Capital Markets Group

Weekly Review—May 6, 2022

This week was all about the Fed. As expected, the Federal Reserve delivered its biggest rate hike in two decades by announcing a 50bps increase in its benchmark overnight rate. When asked at Wednesday's post-FOMC meeting press conference about the possibility of upping future rate hikes to 75bps to combat record-high inflation, Chairman Powell pushed back stating that "75bps increases are not something the committee is actively considering." He reinforced the Fed's previous guidance that 50bps increases are on the table for the next couple meeting as policy makers remain committed to "expeditiously" restoring price stability. According to Powell, "it's not going to be pleasant" as the Fed begins the process of raising borrowing costs to lower inflation, but "everyone will be better off" in time. "Without price stability, the economy doesn't work for anybody," stated Powell. Once inflation shows signs of weakening, policy makers hope to raise rates only 25bps per meeting. Now at an upper bound rate of 1%, fed fund rate remains significantly below the Fed's neutral long-run estimate of approximately 2.375% announced in March.

When asked about the increasing possibility of a policy-induced economic recession, Powell stated that there is a "good chance" to avoid recession. "It's a strong economy," he said, and nothing suggests "it's close to or vulnerable to a recession" as policy makers expect economic growth to be "solid" this year. With that said, the Fed will be challenged in its ability to engineer a "soft landing" as it finds itself in the beginning stages of an aggressive policy tightening cycle at a time when economic growth is already beginning to soften. The Fed Chair admitted that policy makers are in a tough spot since inflation has been driven largely by supply-side factors such as supply chain disruptions, labor shortages and lockdowns. "Our (policy) tools don't really work on supply shocks," Powell said. "Our tools work on reducing demand." In an interview with Wall Street Journal reporters, when asked about the possibility of a soft landing, Treasury Secretary Yellen replied, "the Fed will need to be skillful and also lucky."

In addition to increasing its overnight rate at this week's policy meeting, the Fed announced its plan to significantly shrink its nearly $9 trillion balance sheet starting in June. The projected run-off is expected to return the size of the Fed's holdings to near pre-pandemic levels by 2024. All else equal, this quantitative tightening (QT) effort will likely contribute to even higher intermediate and longer-term treasury yields.

We live in such interesting times…it looks to me that the Fed is in a very precarious situation!!

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount ($)	Description	Maturity
05/09/2022	$1,845,000	HAYSVILLE KS -A -NTS UT GO BQ	2024
05/09/2022	$12,000,000	WARRENSBURG MO UT GO AA-	2023-2042
05/10/2022	$5,200,000	GARDEN CITY KS CMNTY COLL-COPS A+	2022-2035
05/12/2022	$10,985,000	MANHATTAN KS -02-TEMP NTS UT GO	2023,2025
05/12/2022	$2,295,000	MANHATTAN KS -REF -A UT GO	2022-2042

ECONOMIC CALENDAR				
Monday 5/9	Tuesday 5/10	Wednesday 5/11	Thursday 5/12	Friday 5/13
Wholesale Inventories MoM	NFIB Small Bus. Optimism	CPI MoM/YoY	PPI Final Demand MoM/YoY	U. of Mich. Sentiment
Wholesale Trade Sales MoM		MBA Mortgage Applications	Initial Jobless Claims	U. of Mich. 1yr Inflation
		Real Avg Hr./Wk Earnings YoY	Continuing Claims	U. of Mich. 5-10yr Inflation

KEY INDICES	Current	Last Month	One Year Ago
Prime Rate	4.00	3.50	3.25
Discount Rate	1.00	0.50	0.25
Fed Funds Rate	0.83	0.33	0.06
IOER	0.90	0.40	0.10
1-Month Libor	0.84	0.43	0.11
11th Dist COFI (ECOFC)	0.30	0.24	0.46
1-Yr. CMT	2.08	1.77	0.06
Dow	32,899.37	34,496.51	34,548.53
NASDAQ	12,144.66	13,888.82	13,632.84
S&P 500	4,123.34	4,481.15	4,201.62
Bond Buyer	3,27	2.73	2.25

MUNI AA—BQ	
3 Mo.	1.59
6 Mo.	1.78
1-Year	2.14
2-Year	2.42
3-Year	2.61
5-Year	2.73
7-Year	2.92
10-Year	3.10
30-Year	3.52

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.79				
6 Mo. Bill	1.29				
1-Year Bill	1.95				
2-Year Note	2.65	1	1	0	
3-Year Note	2.86	2	5	2	1
5-Year Note	2.99	3	18	14	6
7-Year Note	3.07	17	26	18	8
10-Year Note	3.06	40	41	31	20
20-Year Bond	3.38				
30-Year Bond	3.16				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+30
2-Year	35	40
3-Year	58	68
5-Year	68	85

MBS Current Coupon Yields

GNMA 30 Yr.	3.95%
FNMA 30 Yr.	4.27%
GNMA 15 Yr.	3.73%
FNMA 15 Yr.	3.58%

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.