

Baker Market Update: Week in Review

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Does it seem a little too coincidental that recent reports chronicling a mysterious monolith found in a remote Utah desert hit the headlines about the same time as recent reports chronicling vaccine breakthroughs? Could we be getting some much-needed help from far-off friends? If so, thanks for the assist. We learned this morning that, despite the fact that vaccine assistance is on the way, America's economy is still in a struggle with the pandemic while awaiting the cavalry's arrival.

The Bureau of Labor Statistics released its November Jobs Report this morning and the decline in the Unemployment Rate to 6.7% from 6.9% would indeed be good news were it not for the decline in the Labor Force Participation Rate to 61.5% from 61.7%. That's one way to get that rate down! Another way would be to add a whole bunch of new jobs, but that didn't quite happen last month. What did happen was the very unenthusiastic addition of 245k to Non-Farm Payrolls in the face of an expected gain of 460k. October's job growth of 638k was revised to 610k. The trending slow-down in job creation is definitely on the minds of our policy-makers as described by Jerome Powell during his two-day Congressional testimony and also described by Congressional sound-bites possibly foreshadowing a fiscal stimulus bill before year's end. That would be good news for those relying on current government aid programs, many of which expire at year's end. One thing for sure, we all want the Year of the Covid to expire; there are still 9.8M Americans that had jobs in February but didn't have them in November.

Unfortunately, lockdowns of various degrees are still prevalent in most parts of the country and it was evident in today's Unemployment Report. The Civilian Labor Force fell by 400k and the number of people Not in the Labor Force grew by another 560k. In a sign of the times, Retail Trade lost 34.7k jobs while Health Care and Social Assistance gained almost 60k. Transportation and Warehousing was the month's big winner with the addition of 145k new jobs. In another sign of the times and another sign of some renewed lockdown measures, Leisure and Hospitality only gained 31k new jobs in a big comedown from October's boost of 270k and September's addition of 413k. One caveat about today's report is that the survey reference periods ended before even the middle of the month, as they always do, and do not reflect the effects of a return to more severe lockdown measures recently re-imposed in some highly populated areas of the country. Those effects, if they linger, will show up in next month's report. But before we leave this month's report, it's worth noting that Average Hourly Earnings rose by a greater-than-expected 0.3% leaving the year-over-year growth rate at a still astounding 4.4% due to still astounding levels of government support. But, much of that goes away next year unless Congress can figure out how to extend it. The number of Average Weekly Hours worked neither extended nor contracted and held steady at 34.8. Mine might have been a little less.

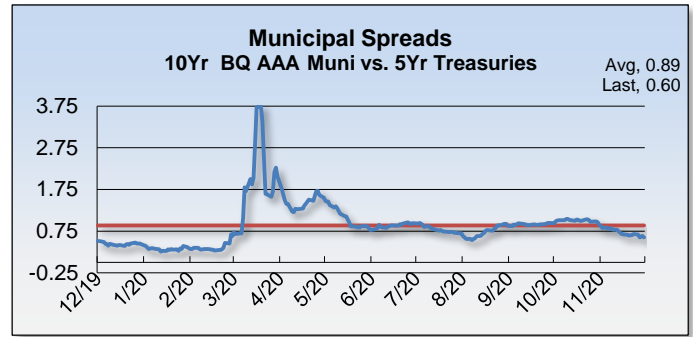
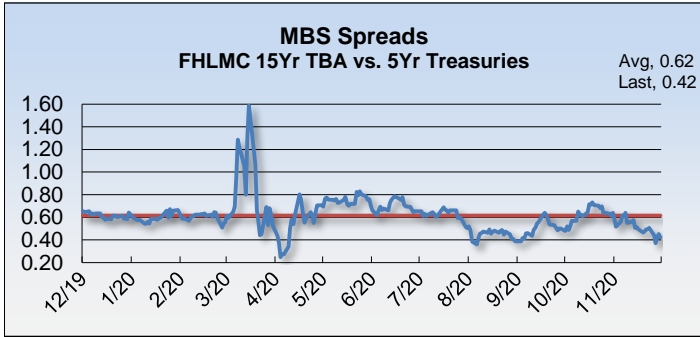
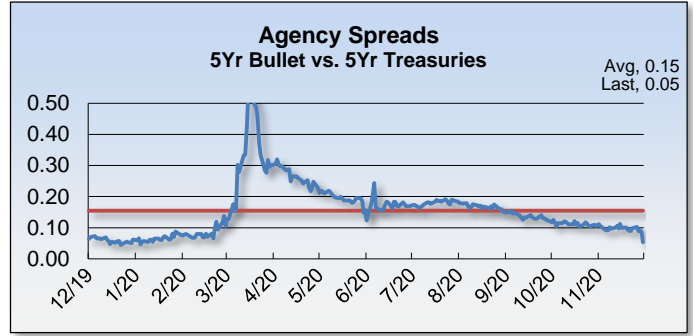
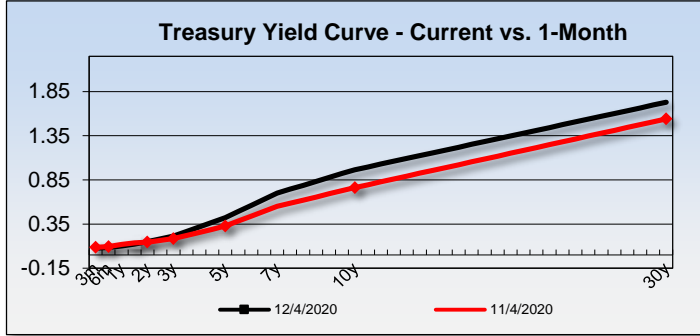
Earlier in this workweek, we learned that Market News International's Purchasing Managers Index Report for Chicago, a closely watched measure in terms of general activity, cooled off a little more than expected by falling to 58.2 from 61.1 when only a smaller dip to 59 was expected. Also cooling off was the Dallas Fed's Manufacturing Activity Index with a greater-than-expected fall to 12.8 from 19.8 when it was only supposed to fall to 14.3. The unexpected 1.1% fall in Pending Home Sales might look like a cooling-off is coming to the housing market, but probably not. This decline reflects more of a supply shortage rather than a demand shortage. We also learned this week, in some more fun with numbers, that the unexpected October boost of 1.3% in Construction Spending was more about September's 0.3% growth being revised to a 0.5% decline. But, it made October look better.

In another sign of cooling off, the Institute of Supply Management released the November report for its Manufacturing PMI and its decline to 57.5 from 59.3 was a little more of a decline than what was expected. The ISM Services Index also slipped a bit to 55.9 from 56.6 and may slip a bit further depending on the nature and duration of reinstated lockdown restrictions. Tuesday's report from Wards Automotive Group also showed a November slowdown in Total Vehicle Sales with a fall last month to a 15.5M annualized pace from 16.2M. They were supposed to hold pretty steady at 16.1M.

Initial Jobless Claims were also supposed to hold pretty steady at around 775k for the week ending November 28th, but they managed to fall to 712k from the prior week's slightly and upwardly revised 787k. Continuing Claims for the week ending November 21st also provided a pleasant surprise with a fall to 5.52M from 6.09M when they were only supposed to fall to 5.8M. Of course, some of those unemployment benefits have already begun to run out for some. Challenger, Gray, and Christmas didn't exactly help anyone feel better when, on Thursday, they announced that, year-over-year, Job Cuts are up 45%. But hey, at the end of October, they were up 60.4% from twelve months prior.

Since this morning's news from the BLS, the Census Bureau has reported that, for October, Factory Orders grew by 1%, a little more than expected, while the 1.3% boost in Durable Goods Orders came in right on top of forecasts. The 0.8% rise in core Capital Goods Orders was also about what was expected.

What has been a little less expected has been the sharp sell-off in the Treasury world since the release of the Unemployment Report. There was a time before the Year of the Covid when a weak jobs report would produce exactly the opposite effect, but that was then and this is now and the Ten-Year has moved up from around 92 basis points to just barely under 1%. The Long Bond's price has fallen more than 2 points and that has pushed its yield to almost 1.75%. Throughout the week, investors have watched the yield curve steepen and it has certainly done that today with the Two-Year little changed at 15 basis points. Perhaps it's the prospect that today's weak jobs data will spur Congress to pick up the pace on producing an aid package and producing more debt and greater deficits along with it that's got investors dumping their Treasuries. And, it looks like that's a problem we'll have to fix all by ourselves. Whoever put Utah's mysterious obelisk out in the desert has since come and reclaimed it. Maybe it went to visit the New York Jets. Open the pod-bay doors, Hal. 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	(0.00)	0.09	0.15	1.54	2yr	0.21	0.23	0.21	0.22	0.25	2Yr	0.18	0.18	0.17	-
6mo	0.09	(0.00)	0.10	0.18	1.55	3yr	0.28	0.29	0.24	0.25	0.36	3Yr	0.28	0.29	0.20	0.26
1yr	0.10	0.00	0.12	0.17	1.56	5yr	0.55	0.49	0.34	0.36	0.57	5Yr	0.59	0.59	0.60	0.58
2yr	0.15	(0.00)	0.15	0.20	1.58	7yr	0.77	0.71	0.59	0.63	0.87	7Yr	0.91	0.92	0.91	0.89
3yr	0.21	0.02	0.18	0.25	1.58	10yr	1.25	0.97	1.01	1.07	1.39	10Yr	1.26	1.29	1.28	1.26
5yr	0.42	0.06	0.33	0.41	1.60	15yr	1.72	1.23	1.40	1.49	1.97	January TBA MBS				
7yr	0.70	0.09	0.55	0.64	1.71	20yr	2.19	1.36	1.68	1.79	2.52	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.97	0.13	0.76	0.83	1.77	25yr	2.67	1.41	1.83	1.95	2.58	2.00	0.55	2.9y	1.21	
30yr	1.73	0.16	1.54	1.63	2.23	30yr		1.44	1.99	2.12	2.63	2.50	0.64	2.4y		
												3.00	0.79	2.3y	1.15	2.8y
												3.50	0.89	2.4y	1.13	2.6y
												4.00			1.25	2.7y
												4.50			1.44	3.0y

* 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	--	0.10	0.06	--
1 Month LIBOR	0.15	0.01	0.14	0.17	1.70
3 Month LIBOR	0.23	0.00	0.22	0.33	1.89
6 Month LIBOR	0.26	0.00	0.24	0.48	1.90
1 Year LIBOR	0.34	0.00	0.33	0.62	1.94
6 Month CD	0.29	0.01	0.28	0.43	1.86
1 Year CMT	0.10	(0.01)	0.14	0.17	1.57
REPO O/N	0.12	0.05	0.13	0.09	1.58
REPO 1Wk	0.08	(0.05)	0.09	0.09	1.58
CoF Federal	1.003	--	1.019	1.333	2.068
11th D. CoF (Oct)	0.503	--	0.523	0.740	1.100

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.36	0.34
6mo	0.26	0.37	0.31
1yr	0.30	0.32	0.34
2yr	0.35	0.53	0.39
3yr	0.41	0.62	0.47
4yr	0.53	0.74	0.59
5yr	0.65	0.88	0.71
7yr	0.97	1.23	1.03
10yr	1.34	1.62	1.40
5yr Am	0.48		0.61
10yr Am	0.95		1.08

Fed Fund Futures	
Maturity	Rate
Dec-20	0.087
Jan-21	0.080
Feb-21	0.075
Mar-21	0.075
Apr-21	0.075
May-21	0.070
Jun-21	0.070
Jul-21	0.070
Aug-21	0.075
Sep-21	0.075
Oct-21	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/30	MINI Chicago PMI	Nov	59.0	58.2	61.1	--
11/30	Pending Home Sales NSA YoY	Oct	--	19.5%	24.9%	22.2%
11/30	Dallas Fed Manf. Activity	Nov	14.3	12.0	19.8	--
12/1	Markit US Manufacturing PMI	Nov F	56.7	56.7	56.7	--
12/1	ISM Manufacturing	Nov	58.0	57.5	59.3	--
12/1	ISM New Orders	Nov	--	65.1	67.9	--
12/1	ISM Prices Paid	Nov	65.0	65.4	65.5	--
12/1	ISM Employment	Nov	--	48.4	53.2	--
12/1	Wards Total Vehicle Sales	Nov	16.10m	15.55m	16.21m	--
12/2	MBA Mortgage Applications	11/27	--	-0.6%	3.9%	--
12/2	ADP Employment Change	Nov	440k	307k	365k	404k
12/3	Challenger Job Cuts YoY	Nov	--	45.4%	60.4%	--
12/3	Initial Jobless Claims	11/28	775k	712k	778k	787k
12/3	Continuing Claims	11/21	5800k	5520k	6074k	6089k
12/3	Bloomberg Consumer Comfort	11/29	--	49.3	49.6	--
12/3	Markit US Composite PMI	Nov F	--	58.6	57.9	--
12/3	ISM Services Index	Nov	55.8	55.9	56.6	--
12/4	Change in Nonfarm Payrolls	Nov	460k	245k	638k	610k
12/4	Two-Month Payroll Net Revision	Nov	--	11k	--	--
12/4	Change in Private Payrolls	Nov	540k	344k	906k	877k
12/4	Change in Manuf. Payrolls	Nov	40k	27k	38k	33k
12/4	Unemployment Rate	Nov	6.7%	6.7%	6.9%	--
12/4	Average Hourly Earnings YoY	Nov	4.2%	4.4%	4.5%	4.4%
12/4	Average Weekly Hours All Employees	Nov	34.8	34.8	34.8	--
12/4	Labor Force Participation Rate	Nov	61.7%	61.5%	61.7%	--
12/4	Underemployment Rate	Nov	--	12.0%	12.1%	--
12/4	Factory Orders Ex Trans	Oct	1.1%	1.0%	0.5%	0.9%
12/4	Durables Ex Transportation	Oct F	1.3%	1.3%	1.3%	--
12/4	Cap Goods Ship Nondef Ex Air	Oct F	--	2.4%	2.3%	--
12/8	NFIB Small Business Optimism	Nov	102.5	--	104.0	--
12/8	Nonfarm Productivity	3Q F	4.9%	--	4.9%	--
12/8	Unit Labor Costs	3Q F	-8.9%	--	-8.9%	--
12/9	JOLTS Job Openings	Oct	6300	--	6436	--
12/10	CPI YoY	Nov	1.1%	--	1.2%	--
12/10	CPI Ex Food and Energy YoY	Nov	1.5%	--	1.6%	--
12/10	CPI Index NSA	Nov	260.07	--	260.39	--
12/10	CPI Core Index SA	Nov	269.57	--	269.30	--
12/10	Real Avg Hourly Earning YoY	Nov	--	--	3.2%	--
12/10	Real Avg Weekly Earnings YoY	Nov	--	--	4.4%	--
12/10	Household Change in Net Worth	3Q	--	--	\$7607b	--
12/10	Monthly Budget Statement	Nov	-\$200.0b	--	-\$284.1b	--
12/11	PPI Final Demand YoY	Nov	0.7%	--	0.5%	--
12/11	PPI Ex Food and Energy YoY	Nov	1.5%	--	1.1%	--
12/11	PPI Ex Food, Energy, Trade YoY	Nov	--	--	0.8%	--
12/11	U. of Mich. Sentiment	Dec P	76.0	--	76.9	--
12/11	U. of Mich. Current Conditions	Dec P	--	--	87.0	--
12/11	U. of Mich. 1 Yr Inflation	Dec P	--	--	2.8%	--

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	20.3	20.9	23.7	26.0	19.9
FH/FN 15y	19.7	24.6	26.7	27.8	21.4	19.9
GN 15y	14.5	15.4	16.4	15.3	14.1	13.1
FH/FN 20y	24.8	26.0	20.7	19.4	19.7	17.7
FH/FN 30y	14.5	22.4	30.5	31.7	31.8	27.8
GN 30y	10.9	14.2	26.3	32.9	35.1	15.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	104.17	0.08	104.52	109.15	108.86
Euro	1.21	0.02	1.17	1.13	1.11
Dollar Index	90.70	(1.09)	93.41	96.68	97.65
Major Stock Indices					
Dow Jones	30,132	222	27,848	26,282	27,650
S&P 500	3,691.5	53.1	3,443.4	3,112.4	3,112.8
NASDAQ	12,423.0	217	11,590.8	9,615.8	8,566.7
Commodities					
Gold	1,828.2	46.3	1,896.2	1,718.9	1,474.0
Crude Oil	46.06	0.53	39.15	37.41	58.43
Natural Gas	2.57	(0.28)	3.05	1.82	2.40
Wheat	563.8	-32.8	606.0	523.8	535.0
Corn	418.8	-6.8	405.3	329.0	368.8

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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