Capital Markets Group



Weekly Review-October 21, 2022

Policy makers launched their historic tightening campaign approximately seven months ago, yet inflation still doesn't seem to be budging as all now agree that inflation is not transitory – it's entrenched into the economy. This entrenchment makes knowing when changes in monetary policy will begin having a noticeable effect on economic conditions rather challenging. The bond market currently expects the Fed to start easing as early as 3QTR23 even though policy makers remain committed to keeping benchmark interest rates high until inflation moves lower.

So how long does it take? Economists agree that monetary policy takes time to work its way through the economy. Time estimates range from as short at six months while others believe it will take years before the full effect of policy changes are felt. The following excerpt published on Bloomberg best describes why today's changes in monetary policy work with such an uncertain lag: Wages are often dictated by contracts while rents are set for a year or more in advance. Raising rates increases the cost of borrowing, which reduces investment, slows hiring and wage growth and eventually increases unemployment before inflation comes down. Based on all the moving parts - the process of driving down inflation appears to be more an art than an exact science. Understanding that September's economic data showed that wage pressures remain strong while rents continue to materially increase (both are now primary drivers of overall inflation), a dovish pivot in monetary policy - as the result of reduced inflation - may not happen anytime soon!

Dennis Zimmerman Jr.
Senior Vice President
Senior Manager – Asset/Liability Services
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| NEW ISSUE MUNICIPAL CALENDAR | | | | | |
|------------------------------|-------------|--|-----------|--|--|
| Date | Amount (\$) | Description | Maturity | | |
| 10/26/2022 | 33,475,000 | HARVEY CO KS UNIF SD#460 UT GO A UNDER | 2024-2052 | | |
| | | | | | |
| | | | | | |

| ECONOMIC CALENDAR | | | | | | |
|-----------------------------|------------------------------|---------------------------|------------------------|----------------------|--|--|
| Monday 10/24 | Tuesday 10/25 | Wednesday 10/26 | Thursday 10/27 | Friday 10/28 | | |
| S&P Global US Manufact. PMI | Conf. Board Consumer Confid. | MBA Mortgage Applications | GDP Annualized QoQ(3Q) | Personal Income | | |
| S&P Global US Composite PMI | FHFA House Price Index MoM | New Home Sales | Initial Jobless Claims | Personal Spending | | |
| S&P Global US Services PMI | Richmond Fed Manufact. Index | Wholesale Inventories MoM | Durable Goods Orders | PCE Deflator MoM/YoY | | |

| | KEY INDICES | | | | |
|------------------------|-------------|------------|--------------|---------|--|
| | Current | Last Month | One Year Ago | 3 Mo. | |
| Prime Rate | 6.25 | 5.50 | 3.25 | | |
| Discount Rate | 3.25 | 2.50 | 0.25 | 6 Mo. | |
| Fed Funds Rate | 3.08 | 2.33 | 0.08 | 1-Year | |
| IOER | 3.15 | 2.40 | 0.15 | 2-Year | |
| 1-Month Libor | 3.57 | 3.01 | 0.09 | 3-Year | |
| 11th Dist COFI (ECOFC) | 1.11 | 0.87 | 0.23 | | |
| 1-Yr. CMT | 4.58 | 4.03 | 0.10 | 5-Year | |
| Dow | 31,082.56 | 30,183.78 | 35,603.08 | 7-Year | |
| NASDAQ | 10,859.71 | 11,220.19 | 15,215.70 | 10-Year | |
| S&P 500 | 3,752.75 | 3,789.93 | 4,549.78 | | |
| Bond Buyer | 3.87 | 3.81 | 2.28 | 30-Year | |

| Bond Buyer | | 3.07 | 3.01 | | 2.20 | | | |
|--------------|-----------------|--|----------|-----------|------------|---------------------------|-----|---------|
| | Treasuries & Ne | 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 | 4.21 | | | | | 1-Year | N/A | +40 |
| 6 Mo. Bill | 4.43 | | | | | 2-Year | 45 | 55 |
| 1-Year Bill | 4.59 | | | | | 3-Year | 90 | 95 |
| 2-Year Note | 4.50 | 13 | 81 | 80 | | 5-Year | 95 | 115 |
| 3-Year Note | 4.53 | 9 | 84 | 82 | 81 | MBS Current Coupon Yields | | |
| 5-Year Note | 4.37 | 9 | 98 | 94 | 86 | • | | |
| 7-Year Note | 4.32 | 29 | 105 | 98 | 89 | GNMA 30 Yr. | | 5.97% |
| 10-Year Note | 4.24 | 65 | 120 | 111 | 99 | FNMA 30 Yr. | | 6.07% |
| 20-Year Bond | 4.58 | | | | | GNMA 15 Yr. | | 5.79% |
| 30-Year Bond | 4.33 | | | | | FNMA 15 Yr. | | 5.31% |

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.

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I AA-BQ

2.57

2.72

3.21

3.23

3.27

3.31

3.40

3.554.35