Weekly Review—February 11, 2022

Last week's stronger-than-expected January jobs report drove interest rates higher as investors priced in a more aggressive policy response by the Fed. Same story this week but with increasingly strong inflation data acting as the market's catalyst. January's consumer price index (CPI) data which was released yesterday showed prices increased 7.5% as compared to a year ago marking the largest increase in 40 years. Gains were broad-based showing that price pressures now extend beyond pandemic-related goods categories like cars to services such as health insurance and rents. Street estimates expected a 7.3% annualized increase in January - up from December's 7% gain. Year-over-year core CPI increased to 6% from last month's 5.5%. Fighting inflation is the Fed's top concern as it continues trending higher weighing on the financial health of the consumer and ultimately the U.S. economy.

Although treasury yields initially moved higher in response to the strong inflation print, bond prices fell further when St Louis Fed President Bullard stated that he supports raising benchmark overnight rates as much as 100bps by July 1 to combat inflation. According to Bullard, Thursday's inflation data "is concerning for me and for the Fed - I think we are going to have to be far more nimble and far more reactive to data." Hearing this, the bond market responded as two-year Treasury yields increased 24bps to 1.61% marking its highest level since January 2020 while 10-year yields increased 10bps to 2.05% - a level not seen since August 2019. On the week, two-year yields are up 20bps with 10-year yields increasing only 3bps. The fed fund futures market has priced in nearly <u>seven</u> 25bps rate hikes over the next twelve months with a growing possibility that March's expected lift off could be 50bps.

For those fixed-income investors with cash still sitting on the sidelines, this week's increase in investment yields should be viewed as a buying opportunity. Even if yields continue to move higher, dollar cost averaging into higher rates is a sound investment strategy. Not sure of your entry point – i.e. should I buy 2-year or 5-year or 10-year &/or longer bonds or possibly a blend? - consult with your asset/liability management (ALM) team as this type decisioning should be based on your balance sheet's overall ALM risk profile. For those with low long-term interest rate risk exposure to rising rates, consider purposely extending asset duration to capture more of a flattening yield curve. Remember, a flat yield curve implies a period of economic uncertainly by investors and is often predictive of a change in the business cycle. If we're on the cusp of a material economic slowdown (a policy-induced crash vs soft-landing), extending asset duration now will help maintain earnings if/when rates fall. As for duration, not all duration is created equal as optionality/convexity must also be considered. If all this sounds foreign or you simply need a fixed-income refresher, reach out to your ALM team as their unique skillsets are built for times like these!

Dennis Zimmerman Jr.
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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
		No Local Issues Next Week	

ECONOMIC CALENDAR				
Monday 2/14	Tuesday 2/15	Wednesday 2/16	Thursday 2/17	Friday 2/18
Happy Valentine's Day!	PPI Final Demand MoM/YoY	MBA Mortgage Applications	Initial Jobless Claims	Leading Index
	Empire Manufacturing	Retail sales Advance MoM	Housing Starts	Existing Home Sales
	Total Net TIC Flows	Industrial Production MoM	Building Permits	

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	0.08	0.08	0.08
IOER	0.15	0.15	0.10
1-Month Libor	0.12	0.11	0.12
11th Dist COFI	0.22	0.22	0.46
1-Yr. CMT	1.14	0.46	0.07
Dow	34,738.06	36,252.02	31,430.70
NASDAQ	13,791.16	15,153.45	14,025.77
S&P 500	4,418.64	4,713.07	3,916.38
Bond Buyer	2.41	2.12	2.10

MUNI AA—BQ

3 Mo.	0.66
6 Mo.	0.71
1-Year	0.74
2-Year	1.01
3-Year	1.14
5-Year	1.33
7-Year	1.52
10-Year	1.69
30-Year	2.21

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.35				
6 Mo. Bill	0.70				
1-Year Bill	1.06				
2-Year Note	1.55	-1	1	1	
3-Year Note	1.77	4	5	2	1
5-Year Note	1.92	2	18	14	6
7-Year Note	2.00	12	26	18	8
10-Year Note	2.02	26	40	31	20
20-Year Bond	2.39				
30-Year Bond	2.32				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+35
2-Year	35	42
3-Year	50	55
5-Year	60	70

MBS Current Coupon Yields

GNMA 30 Yr.	2.83%
FNMA 30 Yr.	2.97%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	2.34%

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.

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