

## Baker Market Update: Week in Preview

Lester Murray

Associate Partner

Financial Strategies Group

[lester@gobaker.com](mailto:lester@gobaker.com)

800.937.2257

The Baker Group

[GoBaker.com](http://GoBaker.com)

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257

Good news has been a scarce commodity this holiday season but this week has begun with some cheery developments that should be welcomed by all. Or, at least by most. Congressional leaders announced Sunday night that an agreement has finally been reached between disagreeing legislators over a \$900B covid relief plan. The last-minute bill will be included as part of another last-minute, \$1.4T spending bill that should fund the government through September 30th. Among other things, the relief plan will provide \$600 stimulus checks to most Americans along with \$300 per week of enhanced unemployment benefits through March. Today should also see the beginning of deliveries, around the country, of Moderna's recently approved covid vaccine.

Unfortunately, less good news from the United Kingdom related to a virus resurgence has caused leaders there to cancel Christmas gatherings and holiday travel. Travel between the U.K. and many of its European neighbors has also been suspended. Equity markets have not responded well to that news and will likely start the week with significant red arrows. Treasury prices have rallied, pushing the Ten-Year's yield down to around 89 basis points.

Early this morning, the Chicago Fed announced that its broadly-based National Activity Index fell in November to just 0.27. Last month's plunge looks even deeper after October's value of 0.83 was revised to 1.01. That's the only economic data-point scheduled for today.

Tomorrow, the Bureau of Economic Analysis will start things off with the third and final non-revision of third-quarter GDP. Everyone agrees it was an astounding bounce-back quarter, but it's time to let it go. We'll also get confirmation of an inflation measurement of dubious value when the BEA reports the Q3 quarter-over-quarter core-level Personal Consumption Expenditures Index for the third time. It will still be 3.5%. Sounds high after Q2's deflation of almost 1%, but some may recall there were extenuating circumstances. Also out tomorrow will be the Conference Board's December report on Consumer Confidence. That Index should show a rise to 97 from 96.1. Let's all hope for better. The National Association of Realtors probably wishes that Existing Home Sales hadn't fallen in November for the second straight month, but they probably did. October's annualized pace of 6.85M is forecast to show a dip to 6.7M last month. Although demand remains high, supply has become low and is getting lower. Also expected to get lower is the Richmond Fed's Manufacturing Index. November's value of 15 is expected to have fallen to 12 this month in yet another reinforcing indication of fourth quarter malaise.

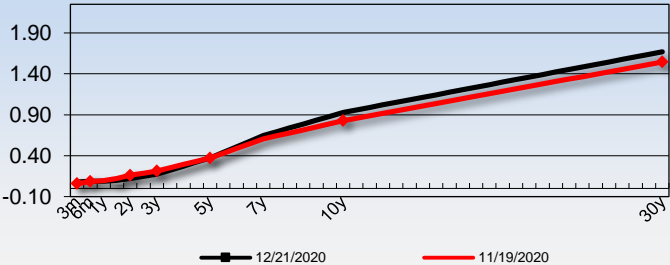
This week's Jobless Claims report will come out on Wednesday instead of Thursday because Thursday is Christmas Eve and the BLS doesn't want to look like Ebenezer Scrooge. Better days are on the way. But, last week's total of 885k is only expected to drop by 10k and that isn't much better. Continuing Claims for the week ending December 12th are expected to show a slight rise to 5.56M from 5.51M. This measure hit a high of almost 25M back in early May and has been declining, mostly declining, ever since. If this week's forecast proves to be correct, it will be the second increase in the last three weeks.

We'll also be hearing from the BEA on Wednesday when it is expected to report that Personal Income fell 0.2% in November in a follow-up to October's slip of 0.7%. But, that might look like an improvement compared to Personal Spending's expected slide of 0.2% after managing a 0.5% rise in October. Inflation-adjusted Real Personal Spending probably fell 0.4% last month in an even bigger, negative turnaround from October's boost of 0.5%. Inflation, or the lack of it, will also be reported by the BEA on Wednesday when it is expected to report that November's headline PCE Index managed a 0.1% rise for the month, but the year-over-year pace probably remained unchanged at 1.2%. Without food and energy, core PCE also likely rose by one-tenth last month with the year-over-year rate staying at 1.4%. As for housing inflation, the FHFA is expected to announce on Wednesday that its House Price Index rose by 0.6% in October, but that's a little dated.

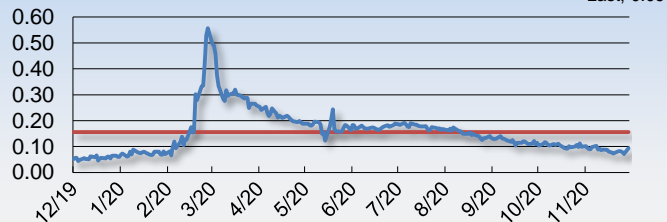
We'll also be getting the University of Michigan's final report of the year on Consumer Sentiment. No one is going to feel very sentimental about 2020 and the last report of the year is expected to show a dip to 81 from 81.4. The only thing surprising about that is that it hasn't fallen further. Hang in there everyone; better days are ahead. Have a great week and be careful out there.



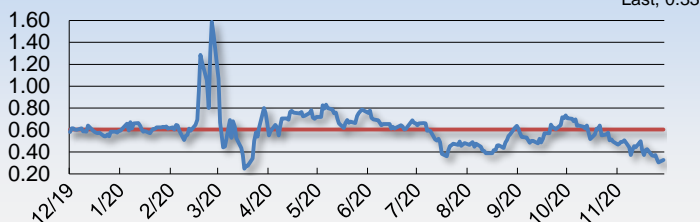
Treasury Yield Curve - Current vs. 1-Month



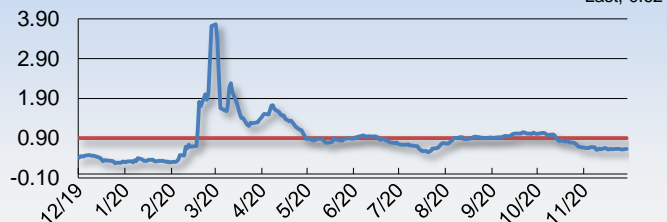
Agency Spreads  
5Yr Bullet vs. 5Yr Treasuries



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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.08	0.01	0.07	0.15	1.57	2yr	0.16	0.20	0.20	0.21	0.18	2Yr	0.12	0.12	0.10	-
6mo	0.09	0.01	0.09	0.17	1.57	3yr	0.23	0.24	0.22	0.24	0.31	3Yr	0.22	0.21	0.10	0.16
1yr	0.09	0.00	0.10	0.17	1.51	5yr	0.46	0.43	0.31	0.33	0.58	5Yr	0.50	0.49	0.47	0.44
2yr	0.12	0.00	0.16	0.19	1.63	7yr	0.66	0.65	0.57	0.61	0.94	7Yr	0.80	0.79	0.78	0.74
3yr	0.17	0.00	0.21	0.22	1.66	10yr	1.15	0.91	0.99	1.06	1.36	10Yr	1.15	1.17	1.15	1.11
5yr	0.37	0.01	0.37	0.33	1.73	15yr	1.64	1.17	1.36	1.45	1.90	January TBA MBS				
7yr	0.65	0.02	0.61	0.53	1.85	20yr	2.12	1.30	1.64	1.74	2.49	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.93	0.03	0.83	0.70	1.92	25yr	2.61	1.36	1.79	1.91	2.54	2.00	0.76	3.6y	1.21	
30yr	1.67	0.04	1.52	1.46	2.34	30yr		1.39	1.95	2.07	2.59	2.50	0.93	2.9y		
												3.00	1.14	2.8y	0.86	2.4y
												3.50	1.07	2.6y	0.51	2.0y
												4.00			0.72	2.2y
												4.50			0.82	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	0.09	0.01	0.07	0.09	--
1 Month LIBOR	0.14	(0.01)	0.15	0.19	1.76
3 Month LIBOR	0.24	0.02	0.22	0.31	1.91
6 Month LIBOR	0.26	0.01	0.26	0.42	1.90
1 Year LIBOR	0.33	(0.00)	0.34	0.58	1.97
6 Month CD	0.23	(0.07)	0.22	0.39	1.89
1 Year CMT	0.09	(0.01)	0.11	0.19	1.54
REPO O/N	0.11	0.02	0.07	0.10	1.52
REPO 1Wk	0.09	--	0.13	0.10	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	0.31	0.32
2yr	0.32	0.49	0.35
3yr	0.39	0.58	0.43
4yr	0.49	0.70	0.54
5yr	0.60	0.83	0.65
7yr	0.91	1.17	0.96
10yr	1.29	1.59	1.35
5yr Am	0.44		0.56
10yr Am	0.88		1.01

Fed Fund Futures

Maturity	Rate
Dec-20	0.093
Jan-21	0.090
Feb-21	0.085
Mar-21	0.075
Apr-21	0.070
May-21	0.065
Jun-21	0.070
Jul-21	0.070
Aug-21	0.070
Sep-21	0.075
Oct-21	0.075

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/21	Chicago Fed Nat Activity Index	Nov	75.0%	27.0%	83.0%	101.0%
12/22	GDP Annualized QoQ	3Q T	33.1%	--	33.1%	--
12/22	Personal Consumption	3Q T	40.6%	--	40.6%	--
12/22	GDP Price Index	3Q T	3.6%	--	3.6%	--
12/22	Core PCE QoQ	3Q T	3.5%	--	3.5%	--
12/22	Conf. Board Consumer Confidence	Dec	97.0	--	96.1	--
12/22	Conf. Board Expectations	Dec	--	--	89.5	--
12/22	Conf. Board Present Situation	Dec	--	--	105.9	--
12/22	Existing Home Sales	Nov	6.70m	--	6.85m	--
12/22	Existing Home Sales MoM	Nov	-2.2%	--	4.3%	--
12/22	Richmond Fed Manufact. Index	Dec	10	--	15	--
12/23	MBA Mortgage Applications	12/18	--	--	1.1%	--
12/23	Durable Goods Orders	Nov P	0.6%	--	1.3%	--
12/23	Durables Ex Transportation	Nov P	0.5%	--	1.3%	--
12/23	Cap Goods Orders Nondef Ex Air	Nov P	0.6%	--	0.8%	--
12/23	Cap Goods Ship Nondef Ex Air	Nov P	0.8%	--	2.4%	--
12/23	Initial Jobless Claims	12/19	880k	--	885k	--
12/23	Continuing Claims	12/12	5600k	--	5508k	--
12/23	Personal Income	Nov	-0.3%	--	-0.7%	--
12/23	Personal Spending	Nov	-0.2%	--	0.5%	--
12/23	Real Personal Spending	Nov	-0.5%	--	0.5%	--
12/23	PCE Deflator MoM	Nov	0.1%	--	0.0%	--
12/23	PCE Deflator YoY	Nov	1.2%	--	1.2%	--
12/23	PCE Core Deflator MoM	Nov	0.1%	--	0.0%	--
12/23	PCE Core Deflator YoY	Nov	1.4%	--	1.4%	--
12/23	FHFA House Price Index MoM	Oct	0.6%	--	1.7%	--
12/23	U. of Mich. Sentiment	Dec F	81.0	--	81.4	--
12/23	U. of Mich. Current Conditions	Dec F	--	--	91.8	--
12/23	U. of Mich. Expectations	Dec F	--	--	74.7	--
12/23	U. of Mich. 1 Yr Inflation	Dec F	--	--	2.3%	--
12/23	U. of Mich. 5-10 Yr Inflation	Dec F	--	--	2.5%	--
12/23	New Home Sales	Nov	994k	--	999k	--
12/23	New Home Sales MoM	Nov	-0.5%	--	-0.3%	--
12/24	Bloomberg Consumer Comfort	12/20	--	--	48.4	--
12/28	Dallas Fed Manf. Activity	Dec	--	--	12.0	--
12/29	S&P CoreLogic CS 20-City MoM SA	Oct	1.00%	--	1.27%	--
12/29	S&P CoreLogic CS 20-City YoY NSA	Oct	7.00%	--	6.57%	--
12/29	S&P CoreLogic CS 20-City NSA Index	Oct	--	--	232.53	--
12/29	S&P CoreLogic CS US HPI YoY NSA	Oct	--	--	6.96%	--
12/29	S&P CoreLogic CS US HPI NSA Index	Oct	--	--	226.8	--
12/30	Wholesale Inventories MoM	Nov P	0.7%	--	1.1%	--
12/30	Advance Goods Trade Balance	Nov	-\$81.5b	--	-\$80.3b	--
12/30	Retail Inventories MoM	Nov	--	--	0.8%	--
12/30	MNI Chicago PMI	Dec	56.7	--	58.2	--
12/30	Pending Home Sales MoM	Nov	0.0%	--	-1.1%	--
12/30	Pending Home Sales NSA YoY	Nov	--	--	19.5%	--
12/31	Initial Jobless Claims	12/26	--	--	--	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.9	23.9	26.7	29.9	28.2	13.8
FH/FN 15y	16.1	34.7	43.7	48.0	21.6	21.2
GN 15y	25.6	20.6	20.5	20.6	18.7	17.7
FH/FN 20y	52.8	33.2	34.7	32.9	31.3	24.3
FH/FN 30y	7.8	45.7	58.3	58.0	59.0	51.9
GN 30y	13.5	22.4	40.5	52.1	42.4	31.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.3	22.3	21.0	24.0	22.8	18.2
FH/FN 15y	17.1	22.1	23.4	25.3	18.6	21.0
GN 15y	24.5	14.1	16.6	16.1	14.0	13.2
FH/FN 20y	17.3	21.6	22.3	21.8	21.0	18.0
FH/FN 30y	14.9	21.6	36.0	37.7	34.0	30.4
GN 30y	11.6	17.9	27.0	25.6	29.5	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	103.51	(0.54)	104.52	106.91	109.40
Euro	1.22	0.01	1.18	1.13	1.11
Dollar Index	90.47	(0.24)	92.39	97.62	97.69
<b>Major Stock Indices</b>					
Dow Jones	30,179	133	29,263	25,871	28,455
S&P 500	3,709.4	45.9	3,557.5	3,097.7	3,221.2
NASDAQ	12,755.6	378	11,855.0	9,946.1	8,925.0
<b>Commodities</b>					
Gold	1,880.5	51.8	1,872.4	1,745.9	1,474.7
Crude Oil	47.11	0.12	42.15	39.75	60.44
Natural Gas	2.68	(0.01)	2.65	1.67	2.33
Wheat	599.3	5.8	593.3	481.3	542.3
Corn	434.0	14.8	423.3	332.5	387.8

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	

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have any

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 12/21/2020 8:34AM