

Baker Market Update: Week in Review

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This holiday-shortened week may be short on days, but it's been long on news. Not long after it was announced that Oklahoma State University was going to the Cheez-It Bowl, the United Kingdom announced that it was cancelling Christmas. British Prime Minister Boris Johnson laid to rest any speculation that the two events were related when he reported on Monday that Christmas gatherings and holiday travel would be prohibited due to an extremely fast-spreading variant of the Covid-19 virus that was sweeping across the British Isles. Travel between the U.K. and some of its European neighbors has also been curtailed. That was not only grim news for British citizens, the dismaying development took equity investors for a wild ride while Treasuries benefitted from a safe-haven rally.

Lost in Monday's volatile shuffle was the Sunday night announcement of a legislative agreement over covid relief and also the first deliveries of Moderna's just-approved vaccine. Also lost in the shuffle was the announcement by the Chicago Fed that its National Activity Index fell much further than expected last month to a value of 0.27; an even greater fall than it appeared after October's index was revised to 1.01 from 0.83. Analysts were only expecting a slip to 0.75. This index contains 85 data points that measure just about everything there is to measure across a broad swath of economic activity and it hit an all-time high of 5.96 back in June. Its rapid decline since then has cast a shadow over recovery hopes. Still, that didn't keep the Richmond Fed from reporting that its Manufacturing Index managed to confound the experts with a boost this month to 19 from November's value of 15. Forecasters were looking for a slide to 11.

By Tuesday, the mutant-virus jitters had abated somewhat and the convergence of disparate political agendas over covid-relief and government-funding legislation had most lawmakers, unencumbered by self-awareness, feeling pretty good. But, it's still 2020, a year full of surprises, and President Trump surprised many in Congress when he stated that he thought the new bill provides too much help for those who don't really need it and not enough for those who really do. It remains unclear if he intends to sign the bill into law.

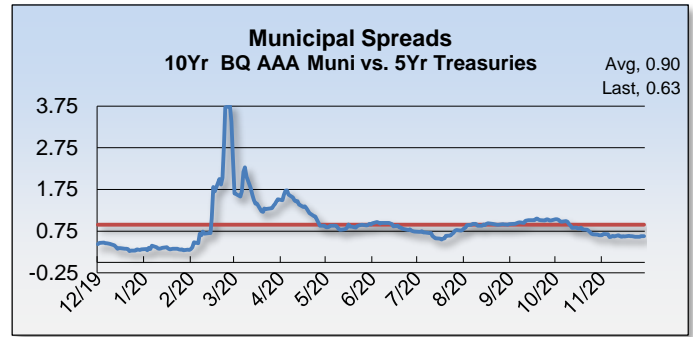
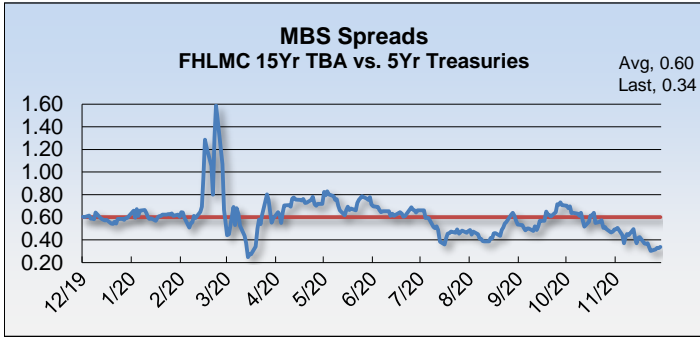
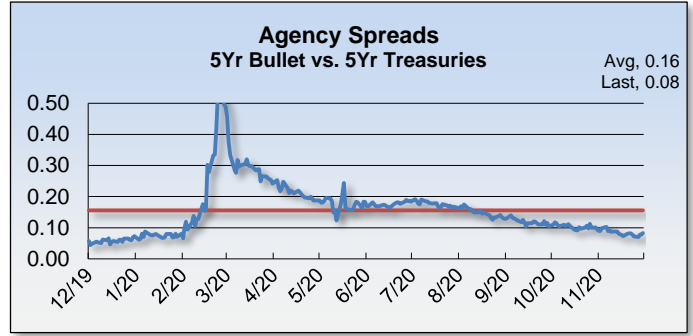
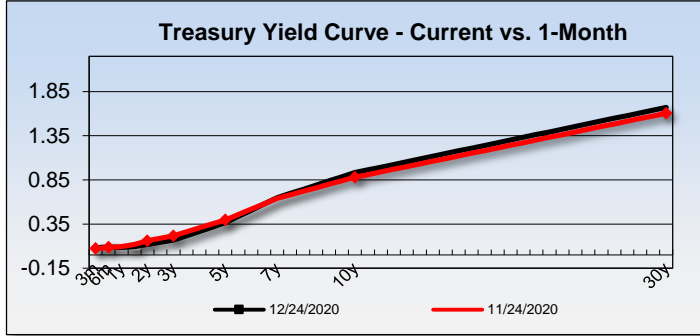
The future is always full of uncertainty, but we learned on Tuesday that the past is getting better. The Bureau of Economic Analysis released its third recount of Q3 GDP and found another 0.3% from some late, mail-in data. The twice-reported growth rate of 33.1% has now become 33.4%. That's nice, but revisions cut both ways and when it comes to Consumer Confidence, the cut was deep. According to the Conference Board, its Confidence Index plunged to 88.6 this month and November's relatively lofty value of 96.1 got slashed to 92.9. Good thing we didn't know that then. For forecasters expecting 97 this month, it was a pretty big miss.

Another big miss came from yesterday's announcement by the Census Bureau that New Home Sales fell 11% last month. November's annualized sales of 841k were far less than the 995k that analysts expected. The percentage drop would have been even greater had October's count of 999k not been revised to 945k. Earlier in the week, the National Association of Realtors reported that Existing Home Sales fell 2.47% last month. Better news for the housing sector came from the FHFA when it announced yesterday that its House Price Index for October rose by 1.5% and that was more than twice what was expected. Year-over-year, that index is up 10.2%.

We also found out yesterday that Initial Jobless Claims were up another 803k for the week ending December 19th, but at least that was less than the 880k that was expected and also less than the prior week's upwardly revised 892k. Continuing Claims for the week ending December 12th fell to 5.33M from 5.51M and that beat estimates of 5.56M.

With the fate of covid-relief legislation still unknown, yesterday's news from the Bureau of Economic Analysis that Personal Income fell 1.1% last month was even more disquieting. Analysts were expecting a much smaller decline of 0.3%. For the other side of that coin, Personal Spending fell by 0.4% and that was twice the size of the expected dip. Just to make things worse, the prior month's growth of 0.5% was revised to 0.3%. Adjusted for inflation, Real Personal Spending also fell by 0.4% in a similar reversal from October. The BEA also refreshed its inflation measurements on Wednesday by reporting that its Personal Consumption Expenditures Price Index was unchanged last month as the year-over-year rate fell one-tenth to 1.1%. Without food and energy, core PCE was also flat for the month with the year-over-year pace remaining at 1.4%. This is the measure the Fed wants to maintain at a 2% average.

It was certainly a below-average year for the Wolverines, but that didn't stop the University of Michigan from reporting yesterday that its Index of Consumer Sentiment fell this month to 80.7 from 81.4. The message here is clear; eat more Cheez-Its. Merry Christmas everyone! 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)	0.08	0.14	1.57	2yr	0.16	0.21	0.20	0.21	0.18	2Yr	0.12	0.12	0.10	-	
6mo	0.09	0.00	0.09	0.16	1.60	3yr	0.23	0.25	0.22	0.24	0.31	3Yr	0.22	0.21	0.10	0.16	
1yr	0.09	(0.00)	0.10	0.17	1.52	5yr	0.47	0.45	0.31	0.33	0.58	5Yr	0.50	0.49	0.47	0.44	
2yr	0.12	(0.00)	0.16	0.19	1.62	7yr	0.67	0.67	0.57	0.61	0.94	7Yr	0.80	0.79	0.78	0.74	
3yr	0.17	(0.02)	0.22	0.21	1.65	10yr	1.17	0.94	0.99	1.06	1.37	10Yr	1.15	1.17	1.15	1.11	
5yr	0.37	(0.01)	0.40	0.32	1.71	15yr	1.66	1.21	1.36	1.45	1.91	January TBA MBS					
7yr	0.65	(0.01)	0.64	0.51	1.83	20yr	2.16	1.33	1.64	1.74	2.49	Cpn	15Yr -Yld/AL	30Yr -Yld/AL			
10yr	0.93	(0.00)	0.88	0.68	1.90	25yr	2.65	1.39	1.79	1.91	2.54	2.00	0.74	3.6y	1.25		
30yr	1.67	(0.01)	1.61	1.43	2.33	30yr		1.42	1.95	2.07	2.59	2.50	0.95	2.9y			
												3.00	1.13	2.8y	0.91	2.4y	
												3.50	1.01	2.6y	0.52	2.0y	
												4.00			0.72	2.2y	
												4.50			0.79	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	0.06	(0.03)	0.05	0.07	--
1 Month LIBOR	0.14	(0.01)	0.15	0.18	1.78
3 Month LIBOR	0.24	0.01	0.20	0.30	1.93
6 Month LIBOR	0.26	0.01	0.25	0.39	1.92
1 Year LIBOR	0.34	0.01	0.34	0.57	2.00
6 Month CD	0.22	(0.09)	0.28	0.37	1.93
1 Year CMT	0.09	--	0.10	0.18	1.53
REPO O/N	0.10	(0.00)	0.09	0.11	1.52
REPO 1Wk	0.11	0.00	0.13	0.08	1.57
CoF Federal	0.958	--	1.003	1.224	1.998
11th D. CoF (Oct)	0.503	--	0.523	0.740	1.100

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.37	0.34
6mo	0.26	0.37	0.31
1yr	0.30	0.31	0.32
2yr	0.32	0.48	0.35
3yr	0.39	0.57	0.42
4yr	0.49	0.69	0.52
5yr	0.61	0.83	0.65
7yr	0.94	1.20	0.97
10yr	1.31	1.60	1.35
5yr Am	0.44		0.56
10yr Am	0.90		1.01

Fed Fund Futures	
Maturity	Rate
Dec-20	0.090
Jan-21	0.085
Feb-21	0.080
Mar-21	0.075
Apr-21	0.070
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
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%	33.4%	33.1%	--
12/22	Personal Consumption	3Q T	40.6%	41.0%	40.6%	--
12/22	GDP Price Index	3Q T	3.6%	3.5%	3.6%	--
12/22	Core PCE QoQ	3Q T	3.5%	3.4%	3.5%	--
12/22	Conf. Board Consumer Confidence	Dec	97.0	88.6	96.1	92.9
12/22	Conf. Board Present Situation	Dec	--	90.3	105.9	--
12/22	Conf. Board Expectations	Dec	--	87.5	89.5	84.3
12/22	Existing Home Sales	Nov	6.70m	6.69m	6.85m	6.86m
12/22	Existing Home Sales MoM	Nov	-2.20%	-2.50%	4.30%	4.40%
12/22	Richmond Fed Manufact. Index	Dec	11	19	15	--
12/23	MBA Mortgage Applications	12/18	--	0.8%	1.1%	--
12/23	PCE Core Deflator MoM	Nov	0.1%	0.0%	0.0%	--
12/23	Durable Goods Orders	Nov P	0.6%	0.9%	1.3%	1.8%
12/23	Durables Ex Transportation	Nov P	0.5%	0.4%	1.3%	1.9%
12/23	Cap Goods Orders Nondef Ex Air	Nov P	0.6%	0.4%	0.8%	1.6%
12/23	Cap Goods Ship Nondef Ex Air	Nov P	0.7%	0.4%	2.4%	2.6%
12/23	Initial Jobless Claims	12/19	880k	803k	885k	892k
12/23	Continuing Claims	12/12	5560k	5337k	5508k	5507k
12/23	Personal Income	Nov	-0.3%	-1.1%	-0.7%	-0.6%
12/23	Personal Spending	Nov	-0.2%	-0.4%	0.5%	0.3%
12/23	Real Personal Spending	Nov	-0.3%	-0.4%	0.5%	0.3%
12/23	PCE Deflator MoM	Nov	0.1%	0.0%	0.0%	--
12/23	PCE Deflator YoY	Nov	1.2%	1.1%	1.2%	--
12/23	PCE Core Deflator YoY	Nov	1.4%	1.4%	1.4%	--
12/23	FHFA House Price Index MoM	Oct	0.6%	1.5%	1.7%	--
12/23	U. of Mich. Sentiment	Dec F	81.1	80.7	81.4	--
12/23	U. of Mich. Current Conditions	Dec F	--	90.0	91.8	--
12/23	U. of Mich. Expectations	Dec F	--	74.6	74.7	--
12/23	U. of Mich. 1 Yr Inflation	Dec F	--	2.5%	2.3%	--
12/23	U. of Mich. 5-10 Yr Inflation	Dec F	--	2.5%	2.5%	--
12/23	New Home Sales	Nov	995k	841k	999k	945k
12/23	New Home Sales MoM	Nov	-0.5%	-11.0%	-0.3%	-2.1%
12/24	Bloomberg Consumer Comfort	12/20	--	--	48.4	--
12/28	Dallas Fed Manf. Activity	Dec	10.2	--	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	6.95%	--	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	56.5	--	58.2	--
12/30	Pending Home Sales MoM	Nov	0.1%	--	-1.1%	--
12/30	Pending Home Sales NSA YoY	Nov	21.0%	--	19.5%	--
12/31	Initial Jobless Claims	12/26	826k	--	803k	--

MBS Prepayments ⁴						
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	19.4	22.4	21.0	24.0	22.9	18.2
FH/FN 15y	17.1	22.1	23.5	25.3	18.6	21.0
GN 15y	24.5	14.1	16.5	16.1	14.0	13.2
FH/FN 20y	17.2	21.6	22.4	21.7	21.0	18.0
FH/FN 30y	14.8	21.3	35.9	37.8	34.0	30.4
GN 30y	11.6	17.9	26.7	25.6	29.6	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	103.69	0.58	104.44	107.04	109.39
Euro	1.22	(0.01)	1.19	1.13	1.11
Dollar Index	90.28	0.46	92.23	97.15	97.65
Major Stock Indices					
Dow Jones	30,130	(25)	30,046	25,446	28,515
S&P 500	3,690.0	(11.2)	3,635.4	3,050.3	3,223.4
NASDAQ	12,771.1	113	12,036.8	9,909.2	8,952.9
Commodities					
Gold	1,875.7	(11.5)	1,804.6	1,765.8	1,499.1
Crude Oil	47.85	(0.51)	44.91	38.01	61.11
Natural Gas	2.60	(0.04)	2.78	1.60	2.17
Wheat	630.3	21.5	611.3	481.3	541.0
Corn	447.3	14.8	425.8	324.3	387.5

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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