

Baker Market Update: Week in Review

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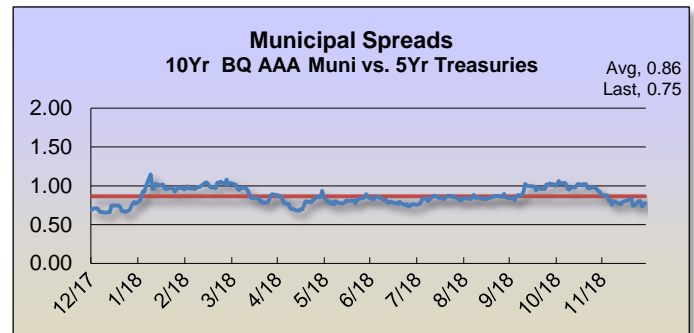
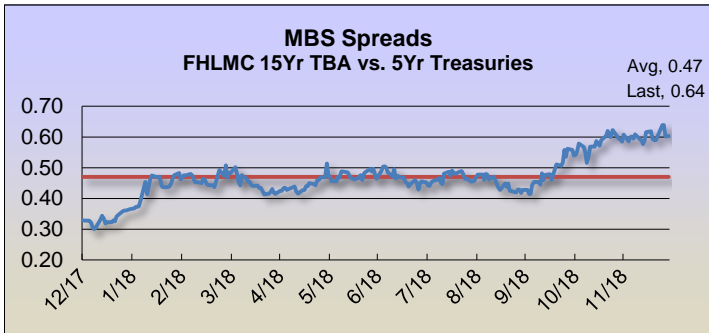
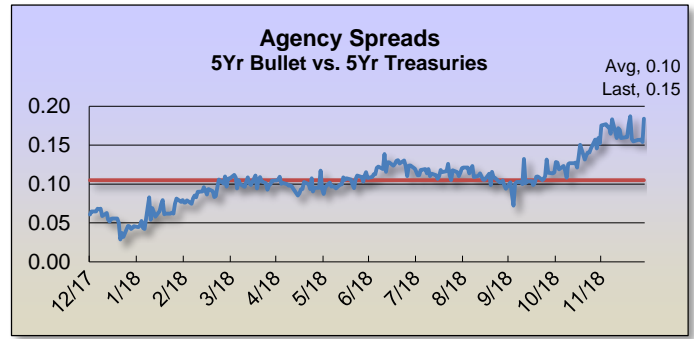
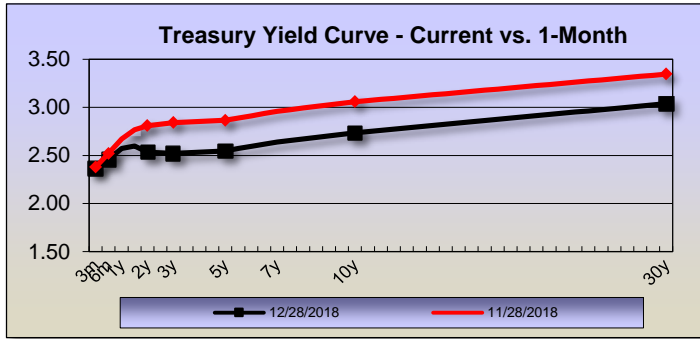
It may only be the fourth day of Christmas, but it's the seventh day of the partial government shutdown (PGS). While we all know that Four Calling Birds are the appropriate gift for the former, it's unclear what is traditionally suitable for the latter. The good news is, the Grand Canyon is open for business, and that includes the gift shop.

And this week, a raft trip down the Colorado might seem tame compared to the behavior of financial markets around the globe. Equity markets have reeled, recovered, and reeled some more as the trusty Treasury market has enjoyed steady price appreciation. This morning, the Ten-Year yield has broken through to the low side of 2.75% with the Two-Year hovering around 2.50%. Across most of the curve, the upset in equities has helped lower bond yields by five or six basis points for the week.

The provenance of recent market volatility is multi-faceted and, at least for the moment, only loosely attached to the week's dissemination of data. But the data still matters because, after all, it's what drives the Fed, isn't it? Isn't it? And it looks like a sharp slowdown in activity has cratered the Richmond Fed's Manufacturing Index. November's reading of 14 was expected to enjoy a slight, upward nudge to 15; instead it took a nosedive to minus 8 (-8). Calling that a slowdown is being generous. And yesterday, the Conference Board's December report on Consumer's Confidence failed to inspire any; confidence that is. November's upwardly revised index value of 136.4 was expected to slip, but only a bit, to around 133. Instead, it slipped a bunch; to 128. Such subjective values of macroeconomic vitality can be tricky to gauge, but can allow observers to glean a "feel" for how consumers are "feeling". So, feel this; the Expectations part of the Confidence Index absolutely plunged to 99 from 112. While tough to quantify, it's hard to think these readings are unaffected by the political climate in Washington, D.C.

For consumers of homes, we learned on Wednesday that on a year-over-year basis, the Case-Shiller 20 City Home Price Index still gained 5% in October. That was better than expected, and gives a little support to a housing market that could use some. Similarly, the FHFA House Price Index recorded an October bump of 0.3%. The Purchasing Managers in Chicago recorded another bit of mostly positive news by noting that its Index slipped only slightly, to 65.4 from 66.4, instead of the 60.2 that was expected. The Dallas Fed will be out with its own Manufacturing Index next week and a slight deterioration may be on tap. The tap for home sales might be running low as the National Association of Realtors report that Pending Home Sales slipped another 0.7% in November after nearly a 3% slide the previous month.

The previous month's sales of New Homes were supposed to be reported yesterday, but, the Bureau of Economic Analysis, along with the Census Bureau, is apparently in the 25% of the government that's no longer answering the phone. That may not be a bad thing, but it remains unclear when that might change. When the twelve days of Christmas conclude on January 5th with all those drummers drumming, the following day is Epiphany. And if the government is still partially shut down come then, we can only hope that the nation's lawmakers will share in the day's enlightenment. We'll know soon enough; until then, 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 | 2.36 | (0.02) | 2.38 | 1.92 | 1.38 | 2yr | 2.59 | 2.68 | 2.49 | 2.65 | 13.00 | 2Yr | 1.94 | 1.94 | 1.94 | - |
| 6mo | 2.46 | (0.07) | 2.53 | 2.10 | 1.53 | 3yr | 2.60 | 2.63 | 2.53 | 2.70 | 20.67 | 3Yr | 2.10 | 2.11 | 2.11 | 2.10 |
| 1yr | 2.57 | (0.05) | 2.67 | 2.31 | 1.74 | 5yr | 2.71 | 2.64 | 2.72 | 2.89 | 36.00 | 5Yr | 2.19 | 2.22 | 2.24 | 2.24 |
| 2yr | 2.53 | (0.11) | 2.81 | 2.51 | 1.91 | 7yr | 2.87 | 2.68 | 2.90 | 3.08 | 52.00 | 7Yr | 2.42 | 2.47 | 2.52 | 2.53 |
| 3yr | 2.52 | (0.10) | 2.84 | 2.60 | 2.02 | 10yr | 3.10 | 2.77 | 3.19 | 3.40 | 63.00 | 10Yr | 2.57 | 2.62 | 2.69 | 2.72 |
| 5yr | 2.55 | (0.09) | 2.87 | 2.72 | 2.24 | 15yr | 3.25 | 2.85 | 3.60 | 3.83 | 92.00 | January TBA MBS | | | | |
| 7yr | 2.64 | (0.08) | 2.96 | 2.80 | 2.36 | 20yr | 3.39 | 2.88 | 3.98 | 4.23 | 88.00 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 2.74 | (0.06) | 3.06 | 2.84 | 2.43 | 25yr | 3.53 | 2.87 | 4.10 | 4.37 | 91.00 | 2.00 | 3.16 | 4.9y | | |
| 30yr | 3.04 | 0.01 | 3.35 | 2.97 | 2.76 | 30yr | | 2.87 | 4.23 | 4.50 | 94.00 | 2.50 | 3.05 | 5.1y | | |
| | | | | | | | | | | | | 3.00 | 3.07 | 5.4y | 3.38 | 9.5y |
| | | | | | | | | | | | | 3.50 | 3.23 | 5.0y | 3.55 | 9.1y |
| | | | | | | | | | | | | 4.00 | | | 3.67 | 6.7y |
| | | | | | | | | | | | | 4.50 | | | 3.78 | 5.9y |

* Interpolated

| Key Market Indices | | | | | |
|--------------------|---------|------------|------------|-------|-------|
| Index | Current | 1Wk Change | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Fed Funds | 2.50 | -- | 2.25 | 2.00 | 1.50 |
| Primary Discount | 3.00 | -- | 2.75 | 2.50 | 2.00 |
| 2ndary Discount | 3.50 | -- | 3.25 | 3.00 | 2.50 |
| Prime Rate | 5.50 | -- | 5.25 | 5.00 | 4.50 |
| Sec. O.N. Finance | 2.44 | 0.03 | 2.19 | 1.90 | -- |
| 1 Month LIBOR | 2.51 | 0.04 | 2.32 | 2.10 | 1.56 |
| 3 Month LIBOR | 2.81 | -- | 2.69 | 2.34 | 1.69 |
| 6 Month LIBOR | 2.89 | -- | 2.89 | 2.51 | 1.83 |
| 1 Year LIBOR | 3.05 | -- | 3.12 | 2.78 | 2.10 |
| 6 Month CD | 2.81 | -- | 2.89 | 2.50 | 1.82 |
| 1 Year CMT | 2.58 | -- | 2.70 | 2.33 | 1.75 |
| REPO O/N | 2.53 | 0.05 | 2.27 | 2.01 | 1.85 |
| REPO 1Wk | 2.63 | 0.04 | 2.24 | 2.00 | 1.48 |
| CoF Federal | 2.188 | -- | 2.132 | 1.877 | 1.506 |
| 11th D. CoF (Oct) | 1.079 | -- | 1.018 | 0.895 | 0.737 |

| FHLB Fixed Advance Rates | | | |
|--------------------------|---------|--------|--------|
| Maturity | Chicago | Boston | Topeka |
| 3mo | 2.62 | 2.74 | 2.78 |
| 6mo | 2.70 | 2.80 | 2.82 |
| 1yr | 2.82 | 2.83 | 2.99 |
| 2yr | 2.77 | 2.93 | 2.99 |
| 3yr | 2.79 | 2.97 | 3.02 |
| 4yr | 2.82 | 3.02 | 3.06 |
| 5yr | 2.90 | 3.10 | 3.13 |
| 7yr | 3.13 | 3.37 | 3.29 |
| 10yr | 3.35 | 3.61 | 3.51 |
| 5yr Am | 2.85 | | 3.08 |
| 10yr Am | 3.15 | | 3.36 |

| Fed Fund Futures | |
|------------------|-------|
| Maturity | Rate |
| Dec-18 | 2.275 |
| Jan-19 | 2.400 |
| Feb-19 | 2.395 |
| Mar-19 | 2.400 |
| Apr-19 | 2.410 |
| May-19 | 2.425 |
| Jun-19 | 2.420 |
| Jul-19 | 2.430 |
| Aug-19 | 2.435 |
| Sep-19 | 2.440 |
| Oct-19 | 2.430 |

| Weekly Economic Calendar | | | | | | |
|--------------------------|------------------------------------|-------|----------|--------|---------------------|----------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 12/24 | Chicago Fed Nat Activity Index | Nov | 20.00% | 22.00% | 24.00% | 0.00% |
| 12/26 | S&P CoreLogic CS 20-City YoY NSA | Oct | 4.86% | 5.03% | 5.15% | 5.21% |
| 12/26 | S&P CoreLogic CS 20-City MoM SA | Oct | 0.30% | 0.41% | 0.33% | 0.73% |
| 12/26 | S&P CoreLogic CS 20-City NSA Index | Oct | -- | 213.89 | 213.76 | 213.91 |
| 12/26 | S&P CoreLogic CS US HPI YoY NSA | Oct | -- | 5.48% | 5.51% | 5.52% |
| 12/26 | S&P CoreLogic CS US HPI NSA Index | Oct | -- | 206.03 | 205.82 | 205.83 |
| 12/26 | Richmond Fed Manufact. Index | Dec | 15.00 | -8.00 | 14.00 | -- |
| 12/27 | Initial Jobless Claims | 12/22 | 216k | 216k | 214k | 217k |
| 12/27 | Continuing Claims | 12/15 | 1675k | 1701k | 1688k | 1705k |
| 12/27 | FHFA House Price Index MoM | Oct | 0.30% | 0.30% | 0.20% | -- |
| 12/27 | Bloomberg Consumer Comfort | 12/23 | -- | 59.40 | 58.80 | -- |
| 12/27 | Conf. Board Consumer Confidence | Dec | 133.50 | 128.10 | 135.70 | 136.40 |
| 12/27 | Conf. Board Present Situation | Dec | -- | 171.60 | 172.70 | -- |
| 12/27 | Conf. Board Expectations | Dec | -- | 99.10 | 111.00 | 112.30 |
| 12/28 | Chicago Purchasing Manager | Dec | 60.20 | 65.40 | 66.40 | -- |
| 12/28 | Pending Home Sales MoM | Nov | 1.00% | -0.70% | -2.60% | -- |
| 12/28 | Pending Home Sales NSA YoY | Nov | -- | -7.70% | -4.60% | -4.70% |
| 12/31 | Dallas Fed Manf. Activity | Dec | 15.00 | -- | 17.60 | -- |
| 01/02 | Markit US Manufacturing PMI | Dec F | 53.90 | -- | 53.90 | -- |
| 01/02 | Advance Goods Trade Balance | Nov | -\$76.0b | -- | -\$77.2b | -\$77.0b |
| 01/02 | Wholesale Inventories MoM | Nov P | 0.50% | -- | 0.80% | -- |
| 01/02 | New Home Sales | Nov | 568k | -- | 544k | -- |
| 01/02 | New Home Sales MoM | Nov | 4.40% | -- | -8.90% | -- |
| 01/02 | Retail Inventories MoM | Nov | -- | -- | 0.90% | 0.80% |
| 01/03 | Challenger Job Cuts YoY | Dec | -- | -- | 51.50% | -- |
| 01/03 | ADP Employment Change | Dec | 180k | -- | 179k | -- |
| 01/03 | Initial Jobless Claims | 12/29 | 223k | -- | 216k | -- |
| 01/03 | Continuing Claims | 12/22 | -- | -- | 1701k | -- |
| 01/03 | Bloomberg Consumer Comfort | 12/30 | -- | -- | 59.40 | -- |
| 01/03 | Construction Spending MoM | Nov | 0.30% | -- | -0.10% | -- |
| 01/03 | ISM Manufacturing | Dec | 58.00 | -- | 59.30 | -- |
| 01/03 | ISM Employment | Dec | -- | -- | 58.40 | -- |
| 01/03 | ISM Prices Paid | Dec | 57.80 | -- | 60.70 | -- |
| 01/03 | ISM New Orders | Dec | -- | -- | 62.10 | -- |
| 01/03 | Wards Total Vehicle Sales | Dec | 17.20m | -- | 17.40m | -- |
| 01/04 | Change in Nonfarm Payrolls | Dec | 180k | -- | 155k | -- |
| 01/04 | Two-Month Payroll Net Revision | Dec | -- | -- | -- | -- |
| 01/04 | Change in Private Payrolls | Dec | 185k | -- | 161k | -- |
| 01/04 | Change in Manufact. Payrolls | Dec | 23k | -- | 27k | -- |
| 01/04 | Unemployment Rate | Dec | 3.70% | -- | 3.70% | -- |
| 01/04 | Average Hourly Earnings MoM | Dec | 0.30% | -- | 0.20% | -- |
| 01/04 | Average Hourly Earnings YoY | Dec | 3.00% | -- | 3.10% | -- |
| 01/04 | Average Weekly Hours All Employees | Dec | 34.50 | -- | 34.40 | -- |
| 01/04 | Labor Force Participation Rate | Dec | -- | -- | 62.90% | -- |
| 01/04 | Underemployment Rate | Dec | -- | -- | 7.60% | -- |
| 01/04 | Markit US Composite PMI | Dec F | -- | -- | 53.60 | -- |
| 01/04 | Markit US Services PMI | Dec F | 53.50 | -- | 53.40 | -- |

| MBS Prepayments ⁴ | | | | | | |
|------------------------------|------|------|------|------|------|------|
| 3-Month CPR | | | | | | |
| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
| FN 10y | 10.4 | 11.8 | 13.8 | 14.2 | 18.2 | 31.0 |
| FH/FN 15y | 5.7 | 5.9 | 6.7 | 7.9 | 13.2 | 15.0 |
| GN 15y | 6.5 | 9.9 | 11.0 | 12.3 | 12.4 | 11.8 |
| FH/FN 20y | -- | 5.4 | 6.8 | 7.9 | 8.3 | 9.7 |
| FH/FN 30y | 1.5 | 4.8 | 3.8 | 3.6 | 4.7 | 7.5 |
| GN 30y | 9.2 | 9.2 | 11.8 | 14.3 | 13.0 | 13.0 |
| CPR Projections | | | | | | |
| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
| FN 10y | 11.7 | 12.0 | 12.6 | 18.8 | 13.1 | 25.1 |
| FH/FN 15y | 7.5 | 8.0 | 7.6 | 10.0 | 12.4 | 21.3 |
| GN 15y | 9.3 | 10.1 | 13.1 | 14.8 | 14.6 | 14.1 |
| FH/FN 20y | 0.1 | 6.7 | 7.7 | 10.0 | 13.3 | 13.7 |
| FH/FN 30y | 5.0 | 5.6 | 6.2 | 7.1 | 11.5 | 13.6 |
| GN 30y | 9.7 | 8.0 | 9.0 | 11.2 | 16.0 | 19.5 |

| Other Markets | | | | | |
|----------------------------|---------|----------|------------|---------|---------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 110.37 | (0.85) | 113.68 | 110.49 | 112.87 |
| Euro | 1.14 | 0.01 | 1.14 | 1.16 | 1.19 |
| Dollar Index | 96.34 | 0.06 | 96.79 | 95.31 | 92.60 |
| Major Stock Indices | | | | | |
| Dow Jones | 23,175 | 316 | 25,366 | 24,216 | 24,838 |
| S&P 500 | 2,501.5 | 34.1 | 2,743.8 | 2,716.3 | 2,687.5 |
| NASDAQ | 6,592.0 | 64 | 7,291.6 | 7,503.7 | 6,950.2 |
| Commodities | | | | | |
| Gold | 1,280.5 | 16.9 | 1,223.6 | 1,251.0 | 1,297.2 |
| Crude Oil | 45.27 | (0.61) | 50.29 | 73.45 | 59.84 |
| Natural Gas | 3.37 | (0.21) | 4.72 | 2.94 | 2.91 |
| Wheat | 511.5 | -12.0 | 497.5 | 479.5 | 427.8 |
| Corn | 376.0 | 0.8 | 360.5 | 345.0 | 352.0 |

| 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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