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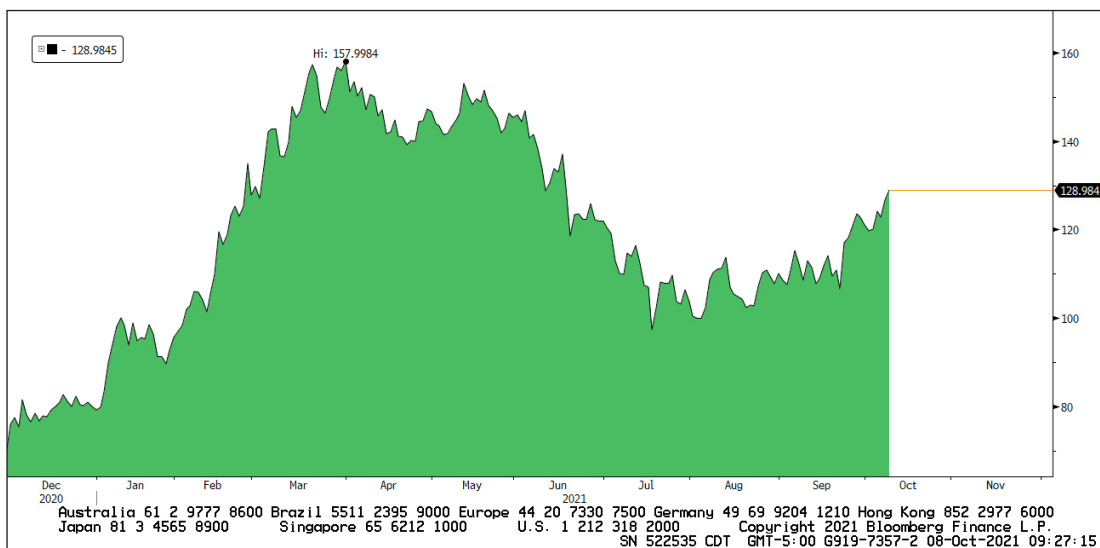
October began with evidence of a continued steady economic expansion and signals from the Fed that “tapering” of their asset purchase program would likely begin in November. That thinking was bolstered by the data stream early in the week as Factory Orders, Core Capital Goods, and ISM diffusion measures for both manufacturing and service sectors showed steady though modest improvement. The bond market saw yields rise with the benchmark 10yr T-Note yield stepping up 10bps to 1.58% at the close Thursday. We got continued yield curve steepening as well as the 2yr/10yr yield spread widened out to 128bps. Everything seemed to be falling into place according to Jerome Powell’s plan. Then came the labor department’s jobs report for September which threw a bit of a wrench into things.

The US economy created 194K new payrolls last month. Not a bad data point in normal times, but far below the expected 500K or the six-month average of 681K coming into the day. Upward revisions to the two prior months of 169K softened the blow somewhat, and the unemployment rate actually fell to 4.8%, the lowest level since the early days of the COVID pandemic. Wage growth was up slightly as

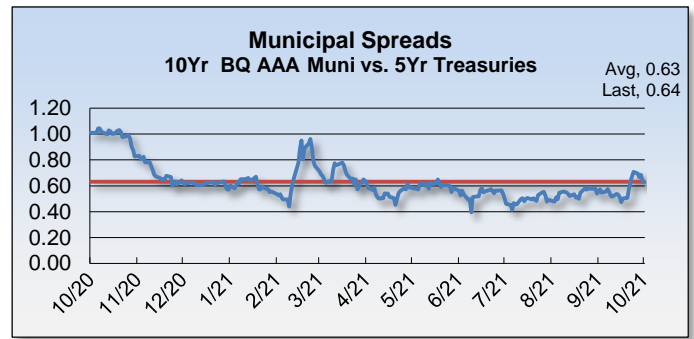
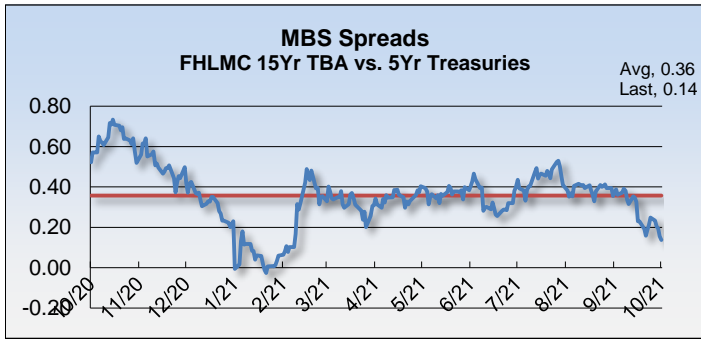
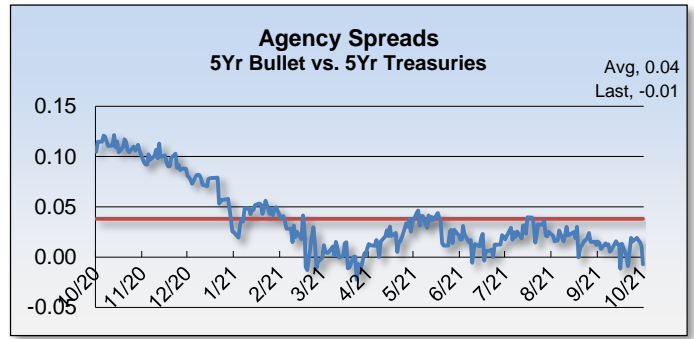
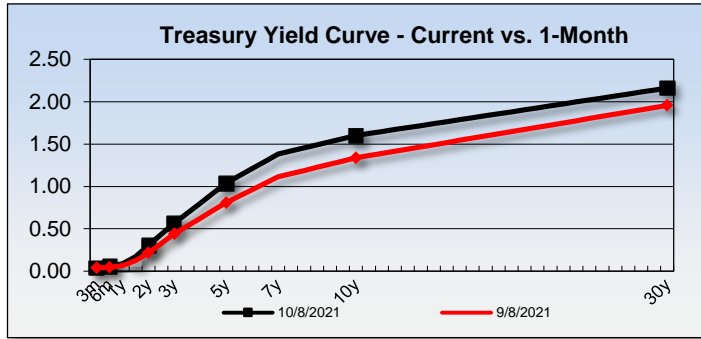
expected at 4.6% year-over-year, and the “underemployment” rate that includes part-timers wanting full-time work dropped down to 8.5%, also the lowest in a year and a half. The most disappointing component of the report was labor force participation which actually ticked down to 61.6%, still more than 2.5% below pre-pandemic levels and a reflection of the lingering supply-side challenges of the labor-market recovery. This, despite all the talk of expiration of enhanced unemployment benefits. Employers may feel continued pressure to pay up for employers, forcing the Fed to stretch their definition of the time horizon that constitutes “transitory” inflation. The continuing impact of the Delta variant of COVID remains an obstacle to payrolls growth as well with leisure and hospitality employment up only 74K, and despite the reopening of schools for in-person teaching, overall education employment fell by 180K when seasonally adjusted. Sub-optimal for sure.

So given this hodge-podge, the question becomes... what’s a Fed to do? After some initial indigestion, the bond market seems to be at peace with the idea that tapering will still commence by year-end with a likely announcement in November. Pre-release chatter had coalesced around the idea that the jobs number would have to be really bad to derail the Fed’s timeline. This number was not good, but can’t be characterized as “really bad.” So, carry on. Nothing to see here. You can expect the FOMC to stay on course and execute the taper as planned while holding the Funds rate low for a good long time. As for the yield curve, steepening remains the order of the day.

US 2yr vs 10yr T-Note Yield Spread



Source: Bloomberg Finance, L.P.



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	0.04	0.01	0.04	0.01	0.09	2yr	0.34	0.42	0.25	0.27	0.40	2Yr	0.18	0.18	0.18	-
6mo	0.06	0.01	0.05	0.03	0.11	3yr	0.55	0.71	0.35	0.37	0.65	3Yr	0.44	0.45	0.40	0.44
1yr	0.09	0.01	0.07	0.06	0.13	5yr	1.07	1.13	0.73	0.77	1.15	5Yr	1.00	1.00	0.99	0.93
2yr	0.31	0.04	0.22	0.15	0.15	7yr	1.42	1.39	1.19	1.27	1.56	7Yr	1.34	1.36	1.35	1.29
3yr	0.57	0.08	0.44	0.32	0.21	10yr	1.74	1.62	1.62	1.73	1.94	10Yr	1.61	1.67	1.66	1.59
5yr	1.04	0.11	0.81	0.84	0.34	15yr	2.05	1.81	1.85	1.97	2.34	November TBA MBS				
7yr	1.38	0.13	1.11	1.29	0.55	20yr	2.37	1.89	2.07	2.21	2.57	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.60	0.14	1.34	1.62	0.79	25yr	2.66	1.91	2.21	2.35	2.63	2.00	1.24	4.2y	1.99	
30yr	2.16	0.13	1.96	2.31	1.59	30yr		1.91	2.35	2.50	2.68	2.50	1.17	3.4y		
												3.00	1.14	3.0y	1.85	4.4y
												3.50	0.92	2.7y	1.90	4.2y
												4.00			1.97	4.1y
												4.50			2.20	4.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	0.25
Primary Discount	0.25	--	0.25	0.25	0.25
2ndary Discount	0.75	--	0.75	0.75	0.75
Prime Rate	3.25	--	3.25	3.25	3.25
Sec. O.N. Finance	0.05	--	0.05	0.01	--
1 Month LIBOR	0.09	0.00	0.08	0.11	0.14
3 Month LIBOR	0.12	(0.01)	0.11	0.20	0.23
6 Month LIBOR	0.16	(0.00)	0.15	0.20	0.24
1 Year LIBOR	0.24	0.00	0.22	0.29	0.34
6 Month CD	0.19	0.01	0.10	0.12	0.25
1 Year CMT	0.10	0.01	0.08	0.06	0.13
REPO O/N	0.05	--	0.06	0.02	0.10
REPO 1Wk	0.14	(0.01)	0.13	0.08	0.11
CoF Federal	0.761	--	0.780	0.876	1.053
11th D. CoF (Aug)	0.238	--	0.263	0.408	0.529

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.34	0.26
6mo	0.23	0.33	0.27
1yr	0.30	0.31	0.31
2yr	0.51	0.69	0.54
3yr	0.76	0.94	0.78
4yr	1.01	1.20	1.03
5yr	1.21	1.40	1.23
7yr	1.57	1.80	1.60
10yr	1.89	2.14	1.91
5yr Am	0.85		0.96
10yr Am	1.46		1.53

Fed Fund Futures	
Maturity	Rate
Oct-21	0.078
Nov-21	0.075
Dec-21	0.080
Jan-22	0.075
Feb-22	0.080
Mar-22	0.080
Apr-22	0.085
May-22	0.095
Jun-22	0.110
Jul-22	0.130
Aug-22	0.155

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
10/4	Factory Orders Ex Trans	Aug	0.4%	0.5%	0.8%	0.9%
10/4	Durables Ex Transportation	Aug F	0.2%	0.3%	0.2%	--
10/4	Cap Goods Ship Nondef Ex Air	Aug F	--	0.8%	0.7%	--
10/5	Trade Balance	Aug	-\$70.8b	-\$73.3b	-\$70.4b	-\$70.3b
10/5	Markit US Services PMI	Sep F	54.4	54.9	54.4	--
10/5	Markit US Composite PMI	Sep F	--	55.0	54.5	--
10/5	ISM Services Index	Sep	59.9	61.9	61.7	--
10/6	MBA Mortgage Applications	10/1	--	-6.9%	-1.1%	--
10/6	ADP Employment Change	Sep	430k	568k	374k	340k
10/7	Challenger Job Cuts YoY	Sep	--	-84.9%	-86.4%	--
10/7	Initial Jobless Claims	10/2	348k	326k	362k	364k
10/7	Continuing Claims	9/25	2766k	2714k	2802k	2811k
10/7	Langer Consumer Comfort	10/3	--	53.4	54.7	--
10/7	Consumer Credit	Aug	\$17.500b	\$14.379b	\$17.004b	\$17.274b
10/8	Change in Nonfarm Payrolls	Sep	500k	194k	235k	366k
10/8	Two-Month Payroll Net Revision	Sep	--	169k	--	--
10/8	Change in Private Payrolls	Sep	450k	317k	243k	332k
10/8	Change in Manufact. Payrolls	Sep	25k	26k	37k	31k
10/8	Unemployment Rate	Sep	5.1%	4.8%	5.2%	--
10/8	Average Hourly Earnings MoM	Sep	0.4%	0.6%	0.6%	0.4%
10/8	Average Hourly Earnings YoY	Sep	4.6%	4.6%	4.3%	4.0%
10/8	Average Weekly Hours All Employees	Sep	34.7	34.8	34.7	34.6
10/8	Labor Force Participation Rate	Sep	61.8%	61.6%	61.7%	--
10/8	Underemployment Rate	Sep	--	8.5%	8.8%	--
10/8	Wholesale Inventories MoM	Aug F	1.2%	1.2%	1.2%	--
10/8	Wholesale Trade Sales MoM	Aug	0.9%	-1.1%	2.0%	2.1%
10/12	NFIB Small Business Optimism	Sep	99.5	--	100.1	--
10/12	JOLTS Job Openings	Aug	10925k	--	10934k	--
10/13	CPI MoM	Sep	0.3%	--	0.3%	--
10/13	CPI YoY	Sep	5.3%	--	5.3%	--
10/13	CPI Ex Food and Energy YoY	Sep	4.1%	--	4.0%	--
10/13	CPI Index NSA	Sep	274.10	--	273.57	--
10/13	CPI Core Index SA	Sep	--	--	279.34	--
10/13	Real Avg Hourly Earning YoY	Sep	--	--	-0.9%	-1.1%
10/13	Real Avg Weekly Earnings YoY	Sep	--	--	-0.9%	-1.4%
10/14	PPI Final Demand YoY	Sep	8.8%	--	8.3%	--
10/14	PPI Ex Food and Energy YoY	Sep	7.1%	--	6.7%	--
10/14	PPI Ex Food, Energy, Trade YoY	Sep	6.5%	--	6.3%	--
10/15	Empire Manufacturing	Oct	25.0	--	34.3	--
10/15	Retail Sales Ex Auto and Gas	Sep	0.2%	--	2.0%	--
10/15	Retail Sales Control Group	Sep	0.4%	--	2.5%	--
10/15	Import Price Index YoY	Sep	--	--	9.0%	--
10/15	Export Price Index YoY	Sep	--	--	16.8%	--
10/15	Business Inventories	Aug	0.7%	--	0.5%	--
10/15	U. of Mich. Sentiment	Oct P	73.5	--	72.8	--
10/15	U. of Mich. Current Conditions	Oct P	--	--	80.1	--
10/15	U. of Mich. 1 Yr Inflation	Oct P	--	--	4.6%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.2	25.6	26.4	27.6	29.3	12.8
FH/FN 15y	13.3	31.1	35.2	39.5	31.2	23.8
GN 15y	27.1	20.2	21.2	19.8	19.5	20.5
FH/FN 20y	56.1	25.9	28.0	27.5	28.1	24.0
FH/FN 30y	8.0	15.4	45.1	46.4	47.3	47.9
GN 30y	7.7	18.3	39.1	49.4	51.0	28.9

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.6	18.2	18.8	19.6	20.9	19.8
FH/FN 15y	14.7	16.9	19.8	23.7	22.4	21.0
GN 15y	13.9	13.9	14.0	13.3	12.6	12.3
FH/FN 20y	12.8	14.6	15.1	15.5	15.9	15.8
FH/FN 30y	10.5	12.7	19.1	19.8	21.1	20.4
GN 30y	9.0	10.9	15.9	15.5	15.8	12.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.92	0.87	110.25	109.26	106.03
Euro	1.16	(0.00)	1.18	1.19	1.18
Dollar Index	94.12	0.08	92.65	92.06	93.61
Major Stock Indices					
Dow Jones	34,800	473	35,031	33,504	28,426
S&P 500	4,398.2	41.1	4,514.1	4,097.2	3,446.8
NASDAQ	14,657.0	90	15,286.6	13,829.3	11,421.0
Commodities					
Gold	1,769.9	12.9	1,791.2	1,756.8	1,888.6
Crude Oil	79.65	3.77	69.30	59.60	41.19
Natural Gas	5.65	0.03	4.91	2.52	2.63
Wheat	742.8	-12.5	698.3	628.8	595.3
Corn	536.3	-5.3	498.3	579.8	387.0

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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