Capital Markets Group

Weekly Review—September 18, 2020

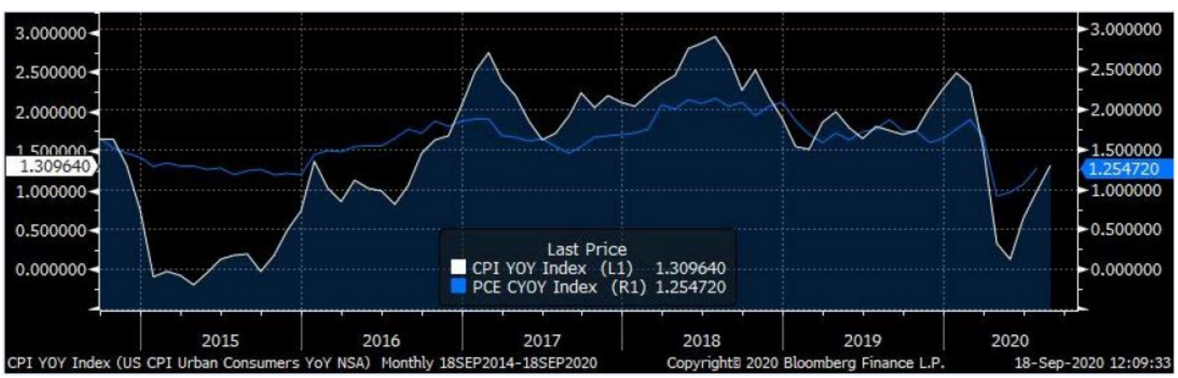
I read a lot of good articles this week. The most intriguing for me were the ones dealing with inflation. Many of our younger clients have not really experienced any sort of worry about inflation during their careers. And those of us who were alive the last time we had to be concerned about it, may have forgotten about some of the important aspects of inflation. So, this week's commentary is a refresher for some and possibly an introduction for others.

A general definition of inflation is an increase in prices for a selection, or "basket" of goods and services over a certain length of time. This increase is usually expressed as a percentage. The two main metrics used by economists and investors are the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE). Each has an overall, or headline figure and then a core figure which takes out historically volatile items in the basket like food and energy prices. The Federal Open Market Committee (FOMC) concentrates on the PCE measure as their main indicator of inflation, while the CPI tends to be the one most publicized measure. According to St Louis Fed President James Bullard (CPI vs PCE Inflation), the headline, or overall, number is the most useful measure. Rightly so, as consumers still must pay for food and energy regardless of price volatility. Bullard goes on to point out some uses of each indicator like CPI is used to determine adjustments to Social Security benefits where the FOMC uses the PCE to guide some of their policies and actions. Another good use for CPI is when you are negotiating a contract renewal or salary increase, CPI is usually a part of this discussion – Bullard tells us this figure is usually higher than PCE. This week, the FOMC indicated they think it will take at least to 2023 before inflation runs high enough and long enough for any change in monetary policy. They want to see PCE run above 2% for a period of time before they are likely to act.

Another article I read was from Chappatta and He (The Fed Wants Higher Inflation. Should You?). The authors provide some nice graphics on how the basket of goods and services has changed over time. It is more geared toward personal investing/saving; however, it contains some very interesting data on what makes up inflation and how that might affect the US dollar. One concern of inflation is the lessening of the value of the cash you hold. The US dollar is still the most widely used and the choice for international business. I particularly like the "TINA" reference (there is no alternative).

While inflation has not been and will likely not be a real concern nationally for some time, it may affect us as investors, savers, or purchasers of certain goods and services. Observant consumers look at the costs of usually purchased items over time and will note changes. One item our family is looking forward to is another European vacation. We hope inflation stays low as our dollars may go further on the trip.

Finally, I would like to take a moment to share some gratitude. A lot of us may be dealing with different workspaces, or where or how our children are going to school. I would to thank those who are going into offices and schools. You may be taking on more personal risks than those of us who remain at home. Thank you to those of us who are working from home. You have shown the ability to keep things going despite working in a different place and you have accepted the reality that the choice to work from home may or may not be yours. Thank you to the parents who are balancing work and school from home. You not only have become part-time IT support for yourselves but also your kids. You have learned about so many different apps for their devices and where to post assignments, you have become a master organizer! This will help your children. And most of all, I would like to thank our customers. I had the pleasure to have so many productive and positive meetings over the phone or using Zoom this week with my clients. Your communication and relationships made my week!



Thank you and we wish all of you a wonderful and well-deserved weekend!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
09/21/2020	$5,155,000	COLUMBIA MO SPEC OBS TAXABLE AA-	2021-2030
09/22/2020	$23,205,000	ARKANSAS CITY KS UT GO A	2021-2036
09/23/2020	$2,755,000	BASEHOR KS UT GO BQ AA+	2021-2032

ECONOMIC CALENDAR				
Monday 9/21	Tuesday 9/22	Wednesday 9/23	Thursday 9/24	Friday 9/25
Chicago Fed Nat Activity Index	Existing Home Sales	MBA Mortgage Applications	Initial Jobless Claims	Durable Goods Orders
	Richmond Fed Manufact. Index	Markit US Manufacturing PMI	New Home Sales	
		FHFA Housing Price Index MoM	Continuing Claims	

KEY INDICES	Current	Last Month	One Year Ago
Prime Rate	3.25	3.25	5.25
Discount Rate	0.25	0.25	2.75
Fed Funds Rate	0.09	0.10	2.25
IOER	0.10	0.10	2.10
1-Month Libor	0.16	0.15	2.04
11th Dist COFI	0.65	0.68	1.16
1-Yr. CMT	0.12	0.13	1.87
Dow	27,657.42	27,778.07	27,147.08
NASDAQ	10,793.28	11,210.84	8,177.39
S&P 500	3,319.47	3,389.78	3,006.73
Bond Buyer	2.22	2.15	2.76

MUNI AA—BQ	
3 Mo.	0.04
6 Mo.	0.13
1-Year	0.17
2-Year	0.19
3-Year	0.21
5-Year	0.34
7-Year	0.62
10-Year	0.99
30-Year	1.79

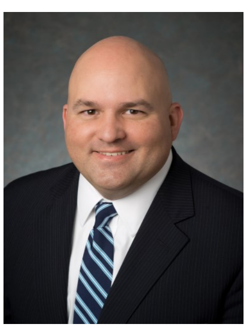
Treasuries & New Issue Agencies *(Spread to Treasuries)*

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.08				
6 Mo. Bill	0.10				
1-Year Bill	0.11				
2-Year Note	0.13	3	8	7	
3-Year Note	0.15	8	19	17	12
5-Year Note	0.27	14	38	35	28
7-Year Note	0.46	22	49	44	35
10-Year Note	0.68	30	66	61	49
20-Year Bond	1.22				
30-Year Bond	1.44				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	55	65
3-Year	60	75
5-Year	73	85

MBS Current Coupon Yields	
GNMA 30 Yr.	1.50%
FNMA 30 Yr.	1.42%
GNMA 15 Yr.	0.21%
FNMA 15 Yr.	0.92%



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.

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