Capital Markets Group

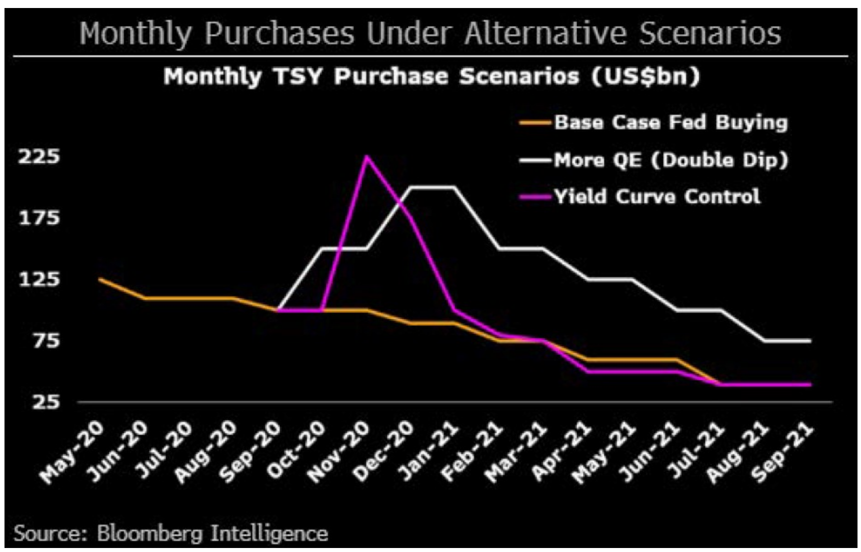
Weekly Review—May 29, 2020

The possibility of the Federal Reserve implementing Yield-Curve Control (YCC) as an additional action to support the economy has been getting more press and commentary (including by some of our own.) While not a new idea – the Fed used it back in the 1940's and 1950's – it is new to most of us. How does it work? The Fed would set a target yield and commit to buying an unlimited amount of bonds if yields drifted above the target yield (Jersey, Bloomberg Intelligence, 2020).

While traditional YCC occurs on the longer part of the curve, Bloomberg analysts, like Ira Jersey, propose that the Federal Reserve will likely target the intermediate part of the curve if YCC is implemented. The intermediate part of the curve are the notes, 5-year through 10-year maturities. Below is a graph from an article Bloomberg Intelligence from last week which illustrates a possible flow of purchases by the Federal Reserve, beginning in September and peaking in November with an estimated $225 billion of purchases. This model follows the Bank of Japan's actions where purchases peaked early on and decreased over time.

Another possibility would be targeting the short end of the curve, supporting current forward rate guidance strategies. This is the opinion of Fed Governor, Lael Brainard, as reported by Gavyn Davies in his article from the Financial Times website. Davies opines on this strategy by writing, "If that is the main motive, the US might follow Australia's central bank, fixing three-year yields close to zero. This would be the most likely choice in present circumstances." However, Davies puts the probability of the Fed utilizing this strategy at "less than 50%."

No matter where on the curve the Fed targets, the desired outcome of future increased economic activity and stronger output relies heavily on banks lending. While lending activity continues, mostly through supportive measures like the SBA PPP loans and the upcoming Main Street Lending Program, it cannot be considered normal lending activity. Our economy runs on debt and the creation of cash by continued lending to businesses and individuals. The best outcome I see is these supportive measures help stave off large amounts of bankruptcies and large amounts of unemployed workers for an extended period. Banks continue to lend, providing the lifeblood of the economy and the US slowly recovers. This can only happen with more fiscal and monetary support, but it remains a possibility, albeit less than 50%.



Have a great weekend!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
06/01/2020	$835,000.00	GODDARD KS #2020-2	2023-2042
06/02/2020	$4,025,000.00	PARKVILLE MO NID GO - A – TXBL	2022-2034
06/02/2020	$2,076,000.00	PARKVILLE MO NID GO - B – TXBL	2022-2034
06/02/2020	$8,235,000.00	WATERLOO IA -B-TXBL-REF	2021-2032

ECONOMIC CALENDAR

Monday 6/1	Tuesday 6/2	Wednesday 6/3	Thursday 6/4	Friday 6/5
Markit US Manufacturing PMI		MBA Mortgage Applications	Trade Balance	Change in Nonfarm Payrolls
Construction Spending MoM		ADP Employment Change	Initial Jobless Claims	Unemployment Rate
ISM Manufacturing		Factory Orders	Continuing Claims	

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	0.04	2.38
IOER	0.10	0.10	2.35
1-Month Libor	0.17	0.44	2.43
11th Dist COFI	0.88	0.99	0.90
1-Yr. CMT	0.17	0.16	2.31
Dow	25,383.11	24,633.86	25,126.41
NASDAQ	9,489.87	8,914.71	7,547.31
S&P 500	3,044.31	2,939.51	2,783.02
Bond Buyer	2.16	2.56	3.51

MUNI AA—BQ

3 Mo.	0.04
6 Mo.	0.13
1-Year	0.16
2-Year	0.22
3-Year	0.30
5-Year	0.48
7-Year	0.74
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	0.13				
6 Mo. Bill	0.16				
1-Year Bill	0.16				
2-Year Note	0.16	7	17	14	
3-Year Note	0.20	10	28	26	17
5-Year Note	0.31	22	47	44	33
7-Year Note	0.51	31	52	49	38
10-Year Note	0.67	34	70	66	53
20-Year Bond	1.19				
30-Year Bond	1.44				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+60
2-Year	60	70
3-Year	77	85
5-Year	87	97

MBS Current Coupon Yields

GNMA 30 Yr.	1.58%
FNMA 30 Yr.	1.68%
GNMA 15 Yr.	0.94%
FNMA 15 Yr.	1.13%

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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