

Baker Market Update: Week in Review

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There will not be a recording of today's BMU.

Like everything else in 2020, Thanksgiving in the Year of the Covid was certainly non-traditional. The Pilgrims could hardly have contemplated that the custom they started at Plymouth in 1621 would have devolved into zooming, skypping, and face-timing. Not only that, America's team looked pretty bad yesterday. Thankfully, the FOMC also broke with tradition by releasing the minutes of their November meeting on Wednesday afternoon so that families could have something to discuss as they sat around their virtual holiday gatherings. How'd that go?

Investors in general greeted the contents of the minutes with a yawn as the continuing refrain of continuing asset purchases and the need for more fiscal stimulus describes the current state of monetary policy. That, and of course, uncertainty. In a rare moment of insight, some members broached the topic of unintended consequences that may result from the current stance of that policy. If they were still around, the Native Americans who first came to the aid of the struggling colonists might have their own perspective about unintended consequences.

For now, the fear that ultra-loose monetary conditions and ultra-low rates may one day foment hyper-inflation remains on the burner behind the back-burner as we learned this week that disinflation remains the prevailing theme. On Wednesday, the Bureau of Economic Analysis reported that its Personal Consumption Expenditures Index, the Fed's preferred inflation gauge, was unchanged in October and that allowed the year-over-year pace to fall to 1.2% from 1.4%. Without food and energy, core PCE was also stagnant last month pushing the year-over-year rate down to 1.4% from 1.6%. At this rate, indoor dining will make a comeback long before inflation does.

A comeback of sorts was seen on Monday when the Chicago Fed reported that its National Activity Index got a boost in October to 0.83 from September's revised 0.32 against expectations of a slip to 0.27. This report is a bit of an outlier as most broad measures of economic vitality have been showing declines similar to the one reported this week by the Richmond Fed. It's Manufacturing Index fell harder than expected this month to 15 from 29 in the face of an expected dip to 20.

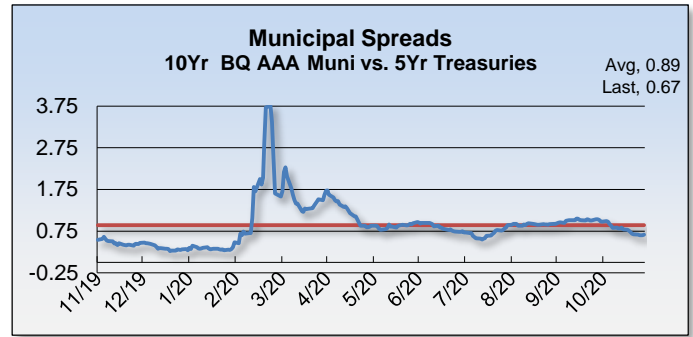
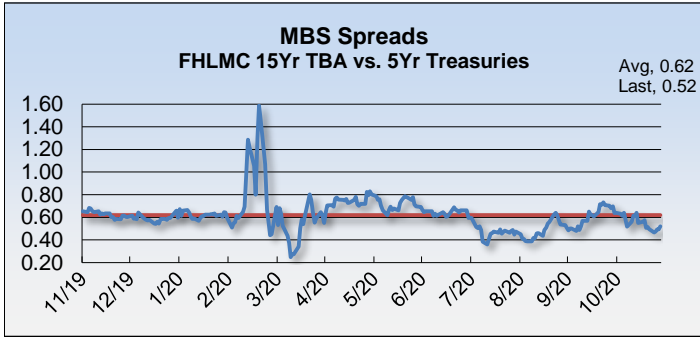
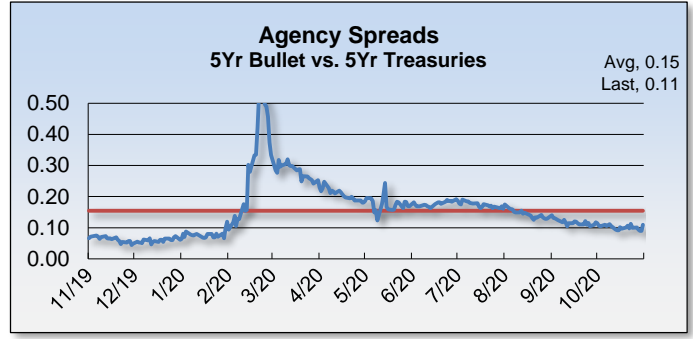
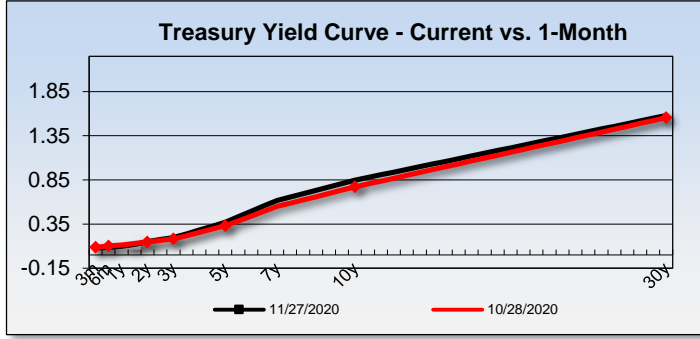
That may help explain why the Conference Board's Consumer Confidence Index plummeted to 96.1 this month after October's level of 100.9 was revised to 101.4. That just made the fall all the more painful as forecasters only foresaw a slip to 98. The Expectations sub-index likewise took it on the chin with a fall to 89.5 from 98.2. The University of Michigan has its own take on the mindset of Americans and, relatively speaking, that mindset held up a little better this month than what the Conference Board might have us think. The U of M Index of Consumer Sentiment fell to 76.9 from 77 while the Expectations component fell to 70.5 from 71.3. The Wolverines, however, do expect to beat hapless Penn State when they play tomorrow.

But, if the positive outlook of American consumers is on the decline, which it is, one couldn't tell that from a look at the current housing market. On Tuesday, we learned that the FHFA's House Price Index rose by 1.7% in September in a nice follow-up to the prior month's rise of 1.5%. Analysts were looking for a decline to 0.8%. More price news came from this week's Case-Shiller CoreLogic report showing that its 20-City Price Index rose by 1.27% in September when only a rise of 0.7% was expected. Year-over-year, that measure rose by a whopping, yes whopping, 6.57% versus a forecast of just 5.3%. Even if that forecast hadn't been overshot, 5.3% would still be pretty whopping. For all of the United States, and there's still just 50 of them for now, the Case-Shiller Index has risen by a bigger-than-whopping 6.96% year-over-year.

Unfortunately, Initial Jobless Claims are also on the rise again and the week ending November 21st saw 778k new claimants. That's up from the prior week's 748k and that was up from the week before that. Analysts were only analyzing about 730k. Continuing Claims for the week ending November 14th fared somewhat better with a fall to 6.07M from 6.37M and that was pretty close to what was expected. For GDP, the second estimate of Q3 results came out this week and it looked a lot like the first estimate. For Q4 GDP, opinions vary. The Atlanta Fed's GDPNow model as of November 25th is looking at 11% growth while the look from the New York Fed's GDP Nowcast as of today only sees 2.8%. But, we've still got a ways to go.

What Q4 growth ultimately looks like will ultimately be up to consumers, as always. We learned this week that Personal Income fell by 0.7% in October and that was a lot more than the anticipated slip of just 0.1%. Transfer payments are running out, but savings are being spent. Because of that, Personal Spending was able to manage a 0.5% boost in October, about what was expected, but a material slow-down from September's 1.2% growth. When adjusted for inflation, and that adjustment is getting smaller, Real Personal Spending managed a greater-than-expected rise of 0.5%. For business spending, it was low expectations that helped October's Durable Goods Orders look pretty vibrant with a 1.3% gain. That's a good outcome when one is only expecting 0.8%, but it's still a big slow-down from September's 2.1%. Similarly with core Capital Goods Orders, October's growth of 0.7% beat estimates of just 0.5%, but still a long way from the prior month's upwardly revised gain of 1.9%.

While equity investors watched the DJIA set an all-time record of 30,000 this week, bond investors have not taken the bait. One might have expected Treasury investors to be running for the exits amid all the stock-market hype, but Treasury investors are smarter than that. So, the Ten-Year still languishes between 85 and 90 basis points and on those occasions when the Long Bond's yield breaks above 1.60%, it can't seem to stay there very long. Unlike Uncle Ambrose at the dinner table. Have a great weekend; be careful out there.



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	0.08	0.01	0.09	0.14	1.60	2yr	0.19	0.25	0.21	0.22	0.25	2Yr	0.18	0.18	0.17	-
6mo	0.09	(0.00)	0.10	0.17	1.62	3yr	0.27	0.29	0.24	0.25	0.35	3Yr	0.26	0.27	0.20	0.25
1yr	0.10	(0.00)	0.12	0.18	1.59	5yr	0.50	0.44	0.32	0.34	0.54	5Yr	0.53	0.54	0.55	0.54
2yr	0.15	(0.01)	0.15	0.18	1.63	7yr	0.70	0.63	0.59	0.63	0.92	7Yr	0.82	0.83	0.82	0.82
3yr	0.19	(0.01)	0.18	0.22	1.63	10yr	1.14	0.86	1.02	1.09	1.31	10Yr	1.12	1.16	1.17	1.16
5yr	0.37	(0.00)	0.33	0.35	1.63	15yr	1.57	1.09	1.40	1.49	1.91	December TBA MBS				
7yr	0.62	0.01	0.55	0.52	1.72	20yr	2.00	1.20	1.68	1.79	2.49	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.85	0.02	0.77	0.68	1.77	25yr	2.44	1.25	1.83	1.95	2.55	2.00	0.92	3.8y	1.20	
30yr	1.58	0.06	1.55	1.44	2.19	30yr		1.27	1.99	2.12	2.60	2.50	1.12	3.1y		
												3.00	1.23	2.8y	0.87	2.2y
												3.50	1.14	2.6y	0.59	2.0y
												4.00			0.68	2.1y
												4.50			0.83	2.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	1.75
Primary Discount	0.25	--	0.25	0.25	2.25
2ndary Discount	0.75	--	0.75	0.75	2.75
Prime Rate	3.25	--	3.25	3.25	4.75
Sec. O.N. Finance	0.08	0.01	0.08	0.04	--
1 Month LIBOR	0.15	0.00	0.15	0.17	1.70
3 Month LIBOR	0.22	0.01	0.22	0.37	1.91
6 Month LIBOR	0.26	(0.00)	0.25	0.57	1.91
1 Year LIBOR	0.33	(0.01)	0.33	0.68	1.94
6 Month CD	0.28	0.06	0.29	0.45	1.90
1 Year CMT	0.11	--	0.12	0.17	1.58
REPO O/N	0.07	0.01	0.11	0.01	1.59
REPO 1Wk	0.13	0.05	0.09	0.06	1.61
CoF Federal	1.003	--	1.019	1.333	2.068
11th D. CoF (Sep)	0.523	--	0.529	0.884	1.127

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.36	0.34
6mo	0.26	0.37	0.31
1yr	0.31	0.32	0.33
2yr	0.35	0.53	0.39
3yr	0.40	0.60	0.45
4yr	0.51	0.73	0.56
5yr	0.63	0.86	0.68
7yr	0.93	1.19	0.99
10yr	1.25	1.54	1.31
5yr Am	0.47		0.59
10yr Am	0.91		1.03

Fed Fund Futures	
Maturity	Rate
Nov-20	0.088
Dec-20	0.085
Jan-21	0.080
Feb-21	0.075
Mar-21	0.070
Apr-21	0.075
May-21	0.070
Jun-21	0.070
Jul-21	0.070
Aug-21	0.070
Sep-21	0.070

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/23	Chicago Fed Nat Activity Index	Oct	27.0%	83.0%	27.0%	32.0%
11/23	Markit US Manufacturing PMI	Nov P	53.0	56.7	53.4	--
11/23	Markit US Composite PMI	Nov P	--	57.9	56.3	--
11/24	FHFA House Price Index MoM	Sep	0.8%	1.7%	1.5%	--
11/24	House Price Purchase Index QoQ	3Q	--	3.1%	0.8%	1.0%
11/24	S&P CoreLogic CS 20-City YoY NSA	Sep	5.30%	6.57%	5.18%	5.33%
11/24	S&P CoreLogic CS US HPI YoY NSA	Sep	--	6.96%	5.71%	5.81%
11/24	Conf. Board Consumer Confidence	Nov	98.0	96.1	100.9	101.4
11/24	Conf. Board Present Situation	Nov	--	105.9	104.6	106.2
11/24	Richmond Fed Manufact. Index	Nov	20	15	29	--
11/25	MBA Mortgage Applications	11/20	--	3.9%	-0.3%	--
11/25	Initial Jobless Claims	11/21	730k	778k	742k	748k
11/25	Continuing Claims	11/14	6000k	6071k	6372k	6370k
11/25	Advance Goods Trade Balance	Oct	-\$80.4b	-\$80.3b	-\$79.4b	--
11/25	GDP Annualized QoQ	3Q S	33.1%	33.1%	33.1%	--
11/25	Personal Consumption	3Q S	40.9%	40.6%	40.7%	--
11/25	GDP Price Index	3Q S	3.6%	3.6%	3.6%	--
11/25	Core PCE QoQ	3Q S	3.5%	3.5%	3.5%	--
11/25	Durables Ex Transportation	Oct P	0.5%	1.3%	0.9%	1.5%
11/25	Cap Goods Ship Nondef Ex Air	Oct P	0.4%	2.3%	0.5%	0.7%
11/25	Personal Income	Oct	-0.1%	-0.7%	0.9%	0.7%
11/25	Real Personal Spending	Oct	0.3%	0.5%	1.2%	1.1%
11/25	PCE Deflator YoY	Oct	1.2%	1.2%	1.4%	--
11/25	PCE Core Deflator YoY	Oct	1.4%	1.4%	1.5%	1.6%
11/25	U. of Mich. Current Conditions	Nov F	86.0	87.0	85.8	--
11/25	U. of Mich. 1 Yr Inflation	Nov F	--	2.8%	2.8%	--
11/25	New Home Sales	Oct	975k	999k	959k	1002k
11/30	MNI Chicago PMI	Nov	59.1	--	61.1	--
11/30	Pending Home Sales NSA YoY	Oct	--	--	21.9%	--
12/1	ISM Manufacturing	Nov	57.8	--	59.3	--
12/1	ISM New Orders	Nov	--	--	67.9	--
12/1	ISM Prices Paid	Nov	--	--	65.5	--
12/1	ISM Employment	Nov	--	--	53.2	--
12/2	ADP Employment Change	Nov	440k	--	365k	--
12/3	Challenger Job Cuts YoY	Nov	--	--	60.4%	--
12/3	ISM Services Index	Nov	56.1	--	56.6	--
12/4	Change in Nonfarm Payrolls	Nov	500k	--	638k	--
12/4	Two-Month Payroll Net Revision	Nov	--	--	15k	--
12/4	Change in Private Payrolls	Nov	593k	--	906k	--
12/4	Change in Manufact. Payrolls	Nov	47k	--	38k	--
12/4	Unemployment Rate	Nov	6.8%	--	6.9%	--
12/4	Average Hourly Earnings YoY	Nov	4.2%	--	4.5%	--
12/4	Average Weekly Hours All Employees	Nov	34.8	--	34.8	--
12/4	Labor Force Participation Rate	Nov	--	--	61.7%	--
12/4	Underemployment Rate	Nov	--	--	12.1%	--
12/4	Trade Balance	Oct	-\$64.8b	--	-\$63.9b	--
12/4	Factory Orders Ex Trans	Oct	--	--	0.5%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.8	23.6	27.0	29.6	29.6	12.4
FH/FN 15y	15.0	34.6	43.8	49.1	21.9	21.1
GN 15y	20.0	21.1	21.2	21.6	19.9	18.2
FH/FN 20y	52.3	31.8	34.2	32.3	30.8	23.5
FH/FN 30y	11.6	42.9	57.0	57.3	58.3	51.9
GN 30y	13.0	23.0	36.7	49.3	41.9	30.6
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	18.8	21.7	20.4	23.6	22.6	18.1
FH/FN 15y	16.2	21.4	23.4	24.9	18.6	20.7
GN 15y	23.4	13.8	16.4	16.1	14.0	13.1
FH/FN 20y	15.9	21.8	22.1	21.7	21.0	18.0
FH/FN 30y	15.0	21.4	37.0	37.7	34.7	30.4
GN 30y	11.8	18.7	26.6	26.0	29.1	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	104.01	0.15	104.42	107.72	109.54
Euro	1.20	0.01	1.18	1.10	1.10
Dollar Index	91.78	(0.51)	92.94	99.06	98.37
Major Stock Indices					
Dow Jones	29,920	437	27,685	24,995	28,122
S&P 500	3,642.9	61.0	3,401.0	2,991.8	3,140.5
NASDAQ	12,228.0	323	11,358.9	9,340.2	8,647.9
Commodities					
Gold	1,778.8	(82.7)	1,908.8	1,710.7	1,453.4
Crude Oil	45.37	3.63	39.57	32.81	58.11
Natural Gas	2.85	0.26	3.02	1.72	2.50
Wheat	596.3	4.5	615.8	504.5	528.5
Corn	421.8	-0.8	416.0	320.5	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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