

Baker Market Update: Week in Review

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We all have people in our lives to whom things have to be told more than once. In the life of Jerome Powell, many of those people participate in his press conferences. They showed up for his latest Q & A this Wednesday, again, and he told them, again, that it will be a long time before any change in the policy rate will be considered, a long time before any tapering of asset purchases takes place, and a long time before the problem with inflation changes from too low to too high. And in case you forgot, a bubble's not a bubble when low interest rates justify high valuations. Good to know.

Some of this week's data was good to know and some we could have done without, but there was a lot of it and there's only time enough for one telling. One tell-tale sign of recovery greeted investors Monday morning with the news that the Chicago Fed's National Activity Index rose to 0.52 in December and that was an improvement over November's value of 0.31. The news was even better in light of analysts' expectations of a decline to 0.10. Whatever good feelings that news might have inspired were quickly reversed when the Dallas Fed reported that its Manufacturing Index fell to 7.0 this month from December's 9.7 against an expected rise to 12.0.

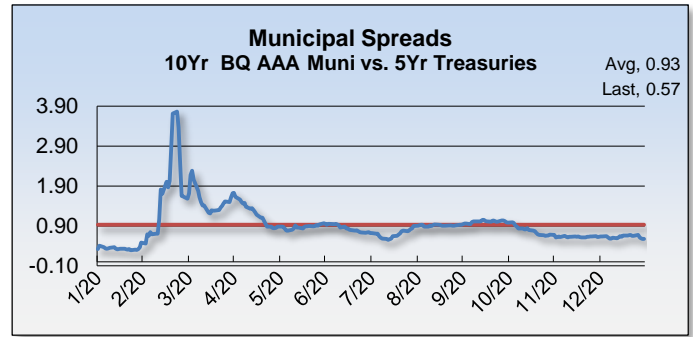
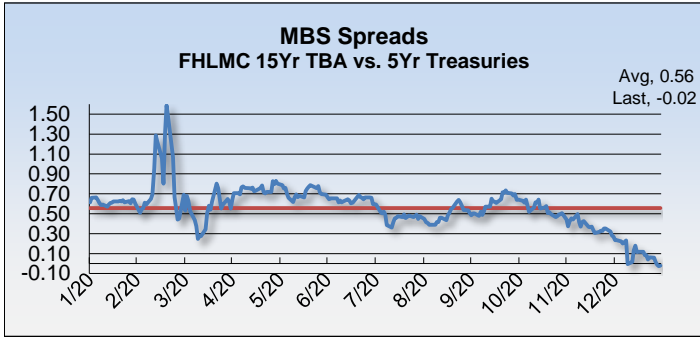
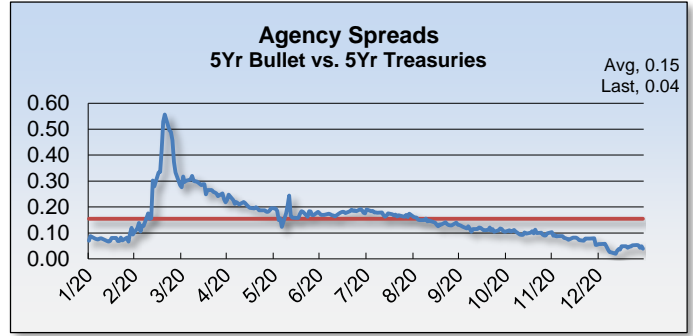
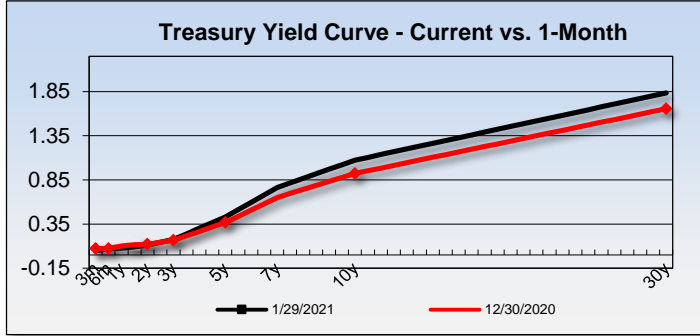
On Tuesday, the FHFA reported that its House Price Index rose by 1.0% in November and that was slightly higher than the 0.8% that was expected. For the month prior, prices rose 1.5%. Case-Shiller had a home price report of its own showing that its 20-City House Price Index rose by 1.42% in November and that beat estimates calling for a 1% rise. Year-over-year, that measure rose to 9.08%; higher than the forecast of 8.7% and higher than the prior month's 8.01% twelve-month pace. For all markets across the nation, the Case-Shiller HPI was up 9.49% year-over-year and that was up more than a full percentage point over October's twelve-month growth rate. Only time will tell if the pandemic-produced move to more pastoral properties persists, but the positive prospects of consumers can only help. The Conference Board reported that its Consumer Confidence Index rose to 89.3 this month from a downwardly-revised 87.1 in December. Unfortunately, the Present Situation component slipped to 84.4 from a revised 87.1, but the Expectations sub-index countered with a rise to 92.5 from 87. Tuesday also brought another weak data-point for manufacturing with the announcement by the Richmond Fed that its Manufacturing Index slipped to 14 this month from 19 when it was expected to remain unchanged. Those darn expectations!

On Wednesday, we got some mixed news from the Census Bureau when it reported that orders for Durable Goods only rose by 0.2% last month when they were expected to grow by a full 1%. But, better news could be found in the Bureau's report for Non-Defense Capital Goods Orders without Airplanes and Parts. That measure rose by 0.6% last month and that beat estimates by a tenth.

Thursday brought us the tale-of-the-tape for last year's fourth quarter with an announcement by the BEA that GDP grew 4%. Yay. Pre-release estimates were all over the place and with this being the initial estimate, one should not be surprised to see some future revisions. Also announced on Thursday was more news from the Census Bureau that New Home Sales rose 1.6% last month. That sounds pretty good and was the first gain in five months, but that was mainly due to a big downward revision in November's total. Either way, last month's annualized count of 842k fell far short of the expected 870k. The Kansas City Fed chimed in with the news that its Manufacturing Index beat expectations with a move to 17 this month from November's 14 when a slip to 13 was forecast. When the BLS chimed in with its Jobless Claims report, that news was also better than expected. Initial Claims for the week ending January 23rd totaled 847k; less than the 875k that was expected and also less than the prior week's upwardly revised 914k. As we contemplate economic recovery, it might be worth saying, again, that this number averages around 200k when things are "normal". Continuing Claims for the week ending January 16th fell to 4.77M from a downwardly revised 4.97M versus a forecast of 5.09M. That's a positive for sure, but this metric historically averages less than 2M when pandemics are not prevalent.

The prevalence of inflation was made a little clearer this morning with a report from the BEA telling us that its Personal Consumption Expenditures Index rose by a greater-than-expected 0.4% last month with the year-over-year pace rising to 1.3% from 1.1%. Without food and energy, core PCE notched a 0.3% monthly rise against an expected move of just 0.1%. Year-over-year, the core rate rose to 1.5% from 1.4% as analysts were looking for a dip to 1.3%. It may be worth repeating that this is the measure that Fed Vice-Chairman Richard Clarida wants to see maintained at 2% **for a year** before policy is adjusted. Also from the BEA, we learned that Personal Income surprised to the upside last month with a rise of 0.6% when only a gain of 0.1% was expected. November's slide of 1.1% was revised to a slide of 1.3%. The other side of the coin, Personal Spending, fell another 0.2% in December while November's fall of 0.4% was revised to a bigger fall of 0.7%. No one needs to be told what happens to inflation when spending trends downward. Inflation-adjusted Real Personal Spending fell an uncomfortable 0.6% last month. Comfort could be found, however, in this morning's announcement from Market News International that its Chicago Purchasing Managers Index absolutely vaulted to 63.8 this month from 58.7 against a forecast of just 58.5. Could that translate into more comfort for consumers? Well, the University of Michigan reported earlier today that its Index of Consumer Sentiment fell to 79 this month from 79.2 against an expected rise to 79.4. No solace could be found in the Current Conditions sub-index as it fell to 86.7 from 87.7. What about better days ahead? Not much change there with the Expectations component rising just barely to 74 from 73.8.

Yes, a lot of macro-economic news this week along with a lot of market volatility. But in an oft-repeated sign of the times, the two are not related. Monetary policy is still being perceived as a variable by many, despite the protestations of policy-makers that it's not going to vary for a long time. Stimulus, vaccination rates, and executive orders seem to be the catalysts for the kind of price action experienced by Treasury investors this week. At one point yesterday morning, the Ten-Year's yield threatened to fall below 1% only to rise back to 1.10% in today's sell-off. For equity markets, the game hasn't stopped and, so far, the bubble that we're told is not a bubble is still holding most of its air. Have a great weekend, and if I've told you once, I've told you a thousand times; 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 | 0.05 | (0.03) | 0.09 | 0.10 | 1.55 | 2yr | 0.15 | 0.19 | 0.15 | 0.16 | 0.18 | 2Yr | 0.03 | 0.03 | 0.03 | - |
| 6mo | 0.07 | (0.01) | 0.10 | 0.11 | 1.56 | 3yr | 0.22 | 0.26 | 0.18 | 0.19 | 0.31 | 3Yr | 0.10 | 0.11 | 0.10 | 0.10 |
| 1yr | 0.08 | (0.01) | 0.10 | 0.12 | 1.50 | 5yr | 0.47 | 0.54 | 0.29 | 0.31 | 0.58 | 5Yr | 0.44 | 0.44 | 0.43 | 0.36 |
| 2yr | 0.11 | (0.01) | 0.13 | 0.13 | 1.42 | 7yr | 0.74 | 0.82 | 0.56 | 0.60 | 0.94 | 7Yr | 0.77 | 0.79 | 0.78 | 0.71 |
| 3yr | 0.18 | (0.01) | 0.17 | 0.15 | 1.41 | 10yr | 1.25 | 1.12 | 0.99 | 1.06 | 1.44 | 10Yr | 1.13 | 1.18 | 1.17 | 1.11 |
| 5yr | 0.43 | (0.00) | 0.38 | 0.25 | 1.41 | 15yr | 1.75 | 1.40 | 1.39 | 1.48 | 1.95 | February TBA MBS | | | | |
| 7yr | 0.76 | (0.00) | 0.65 | 0.43 | 1.50 | 20yr | 2.25 | 1.52 | 1.67 | 1.77 | 2.50 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 1.07 | (0.01) | 0.94 | 0.58 | 1.58 | 25yr | 2.74 | 1.58 | 1.80 | 1.91 | 2.55 | 2.00 | 0.77 | 3.8y | 1.27 | |
| 30yr | 1.84 | (0.01) | 1.68 | 1.24 | 2.04 | 30yr | | 1.60 | 1.93 | 2.06 | 2.60 | 2.50 | 0.61 | 2.8y | | |
| | | | | | | | | | | | | 3.00 | 0.84 | 2.7y | 0.66 | 2.3y |
| | | | | | | | | | | | | 3.50 | 0.60 | 2.3y | 0.35 | 2.1y |
| | | | | | | | | | | | | 4.00 | | | 0.67 | 2.3y |
| | | | | | | | | | | | | 4.50 | | | 0.73 | 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 | -- | 0.09 | 0.10 | -- |
| 1 Month LIBOR | 0.12 | (0.01) | 0.15 | 0.17 | 1.65 |
| 3 Month LIBOR | 0.21 | (0.01) | 0.24 | 0.27 | 1.77 |
| 6 Month LIBOR | 0.22 | (0.01) | 0.27 | 0.32 | 1.77 |
| 1 Year LIBOR | 0.31 | (0.00) | 0.34 | 0.46 | 1.83 |
| 6 Month CD | 0.18 | -- | 0.27 | 0.34 | 1.78 |
| 1 Year CMT | 0.08 | (0.02) | 0.11 | 0.14 | 1.53 |
| REPO O/N | 0.08 | 0.01 | 0.13 | 0.12 | 1.58 |
| REPO 1Wk | 0.13 | 0.05 | 0.10 | 0.13 | 1.60 |
| 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 | 0.24 | 0.35 | 0.28 |
| 6mo | 0.24 | 0.34 | 0.29 |
| 1yr | 0.29 | 0.30 | 0.31 |
| 2yr | 0.33 | 0.50 | 0.35 |
| 3yr | 0.40 | 0.59 | 0.44 |
| 4yr | 0.52 | 0.73 | 0.56 |
| 5yr | 0.66 | 0.89 | 0.71 |
| 7yr | 0.99 | 1.25 | 1.06 |
| 10yr | 1.37 | 1.65 | 1.43 |
| 5yr Am | 0.47 | | 0.56 |
| 10yr Am | 0.97 | | 1.06 |

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

| Weekly Economic Calendar | | | | | | |
|--------------------------|------------------------------------|-------|-------|--------|--------|---------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 1/25 | Chicago Fed Nat Activity Index | Dec | 10.0% | 52.0% | 27.0% | 31.0% |
| 1/26 | S&P CoreLogic CS 20-City YoY NSA | Nov | 8.70% | 9.08% | 7.95% | 8.01% |
| 1/26 | S&P CoreLogic CS US HPI YoY NSA | Nov | 8.85% | 9.49% | 8.41% | -- |
| 1/26 | Conf. Board Consumer Confidence | Jan | 89.0 | 89.3 | 88.6 | 87.1 |
| 1/26 | Conf. Board Present Situation | Jan | -- | 84.4 | 90.3 | 87.2 |
| 1/26 | Conf. Board Expectations | Jan | -- | 92.5 | 87.5 | 87.0 |
| 1/27 | Durables Ex Transportation | Dec P | 0.5% | 0.7% | 0.4% | 0.8% |
| 1/27 | Cap Goods Ship Nondef Ex Air | Dec P | 0.6% | 0.5% | 0.5% | -- |
| 1/27 | FOMC Rate Decision (Upper Bound) | 1/27 | 0.25% | 0.25% | 0.25% | -- |
| 1/27 | FOMC Rate Decision (Lower Bound) | 1/27 | 0.00% | 0.00% | 0.00% | -- |
| 1/27 | Interest Rate on Excess Reserves | 1/28 | 0.10% | 0.10% | 0.10% | -- |
| 1/28 | Initial Jobless Claims | 1/23 | 875k | 847k | 900k | 914k |
| 1/28 | Continuing Claims | 1/16 | 5088k | 4771k | 5054k | 4974k |
| 1/28 | GDP Annualized QoQ | 4Q A | 4.2% | 4.0% | 33.4% | -- |
| 1/28 | Personal Consumption | 4Q A | 3.1% | 2.5% | 41.0% | -- |
| 1/28 | GDP Price Index | 4Q A | 2.2% | 2.0% | 3.5% | -- |
| 1/28 | Core PCE QoQ | 4Q A | 1.2% | 1.4% | 3.4% | -- |
| 1/28 | Leading Index | Dec | 0.3% | 0.3% | 0.6% | 0.7% |
| 1/28 | New Home Sales | Dec | 870k | 842k | 844k | 829k |
| 1/29 | Employment Cost Index | 4Q | 0.5% | 0.7% | 0.5% | -- |
| 1/29 | Personal Income | Dec | 0.1% | 0.6% | -1.1% | -1.3% |
| 1/29 | Real Personal Spending | Dec | -0.6% | -0.6% | -0.4% | -0.7% |
| 1/29 | PCE Deflator YoY | Dec | 1.2% | 1.3% | 1.1% | -- |
| 1/29 | PCE Core Deflator YoY | Dec | 1.3% | 1.5% | 1.4% | -- |
| 1/29 | MNI Chicago PMI | Jan | 58.5 | 63.8 | 59.5 | 58.7 |
| 1/29 | Pending Home Sales NSA YoY | Dec | 20.3% | 22.8% | 16.0% | 16.1% |
| 1/29 | U. of Mich. Sentiment | Jan F | 79.4 | 79.0 | 79.2 | -- |
| 1/29 | U. of Mich. Current Conditions | Jan F | 87.7 | 86.7 | 87.7 | -- |
| 1/29 | U. of Mich. 1 Yr Inflation | Jan F | 2.9% | 3.0% | 3.0% | -- |
| 2/1 | Markit US Manufacturing PMI | Jan F | 59.1 | -- | 59.1 | -- |
| 2/1 | ISM Employment | Jan | -- | -- | 51.5 | 51.7 |
| 2/1 | ISM New Orders | Jan | -- | -- | 67.9 | 67.5 |
| 2/1 | ISM Manufacturing | Jan | 60.0 | -- | 60.7 | 60.5 |
| 2/1 | ISM Prices Paid | Jan | 76.0 | -- | 77.6 | -- |
| 2/3 | ADP Employment Change | Jan | 60k | -- | -123k | -- |
| 2/4 | Challenger Job Cuts YoY | Jan | -- | -- | 134.5% | -- |
| 2/4 | Unit Labor Costs | 4Q P | 3.7% | -- | -6.6% | -- |
| 2/4 | Nonfarm Productivity | 4Q P | -3.2% | -- | 4.6% | -- |
| 2/4 | Factory Orders Ex Trans | Dec | -- | -- | 0.8% | -- |
| 2/5 | Change in Nonfarm Payrolls | Jan | 55k | -- | -140k | -- |
| 2/5 | Two-Month Payroll Net Revision | Jan | -- | -- | 135k | -- |
| 2/5 | Change in Private Payrolls | Jan | 30k | -- | -95k | -- |
| 2/5 | Change in Manufact. Payrolls | Jan | 30k | -- | 38k | -- |
| 2/5 | Unemployment Rate | Jan | 6.7% | -- | 6.7% | -- |
| 2/5 | Average Hourly Earnings YoY | Jan | 5.0% | -- | 5.1% | -- |
| 2/5 | Average Weekly Hours All Employees | Jan | 34.7 | -- | 34.7 | -- |
| 2/5 | Labor Force Participation Rate | Jan | -- | -- | 61.5% | -- |

| 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 | 18.0 | 22.5 | 20.0 | 23.6 | 18.7 | 15.9 |
| FH/FN 15y | 16.8 | 23.8 | 24.9 | 35.2 | 19.4 | 22.1 |
| GN 15y | 25.7 | 16.2 | 16.1 | 14.7 | 13.5 | 13.1 |
| FH/FN 20y | 15.4 | 21.1 | 22.8 | 30.4 | 20.4 | 17.8 |
| FH/FN 30y | 14.4 | 22.1 | 38.1 | 38.7 | 36.7 | 33.1 |
| GN 30y | 11.9 | 21.0 | 29.2 | 25.1 | 30.0 | 22.7 |

| Other Markets | | | | | |
|----------------------------|----------|----------|------------|----------|---------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 104.70 | 0.92 | 103.58 | 104.92 | 109.02 |
| Euro | 1.21 | (0.00) | 1.22 | 1.18 | 1.10 |
| Dollar Index | 90.51 | 0.27 | 89.99 | 93.45 | 97.99 |
| Major Stock Indices | | | | | |
| Dow Jones | 30,245 | (752) | 30,336 | 26,540 | 28,734 |
| S&P 500 | 3,756.8 | (84.6) | 3,727.0 | 3,258.4 | 3,273.4 |
| NASDAQ | 13,178.8 | (364) | 12,850.2 | 10,542.9 | 9,275.2 |
| Commodities | | | | | |
| Gold | 1,857.0 | 0.8 | 1,879.7 | 1,953.4 | 1,570.4 |
| Crude Oil | 52.54 | 0.27 | 48.00 | 41.27 | 53.33 |
| Natural Gas | 2.63 | 0.19 | 2.47 | 1.85 | 1.88 |
| Wheat | 656.3 | 21.8 | 618.5 | 532.8 | 562.3 |
| Corn | 543.0 | 42.5 | 466.0 | 315.5 | 384.3 |

| 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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