Capital Markets Group

Weekly Review—September 15, 2022

While inflation data released this week was lower than the previous month, the increase in core CPI (ex food and energy) sent interest rates higher this week. Yesterday's release of PPI – while less troubling – did little to tame the increase in yields along the short-end of the curve. The 1Y treasury actives yield rose around 35 basis points since last Friday, while the 10Y yield rose less than 5 basis points. The short end of the curve is anticipating a stronger response by the FOMC regarding their overnight rate hikes over the near-term and the Fed Funds futures market is predicting a terminal rate of 4.50% in 1Q 2023. As we have seen throughout 2022, this market vacillates as we approach each FOMC meeting. Next Wednesday will provide us the answer as to whether the Fed continues its aggressive interest rate hikes – 75 basis points is the likely action.

A potential crisis has likely been averted as US railroad companies and several unions reached a tentative agreement one day before the strike deadline. Rail transportation plays a significant role in the supply-chain of the US, particularly for the agricultural and manufacturing sectors. If the strike occurred, a recovering part of our economy would have taken a very difficult turn backwards. The other transportation options currently do not have the capacity to absorb the deficit a work stoppage would have caused. Other sectors are experiencing or have experienced worker strikes such as healthcare and education while possible strikes in delivery and trucking unions could be on the horizon. This is just my observation, but the sectors of the economy that were deemed critical during the pandemic appear to be leading the charge for better working conditions while also facing shortages in a very tight labor market. As Michael Porter taught us with his work with competitive strategy, power leads to profits. Thus, we will continue to see battles over who holds more power when it comes to the relationship between employees and employers.

The FOMC's dual mandate drives their plans for interest rate actions. Next Wednesday we will see further evidence of their will to tame inflation. As inflation comes down and recession probabilities build, the Fed will to turn their efforts back to regaining full employment. Currently, the fight is against inflation and while labor is on the back burner the temperature might be rising.

Have a great weekend!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
09/19/2022	$1,250,000	ROSE HILL KS-1-TEMP NTS UT GO BQ	2025
09/21/2022	$7,135,000	EMPORIA KS UT GO BQ AA-	2023-2037

ECONOMIC CALENDAR				
Monday 9/19	Tuesday 9/20	Wednesday 9/21	Thursday 9/22	Friday 9/23
NAHB Housing Market Index	Housing Starts	MBA Mortgage Applications	Initial Jobless Claims	S&P Global US Manufact. PMI
	Building Permits	Existing Home Sales	Leading Index	S&P Global US Services PMI
		FOMC Rate Decision	Current Account Balance	S&P Global US Composite PMI

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	5.50	5.50	3.25
Discount Rate	2.50	2.50	0.25
Fed Funds Rate	2.33	2.33	0.08
IOER	2.40	2.40	0.15
1-Month Libor	2.94	2.39	0.08
11th Dist COFI (ECOFC)	0.87	0.66	0.24
1-Yr. CMT	3.95	3.26	0.07
Dow	30,961.82	33,912.44	34,814.39
NASDAQ	11,552.36	13,128.05	15,161.53
S&P 500	3,901.35	4,297.14	4,480.70
Bond Buyer	3.73	3.21	2.15

MUNI AA—BQ

3 Mo.	1.85
6 Mo.	2.00
1-Year	2.41
2-Year	2.49
3-Year	2.52
5-Year	2.63
7-Year	2.79
10-Year	3.04
30-Year	3.94

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	3.17				
6 Mo. Bill	3.80				
1-Year Bill	3.97				
2-Year Note	3.87	10	1	1	
3-Year Note	3.85	1	4	1	0
5-Year Note	3.67	0	18	14	6
7-Year Note	3.60	20	25	18	8
10-Year Note	3.46	47	40	31	20
20-Year Bond	3.76				
30-Year Bond	3.48				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+30
2-Year	35	47
3-Year	80	80
5-Year	87	100

MBS Current Coupon Yields

GNMA 30 Yr.	4.78%
FNMA 30 Yr.	4.98%
GNMA 15 Yr.	3.79%
FNMA 15 Yr.	4.36%

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.

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