Capital Markets Group

Weekly Review—June 18, 2021

All eyes were on the Federal Open Market Committee this week. Although the Fed opted to hold benchmark interest rates steady and made no changes to their current $120 billion a month bond buying facility, policy makers showed signs of increased concern in terms of the recent uptick in inflation. Based on their released statement, officials believe that inflation is now on track to moderately exceed 2% for some time. "Is there a risk that inflation will be higher than we think? Yes," FOMC Chairman Powell stated in the post-meeting press conference. "There is a lot of uncertainty," Powell said. The Fed Chair spelled out that while inflation had come in higher than expected recently, his base case is still that price pressures will cool as supply bottlenecks from the reopening economy are worked out and fiscal stimulus fades. Based on the Fed's forward guidance tool – the Dot Plot - central bankers penciled in two rate hikes for 2023, and seven officials want to raise rates next year, up from four officials in March.

Keep in mind that the bulk of the inflation "drivers" are coming from business sectors that are in the process of reopening. Powell stated that "although the economy has clearly made progress, we are still a ways from substantial further progress" from their dual mandate and that their dot plot rate forecast should be "taken with a grain of salt". Furthermore, Powell said that the Fed will adjust policy if inflation moves "materially" beyond their goal as inflation is going to be "higher and more persistent" than what they initially expected.

Once the dust settles from this week's FOMC meeting, it will be interesting to see if the bond market tests its March treasury yield highs as market participants appear – at this point - to be comfortable not fighting the Fed! The 10-yr treasury yield hit 1.75% (approx.) in March…it's currently trading at 1.50%.

This week's FOMC comments were not that surprising. Economic growth is strong as is inflation. At this point, inflation is still considered transitory. Looking forward, we'll have to wait and see how this inflation story ends! Although monetary policy is expected to remain highly accommodative over the near-term, at some point it won't as the Fed will eventually begin the process of removing the punch bowl. At some point, the stimulus party will be reined in!

For those that have excess liquidity parked on the sidelines, consider putting it to work. Continue to make loans - even longer duration, fixed rate, if necessary – to increase volume. If loan demand isn't sufficient to reduce excess overnight liquidity, buy bonds. The increased earning asset yield will help maintain earnings. Seek guidance from your ALM team to best manage the interest rate risk – doing so is in their wheelhouse!

Dennis Zimmerman Jr.
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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
06/21/2021	$1,845,000	HIGHLAND IL -REF UT GO BQ Aa3	2022-2033
06/21/2021	$7,325,000	ATCHISON KS -A-REF UT GO BQ	2022-2040
06/21/2021	$1,200,000	ATCHISON KS -I-TEMP NTS UT GO BQ	2022
06/21/2021	$3,460,000	MAIZE KS -A-REF-LEASE REV BQ AA-	2022-2031
06/22/2021	$2,985,000	PARKVILLE MO -A -COPS BQ	2022-2037

ECONOMIC CALENDAR

Monday 6/21	Tuesday 6/22	Wednesday 6/23	Thursday 6/24	Friday 6/25
Chicago Fed Nat Activity Index	Existing Home Sales	MBA Mortgage Applications	Initial Jobless Claims	Personal Income
	Richmond Fed Manufact. Index	Markit US Manufacturing PMI	Continuing Claims	Personal Spending
		New Home Sales	Wholesale Inventories MoM	

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	0.06	0.06	0.09
IOER	0.15	0.10	0.10
1-Month Libor	0.08	0.10	0.19
11th Dist COFI	0.34	0.38	0.71
1-Yr. CMT	0.08	0.06	0.19
Dow	33,291.53	34,060.66	26,080.10
NASDAQ	14,030.38	13,303.64	9,943.05
S&P 500	4,166.47	4,127.83	3,115.34
Bond Buyer	2.09	2.28	2.19

MUNI AA—BQ

3 Mo.	0.07
6 Mo.	0.11
1-Year	0.13
2-Year	0.15
3-Year	0.25
5-Year	0.52
7-Year	0.79
10-Year	1.09
30-Year	1.60

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.03				
6 Mo. Bill	0.05				
1-Year Bill	0.08				
2-Year Note	0.26	1	-4	-5	
3-Year Note	0.48	0	-1	-4	-5
5-Year Note	0.88	-1	12	8	0
7-Year Note	1.22	-1	19	12	2
10-Year Note	1.46	6	34	25	14
20-Year Bond	1.99				
30-Year Bond	2.04				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	50
3-Year	55	65
5-Year	65	75

MBS Current Coupon Yields

GNMA 30 Yr.	1.94%
FNMA 30 Yr.	1.88%
GNMA 15 Yr.	0.84%
FNMA 15 Yr.	1.32%

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.

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