

## Baker Market Update: Week in Review

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“Very little is needed to make a happy life; it is all within yourself, in your way of thinking.” That’s what Roman emperor Marcus Aurelius said a couple thousand years ago. Earlier this week, President Donald Trump criticized Fed Chairman Jerome Powell for appearing to derive happiness from raising interest rates. The roads to happiness are many, and everybody’s different. But, on the FOMC, maybe not *that* different. Since the President vocalized his observation, no fewer than four Committee members, including recently anointed Vice-Chairman Richard Clarida, have publicly pronounced that monetary policy, and that includes interest rates, remains accommodative and more rate hikes are appropriate. The message from the Fed is clear. Don’t worry; be happy.

Today, most everyone is happy with the announcement from the Bureau of Economic Analysis (BEA) that third quarter GDP grew by 3.5%. That preliminary result, (we’re at least two revisions away from a final number), was an upside surprise to most, but apparently not enough upside to counter the renewed and intensifying worries over trade war concerns, dis-May over Brexit, Italy’s non-budget, a darkening global growth picture, and who might be next to receive a delegation of visiting Saudis.

All of these concerns, and perhaps others, have countered the market reaction that one might have expected from the BEA’s GDP report. Equities are reeling, again, and bonds are rallying hard. The Ten-Year’s yield, once again, is closing in on 3%; this time from above as Treasuries reflect the safest of haven for nervous investors.

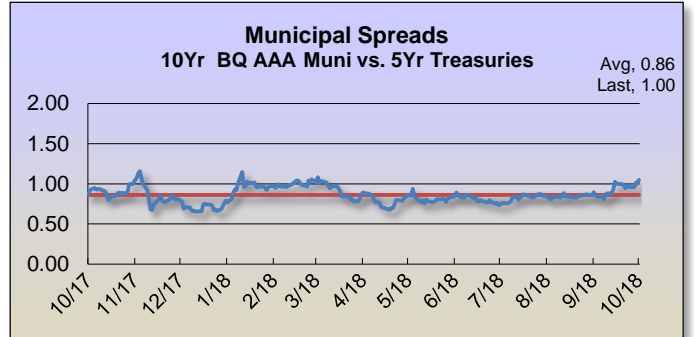
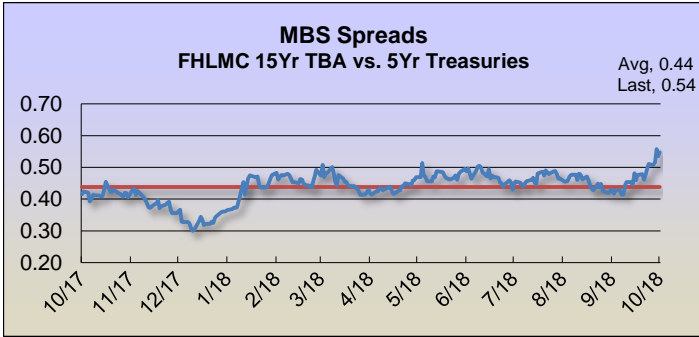
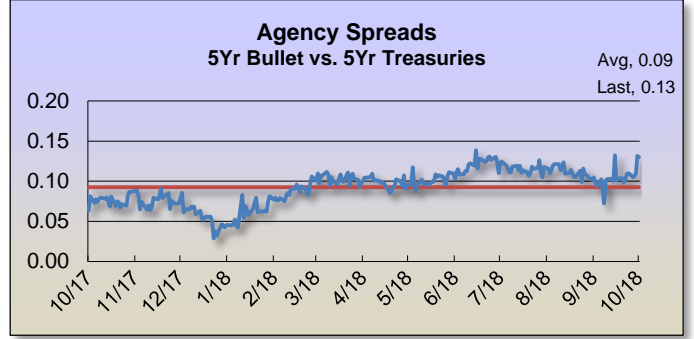
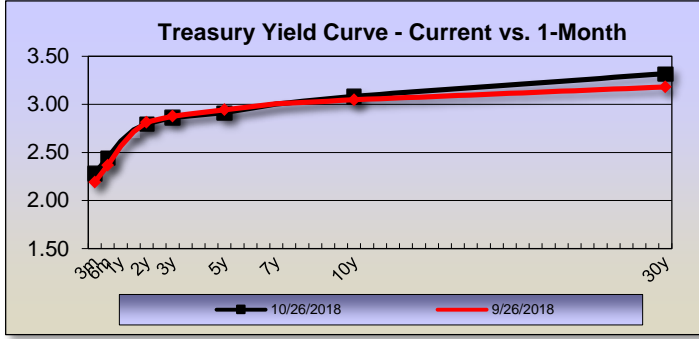
Consumers, as well, despite Q3’s 4% rise in Personal Consumption might also be getting a little nervous if the decline in the University of Michigan’s Index of Consumer Sentiment is any indication. That measure dropped unexpectedly to 98.6 in October from the previous month’s 99. Also of interest is the sub-index of one-year inflationary expectations. That grew slightly to 2.9% from 2.8% at the same time that the BEA reported a plummet in the third quarter’s core Personal Consumption Expenditures Index (PCE) to 1.6% from Q2’s 2.1%. One might reasonably wonder if the Fed’s inflation fighters were anticipating that. If they read the latest Beige Book released on Wednesday, they probably weren’t.

The Federal Reserve’s compilation of how things are going in the various Fed districts was remarkably redundant in its description of district-by-district reporting of rising labor costs, rising costs for tariff-related raw materials, along with rising transportation costs. The GDP Price Index, like the PCE, also plummeted in Q3 to 1.7% from 3% the preceding quarter. So, anecdotally, inflation looks like it *has* to be on the way up; the historical numbers provide less enthusiastic support for that condition. That story is not a new one, but with our economy pretty much out of spare labor capacity, it becomes difficult to conclude that classic, late-cycle, cost-push inflation can be avoided for very much longer.

The downturn in housing is likewise unavoidable as New Home Sales plunged by 5.5% last month. Analysts place the blame on rising rates and higher prices. Go figure. The FHFA House Price Index still managed a nationwide increase of 0.3%. The resurgence in manufacturing faded a bit with the Kansas City Fed’s Manufacturing Index slipping to 8 from 13 with a similar decline in the Richmond Fed’s Index from 29 to 15. This lines up with the Beige Book’s pronouncement that tariffs are slowing growth.

In other takeaways from the GDP report, a rebuilding of inventories provided a significant source of growth along with larger-than-expected increases in government spending, particularly defense spending. For consumers, some of that consumption growth came from a decline in the savings rate from 6.8% to 6.4%. Real Disposable Income rose 2.5%; the same as in the second quarter.

Next week will bring us some more PCE inflation news that will undoubtedly be closely scrutinized. Chances are that Mr. Powell’s happiness will not be diminished. 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr	
3mo	2.28	(0.02)	2.19	1.81	1.10	2yr	2.85	3.00	2.86	3.04	26.00	2Yr	1.94	1.94	1.94	-	
6mo	2.45	(0.02)	2.37	2.00	1.27	3yr	2.91	3.04	2.95	3.14	32.67	3Yr	2.10	2.11	2.11	2.10	
1yr	2.62	(0.05)	2.57	2.23	1.42	5yr	3.02	3.05	3.19	3.40	46.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.80	(0.11)	2.82	2.48	1.62	7yr	3.12	3.08	3.43	3.65	59.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.86	(0.12)	2.88	2.62	1.77	10yr	3.33	3.13	3.78	4.02	77.00	10Yr	2.57	2.62	2.69	2.72	
5yr	2.92	(0.13)	2.95	2.81	2.08	15yr	3.46	3.19	4.19	4.46	100.00	November TBA MBS					
7yr	3.00	(0.13)	3.01	2.94	2.30	20yr	3.59	3.21	4.48	4.77	90.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.08	(0.11)	3.05	2.98	2.46	25yr	3.72	3.21	4.58	4.87	92.00		2.00	3.44	5.0y		
30yr	3.32	(0.06)	3.18	3.16	2.97	30yr	3.72	3.20	4.68	4.98	94.00		2.50	3.33	5.2y		
													3.00	3.30	5.6y	3.62	9.8y
													3.50	3.43	5.2y	3.78	9.7y
												4.00			3.93	8.7y	
												4.50			4.01	7.0y	

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.25	--	2.25	1.75	1.25
Primary Discount	2.75	--	2.50	2.25	1.75
2ndary Discount	3.25	--	3.00	2.75	2.25
Prime Rate	5.25	--	5.00	4.75	4.25
Sec. O.N. Finance	2.19	--	1.93	1.71	--
1 Month LIBOR	2.29	0.02	2.23	1.90	1.24
3 Month LIBOR	2.51	0.04	2.38	2.37	1.37
6 Month LIBOR	2.77	0.08	2.60	2.52	1.56
1 Year LIBOR	3.05	0.05	2.91	2.77	1.84
6 Month CD	2.80	--	2.66	2.50	1.55
1 Year CMT	2.66	--	2.59	2.26	1.43
REPO O/N	2.26	--	1.83	1.79	1.10
REPO 1Wk	2.25	0.01	2.20	1.78	1.22
CoF Federal	2.070	--	2.024	1.749	1.452
11th D. CoF (Aug)	1.015	--	1.018	0.816	0.732

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.51	2.62	2.61
6mo	2.63	2.73	2.75
1yr	2.91	2.88	3.00
2yr	3.01	3.18	3.22
3yr	3.07	3.25	3.29
4yr	3.11	3.31	3.34
5yr	3.18	3.38	3.40
7yr	3.37	3.60	3.52
10yr	3.54	3.80	3.69
5yr Am	3.12		3.35
10yr Am	3.40		3.62

Fed Fund Futures	
Maturity	Rate
Oct-18	2.188
Nov-18	2.195
Dec-18	2.260
Jan-19	2.360
Feb-19	2.370
Mar-19	2.420
Apr-19	2.515
May-19	2.535
Jun-19	2.575
Jul-19	2.640
Aug-19	2.660

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
10/22	Chicago Fed Nat Activity Index	Sep	21.00%	17.00%	<del>18.00%</del>	27.00%
10/24	MBA Mortgage Applications	10/19	--	4.90%	-7.10%	--
10/24	FHFA House Price Index MoM	Aug	0.30%	0.30%	<del>0.20%</del>	0.40%
10/24	Markit US Manufacturing PMI	Oct P	55.30	55.90	55.60	--
10/24	Markit US Composite PMI	Oct P	--	54.80	53.90	--
10/24	New Home Sales	Sep	625k	553k	<del>629k</del>	585k
10/25	Advance Goods Trade Balance	Sep	-\$75.1b	-\$76.0b	<del>-\$75.8b</del>	-\$75.5b
10/25	Durables Ex Transportation	Sep P	0.40%	0.10%	<del>0.00%</del>	0.30%
10/25	Cap Goods Ship Nondef Ex Air	Sep P	0.40%	0.00%	<del>0.20%</del>	0.00%
10/25	Initial Jobless Claims	10/20	215k	215k	210k	--
10/25	Continuing Claims	10/13	1644k	1636k	<del>1640k</del>	1641k
10/25	Bloomberg Consumer Comfort	10/21	--	60.10	60.80	--
10/25	Pending Home Sales NSA YoY	Sep	-2.60%	-3.40%	<del>-2.50%</del>	-2.60%
10/26	GDP Annualized QoQ	3Q A	3.30%	3.50%	4.20%	--
10/26	Personal Consumption	3Q A	3.30%	4.00%	3.80%	--
10/26	GDP Price Index	3Q A	2.10%	1.70%	3.00%	--
10/26	Core PCE QoQ	3Q A	1.80%	1.60%	2.10%	--
10/26	U. of Mich. Current Conditions	Oct F	--	113.10	114.40	--
10/26	U. of Mich. 1 Yr Inflation	Oct F	--	2.90%	2.80%	--
10/29	Personal Income	Sep	0.40%	--	0.30%	--
10/29	Real Personal Spending	Sep	0.30%	--	0.20%	--
10/29	PCE Deflator YoY	Sep	2.00%	--	2.20%	--
10/29	PCE Core YoY	Sep	2.00%	--	2.00%	--
10/30	S&P CoreLogic CS 20-City YoY NSA	Aug	--	--	5.92%	--
10/30	S&P CoreLogic CS US HPI YoY NSA	Aug	--	--	6.00%	--
10/30	Conf. Board Consumer Confidence	Oct	135.40	--	138.40	--
10/30	Conf. Board Present Situation	Oct	--	--	173.10	--
10/31	ADP Employment Change	Oct	190k	--	230k	--
10/31	Employment Cost Index	3Q	0.70%	--	0.60%	--
11/01	Challenger Job Cuts YoY	Oct	--	--	70.90%	--
11/01	Nonfarm Productivity	3Q P	1.80%	--	2.90%	--
11/01	Unit Labor Costs	3Q P	1.20%	--	-1.00%	--
11/01	Initial Jobless Claims	10/27	213k	--	215k	--
11/01	Continuing Claims	10/20	--	--	1636k	--
11/01	Markit US Manufacturing PMI	Oct F	--	--	55.90	--
11/01	ISM Manufacturing	Oct	59.00	--	59.80	--
11/01	ISM Employment	Oct	--	--	58.80	--
11/01	ISM Prices Paid	Oct	--	--	66.90	--
11/01	ISM New Orders	Oct	--	--	61.80	--
11/02	Change in Nonfarm Payrolls	Oct	190k	--	134k	--
11/02	Change in Private Payrolls	Oct	187k	--	121k	--
11/02	Change in Manufact. Payrolls	Oct	19k	--	18k	--
11/02	Unemployment Rate	Oct	3.70%	--	3.70%	--
11/02	Underemployment Rate	Oct	--	--	7.50%	--
11/02	Average Hourly Earnings YoY	Oct	3.10%	--	2.80%	--
11/02	Average Weekly Hours All Employees	Oct	34.50	--	34.50	--
11/02	Labor Force Participation Rate	Oct	62.80%	--	62.70%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.5	12.9	14.9	15.4	21.0	31.6
FH/FN 15y	6.6	6.5	6.9	8.5	14.0	16.8
GN 15y	6.0	12.5	12.5	13.4	12.7	14.1
FH/FN 20y	--	6.2	7.8	9.0	9.7	11.3
FH/FN 30y	2.9	5.5	4.0	4.0	4.9	7.6
GN 30y	8.9	10.5	14.0	14.7	14.6	15.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.6	11.3	12.2	17.7	13.1	23.3
FH/FN 15y	7.3	7.8	6.9	9.3	11.9	21.6
GN 15y	11.3	10.0	12.8	14.7	14.4	13.8
FH/FN 20y	0.1	6.5	7.2	9.1	11.6	12.7
FH/FN 30y	4.8	5.6	6.0	6.4	7.8	11.1
GN 30y	10.0	7.7	8.8	10.5	16.0	19.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	111.54	(1.01)	112.73	109.30	113.98
Euro	1.14	(0.01)	1.17	1.21	1.17
Dollar Index	96.49	0.78	94.19	91.56	94.61
<b>Major Stock Indices</b>					
Dow Jones	24,555	(889)	26,385	24,322	23,401
S&P 500	2,634.8	(133.0)	2,906.0	2,666.9	2,560.4
NASDAQ	7,118.6	(330)	7,990.4	7,118.7	6,556.8
<b>Commodities</b>					
Gold	1,234.7	9.4	1,194.4	1,316.3	1,266.3
Crude Oil	67.21	(1.91)	71.57	68.19	52.64
Natural Gas	3.13	(0.12)	3.02	2.82	2.89
Wheat	503.0	-11.8	517.5	480.8	431.8
Corn	368.3	1.3	363.0	386.0	350.5

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (21% Fed, 0.5% CoF)	
3 S-Corp TEY Muni (29.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

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