

The First Tee...

The Long and Winding Road...investors are speculating how long higher yields will last:

- The government and consumers are hopeful for a relaxation in interest rate levels as debt service costs continue to rise, while mortgage and credit card rates are straining budgets:
 - The Fed rate pivot scenario has been in play for almost a year, making a case for the yield curve to shift lower while reverting out of its inverted structure (To-date, the Fed has been reticent to abandon the terminal rate):
 - The 10-year Treasury has averaged a rate of 4.31% so far this year (the 10-year T-Note is the typically the benchmark uses to set borrowing rates)...hitting a low of 3.87% in February and high of 4.70% in April (currently trading at 4.19%):
 - The 10-year Treasury rate averaged 3.24% for the five years leading up the pandemic and averaged 3.32% for the last 25 years.
- **False Starts**...the bond market has been through multiple cycles of rates moving lower the past twelve months, only to see these gains reverse as the employment sector continued to surprisingly outperform:
 - The current market rally in bond values appears to have more staying power as the job market is exhibiting increasing signs of slowing, and the disinflationary trend in prices has resumed in the data.
 - **Disinversion**...the yield-curve is compressing and is showing signs of promoting steepeners as the rate inversion dissipates:
 - Benchmark rate cuts are expected from the Federal Reserve later this year (possibly by September)...the belief being lower rates promote economic growth and inflation, which push down short-term rates and drive-up longer dated ones:
 - In the current environment, it is not anticipated long-rates will rise but will fall less than their short-term counterparts.
- **Limitations**...the neutral rate and debt are factors that could restrict how far longer-rates can decline:
 - Concerns are the neutral rate will be much higher than currently being projected in the coming years:
 - The neutral rate is a theoretical level of borrowing costs that neither stimulates or slows job and inflation growth:
 - Five-year forward futures contracts are currently projecting a neutral rate of 3.6%...the number is down from last year's peak of 4.5%, but is still over a percentage point higher than the average level seen over the past decade (and the Fed's estimate of 2.75%)
 - If the neutral rate is going to remain higher this would indicate the Fed's current benchmark target rate above 5% is not as restrictive as previously thought...indicating future rate cuts may be less aggressive than investors hope:
 - The relatively gradual slowing of economic growth is suggesting the neutral rate is relevantly higher than currently perceived:
 - The record-breaking performance of the stock market is suggesting the Fed may not be restrictive enough with monetary policy.
 - **Fiscal Fallout**...U.S. government debt deficits are so large (and still expanding) the yield-curve will be pressured to steepen:
 - The large amount of fiscal spending is inflationary, which could force the Fed to be more restricted in monetary policy easing during periods of economic downturns...this is a "stagflation" scenario that is detrimental to the economy and markets.
 - **Debt Dilemma**...the Congressional Budget Office has increased its budget deficit outlook for 2024 by 27% to \$2 trillion:
 - As a share of GDP, the U.S. deficit is seen as widening, not shrinking in fiscal 2024...to a ratio of 6.7% (up from 6.3% in 2023):
 - The higher debt increases come from military assistance to Ukraine and Israel, student loan forgiveness, and higher interest rates
 - The CBO is forecasting total deficits to equal or exceed 5.5% of GDP in every year from 2024 to 2034...since 1930, deficits have not remained this large for more than five years in a row (including World War II).
 - By comparison, the European Union's debt to GDP is below 3%...the U.S. has averaged a 3.7% debt to GDP over the past 50 years.
 - **The CBO projects a 10-year deficit add of \$22 trillion, this is on top of the current \$34 trillion of government debt:**
 - To fund the government debt, the Treasury has issued \$27 trillion in securities...the large amount of bonds outstanding combined with higher interest rates has created a situation where servicing the debt is exceeding spending on defense (A financial bomb!)
 - **Political Passivity**...neither party is pushing platforms that would reduce the upward debt trajectory:
 - The outsized and growing fiscal deficit creates a risk of a vicious cycle in which government debt and interest rates drive each other higher...increasing pressure on the Fed to devalue the debt by allowing inflation to rise:
 - Continuing to kick-the-can down the road is only going to exacerbate the situation to uncontrollable levels...increasing the cost of living to unsustainable levels and lowering the living standards for future generations.
 - **Higher for Longer?**...further declines of longer-term bond rates, beyond current Fed expectations, may require a more pronounced slowdown in inflation and economic growth...a.k.a. a recession.

At the turn...

The Back Nine...

Big Wheels Keep on Turnin'...a trucking rebound is hoped to be on the horizon:

- Trucking demand skyrocketed during the pandemic driven by a consumer buying frenzy:
 - Thousands of new trucking companies emerged as freight volumes and rates spiked (18-wheel deals):
 - The trucking boom came to a rapid halt when consumer spending shifted from goods to services...as pandemic restrictions relaxed:
 - Compounding the falling demand for trucking was large retail inventories built on expectations of continued robust consumption:
 - The trucking market has been in a recession for over a year...with many companies losing money on loads (average cost per mile \$1.75 ex-fuel).
- A Home in Every Port...optimism for a trucking turnaround has been initiated by rising port activity:
 - U.S. port volume was up 12% in April versus a year ago (20 million 20-foot containers)...an 8% gain is projected for May:
 - Consumers are back to buying goods along with entertainment...sustaining buying activity despite elevated price levels and inflation:
 - The for-hire trucking market saw its tonnage index rise 1.5% in May from a year ago, the first year-on-year increase in 15 months.
- Roadblocks...there still remain speed bumps in the trucking comeback, as manufacturing remains in a 20-month slump:
 - Excess trucking capacity persists...despite 30k trucking firms leaving the industry since the downturn, about 350k remain (95% with 10 trucks or less).

AI = A OK!...stocks consistently break record highs powered by large-cap tech (bonds drift):

- Data format: July 1, 2023 / January 1, 2024 / April 1, 2024 / July 1, 2024:

Equities

Dow: 34407 / 37689 / 39807 / 39118
S&P 500: 4450 / 4769 / 5254 / 5460
NASDAQ: 13787 / 15011 / 16379 / 17732
Russell 2000: 1888 / 2028 / 2124 / 2047

Commodities

CRB: 261 / 263 / 290 / 290
Oil: \$70.64 / \$71.65 / \$83.17 / \$81.54
Gold: \$1919 / \$2062 / \$2229 / \$2326
Copper: \$374 / \$389 / \$400 / \$439
Natural Gas: \$2.79 / \$2.51 / \$1.76 / \$2.60
Bitcoin: \$30390 / \$26903 / \$42507 / \$61,904

Borrowing Benchmarks

SOFR: (U.S. Secured Overnight Financing Rate)
1 day: 5.06% / 5.40% / 5.33% / 5.34%
1mo: 5.14% / 5.35% / 5.33% / 5.34%
3mo: 5.27% / 5.33% / 5.30% / 5.32%
IORB (Interest on Reserve Balances): 5.15% / 5.40% / 5.40% / 5.40%

Treasuries Issues

3mo: 5.14% / 5.40% / 5.46% / 5.21%
6mo: 5.20% / 5.26% / 5.38% / 5.10%
1yr: 5.11% / 4.79% / 5.03% / 4.86%
2yr: 4.90% / 4.25% / 4.62% / 4.74%
3yr: 4.52% / 4.00% / 4.40% / 4.53%
5yr: 4.15% / 3.84% / 4.21% / 4.36%
7yr: 3.99% / 3.88% / 4.20% / 4.35%
10yr: 3.83% / 3.87% / 4.20% / 4.38%
20yr: 4.07% / 4.19% / 4.52% / 4.64%
30yr: 3.86% / 4.02% / 4.34% / 4.54%

Currencies

Euro: 1.090 / 1.057 / 1.079 / 1.071
Yen: 144.31 / 149.37 / 151.35 / 160.88
Peso: 17.124 / 17.422 / 16.558 / 18.318
Canadian \$: 1.324 / 1.357 / 1.354 / 1.367
Yuan: 7.253 / 7.299 / 7.222 / 7.267

Grain Futures

Corn: \$4.95 / \$4.71 / \$4.42 / \$4.21
Soybeans: \$12.06 / \$12.98 / \$11.92 / \$11.05
Wheat: \$6.46 / \$6.29 / \$5.61 / \$5.75
Random Lumber: \$548 / \$572 / \$586 / \$480

Job / Inflation Indicators

Unemployment: 3.6% / 3.7% / 3.8% / 4.1%
Consumer Price Index: 3.0% / 3.4% / 3.5% / 3.0%
Core PCE Index: 4.6% / 3.2% / 2.8% / 2.6%
Federal Funds Open: 5.07% / 5.31% / 5.31% / 5.31%
Prime Rate: 8.25% / 8.50% / 8.50% / 8.50%

19th Hole...

A reasonable probability is the only certainty. Edgar Watson Howe

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