Capital Markets Group

Weekly Review—February 26, 2021

In his remarks to the Senate Banking Committee earlier this week, Fed Chairman Powell suggested the Fed will remain steadfast in its current accommodative policy stance, despite the recent increase in longer term treasury yields and improved economic data. According to Powell, "the economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved." As such, the Fed expects to continue purchasing $120 billion of assets per month -- $80 billion of Treasury securities and $40 billion of mortgage-backed debt -- and has pledged to stay at it "until substantial further progress" has been made toward its goals of maximum employment and 2% long-term average inflation. Basically, the Chairman gave no hint that the Fed was thinking about changing its very dovish policy stance.

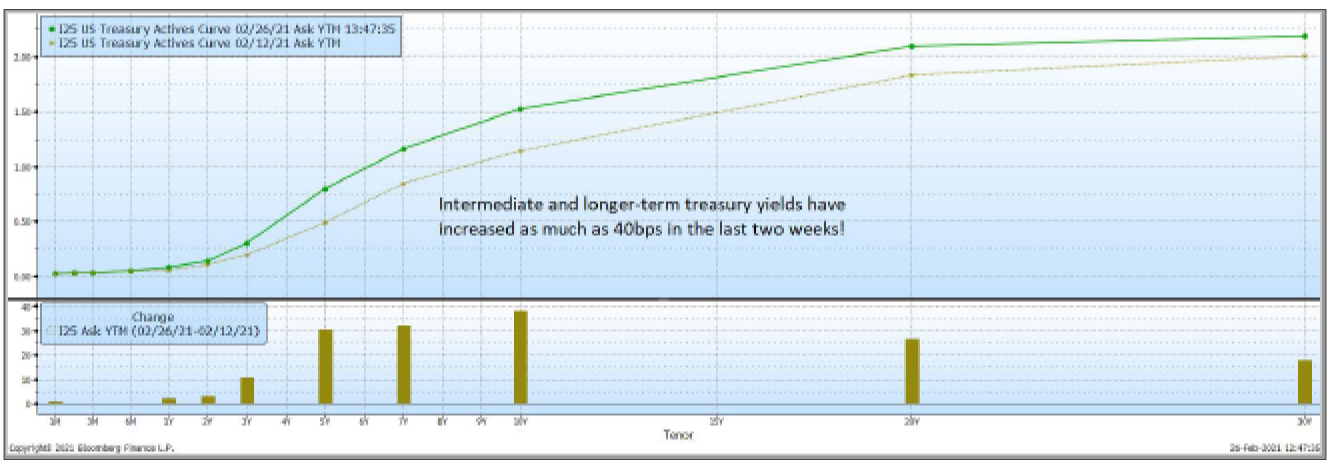
In terms of the Fed's inflation outlook, although Powell expects inflation to pick up in coming months as current prices are compared to last year's depressed readings, he doesn't anticipate inflation to increase to "troubling levels." In his comments, he discounted recent market concerns of an inflationary outbreak from another big fiscal stimulus package or from an unleashing of pent-up consumer demand as the recent run-up in bond yields was simply a "statement of confidence" suggesting that investors are betting on a "robust and ultimately complete recover." Although the Fed continues to be committed to increasing inflation to its long-term threshold, Powell admits that "we live in a time where there is significant disinflationary pressures around the world and where essentially all major advanced economy's central banks have struggled to get to 2%." According to the Fed Chair, "it may take more than three years" to achieve that goal.

Although the Fed expects economic conditions to generally improve later this year, their outlook remains "highly uncertain" and the recovery "remains uneven and far from complete." According to Powell, the path of economic growth continues to "depend significantly on the course of the virus and the measures taken to control its spread."

As explained above, the Fed continues efforts to talk down interest rates. Yet, the prospect of a sooner-than-expected economic recovery has led to an increase in intermediate and longer-term treasury yields. Evidenced in the chart below, the 10-year treasury yield increased nearly 40bps in the last two weeks – returning to pre-COVID levels. At this point, the Fed's ability to effectively jawbone longer term rates down must be akin to herding chickens…good luck doing so!

For those fixed-income investors that continue to add duration to the portfolio, the recent steepening of the treasury curve provides an opportunity to capture additional yield. Stay invested…

Dennis Zimmerman Jr. | Senior Vice President | Manager – Asset/Liability Services | Commerce Bank – Capital Markets Group (CMG)



NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
03/01/2021	$1,505,000	OWENSVILLE MO -REF BQ	2022-2030
03/02/2021	$2,525,000	FAYETTE R-III SD MO -REF BQ AA+	2022-2033
03/03/2021	$2,900,000	BAYLESS CONSOL SD MO BQ AA+	2023-2034
03/04/2021	$1,335,000	KIRKSVILLE MO-REV-REF BQ A	2021-2030

Commerce Bank Member FDIC | commercebank.com

ECONOMIC CALENDAR				
Monday 3/1	Tuesday 3/2	Wednesday 3/3	Thursday 3/4	Friday 3/5
Markit US Manufacturing PMI		MBA Mortgage Applications	Initial Jobless Claims	Change in Nonfarm Payrolls
Construction Spending MoM		ADP Employment Change	Durable Goods Orders	Unemployment Rate
ISM Manufacturing		Markit PMI Data Releases	Factory Orders	Trade Balance

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	0.07	0.08	1.58
IOER	0.10	0.10	1.60
1-Month Libor	0.11	0.13	1.61
11th Dist COFI	0.46	0.47	1.04
1-Yr. CMT	0.09	0.10	1.30
Dow	30,932.37	30,937.04	26,957.59
NASDAQ	13,192.34	13,626.06	8,980.77
S&P 500	3,811.15	3,849.62	3,116.39
Bond Buyer	2.44	2.21	2.46

MUNI AA—BQ

3 Mo.	0.09
6 Mo.	0.11
1-Year	0.14
2-Year	0.21
3-Year	0.36
5-Year	0.61
7-Year	0.90
10-Year	1.27
30-Year	1.97

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.03				
6 Mo. Bill	0.05				
1-Year Bill	0.07				
2-Year Note	0.15	1	-7	-8	
3-Year Note	0.32	1	-3	-6	-7
5-Year Note	0.80	2	10	6	-2
7-Year Note	1.20	3	18	10	1
10-Year Note	1.50	5	32	23	11
20-Year Bond	2.14				
30-Year Bond	2.24				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+45
2-Year	50	58
3-Year	55	68
5-Year	68	80

MBS Current Coupon Yields

GNMA 30 Yr.	1.90%
FNMA 30 Yr.	1.84%
GNMA 15 Yr.	0.65%
FNMA 15 Yr.	1.25%

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.

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