Soybeans: \$8.87 / \$13.11 / \$14.36
Wheat: \$5.69 / \$6.40 / \$6.18

Random Lumber: \$302 / \$642 / \$1009

Job / Inflation Indicators

Unemployment: 4.4% / 6.7% / 6.0%
Consumer Price Index: 1.5% / 1.4% / 2.6%
Core PCE Index: 1.7% / 1.4% / 1.4%

Federal Funds Open: .02% / .08% / .07%

Prime Rate: 3.25% / 3.25% / 3.25%

19th Hole...

Always and never are two words you should always remember never to use.

Michel de Montaigne

Ross Elford, First Vice President

Direct: 314.746.3679 | Mobile: 314.223.9739 | Fax: 314.746.8737



Commerce Bank
Member FDIC

commercebank.com

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. The information contained herein is based upon sources considered reliable but cannot be guaranteed, and is not intended to be investment advice.

Investments in Securities are NOT FDIC Insured; NOT Bank-Guaranteed and May Lose Value. 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 in this e-mail or any attachments is not an official trade confirmation or account statement. 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. 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.