# Capital Markets Group

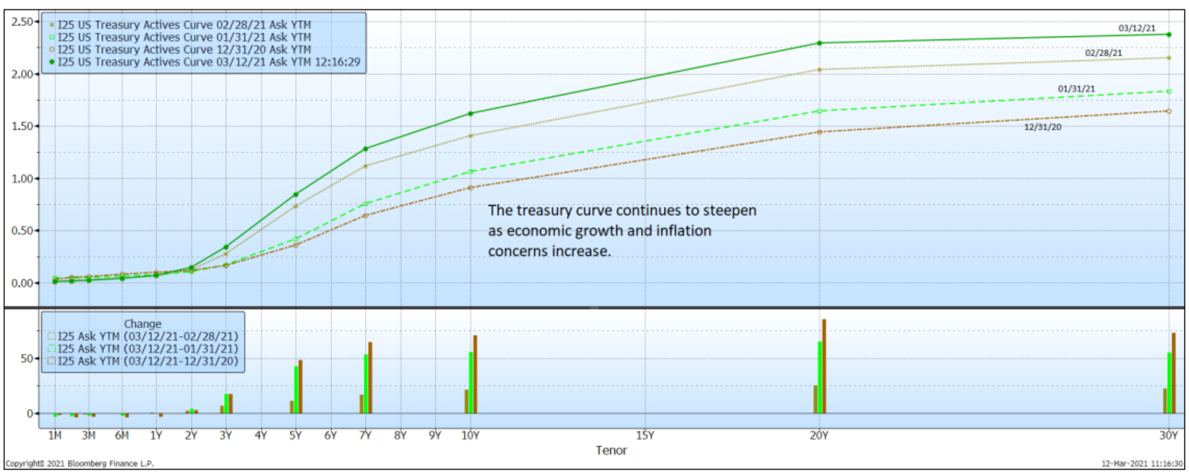
## Weekly Review—March 12, 2021

The plot thickens as longer-term treasury yields continue to increase while shorter rates remain hitched to the Fed's current monetary policy stance. Evidenced in the chart below, short treasury yields are nearly unchanged on the year while intermediate and longer-term yields have increased as much as 80bps. The continued steepening of the treasury curve is largely driven by the market's fear that increased economic growth & faster than expected inflation will force the Fed to remove accommodation sooner than later.

The central bank's current policy is one of reflation. According to Investopedia, reflation policy actions are those designed to "expand economic output, stimulate spending and curb the effects of deflation" – all of which generally occur after an economic recession. Policy makers continue to pump stimulus dollars into the economy while U.S. central bankers keep short-term rates low in hopes to increase the money supply to purposely drive up prices. Keep in mind that reflation isn't necessarily bad as controlled price increases aid economic recovery. Like the "rising tide lifts all boats" aphorism, higher prices drive the economy towards full employment and desired growth. Simply stated, higher prices lead to increased profitability which encourages businesses to expand placing upward pressure on wages resulting in more consumer spending…the key driver of economic growth - how's that for a run-on sentence!

The challenge with reflation policy is keeping prices under control once they have returned to the Fed's "well-anchored" 2% inflation benchmark. Meaning, reflation policy if not appropriately administered can lead to faster than expected inflation. The recent uptick in treasury yields shows that market participants are concerned that the Fed may be challenged in managing inflation. This week's passage of the one of the largest economic stimulus packages in U.S. history will make the Fed's job of keeping inflation in check more difficult. As such, all eyes will be focused on next week's FOMC policy meeting. Although policy makers will likely repeat their near-term "transitory" inflation outlook, market participants believe that a sustained surge in inflation will force the Fed to tighten policy to keep the economy from overheating. As a result, financial conditions will tighten weighing on the current recovery. Hopefully next week's forward guidance will address the current disconnect between the bond market and the Fed…

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




| NEW ISSUE MUNICIPAL CALENDAR | | | |
|---|---|---|---|
| Date | Amount ($) | Description | Maturity |
| 03/15/2021 | $3,085,000 | HORTON KS-REF UT GO BQ NR | 2021-2047 |
| 03/15/2021 | $2,015,000 | MULVANE KS-TEMP NTS-A UT GO BQ SP1+ | 2022 |
| 03/16/2021 | $35,385,000 | TOPEKA KS -REF-A UT GO AA | 2021-2035 |
| 03/16/2021 | $2,915,000 | TOPEKA KS -TXBL-B UT GO AA TAXABLE | 2022-2028 |
| 03/16/2021 | $9,940,000 | COWLEY COUNTY KS UT GO BQ RATING APPLIED | 2022-2041 |
| 03/16/2021 | $5,920,000 | OTTAWA KS -A UT GO BQ RATING APPLIED | 2021-2039 |
| 03/17/2021 | $6,125,000 | LINCOLN CO MO AMBULANCE DT UT GO BQ Aa2 | 2022-2041 |

| ECONOMIC CALENDAR | | | | |
|---|---|---|---|---|
| Monday 3/15 | Tuesday 3/16 | Wednesday 3/17 | Thursday 3/18 | Friday 3/19 |
| Empire Manufacturing | Retail Sales Advance MoM | MBA Mortgage Applications | Initial Jobless Claims | |
| Total Net TIC Flows | Industrial Production MoM | Housing Starts | Leading Index | |
| Net Long-Term TIC Flows | Import Price Index MoM | FOMC Rate Decision | Langer Consumer Comfort | |

**KEY INDICES**

| | Current | Last Month | One Year Ago |
|---|---|---|---|
| Prime Rate | 3.25 | 3.25 | 4.25 |
| Discount Rate | 0.25 | 0.25 | 1.75 |
| Fed Funds Rate | 0.07 | 0.08 | 1.09 |
| IOER | 0.10 | 0.10 | 1.10 |
| 1-Month Libor | 0.11 | 0.11 | 0.81 |
| 11th Dist COFI | 0.46 | 0.46 | 0.98 |
| 1-Yr. CMT | 0.08 | 0.07 | 0.40 |
| Dow | 32,778.64 | 31,458.40 | 21,200.62 |
| NASDAQ | 13,319.86 | 14,095.47 | 7,201.80 |
| S&P 500 | 3,943.34 | 3,934.83 | 2,480.64 |
| Bond Buyer | 2.35 | 2.10 | 2.31 |

**MUNI AA—BQ**

| | |
|---|---|
| 3 Mo. | 0.05 |
| 6 Mo. | 0.07 |
| 1-Year | 0.10 |
| 2-Year | 0.13 |
| 3-Year | 0.27 |
| 5-Year | 0.50 |
| 7-Year | 0.79 |
| 10-Year | 1.17 |
| 30-Year | 1.84 |

**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 | 0.04 | | | | |
| 1-Year Bill | 0.07 | | | | |
| 2-Year Note | 0.15 | 1 | -5 | -5 | |
| 3-Year Note | 0.34 | 1 | -1 | -4 | -5 |
| 5-Year Note | 0.84 | 2 | 12 | 8 | 0 |
| 7-Year Note | 1.29 | 3 | 20 | 13 | 3 |
| 10-Year Note | 1.62 | 7 | 34 | 25 | 13 |
| 20-Year Bond | 2.29 | | | | |
| 30-Year Bond | 2.38 | | | | |

**CMO Spreads to Treasuries**

| | PAC | Vanilla |
|---|---|---|
| 1-Year | N/A | +45 |
| 2-Year | 48 | 55 |
| 3-Year | 53 | 65 |
| 5-Year | 65 | 75 |

**MBS Current Coupon Yields**

| | |
|---|---|
| GNMA 30 Yr. | 1.95% |
| FNMA 30 Yr. | 1.87% |
| GNMA 15 Yr. | 0.90% |
| FNMA 15 Yr. | 1.21% |

## *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.

*****If you no longer wish to receive this weekly review, please send an email to CapitalMarketsGroup@commercebank.com*****

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