



Weekly Review—February 9, 2024

When it comes to monetary policy, data is expected to drive the Fed’s future policy response. Evidenced in last week’s FOMC announcement, policy makers want to have “greater confidence that inflation is moving substantially towards two percent” before beginning the process of lowering benchmark interest rates. As such, a near-term rate cut – meaning March – is not likely, given the current data. Although the futures market is pricing in only a 19% probability of a rate cut in March (vs. an 86% probability on January 1), the fed fund market still expects 114bps of cumulative rate cuts by year end vs. their expected 150bps at the beginning of the year. In contrast, the Fed’s December dot plot showed only a 75bps expected decline in overnight rates by year end. Policy makers continue to share the markets rates-down bias. Only difference is timing and trajectory.

For those responsible for managing net interest income, it would be reasonable to prepare for rates down. Depending on your institution’s asset/liability risk profile, consider increasing asset duration – if not in loans for the sake of current earnings, then bonds. Equally important, understand how negative convexity impacts earning asset performance. On the liability side, shorten the term on CD special offerings. Understanding that current earnings are still under pressure, consider 2yr-3yr wholesale borrowings to reduce funding costs – taking advantage of yield curve inversion. If all this sounds strange, seek guidance from your ALM team as they have the expertise to help position your institution’s balance sheet for an eventual shift in policy.

Dennis Zimmerman Jr.
 Senior Vice President
 Senior Manager – Asset/Liability Services
 Commerce Bank – Capital Markets Group (CMG)



NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
02/12/24	\$35,000,000	St. Charles County, MO Rev	2026 - 2044
02/13/24	\$2,305,000	City of Lansing, KS GO 2024A	2024 - 2028
02/13/24	\$2,605,000	City of Baldwin, KS GO	2025 - 2043
02/13/24	\$9,000,000	City of Lansing, KS GO Sales Tax 2024B	2024 - 2043

Economic Release	Data Period	Date	Survey	Actual	Prior
S&P Global US Services PMI	Jan (F)	02/05/2024	52.9	52.5	52.9
S&P Global US Composite PMI	Jan (F)	02/05/2024	52.3	52.0	52.3
ISM Services Index	Jan	02/05/2024	52.0	53.4	50.5 (rev down)
MBA Mortgage Applications	Feb 2	02/07/2024	NA	3.7%	-7.2%
Trade Balance	Dec	02/07/2024	-\$62.0b	-\$62.2b	-\$61.9b (rev up)
Consumer Credit	Dec	02/07/2024	\$16.000b	\$1.561b	\$23.480b (rev down)
Initial Jobless Claims	Feb 3	02/08/2024	220k	218k	227k (rev up)
Continuing Claims	Jan 27	02/08/2024	1,875k	1,871k	1,894k (rev down)
Wholesale Trade Sales MoM	Dec	02/08/2024	0.3%	0.7%	-0.1% (rev down)
Wholesale Inventories MoM	Dec (F)	02/08/2024	0.4%	0.4%	0.4%

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.50	8.50	7.75	3 Mo.	3.12
Discount Rate	5.50	5.50	4.75	6 Mo.	3.28
Fed Funds Rate	5.33	5.33	4.58	1-Year	2.98
Interest on Reserve Bal.	5.40	5.40	4.65	2-Year	2.74
SOFR	5.31	5.31	4.55	3-Year	2.58
11th Dist COFI (ECOFC)	3.13	3.12	2.07	5-Year	2.46
1-Yr. CMT	4.86	4.82	4.87	7-Year	2.46
Dow	38,671.49	37,525.16	33,699.88	10-Year	2.50
NASDAQ	15,990.66	14,857.71	11,789.58	30-Year	3.75
S&P 500	5,026.61	4,756.50	4,081.50		
Bond Buyer	3.49	3.31	3.65		

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	5.38					1-Year	N/A	+50
6 Mo. Bill	5.25					2-Year	60	75
1-Year Bill	4.85					3-Year	95	100
2-Year Note	4.48	2	81	8		5-Year	100	110
3-Year Note	4.28	3	85	81	80			
5-Year Note	4.15	4	98	94	86			
7-Year Note	4.18	23	106	99	89			
10-Year Note	4.18	26	121	111	100			
20-Year Bond	4.48							
30-Year Bond	4.37							

MBS Current Coupon Yields	
GNMA 30 Yr.	5.52%
FNMA 30 Yr.	5.62%
FNMA 15 Yr.	5.06%

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