Capital Markets Group

Weekly Review—July 15, 2020

No one said returning to some resemblance of "normalcy" would be quick & easy. As the number of COVID-19 infections continue to increase, economic activity will likely remain muted. Earlier this month, Fed Chairman Powell stressed that getting the corona-virus under control was vital as the economy attempts to rebound from the sharpest contraction on record. When establishing monetary policy, Fed officials operate under the dual mandate of maximum employment and price stability. As such, below please find an overview of recent employment and/or inflation related comments by key voting policy makers.

Philadelphia Fed President Harker stated that the Fed was updating their economic forecasts given the resurgence of coronavirus cases. He warned that a failure to extend expanded unemployment benefits, which are due to expire at the end of this month, would further worsen the situation. "There are things I worry about. One is a cliff effect of unemployment insurance," Harker said. "Yes, there is a need to get people back to work -- and people want to go back to work. But we can't just cut it off, because if we cut it off, people will stop spending and that will be a hit on the economy." As for his views on inflation, Harker stated that he is "supportive of the idea of letting inflation get above 2% before we take any action with respect to the fed funds rate." He added that "we've been saying for a long time that the 2% inflation goal is symmetric, which means we should overshoot it. We were having a difficult time doing that."

Fed Governor Brainard stated while "fiscal support will remain vital, it likely will be appropriate to shift the focus of monetary policy from stabilization to accommodation by supporting a full recovery in employment and a sustained return of inflation to its 2% objective." The Fed has signed that they would likely hold interest rates near zero through 2022, according to their updated quarterly forecasts. Brainard said the Fed is facing a monetary policy transition period as it considers how to better communicate about its asset purchases and forward guidance for a period when rates are likely to be zero bound.

Speaking to the National Press Club, Dallas Fed President Kaplan stated that the Fed should consider the jobs gap between whites and minorities when setting future policy as the "mark of a healthy economy will be seeing improvement in a lot of these measures related to underperformance of underrepresented groups." Historically, the unemployment rate for whites is lower than minorities.

The takeaway from this week's messaging from the Fed is that low rates are the new norm. As such, deploy your excess cash.

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

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
7/20/2020	$5,800,000	JEFFERSON MO SEWER 2020 REVS BQ A+	2021-2035
7/20/2020	$4,225,000	DODGE CITY KS 2020A UT GO BQ A+	2021-2040
7/21/2020	$21,725,000	JUNCTION CITY KS 2020A UT GO A+	2021-2031
7/21/2020	$14,365,000	TOPEKA KS 2020A UT GO RATING APPLIED	2021-2035
7/22/2020	$10,155,000	JOHNSON CO KS 2020B UT GO TAXABLE RATINGS APPLIED	2022-2031
7/23/2020	$9,290,000	MCPHERSON KS 2020 UT GO BQ AA-	2021-2040

ECONOMIC CALENDAR

Monday 7/20	Tuesday 7/21	Wednesday 7/22	Thursday 7/23	Friday 7/24
	Chicago Fed Nat Activity Index	MBA Mortgage Applications	Initial Jobless Claims	Markit US Manufacturing PMI
		Existing Home Sales	Continuing Claims	New Home Sales
			Leading Index	

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	3.25	3.25	5.50
Discount Rate	0.25	0.25	3.00
Fed Funds Rate	0.09	0.08	2.38
IOER	0.10	0.10	2.35
1-Month Libor	0.18	0.20	2.33
11th Dist COFI	0.76	0.74	0.934
1-Yr. CMT	0.15	0.18	1.96
Dow	26,870.10	25,763.16	27,359.16
NASDAQ	10,550.49	9,726.02	8,258.19
S&P 500	3,226.56	3,066.59	3,014.30
Bond Buyer	2.19	2.19	3.46

MUNI AA—BQ

3 Mo.	0.12
6 Mo.	0.21
1-Year	0.24
2-Year	0.27
3-Year	0.29
5-Year	0.45
7-Year	0.70
10-Year	0.93
30-Year	1.71

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.13				
6 Mo. Bill	0.14				
1-Year Bill	0.14				
2-Year Note	0.14	8	15	13	
3-Year Note	0.17	13	27	25	16
5-Year Note	0.28	19	46	43	33
7-Year Note	0.46	27	55	50	38
10-Year Note	0.62	39	77	71	57
20-Year Bond	1.10				
30-Year Bond	1.32				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+55
2-Year	58	65
3-Year	70	78
5-Year	80	88

MBS Current Coupon Yields

GNMA 30 Yr.	1.39%
FNMA 30 Yr.	1.43%
GNMA 15 Yr.	0.28%
FNMA 15 Yr.	0.98%

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.