

Baker Market Update: Week in Preview

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This week could well produce some market moving events. For one thing, it brings us the end of Quarter #3 and odd behavior has been known to occur as calendar quarters come to an end. Another thing might be that Congress surprises everyone by deciding its two sides can agree on something that might resemble a reasonable next-phase of fiscal stimulus. There's also a Presidential debate this week and it's anyone's guess how election probabilities might change as the two protagonists seek new and creative ways to antagonize each other. On the data front, this week's big attention-getter will likely be the brand new Jobs Report the BLS will be releasing on Friday. Will September be a reprise of August's pleasant outcome?

Before we find out, there's a whole lot of other numbers to wade through this week, beginning with this morning's Manufacturing Index from the Dallas Fed. We'll find out a little later this morning whether it met expectations with a move to 9.5 this month from a level of 8 in August. Most other regional manufacturing indices have surprised to the upside, of late, as efforts rise to replenish inventories. We'll find out more about that on Tuesday morning when the Census Bureau is likely to report that Wholesale Inventories fell 0.1% in August. Crimps and disruptions in various supply chains have been a sporadic source of somewhat random price-level adjustments in not only food, but a variety of consumer products.

Tuesday also brings some Housing news with the Case-Shiller CoreLogic Report showing that Home Prices probably rose 0.1% in July across its 20-City Index after being unchanged in June. Year-over-year, the report should show that prices have risen 3.6%, outpacing the previous 3.46% twelve-month rate. Also on Tuesday, the Conference Board is expected to tell us that its Consumer Confidence Index rose to 90 this month from August's 84.8. In February, that measure was 132 and closed out the first quarter at 118.

Wednesday brings the ADP Private Payroll report and those guys are looking for a growth of 630k new jobs after August's rise of 428k. We'll also get the third recount of Q2 GDP results and they haven't gotten any better. It's time to let it go. But, a report from Market News International should tell us that its Chicago Business Barometer got a little better with a move to 52 this month from the prior month's 51.2. After that, the National Association of Realtors should report that Pending Home Sales rose by 3% last month in a little slowdown from July's 5.9% growth.

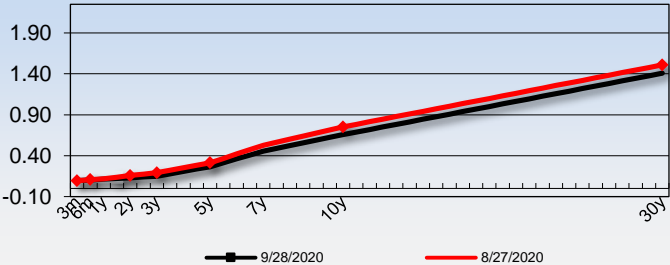
Everyone wants a slowdown in the growth of Initial Jobless Claims, but all we're expecting from Thursday's report is that, for the week ending September 26th, 850k new applications were made and that's just not a whole lot better than the prior week's 870k. Continuing Claims for the week ending September 19th, should see a decline to 12.25M from the prior week's 12.58M. While the BLS is telling us that, the Bureau of Economic Analysis will be telling us that Personal Income fell 2.5% last month; not surprising after the expiration of supplemental employment benefits at the end of July. Also for August, Personal Spending is expected to have grown by just 0.8%, and that's less than half of July's 1.9% rise. Adjusted for inflation, Real Personal Spending probably slowed to a 0.5% growth rate from July's 1.6% pace.

The BEA will also be reporting some inflation news with an August update to its Personal Consumption Expenditures Index. The report is expected to show a 0.3% monthly rise in the headline rate, taking the August year-over-year rate to 1.2% from 1%. Without food and energy, core PCE also probably rose 0.3% last month and if that plays out, the twelve-month rate should see a slight rise to 1.4%. Inflation's not dead, but it looks pretty sleepy. As does Markit's PMI for September Manufacturing; the experts are thinking it stayed the same at 53.5. A little better news is expected out of the Census Bureau's report telling us that Construction Spending rose by 0.7% in August. Another incremental improvement is expected to come from the Institute of Supply Management with a report showing that its diffusion index for Manufacturing rose this month to 56.3 from 56. Wards Automotive Group is also expected to tell us on Thursday that Total Vehicle Sales rose in September to a 15.6M annual rate from 15.2M in August as car sales remain brisk. At least someone has somewhere to go.

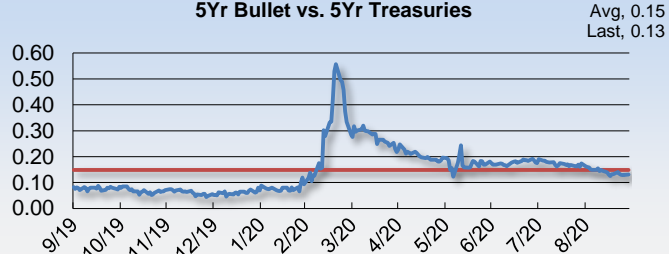
Finally on Friday, the BLS is forecast to report that 850k new jobs were created in September; down from August's 1.37M, while the Unemployment Rate likely fell two-tenths to 8.2%. Average Hourly Earnings might show a rise of 0.2% for the month while the year-over-year growth rate inched up to 4.8% from 4.7%. As always, the caveat of governmental transfer payments render these statistics a little hollow. A more meaningful number would be the expected rise in the Labor Force Participation Rate from 61.7% to 61.9%. Unfortunately, no rise is expected in the Wolverine Participation Rate and the University of Michigan will likely tell us that, at 78.9, there was no change in the U of M Consumer Sentiment Index. Is that like a punt?

So far this morning, perceived improvement in business conditions across Europe have sparked a rally that looks like it will transfer to domestic markets upon their opening. Treasury prices have slipped just a touch with the Ten-Year's yield moving up slightly to 67 basis points while the Long Bond has been pushed to 1.42%. Gold is up a few bucks to around \$1,865 while crude oil has regained a \$40 handle. Have a great week; be careful out there.

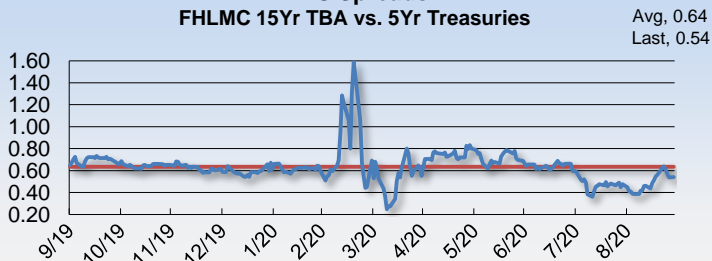
Treasury Yield Curve - Current vs. 1-Month



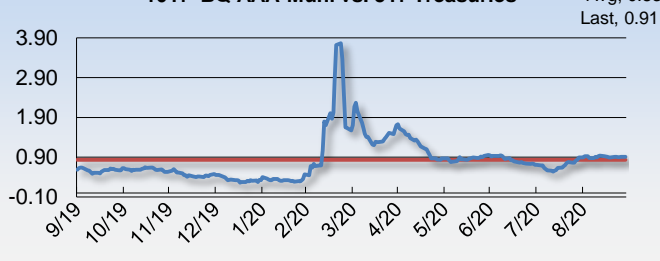
Agency Spreads
5Yr Bullet vs. 5Yr Treasuries



MBS Spreads
FHLMC 15Yr TBA vs. 5Yr Treasuries



Municipal Spreads
10Yr BQ AAA Muni vs. 5Yr Treasuries



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	0.01	0.10	-0.01	1.79	2yr	0.17	0.22	0.18	0.19	0.27	2Yr	0.18	0.19	0.18	-
6mo	0.10	(0.00)	0.11	0.01	1.84	3yr	0.25	0.24	0.20	0.21	0.38	3Yr	0.27	0.29	0.20	0.25
1yr	0.11	(0.00)	0.11	0.10	1.76	5yr	0.43	0.34	0.34	0.36	0.60	5Yr	0.52	0.54	0.53	0.50
2yr	0.13	(0.01)	0.13	0.24	1.63	7yr	0.59	0.49	0.67	0.72	0.96	7Yr	0.76	0.78	0.78	0.75
3yr	0.15	(0.01)	0.15	0.29	1.61	10yr	1.01	0.69	1.16	1.24	1.34	10Yr	1.10	1.11	1.13	1.09
5yr	0.27	(0.00)	0.27	0.39	1.56	15yr	1.43	0.91	1.62	1.73	1.83	October TBA MBS				
7yr	0.45	(0.00)	0.50	0.57	1.63	20yr	1.85	1.02	1.92	2.04	2.31	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.66	(0.01)	0.72	0.68	1.68	25yr	2.27	1.06	2.07	2.20	2.37	2.00	0.60	2.9y	1.41	
30yr	1.41	(0.01)	1.50	1.27	2.13	30yr		1.08	2.21	2.35	2.42	2.50	0.62	2.4y		
												3.00	0.53	2.1y	1.10	2.7y
												3.50	0.77	2.3y	1.12	2.4y
												4.00			1.15	2.5y
												4.50			1.40	2.9y

* Interpolated

Key Market Indices

Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	2.00
Primary Discount	0.25	--	0.25	0.25	2.50
2ndary Discount	0.75	--	0.75	0.75	3.00
Prime Rate	3.25	--	3.25	3.25	5.00
Sec. O.N. Finance	0.08	(0.01)	0.08	0.01	--
1 Month LIBOR	0.15	(0.01)	0.17	0.96	2.05
3 Month LIBOR	0.22	(0.01)	0.25	1.27	2.10
6 Month LIBOR	0.27	(0.00)	0.31	1.07	2.04
1 Year LIBOR	0.37	(0.00)	0.44	0.99	1.99
6 Month CD	0.29	(0.01)	0.21	0.80	1.96
1 Year CMT	0.12	(0.01)	0.13	0.19	1.82
REPO O/N	0.08	(0.03)	0.09	-0.04	1.83
REPO 1Wk	0.13	0.01	0.13	0.07	1.97
CoF Federal	1.053	--	1.107	1.888	2.200
11th D. CoF (Jul)	0.653	--	0.682	0.984	1.155

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Topeka
3mo	0.26	0.38	0.39
6mo	0.28	0.39	0.41
1yr	0.32	0.33	0.43
2yr	0.33	0.50	0.44
3yr	0.39	0.58	0.51
4yr	0.44	0.65	0.57
5yr	0.59	0.80	0.71
7yr	0.81	1.06	0.94
10yr	1.13	1.42	1.27
5yr Am	0.44		0.63
10yr Am	0.82		1.01

Fed Fund Futures

Maturity	Rate
Sep-20	0.090
Oct-20	0.082
Nov-20	0.075
Dec-20	0.070
Jan-21	0.065
Feb-21	0.055
Mar-21	0.050
Apr-21	0.055
May-21	0.050
Jun-21	0.050
Jul-21	0.050

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
9/28	Dallas Fed Manf. Activity	Sep	9.5	--	8.0	--
9/29	Advance Goods Trade Balance	Aug	-\$81.7b	--	-\$79.3b	--
9/29	Wholesale Inventories MoM	Aug P	-0.1%	--	-0.3%	--
9/29	Retail Inventories MoM	Aug	1.1%	--	1.2%	--
9/29	S&P CoreLogic CS 20-City YoY NSA	Jul	3.60%	--	3.46%	--
9/29	S&P CoreLogic CS US HPI YoY NSA	Jul	--	--	4.29%	--
9/29	Conf. Board Consumer Confidence	Sep	90.0	--	84.8	--
9/29	Conf. Board Present Situation	Sep	--	--	84.2	--
9/29	Conf. Board Expectations	Sep	--	--	85.2	--
9/30	MBA Mortgage Applications	9/25	--	--	6.8%	--
9/30	ADP Employment Change	Sep	648k	--	428k	--
9/30	GDP Annualized QoQ	2Q T	-31.7%	--	-31.7%	--
9/30	Personal Consumption	2Q T	-34.1%	--	-34.1%	--
9/30	GDP Price Index	2Q T	-2.0%	--	-2.0%	--
9/30	Core PCE QoQ	2Q T	-1.0%	--	-1.0%	--
9/30	MNI Chicago PMI	Sep	52.0	--	51.2	--
9/30	Pending Home Sales NSA YoY	Aug	--	--	15.4%	--
10/1	Challenger Job Cuts YoY	Sep	--	--	1.17	--
10/1	Initial Jobless Claims	9/26	850k	--	870k	--
10/1	Continuing Claims	9/19	12200k	--	12580k	--
10/1	Personal Income	Aug	-2.5%	--	0.4%	--
10/1	Real Personal Spending	Aug	0.5%	--	1.6%	--
10/1	PCE Deflator YoY	Aug	1.2%	--	1.0%	--
10/1	PCE Core Deflator YoY	Aug	1.4%	--	1.3%	--
10/1	Bloomberg Consumer Comfort	9/27	--	--	49.8	--
10/1	Markit US Manufacturing PMI	Sep F	53.5	--	53.5	--
10/1	ISM Manufacturing	Sep	56.2	--	56.0	--
10/1	ISM New Orders	Sep	--	--	67.6	--
10/1	ISM Prices Paid	Sep	58.6	--	59.5	--
10/1	ISM Employment	Sep	--	--	46.4	--
10/2	Change in Nonfarm Payrolls	Sep	850k	--	1371k	--
10/2	Two-Month Payroll Net Revision	Sep	--	--	-39k	--
10/2	Change in Private Payrolls	Sep	875k	--	1027k	--
10/2	Change in Manufact. Payrolls	Sep	35k	--	29k	--
10/2	Unemployment Rate	Sep	8.2%	--	8.4%	--
10/2	Average Hourly Earnings YoY	Sep	4.8%	--	4.7%	--
10/2	Average Weekly Hours All Employees	Sep	34.6	--	34.6	--
10/2	Labor Force Participation Rate	Sep	61.9%	--	61.7%	--
10/2	Underemployment Rate	Sep	--	--	14.2%	--
10/2	U. of Mich. Sentiment	Sep F	78.9	--	78.9	--
10/2	U. of Mich. Current Conditions	Sep F	--	--	87.5	--
10/2	U. of Mich. 1 Yr Inflation	Sep F	--	--	2.7%	--
10/2	Cap Goods Ship Nondef Ex Air	Aug F	--	--	1.5%	--
10/5	Markit US Composite PMI	Sep F	--	--	54.4	--
10/5	ISM Services Index	Sep	56.1	--	56.9	--
10/6	Trade Balance	Aug	-\$64.9b	--	-\$63.6b	--
10/6	JOLTS Job Openings	Aug	6500	--	6618	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.6	22.0	25.1	29.4	27.6	10.8
FH/FN 15y	11.5	17.4	42.5	49.6	20.9	20.5
GN 15y	33.6	28.2	28.3	25.5	24.6	21.7
FH/FN 20y	1.8	24.6	30.2	30.5	30.5	22.5
FH/FN 30y	11.0	21.0	36.3	56.0	61.2	54.5
GN 30y	23.7	22.9	31.2	44.5	40.2	34.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	18.8	20.3	20.9	23.4	26.2	20.1
FH/FN 15y	20.0	24.1	28.2	29.4	21.3	19.8
GN 15y	14.6	15.5	16.7	15.6	14.4	13.4
FH/FN 20y	21.2	27.1	21.8	19.9	20.2	17.9
FH/FN 30y	14.4	21.1	31.5	33.1	33.7	28.9
GN 30y	10.4	14.7	28.5	34.2	36.0	15.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.46	0.81	105.37	107.76	108.08
Euro	1.17	(0.01)	1.19	1.10	1.09
Dollar Index	94.28	0.62	92.37	98.37	99.11
Major Stock Indices					
Dow Jones	27,174	(483)	28,654	21,637	26,820
S&P 500	3,298.5	(21.0)	3,508.0	2,541.5	2,961.8
NASDAQ	10,913.6	120	11,695.6	7,502.4	7,939.6
Commodities					
Gold	1,866.4	(35.7)	1,966.8	1,625.0	1,499.1
Crude Oil	40.70	1.39	42.97	21.51	55.91
Natural Gas	2.07	0.24	2.66	1.63	2.40
Wheat	540.8	-14.0	539.3	571.3	487.3
Corn	363.3	-6.5	346.0	346.0	371.5

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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