Capital Markets Group

Weekly Review—May 22, 2020

The economic fallout attributed to the shutdown has been widespread. According to a recent Census Bureau survey, approximately 48% of adults live in a household that have lost employment income while 37% expect to see reduced household income over the next 30 days. In terms of businesses, a separate survey of small business owners found that 75% have been negatively impacted and have sought government assistance through the SBA's Paycheck Protection Program (PPP). While the nation begins the process of slowly reopening, risks to our financial stability remain high. Minutes from last month's FOMC meeting showed that policy makers believe that the "economic effects of the pandemic created an extraordinary amount of uncertainty and considerable risks to economic activity in the medium term," discounting the hope of a rapid economic recovery. The FOMC acknowledged that consumer spending in categories that had been most affected by social distancing, such as hotel, fuel, air travel, restaurant and theater would "likely not return quickly to more normal levels" and that a large number of small business models may no longer be viable assuming they survive the initial shutdown.

Understanding that the financial outlook was dire, the Fed moved quickly to lessen the negative impact to the economy via reducing short-term interest rates to near zero, buying unlimited quantities of bonds to soothe troubled markets and launching several emergency lending programs meant to keep credit flowing to businesses and local governments. Central bankers are hopeful that these efforts, combined with additional fiscal policy measures will help mitigate long-term economic damage.

For those responsible for managing net interest margin, don't overlook the possibility of a bull-flattener interest rate scenario (longer-term interest rates decline at a faster pace than short-term interest rates so that the two begin to converge, resulting in a flat or flatter yield curve) as the Fed's next step assuming the economic outlook worsens could be to implement additional yield-curve control (YCC) measures. Such action could effectively zero bound most of the curve. Feel free to contact CMG's ALM team if you wish to better understand how a flatter curve could impact earnings.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
05/25/2020		MEMORIAL DAY	
05/27/2020	$10,985,000.00	KS DFA PITT ST UNIV 2020H REVS A2	2020-2033

ECONOMIC CALENDAR

Monday 5/25	Tuesday 5/26	Wednesday 5/27	Thursday 5/28	Friday 5/29
	Conf. Board Consumer Confide.	MBA Mortgage Applications	GDP Annualized QoQ (1Q)	Personal Income
	New Home Sales	Richmond Fed Manufact. Index	Initial Jobless Claims	Personal Spending
	Chicago Fed Nat Activity Index	Fed Reserve Beige Book	Durable Goods Orders	Wholesale Inventories MoM

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	3.25	3.25	5.50
Discount Rate	0.25	0.25	3.00
Fed Funds Rate	0.05	0.05	2.39
IOER	0.10	0.10	2.35
1-Month Libor	0.17	0.67	2.44
11th Dist COFI	0.88	0.99	1.10
1-Yr. CMT	0.17	0.17	2.36
Dow	24,465.16	23,475.82	25,776.61
NASDAQ	9,324.59	8,495.38	7,750.84
S&P 500	2,955.45	2,799.31	2,856.27
Bond Buyer	2.37	2.36	3.56

MUNI AA—BQ

3 Mo.	0.05
6 Mo.	0.14
1-Year	0.17
2-Year	0.24
3-Year	0.32
5-Year	0.51
7-Year	0.77
10-Year	0.99
30-Year	1.86

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.11				
6 Mo. Bill	0.14				
1-Year Bill	0.15				
2-Year Note	0.15	7	16	13	
3-Year Note	0.19	11	29	27	17
5-Year Note	0.32	22	48	45	33
7-Year Note	0.50	32	57	53	39
10-Year Note	0.65	53	77	72	55
20-Year Bond	1.12				
30-Year Bond	1.36				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+60
2-Year	60	70
3-Year	75	80
5-Year	85	95

MBS Current Coupon Yields

GNMA 30 Yr.	1.48%
FNMA 30 Yr.	1.57%
GNMA 15 Yr.	0.90%
FNMA 15 Yr.	1.17%

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.

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The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.