



Weekly Review—January 12, 2024

As the change in the business cycle nears, earnings will be largely driven by the actions taken today on both sides of the balance sheet. The fact that policy makers as well as the markets are preparing for lower rates should cause finance treasury professionals to revisit their current asset/liability (ALM) strategies. Depending on your institution's current ALM risk profile, the below list of select ALM best practice ideas might be worthy of consideration:

Best Practice Ideas – Loans

- Continue to originate loans funded with core deposits and/or bond portfolio run-off – Nothing new here as this fundamental idea is the basis of the community banking business model!
- Consistent with the late stages of the credit/business cycle, continue to proactively manage the bank's credit risk. Borrowers that have struggled with profitability/cashflow in recent years will likely be more challenged as the economy begins to slow.
- Selectively increase loan duration to help protect earnings against lower rates and incorporate prepayment penalty language into longer-term fixed rate loans.

Best Practice Ideas – Investments

- Investing isn't all about maximizing yield today! As such, be willing to give up a little yield for improved cash flow structure. Structure will protect earnings in falling rates.
- Selectively increase duration. Understand how embedded optionality in select investments can impact their overall performance. Limit negative convexity. Depending on the investment, include principal lock out protection when possible.
- When redeploying earning assets, shifting duration out of the bond portfolio into the loan portfolio will likely improve margin. Over time, shifting duration out of bonds into loans will mitigate any increased EVE volatility associated with increasing asset duration.

Best Practice Ideas – Liquidity

- Proactively monitor unfunded loan commitment volumes as distressed borrowers will likely tap existing lines which increases pressure on liquidity.
- Continue to proactively manage deposit rates to attract/retain relationships, and in conjunction with overall funding needs. Review the appropriateness of all deposit pricing. In addition to actively monitoring changes in deposit volumes and mix, monitor changes in competitor deposit rates. Adjust deposit rates based on the balance sheet's funding needs.
- Review/update your institution's Liquidity/Funding Policy(s) & Contingency Funding Plan (CFP). Nominally test all funding lines. Document in the ALCO minutes the successful testing of all existing/new funding facilities.
- Establish additional secured borrowing lines – preferably with the Fed via the Discount Window pledging loans first, securities second as collateral. This proactive step could be most valuable in time of need.
- Increase the bank's borrowing capacity on existing secured borrowing lines by pledging loans, preferably, as collateral.
- As for wholesale deposits, consider issuing brokered CDs &/or direct placement/listing service CDs as both are considered viable sources of contingency funding.

As previously mentioned, **the appropriateness of the above-listed ideas is largely dependent on your institution's current ALM risk profile.** Feel free to contact CMG's ALM team if you wish to further explore ways to help protect earnings and capital from downside risks.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
01/12/2024	\$20,260,000	N KANSAS CITY MO SD #74-REF UT GO Aa1 AA+	2025-2034

Economic Release	Data Period	Date	Survey	Actual	Prior
Consumer Credit	Nov	01/08/2024	\$8.550b	\$23.751b	\$5.779b (rev up)
Trade Balance	Nov	01/09/2024	-\$64.9b	-\$63.2b	-64.5b (rev down)
MBA Mortgage Applications	Jan 5	01/10/2024	NA	9.9%	-10.7%
CPI MoM	Dec	01/11/2024	0.2%	0.3%	0.1%
CPI YoY	Dec	01/11/2024	3.2%	3.4%	3.1%
Real Avg Hourly Earnings YoY	Dec	01/11/2024	NA	0.8%	0.9% (rev up)
Real Avg Weekly Earnings YoY	Dec	01/11/2024	NA	0.5%	0.6% (rev up)
Initial Jobless Claims	Jan 6	01/11/2024	210k	202k	203k (rev up)
PPI Final Demand MoM	Dec	01/12/2024	0.1%	-0.1%	-0.1% (rev down)
PPI Final Demand YoY	Dec	01/12/2024	1.3%	1.0%	0.8% (rev down)

KEY INDICES				MUNI AA—BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.50	8.50	7.50	3 Mo.	3.05
Discount Rate	5.50	5.50	4.50	6 Mo.	3.01
Fed Funds Rate	5.33	5.33	4.33	1-Year	2.91
Interest on Reserve Bal.	5.40	5.40	4.40	2-Year	2.63
SOFR	5.31	5.32	4.30	3-Year	2.51
11th Dist COFI (ECOFC)	3.12	3.09	1.86	5-Year	2.28
1-Yr. CMT	4.65	5.14	4.73	7-Year	2.30
Dow	37,592.98	36,577.94	34,189.97	10-Year	2.35
NASDAQ	14,972.76	14,533.40	11,001.10	30-Year	3.63
S&P 500	4,783.83	4,643.70	3,983.17		
Bond Buyer	3.31	3.41	3.45		

Treasuries & New Issue Agencies (Spread to Treasuries)						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	5.34					1-Year	N/A	+50
6 Mo. Bill	5.17					2-Year	60	80
1-Year Bill	4.65					3-Year	90	95
2-Year Note	4.15	6	81	81		5-Year	105	115
3-Year Note	3.93	12	85	82	82			
5-Year Note	3.84	5	98	94	86			
7-Year Note	3.90	20	105	98	88			
10-Year Note	3.96	38	120	111	100			
20-Year Bond	4.31							
30-Year Bond	4.20							

MBS Current Coupon Yields		
GNMA 30 Yr.		5.10%
FNMA 30 Yr.		5.23%
FNMA 15 Yr.		4.55%

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