Capital Markets Group

Weekly Review—November 5, 2021

Monetary Policy & the Fed

All eyes were on the Federal Open Market Committee (FOMC) this week. As expected, policy makers kept their benchmark overnight rate zero bound while announcing that they would begin tapering its current $120 billion of monthly bond purchases this month as the economy has made "substantial further progress" toward the Fed's employment and inflation goals. In terms of expected volumes, the Fed plans to reduce their bond purchases $15 billion a month — $10 billion in Treasuries and $5 billion in mortgage-backed securities. Although the Fed believes that similar monthly reductions in the pace of net asset purchases will likely be appropriate, they are prepared to tweak the pace of purchases if necessary due to changes in their economic outlook. At $15 billion a month, it'll take the Fed roughly eight months to discontinue the process of pumping additional stimulus into the economy via quantitative easing. Understanding that Fed Chairman Powell has said in no uncertain terms that the central bank will not consider raising interest rates while still purchasing bonds, the path to higher short-term rates starts with the taper. With the taper underway, markets will likely shift their focus towards lift off.

Powell started the process of managing the market's rate hike expectations by stating that although "the level of inflation we have right now is not at all consistent with price stability, we're also not at maximum employment. I would want to assure people that we will use our tools as appropriate to get inflation under control. We don't think it's a good time to raise interest rates, though, because we want to see the labor market heal further." Although the Fed is obviously buying time before increasing its benchmark rate, investors will not be as patient. Assuming inflation expectations continue to build, bond traders will demand higher yields for longer-dated bonds even if the U.S. hasn't reached maximum employment.

Employment Situation

October's non-farm payrolls grew 531k and headline unemployment declined to 4.6% - both metrics exceeded street expectations. Largely driven by the increase in leisure and hospitality jobs, the improved employment situation can be viewed as supportive of the Fed's decision to begin the process of shifting policy from ultra-accommodative to accommodative. Although October's employment report is evidence that the jobs market continues to improve, payrolls remain 4.2 million below their pre-pandemic levels. Meaning, there is still a lot of work to be done!

Dennis Zimmerman Jr.
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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
11/08/2021	$13,800,000	HARVEY CO KS UNIF SD#439 UT GO A	2023-2051
11/09/2021	$37,440,000	LENEXA KS -B UT GO AAA	2022-2041
11/09/2021	$8,900,000	OLIVETTE MO -REF UT GO BQ RATING APPLIED	2023-2034
11/09/2021	$16,320,000	MANHATTAN KS #3-TEMP NTS UT GO Aa3	2023-2025
11/10/2021	$10,000,000	FULTON MO PUB SD # 58 UT GO BQ AA+ ST AID	2032-2041

ECONOMIC CALENDAR

Monday 11/8	Tuesday 11/9	Wednesday 11/10	Thursday 11/11	Friday 11/12
	PPI Final Demand MoM/YoY	MBA Mortgage Applications	Veterans Day Holiday	U. of Mich. Sentiment
	NFIB Small Business Optimism	CPI MoM		JOLTS Job Openings
		Initial Jobless Claims		U. of Mich. Inflation Gauges

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	0.08	0.09
IOER	0.15	0.15	0.10
1-Month Libor	0.09	0.08	0.14
11th Dist COFI	0.23	0.24	0.52
1-Yr. CMT	0.14	0.09	0.12
Dow	36,328.41	34,314.67	28,390.18
NASDAQ	15,971.59	14,433.83	11,890.93
S&P 500	4,697.53	4,345.72	3,510.45
Bond Buyer	2.23	2.26	2.34

MUNI AA—BQ

3 Mo.	0.13
6 Mo.	0.16
1-Year	0.18
2-Year	0.27
3-Year	0.38
5-Year	0.69
7-Year	1.03
10-Year	1.29
30-Year	1.85

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	0.05				
1-Year Bill	0.13				
2-Year Note	0.40	0	-12	-13	
3-Year Note	0.66	1	-8	-11	-12
5-Year Note	1.06	0	5	1	-7
7-Year Note	1.33	6	12	5	-5
10-Year Note	1.47	13	27	18	7
20-Year Bond	1.90				
30-Year Bond	1.89				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+35
2-Year	40	43
3-Year	43	50
5-Year	50	60

MBS Current Coupon Yields

GNMA 30 Yr.	1.99%
FNMA 30 Yr.	1.97%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	1.32%

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.