

Baker Market Update: Week in Review

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How far can a person walk into the woods? That's an easy one. You can only walk half-way in; after that, you're walking out. So, where do we really stand these days in the Forest of Covid? The recent arrival of effective vaccines certainly gave us the feeling that we were on our way out, but rising case counts, strained hospital capacity, and a slower-than-expected vaccination rate can leave one with the impression that we're still on our way in. The promised land of herd immunity seems to be a bit farther away than previously thought and our precarious path of economic recovery is still littered with the challenges of lockdowns, restrictions, and uncertain government support. That same government support comes with its own litter of rising debt levels and growing deficits. And, the forest has one less pipeline than it did before, but that's another story.

This week's story was full of mostly good news for the Housing sector, but it didn't start off that way. On Tuesday we learned from the National Association of Home Builders that its Housing Market Index fell, in January, for the second month in a row with a slide to 83 from December's 86. Analysts were expecting no change. Those same analysts, one suspects, were also expecting December's Housing Starts to come in at meager growth rate of less than 1%, but according to the Census Bureau, they instead enjoyed a 5.8% monthly boost. And that was after November's 1.2% growth was revised to 3.1%! Houses need wood and forests have lots of that.

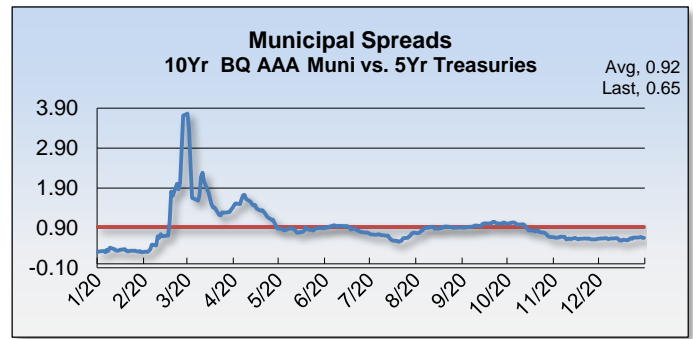
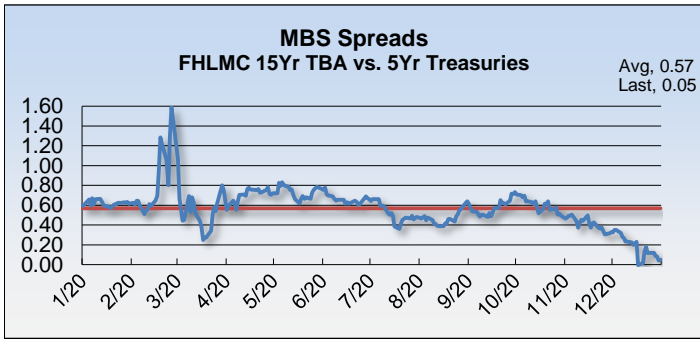
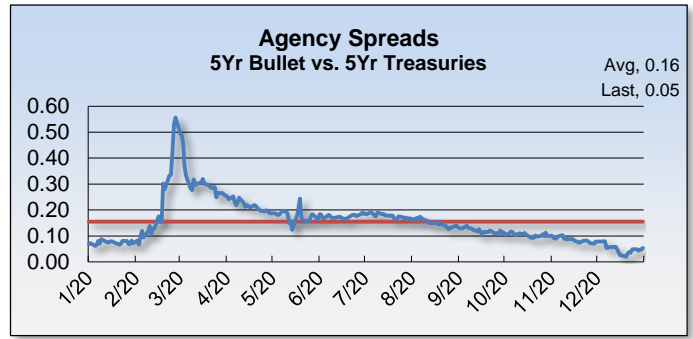
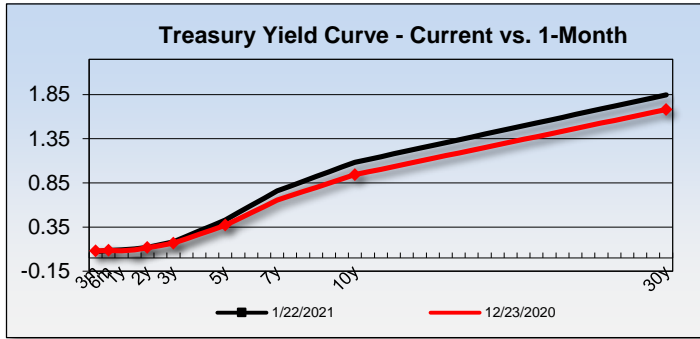
Similarly, for Building Permits, forecasters were expecting the Census Bureau to tell us that they fell 1.7% last month, but Wednesday's report revealed a rise of 4.5%. This morning the National Association of Realtors reported that Existing Home Sales grew 1% in December in sharp contrast to the 1.9% decline that forest-bound analysts were anticipating. One might conclude that Housing has already made it out of the woods, but outside of last spring's initial lockdown, it was never really there.

The Manufacturing sector, on the other hand, has certainly spent some time in the woods, but this week's news was nothing but positive with the biggest upside surprise coming from the Philadelphia Fed. Its broadly based Business Outlook Survey Index was looking pretty fragile after December's value of 11.1 was revised to 9.1 days ahead of yesterday's report, so its January move to 26.5 was a huge miss for analysts expecting 11.8. More good news could be found in the Employment component of that Index with a surge to 22.5 from 5.6 and that's the highest reading since October 2019.

More good news reached investors this morning with a report from Markit U.S. telling us that its Manufacturing PMI rose unexpectedly this month to 59.1 from 57.1 against an expected fall to 56.5. For Services, the news was also positive with a move to 57.5 from 54.8 and that contrasted sharply with the forecast of a slide to 53.4.

News of another forecasting miss came our way yesterday when the BLS reported that Initial Jobless Claims for the week ending January 16th came in at 900k and that was less than the 935k that was expected. The prior week's tally of 965k was revised to 926k. Continuing Claims for the week ending January 9th was another pleasant surprise with a fall to 5.05M from a slightly revised 5.18M while experts expected a bump to 5.3M.

Treasury yields slid around a little bit this week, but not very much. The Ten-Year spent most of the week pretty close to 1.10%, give or take a few basis points, as investors sought to evaluate not only economic performance, but also trying to get a handle on the impact of a new Administration and the policies that might be coming with it. Just remember, there's never a bad time to take a hike. 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	0.07	(0.01)	0.08	0.12	1.55	2yr	0.17	0.20	0.20	0.21	0.19	2Yr	0.04	0.04	0.04	-
6mo	0.08	(0.00)	0.09	0.13	1.55	3yr	0.23	0.27	0.24	0.25	0.33	3Yr	0.11	0.12	0.10	0.11
1yr	0.09	(0.01)	0.09	0.14	1.54	5yr	0.48	0.53	0.36	0.39	0.60	5Yr	0.46	0.45	0.43	0.37
2yr	0.12	(0.02)	0.12	0.15	1.53	7yr	0.75	0.81	0.66	0.70	0.98	7Yr	0.78	0.80	0.79	0.72
3yr	0.18	(0.02)	0.17	0.17	1.54	10yr	1.28	1.12	1.09	1.16	1.49	10Yr	1.15	1.20	1.20	1.13
5yr	0.43	(0.02)	0.36	0.27	1.58	15yr	1.81	1.40	1.48	1.58	2.00	February TBA MBS				
7yr	0.76	(0.01)	0.64	0.45	1.69	20yr	2.35	1.53	1.76	1.88	2.55	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.08	(0.00)	0.92	0.60	1.77	25yr	2.88	1.58	1.90	2.02	2.60	2.00	0.77	3.8y	1.31	
30yr	1.85	0.01	1.65	1.29	2.22	30yr		1.61	2.03	2.16	2.65	2.50	0.75	2.8y		
												3.00	0.94	2.8y	0.76	2.4y
												3.50	0.69	2.3y	0.47	2.1y
												4.00			0.76	2.3y
												4.50			0.76	2.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	1.75
Primary Discount	0.25	--	0.25	0.25	2.25
2ndary Discount	0.75	--	0.75	0.75	2.75
Prime Rate	3.25	--	3.25	3.25	4.75
Sec. O.N. Finance	0.04	(0.04)	0.09	0.11	--
1 Month LIBOR	0.13	0.00	0.14	0.18	1.65
3 Month LIBOR	0.22	(0.02)	0.24	0.26	1.80
6 Month LIBOR	0.24	(0.01)	0.26	0.34	1.83
1 Year LIBOR	0.32	(0.01)	0.33	0.47	1.92
6 Month CD	0.18	(0.02)	0.21	0.37	1.79
1 Year CMT	0.10	--	0.09	0.15	1.54
REPO O/N	0.07	(0.03)	0.08	0.13	1.58
REPO 1Wk	0.08	(0.01)	0.10	0.09	1.56
CoF Federal	0.925	--	0.958	1.158	1.955
11th D. CoF (Nov)	0.466	--	0.503	0.755	1.035

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.37	0.30
6mo	0.25	0.35	0.31
1yr	0.29	0.30	0.32
2yr	0.32	0.49	0.36
3yr	0.40	0.59	0.45
4yr	0.52	0.73	0.58
5yr	0.66	0.88	0.73
7yr	0.99	1.24	1.07
10yr	1.38	1.66	1.46
5yr Am	0.47		0.58
10yr Am	0.96		1.08

Fed Fund Futures	
Maturity	Rate
Jan-21	0.087
Feb-21	0.080
Mar-21	0.075
Apr-21	0.070
May-21	0.070
Jun-21	0.065
Jul-21	0.065
Aug-21	0.065
Sep-21	0.065
Oct-21	0.065
Nov-21	0.065

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/19	Total Net TIC Flows	Nov	--	\$214.1b	-\$10.4b	-\$11.1b
1/19	Net Long-term TIC Flows	Nov	--	\$149.2b	\$51.9b	--
1/20	MBA Mortgage Applications	1/15	--	-1.9%	16.7%	--
1/20	NAHB Housing Market Index	Jan	86	83	86	--
1/21	Housing Starts	Dec	1560k	1669k	1547k	1578k
1/21	Housing Starts MoM	Dec	0.8%	5.8%	4.2%	3.1%
1/21	Building Permits	Dec	1608k	1709k	1639k	1635k
1/21	Building Permits MoM	Dec	-1.7%	4.5%	6.2%	5.9%
1/21	Philadelphia Fed Business Outlook	Jan	11.8	26.5	44.1	9.1
1/21	Initial Jobless Claims	1/16	935k	900k	965k	926k
1/21	Continuing Claims	1/9	5300k	5054k	5271k	5181k
1/21	Bloomberg Economic Expectations	Jan	--	39.5	38.5	--
1/21	Bloomberg Consumer Comfort	1/17	--	43.7	43.2	--
1/22	Markit US Manufacturing PMI	Jan P	56.5	59.1	57.1	--
1/22	Markit US Composite PMI	Jan P	--	58.0	55.3	--
1/22	Markit US Services PMI	Jan P	53.4	57.5	54.8	--
1/22	Existing Home Sales	Dec	6.56m	6.76m	6.69m	6.71m
1/22	Existing Home Sales MoM	Dec	-1.9%	0.7%	-2.5%	-2.2%
1/25	Chicago Fed Nat Activity Index	Dec	--	--	27.0%	--
1/26	S&P CoreLogic CS 20-City YoY NSA	Nov	8.10%	--	7.95%	--
1/26	S&P CoreLogic CS US HPI YoY NSA	Nov	--	--	8.41%	--
1/26	Conf. Board Expectations	Jan	--	--	87.5	--
1/26	Conf. Board Consumer Confidence	Jan	89.1	--	88.6	--
1/26	Conf. Board Present Situation	Jan	--	--	90.3	--
1/27	Durables Ex Transportation	Dec P	0.5%	--	0.4%	--
1/27	Cap Goods Ship Nondef Ex Air	Dec P	--	--	0.5%	--
1/27	FOMC Rate Decision (Upper Bound)	1/27	0.25%	--	0.25%	--
1/27	FOMC Rate Decision (Lower Bound)	1/27	0.00%	--	0.00%	--
1/27	Interest Rate on Excess Reserves	1/28	0.10%	--	0.10%	--
1/28	Advance Goods Trade Balance	Dec	-\$83.5b	--	-\$84.8b	--
1/28	GDP Annualized QoQ	4Q A	4.4%	--	33.4%	--
1/28	Personal Consumption	4Q A	3.0%	--	41.0%	--
1/28	GDP Price Index	4Q A	2.4%	--	3.5%	--
1/28	Core PCE QoQ	4Q A	1.4%	--	3.4%	--
1/28	Leading Index	Dec	0.2%	--	0.6%	--
1/28	New Home Sales	Dec	852k	--	841k	--
1/29	Personal Income	Dec	0.2%	--	-1.1%	--
1/29	Personal Spending	Dec	-0.5%	--	-0.4%	--
1/29	Employment Cost Index	4Q	0.5%	--	0.5%	--
1/29	Real Personal Spending	Dec	-0.5%	--	-0.4%	--
1/29	PCE Deflator YoY	Dec	1.2%	--	1.1%	--
1/29	PCE Core Deflator YoY	Dec	1.3%	--	1.4%	--
1/29	MNI Chicago PMI	Jan	58.0	--	59.5	58.7
1/29	Pending Home Sales NSA YoY	Dec	--	--	16.0%	--
1/29	U. of Mich. Sentiment	Jan F	79.2	--	79.2	--
1/29	U. of Mich. Current Conditions	Jan F	--	--	87.7	--
1/29	U. of Mich. 1 Yr Inflation	Jan F	--	--	3.0%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.4	24.8	27.3	29.5	30.4	16.0
FH/FN 15y	16.9	35.0	43.5	47.9	22.3	22.1
GN 15y	25.1	20.4	19.8	20.2	17.8	19.0
FH/FN 20y	53.5	34.1	35.1	33.7	32.2	25.4
FH/FN 30y	8.2	47.0	58.5	58.7	59.5	53.3
GN 30y	13.4	20.3	42.0	51.6	41.9	31.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.9	21.7	19.4	23.2	18.5	15.8
FH/FN 15y	16.7	23.3	24.6	35.0	19.3	21.9
GN 15y	25.0	16.1	16.0	14.6	13.5	13.1
FH/FN 20y	14.9	20.5	22.3	30.2	20.2	17.8
FH/FN 30y	14.0	22.0	37.4	38.1	36.4	32.9
GN 30y	11.8	20.5	28.5	24.9	29.7	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	103.75	(0.10)	103.64	107.15	109.84
Euro	1.22	0.01	1.22	1.16	1.11
Dollar Index	90.22	(0.55)	90.65	94.99	97.53
Major Stock Indices					
Dow Jones	31,015	24	30,016	27,006	29,186
S&P 500	3,842.0	46.5	3,687.3	3,276.0	3,321.8
NASDAQ	13,525.3	413	12,807.9	10,706.1	9,383.8
Commodities					
Gold	1,848.0	(3.4)	1,866.6	1,865.1	1,556.7
Crude Oil	52.16	(1.41)	47.02	41.90	56.74
Natural Gas	2.46	(0.21)	2.78	1.68	1.91
Wheat	640.5	-29.5	617.0	534.5	577.8
Corn	517.3	-17.0	443.5	327.5	388.8

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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