

Baker Market Update: Week in Review

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Visitors to the nation's capital know that it's a crowded, bustling place. Lots of one-way streets, mysterious traffic circles, and a complex labyrinth of clogged thoroughfares. If one's travels include a visit to Congress, the confusion has just begun. Tourists who have experienced the maize of hallways known as the Capitol Building have learned first-hand how easy it is to find yourself in a location that was never your destination. So, Jerome Powell can be forgiven for finding himself in a House of Representatives impeachment inquiry when he was actually looking for the Congressional Joint Economic Committee. After assuring lawmakers that he had never listened in on a Presidential phone call nor had any desire to, Democrats were keen to add him to their list of witnesses. But before that could happen, aides were able to whisk the central banker to the appropriate hearing room.

Once there, he told the appropriate committee members that monetary policy was *also* appropriate and probably would be for a while longer. It doesn't look like Mr. Powell is keen to continue his Committee's recent rate hikes. Once he was in the *right* place, the Chairman reminded his inquisitors that the economy is in a "*good place*" and that growth should continue. He also mentioned something about how the uncertainty swirling around trade issues specifically, and fiscal policy generally, was problematic and was interfering with business planning and the efficient flow of capital. Unfortunately, the lawmakers had stopped listening by then.

Many investors have stopped listening to the almost daily back-and-forth of the waxing and waning prospects of tariff resolution with China. But wait! There was something new to listen to yesterday. White House economic adviser Larry Kudlow told reporters that Phase One of an agreement was "coming down to the short strokes." For those who are wondering, Chinese President Xi Jinping is 5' 11".

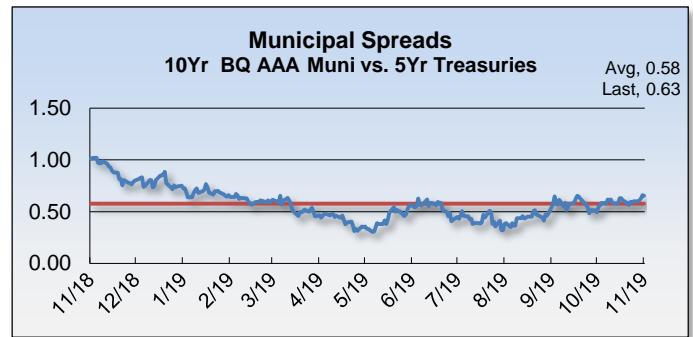
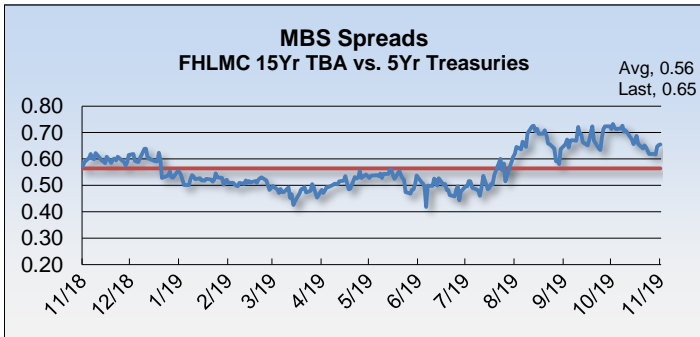
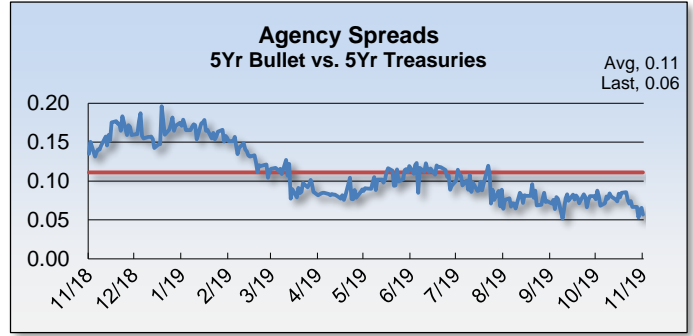
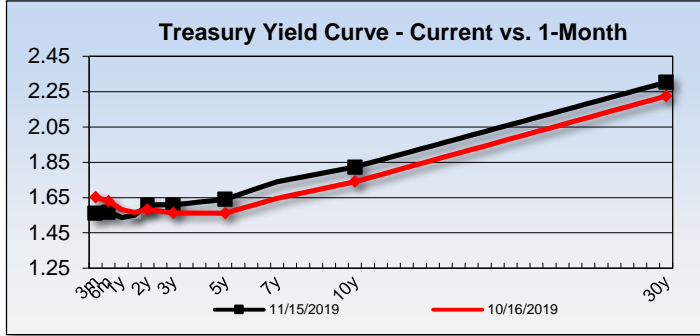
For those who are wondering about inflation, we learned again that finding it has become a tall order. The core Consumer Price Index was reported on Wednesday to have fallen last month from 2.4% to 2.3% on a year-over-year basis. While that's not the price measurement that the FOMC chooses to focus upon, they're likely to see it, nevertheless. They are also likely to see that the core Producer Price Index fell like a one-egg puddin', to 1.5% from 2%. Thankfully, the cheery outlook of the nation's entrepreneurs hasn't fallen as the National Federation of Independent Businesses reported that its Optimism Index got a significant boost to 102.4 from 101.8. Maybe some of those surveyed are poultry ranchers and have been buoyed by the announcement that, after a four-year ban, China has agreed to allow American chickens to once again flock to its shores.

Closer to home, we learned from the Labor Department that 225k Americans flocked to unemployment offices last week in order to make their initial claims for jobless benefits. That's up from the prior week's 211k and while that may not seem like a big deal, this is one labor statistic that tends to lead general economic conditions. If volumes of new claimants continue to trend upwards, it could portend future weakness in labor markets. An unwelcome weakness in worker compensation was announced this week when the Bureau of Labor Statistics reported that Real Average Hourly Earnings fell in October from 1.3% to 1.2%. Not a big drop, but if business spending continues to hibernate, we don't need any drops in consumption fuel.

If you're wondering what business hibernation looks like, take a look at this: the New York Fed reported its Empire Manufacturing Index fell to 2.9 from 4.0; it was supposed to go to 6. Industrial Production fell by 0.8% when it was only supposed to fall half that much. Capacity Utilization fell from 77.5% to 76.7% when it was supposed to stop out at 77. And, with Christmas just six weeks away, we learned that Business Inventories grew by 0.0%. That's what hibernation looks like.

Better news, at least for now, is that consumers are resisting the lure of spending's slumber. Retail Sales rose by 0.3% last month and while we're all rooting for more, that's certainly better than getting whacked in the head with your own football helmet.

The yield on Ten-Year Treasuries got whacked this week as disappointing data drove debt investors to buy 'em up and Tuesday's yield of almost 1.95% has become today's 1.82%. And as for today's political hijinks, some may be surprised to learn that no American President has ever been impeached when interest rates were this low. With the Ten-Year yielding less than 2%, it just wouldn't be appropriate. 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 ² | S-Corp ³ | | Mty | 3Mo | 6mo | 1Yr | 2Yr |
| 3mo | 1.56 | 0.01 | 1.66 | 2.40 | 2.36 | 2yr | 1.66 | 1.63 | 1.55 | 1.65 | 1.71 | 2Yr | 1.74 | 1.70 | 1.61 | - |
| 6mo | 1.57 | (0.00) | 1.66 | 2.42 | 2.51 | 3yr | 1.66 | 1.60 | 1.57 | 1.67 | 1.77 | 3Yr | 1.78 | 1.77 | 1.70 | 1.58 |
| 1yr | 1.54 | (0.04) | 1.63 | 2.31 | 2.69 | 5yr | 1.71 | 1.60 | 1.67 | 1.77 | 1.90 | 5Yr | 1.87 | 1.88 | 1.84 | 1.73 |
| 2yr | 1.61 | (0.07) | 1.62 | 2.16 | 2.86 | 7yr | 1.84 | 1.64 | 1.83 | 1.95 | 2.16 | 7Yr | 1.96 | 2.00 | 1.98 | 1.87 |
| 3yr | 1.61 | (0.10) | 1.60 | 2.12 | 2.88 | 10yr | 2.07 | 1.73 | 2.17 | 2.31 | 2.44 | 10Yr | 2.09 | 2.13 | 2.13 | 2.05 |
| 5yr | 1.64 | (0.11) | 1.60 | 2.15 | 2.94 | 15yr | 2.30 | 1.83 | 2.51 | 2.67 | 2.79 | December TBA MBS | | | | |
| 7yr | 1.74 | (0.12) | 1.68 | 2.25 | 3.02 | 20yr | 2.52 | 1.89 | 2.76 | 2.94 | 3.03 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 1.82 | (0.12) | 1.77 | 2.37 | 3.11 | 25yr | 2.74 | 1.91 | 2.88 | 3.07 | 3.08 | 2.00 | 2.24 | 5.5y | | |
| 30yr | 2.30 | (0.12) | 2.24 | 2.82 | 3.36 | 30yr | | 1.91 | 3.01 | 3.20 | 3.12 | 2.50 | 2.33 | 5.3y | | |
| | | | | | | | | | | | | 3.00 | 2.44 | 4.5y | 2.74 | 6.1y |
| | | | | | | | | | | | | 3.50 | 2.35 | 3.4y | 2.68 | 3.7y |
| | | | | | | | | | | | | 4.00 | | | 2.65 | 3.2y |
| | | | | | | | | | | | | 4.50 | | | 2.47 | 2.8y |

* 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 | 1.58 | 0.02 | 1.85 | 2.39 | -- |
| 1 Month LIBOR | 1.77 | 0.01 | 1.91 | 2.44 | 2.31 |
| 3 Month LIBOR | 1.91 | 0.01 | 2.00 | 2.52 | 2.62 |
| 6 Month LIBOR | 1.92 | (0.00) | 1.98 | 2.59 | 2.86 |
| 1 Year LIBOR | 1.99 | 0.01 | 1.96 | 2.67 | 3.13 |
| 6 Month CD | 1.95 | 0.08 | 1.83 | 2.53 | 2.86 |
| 1 Year CMT | 1.55 | (0.03) | 1.67 | 2.32 | 2.71 |
| REPO O/N | 1.62 | 0.09 | 2.28 | 2.55 | 2.37 |
| REPO 1Wk | 1.57 | (0.06) | 1.84 | 2.43 | 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 | 1.82 | 1.84 | 1.85 |
| 6mo | 1.74 | 1.85 | 1.86 |
| 1yr | 1.84 | 1.86 | 1.89 |
| 2yr | 1.82 | 1.98 | 2.01 |
| 3yr | 1.80 | 1.98 | 2.03 |
| 4yr | 1.83 | 2.03 | 2.08 |
| 5yr | 1.87 | 2.09 | 2.10 |
| 7yr | 2.03 | 2.28 | 2.22 |
| 10yr | 2.21 | 2.49 | 2.39 |
| 5yr Am | 1.84 | | 2.15 |
| 10yr Am | 2.06 | | 2.38 |

| Fed Fund Futures | |
|------------------|-------|
| Maturity | Rate |
| Nov-19 | 1.560 |
| Dec-19 | 1.560 |
| Jan-20 | 1.540 |
| Feb-20 | 1.515 |
| Mar-20 | 1.495 |
| Apr-20 | 1.465 |
| May-20 | 1.435 |
| Jun-20 | 1.420 |
| Jul-20 | 1.395 |
| Aug-20 | 1.375 |
| Sep-20 | 1.360 |

| Weekly Economic Calendar | | | | | | |
|--------------------------|-----------------------------------|-------|-----------|-----------|-----------|---------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 11/12 | NFIB Small Business Optimism | Oct | 102.0 | 102.4 | 101.8 | -- |
| 11/13 | MBA Mortgage Applications | 11/8 | -- | 9.6% | -0.1% | -- |
| 11/13 | CPI MoM | Oct | 0.3% | 0.4% | 0.0% | -- |
| 11/13 | CPI Ex Food and Energy MoM | Oct | 0.2% | 0.2% | 0.1% | -- |
| 11/13 | CPI YoY | Oct | 1.7% | 1.8% | 1.7% | -- |
| 11/13 | CPI Ex Food and Energy YoY | Oct | 2.4% | 2.3% | 2.4% | -- |
| 11/13 | CPI Core Index SA | Oct | 265.07 | 265.01 | 264.60 | -- |
| 11/13 | CPI Index NSA | Oct | 257.23 | 257.35 | 256.76 | -- |
| 11/13 | Real Avg Weekly Earnings YoY | Oct | -- | 0.9% | 0.9% | 1.0% |
| 11/13 | Real Avg Hourly Earning YoY | Oct | -- | 1.2% | 1.2% | 1.3% |
| 11/13 | Monthly Budget Statement | Oct | -\$130.0b | -\$134.5b | -\$100.5b | -- |
| 11/14 | PPI Final Demand YoY | Oct | 0.9% | 1.1% | 1.4% | -- |
| 11/14 | PPI Ex Food and Energy YoY | Oct | 1.5% | 1.6% | 2.0% | -- |
| 11/14 | PPI Ex Food, Energy, Trade YoY | Oct | -- | 1.5% | 1.7% | -- |
| 11/14 | Initial Jobless Claims | 11/9 | 215k | 225k | 211k | -- |
| 11/14 | Continuing Claims | 11/2 | 1683k | 1683k | 1689k | 1693k |
| 11/14 | Bloomberg Consumer Comfort | 11/10 | -- | 58.0 | 59.1 | -- |
| 11/14 | Mortgage Delinquencies | 3Q | -- | 3.97% | 4.53% | -- |
| 11/14 | MBA Mortgage Foreclosures | 3Q | -- | 0.84% | 0.90% | -- |
| 11/15 | Empire Manufacturing | Nov | 6.0 | 2.9 | 4.0 | -- |
| 11/15 | Import Price Index YoY | Oct | -2.2% | -3.0% | -1.6% | -2.1% |
| 11/15 | Export Price Index YoY | Oct | -- | -2.2% | -1.6% | -- |
| 11/15 | Retail Sales Ex Auto and Gas | Oct | 0.3% | 0.1% | 0.0% | -0.1% |
| 11/15 | Retail Sales Control Group | Oct | 0.3% | 0.3% | 0.0% | -0.1% |
| 11/15 | Industrial Production MoM | Oct | -0.4% | -0.8% | -0.4% | -0.3% |
| 11/15 | Manufacturing (SIC) Production | Oct | -0.7% | -0.6% | -0.5% | -- |
| 11/15 | Capacity Utilization | Oct | 77.0% | 76.7% | 77.5% | -- |
| 11/15 | Business Inventories | Sep | 0.1% | 0.0% | 0.0% | -0.1% |
| 11/18 | NAHB Housing Market Index | Nov | 71 | -- | 71 | -- |
| 11/18 | Net Long-term TIC Flows | Sep | -- | -- | -\$41.1b | -- |
| 11/18 | Total Net TIC Flows | Sep | -- | -- | \$70.5b | -- |
| 11/19 | Building Permits | Oct | 1385k | -- | 1387k | 1391k |
| 11/19 | Housing Starts | Oct | 1320k | -- | 1256k | -- |
| 11/20 | MBA Mortgage Applications | 11/15 | -- | -- | 9.6% | -- |
| 11/21 | Philadelphia Fed Business Outlook | Nov | 6.1 | -- | 5.6 | -- |
| 11/21 | Initial Jobless Claims | 11/16 | 218k | -- | 225k | -- |
| 11/21 | Continuing Claims | 11/9 | 1682k | -- | 1683k | -- |
| 11/21 | Bloomberg Consumer Comfort | 11/17 | -- | -- | 58 | -- |
| 11/21 | Bloomberg Economic Expectations | Nov | -- | -- | 49 | -- |
| 11/21 | Leading Index | Oct | -0.1% | -- | -0.1% | -- |
| 11/21 | Existing Home Sales | Oct | 5.50m | -- | 5.38m | -- |
| 11/22 | Markit US Services PMI | Nov P | 51.2 | -- | 50.6 | 51.0 |
| 11/22 | Leading Index | Nov P | 51.5 | -- | 51.3 | -- |
| 11/22 | Existing Home Sales | Nov P | -- | -- | 50.9 | -- |
| 11/22 | Markit US Services PMI | Nov F | 95.7 | -- | 95.7 | -- |
| 11/22 | Markit US Manufacturing PMI | Nov F | 111.5 | -- | 110.9 | -- |
| 11/22 | Markit US Composite PMI | Nov F | -- | -- | 2.5% | -- |

| MBS Prepayments ⁴ | | | | | | |
|------------------------------|------|------|------|------|------|------|
| 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 | 21.2 | 18.1 | 17.9 |
| CPR Projections | | | | | | |
| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
| FN 10y | 14.9 | 13.6 | 14.0 | 23.2 | 15.0 | 15.2 |
| FH/FN 15y | 8.6 | 8.2 | 11.7 | 18.0 | 13.8 | 21.4 |
| GN 15y | 9.7 | 10.8 | 15.6 | 14.7 | 13.4 | 13.2 |
| FH/FN 20y | 0.2 | 7.9 | 10.7 | 16.9 | 19.4 | 17.8 |
| FH/FN 30y | 6.0 | 7.0 | 13.4 | 21.9 | 24.9 | 26.8 |
| GN 30y | 11.4 | 9.7 | 12.7 | 16.9 | 27.8 | 24.6 |

| Other Markets | | | | | |
|----------------------------|---------|----------|------------|---------|---------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 108.72 | (0.54) | 108.86 | 109.60 | 113.64 |
| Euro | 1.11 | 0.00 | 1.10 | 1.12 | 1.13 |
| Dollar Index | 97.97 | (0.38) | 98.29 | 97.57 | 96.93 |
| Major Stock Indices | | | | | |
| Dow Jones | 27,897 | 216 | 27,025 | 25,648 | 25,289 |
| S&P 500 | 3,109.5 | 16.4 | 2,995.7 | 2,851.0 | 2,730.2 |
| NASDAQ | 8,521.1 | 46 | 8,148.7 | 7,822.1 | 7,259.0 |
| Commodities | | | | | |
| Gold | 1,468.0 | 5.1 | 1,477.6 | 1,297.8 | 1,215.0 |
| Crude Oil | 57.20 | (0.04) | 52.81 | 62.02 | 56.46 |
| Natural Gas | 2.66 | (0.13) | 2.34 | 2.60 | 4.04 |
| Wheat | 506.5 | -3.8 | 507.0 | 448.8 | 505.5 |
| Corn | 373.8 | -3.5 | 393.3 | 369.5 | 367.5 |

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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