



## Weekly Review—July 27, 2023

As anticipated, the Federal Open Market Committee (FOMC) increased its benchmark overnight rate 25bps on Wednesday to a target range of 5.25%-5.50% while leaving the door open for additional rate hikes. (Although the 5.25%-5.50% fed fund rate marks a 22-year high, this week's increased rate is slightly higher than its 50-year average – how's that for useless trivia!) Based on the Fed's announcement, policy makers "will continue to assess additional information and its implications for monetary policy" while "remaining highly attentive to inflation risks." Meaning, although future policy response will likely be data dependent – "meeting-by-meeting," according to Fed Chairman Powell – policy makers remain focused on driving down inflation as policy has not been "restrictive enough for long enough" to do the job. It sounds like the Fed plans to continue tightening and deal with an economic slowdown vs. stopping now allowing inflation to remain high. **Despite this week's policy response and limited forward guidance, the Fed fund futures market continues to price in a sub-4% benchmark rate as early as January 2025.**

As for the health of the U.S. economy, the Fed was upbeat on its assessment saying that growth is expanding at a "moderate" pace and that Fed staff forecasts no longer include an economic recession. Because of the strength of the economy, Powell believes that "we have a shot at getting inflation back to target without the kind of job loss seen in past cycle." **Despite the Fed's optimistic economic and jobs forecast, street projections currently show a 60% probability of recession within the next twelve months and an unemployment rate increasing to 4.6% (currently 3.6%) by June 2024.**

Back to economic growth – this morning's release of 2<sup>nd</sup> quarter GDP showed the economy grew at a 2.4% annual pace as consumer spending, which accounts for nearly 70% of economic growth, came in stronger than expected. The 2.4% print exceeded street estimates of 1.8% as well as 1<sup>st</sup> quarter's 2% growth showing the economy remains resilient even after 525bp of policy rate increases. From the Fed's perspective, the continued strength in the economy gives them the green light for another rate hike, if needed.

Knowing that future policy decisions will be data dependent, there are eight weeks between now and September's policy meeting – ample time for the Fed (and the markets) to review two months of inflation and labor-market reports prior to their next meeting. It's going to be fun watching how all this plays out...

As a heads up, our next Weekly Commentary will be published on Friday, August 11.

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### NEW ISSUE MUNICIPAL CALENDAR

| Date       | Amount (\$) | Description                            | Maturity  |
|------------|-------------|----------------------------------------|-----------|
| 08/01/2023 | \$1,900,000 | SANTA FE R-X SD MO UT GO BQ AA+ ST AID | 2039-2043 |
|            |             |                                        |           |

| Economic Release                | Data Period | Date      | Survey | Actual | Prior           |
|---------------------------------|-------------|-----------|--------|--------|-----------------|
| S&P Global US Manufacturing PMI | Jul         | 7/24/2023 | 46.2   | 49.0   | 46.3            |
| S&P Global US Services PMI      | Jul         | 7/24/2023 | 54     | 52.4   | 54.4            |
| FHFA House Price Index MoM      | Jul         | 7/25/2023 | 0.6%   | 0.7%   | 0.7%            |
| Conf Consumer Confidence        | Jul         | 7/25/2023 | 112    | 117    | 110.1 (rev up)  |
| MBA Mortgage Applications       | Jul         | 7/26/2023 | NA     | -1.8%  | 1.1%            |
| New Home Sales                  | Jun         | 7/26/2023 | 725k   | 697k   | 715k (rev down) |
| FOMC Rate Decision              | Jul         | 7/26/2023 | 5.50%  | 5.50%  | 5.25%           |
| GDP Annualized QoQ              | Jul         | 7/27/2023 | 1.8%   | 2.4%   | 2.0%            |
| Durable Goods Orders            | Jun (P)     | 7/27/2023 | 1.3%   | 4.7%   | 2.0% (rev up)   |
| Initial Jobless Claims          | Jul         | 7/27/2023 | 235k   | 221k   | 228k            |

| KEY INDICES              |           |            |              | MUNI AA-BQ |      |
|--------------------------|-----------|------------|--------------|------------|------|
|                          | Current   | Last Month | One Year Ago |            |      |
| Prime Rate               | 8.25      | 8.25       | 4.75         | 3 Mo.      | 2.67 |
| Discount Rate            | 5.25      | 5.25       | 1.75         | 6 Mo.      | 2.77 |
| Fed Funds Rate           | 5.08      | 5.07       | 1.58         | 1-Year     | 3.05 |
| Interest on Reserve Bal. | 5.15      | 5.15       | 1.65         | 2-Year     | 2.77 |
| SOFR                     | 5.06      | 5.05       | 1.53         | 3-Year     | 2.73 |
| 11th Dist COFI (ECOFC)   | 2.73      | 2.57       | 0.49         | 5-Year     | 2.58 |
| 1-Yr. CMT                | 5.40%     | 5.33       | 3.00         | 7-Year     | 2.54 |
| Dow                      | 35,282.72 | 33,926.74  | 32,197.59    | 10-Year    | 2.62 |
| NASDAQ                   | 14,050.11 | 13,555.67  | 12,032.42    | 30-Year    | 3.78 |
| S&P 500                  | 4,537.41  | 4,378.41   | 4,023.61     |            |      |
| Bond Buyer               | 3.57      | 3.67       | 3.36         |            |      |

| Treasuries & New Issue Agencies (Spread to Treasuries) |            |         |          |           |            | CMO Spreads to Treasuries |     |         |
|--------------------------------------------------------|------------|---------|----------|-----------|------------|---------------------------|-----|---------|
|                                                        | Treasuries | Bullets | NC-6 Mo. | NC-1 Year | NC- 2 Year |                           | PAC | Vanilla |
| 3 Mo. Bill                                             | 5.48       |         |          |           |            | 1-Year                    | N/A | +55     |
| 6 Mo. Bill                                             | 5.49       |         |          |           |            | 2-Year                    | 60  | 75      |
| 1-Year Bill                                            | 5.38       |         |          |           |            | 3-Year                    | 85  | 115     |
| 2-Year Note                                            | 4.91       | 5       | 80       | 79        |            | 5-Year                    | 110 | 140     |
| 3-Year Note                                            | 4.54       | 13      | 83       | 80        | 80         |                           |     |         |
| 5-Year Note                                            | 4.18       | 8       | 97       | 92        | 85         |                           |     |         |
| 7-Year Note                                            | 4.07       | 8       | 104      | 98        | 88         |                           |     |         |
| 10-Year Note                                           | 3.93       | 49      | 119      | 110       | 98         |                           |     |         |
| 20-Year Bond                                           | 4.19       |         |          |           |            |                           |     |         |
| 30-Year Bond                                           | 3.99       |         |          |           |            |                           |     |         |

| MBS Current Coupon Yields |       |
|---------------------------|-------|
| GNMA 30 Yr.               | 5.29% |
| FNMA 30 Yr.               | 5.81% |
| FNMA 15 Yr.               | 5.35% |

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