

## Baker Market Update: Week in Review

### Lester Murray

Associate Partner

Financial Strategies Group

[lester@gobaker.com](mailto:lester@gobaker.com)

800.937.2257

### The Baker Group

[GoBaker.com](http://GoBaker.com)

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



As even casual fans of college football know, momentum can be a powerful thing. The team that has it can appear invincible; the team without it often looks like the Keystone Cops with shoulder pads. Sometimes, financial markets work the same way. It's been almost two years since America fired the shot-heard-'round-the-world when it first imposed tariffs on Chinese imports, and since then, China has fired some shots of its own. As progress toward a resolution has ebbed to regress before flowing back to progress, the momentum of investors has traveled a similarly erratic path. This week has seen both the "to" and the "fro" of these emotion-driven reactions as negativity has turned to optimism only to once again succumb to despair.

As the two sides vacillate between their shared roles of both protagonist and antagonist, hints and rumors of developments both real and imagined have fueled monster rallies and sparked epic sell-offs. Yesterday's reports of an agreement to jointly roll back tariffs had equity investors piling on the risk while bondholders were getting rid of some of theirs. Is it safe to get back in the water? Not so fast, my friend; reports this morning reveal that the President hasn't actually agreed to anything and perhaps never will. How quickly the silkworm turns!

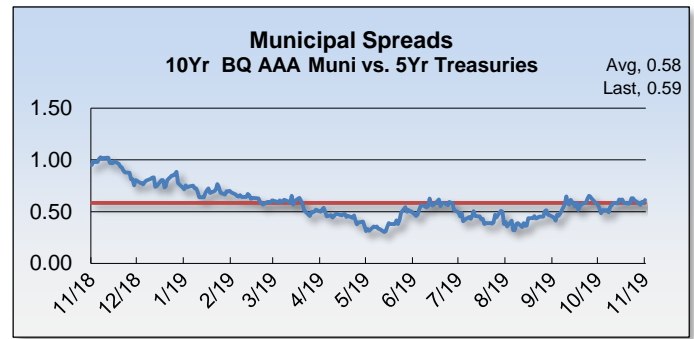
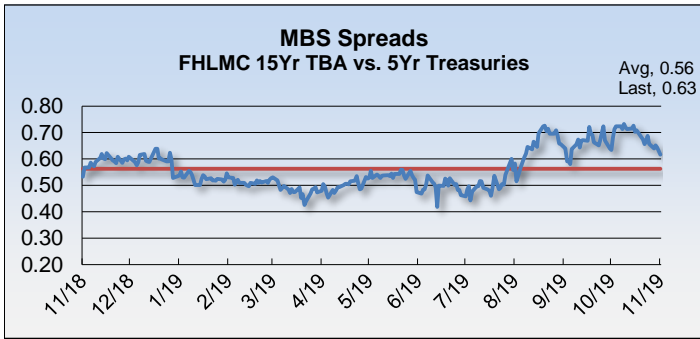
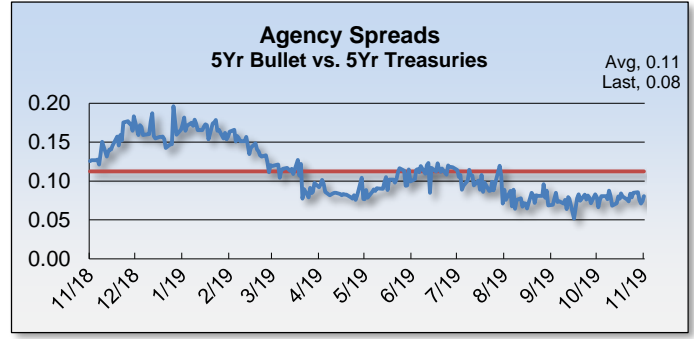
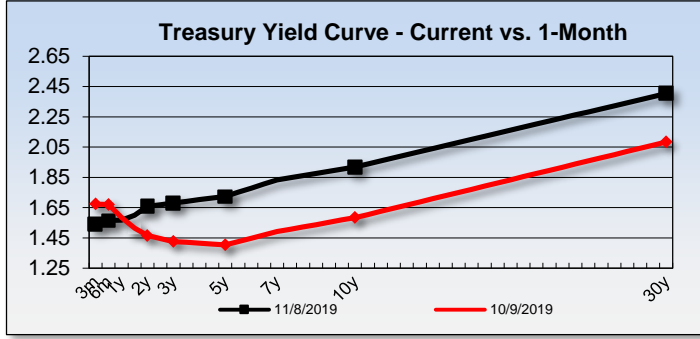
There was a time when economic performance determined market direction and, in case that day returns, a look at this week's data might come in handy. Not necessarily pleasant, but always handy. The week began with the unwelcome reinforcement of the demise of business investment as we learned that core Capital Goods Orders fell 0.6% last month while Durable Goods Orders dropped twice that much! The Census Bureau might be flagged for piling on with its news that Factory Orders plunged 0.6%. A definite momentum deficit. America's trade balance with the rest of the world also suffers from a deficit but, in case it matters to anyone, that deficit shrank last month from 55B to only 52.5B. American \$.

Also shrinking is the momentum of the Services sector as Markit Limited reported its Services PMI fell to 50.6 from 51. We've already seen how manufacturing has lost its "mo", is the same thing happening to services? Better news came from the Institute of Supply Management when it reported *its* Services Index moved up to 54.7 from 52.6. Even the momentum of a very tight labor market might be showing signs of slippage as the Bureau of Labor Statistics reported that the number of Job Openings slipped in September from 7.3 million to just a nudge over 7 million. The BLS also reported that the nation's Non-Farmers could do with a little nudge as it reported that Non-Farm Productivity fell in Q3 by 0.3%. That's the first such drop since 2015; somebody needs a little "do-better." As one might expect after seeing productivity fall, Q3 Unit Labor Costs rose by 3.6%. We all know that our policy-makers are pining for more inflation, but not that way.

And what about consumers? What do they want? Well, they want to consume, but the Federal Reserve surprised everyone yesterday when it reported that Consumer Credit in September only rose by \$9.5B when it was expected to grow by \$15B. Is this a sign that the last bastion of economic growth is pulling in its consumptive horns? Coincidentally, or maybe not, the Federal Reserve also released its latest Senior Loan Officer Opinion Survey on Bank Lending Practices. It's an impressive document if for no other reason than it runs 55 pages long. Yep, that's all it took for the Board of Governors to tell us that loan demand is falling and credit standards are becoming tighter. In another sign that weakening aggregate demand may be upon us, the Census Bureau reported that Wholesale Inventories fell 0.4% in September after a 0.3% drop in August. Where's all the momentum gone?!

Well, the Wolverines seem to have recaptured theirs of late and we can only hope they'll share it with the rest of us. The University of Michigan shared its preliminary Index of Consumer Sentiment Survey with us just this morning and, well, it's not very momentous. The overall reading moved up slightly to 95.7 from 95.5, but the Current Conditions sub-index plunged to 110.9 from 113.2.

Momentum is clearly a market in decline. Manufacturing has lost it, services are losing it, and consumers are looking a little "iffy." Yields are low, but today's 1.9% Ten-Year is higher than it's been of late. What happens next? Worry not; the next good rumor is right around the corner. We'll be closed on Monday in observance of Veterans' Day. Thank you, Dad, and thanks to **all** the nation's veterans. Y'all 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	1.54	0.03	1.68	2.43	2.35	2yr	1.71	1.70	1.58	1.68	10.00	2Yr	1.77	1.74	1.66	-
6mo	1.56	0.03	1.69	2.44	2.52	3yr	1.74	1.69	1.60	1.70	15.00	3Yr	1.82	1.81	1.70	1.66
1yr	1.57	0.04	1.60	2.38	2.74	5yr	1.80	1.70	1.69	1.80	25.00	5Yr	1.92	1.93	1.91	1.81
2yr	1.66	0.10	1.42	2.30	2.97	7yr	1.93	1.74	1.89	2.01	40.00	7Yr	2.03	2.05	2.06	1.96
3yr	1.68	0.14	1.37	2.26	3.01	10yr	2.16	1.83	2.23	2.37	60.00	10Yr	2.18	2.20	2.21	2.15
5yr	1.72	0.18	1.35	2.29	3.09	15yr	2.38	1.93	2.56	2.73	95.00	December TBA MBS				
7yr	1.83	0.20	1.44	2.38	3.17	20yr	2.61	1.99	2.83	3.01	73.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.92	0.21	1.53	2.48	3.24	25yr	2.84	2.01	2.95	3.14	76.50	2.00	2.27	5.5y		
30yr	2.40	0.21	2.03	2.89	3.43	30yr		2.01	3.08	3.28	80.00	2.50	2.36	5.3y		
												3.00	2.48	4.6y	2.80	6.2y
												3.50	2.38	3.4y	2.74	3.8y
												4.00			2.65	3.0y
												4.50			2.47	2.7y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	2.00	2.50	2.25
Primary Discount	2.25	--	2.50	3.00	2.75
2ndary Discount	2.75	--	3.00	3.50	3.25
Prime Rate	4.75	--	5.00	5.50	5.25
Sec. O.N. Finance	1.56	(0.20)	1.83	2.44	--
1 Month LIBOR	1.76	(0.03)	1.94	2.46	2.32
3 Month LIBOR	1.90	(0.00)	2.01	2.56	2.60
6 Month LIBOR	1.92	0.01	1.96	2.59	2.84
1 Year LIBOR	1.98	0.03	1.87	2.72	3.13
6 Month CD	1.87	(0.01)	1.89	2.56	2.86
1 Year CMT	1.58	0.05	1.64	2.37	2.74
REPO O/N	1.57	(0.06)	1.81	2.49	2.31
REPO 1Wk	1.63	(0.10)	1.91	2.44	2.24
CoF Federal	2.150	--	2.200	2.319	2.070
11th D. CoF (Sep)	1.127	--	1.155	0.958	1.018

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	1.84	1.81	1.85
6mo	1.74	1.84	1.86
1yr	1.86	1.88	1.91
2yr	1.86	2.04	2.01
3yr	1.87	2.08	2.03
4yr	1.92	2.13	2.09
5yr	1.96	2.18	2.11
7yr	2.14	2.40	2.23
10yr	2.30	2.59	2.39
5yr Am	1.93		2.15
10yr Am	2.16		2.38

Fed Fund Futures	
Maturity	Rate
Nov-19	1.568
Dec-19	1.560
Jan-20	1.540
Feb-20	1.510
Mar-20	1.495
Apr-20	1.470
May-20	1.455
Jun-20	1.445
Jul-20	1.425
Aug-20	1.415
Sep-20	1.405

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/4	Cap Goods Orders Nondef Ex Air	Sep F	--	-0.6%	-0.5%	-0.6%
11/4	Durables Ex Transportation	Sep F	-0.3%	-0.4%	-0.3%	-0.4%
11/4	Durable Goods Orders	Sep F	-1.1%	-1.2%	-1.1%	-1.2%
11/4	Factory Orders	Sep	-0.5%	-0.6%	-0.1%	--
11/4	Factory Orders Ex Trans	Sep	--	-0.1%	0.0%	-0.2%
11/4	Cap Goods Ship Nondef Ex Air	Sep F	--	-0.7%	-0.7%	--
11/5	Trade Balance	Sep	-\$52.4b	-\$52.5b	-\$54.9b	-\$55.0b
11/5	Markit US Services PMI	Oct F	51.0	50.6	51.0	--
11/5	Markit US Composite PMI	Oct F	--	50.9	51.2	--
11/5	JOLTS Job Openings	Sep	7063	7024	7051	7301
11/5	ISM Non-Manufacturing Index	Oct	53.5	54.7	52.6	--
11/6	MBA Mortgage Applications	11/1	--	-0.1%	0.6%	--
11/6	Nonfarm Productivity	3Q P	0.9%	-0.3%	2.3%	2.5%
11/6	Unit Labor Costs	3Q P	2.2%	3.6%	2.6%	2.4%
11/7	Initial Jobless Claims	11/2	215k	211k	218k	219k
11/7	Continuing Claims	10/26	1682k	1689k	1690k	1692k
11/7	Bloomberg Consumer Comfort	11/3	--	59.1	61.0	--
11/7	Consumer Credit	Sep	\$15.000b	\$9.513b	\$17.901b	\$17.842b
11/8	Wholesale Inventories MoM	Sep F	-0.3%	-0.4%	-0.3%	--
11/8	Wholesale Trade Sales MoM	Sep	0.2%	0.0%	0.0%	-0.1%
11/8	U. of Mich. Sentiment	Nov P	95.5	95.7	95.5	--
11/8	U. of Mich. Current Conditions	Nov P	113.5	110.9	113.2	--
11/8	U. of Mich. Expectations	Nov P	85.0	85.9	84.2	--
11/8	U. of Mich. 1 Yr Inflation	Nov P	--	2.5%	2.5%	--
11/8	U. of Mich. 5-10 Yr Inflation	Nov P	--	2.4%	2.3%	--
11/12	NFIB Small Business Optimism	Oct	102.0	--	101.8	--
11/13	CPI YoY	Oct	1.7%	--	1.7%	--
11/13	CPI Ex Food and Energy YoY	Oct	2.4%	--	2.4%	--
11/13	CPI Core Index SA	Oct	265.1	--	264.6	--
11/13	CPI Index NSA	Oct	257.23	--	256.76	--
11/13	Real Avg Weekly Earnings YoY	Oct	--	--	0.9%	1.0%
11/13	Real Avg Hourly Earning YoY	Oct	--	--	1.2%	1.3%
11/13	Monthly Budget Statement	Oct	-\$128.2b	--	\$82.8b	--
	Mortgage Delinquencies	3Q	--	--	4.53%	--
	MBA Mortgage Foreclosures	3Q	--	--	0.9%	--
11/14	PPI Final Demand YoY	Oct	0.9%	--	1.4%	--
11/14	PPI Ex Food and Energy YoY	Oct	1.5%	--	2.0%	--
11/14	PPI Ex Food, Energy, Trade YoY	Oct	--	--	1.7%	--
11/15	Empire Manufacturing	Nov	6	--	4	--
11/15	Import Price Index YoY	Oct	-1.9%	--	-1.6%	--
11/15	Export Price Index YoY	Oct	--	--	-1.6%	--
11/15	Retail Sales Ex Auto and Gas	Oct	0.3%	--	0.0%	--
11/15	Import Price Index YoY	Oct	0.3%	--	0.0%	--
11/15	Export Price Index YoY	Oct	-0.4%	--	-0.4%	--
11/15	Retail Sales Ex Auto and Gas	Oct	-0.3%	--	-0.5%	--
11/15	Retail Sales Control Group	Oct	77.1%	--	77.5%	--
11/15	Industrial Production MoM	Sep	0.1%	--	0.0%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.5	16.1	17.7	20.4	23.2	22.7
FH/FN 15y	6.2	11.3	28.9	39.5	15.3	16.3
GN 15y	12.3	14.0	14.0	13.7	13.4	13.8
FH/FN 20y		9.6	13.0	16.3	21.0	16.6
FH/FN 30y	8.3	5.3	14.9	48.8	54.9	53.2
GN 30y	10.7	12.7	17.7	21.6	18.1	18.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.9	13.4	13.8	22.4	14.6	14.9
FH/FN 15y	8.5	8.2	11.4	17.5	13.8	21.3
GN 15y	9.7	10.8	16.4	15.1	13.4	13.3
FH/FN 20y	0.2	8.2	10.9	17.6	19.9	17.8
FH/FN 30y	5.9	6.7	13.2	21.8	25.4	27.5
GN 30y	11.4	9.7	12.6	17.5	29.5	24.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	109.18	0.99	107.09	110.10	114.07
Euro	1.10	(0.01)	1.10	1.12	1.14
Dollar Index	98.39	1.15	99.13	97.62	96.72
<b>Major Stock Indices</b>					
Dow Jones	27,638	290	26,164	25,967	26,191
S&P 500	3,086.2	19.2	2,893.1	2,879.4	2,806.8
NASDAQ	8,458.1	72	7,823.8	7,943.3	7,530.9
<b>Commodities</b>					
Gold	1,461.7	(49.7)	1,497.2	1,281.4	1,225.1
Crude Oil	57.27	1.07	52.63	62.12	60.67
Natural Gas	2.80	0.08	2.29	2.61	3.54
Wheat	512.5	-3.5	500.3	431.3	507.8
Corn	380.5	-8.8	395.8	355.3	373.5

**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

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 11/08/2019 12:05PM