

Baker Market Update: Week in Review

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There was a time in the industrial evolution of America when Wall Street was guided by an ironclad axiom: As General Motors goes, so goes the nation. The Honda Accord, in conjunction with a few other things, long ago invalidated that dogmatic domestic dictum. Good thing, too, because GM's announcement this week that it will be firing over 14k workers might just be a sign that things aren't going so well for the tax-payer subsidized auto maker. Unfortunately, the carmaker's announcement induced a reaction from the President that might just be a sign of something even more distressing; Donald Trump's sense of how macro-economics works appears to have been gleaned more from George Orwell than from Adam Smith. His autographed copy of *Animal Farm*, according to White House insiders, is among his most prized possessions, and he's got a lot of prized possessions.

But, the President was not the only non-economist making news this week. Fed Chairman Jerome Powell is credited with sparking big rallies in both equity and credit markets while giving a speech to the Economic Club of New York. His remarks described the present Fed Funds rate as being "just below" neutral. In early October, while telling reporters that the Committee might be justified in raising their target *higher* than neutral, he added that we were still a "long way" from neutral. The rhetorical adjustment was quickly interpreted as a sign that the Fed was a lot closer to ending their "normalization" series of rate hikes than was previously thought. That's what one gets for thinking.

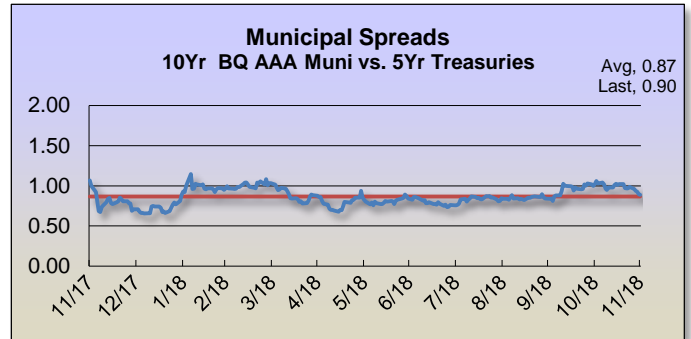
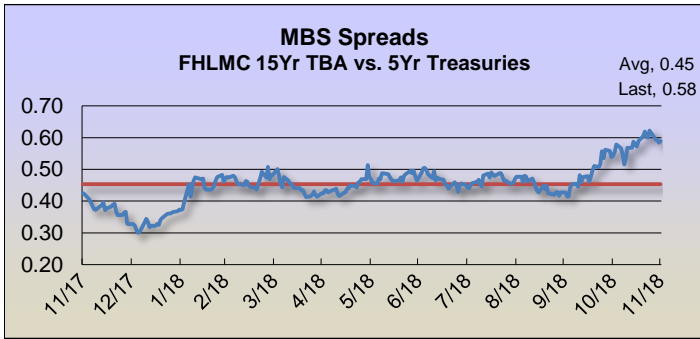
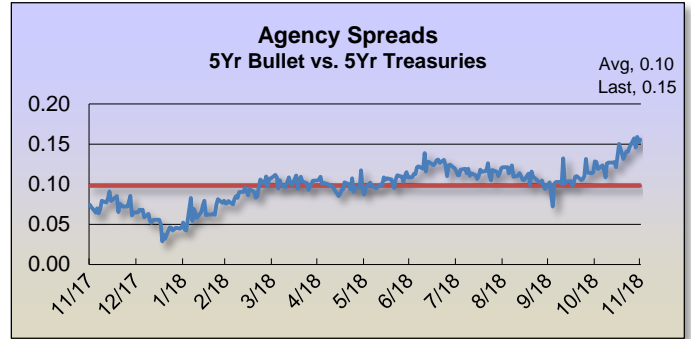
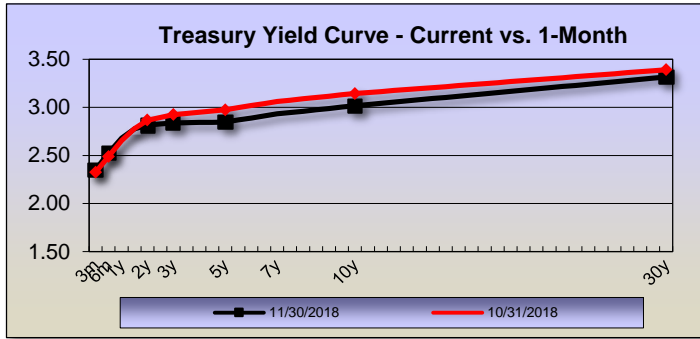
The timing of Jerome's speech also coincided with the release of the Committee's minutes from September. In that memorialization of September's enclave, much was made of members' concerns over equity market volatility, corporate debt loads, and the economic uncertainty created by trade disputes along with general murkiness in the global growth picture. It's unclear why such concern constitutes news. One supposes that those charged with the formulation and execution of monetary policy *should* be concerned with such things. Other un-newsworthy news was the report that the future path of monetary policy would be data-driven. That "scoop" is right up there with the death of Generalissimo Franco. As the Rockman said to Oblio, you see what you want to see, and you hear what you want to hear.

For those who wanted to hear about an end to the housing market's struggles, well, this was not the week for that. Last month, Pending Home Sales fell to the lowest level in four years, New Home Sales fell 8.9%, and the slow-down in rising prices was evidenced by the mere 0.2% rise in the FHFA's House Price Index. The collapse of the Dallas Fed's Manufacturing Index from 29.4 to just 17.6 was, likewise, not welcome news.

Meanwhile, Argentina has the welcome mat out for all the G20 economic leaders as they begin their summit today in Buenos Aires. The productivity of that little get-together has already resulted in the official signing of the brand- new United States, Mexico, and Canada Trade Agreement. Now, once Congress ratifies the new deal, all three nations can consume each other's stuff to their hearts' content.

The hearts of consumers may be a little more contented after it was reported by the Bureau of Economic Analysis (BEA) that Personal Income rose by 0.5% last month. The hearts of credit card companies may be a little more contented when the same report disclosed a 0.6% rise in Personal Spending; the biggest jump in seven months. Adjusted for inflation, it comes out to a *Real* Spending rise of 0.4%. And speaking of inflation, how are Jerome 'n them doing with that? Well, there's the part that doesn't feel quite right. Remember all hoopla that accompanied the attainment of 2% "core" inflation just a while back? Well, the BEA told everyone yesterday that the Fed can no longer claim attainment of that goal. The Personal Consumption Expenditures Index slipped to 1.8% year-over-year, while the all-inclusive PCE Deflator held steady at 2%. Even that measure will have trouble staying at that level as the world watches the continuing decline of crude oil prices.

Also declining are Treasury yields. As Fed speakers took to podiums across the country with what seemed like an attempt to appear more dovish without having to actually say it, Treasury yields have steadily fallen. So, as inflation struggles to hold on to 2%, the Ten-Year struggles to hang on to 3% and our President struggles to hang on to his "not BFF" Jerome Powell. Let's hope the nation can hang on long enough for the President to forget Ray Bradbury and discover Milton Friedman. Until then, have a great weekend and 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	2.35	(0.05)	2.33	1.90	1.26	2yr	2.88	2.98	2.73	2.91	23.00	2Yr	1.94	1.94	1.94	-
6mo	2.52	0.00	2.49	2.08	1.44	3yr	2.90	2.98	2.84	3.02	30.00	3Yr	2.10	2.11	2.11	2.10
1yr	2.68	0.02	2.66	2.23	1.61	5yr	2.98	2.98	3.04	3.23	44.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.81	0.00	2.87	2.43	1.78	7yr	3.09	3.00	3.23	3.44	60.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.84	0.00	2.93	2.55	1.90	10yr	3.30	3.06	3.56	3.78	76.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.85	(0.02)	2.98	2.70	2.14	15yr	3.44	3.13	3.95	4.20	103.00	December TBA MBS				
7yr	2.93	(0.02)	3.06	2.81	2.31	20yr	3.57	3.16	4.30	4.57	96.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.02	(0.02)	3.14	2.86	2.41	25yr	3.71	3.16	4.42	4.70	98.50	2.00	3.42	4.9y		
30yr	3.32	0.01	3.39	3.03	2.83	30yr	3.71	3.15	4.54	4.83	101.00	2.50	3.27	5.2y		
												3.00	3.26	5.6y	3.62	9.8y
												3.50	3.42	5.3y	3.76	9.6y
												4.00			3.91	8.1y
												4.50			3.96	6.6y

* 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	--	2.75	2.25	1.75
2ndary Discount	3.25	--	3.25	2.75	2.25
Prime Rate	5.25	--	5.25	4.75	4.25
Sec. O.N. Finance	2.24	0.06	2.18	1.72	--
1 Month LIBOR	2.34	0.03	2.30	1.98	1.35
3 Month LIBOR	2.71	0.03	2.52	2.32	1.48
6 Month LIBOR	2.89	--	2.78	2.48	1.66
1 Year LIBOR	3.13	0.02	3.06	2.73	1.94
6 Month CD	2.77	--	2.78	2.42	1.64
1 Year CMT	2.69	0.02	2.64	2.17	1.61
REPO O/N	2.39	0.10	2.29	1.91	1.20
REPO 1Wk	2.24	--	2.24	1.78	1.20
CoF Federal	2.132	--	2.070	1.811	1.472
11th D. CoF (Sep)	1.018	--	1.015	0.814	0.729

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.57	2.70	2.70
6mo	2.69	2.79	2.81
1yr	2.99	2.95	3.07
2yr	3.01	3.18	3.25
3yr	3.06	3.25	3.31
4yr	3.09	3.28	3.34
5yr	3.12	3.33	3.37
7yr	3.32	3.56	3.49
10yr	3.51	3.77	3.68
5yr Am	3.10		3.33
10yr Am	3.36		3.58

Fed Fund Futures	
Maturity	Rate
Nov-18	2.200
Dec-18	2.280
Jan-19	2.395
Mar-19	2.460
Apr-19	2.525
May-19	2.550
Jun-19	2.580
Jul-19	2.615
Aug-19	2.630
Aug-19	2.630
Oct-19	2.670

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/27	House Price Purchase Index QoQ	3Q	--	1.30%	1.10%	1.30%
11/27	S&P CoreLogic CS 20-City YoY NSA	Sep	5.20%	5.15%	5.49%	5.53%
11/27	S&P CoreLogic CS US HPI YoY NSA	Sep	--	5.51%	5.77%	5.69%
11/27	Conf. Board Consumer Confidence	Nov	135.70	135.70	137.90	--
11/27	Conf. Board Present Situation	Nov	--	172.70	172.80	171.90
11/27	Conf. Board Expectations	Nov	--	111.00	114.60	115.10
11/28	MBA Mortgage Applications	11/23	--	5.50%	-0.10%	--
11/28	Advance Goods Trade Balance	Oct	-\$77.0b	-\$77.2b	-\$76.0b	-\$76.3b
11/28	GDP Annualized QoQ	3Q S	3.50%	3.50%	3.50%	--
11/28	Personal Consumption	3Q S	3.90%	3.60%	4.00%	--
11/28	GDP Price Index	3Q S	1.70%	1.70%	1.70%	--
11/28	Core PCE QoQ	3Q S	1.60%	1.50%	1.60%	--
11/28	New Home Sales	Oct	575k	544k	553k	597k
11/29	Personal Income	Oct	0.40%	0.50%	0.20%	--
11/29	Personal Spending	Oct	0.40%	0.60%	0.40%	0.20%
11/29	Real Personal Spending	Oct	0.20%	0.40%	0.30%	0.10%
11/29	PCE Deflator YoY	Oct	2.10%	2.00%	2.00%	--
11/29	PCE Core YoY	Oct	1.90%	1.80%	2.00%	1.90%
11/29	Initial Jobless Claims	11/24	220k	234k	224k	--
11/29	Continuing Claims	11/17	1663k	1710k	1668k	1660k
11/29	Pending Home Sales NSA YoY	Oct	-0.03	-0.05	-0.03	-0.03
11/30	Chicago Purchasing Manager	Nov	58.50	66.40	58.40	--
12/03	Markit US Manufacturing PMI	Nov F	55.40	--	55.40	--
12/03	ISM Manufacturing	Nov	57.60	--	57.70	--
12/03	ISM Employment	Nov	--	--	56.80	--
12/03	ISM Prices Paid	Nov	70.00	--	71.60	--
12/03	ISM New Orders	Nov	--	--	57.40	--
12/05	ADP Employment Change	Nov	195k	--	227k	--
12/05	Nonfarm Productivity	3Q F	2.30%	--	2.20%	--
12/05	Unit Labor Costs	3Q F	1.00%	--	1.20%	--
12/05	Markit US Composite PMI	Nov F	--	--	54.40	--
12/05	ISM Non-Manufacturing Index	Nov	59.10	--	60.30	--
12/06	Challenger Job Cuts YoY	Nov	--	--	153.60%	--
12/06	Trade Balance	Oct	-\$55.0b	--	-\$54.0b	--
12/06	Factory Orders Ex Trans	Oct	--	--	0.40%	--
12/06	Durables Ex Transportation	Oct F	--	--	0.10%	--
12/06	Cap Goods Ship Nondef Ex Air	Oct F	--	--	0.30%	--
12/06	Household Change in Net Worth	3Q	--	--	\$2191b	--
12/07	Change in Nonfarm Payrolls	Nov	200k	--	250k	--
12/07	Two-Month Payroll Net Revision	Nov	--	--	0k	--
12/07	Change in Private Payrolls	Nov	200k	--	246k	--
12/07	Change in Manufact. Payrolls	Nov	20k	--	32k	--
12/07	Unemployment Rate	Nov	3.70%	--	3.70%	--
12/07	Underemployment Rate	Nov	--	--	7.40%	--
12/07	Average Hourly Earnings YoY	Nov	3.10%	--	3.10%	--
12/07	Average Weekly Hours All Employees	Nov	34.50	--	34.50	--
12/07	Labor Force Participation Rate	Nov	62.90%	--	62.90%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	12.5	14.7	15.1	20.0	29.7
FH/FN 15y	6.1	6.4	7.2	8.5	14.0	16.2
GN 15y	6.1	11.4	12.0	13.2	13.1	13.2
FH/FN 20y		6.1	7.5	8.7	9.2	10.9
FH/FN 30y	2.2	5.2	3.9	3.9	5.0	7.8
GN 30y	7.4	10.5	13.1	15.3	14.0	14.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.4	11.5	12.3	18.1	12.7	23.5
FH/FN 15y	7.4	7.9	7.1	8.7	12.1	21.5
GN 15y	10.8	10.0	12.7	14.6	14.3	13.7
FH/FN 20y	0.1	6.5	7.1	8.6	10.6	12.3
FH/FN 30y	4.8	5.6	5.9	6.4	8.7	11.8
GN 30y	10.2	7.7	8.5	9.9	16.0	18.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	113.53	0.57	112.94	108.82	112.54
Euro	1.13	(0.00)	1.13	1.17	1.19
Dollar Index	97.18	0.26	97.13	93.98	93.05
Major Stock Indices					
Dow Jones	25,334	1,048	25,116	24,416	24,272
S&P 500	2,747.2	114.7	2,711.7	2,705.3	2,647.6
NASDAQ	7,297.2	358	7,305.9	7,442.1	6,874.0
Commodities					
Gold	1,217.6	(5.6)	1,215.0	1,300.1	1,273.2
Crude Oil	50.57	0.15	65.31	67.04	57.40
Natural Gas	4.55	0.24	3.26	2.95	3.03
Wheat	511.0	11.3	500.5	526.3	409.3
Corn	365.5	6.5	363.3	394.0	341.8

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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