



Weekly Review—August 18, 2023

Bond market rate expectations are starting to align with Fed messaging. The economy's surprising resilience in the face of Fed rate increases totaling more than 5% over the past 18 months, combined with expectations for increased quantities of Treasury debt over the coming quarters to fund growing federal deficits has prompted investors to demand higher interest rates. Meaning, intermediate and longer-term treasury yields rose to the highest levels since October earlier this week after stronger-than-anticipated retail sales data challenged the markets expectations for Fed rate cuts beginning as early as next near. The two-year note's yield, which is more sensitive to changes in the Fed's policy rate, hit 5% for the first time since July when it peaked near 5.12% while the 30-year treasury yield hit 4.42% – just above last year's high. Thirty days ago, the long bond was yielding 3.90%. The 10-year yield approached 4.31%, within a few basis points of its October 2022 peak of 4.33%.

This week's upward pressure on yields from strong economic growth was exacerbated when policy makers dampened investors hope that the Fed would become a buyer of bonds once monetary policy shifts. In the Fed July policy meeting minutes released on Wednesday, a number of Fed officials said that the current quantitative tightening process need not end if/when Fed policy reverses course. Generally, easing monetary policy consists of reducing benchmark rates and, if necessary, quantitative easing (buying of bonds to force rates down), not quantitative tightening. Because the Fed plans to continue allowing their bond holdings to run off, they do not plan to buy bonds. As taught in our Economics class, supply and demand determines price. Fewer buyers result in reduced demand. Reduced demand causes lower bond prices. Because of the price/yield inverse relationship, lower prices result in higher rates.

What's next – investors will focus on next week's annual Jackson Hole Fed symposium (which is titled "Structure Shifts in the Global Economy" – how funny!) in Wyoming looking for new guidance to help shape future policy response. Chairman Powell will likely reinforce the Fed's current messaging of "higher, if needed, for longer."

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

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount (\$)	Description	Maturity
08/21/2023	\$4,000,000	JEFFERSON MO-REV A	2024-2043
08/21/2023	\$7,600,000	RENO CO KS UNIF SD#309 A-	2024-2032
08/22/2023	\$4,185,000	PK CITY KS-A AA-	2024-2038
08/22/2023	\$7,750,000	PK CITY KS -1-TEMP NTS SPI+	2026
08/23/2023	\$8,795,000	BASEHOR KS-A AA+	2024-2043
08/24/2023	\$2,785,000	SPRING HILL KS -B -TXBL SPI+	2025
08/24/2023	\$7,035,000	POTTAWATOMIE KS CO -A AA-	2024-2043

Economic Release	Data Period	Date	Survey	Actual	Prior
Retail Sales Advance MoM	Jul	08/15/2023	0.4%	0.7%	0.3% (rev up)
Import Price Index MoM	Jul	08/15/2023	0.2%	0.4%	-0.1% (rev up)
Empire Manufacturing	Aug	08/15/2023	-1.0	-19.0	1.1
MBA Mortgage Applications	Aug 11	08/16/2023	NA	-0.8%	-3.1%
Housing Starts	Jul	08/16/2023	1450k	1452k	1398k (rev down)
Building Permits	Jul	08/16/2023	1463k	1442k	1441k (rev up)
Industrial Production MoM	Jul	08/16/2023	0.3%	1.0%	-0.8% (rev down)
Initial Jobless Claims	Aug 12	08/17/2023	240k	239k	250k (rev up)
Continuing Claims	Aug 5	08/17/2023	1700k	1716k	1684k
Leading Index	Jul	08/17/2023	-0.4%	-0.4%	-0.7%

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.50	8.25	5.50	3 Mo.	2.90
Discount Rate	5.50	5.25	2.50	6 Mo.	3.00
Fed Funds Rate	5.33	5.08	2.33	1-Year	3.28
Interest on Reserve Bal.	5.40	5.15	2.40	2-Year	3.18
SOFR	5.30	5.06	2.29	3-Year	3.02
11th Dist COFI (ECOFC)	2.82	2.73	0.66	5-Year	2.90
1-Yr. CMT	5.35	5.33	3.27	7-Year	2.87
Dow	34,501.88	34,951.93	33,999.04	10-Year	2.96
NASDAQ	13,290.78	14,353.64	12,965.34	30-Year	4.13
S&P 500	4,369.86	4,554.98	4,283.74		
Bond Buyer	3.75	3.66	3.44		

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	5.43					1-Year	N/A	+55
6 Mo. Bill	5.48					2-Year	60	75
1-Year Bill	5.34					3-Year	95	125
2-Year Note	4.91	2	81	80		5-Year	120	155
3-Year Note	4.61	11	85	82	80			
5-Year Note	4.35	10	98	94	86			
7-Year Note	4.31	14	106	99	89			
10-Year Note	4.22	45	120	111	99			
20-Year Bond	4.53							
30-Year Bond	4.36							

MBS Current Coupon Yields	
FNMA 30 Yr.	6.10%
FNMA 15 Yr.	5.63%

If you no longer wish to receive this weekly review, please send an email to CapitalMarketsGroup@commercebank.com

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

The opinions expressed herein reflect that of the author and are not a complete analysis of every material fact respecting any company, industry, or security. The author's opinions do not necessarily reflect that of Commerce Bank or its affiliates. Information contained herein is from sources deemed reliable but cannot be guaranteed. Prices and/or yields are subject to change and investments are subject to availability. CDs are direct financial obligations of the issuing financial institution and are not, either directly or indirectly, an obligation of Commerce Bank. The information provided is not an official trade confirmation or account statement. The Capital Markets Group (CMG) of Commerce Bank is not acting as your 'municipal advisor' within the meaning of Section 15B of the Securities Exchange Act, and does not act in a fiduciary capacity. CMG does not provide tax advice; please refer to your tax professional. Investments in securities are NOT FDIC Insured; NOT Bank-Guaranteed and May Lose Value.



commercebank.com