Capital Markets Group

Weekly Review—March 13, 2020

March Madness has arrived but not in its usual “sporting” fashion. Two weeks ago, my commentary contained the following narrative:

All eyes are on the coronavirus this week as fears of its contagion currently have financial markets firmly in a stranglehold. Fears of a global economic slowdown resulting from travel, supply chain, and consumption disruptions have forced equities well into correction territory while pushing longer-term Treasury yields to historic lows. The 10-year Treasury Note is currently trading at a 1.15% yield while the long-bond is at 1.66%. Understanding that the Fed’s current lower-bound fed fund target rate of 1.50% is helping prop up short-term interest rates, the treasury curve’s current inversion sends policy makers a screaming message to lower rates. According to current federal fund contracts, the futures market has priced in benchmark rate reductions at the March, June & September FOMC meetings.

Fast forward to today, equities have shifted from its eleven-year bull market run to bear territory with its decline in excess of 20% from recent highs while treasury yields continue to set all-time lows. Earlier this week, the 10-year Treasury yield fell to 0.54% (half of what it was two weeks ago – Such MADNESS!) while the 30-year bond declined to 0.99%. Evidenced in the graph below, overall treasury yields have fallen with the short end of the curve declining nearly 115bps. While the shape of the curve has for the most part normalized, all that remains is for the Fed to cut overnight rates to near zero. Fed Fund futures expect policy makers to drop its benchmark rate nearly 100bps next week taking their effective overnight rate to levels not seen since the Great Recession. With yesterday’s surprise “QE4” announcement, the Fed looks to pump additional liquidity into the market by expanding its current T-bill purchases to include longer-term instruments across the curve.   The Fed’s action of purchasing securities is known as quantitative easing (QE) which was last used during the financial crisis, though the Fed isn’t currently buying bonds to deliberately lower interest rates. At least, not yet!

Looking forward, expect continued volatility in both stocks and bonds as market participant impatiently wait for signs that the headcount of those effect by the virus have peaked. For those that have investment portfolio responsibilities - With treasury yields at all-time lows, expect MBS/CMO prepayments to pick up. As such, consider reaching out to your CMG sales rep to explore the potential benefits of a “down-in-coupon” trade.

Let me know if you have questions.

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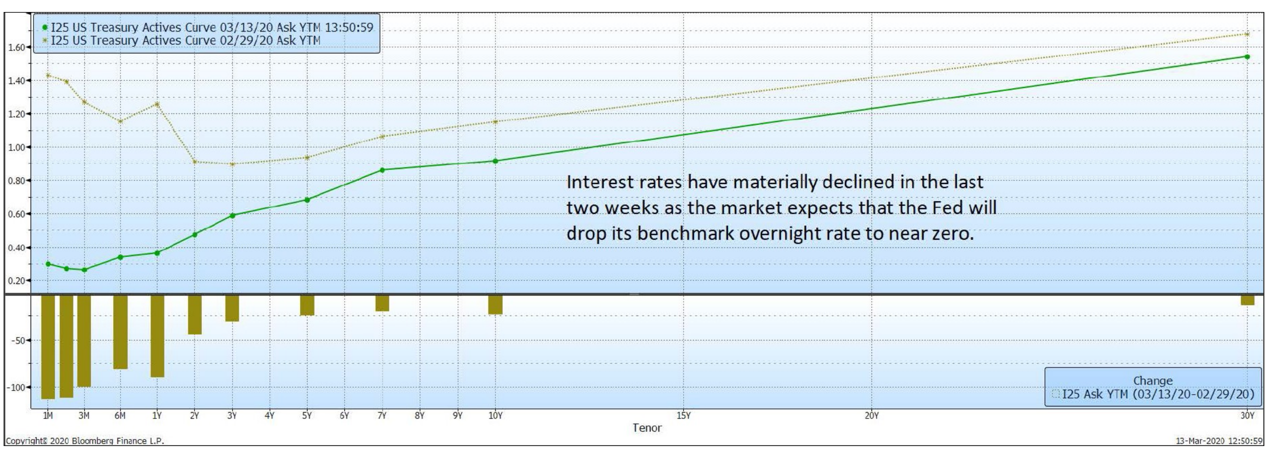

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
03/17/2020	$4,770,000	HANNIBAL MO SEW REVS KS 2020 BQ AA INSURED/A UNDERLYING	2021-2032

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ECONOMIC CALENDAR				
Monday 3/16	Tuesday 3/17	Wednesday 3/18	Thursday 3/19	Friday 3/20
Empire Manufacturing	Retail Sales Advance MoM	MBA Mortgage Applications	Initial Jobless Claims	Existing Home Sales
	Industrial Production MoM	Housing Starts	Leading Index	
		FOMC Rate Decision (Upper Bound)		

KEY INDICES	Current	Last Month	One Year Ago
Prime Rate	4.25	4.75	5.50
Discount Rate	1.75	2.25	3.00
Fed Funds Rate	1.09	1.58	2.40
IOER	1.10	1.60	2.40
1-Month Libor	0.70	1.65	2.49
11th Dist COFI	0.98	1.04	1.17
1-Yr. CMT	0.39	1.49	2.52
Dow	23,185.62	29,423.31	25,702.89
NASDAQ	7,874.23	9,711.97	7,643.41
S&P 500	2,709.23	3,373.94	2,810.92
Bond Buyer	2.57	2.51	4.04

MUNI AA—BQ	
3 Mo.	1.00
6 Mo.	1.10
1-Year	1.14
2-Year	1.16
3-Year	1.18
5-Year	1.28
7-Year	1.50
10-Year	1.74
30-Year	2.51

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.26				
6 Mo. Bill	0.33				
1-Year Bill	0.32				
2-Year Note	0.46	20	18	7	
3-Year Note	0.58	19	23	13	
5-Year Note	0.66	22	58	45	29
7-Year Note	0.81	30	70	55	36
10-Year Note	0.85	52	99	82	57
30-Year Bond	1.47				

CMO Spreads to Treasuries	PAC	Vanilla
1-Year	N/A	+70
2-Year	75	90
3-Year	100	115
5-Year	115	135

MBS Current Coupon Yields	
GNMA 30 Yr.	2.28%
FNMA 30 Yr.	2.43%
GNMA 15 Yr.	1.78%
FNMA 15 Yr.	1.94%

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.