Weekly Review—October 7, 2022

"The Federal Reserve…is in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up." – a 1955 quote from then Fed Chair William McChesney Martin Jr. who was born in St. Louis.

This week's Fedspeak confirmed that U.S. policy makers remain unequivocally committed to their mission of crushing record high inflation by continuing to increase benchmark rates. As stated by Minneapolis Fed President Kashkari, the Fed is "quite a ways away" from pausing its campaign of rate increases while Cleveland Fed President Mester noted that the economy is in an unacceptably high inflationary period. San Francisco Fed President Daly said that policymakers aim to boost overnight lending rates into "restrictive territory" and then "hold there until we see inflation" gets to 2%. The Fed will be "staying the course" until the job is done, she added. And finally, in her first speech as a Fed Governor, Lisa Cook stated that policy should remain "restrictive until we are confident that inflation is firmly on the path" towards 2%.

Believing that inflation was transitory, policy makers were late to the party and are now playing catch up to counter historically high inflation. Because they are so far behind, they are now forced to aggressively raise rates into a slowing domestic and global economy. As such, their window for a soft landing has all but been replaced by an increasingly high probability (now stands at 50%) that central bankers will tip the economy into recession. According to Kashkari, "I fully expect that there are going to be some losses and there are going to be some failures around the global economy as we transition to a higher-interest rate environment."

Although forty-year high inflation currently drives Fed policy, today's employment data gives policy makers little reason to slow their expected upward trajectory of rate hikes. The strength of September's employment report allows the Fed to continue front-loading rate hikes before they are forced to pivot! As for the pivot - it will come only after something breaks such as inflation, the financial markets, or the economy. I'm thinking that financial market stability will be the first to give…

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
10/11/2022	$9,635,000	COTTLEVILLE CMMNTY FIRE ULT GO AAA BQ	2024-2042
10/11/222	$2,810,000	MINNEAPOLIS, KS UTL GO BQ A BQ	2023-2042
10/12/2022	$10,000,000	FLORISSANT MO ULT GO AA2	2024-2042
10/12/2022	$40,000,000	COLUMBIA MO SD GO AA	2023-2042

ECONOMIC CALENDAR				
Monday 10/10	Tuesday 10/11	Wednesday 10/12	Thursday 10/13	Friday 10/14
Markets and Banks Closed for Columbus Day	Monthly Budget Statement	MBA Mortgage Applications	CPI MoM/YoY	Retail Sales Advance MoM
	NFIB Small Business Optimism	PPI Final Demand MoM/YoY	Initial Jobless Claims	U. of Mich. Sentiment
		FOMC Meeting Minutes	Continuing Claims	Import Price Index MoM

KEY INDICES	Current	Last Month	One Year Ago
Prime Rate	6.25	5.50	3.25
Discount Rate	3.25	2.50	0.25
Fed Funds Rate	3.08	2.33	0.08
IOER	3.15	2.40	0.15
1-Month Libor	3.30	2.64	0.09
11th Dist COFI (ECOFC)	1.11	0.87	0.24
1-Yr. CMT	4.24	3.61	0.10
Dow	29,297.25	31,581.28	34,754.94
NASDAQ	10,652.41	11,791.90	14,654.02
S&P 500	3,639.66	3,979.87	4,399.76
Bond Buyer	3.86	3.64	2.27

MUNI AA—BQ	
3 Mo.	2.38
6 Mo.	2.53
1-Year	3.02
2-Year	3.07
3-Year	3.12
5-Year	3.17
7-Year	3.26
10-Year	3.42
30-Year	4.16

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	3.35				
6 Mo. Bill	4.09				
1-Year Bill	4.21				
2-Year Note	4.29	13	81	81	
3-Year Note	4.31	10	85	82	81
5-Year Note	4.11	8	98	94	86
7-Year Note	4.00	17	105	98	88
10-Year Note	3.87	54	120	111	99
20-Year Bond	4.13				
30-Year Bond	3.84				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+35
2-Year	40	55
3-Year	87	95
5-Year	95	115

MBS Current Coupon Yields

GNMA 30 Yr.	5.46%
FNMA 30 Yr.	5.65%
GNMA 15 Yr.	5.25%
FNMA 15 Yr.	4.92%

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.

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