

Baker Market Update: Week in Review

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It has always seemed puzzling that the Federal Reserve Bank of Kansas City holds its big Economic Symposium each year in Wyoming. Why do they do that? After all, the Jackson Hole Fed never goes to Missouri. But this year, nobody went anywhere since pandemic considerations forced the event to be conducted virtually, with no majestic views of the Tetons in the background. Investors, though, were treated to Fed Chairman Jerome Powell's views of how the landscape for inflation will be managed in the future. Change is coming.

Simply stated, the Fed will now treat its 2% inflation goal as an average pace achieved over time rather than as a data-point marking a desired ceiling. What that means is, following periods of below-target experience, like the last ten years or so, policy-makers will allow inflation to run higher than the 2% target so that, over time, inflation averages 2%. For investors used to the Fed slamming on the economic brakes when inflation exceeds desired levels, that won't be happening in the future. That would, of course, require inflation to first achieve the 2% goal and that mountain hasn't really been climbed since the goal was established in 2012.

As luck would have it, a fresh report on the Fed's favorite measure of inflation came out just this morning and, well, the time for averaging is not yet upon us. According to the Bureau of Economic Analysis, the Personal Consumption Expenditures Index rose by 0.3% last month and that took the year-over-year rate to 1% from 0.9%. Without food and energy, core PCE also rose 0.3% in July and that took that twelve-month rate to 1.3% from 1.1%. Measuring inflation is always tricky and one man's inflation could be another's deflation depending on what goods and services are being consumed. The effects of the pandemic-induced lockdown and a fits-and-starts reopening process have caused massive destruction of, and changes to, aggregate demand while kinks and bottlenecks in supply chains have created price distortions that otherwise would not be there. Opinions vary widely about the ultimate inflationary/deflationary outcome of the covid effect.

That effect has certainly affected money spent and money earned and we also learned this morning that Personal Income surprised to the upside with a 0.4% rise last month as analysts predicted a 0.2% slip. In June, that measure slipped by 1.1%. But, with all the governmental transfer payments resulting from efforts to provide fiscal relief to those in need, this data is a little squishy. On the other side of the ledger, Personal Spending rose 1.9% beating estimates of just 1.6%, but that was a big comedown from June's upwardly revised 6.2%. Adjusted for inflation, Real Personal Spending notched a 1.6% rise last month and that also represents a big slowdown from June's upwardly revised 5.7%.

Going back to the week's beginning, the Chicago Fed published a rocky report on Monday revealing that its National Activity Index, a very comprehensive measure of economic conditions, took an unexpected dive to 1.18 from June's upwardly revised level of 5.33. This was an unwelcome surprise to forecasters who were only expecting a small slide to 3.7.

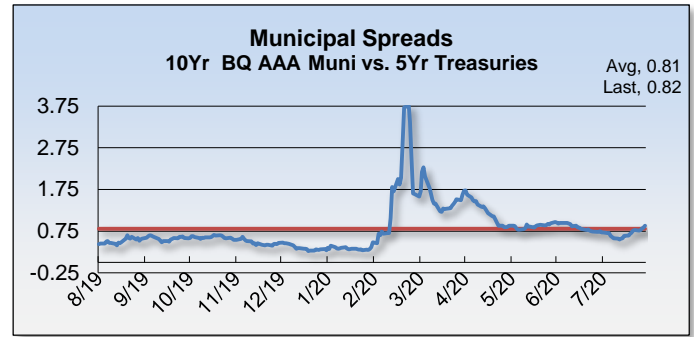
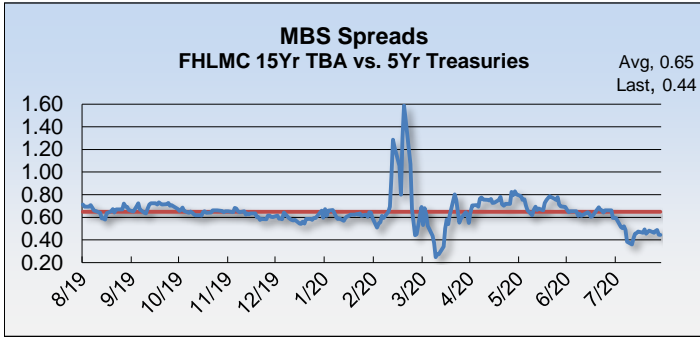
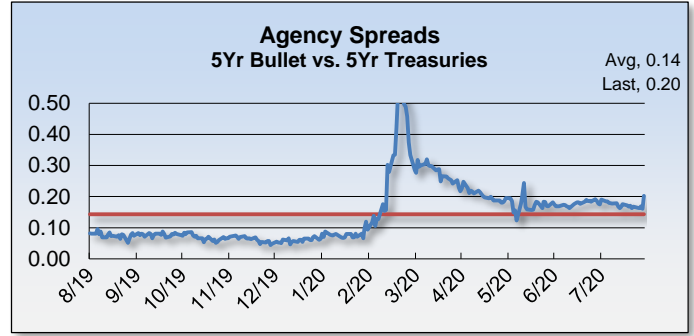
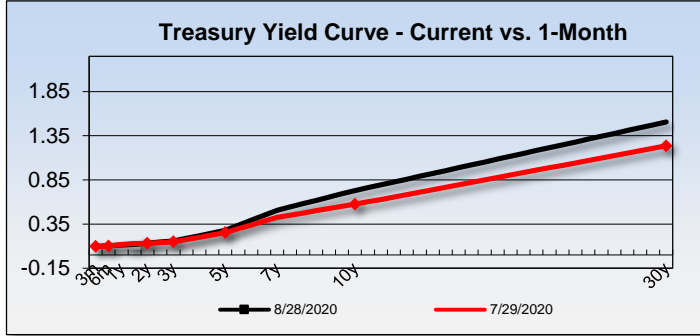
Happily, a more welcome surprise came from the FHFA who reported on Tuesday that, in June, its House Price Index rose by 0.9%; much improved over the prior months 0.2% slip and also better than the 0.3% gain that was expected. The CoreLogic Case-Shiller Housing Report also had some price news and it showed that, in June, its 20-city Price Index was unchanged allowing the year-over-year price-growth rate to slow to 3.46% from 3.61%. For all of the U.S., June's year-over-year pace of 4.29% was not a big change from the prior month's 4.32%, but it was a little slower. Housing has been a pretty big winner in the face of the pandemic and more people seeking peaky panoramas are buying more backyards. After last week's blowout report on Existing Home Sales, we learned this week that New Home Sales also blew out expectations with a 13.9% boost in June against a forecast of just 1.8%. Pending Home Sales also contributed to the house party with a 5.9% gain in July versus a 2% estimate.

Unfortunately, the rocky mountain high for housing doesn't extend to consumers as we learned from the Conference Board on Tuesday that its Confidence Index took a nosedive to 84.8 from 91.7 in the face of an expected rise to 93. The Present Situation sub-index face-planted even further to 84.2 from 95.9 while the Expectations sub-index slid to 85.2 from 88.9. The air's getting a little thin and it looks like consumers could use some more oxygen. Another take on how we're all feeling came our way earlier today with the University of Michigan's finalized August survey of Consumer Sentiment. The overall Sentiment Index showed a little life with a move to 74.1 from 72.8, but that measure was 101 in February and the view from consumers' perspectives is not very inspiring. Nor is it expected to become so. The Expectations sub-index managed a little improvement to 68.5 from 66.5, but the hole remains deep.

Better news may be that Manufacturing is climbing out of its hole with a report from the Kansas City Fed that its Manufacturing Index came out of nowhere with a vault to 14 from 3 with only a move to 5 anticipated. The Richmond Fed followed suit with a report that its Manufacturing Index likewise took an unexpected leap in August to 18 from 10 when no change was expected. Unfortunately, Markit News International reported that, in August, its Purchasing Managers Index, while still in the expansion zone, retrenched slightly to 51.2 from 51.9. In some related reports earlier in the week, we learned that Durable Goods Orders soared by 11.2% in July against a forecast of just 4.8% and on the heels of June's 7.7%. For core Capital Goods, their experience was a little more modest, but they still managed a 1.9% rise and that was slightly above the forecast. Just remember, the capex hole was deep and wide and we need a lot more of it.

We could use some more jobs, too, as we learned on Thursday that, for the week ending August 22nd, Initial Jobless Claims grew by 1M and while that is less than the prior week's 1.1M, it's still too many. Continuing Claims for the week ending August 15th managed a little improvement with that total coming down to 14.54M from 14.76M, but that's too many, too. But, as we also learned from Chairman Powell, the FOMC will be focusing on policies that improve and maintain the health and stability of the labor market and won't be bothered if the Unemployment Rate falls below the Non-Accelerating Inflation Rate of Unemployment, probably known better to readers as u*. Sometimes Jerome gets a little wonky.

The Treasury market got a little wonky this week as investors watched the Ten-Year's yield rise from a beginning-of-the-week 64 basis points to yesterday's 74 basis points with today's little rally bringing that back down to around 0.71%. The Long-Bond got to 1.50% yesterday but today's half-point price gain has pushed it below that level. Equity indices continue to climb into thinner and thinner air and one is left to wonder when, or if, they're ever going to succumb to a blackout. Gold got tossed around this week but today's \$43 gain so far has pushed its price to around \$1,974. Crude oil had a pretty steady week despite the hurricanes in the Gulf and is resting just above \$43. If we learned nothing else this week, we discovered that, if Jerome can't go to the mountains, the mountains can still go to Jerome. Have a great week; be careful out there. Especially in California.



Treasury Market -- Historical						Fixed Rate Market												
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro						
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr		
3mo	0.10	0.00	0.11	1.28	1.98	2yr	0.19	0.23	0.22	0.24	0.24	2Yr	0.18	0.19	0.18	-		
6mo	0.11	(0.01)	0.12	1.16	1.87	3yr	0.27	0.24	0.24	0.25	0.35	3Yr	0.29	0.29	0.20	0.25		
1yr	0.11	(0.01)	0.13	1.02	1.74	5yr	0.47	0.34	0.36	0.39	0.56	5Yr	0.53	0.54	0.55	0.51		
2yr	0.13	(0.01)	0.14	0.92	1.50	7yr	0.69	0.50	0.66	0.70	0.85	7Yr	0.80	0.81	0.82	0.79		
3yr	0.16	(0.01)	0.16	0.90	1.46	10yr	1.08	0.72	1.12	1.19	1.31	10Yr	1.14	1.14	1.16	1.13		
5yr	0.28	0.01	0.26	0.94	1.38	15yr	1.47	0.95	1.60	1.70	1.84	September TBA MBS						
7yr	0.51	0.06	0.43	1.06	1.43	20yr	1.87	1.06	1.89	2.01	2.40	Cpn	15Yr -Yld/AL	30Yr -Yld/AL				
10yr	0.73	0.10	0.58	1.15	1.48	25yr	2.26	1.10	2.03	2.16	2.46	2.00	0.94	3.9y	1.36			
30yr	1.51	0.16	1.22	1.68	1.97	30yr		1.12	2.17	2.31	2.51	2.50	0.97	3.4y				
												3.00	1.17	2.9y	0.81	2.7y		
												3.50	1.06	2.4y	0.70	2.1y		
												4.00			0.66	2.1y		
												4.50			1.06	2.5y		

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	1.75	2.25
Primary Discount	0.25	--	0.25	2.25	2.75
2ndary Discount	0.75	--	0.75	2.75	3.25
Prime Rate	3.25	--	3.25	4.75	5.25
Sec. O.N. Finance	0.07	--	0.10	1.58	--
1 Month LIBOR	0.16	(0.01)	0.17	1.60	2.14
3 Month LIBOR	0.26	0.01	0.25	1.61	2.14
6 Month LIBOR	0.31	0.00	0.32	1.59	2.08
1 Year LIBOR	0.45	0.00	0.46	1.61	2.03
6 Month CD	0.21	0.02	0.34	1.30	1.95
1 Year CMT	0.13	0.01	0.14	1.18	1.77
REPO O/N	0.09	--	0.13	1.60	2.08
REPO 1Wk	0.13	--	0.08	1.50	2.16
CoF Federal	1.107	--	1.158	1.914	2.260
11th D. CoF (Jun)	0.682	--	0.755	1.036	1.141

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.28	0.40	0.39
6mo	0.29	0.41	0.43
1yr	0.34	0.35	0.48
2yr	0.37	0.54	0.53
3yr	0.41	0.61	0.60
4yr	0.52	0.73	0.72
5yr	0.62	0.83	0.80
7yr	0.92	1.16	1.08
10yr	1.27	1.54	1.43
5yr Am	0.48		0.76
10yr Am	0.91		1.18

Fed Fund Futures	
Maturity	Rate
Aug-20	0.093
Sep-20	0.075
Oct-20	0.070
Nov-20	0.065
Dec-20	0.060
Jan-21	0.055
Feb-21	0.050
Mar-21	0.045
Apr-21	0.045
May-21	0.040
Jun-21	0.040

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
8/25	House Price Purchase Index QoQ	2Q	--	0.8%	1.7%	--
8/25	S&P CoreLogic CS 20-City YoY NSA	Jun	3.60%	3.46%	3.69%	3.61%
8/25	S&P CoreLogic CS US HPI YoY NSA	Jun	--	4.29%	4.46%	4.32%
8/25	Conf. Board Consumer Confidence	Aug	93.0	84.8	92.6	91.7
8/25	Conf. Board Present Situation	Aug	--	84.2	94.2	95.9
8/25	Conf. Board Expectations	Aug	--	85.2	91.5	88.9
8/25	New Home Sales	Jul	790k	901k	776k	791k
8/26	MBA Mortgage Applications	8/21	--	-6.5%	-3.3%	--
8/26	Durables Ex Transportation	Jul P	2.0%	2.4%	3.6%	4.0%
8/26	Cap Goods Ship Nondef Ex Air	Jul P	1.8%	2.4%	3.3%	3.8%
8/27	GDP Annualized QoQ	2Q S	-32.5%	-31.7%	-32.9%	--
8/27	Personal Consumption	2Q S	-34.2%	-34.1%	-34.6%	--
8/27	GDP Price Index	2Q S	-1.8%	-2.0%	-1.8%	--
8/27	Core PCE QoQ	2Q S	-1.1%	-1.0%	-1.1%	--
8/27	Initial Jobless Claims	8/22	1000k	1006k	1106k	1104k
8/27	Continuing Claims	8/15	14400k	14535k	14844k	14758k
8/27	Bloomberg Consumer Comfort	8/23	--	44.3	43.5	--
8/27	Pending Home Sales NSA YoY	Jul	10.8%	15.4%	12.7%	11.8%
8/28	Personal Income	Jul	-0.2%	0.4%	-1.1%	-1.0%
8/28	Real Personal Spending	Jul	1.3%	1.6%	5.2%	5.7%
8/28	PCE Deflator YoY	Jul	1.0%	1.0%	0.8%	0.9%
8/28	PCE Core Deflator YoY	Jul	1.2%	1.3%	0.9%	1.1%
8/28	MINI Chicago PMI	Aug	52.6	51.2	51.9	--
8/28	U. of Mich. Sentiment	Aug F	72.8	74.1	72.8	--
8/28	U. of Mich. Current Conditions	Aug F	82.4	82.9	82.5	--
8/28	U. of Mich. 1 Yr Inflation	Aug F	--	3.1%	3.0%	--
9/1	Markit US Manufacturing PMI	Aug F	53.6	--	53.6	--
9/1	ISM Manufacturing	Aug	54.5	--	54.2	--
9/1	ISM New Orders	Aug	--	--	61.5	--
9/1	ISM Prices Paid	Aug	54.5	--	53.2	--
9/1	ISM Employment	Aug	--	--	44.3	--
9/2	ADP Employment Change	Aug	900k	--	167k	--
9/3	Challenger Job Cuts YoY	Aug	--	--	576.1%	--
9/3	Nonfarm Productivity	2Q F	7.3%	--	7.3%	--
9/3	Unit Labor Costs	2Q F	12.2%	--	12.2%	--
9/3	Markit US Services PMI	Aug F	54.8	--	54.8	--
9/3	Markit US Composite PMI	Aug F	--	--	54.7	--
9/3	ISM Services Index	Aug	57.0	--	58.1	--
9/4	Change in Nonfarm Payrolls	Aug	1456k	--	1763k	--
9/4	Two-Month Payroll Net Revision	Aug	--	--	17k	--
9/4	Change in Private Payrolls	Aug	1350k	--	1462k	--
9/4	Change in Manufact. Payrolls	Aug	70k	--	26k	--
9/4	Unemployment Rate	Aug	9.8%	--	10.2%	--
9/4	Average Hourly Earnings YoY	Aug	4.5%	--	4.8%	--
9/4	Average Weekly Hours All Employees	Aug	34.5	--	34.5	--
9/4	Labor Force Participation Rate	Aug	--	--	61.4%	--
9/4	Underemployment Rate	Aug	--	--	16.5%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.5	20.6	23.1	29.1	26.3	10.7
FH/FN 15y	9.9	13.8	41.1	51.2	19.7	19.2
GN 15y	32.3	26.1	27.1	23.9	23.6	22.1
FH/FN 20y	3.6	20.6	27.6	29.5	30.1	22.2
FH/FN 30y	4.2	16.2	33.8	55.5	63.7	56.4
GN 30y	28.2	20.5	24.2	38.2	38.7	33.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.1	18.5	19.4	28.1	22.9	17.8
FH/FN 15y	15.9	20.1	23.2	27.1	18.8	20.5
GN 15y	24.8	13.7	16.5	16.2	14.4	13.4
FH/FN 20y	21.5	21.5	22.4	21.5	21.0	18.0
FH/FN 30y	14.9	21.9	34.2	37.8	36.3	30.9
GN 30y	12.4	16.8	26.6	26.5	28.2	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.28	(0.52)	105.09	107.89	106.12
Euro	1.19	0.01	1.17	1.10	1.11
Dollar Index	92.38	(0.87)	93.70	98.13	98.21
Major Stock Indices					
Dow Jones	28,547	617	26,379	25,409	26,036
S&P 500	3,487.7	90.6	3,218.4	2,954.2	2,887.9
NASDAQ	11,674.9	363	10,402.1	8,567.4	7,856.9
Commodities					
Gold	1,958.4	23.8	1,944.6	1,566.7	1,537.8
Crude Oil	42.86	0.52	41.04	44.76	55.78
Natural Gas	2.65	0.20	1.80	1.68	2.25
Wheat	540.5	13.3	523.5	529.0	472.3
Corn	342.3	15.3	320.0	366.5	362.8

Notes

- 1 Call Agy = Maturity at left w/ a 1-Year Call at Par
- 2 Muni TEY (21% Fed, 0.75% CoF)
- 3 S-Corp TEY Muni (29.6%, no TEFERA)
- 4 MBS Prepayments are provided by Bloomberg

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