Capital Markets Group

Weekly Review—September 24, 2021

Back in the February of 2019, I wrote about the spread between the Fed Funds Target – Upper Bound (FFT) and the 2-year treasury; specifically, the ability to predict the timing of a recession once inversion occurs – the 2 yr rate is lower than the Fed Funds Target rate. Today, I would like to examine the historical spread as a predictor of when the Fed may begin any rate hikes.

While economic conditions were different during the recovery after the Great Recession, let us examine the time where the 2-yr treasury was consistently above the FFT. If we look at the Bloomberg chart below, this occurred beginning in May of 2013 until the first FFT hike on December 23, 2015. The time it took for the Fed to increase rates was about 2.5 years. If the same holds true this time (the 2 year has climbed above the FFT this week), then we are looking at the first FFT hike taking place in first quarter of 2024.

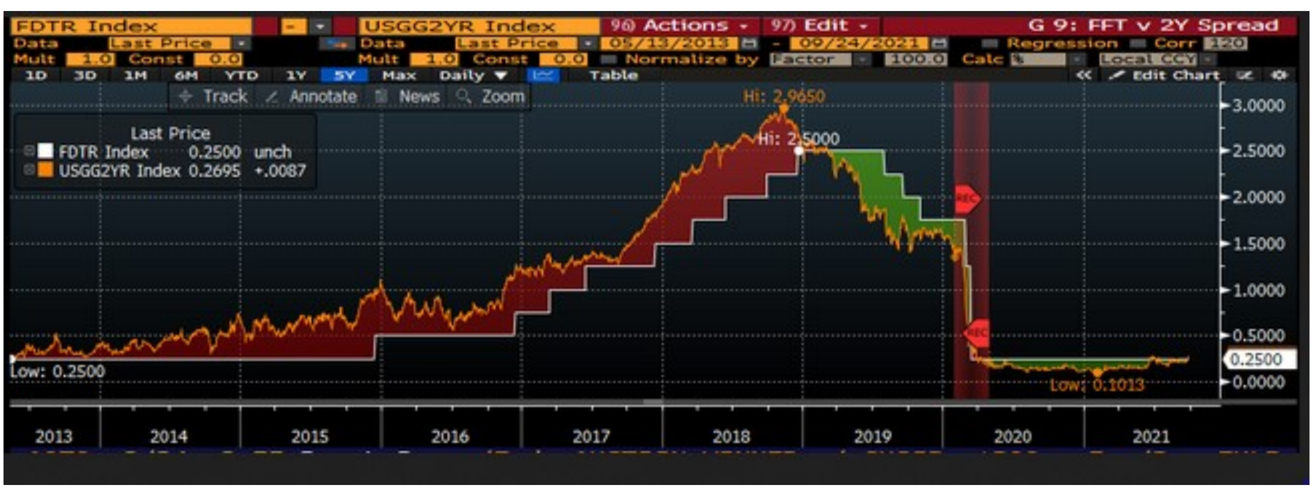
The current Bloomberg Fed Fund Futures predict the first FFT hike to take place at the December 14, 2022 meeting, albeit at a 42% probability. This is around 15 months away. The FOMC released their latest DOT plot after their meeting this week and the key takeaway for the market was the even split between members who saw the FFT remaining at current levels and those who saw increases by the end of 2022. This is likely affecting the Fed Funds Futures, bringing closer the next increase in the FFT.

The answer is likely somewhere in the middle of the two. **The average time for the FOMC to initiate a FFT hike after consistently seeing the 2-yr above the FFT is 1.3 years going back to 1992**. Although we consistently see positive economic signs, the short-term issues in supply chains, employment levels, and vaccination levels throughout the world will likely cause us to wait for the FOMC to act on short-term rates until 2Q 2023.

Putting cash to work in suitable investments, aligning with your investment policies and strategies remains important. Waiting around for the FOMC to act on the short-end of the curve results in lower returns over the next 1.5 – 2.5 years. Reach out to your Investment Representative to continue to help you meet your investing goals.

Have a great weekend!

Matthew Maggi | Senior Vice President | Commerce Bank – Capital Markets Group (CMG)| 800 548-2663 | matthew.maggi@commercebank.com



NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
09/27/2021	$540,000	ANDALE KS -REF UT GO BQ NR	2022-2042
09/27/2021	$129,035,000	SPRINGFIELD MO PUB UTILITIES COPS TAXABLE AA	2022-2036

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ECONOMIC CALENDAR

Monday 9/27	Tuesday 9/28	Wednesday 9/29	Thursday 9/30	Friday 10/1
Durable Goods Orders	Wholesale Inventories MoM	MBA Mortgage Applications	GDP Annualized QoQ (2Q 3rd)	Personal Income (Aug)
Dallas Fed Manf. Activity	Conf. Board Cons. Confidence	Pending Home Sales MoM	Initial Jobless Claims	Personal Spending (Aug)
	Richmond Fed Manufact. Index		MNI Chicago PMI	PCE Core Deflator MoM/YoY

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	3.25	3.25	3.25
Discount Rate	0.25	0.25	0.25
Fed Funds Rate	0.08	0.09	0.09
IOER	0.15	0.15	0.10
1-Month Libor	0.09	0.09	0.15
11th Dist COFI	0.26	0.28	0.65
1-Yr. CMT	0.08	0.07	0.13
Dow	34,798.00	35,366.26	26,815.44
NASDAQ	15,047.70	15,019.80	10,672.27
S&P 500	4,455.47	4,486.23	3,246.59
Bond Buyer	2.15	2.14	2.22

MUNI AA—BQ

3 Mo.	0.07
6 Mo.	0.10
1-Year	0.12
2-Year	0.15
3-Year	0.23
5-Year	0.48
7-Year	0.80
10-Year	1.09
30-Year	1.72

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.03				
6 Mo. Bill	0.04				
1-Year Bill	0.07				
2-Year Note	0.27	0	-12	-12	
3-Year Note	0.53	1	-9	-12	-13
5-Year Note	0.94	1	5	0	-8
7-Year Note	1.24	6	12	5	-5
10-Year Note	1.44	13	27	18	6
20-Year Bond	1.91				
30-Year Bond	1.97				

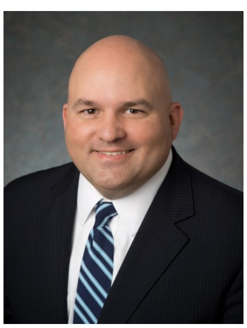
CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	50
3-Year	52	60
5-Year	60	70

MBS Current Coupon Yields

GNMA 30 Yr.	1.99%
FNMA 30 Yr.	1.92%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	1.24%

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.