Weekly Review—January 5, 2024

And so, it begins…Welcome to 2024! A new chance to be better and do better. I really do not care for New Year's resolutions as most fail within the first 3 months. As a friend and colleague often says, "you have to do something 66 times for it to become a habit." There lies the difficulty with making a change in behavior. Nonetheless, we strive to become the best versions of ourselves this time of year and we are inundated with strategies to do so. This year looks to remain a challenging environment for investors and bankers. Here are three ideas to keep in mind as we plan our year ahead.

First, if you have not done so, seriously consider extending duration through investment structures with fixed coupons and positive convexity. These attributes will help protect interest income as interest rates lower. It is easier to protect earnings in down-rate cycles with fixed income products rather than loans; however, if prepayment penalties and other protective covenants are included, loans, too, can provide some preservation of expected returns.

Second, coupon matters. The higher the coupon, the larger the increase in value as rates decrease. We often think about yield alone, but if 2022-2023 taught us anything, value is important as well. Look for current coupons or slightly above, depending on structure, to help preserve income and increase value of fixed income investments as rates decline.

Third, on the funding side, reprice market-based instruments first – wholesale funding, brokered deposits, internet CDs, etc. will move down faster than core deposit rates. Why? Because they are more sensitive to movements in interest rates. 2024 will be a funding story for banks – it's up to each bank to decide how they will act, but if you would like to discuss any specific strategies, please reach out to your ALM representative. The resurgence of strategies such as marginal cost and new product offerings will abound. There are some core strategies to employ, but the bottom line is: funding costs will continue to drive the bottom line in 2024.

We wish the best to you and your families and appreciate working with such amazing people!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
01/08/2024	$5,950,000	ANDERSON CO KS UNIF SD #479 UT GO BQ A-	2026-2044
01/09/2024	$4,565,000	INDEPENDENCE KS-1-TEMP NTS UT GO BQ SP-1	2027
01/09/2024	$10,975,000	RUSH CO KS UNIF SD #395 UT GO A	2025-2044

Economic Release	Data Period	Date	Survey	Actual	Prior
S&P Global US Manufact. PMI	Dec (F)	01/02/2024	48.4	47.9	48.2
MBA Mortgage Applications	Dec 29	01/03/2024	NA	-10.7%	1.4%
ISM Manufacturing	Dec	01/03/2024	47.1	47.4	46.7
ADP Employment Change	Dec	01/04/2024	125k	164k	101k (rev down)
Initial Jobless Claims	Dec 30	01/04/2024	216k	202k	220k (rev up)
Change in Nonfarm Payrolls	Dec	01/05/2024	175k	216k	173k (rev down)
Unemployment Rate	Dec	01/05/2024	3.8%	3.7%	3.7%
Labor Participation Rate	Dec	01/05/2024	62.8%	62.5%	62.8%
Factory Orders	Nov	01/05/2024	2.4%	2.6%	-3.4% (rev up)
Durable Goods Orders	Nov (F)	01/05/2024	5.4%	5.4%	5.4%

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.50	8.50	7.50
Discount Rate	5.50	5.50	4.50
Fed Funds Rate	5.33	5.33	4.33
Interest on Reserve Bal.	5.40	5.40	4.40
SOFR	5.32	5.37	4.30
11th Dist COFI (ECOFC)	3.12	3.09	1.86
1-Yr. CMT	4.84	5.10	4.71
Dow	37,466.11	36,124.56	32,930.08
NASDAQ	14,524.07	14,229.91	10,305.24
S&P 500	4,697.24	4,567.18	3,808.10
Bond Buyer	3.31	3.49	3.66

MUNI AA—BQ

3 Mo.	2.81
6 Mo.	2.81
1-Year	2.70
2-Year	2.48
3-Year	2.40
5-Year	2.28
7-Year	2.30
10-Year	2.35
30-Year	3.61

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.35				
6 Mo. Bill	5.23				
1-Year Bill	4.77				
2-Year Note	4.33	5	81	81	
3-Year Note	4.10	7	84	81	80
5-Year Note	3.94	4	98	94	86
7-Year Note	3.96	27	105	98	88
10-Year Note	3.97	35	120	111	99
20-Year Bond	4.29				
30-Year Bond	4.14				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	60	65
3-Year	95	100
5-Year	110	120

MBS Current Coupon Yields

GNMA 30 Yr.	5.39%
FNMA 30 Yr.	5.46%
FNMA 15 Yr.	4.83%

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