Weekly Review—July 30, 2021

Monetary Policy & the Fed

As expected, Fed policy makers gave no indication at this week's FOMC meeting that the central bank would increase its benchmark interest rate anytime soon. Although the FOMC credited vaccines and policy support for "continued" strengthening of the U.S. economy, they stressed "sectors most adversely affected" had not "fully recovered." In terms of making "substantial further progress" towards achieving their "maximum employment and price stability" mandate, Fed Chairman Powell said the jobs market still had "some ground to cover" before it would be time to pull back support to the economy. As for inflation, policy makers still view it as "transitory," although Powell shifted his language to calling it "temporary." The Fed continues to attribute higher-than-expected recent inflation readings to supply disruptions and hiring difficulties that it expects will pass. Powell did say, however, that upside inflation risks "may be higher and more persistent" than expected.

Economic Growth

Reinforcing the Fed's unchanged policy stance, this week's headline economic growth data showed the U.S. economy grew at a 6.5% annualized rate in the 2nd quarter – missing forecasts for an 8.4% rise as the effects of supply-chain constraints reverberated through the economy. Second quarter's growth follows a 6.3% 1st quarter pace. Although 2QTR growth was lower than expected, the data underscores the robust bounce back in household demand as well as the challenges companies are facing keeping pace with that demand. Firms' inability to keep merchandise stocked and bottlenecks in production have capped the speed at which the U.S. pandemic recovery can grow. On a positive note, personal consumption exceeded forecasts as Americans had both the wherewithal and the opportunity to ramp up spending on goods and services. Clothing and restaurants were among the categories leading the gains. Understanding that consumer spending accounts for nearly 70% of overall economic growth, economists will likely boost their 2nd half 2021 GDP estimates assuming supply chain disruptions subside. Current projections show that the economy is expected to expand 7.1% in the 3rd quarter slowing to 5% in the last quarter of this year.

Inflation

Inflation, as measured by the Fed's preferred metric, came in lower than expected in June giving support to the Fed's transitory posture. Although core Personal Consumption Expenditure (CPE) increased 3.5% annually vs. a 3.7% forecasted increase, the market's anxiety regarding inflation remains high. Most economists agree that controlled/sustainable inflation is good as a gradual increase in prices lead to increased spending, increased profits, increased production, and increased hiring – all supportive of a healthy, growing economy. Conversely, elevated/high prices weigh on consumer spending, reducing profits, slowing production, and reducing hiring/increasing layoffs. Hopefully policy makers can effectively manage inflation keeping it in check.

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

NEW ISSUE MUNICIPAL CALENDAR

Date	Amount ($)	Description	Maturity
08/02/2021	$12,135,000	LENEXA-A-REF	2022-2041
08/02/2021	$5,070,000	GARDNER-A-REF	2022-2032
08/02/2021	$2,250,000	GARDNER-B-TXBL	2022-2041
08/02/2021	$1,070,000	LARNED-REF-TXBL	2022-2028
08/02/2021	$18,860,000	LEAWOOD-A	2022-2036
08/03/2021	$20,000,000	ST CHARLES, MO	2022-2041
08/05/2021	$74,900,000	SALINE CO-B	2022-2043

ECONOMIC CALENDAR				
Monday 8/2	Tuesday 8/3	Wednesday 8/4	Thursday 8/5	Friday 8/6
Markit US Manufacturing PMI	Factory Orders	MBA Mortgage Applications	Initial Jobless Claims	Unemployment Rate
Construction Spending MoM	Durable Goods Orders	ADP Employment Change	Trade Balance	Change in Nonfarm Payrolls
ISM Manufacturing		Markit US Composite PMI	Continuing Claims	Wholesale Inventories MoM

KEY INDICES			
	Current	Last Month	One Year Ago
Prime Rate	3.25	3.25	3.25
Discount Rate	0.25	0.25	3.00
Fed Funds Rate	0.10	0.10	0.10
IOER	0.15	0.15	0.15
1-Month Libor	0.10	0.10	0.16
11th Dist COFI	0.31	0.34	0.76
1-Yr. CMT	0.07	0.08	0.13
Dow	34,935.47	34,502,.51	26,313.65
NASDAQ	14,672,68	14,503.95	10,587.81
S&P 500	4,395.26	4,297.50	3,246.22
Bond Buyer	2.04	2.16	2.10

MUNI AA—BQ	
3 Mo.	0.02
6 Mo.	0.05
1-Year	0.07
2-Year	0.08
3-Year	0.17
5-Year	0.41
7-Year	0.67
10-Year	0.95
30-Year	1,54

Treasuries & New Issue Agencies *(Spread to Treasuries)*					
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.04				
6 Mo. Bill	0.04				
1-Year Bill	0.06				
2-Year Note	0.19	-2	-7	-8	
3-Year Note	0.35	1	-3	-6	-8
5-Year Note	0.70	1	10	6	-2
7-Year Note	1.01	4	17	10	0
10-Year Note	1.24	13	32	23	11
20-Year Bond	1.81				
30-Year Bond	1.89				

CMO Spreads to Treasuries		
	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	50
3-Year	53	63
5-Year	63	73

MBS Current Coupon Yields	
GNMA 30 Yr.	1.79%
FNMA 30 Yr.	1.68%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	1.05%

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.

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The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.