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.
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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
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	3.57	3.01	0.09
11th Dist COFI (ECOFC)	1.11	0.87	0.23
1-Yr. CMT	4.58	4.03	0.10
Dow	31,082.56	30,183.78	35,603.08
NASDAQ	10,859.71	11,220.19	15,215.70
S&P 500	3,752.75	3,789.93	4,549.78
Bond Buyer	3.87	3.81	2.28

MUNI AA—BQ

3 Mo.	2.57
6 Mo.	2.72
1-Year	3.21
2-Year	3.23
3-Year	3.27
5-Year	3.31
7-Year	3.40
10-Year	3.55
30-Year	4.35

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	4.21				
6 Mo. Bill	4.43				
1-Year Bill	4.59				
2-Year Note	4.50	13	81	80	
3-Year Note	4.53	9	84	82	81
5-Year Note	4.37	9	98	94	86
7-Year Note	4.32	29	105	98	89
10-Year Note	4.24	65	120	111	99
20-Year Bond	4.58				
30-Year Bond	4.33				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	55
3-Year	90	95
5-Year	95	115

MBS Current Coupon Yields

GNMA 30 Yr.	5.97%
FNMA 30 Yr.	6.07%
GNMA 15 Yr.	5.79%
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.

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