

## Baker Market Update: Week in Review

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To some unkind sports historians, the record-breaking season that Roger Maris had in 1961 will always be footnoted with an asterisk. Yes, when Babe Ruth hit 60 home runs in 1927, the big-league season had fewer games than it did in 1961. But, when Roger Maris hit his 61st dinger of that '61 season, he actually did it in a fewer number of plate appearances than the Big Bambino. Roger Maris never made it into baseball's Hall of Fame, but if there was a Cooperstown for asterisks, it would be called the Bureau of Labor Statistics.

This morning's January Employment Report comes with a couple of new asterisks that are probably worth mentioning, even if it does mean getting sucked into the black hole of BLS methodology. First off, things like the Unemployment Rate, Labor Force Participation Rate, and the numbers of employed and unemployed persons are all derived from the Household Survey. This morning's report utilizes new population controls used in the way that population estimates are made in-between census years. According to the BLS website, "household survey data for January 2021 **will not be directly comparable** with data for December 2020 or earlier periods." But, just watch the news; someone will probably do it anyway. And another thing, historical data are not subject to revision.

Now, for things like Non-Farm Payrolls, hours worked, and wages earned, the BLS uses the Establishment Survey and today's report reflects the annual changes made to the benchmark process and updated seasonal adjustment factors. Don't even ask about those. But, historical data may be revised as a result of the benchmark change. Today's report is 44 pages long and almost none of them are asterisk-free.

The most eye-catching tidbit in today's report is the apparent drop in the Unemployment Rate from 6.7% to 6.3%, but did it really fall? That information is derived from the Household Survey and the BLS has already told us not to compare it to prior periods. But there's little doubt that it will be viewed as a positive sign. Less positive was the apparent decline in the Labor Force Participation Rate from 61.5% to 61.4%, but that would involve a comparison to a prior period. Also eye-catching was the meager growth of 49k in Non-Farm Payrolls in relation to the expected growth of 105k. As if that wasn't bad enough, December's loss of 140k jobs was revised to a loss of 227k. This data comes from the Establishment Survey and January's report reflects year-end seasonal adjustments that, while always a bit tricky, have been made even trickier by so many covid-related distortions; particularly those surrounding Education and Leisure and Hospitality. Also from that survey, we learned that Average Hourly Earnings grew by 0.2% last month and that helped push the year-over-year pace of wage growth to 5.4% from 5.1% before we learned that December's pace was revised to that same 5.4%. That's pretty hefty considering that most of the economy has been in some degree of lockdown for most of the last year. But the government's massive transfer payments can't last forever. Can they?

According to the Establishment Survey, 43k Government jobs were added last month while Professional and Business Services added 97k; most of those coming from Temporary Help Services. Leisure and Hospitality lost another 61k after December's plunge of 536k while Retail Trade lost 38k and Manufacturing gave up 10k. With all of the revisions and adjustments, interpreting today's report gets pretty murky, but one unfortunate fact remains untouched; there are still around 10M Americans who had a job last February but don't have one now.

The week began with a spate of Manufacturing news when Markit U.S. reported on Monday that its PMI for Manufacturing rose just barely to 59.2 from 59.1 while the ISM's Manufacturing Index slipped more than expected to 58.7 from 60.5. We also learned from the Census Bureau that Construction Spending rose by 1% and that's about what was expected. We learned on Tuesday that January's car sales beat expectations with Wards Automotive Group reporting that the expected annualized pace of 16.15M Total Vehicle Sales actually came in at 16.63M and that also beat December's 16.27M. This measure has been above 16M for four of the last five months.

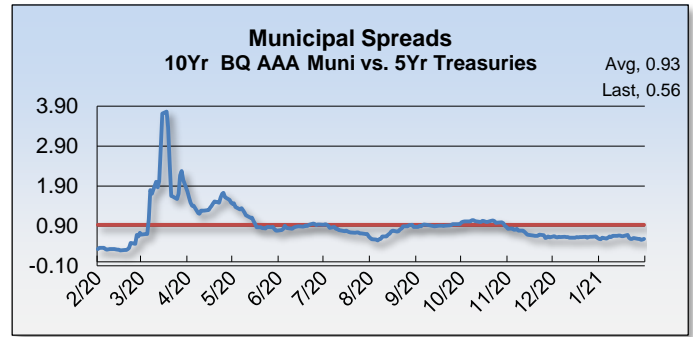
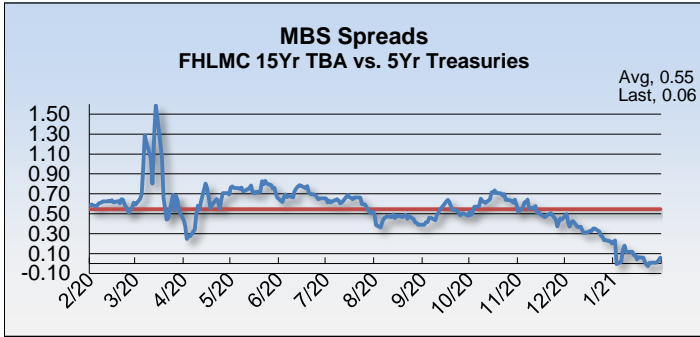
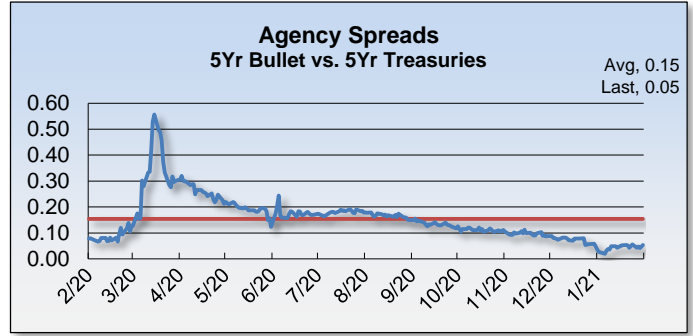
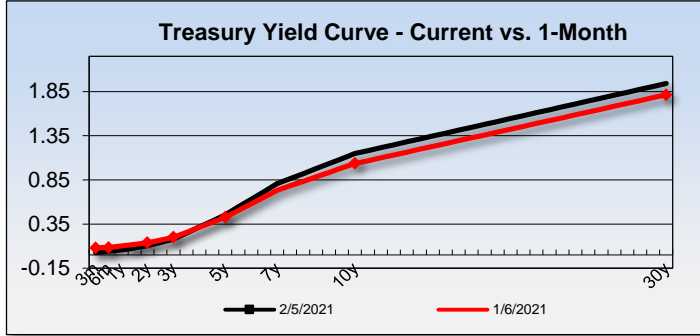
Wednesday brought a precursor of today's labor report when the ADP Private Employment Change report showed a payroll gain of 174k against a forecast of 70k while December's slip of 123k was revised to a milder slip of 78k. Wednesday also brought us some Services sector news with Markit U.S. reporting that its PMI for Services rose to 58.3 from 57.5 when a slide to 57.4 was expected. The ISM Services Index rose to 58.7 from 57.7 against an anticipated drop to 56.7. All-around positive news for Services, but those services won't get to do much serving until the economy achieves a greater degree of reopening.

Thursday got started with a look back to Q4 by the BLS who shared with us the disquieting news that in the final stanza of 2020, Non-Farm Productivity plunged by 4.8% while Unit Labor Costs skyrocketed by 6.8%. While we're talking about covid-related distortions, these values were almost a perfect converse of Q3's experience. The BLS also released its Jobless Claims report yesterday morning and we learned that for the week ending January 30th, Initial Jobless Claims came in with a total of 779k and that was less than the prior week's 812k and also less than the expected 830k. Continuing Claims for the week ending January 23rd fell more than expected to 4.59M from 4.78M versus an expected 4.7M.

Also reporting yesterday was the Census Bureau with the news that Factory Orders in December grew by a greater-than-expected 1.1% while Durable Goods Orders also outperformed forecasts with a December rise of 0.5%. Core Capital Goods Orders also beat estimates with a rise of 0.7%. We learned from the Bureau this morning that the nation's Trade Imbalance narrowed to a shortfall of \$66.6B in December from an upwardly revised \$69B. Later today, the Federal Reserve is expected to report that Consumer Credit grew by \$12B in December and that would be less than November's growth of \$15.27B.

For most of the week, equity market shenanigans got most of the news, but Treasury yields edged slightly higher. Prior to this morning's BLS report, the Ten-Year's yield was around 1.17% and the Long Bond was within a whisker of 2%. Since then, prices have moved back up and yields have come back down. That might provide some insight into what the bond market thinks of today's Jobs Report. Debate continues over whether the President's \$1.9T covid-relief spending plan is really needed as signs of economic improvement become more tangible. Today's Jobs Report, with all of its caveats and footnotes, does little to clarify a picture that remains pretty blurry.

In 1999, Sammy Sosa hit 63 home runs and that made the asterisk by Roger Maris's name a moot point. For 2021 we could use an economic version of Sammy's great season. Maybe it will be a reopened economy! 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 <sup>2</sup> | S-Corp <sup>3</sup> |          | Mty                 | 3Mo          | 6mo  | 1Yr          | 2Yr  |
| 3mo                           | 0.03    | (0.03)     | 0.08       | 0.10 | 1.56 | 2yr               | 0.14          | 0.20    | 0.15                | 0.16                | 0.18     | 2Yr                 | 0.03         | 0.03 | 0.03         | -    |
| 6mo                           | 0.04    | (0.03)     | 0.08       | 0.12 | 1.56 | 3yr               | 0.23          | 0.28    | 0.18                | 0.19                | 0.31     | 3Yr                 | 0.10         | 0.11 | 0.10         | 0.10 |
| 1yr                           | 0.06    | (0.02)     | 0.10       | 0.12 | 1.49 | 5yr               | 0.50          | 0.57    | 0.32                | 0.34                | 0.56     | 5Yr                 | 0.45         | 0.46 | 0.44         | 0.38 |
| 2yr                           | 0.11    | (0.01)     | 0.12       | 0.12 | 1.44 | 7yr               | 0.80          | 0.88    | 0.59                | 0.63                | 0.96     | 7Yr                 | 0.81         | 0.83 | 0.82         | 0.75 |
| 3yr                           | 0.18    | 0.01       | 0.17       | 0.13 | 1.45 | 10yr              | 1.31          | 1.22    | 1.02                | 1.09                | 1.46     | 10Yr                | 1.20         | 1.25 | 1.24         | 1.18 |
| 5yr                           | 0.45    | 0.03       | 0.38       | 0.22 | 1.46 | 15yr              | 1.83          | 1.51    | 1.39                | 1.48                | 1.96     | March TBA MBS       |              |      |              |      |
| 7yr                           | 0.81    | 0.05       | 0.67       | 0.40 | 1.57 | 20yr              | 2.34          | 1.64    | 1.67                | 1.77                | 2.54     | Cpn                 | 15Yr -Yld/AL |      | 30Yr -Yld/AL |      |
| 10yr                          | 1.15    | 0.08       | 0.96       | 0.55 | 1.65 | 25yr              | 2.85          | 1.70    | 1.80                | 1.91                | 2.59     | 2.00                | 0.51         | 3.2y | 1.37         |      |
| 30yr                          | 1.94    | 0.11       | 1.71       | 1.22 | 2.14 | 30yr              |               | 1.73    | 1.93                | 2.06                | 2.64     | 2.50                | 0.23         | 2.4y |              |      |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 3.00                | 0.18         | 2.2y | 0.74         | 2.5y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 3.50                | 0.11         | 2.1y | 0.53         | 2.4y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 4.00                |              |      | 0.73         | 2.5y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 4.50                |              |      | 1.09         | 2.8y |

\* 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  | 0.05    | 0.01       | 0.10       | 0.09  | --    |
| 1 Month LIBOR      | 0.11    | (0.01)     | 0.14       | 0.16  | 1.67  |
| 3 Month LIBOR      | 0.20    | (0.02)     | 0.24       | 0.25  | 1.74  |
| 6 Month LIBOR      | 0.22    | (0.00)     | 0.26       | 0.30  | 1.72  |
| 1 Year LIBOR       | 0.31    | (0.01)     | 0.34       | 0.45  | 1.77  |
| 6 Month CD         | 0.12    | (0.06)     | 0.15       | 0.21  | 1.75  |
| 1 Year CMT         | 0.07    | (0.01)     | 0.10       | 0.14  | 1.48  |
| REPO O/N           | 0.06    | (0.03)     | 0.14       | 0.13  | 1.60  |
| REPO 1Wk           | 0.11    | (0.02)     | 0.09       | 0.13  | 1.59  |
| CoF Federal        | 0.925   | --         | 0.958      | 1.158 | 1.955 |
| 11th D. CoF (Dec)  | 0.460   | --         | 0.466      | 0.682 | 1.036 |

| FHLB Fixed Advance Rates |         |        |        |
|--------------------------|---------|--------|--------|
| Maturity                 | Chicago | Boston | Topeka |
| 3mo                      | 0.23    | 0.33   | 0.29   |
| 6mo                      | 0.23    | 0.32   | 0.27   |
| 1yr                      | 0.29    | 0.30   | 0.28   |
| 2yr                      | 0.31    | 0.47   | 0.33   |
| 3yr                      | 0.37    | 0.57   | 0.42   |
| 4yr                      | 0.51    | 0.72   | 0.57   |
| 5yr                      | 0.67    | 0.89   | 0.72   |
| 7yr                      | 1.03    | 1.29   | 1.10   |
| 10yr                     | 1.45    | 1.74   | 1.53   |
| 5yr Am                   | 0.46    |        | 0.56   |
| 10yr Am                  | 1.00    |        | 1.11   |

| Fed Fund Futures |       |
|------------------|-------|
| Maturity         | Rate  |
| Feb-21           | 0.065 |
| Mar-21           | 0.060 |
| Apr-21           | 0.065 |
| May-21           | 0.065 |
| Jun-21           | 0.070 |
| Jul-21           | 0.070 |
| Aug-21           | 0.070 |
| Sep-21           | 0.075 |
| Oct-21           | 0.080 |
| Nov-21           | 0.075 |
| Dec-21           | 0.075 |

| Weekly Economic Calendar |                                    |       |           |          |           |          |
|--------------------------|------------------------------------|-------|-----------|----------|-----------|----------|
| This Week & Next         |                                    |       |           |          |           |          |
| Date                     | Release                            | Per.  | Est.      | Actual   | Prior     | Revised  |
| 2/1                      | Markit US Manufacturing PMI        | Jan F | 59.1      | 59.2     | 59.1      | --       |
| 2/1                      | Construction Spending MoM          | Dec   | 0.9%      | 1.0%     | 0.9%      | 1.1%     |
| 2/1                      | ISM Manufacturing                  | Jan   | 60.0      | 58.7     | 60.7      | 60.5     |
| 2/1                      | ISM Prices Paid                    | Jan   | 76.0      | 82.1     | 77.6      | --       |
| 2/1                      | ISM New Orders                     | Jan   | --        | 61.1     | 67.9      | 67.5     |
| 2/1                      | ISM Employment                     | Jan   | --        | 52.6     | 51.5      | 51.7     |
| 2/2                      | Wards Total Vehicle Sales          | Jan   | 16.15m    | 16.63m   | 16.27m    | --       |
| 2/3                      | MBA Mortgage Applications          | 1/29  | --        | 8.1%     | -4.1%     | --       |
| 2/3                      | ADP Employment Change              | Jan   | 70k       | 174k     | -123k     | -78k     |
| 2/3                      | Markit US Composite PMI            | Jan F | --        | 58.7     | 58.0      | --       |
| 2/3                      | Markit US Services PMI             | Jan F | 57.4      | 58.3     | 57.5      | --       |
| 2/3                      | ISM Services Index                 | Jan   | 56.7      | 58.7     | 57.2      | 57.7     |
| 2/4                      | Challenger Job Cuts YoY            | Jan   | --        | 17.4%    | 134.5%    | --       |
| 2/4                      | Nonfarm Productivity               | 4Q P  | -3.0%     | -4.8%    | 4.6%      | 5.1%     |
| 2/4                      | Unit Labor Costs                   | 4Q P  | 4.0%      | 6.8%     | -6.6%     | -7.0%    |
| 2/4                      | Initial Jobless Claims             | 1/30  | 830k      | 779k     | 847k      | 812k     |
| 2/4                      | Continuing Claims                  | 1/23  | 4700k     | 4592k    | 4771k     | 4785k    |
| 2/4                      | Bloomberg Consumer Comfort         | 1/31  | --        | 44.6     | 45.7      | --       |
| 2/4                      | Factory Orders                     | Dec   | 0.7%      | 1.1%     | 1.0%      | 1.3%     |
| 2/4                      | Factory Orders Ex Trans            | Dec   | --        | 1.4%     | 0.8%      | 1.1%     |
| 2/4                      | Durables Ex Transportation         | Dec F | 0.7%      | 1.1%     | 0.7%      | --       |
| 2/4                      | Cap Goods Ship Nondef Ex Air       | Dec F | --        | 0.7%     | 0.5%      | --       |
| 2/5                      | Change in Nonfarm Payrolls         | Jan   | 105k      | 49k      | -140k     | -227k    |
| 2/5                      | Two-Month Payroll Net Revision     | Jan   | --        | -159k    | --        | --       |
| 2/5                      | Change in Private Payrolls         | Jan   | 163k      | 6k       | -95k      | -204k    |
| 2/5                      | Change in Manufact. Payrolls       | Jan   | 30k       | -10k     | 38k       | 31k      |
| 2/5                      | Unemployment Rate                  | Jan   | 6.7%      | 6.3%     | 6.7%      | --       |
| 2/5                      | Average Hourly Earnings YoY        | Jan   | 5.0%      | 5.4%     | 5.1%      | 5.4%     |
| 2/5                      | Average Weekly Hours All Employees | Jan   | 34.7      | 35.0     | 34.7      | --       |
| 2/5                      | Labor Force Participation Rate     | Jan   | 61.5%     | 61.4%    | 61.5%     | --       |
| 2/5                      | Underemployment Rate               | Jan   | --        | 11.1%    | 11.7%     | --       |
| 2/5                      | Trade Balance                      | Dec   | -\$65.7b  | -\$66.6b | -\$68.1b  | -\$69.0b |
| 2/5                      | Consumer Credit                    | Dec   | \$12.000b | --       | \$15.274b | --       |
| 02/08/2                  | Mortgage Delinquencies             | 4Q    | --        | --       | 7.65%     | --       |
| 02/08/2                  | MBA Mortgage Foreclosures          | 4Q    | --        | --       | 0.59%     | --       |
| 2/9                      | NFIB Small Business Optimism       | Jan   | 97.0      | --       | 95.9      | --       |
| 2/9                      | JOLTS Job Openings                 | Dec   | 6450      | --       | 6527      | --       |
| 2/10                     | CPI YoY                            | Jan   | 1.5%      | --       | 1.4%      | --       |
| 2/10                     | CPI Ex Food and Energy YoY         | Jan   | 1.5%      | --       | 1.6%      | --       |
| 2/10                     | CPI Index NSA                      | Jan   | 261.86    | --       | 260.47    | --       |
| 2/10                     | CPI Core Index SA                  | Jan   | 270.63    | --       | 270.12    | --       |
| 2/10                     | Real Avg Hourly Earning YoY        | Jan   | --        | --       | 3.7%      | 4.1%     |
| 2/10                     | Real Avg Weekly Earnings YoY       | Jan   | --        | --       | 4.9%      | 5.3%     |
| 2/10                     | Monthly Budget Statement           | Jan   | --        | --       | -\$143.6b | --       |
| 2/12                     | U. of Mich. Sentiment              | Feb P | 80.8      | --       | 79.0      | --       |
| 2/12                     | U. of Mich. Current Conditions     | Feb P | --        | --       | 86.7      | --       |
| 2/12                     | U. of Mich. 1 Yr Inflation         | Feb P | --        | --       | 3.0%      | --       |

| MBS Prepayments <sup>4</sup> |      |      |      |      |      |      |
|------------------------------|------|------|------|------|------|------|
| 3-Month CPR                  |      |      |      |      |      |      |
| Type                         | 2.0  | 2.5  | 3.0  | 3.5  | 4.0  | 4.5  |
| FN 10y                       | 14.4 | 25.0 | 26.7 | 28.6 | 28.5 | 27.5 |
| FH/FN 15y                    | 13.8 | 34.4 | 40.4 | 45.0 | 22.3 | 22.2 |
| GN 15y                       | 20.3 | 19.3 | 18.9 | 19.8 | 17.8 | 19.0 |
| FH/FN 20y                    | 54.3 | 32.5 | 33.3 | 32.1 | 30.4 | 24.0 |
| FH/FN 30y                    | 3.5  | 23.0 | 57.6 | 56.5 | 56.8 | 52.3 |
| GN 30y                       | 11.4 | 18.1 | 42.3 | 51.7 | 41.8 | 28.7 |
| CPR Projections              |      |      |      |      |      |      |
| Type                         | 2.0  | 2.5  | 3.0  | 3.5  | 4.0  | 4.5  |
| FN 10y                       | 20.9 | 20.6 | 20.7 | 22.2 | 22.8 | 20.8 |
| FH/FN 15y                    | 19.6 | 25.3 | 29.3 | 32.2 | 23.1 | 21.8 |
| GN 15y                       | 15.6 | 16.0 | 15.8 | 14.6 | 13.6 | 13.1 |
| FH/FN 20y                    | 20.8 | 25.3 | 22.4 | 20.3 | 19.5 | 18.3 |
| FH/FN 30y                    | 13.8 | 22.1 | 33.8 | 34.0 | 34.7 | 29.9 |
| GN 30y                       | 10.9 | 14.9 | 20.8 | 22.8 | 23.1 | 15.3 |

| Other Markets              |          |          |            |          |         |
|----------------------------|----------|----------|------------|----------|---------|
| Index                      | Current  | 1Wk Chng | Historical |          |         |
|                            |          |          | 1 Mo       | 6 Mo     | 1 Yr    |
| <b>Currencies</b>          |          |          |            |          |         |
| Japanese Yen               | 105.46   | 0.78     | 102.72     | 105.60   | 109.83  |
| Euro                       | 1.20     | (0.01)   | 1.23       | 1.19     | 1.10    |
| Dollar Index               | 91.15    | 0.57     | 89.44      | 92.87    | 98.30   |
| <b>Major Stock Indices</b> |          |          |            |          |         |
| Dow Jones                  | 31,097   | 1,114    | 30,392     | 27,202   | 29,291  |
| S&P 500                    | 3,881.5  | 167.3    | 3,726.9    | 3,327.8  | 3,334.7 |
| NASDAQ                     | 13,783.4 | 713      | 12,819.0   | 10,998.4 | 9,508.7 |
| <b>Commodities</b>         |          |          |            |          |         |
| Gold                       | 1,798.2  | (49.1)   | 1,954.4    | 2,031.1  | 1,557.8 |
| Crude Oil                  | 56.84    | 4.64     | 49.93      | 42.19    | 50.75   |
| Natural Gas                | 2.99     | 0.43     | 2.70       | 2.19     | 1.86    |
| Wheat                      | 642.3    | -20.8    | 654.0      | 510.8    | 562.0   |
| Corn                       | 547.8    | 0.8      | 491.8      | 311.0    | 380.8   |

| 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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