Capital Markets Group

Weekly Review—March 27, 2020

So much to discuss!

Monetary Policy - Earlier this week Fed Chairman Powell committed to using all means necessary to help safeguard the U.S. economy from the effects of the global pandemic. Over the past several weeks, the Fed has introduced an unprecedented series of measures to help cushion the blow of the coronavirus on financial markets and the U.S. economy. To date, these steps include massive bond purchases – quantitative easing, emergency facilities to bolster credit markets, actions with foreign central banks to ease the supply of dollars worldwide, and programs for lending directly to American businesses. When it comes to increasing the money supply, Powell vowed not to "run out of ammunition." Understanding that the U.S. economy is likely heading towards recession (if it isn't already there), the hope is for a short-term "V-shaped" recovery vs. a prolonged, slow grinding "U-shaped" recovery.

The Bond Market – Evidenced in the graph below, treasury yields have fallen this month based on expectations of slowing growth and low inflation. Primarily due to aggressive Fed policy action, the shape of the curve normalized, albeit at historically low levels. Although the 2yr/10yr spread has widened to nearly 50bps, short -term rates have turned negative – indicative of increased liquidity pressure. Although the front end of curve is now zero bound, expect the rest of the curve to remain volatile as market participants attempt to gauge the depth and breadth of an economic downturn.

Balance Sheet Management – the World of Asset/Liability Management (ALM) - The banking business model is inherently full of risks. Whether it's credit, interest rate, liquidity and/or price risk, we purposely take on risk to make money. As such, bankers are risk managers – that is what we do. Today is really no different. Bank risk mitigation strategies need to adapt to the increased risks to both earnings and capital normally associated with the change in the business cycle. As your ALM team begins to adjust its ALM strategies, consider the following short-term ALM best practices as market volatility will likely remain high over the near-term:

- In terms of pricing, focus on what you can control – Loan and deposit rates. Market-based pricing – meaning bonds & other borrowings – will likely remain highly volatile.
- Stick with your strengths – Never diversify into risk – especially in the bond portfolio - for the sake of/hope for increased earnings. If you can't explain it, don't buy it.
- While capital is king – Lack of liquidity could eventually break the bank.

While the above considerations are important, remember to take care of yourself as well as your family. As an experienced ALM professional, I grew up in a world that modeled assumed stress scenarios. Never did I think that we would be experiencing one! Stay well as the communities we serve are going to need a strong banker to lean on - more now than ever before.

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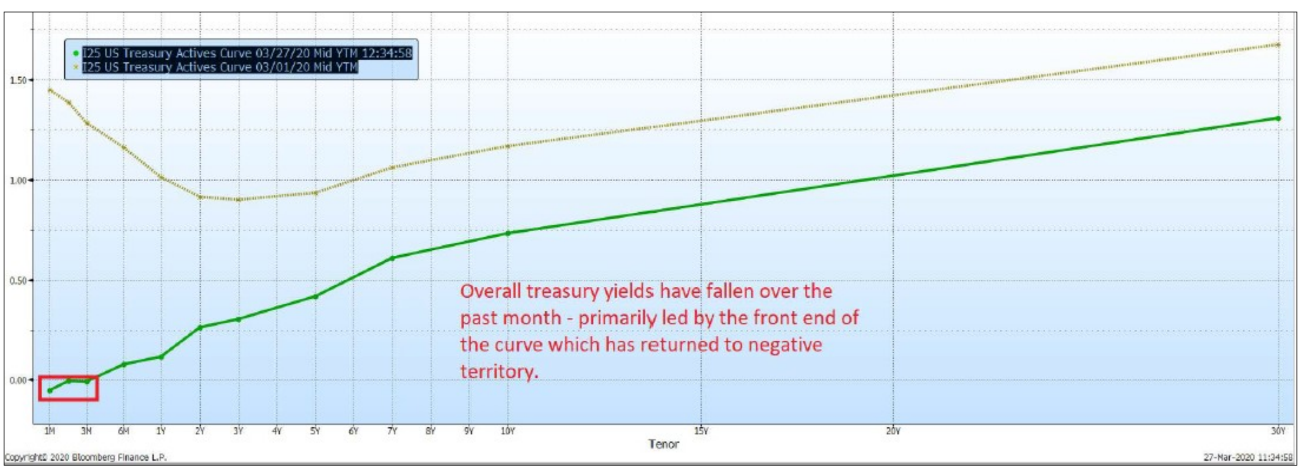

NEW ISSUE MUNICIPAL CALENDAR

Date	Amount ($)	Description	Maturity
04/02/2020	$32,400,000	WICHITA KS WATER AND SEWER REVS 2020A RATINGS REQUESTED	2021-2039

ECONOMIC CALENDAR

Monday 3/30	Tuesday 3/31	Wednesday 4/1	Thursday 4/2	Friday 4/3
Pending Home Sales MoM	MNI Chicago PMI	MBA Mortgage Applications	Trade Balance	Change in Nonfarm Payrolls
Dallas Fed Manf. Activity	Conf. Board Consumer Confid.	ADP Employment Change	Initial Jobless Claims	Unemployment Rate
		ISM Manufacturing	Durable Goods Orders	

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	3.25	4.75	5.50
Discount Rate	0.25	2.25	3.00
Fed Funds Rate	0.10	1.58	2.40
IOER	0.10	1.60	2.40
1-Month Libor	0.94	1.61	2.49
11th Dist COFI	0.98	1.04	0.96
1-Yr. CMT	0.11	1.26	2.44
Dow	21,636.78	25,766.64	25,625.59
NASDAQ	7,502.35	8,566.48	7,643.38
S&P 500	2,541.47	2,978.76	2,805.37
Bond Buyer	2.27	2.27	3.79

MUNI AA—BQ

3 Mo.	0.96
6 Mo.	1.04
1-Year	1.08
2-Year	1.10
3-Year	1.12
5-Year	1.17
7-Year	1.25
10-Year	1.39
30-Year	2.03

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	0.00				
1-Year Bill	0.10				
2-Year Note	0.26	22	66	45	
3-Year Note	0.30	23	68	51	31
5-Year Note	0.41	32	84	68	40
7-Year Note	0.60	44	87	71	46
10-Year Note	0.72	55	106	88	59
30-Year Bond	1.31				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+70
2-Year	70	80
3-Year	90	100
5-Year	105	125

MBS Current Coupon Yields

GNMA 30 Yr.	1.57%
FNMA 30 Yr.	1.56%
GNMA 15 Yr.	0.95%
FNMA 15 Yr.	1.01%

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.