

Date	Indicator	For	Estimate	Consensus*	Previous Period
16-Nov-2020	Empire Manufacturing	Nov	12.5	14.0	10.5
17-Nov-2020	Retail Sales Advance MoM	Oct	0.6%	0.5%	1.9%
17-Nov-2020	Retail Sales Ex Auto MoM	Oct	0.7%	0.6%	1.5%
17-Nov-2020	Import Price Index MoM	Oct	0.1%	0.0%	0.3%
17-Nov-2020	Industrial Production MoM	Oct	0.8%	1.0%	-0.6%
17-Nov-2020	Capacity Utilization	Oct	72.2%	72.3%	71.5%
17-Nov-2020	Business Inventories	Sep	0.6%	0.5%	0.3%
17-Nov-2020	NAHB Housing Market Index	Nov	84.0	85.0	85.0
17-Nov-2020	Net Long-term TIC Flows	Sep	NA	NA	\$27.8b
18-Nov-2020	Building Permits	Oct	1525k	1567k	1545k
18-Nov-2020	Housing Starts	Oct	1435k	1455k	1415k
19-Nov-2020	Initial Jobless Claims	14-Nov	715k	710k	709k
19-Nov-2020	Philadelphia Fed Business Outlook	Nov	20.0	22.0	32.3
19-Nov-2020	Leading Index	Oct	0.6%	0.7%	0.7%
19-Nov-2020	Existing Home Sales	Oct	6.39m	6.45m	6.54m
19-Nov-2020	Kansas City Fed Manufacturing Activity	Nov	11.0	NA	13.0

*Consensus from Bloomberg

Treasury Market Volatility Returns

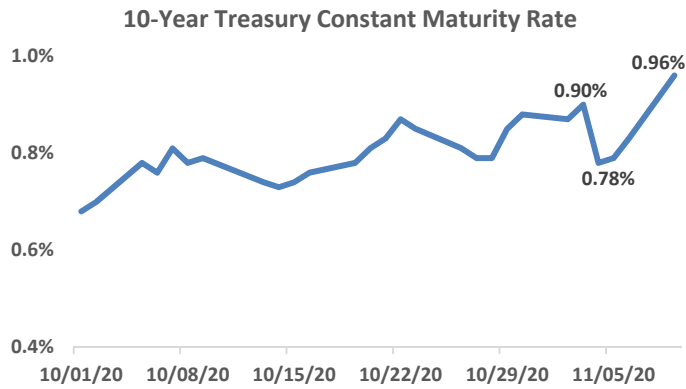
The 10-year Treasury note yield – which is a benchmark for long-term interest rates, including the popular 30-year fixed rate mortgage – was extremely volatile leading up to and following the elections on November 3rd. Now that most of the votes have been tallied, we thought now was an good time to look at what drove the intense volatility of longer-term Treasury rates and what it might tell us or not tell us about future interest rates moves.

Many factors can influence the level of nominal Treasury yields and their direction of change in the future, including the macroeconomic and inflation outlook, policy rate expectations, global interest rates, and the Treasury issuance outlook. The 10-year Treasury yield spiked to 0.90% on Election Day – their highest level since June 5th – as investors became concerned that Democrats would win the presidency and gains enough seats to control both houses of Congress in a “blue wave.” This caused investors to price in somewhat faster economic growth, higher inflation and increased Treasury issuance. Biden campaigned on large new spending programs around infrastructure investment, education, and health care,

which would need to rely of trillions of dollars of new Federal government borrowing.

But By Nov. 4th, Treasury investors were placing their bets on a divided Congress with Republicans keeping control of the Senate and limiting the amount of fiscal stimulus and treasury issuance any future Administration could do. The 10-year Treasury yield dropped back to 0.78% only to jump again to 0.96% on November 9th, their highest level since March 19th, after promising trial vaccine results were announced by Pfizer and BioNTech, bolstered future growth prospects. Since then rates have begun slipping again to close at around 0.89% on November 13. It’s like following the bouncing ball.

Treasury Yield Volatility Returned Around the Election



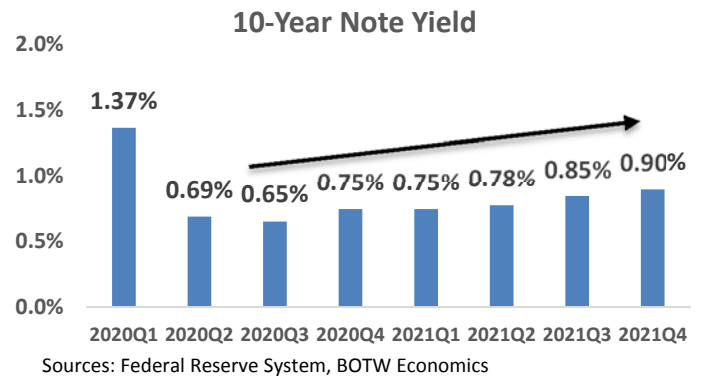
Source: Federal Reserve System

Treasury yields More Downside Than Upside Near-term

Despite many bond investors jumping on the rising interest rate and steepening yield curve trade, we have seen many false dawn before and would caution that Treasury yields look pretty attractive at these levels, especially compared to government yields in Europe and Japan. Indeed, we think Treasury yields could move even lower near-term, before rising gradually in 2021 back to current levels. We are projecting the 10-year bond yield to average 0.75% in the first quarter of 2021 and increase to around 0.90% in the last quarter of 2021.

Here is why we think current bond yields are a little ahead of themselves today: 1) bond market inflation breakevens have been drifting and are slightly lower than recent peaks, exhibiting no clear up or down trend for inflation going forward, 2) there is more downside risk to near-term growth than upside due to the resurgence of COVID cases, 3) the Fed will not allow a large spike in bond yields to derail the ongoing recovery, opting to buy more bonds each month, and 4) expectations of large budget deficits from a democratic administration may be misplaced if Republicans hold the Senate. These will collectively conspire to limit bond yield increases over the rest of the fourth quarter and over most of 2021 as well.

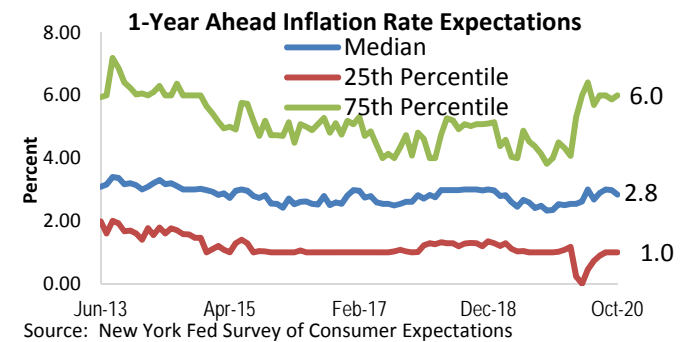
10-Year Bond Yields – Forecasting A Very Gradual Rise



Sources: Federal Reserve System, BOTW Economics

The latest Survey of Consumer Expectations from the Federal Reserve Bank of New York supports this forecast for only gradual yield curve steepening in 2021. From the October 2020 report, consumers expected somewhat less inflation one year ahead than they did in September.

One-Year Ahead Inflation Expectations Fell in October



Source: New York Fed Survey of Consumer Expectations

So far in November, Treasury yield volatility has awakened from its COVID slumber. While yields could remain sensitive to developments on the economic policy and COVID vaccine front, the many fundamental factors that we track to forecast long-term Treasury yields still point to a historically flat yield curve and a lackluster steepening path in 2021 as Fed monetary policies keep long-term interest rate increases contained, and the resurgent coronavirus pandemic keeps downward pressure on the growth and inflation outlook next year.

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Key Economic and Interest Rate Forecasts

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021
Real GDP*	2.9	1.5	2.6	2.4	-5.0	-31.4	33.1	4.0	1.9	2.8	2.9	3.0	3.0	2.2	-3.5	3.5
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-33.2	40.7	4.0	2.0	3.1	2.8	2.7	2.7	2.4	-3.8	4.1
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-27.2	20.3	5.8	1.4	2.4	3.2	3.1	6.9	2.9	-4.7	2.8
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,064	1,435	1,385	1,365	1,360	1,350	1,365	1,208	1,296	1,342	1,360
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.0	11.4	15.4	16.3	15.0	15.2	15.3	15.5	17.2	16.9	14.5	15.3
Industrial Production*	-1.9	-2.3	1.1	0.4	-6.8	-42.9	39.8	2.5	4.8	5.3	4.5	4.4	3.9	0.9	-7.4	4.1
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	140.8	142.2	143.4	144.6	145.8	147.1	146.6	150.9	142.2	145.2
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	8.8	7.7	7.5	7.1	6.7	6.3	4.4	3.7	8.3	6.9
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.5	5.2	1.6	1.4	1.4	1.4	1.4	2.4	1.8	1.2	1.6
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	-1.6	4.4	2.0	1.3	1.4	1.4	1.5	2.1	2.2	1.7	1.7
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-11.4	7.1	2.2	0.1	0.9	1.6	1.7	3.0	0.8	-1.4	1.0
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.9	122.2	118.1	116.5	116.0	115.8	115.7	115.5	91.1	115.7	118.7	115.8
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	45	28	41	40	40	40	41	41	51	57	39	40

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021
S & P 500	2,721	2,882	2,958	3,083	3,056	2,932	3,320						2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571	27,299						21,745	26,364		
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.23	0.06	0.09	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.38	0.13
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.10	0.14	0.11	0.10	0.11	0.12	0.12	0.13	0.95	2.11	0.36	0.12
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.14	0.15	0.18	0.20	0.21	0.23	1.40	1.97	0.39	0.20
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.27	0.34	0.34	0.37	0.40	0.42	1.91	1.96	0.53	0.38
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.65	0.75	0.75	0.78	0.85	0.90	2.33	2.15	0.86	0.82
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.36	1.55	1.53	1.56	1.64	1.70	2.90	2.58	1.54	1.60
Prime Rate	5.50	5.50	5.31	4.83	4.43	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.10	5.29	3.54	3.25
Libor 3-Mo. U.S. Dollar	2.69	2.51	2.20	1.93	1.53	0.60	0.25	0.23	0.23	0.23	0.23	0.23	1.26	2.33	0.65	0.23
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	2.95	3.00	3.05	3.05	3.05	3.10	3.99	3.94	3.18	3.06
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.32	3.48	3.65	3.78	4.05	4.10	4.44	4.38	3.65	3.89

Source: Bank of the West Economics, Bloomberg, Federal Reserve