# Capital Markets Group

## Weekly Review—April 24, 2020

This pandemic mess has created an unprecedented shock to global economies. Here at home, the U.S. economic outlook looks difficult at best – yes, I'm sugarcoating it! Gross domestic product (GDP) – a broad-based measure of overall economic health – is expected to decline 26% on average in the second quarter according to a Bloomberg survey. Some 2QTR estimates showed declines as high as 50%. Although the economy is expected to contract the first half of this year, most economists surveyed expect economic growth to rebound in the second half. With that said, the degree in which GDP rebounds is largely dependent on the amount of permanent damage currently being inflicted on household finances as consumer spending accounts for nearly 70% of overall economic growth. In a separate Bloomberg survey of 31 economists conducted earlier this week, respondents overwhelmingly agreed that the biggest risk to a strong economic recovery was that consumers would be slow to resume normal spending habits even after social and economic restrictions have been lifted. Unfortunately, recent economic data shows that consumer stress has reached historic levels.

On the jobs front, 26 million workers have filed unemployment claims in the past five weeks as businesses, schools and other job sites were ordered closed in hopes of slowing the virus. According to a recent Gallop poll, nearly 25% of working Americans believe it's "very likely" or "fairly likely" they will lose their job or be laid off in the next 12 months. Some economists see unemployment reaching 20%-25% in the near-term – double the 10% unemployment peak in the wake of the 2009 recession.

According to an industry report (Black Knight), approximately 6.4% of mortgage borrowers (totaling $3.4 million in loans) have entered forbearance plans since Congress passed legislation last month allowing them to defer payments for initial periods as long as 180 days. The number of borrowers seeking mortgage payment relief is expected to increase materially until borrowers return to the workforce. Under the federal relief act, although homeowners may be granted six months of payment relief, they are still obligated to make up the missed payments to avoid possible foreclosure.

The pace of consumer spending has already slowed. April's retail sales data is expected to collapse as March's consumer spending fell 8.7% from February, marking the largest monthly decline on record according to Commerce Department data released earlier this week. March's 8.7% drop is more than double the decline seen during the Great Recession.

In such economic peril, markets would normally be looking for an aggressive Fed policy response at the conclusion of next week's FOMC meeting. Unfortunately, there is little more that monetary policy can do to boost economic activity. Over the last 45 days, the Fed has responded to the growing crisis with unprecedented determination, unveiling a series of emergency programs aimed at stabilizing financial markets and providing relief directly to some companies, as well as state and local governments. Fed Chairman Powell pledged in an April 9 speech to use the Fed's powers "forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery." Based on these actions, our nation's confidence in the Fed's leadership marks a 15-year high based on a recent industry survey whereas nearly 60% of respondents said they had a "great deal" or "fair amount" of confidence that the Fed Chair would do or recommend the right thing for the economy.

Although the near-term economic outlook looks gloomy, consumers are still showing some signs of hope. In that same Gallop poll, respondents were surprisingly upbeat about their financial situations. Nearly half said they were in "excellent" or "good" shape. Hopefully, recent fiscal policy response will help reduce the financial pain for those most impacted by the shut-down. Regardless of any further economic policy action, the best solution to reduce the economic impact of a looming recession would be to open the economy at a measured pace and allow capitalism to continue. If not careful, the currently prescribed medicine of closing much of the economy could be worse than the disease itself.

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| NEW ISSUE MUNICIPAL CALENDAR | | | |
|---|---|---|---|
| Date | Amount ($) | Description | Maturity |
| 04/28/2020 | $7,785,000 | KDFA Emporia State University 2020F Revs A2 | 2021-2030 |

## ECONOMIC CALENDAR

| Monday 4/27 | Tuesday 4/28 | Wednesday 4/29 | Thursday 4/30 | Friday 5/1 |
|---|---|---|---|---|
| Dallas Fed Manf. Activity | Wholesale Inventories MoM | GDP Annualized QoQ | Personal Income | Markit US Manf. PMI |
| | Conf. Board Cons. Confidence | Core PCE QoQ | Personal Spending | Construction Spending MoM |
| | Richmond Fed Manf. Index | MBA Mortgage Applications | Initial Jobless Claims | ISM Manufacturing |

## KEY INDICES

| | Current | Last Month | One Year Ago |
|---|---|---|---|
| Prime Rate | 3.25 | 3.25 | 5.50 |
| Discount Rate | 0.25 | 0.25 | 3.00 |
| Fed Funds Rate | 0.05 | 0.15 | 2.44 |
| IOER | 0.10 | 0.10 | 2.40 |
| 1-Month Libor | 0.49 | 0.93 | 2.48 |
| 11th Dist COFI | 0.99 | 0.99 | 0.96 |
| 1-Yr. CMT | 0.18 | 0.17 | 2.43 |
| Dow | 23,775.27 | 20,704.91 | 26,597.05 |
| NASDAQ | 8,634.52 | 7,417.86 | 8,102.02 |
| S&P 500 | 2,836.74 | 2,447.33 | 2,927.25 |
| Bond Buyer | 2.36 | 2.27 | 3.79 |

## MUNI AA—BQ

| | |
|---|---|
| 3 Mo. | 0.82 |
| 6 Mo. | 0.90 |
| 1-Year | 0.94 |
| 2-Year | 0.98 |
| 3-Year | 1.02 |
| 5-Year | 1.09 |
| 7-Year | 1.20 |
| 10-Year | 1.38 |
| 30-Year | 2.29 |

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

| | Treasuries | Bullets | NC-6 Mo. | NC-1 Year | NC- 2 Year |
|---|---|---|---|---|---|
| 3 Mo. Bill | 0.10 | | | | |
| 6 Mo. Bill | 0.12 | | | | |
| 1-Year Bill | 0.16 | | | | |
| 2-Year Note | 0.21 | 8 | 19 | 14 | |
| 3-Year Note | 0.26 | 16 | 33 | 28 | 15 |
| 5-Year Note | 0.36 | 27 | 61 | 56 | 37 |
| 7-Year Note | 0.51 | 45 | 70 | 63 | 46 |
| 10-Year Note | 0.60 | 65 | 95 | 87 | 65 |
| 30-Year Bond | 1.19 | | | | |

## CMO Spreads to Treasuries

| | PAC | Vanilla |
|---|---|---|
| 1-Year | N/A | +65 |
| 2-Year | 65 | 75 |
| 3-Year | 80 | 90 |
| 5-Year | 90 | 110 |

## MBS Current Coupon Yields

| | |
|---|---|
| GNMA 30 Yr. | 1.28% |
| FNMA 30 Yr. | 1.77% |
| GNMA 15 Yr. | 0.95% |
| FNMA 15 Yr. | 1.27% |

## *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.