## **Capital Markets Group**



## Weekly Review-January 24, 2020

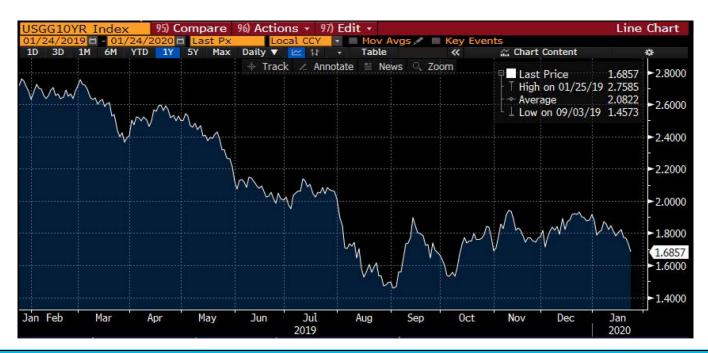
Currently, the bond market encourages investors to possibly take on risks beyond normal risk/reward tolerances. The spreads between agency, municipal BQ, taxable municipal, or brokered CDs and US treasuries remain tight and today's rally in prices continues to push yields farther down. As of this writing, the 10-year UST yield sits around 1.68, down from last week's 1.82. This risk-off trade, or investing in safer securities, drives prices and reduces the yield earned. We experience this during periods of heightened uncertainty. The latest contributor is the Coronavirus and the potential impact this may have on productivity and earnings.

To achieve a greater return, investors may have to extend duration, or invest in bonds with more complicated structures. For example, a 2-year agency bullet could yield around 1.50%-1.55%. Compare that to a 5-year callable agency with two years of call protection which yields around 1.65% (priced to call in two years). See, if one takes on optionality, the possibility of getting back principal before maturity, the reward is around 10 basis points. Additionally, an MBS with a 5-year average life and steady prepayment speeds could yield around 2.15%-2.20%. This rewards the investor around 50-60 basis points over a 5-year treasury. The trade-off lies with accepting the higher risk of getting principal back over a different time period than if one simply invests in a bullet. The choice may not be easy, especially if the required rate of return can only be achieved by taking on more risk than usual. This example sums up the daily situation faced by fixed income investors.

Thankfully, our CMG Investment Representatives work in this world every day. The breadth of experience we offer can help ease some investor concerns. We are here to offer you suitable investments within various risk tolerance levels, and we take the long-term view. Thank you working with us and we look forward to meeting this challenge with you.

Have a wonderful weekend and we are so excited to cheer on our Chiefs in the Super Bowl!!!

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NEW ISSUE MUNICIPAL CALENDAR					
Date	Amount (\$)	Description	Maturity		
01/27/2020	\$2,385,000	OELWEIN IA 2020 UT GO BQ A	2021-2032		

ECONOMIC CALENDAR						
Monday 1/27	Tuesday 1/28	Wednesday 1/29 Thursday 1/30		Friday 1/31		
New Home Sales	Durable Goods Orders	MBA Mortgage Applications	GDP Annualized QoQ	Personal Income		
	Conf. Board Consumer Confidence	Wholesale Inventories MoM	Initial Jobless Claims	Personal Spending		
		FOMC Rate Decision (Upper Bound)		MNI Chicago PMI		

	MUNI AA-BQ				
	Current	Last Month	One Year Ago	3 Mo.	0.82
Prime Rate	4.75	4.75	5.50		
Discount Rate	2.25	2.25	3.00	6 Mo.	0.85
Fed Funds Rate	1.55	1.55	2.40	1-Year	0.87
IOER	1.55	1.55	2.40	2-Year	0.91
1-Month Libor	1.66	1.79	2.51	3-Year	0.92
11th Dist COFI	1.04	1.10	1.13	3-Yeur	0.92
1-Yr. CMT	1.55	1.53	2.59	5-Year	0.95
Dow	28,989.73	28,515.45	24,553.24	7-Year	1.12
NASDAQ	9,314.91	8,952.88	7,073.46	10. Vo em	1.40
S&P 500	3,295.47	3,223.38	2,642.33	10-Year	1.40
Bond Buyer	2.54	2.74	4.23	30-Year	2.10

	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	1.54					1-Year	N/A	+42
6 Mo. Bill	1.55					2-Year	45	56
1-Year Bill	1.54					3-Year	55	65
2-Year Note	1.49	4	13	4		5-Year	67	77
3-Year Note	1.48	4	24	16		MBS Current Coupon Yields		
5-Year Note	1.51	6	42	34	18	GNMA 30 Yr.		2.27%
7-Year Note	1.61	16	46	38	25	FNMA 30 Yr.		2.48%
10-Year Note	1.69	25	62	53	43	GNMA 15 Yr.		1.94%
30-Year Bond	2.14					FNMA 15 Yr.		2.13%



## 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.

\*\*\*If you no longer wish to receive this weekly review, please send an email to <a href="mailto:CapitalMarketsGroup@commercebank.com">CapitalMarketsGroup@commercebank.com</a> \*\*\*

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