Capital Markets Group

Weekly Review—April 23, 2021

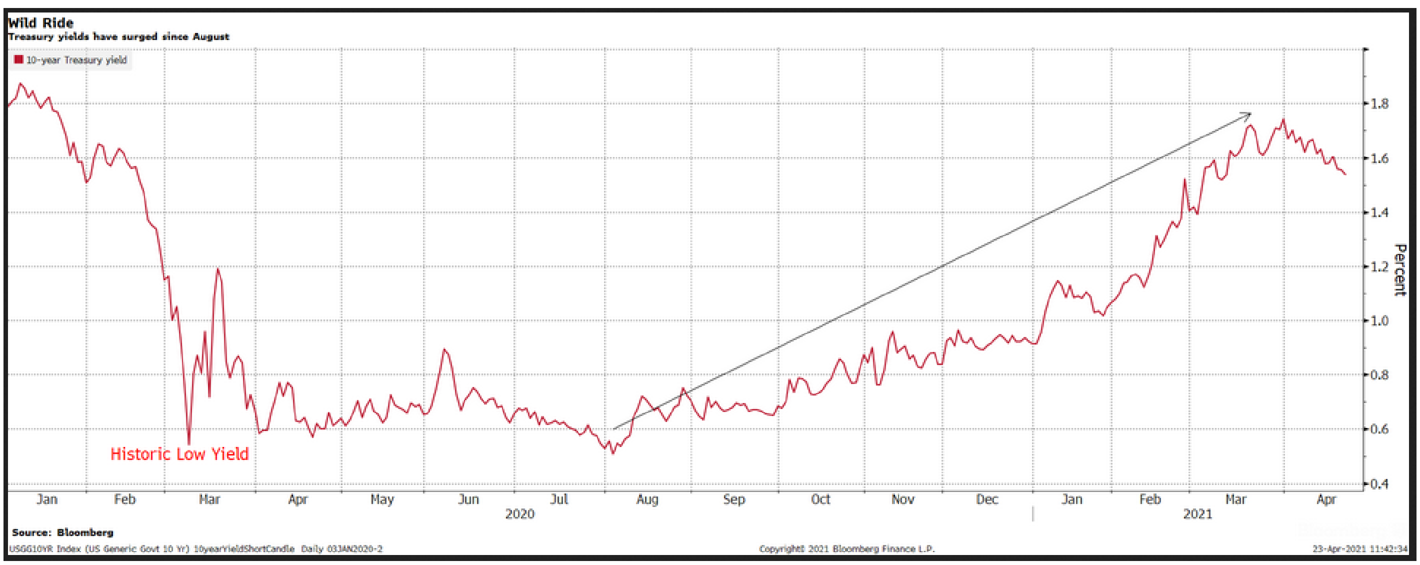
Two weeks ago, I wrote about the recent steepening of the treasury yield curve. Today, I continue that theme by focusing on the outlook for treasury yields - specifically, longer-term rates. Evidenced in the graph below, the benchmark 10-year Treasury yield increased nearly 120bps from its historic fifty-plus year low set last March. While the 10-year yield has stabilized in that 1.50% area, the question market participants are asking is "where do longer-term rates go from here?"

Some investors are of the opinion that there is a greater probability that 10-year rates will fall towards 1% vs. moving towards 2.5%. Taking recent Fed speak at face value, policy makers believe "the economy is a long way from its employment and inflation goals, it will take some time for substantial progress." There are still approximately 8 million people without jobs as compared to pre-COVID employment levels while the projected near-term uptick in inflation is expected to be transitory and rooted in the base effect of its calculation. Add to that the fact that the Fed is committed to allowing inflation to run hotter (above its 2% goal for a period a time) via its Flexible Average Inflation Targeting (FAIT) policy. And finally, the relative value issue associated with US treasury yields vs. other sovereign debt yields – treasuries continue to offer the best risk/reward. For these reasons, 10-year rates have little reason to increase from current levels.

Other market participants believe that although paused, the 10-year yield will continue to move higher. The economic recession was not a normal recession; rather, an economic shutdown caused by a health crisis. With the economy continuing to reopen, the normal post-recession recovery process has been fast tracked. Furthermore, historic levels of fiscal and monetary stimulus will lessen the impact of shutting down the economy. As a result, faster than expected economic growth will likely result in higher than expected inflation. Thus, the Fed will be forced to remove accommodation faster than they current expect.

Regardless of what camp investors are currently in, most agree that the actual path of interest rates remains dependent on COVID. As for policy marker's, the FOMC is scheduled to meet next week. Don't expect the Fed to deviate from their current accommodative policy stance or forward guidance. With longer-term yields currently range-bound and relatively stable, I imagine they'll defer additional action based on that famous 1977 Nation's Business magazine quote - "if it ain't broke, don't fix it!"

Dennis Zimmerman Jr. | Senior Vice President | Manager – Asset/Liability Services | Commerce Bank – Capital Markets Group (CMG)



NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
4/27/2021	$9,635,000	LEAVENWORTH KS-A UT GO Aa2	2022-2036
4/27/2021	$3,310,000	LEAVENWORTH KB -B-REF UT GO Aa2	2021-2031
4/27/2021	$1,400,000	LEAVENWORTH-TEMP NTSA UT GO MIG1	2022
4/27/2021	$1,175,000	LIBERAL KS -A UT GO BQ A+	2022-2031
4/27/2021	$3,775,000	LIBERAL KS -B REF UT GO BQ A+	2022-2039

ECONOMIC CALENDAR

Monday 4/26	Tuesday 4/27	Wednesday 4/28	Thursday 4/29	Friday 4/30
Durable Goods Orders	Conf. Board Consumer Confid.	MBA Mortgage Applications	GDP Annualized QoQ (1Q '21)	Personal Income
Dallas Fed Manf. Activity	Richmond Fed Manufact. Index	Wholesale Inventories MoM	Initial Jobless Claims	Personal Spending
		FOMC Rate Decision	Core PCE QoQ (1Q '21)	U. of Mich. Sentiment

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	3.25	3.25	3.25
Discount Rate	0.25	0.25	0.25
Fed Funds Rate	0.07	0.07	0.05
IOER	0.10	0.10	0.10
1-Month Libor	0.11	0.11	0.62
11th Dist COFI	0.41	0.46	0.99
1-Yr. CMT	0.06	0.06	0.16
Dow	34,043.82	32,423.15	23,515.26
NASDAQ	14,016.81	13,227.70	8,494.75
S&P 500	4,180.20	3,910.52	2,797.80
Bond Buyer	2.26	2.40	2.25

MUNI AA—BQ

3 Mo.	0.01
6 Mo.	0.05
1-Year	0.07
2-Year	0.09
3-Year	0.18
5-Year	0.41
7-Year	0.72
10-Year	1.06
30-Year	1.71

Treasuries & New Issue Agencies *(Spread to Treasuries)*

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.01				
6 Mo. Bill	0.03				
1-Year Bill	0.05				
2-Year Note	0.15	1	-5	-5	
3-Year Note	0.32	0	-2	-5	-6
5-Year Note	0.81	1	12	7	0
7-Year Note	1.24	2	19	12	2
10-Year Note	1.56	6	34	25	14
20-Year Bond	2.12				
30-Year Bond	2.24				

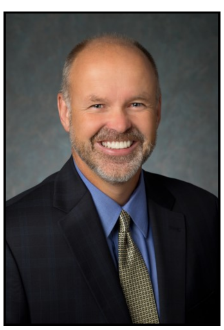
CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	50
3-Year	50	58
5-Year	58	68

MBS Current Coupon Yields

GNMA 30 Yr.	1.84%
FNMA 30 Yr.	1.82%
GNMA 15 Yr.	0.66%
FNMA 15 Yr.	1.21%

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.