Capital Markets Group

Weekly Review—July 24, 2020

Yesterday, I read a very interesting article (*Recession-Shocked Savers Rein In Rates With a $20 Trillion* Hoard) about savers on Bloomberg. Gupta and McCormick provide us with two main points:

- Interest rates could remain low for an extended period, not only because of Federal Open Market Committee (FOMC) actions, but also due to the demand for conservative savings options.
- Personal Savings rates are likely to remain elevated as consumers spend less and hold on to cash.

One of the proposed consequences of a shock in behavior for the American consumer is that we may see trends in saving and spending like the post-Depression era. Below are two charts. One compiled with data from the Bureau of Economic Analysis (BEA) dating from 1929 to 1Q 2020, compares the percent of consumer spending of Gross Domestic Product (GDP) to the Personal Savings Rate. The other came from the above-mentioned article showing the spike in the Personal Savings Rate in 2Q 2020, breaking the previous depression era high. In the BEA data chart, we see that there is a very strong negative correlation (R) of -86.4%. This means these two categories move in opposite directions. This makes sense as the more consumers spend, the less they likely save and vice versa. In the early 1940s, we see the two big changes reflecting a significant decrease in the contribution of personal expenditures to GDP and a significant rise in the savings rate. This is likely to occur again as we witnessed the recent spike in savings rate in April to 32.2% followed by a slight decline to 23.2% in May. The June savings rate comes out next Thursday, July 30th as well as the first look at 2Q GDP. Additionally, it will be interesting to see how consumers react if they receive additional stimulus from the US Government.

If we see a behavioral change in spending and saving, this may cause mid to long-term effects on the economy. Businesses will have to alter their operations, municipalities are likely to see continued declines in sales tax receipts, financial institutions will likely carry larger deposit levels for an extended period while likely tightening credit standards as cash flows of borrowers decrease. For savers, the level of interest rate options provides security of principal in fixed income but may cause some investors to chase higher returns in riskier products. Please consult your investment policy for risk tolerances and speak with your CMG Investment Representative for options for your near-term and long-term investment goals.

In the near-term, we will continue to see some challenging economic data, continued struggles within our cities and towns, and in some ways, a new paradigm for how we spend and save. Fear not the change, be brave, be bold, be smart. We will survive this and be better for the experience because we'll work together.

Have a great weekend!

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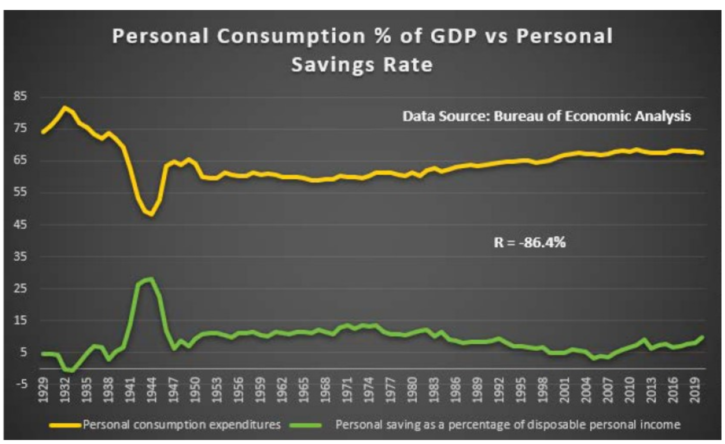

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
7/28/2020	$95,000,000	N KANSAS CITY SD 74 MO UT GO AA+	2021-2040
7/28/2020	$25,000,000	JOPLIN MO SD UT GO AA+	2035-2040
7/28/2020	$8,870,000	LINDBERGH MO SD COP AA2	2021-2035
7/28/2020	$49,160,000	PUTNAM TN UT GO AA2 TAXABLE	2021-2033

ECONOMIC CALENDAR

Monday 7/27	Tuesday 7/28	Wednesday 7/29	Thursday 7/30	Friday 7/31
Durable Goods Orders	Conf. Board Consumer Confi.	MBA Mortgage Applications	GDP Annualized QoQ	Personal Income
Dallas Fed Manf. Activity	Richmond Fed Manf. Index	Wholesale Inventories MoM	Initial Jobless Claims	Personal Spending
		FOMC Rate Decision	Personal Consumption	PCE Core Deflator MoM

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	0.10	0.08	2.4
IOER	0.10	0.10	2.35
1-Month Libor	0.17	0.18	2.27
11th Dist COFI	0.76	0.74	1.14
1-Yr. CMT	0.14	0.18	1.97
Dow	26,469.34	25,445.94	27,269.97
NASDAQ	10,363.18	9,909.17	8,321.50
S&P 500	3,215.62	3,050.33	3,019.56
Bond Buyer	2.10	2.21	3.43

MUNI AA—BQ

3 Mo.	0.06
6 Mo.	0.15
1-Year	0.18
2-Year	0.21
3-Year	0.23
5-Year	0.39
7-Year	0.63
10-Year	0.86
30-Year	1.64

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.10				
6 Mo. Bill	0.12				
1-Year Bill	0.13				
2-Year Note	0.14	8	14	13	
3-Year Note	0.16	12	27	25	16
5-Year Note	0.26	18	47	43	34
7-Year Note	0.44	25	58	53	42
10-Year Note	0.58	38	80	74	60
20-Year Bond	1.02				
30-Year Bond	1.24				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+55
2-Year	58	65
3-Year	68	77
5-Year	78	88

MBS Current Coupon Yields

GNMA 30 Yr.	1.44%
FNMA 30 Yr.	1.42%
GNMA 15 Yr.	0.42%
FNMA 15 Yr.	1.00%

About the Author, Matthew Maggi

Prior to joining CMG in 2016, Matthew was the Corporate Treasurer at a $1.2 billion publicly-traded community bank headquartered in Missouri. During his tenure, he developed and implemented balance sheet strategies to maximize margin while managing acceptable levels of interest rate risk, liquidity, and capital. Matthew not only managed the investment portfolio, but also conducted extensive loan portfolio performance analyses.

Previously, he was a Treasury Analyst for one of the largest privately held banks in the U.S. He monitored cash flow and liquidity and developed funding strategies. Matthew leverages his extensive balance sheet management experience to provide tactical and strategic solutions to maximize performance while mitigating risks for the community banks.