Capital Markets Group

Weekly Review—March 7, 2025

When it comes to administering the Fed's dual monetary policy mandate of maximum employment and low/stable prices, policy makers are finding themselves caught between a rock and a hard place! Over the last several years, the Fed has primarily focused its policy response on battling high inflation as employment has been mostly steady – largely driven by a healthy economy. Unfortunately, risks to the economic outlook have increased evidenced in recent economic data. Consumer Confidence fell in February with the Expectations component now signaling recession. Last month's ISM manufacturing Employment and New Order index both falling into contraction territory.   Consumer credit card debt continues to increase and with an average rate of 22.8%, delinquencies are steadily increasing. As for car loans, delinquencies of non-revolving debt have increased to levels not seen in thirty years. All this weighs on consumer spending – the driver of overall economic growth. According to the latest Atlanta Fed's GDPNow forecast, the economy is now expected to *contract* 2.41% this quarter vs. its 2.32% *expansion* expectation just two weeks ago.

Driven by above-target inflation and the increased possibility that a slowing economy could result in job losses, investors are becoming fearful that the economic cycle may be entering the stagflation stage. If so, it will be difficult for the Fed to achieve their dual mandate as attempting to correct one imbalance exacerbates the other. Above target inflation &/or increased inflation expectations generally requires policy makers to keep benchmark rates in restrictive territory (higher for longer). But doing so comes with the risk of increased job losses as the economy generally slows. Conversely, a slowing economy – one which results in job losses – normally warrants an easier policy response. But reducing benchmark rates could drive prices higher. If we do enter a cycle of stagflation, the Fed will likely have to address the greater of two evils as there is no easy way to fix both.

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
03/13/2025	$156,800,000	Kansas Development Finance Authority Rev	2033-2054
03/13/2025	$10,350,000	Kansas Development Finance Authority Rev - Taxable	2031-2033
03/13/2025	$10,000,000	Ste Genevieve MO BQ	2026-2045
03/13/2025	$43,040,000	Wichita KS Series 320 Temp Notes	2025

Economic Release	Data Period	Date	Survey	Actual	Prior
ISM Manufacturing	Feb	03/03/2025	50.7	50.3	50.9
MBA Mortgage Applications	Feb 28	03/05/2025	NA	20.4%	-6.4% (rev down)
Factory Orders	Jan	03/05/2025	1.7%	1.7%	-0.6% (rev up)
ISM Services Index	Feb	03/05/2025	52.5	53.5	52.8
Durable Goods Orders	Jan (F)	03/06/2025	3.1%	3.2%	3.1%
Trade Balance	Jan	03/06/2025	-$128.8b	-$131.4b	-$98.1b (rev up)
Initial Jobless Claims	Mar 1	03/06/2025	233k	221k	242k
Wholesale Inventories MoM	Jan (F)	03/06/2025	0.7%	0.8%	0.7%
Change in Nonfarm Payrolls	Feb	03/07/2025	160k	151k	125k (rev down)
Unemployment Rate	Feb	03/07/2025	4.0%	4.1%	4.0%

KEY INDICES	Current	Last Month	One Year Ago
Prime Rate	7.50	7.50	8.50
Discount Rate	4.50	4.50	5.50
Fed Funds Rate	4.33	4.33	5.33
Interest on Reserve Bal.	4.40	4.40	5.40
SOFR	4.35	4.36	5.31
11th Dist COFI (ECOFC)	2.94	2.99	3.15
1-Yr. CMT	4.05	4.19	4.95
Dow	42,801.72	44,303.40	38,791.35
NASDAQ	18,196.22	19,523.40	16,273.38
S&P 500	5,770.20	6,025.99	5,157.36
Bond Buyer	4.15	4.06	3.52

MUNI AA—BQ	
3 Mo.	2.06
6 Mo.	2.13
1-Year	2.57
2-Year	2.59
3-Year	2.64
5-Year	2.75
7-Year	2.86
10-Year	3.07
30-Year	4.27

CMO Spreads to Treasuries	PAC	Vanilla
1-Year	N/A	+45
2-Year	55	65
3-Year	75	85
5-Year	95	105

MBS Current Coupon Yields	
GNMA 30 Yr.	5.48%
FNMA 30 Yr.	5.50%
FNMA 15 Yr.	4.76%

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	4.29	4.21	3.99	3.93	3.93	4.01	4.13	4.24	4.60	4.56
Bullets				1	2	2	13	20		
NC-6 Mo.				45	58	77	95	98		
NC-1 Year				23	38	55	65	78		
NC-2 Year					10	32	45	63		