

The paragraph below in *italics* was taken from my April 14 commentary:

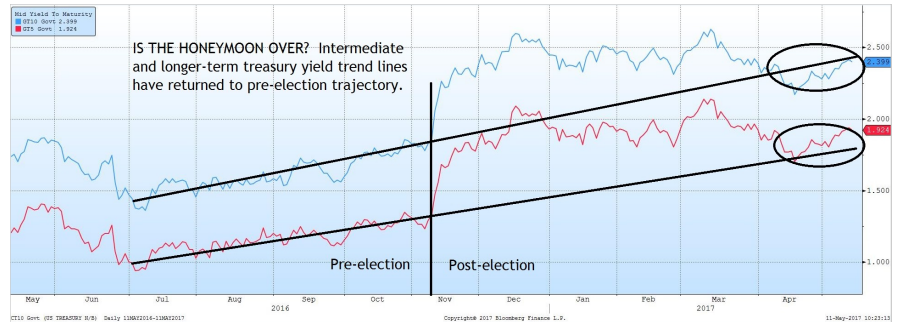
Bottom line: Treasury yields have moved lower over the past month as the market reconsiders its major underlying investment themes. Specifically, *this week's Bloomberg graph shows that intermediate and longer-term yields have declined as much as 39bps from their post-election peak on March 13. Going forward, the market will continue looking for data/news/comments/tweets (anything!) that supports their longer-term views of interest rates. If non-supportive data persists, expect the market to continue to remove its rates up bias.*

As the result of the bond markets continual reassessment of its economic outlook based on the current administration's desire to supercharge the economy via tax cuts, fiscal spending and deregulation, this week's Bloomberg graph shows that the trajectory of intermediate and longer-term treasury yields have returned to pre-election levels.

President Trump, having kicked off his administration with a round of executive orders, is facing strong institutional constraints as he continues his efforts to get many of his major initiatives through Congress and the courts. If not successful, his anticipated economic growth surge could turn into a slowdown.

Many of the orders issued during Trump's first 100 days were aimed at reducing regulatory burdens on U.S. industries. Some of those efforts have begun to bear fruit, but much of the work will occur in the weeks/months ahead. Meanwhile, even members of Trump's own party are skeptical of his legislative plans for health-care and taxes. Recent signs of skepticism can be seen in the wrangling between the administration and Congress over the fate of the Affordable Care Act. As a candidate, Trump promised to repeal the law quickly and has said he remains committed to that goal. While a GOP alternative has passed the House, its future in the Senate is unclear.

While the bond market's hope that current Washington grid-lock would be replaced with accommodative fiscal policy diminishes, the Fed looks to fast tracking its efforts to normalize monetary policy. Earlier this week, Boston Fed President Erik Rosengren urged his policy-making colleagues to raise interest rates **three more times** this year and consider starting to shrink the central bank's balance sheet after their next hike to avoid creating an "over-hot economy." "Along with a gradual reduction in the level of the balance sheet, it would still be reasonable to have three rate increases over the remainder of this year, assuming the economy evolves like my forecast envisions," he said. Rosengren shifted to the more hawkish wing of the policy-setting Federal Open Market Committee in 2016 after years of being a forceful advocate for keeping rates low. He has voiced worry over shooting too far past estimates of full employment. Remember to focus on those that carry the stick, Rosengren is not a voting member on the rate setting FOMC.



Bottom line: An overly optimistic Fed combined with the bond market's slower growth/inflation expectation has the makings of a flatter yield curve. As bankers, a flat yield curve challenges our ability to maintain net interest margin. Even though intermediate and longer-term treasury yields have returned to levels consistent with pre-election trajectory, consider selectively extending asset duration especially if your long-term interest rate risk profile, as measured by economic value of equity (EVE), is asset sensitive.

As always, your comments/questions are encouraged.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
5/15/2017	\$2,945,000	DODGE CITY KS 2017-A UT GO A+	2017-2026
5/15/2017	\$9,830,000	R3 SD JEFFERSON CO MO 2017A UT GO BQ AA+ MO DIR DEP/A+	2029-2037
5/15/2017	\$2,170,000	R3 SD JEFFERSON CO MO TAXABLE 2017B UT GO TAXABLE AA+ MO DIR DEP/A+	2019-2021,28
5/16/2017	\$1,075,000	MANHATTAN KS TAX 2017C UT GO TAXABLE Aa2 AA	2018-2047
5/16/2017	\$1,135,000	MANHATTAN KS TMP NT 2017-02 UT GO Aa2	2021
5/17/2017	\$2,200,000	WEAUBLEAU RIII SD HICKORY CO MO 2017 UT GO BQ RATINGS APPLIED	2024-2037
5/17/2017	\$2,100,000	ISD 56 PAYNE CO OK 2017 UT GO BQ	2019-2022
5/18/2017	\$27,000,000	R1 SD CLAY CO MO 2017 UT GO AA+, Aa1 MO DIR DEP/Aa3	2019-2037

We ask, listen and solve.

ECONOMIC CALENDAR

Monday 5/15	Tuesday 5/16	Wednesday 5/17	Thursday 5/18	Friday 5/19
Empire Manufacturing	Housing Starts Industrial Production MoM	MBA Mortgage Applications	Initial Jobless Claims Philadelphia Fed Business Outlook Leading Index	

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	4.00	4.00	3.50
Discount Rate	1.50	1.50	1.00
Fed Funds Rate	0.91	0.91	0.37
1-Mo. Libor	0.99	0.99	0.43
11th Dist COFI	0.58	0.59	0.69
1-Yr. CMT	1.11	1.05	0.53
Dow	20,896.61	20,591.86	17,720.50
NASDAQ	6,121.23	5,836.16	4,737.33
S&P 500	2,390.90	2,344.93	2,064.11
Bond Buyer	3.81	3.77	3.32

MUNI AA—BQ

3 Mo.	0.78
6 Mo.	0.84
1-Year	0.88
2-Year	1.02
3-Year	1.15
5-Year	1.48
7-Year	1.80
10-Year	2.30
30-Year	3.21

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	0.86				
6 Mo. Bill	1.01				
1-Year Bill	1.10				
2-Year Note	1.29	8			
3-Year Note	1.48	9		12	6
5-Year Note	1.85	10	25	20	8
7-Year Note	2.13	17	28	22	13
10-Year Note	2.32	41	42	37	27
30-Year Bond	2.99				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	45	55
3-Year	53	65
5-Year	60	83

MBS Current Coupon Yields

GNMA 30 Yr.	2.86%
FNMA 30 Yr.	3.06%
GNMA 15 Yr.	2.32%
FNMA 15 Yr.	2.37%

About the Author, Dennis Zimmerman



In July of 2015, Dennis joined Commerce Bank Capital Markets Group as Manager of Asset/Liability Services. Prior to joining Commerce, he held the Finance Treasury Officer position at Sunflower Bank, N.A., (a \$1.7 billion privately-held Community bank headquartered in Salina, Kansas) for over 12 years. As Asset/Liability Chairman and Senior Investment Officer, Dennis was responsible for appropriately managing the bank's margin, interest rate risk, liquidity and capital within acceptable risk parameters.

Prior to becoming Finance Treasury Officer, he had over 12 years of experience in fixed income markets as a Registered Investment Representative and Supervising Principal of Sunflower Bank's Capital Markets division. As a strategic-minded professional, Mr. Zimmerman offers a comprehensive understanding of finance treasury, fixed income, complex financial analysis as well as regulatory and operational awareness as related to the Community banking environment.

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