# Capital Markets Group

## Weekly Review—February 19, 2021

*Movin' on up! To the east side…*Parts of the US Treasury curve moved markedly upward this past week and there are several possible reasons why. First, most of the country experienced extremely cold temperatures which caused strains on power grids across the Midwest. The loss of power in Texas also caused some immediate repercussions in the price of oil – another measure of inflation. Second, the expectation of an additional $1.9 trillion in stimulus. Third, the yield curve could finally be reacting to mostly positive economic data – catching up to normal expected curve behavior. In all likelihood, each of these possible reasons contributed some to the upward movement of the longer end of the curve.

*Fight the power…*the 10-year part of the treasury curve moved up from last Friday's 1.21% to current trading levels of 1.34%. Additionally, the ten year has increased almost 42bps from the end of 2020! This week's power grid failures and consequential power outages only exacerbated inflationary pressures. While this rapid rise may be temporary, it may also be representative of further interest rate volatility going forward.

*Good times, any time you're out from under!* Treasury Secretary Janet Yellen argued this week that "It's very important to have a big package that addresses the pain this has caused." Her justification lay with the current level of unemployed workers and the length of time still expected to reach full employment – Yellen expects 2022.

*Don't push me 'cause I'm close to the edge…* Despite the relatively positive economic trends we are experiencing, in comparison to pre-pandemic levels, there remains some recovery room in some sectors. However, some are arguing that this recent rise in interest rates may just be a delayed response to the upward economic trend. As reported on CNBC.com, Emmanuel Cau, Barclays Head of European Equity Strategy stated, "it seems right for bond yields to catch-up with other more advanced reflation trades." Only time will reveal the actual causes of this rise in the longer end of the treasury curve but for now, it might be a good time to reach out to your CMG Investment Representative for chat. Have a nice weekend!

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| NEW ISSUE MUNICIPAL CALENDAR | | | |
|---|---|---|---|
| Date | Amount ($) | Description | Maturity |
| 02/24/2021 | $ 3,035,000 | MARYVILLE MO -REV -COPS BQ A+ | 2021-2038 |
| | | | |

| ECONOMIC CALENDAR | | | | |
|---|---|---|---|---|
| Monday 2/22 | Tuesday 2/23 | Wednesday 2/24 | Thursday 2/25 | Friday 2/26 |
| Leading Index | Conf. Board Consumer Confid. | MBA Mortgage Applications | GDP Annualized QoQ | Wholesale Inventories MoM |
| Chicago Fed Nat Activity Index | FHFA House Price Index MoM | New Home Sales | Initial Jobless Claims | Personal Income |
| Dallas Fed Manf. Activity | Richmond Fed Manf. Index | New Home Sales MoM | Personal Consumption | Personal Spending |

| KEY INDICES | Current | Last Month | One Year Ago |
|---|---|---|---|
| Prime Rate | 3.25 | 3.25 | 4.75 |
| Discount Rate | 0.25 | 0.25 | 2.25 |
| Fed Funds Rate | 0.08 | 0.09 | 1.58 |
| IOER | 0.10 | 0.10 | 1.60 |
| 1-Month Libor | 0.11 | 0.13 | 1.65 |
| 11th Dist COFI | 0.46 | 0.47 | 1.04 |
| 1-Yr. CMT | 0.06 | 0.10 | 1.47 |
| Dow | 31,494.32 | 30,930.52 | 29,348.03 |
| NASDAQ | 13,874.46 | 13,197.18 | 9,817.18 |
| S&P 500 | 3,906.74 | 3,798.91 | 3,386.15 |
| Bond Buyer | 2.17 | 2.21 | 2.51 |

| MUNI AA—BQ | |
|---|---|
| 3 Mo. | 0.03 |
| 6 Mo. | 0.05 |
| 1-Year | 0.08 |
| 2-Year | 0.14 |
| 3-Year | 0.22 |
| 5-Year | 0.35 |
| 7-Year | 0.60 |
| 10-Year | 0.95 |
| 30-Year | 1.64 |

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

| | Treasuries | Bullets | NC-6 Mo. | NC-1 Year | NC- 2 Year |
|---|---|---|---|---|---|
| 3 Mo. Bill | 0.02 | | | | |
| 6 Mo. Bill | 0.03 | | | | |
| 1-Year Bill | 0.04 | | | | |
| 2-Year Note | 0.10 | 1 | -7 | -8 | |
| 3-Year Note | 0.21 | 1 | -3 | -7 | -8 |
| 5-Year Note | 0.58 | 1 | 10 | 6 | -2 |
| 7-Year Note | 0.97 | 2 | 18 | 24 | 0 |
| 10-Year Note | 1.34 | 8 | 32 | 23 | 12 |
| 20-Year Bond | 1.96 | | | | |
| 30-Year Bond | 2.13 | | | | |

| CMO Spreads to Treasuries | PAC | Vanilla |
|---|---|---|
| 1-Year | N/A | +45 |
| 2-Year | 50 | 57 |
| 3-Year | 52 | 66 |
| 5-Year | 67 | 77 |

| MBS Current Coupon Yields | |
|---|---|
| GNMA 30 Yr. | 1.70% |
| FNMA 30 Yr. | 1.66% |
| GNMA 15 Yr. | 0.49% |
| FNMA 15 Yr. | 1.04% |

## *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.



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