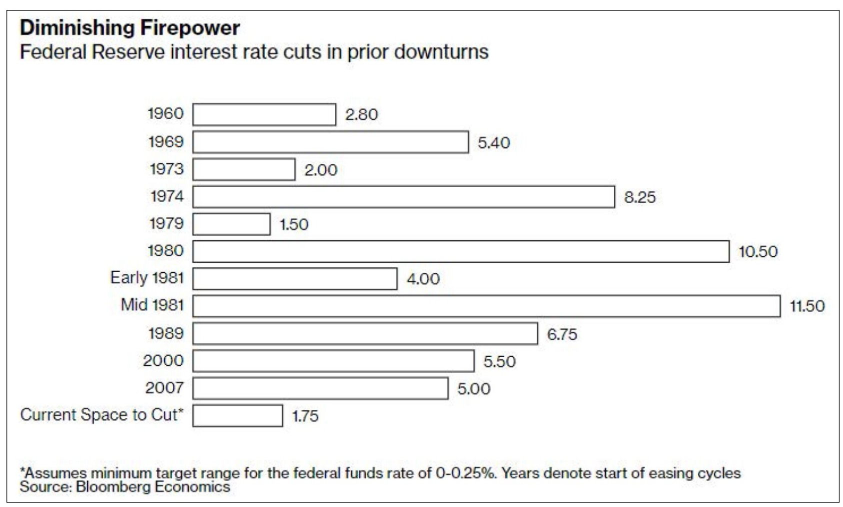
Weekly Review—October 18, 2019

Recession fears have increased in recent months amid persistent trade tensions combined with slower global growth, a deceleration in hiring momentum and a manufacturing sector that has already slipped into contraction. While U.S. economic growth is expected to slow, the big question is whether the slowdown will lead to something more. Bloomberg Economics created a model to determine America's recession odds. Their recession probability model incorporates a range of data spanning economic conditions, financial markets and gauges of underlying stress. Some indicators, like the yield curve, are flashing warning signs. As explained in prior write ups, the spread between three-month and 10-year Treasury securities turned negative earlier this year and has remained so for much of the last six months. Although that spread has inverted prior to each of the last seven recessions, extraordinary factors—including flight to quality via foreign investors —that may have flattened the curve could mean that the curve isn't as reliable of a recession indicator this time around. Other indicators, like wage gains, are not flashing as bright. Currently, the Bloomberg Recession indicator estimates the chance of a U.S. recession within the next year at 27%. That's higher than it was a year ago but materially lower than the near 100% odds just before the last recession. While there are good reasons to keep a close eye on the economy, there is no need to panic yet.

While Fed Chairman Powell has committed to extending the current economic expansion, the Central Bank has limited means to do so evidenced in the below chart. Ahead of the Great Recession, interest rates hovered near 5%, leaving ample room to lower borrowing costs and stimulate the economy. At the start of this year, the benchmark interest rate was half that. The Fed has cut rates at their last two meeting (July & September) and most analysts expect policy makers to announce a third rate reduction later this month given the risks to the U.S. economic outlook with declining inflation expectations.

Earlier this week, Chicago Fed President Evans flagged sliding inflation expectations, calling recent declines an "unwelcome development." Results of a monthly New York Fed survey published Tuesday showed a drop in U.S. households' expectations for inflation over the medium term to the lowest level in data from 2013, while results from a similar University of Michigan survey showed a slide to the lowest level since 1979. "Inflation expectations -- which are a key determinant of actual inflation -- have slipped further this year and today are at uncomfortably low levels," Evans said. At this point, expect another cut in rates at month's end.



Your comments/questions are encouraged.

Dennis Zimmerman Jr.
Senior Vice President
Manager – Asset/Liability Services
Commerce Bank – Capital Markets Group (CMG)
800 548-2663
dennis.zimmerman@commercebank.com

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
10/22/2019	$8,670,000	HUTCHINSON KS 2019A UT GO BQ Aa3 NEGOTIATED	2020-2032
10/22/2019	$3,460,000	HUTCHINSON KS 2019B TAXABLE UT GO Aa3 NEGOTIATED	2020-2035

ECONOMIC CALENDAR				
Monday 10/21	Tuesday 10/22	Wednesday 10/23	Thursday 10/24	Friday 10/25
	Existing Home Sales	MBA Mortgage Applications	Durable Goods Orders Initial Jobless Claims Markit US Manufacturing PMI	U. of Mich. Sentiment

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	5.00	5.25	5.25
Discount Rate	2.50	2.75	2.75
Fed Funds Rate	1.90	2.30	2.19
IOER	1.80	2.10	2.20
1-Month Libor	1.85	2.06	2.28
11th Dist COFI	1.16	1.16	1.02
1-Yr. CMT	1.58	1.87	2.66
Dow	26,770.20	27,147.08	25,379.45
NASDAQ	8,089.54	8,177.39	7,485.14
S&P 500	2,986.20	3,006.73	2,768.78
Bond Buyer	2.70	2.85	4.35

MUNI AA—BQ

3 Mo.	1.10
6 Mo.	1.13
1-Year	1.15
2-Year	1.16
3-Year	1.17
5-Year	1.22
7-Year	1.36
10-Year	1.59
30-Year	2.25

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	1.65				
6 Mo. Bill	1.60				
1-Year Bill	1.56				
2-Year Note	1.57	5	27	12	
3-Year Note	1.55	4	37	24	4
5-Year Note	1.55	10	56	44	25
7-Year Note	1.64	15	60	49	32
10-Year Note	1.74	26	71	60	48
30-Year Bond	2.23				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+45
2-Year	52	65
3-Year	65	78
5-Year	78	88

MBS Current Coupon Yields

GNMA 30 Yr.	2.45%
FNMA 30 Yr.	2.71%
GNMA 15 Yr.	2.19%
FNMA 15 Yr.	2.28%

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.