Capital Markets Group

Weekly Review—December 20, 2024

As expected, the FOMC announced a 25bp cut to the overnight Fed Funds rate on Wednesday, lowering the rate to 4.50%. Unexpectedly, the FOMC reduced their DOT plot prediction of more accommodative action from 4 cuts in 2025 to 2, maintaining interest rate levels for longer than once thought. It must be said, the markets were correct as they had already priced this in the futures trading and the bond market. Then, Chair Powell spoke, and the bond markets and equity markets reacted as bond yields rose and equity values fell. Several factors contributed to this change but the fears of higher for longer inflation and the resulting higher for longer yield curve sent shivers throughout the financial markets. The very nature of a shiver is it is felt strongly but it is temporary. Today, equity markets are climbing back up and bond yields are walking back some of the more extreme movements up that occurred post Fed meeting.

This morning, Personal Income and Personal Spending releases were both lower than expected; however, the growth in spending, 0.4%, outpaced the growth in income, 0.3%. Core PCE YoY came in at 2.8%, lower than expected but remains closer to 3% than the 2% inflation target of the FOMC. The lower-than-expected PCE is likely contributing to the rebound in markets today.

Overall, employment data remains strong, GDP for 3Q was revised upward to 3.1%, but inflation remains elevated. These three factors alone explain why the Fed cannot move rates lower for accommodative reasons nor because prices are more stable. We can still hear the growing applause for a soft landing in our minds, it may have turned into a golf clap this week as more confusion set in regarding future path of interest rates. Or perhaps we are so relieved today, and filled with the spirit of the holidays that we stopped clapping to find our megaphone to yell out "We believe. We believe that. We believe that we will win!" Or maybe the euphoria of impending vacation for me is clouding my mind with rose-tinted glasses.

Regardless of my self-induced positivity, we in the Capital Markets Group and all of us at Commerce Bank are grateful for the chance to work with such amazing people. Thank you and we wish the best to you and your families.

Please note the next publication of the Weekly Review will be Friday, January 3rd.

Have a great weekend!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
		There are no new MO or KS deals scheduled for next week	

Economic Release	Data Period	Date	Survey	Actual	Prior
Retail Sales Advance MoM	Nov	12/17/2024	0.6%	0.7%	0.5% (rev up)
Industrial Production MoM	Nov	12/17/2024	0.3%	-0.1%	-0.4% (rev down)
MBA Mortgage Applications	Dec 13	12/18/2024	NA	-0.7%	5.4%
Housing Starts	Nov	12/18/2024	1,345k	1,289k	1,312k (rev up)
FOMC Rate Decision (Upper)	Dec 18	12/18/2024	4.50%	4.50%	4.75%
Leading Index	Nov	12/19/2024	0.4%	0.3%	0.7% (rev up)
GDP Annualized QoQ	3Q (T)	12/19/2024	2.8%	3.1%	2.8%
Personal Income	Nov	12/20/2024	0.4%	0.3%	0.7% (rev up)
Personal Spending	Nov	12/20/2024	0.5%	0.4%	0.3% (rev down)
Core PCE Price Index YoY	Nov	12/20/2024	2.9%	2.8%	2.8%

KEY INDICES			
	Current	Last Month	One Year Ago
Prime Rate	7.50	7.75	8.50
Discount Rate	4.50	4.75	5.50
Fed Funds Rate	4.41	4.58	5.33
Interest on Reserve Bal.	4.40	4.65	5.40
SOFR	4.30	4.57	5.31
11th Dist COFI (ECOFC)	3.11	3.21	3.09
1-Yr. CMT	4.27	4.34	4.93
Dow	42,841.06	43,408.47	37,082.00
NASDAQ	19,572.60	18,966.14	14,777.94
S&P 500	5,930.85	5,917.11	4,698.35
Bond Buyer	4.10	4.14	3.37

MUNI AA—BQ	
3 Mo.	2.38
6 Mo.	2.47
1-Year	2.89
2-Year	2.83
3-Year	2.83
5-Year	2.91
7-Year	3.00
10-Year	3.19
30-Year	4.16

CMO Spreads to Treasuries		
	PAC	Vanilla
1-Year	N/A	+45
2-Year	55	65
3-Year	75	90
5-Year	100	110

MBS Current Coupon Yields	
GNMA 30 Yr.	5.67%
FNMA 30 Yr.	5.76%
FNMA 15 Yr.	5.06%

Treasuries & New Issue Agencies *(Spread to Treasuries)*										
	3 Mo.	6 Mo.	1-Yr.	2-Yr.	3-Yr.	5-Yr.	7-Yr	10-Yr	20-Yr	30-Yr
Treasuries	4.32	4.28	4.25	4.28	4.28	4.35	4.42	4.49	4.77	4.69
Bullets				1	2	2	12	22		
NC-6 Mo.				22	35	65	77	87		
NC-1 Year				11	27	50	65	80		
NC-2 Year					8	30	43	58		