

## Baker Market Update: Week in Preview

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With temperatures falling across the country, Treasury yields are rising. In fact, they're rising even if you live someplace warm. In overnight markets, the yield on the Thirty-Year bond broke above 2% and is trading around 2.06% while the Ten-Year's yield has been pushed up to around 1.25%. The short-end is little changed so far and that has steepened the yield curve's slope.

Economic performance numbers don't seem to have a lot of effect on bond prices these days, but if they did, today's unexpectedly positive Empire Manufacturing report from the New York Fed might have sparked a sell-off. But it didn't; it's all about policies these days and those policies, both fiscal and monetary, are only getting easier.

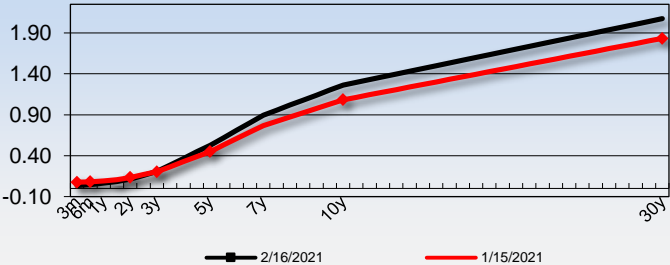
But tomorrow, there's an avalanche of data scheduled for release starting with the Bureau of Labor Statistics' report on January's Producer Price Index. Surveys suggest the report will show a monthly rise of 0.4% for headline PPI with the year-over-year rate rising to 0.9% from 0.8%. Without food and energy, core PPI should show a monthly rise of 0.2% with the year-over-year rate falling one-tenth to 1.1%. The uncertain inflation picture will remain so. But there hasn't been anything uncertain about Retail Sales of late; they've fallen for three months in a row. But on Wednesday, analysts expect the Census Bureau to tell us that they actually grew by 1% last month and still notched a comeback of 0.9% without autos. Ditto for core Retail Sales without food, gas, autos, and building materials. An apparent stop to the downward trend of the past three months is good news, but things need to pick up a little bit. We're also expecting to hear from the Federal Reserve that Industrial Production only picked up by about 0.4% last month after posting a 1% rise in December. The Fed's report will also tell us that the nation's Capacity Utilization likely rose slightly last month to 74.8% from 74.5%. This measure tells us just how much of our ability to manufacture, mine, and generate utility output is actually being used, and one year ago it was 76.9%. All that slack is cold comfort for those experiencing rolling blackouts.

There hasn't been much slack in the housing market lately and we'll see on Wednesday how that might have affected the National Association of Home Builders' Housing Market Index. Analysts don't think it's been affected at all and will stay at 83 this month. Back in November, this measure reached its all-time high of 90. The Treasury's high debt level will get a little higher when it sells \$27B Twenty-Year bonds Wednesday afternoon. Oh yeah, you won't want to miss that day's release of the FOMC's minutes from its January meeting.

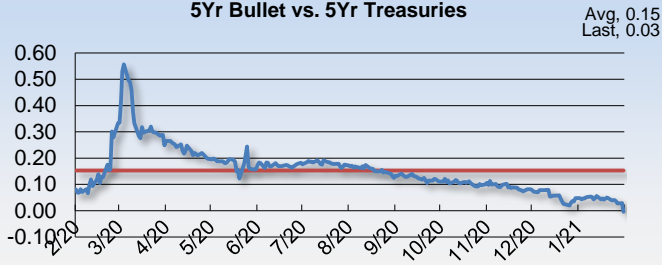
Thursday morning will bring us news of last month's Building Permits and the experts think they might have fallen 1.6%. Those same experts also think that Housing Starts may have fallen 0.7%. None of that sounds like very good news and it won't get much better when the BLS reports Jobless Claims that same morning. For the week ending February 13th, Initial Claims are expected to total 773k and that would be a little better than the prior week's 793k, but not much better. Continuing Claims for the week ending February 6th are expected to show a dip to 4.42M from 4.55M. We'll also learn from the BLS that its Import Price Index may have jumped 1% last month with a similar measure for Export Prices rising 0.8%. Thursday morning's news will finish with the Philadelphia Fed's February Business Outlook Survey Index and it's looking to backslide to 20 after unexpectedly rising to 26 last month.

Markit U.S. will round out the week on Friday when it is expected to report that its PMI for Manufacturing slipped this month to 58.5 from 59.2 while its counterpart for Services dipped to 58 from 58.3. Then, the National Association of Realtors will probably tell us that Existing Home Sales fell 2.2% last month. And that was before it got cold! Have a great week; be careful out there.

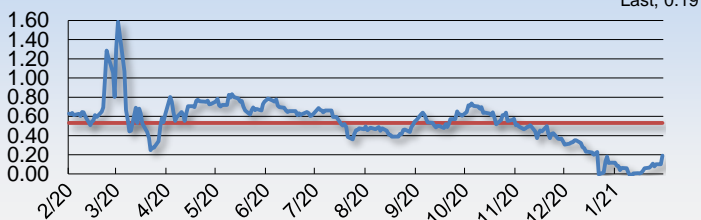
Treasury Yield Curve - Current vs. 1-Month



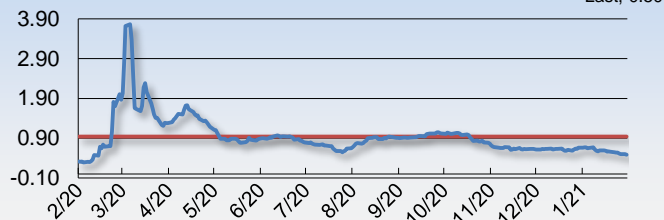
Agency Spreads  
5Yr Bullet vs. 5Yr Treasuries



MBS Spreads  
FHLMC 15Yr TBA vs. 5Yr Treasuries



Municipal Spreads  
10Yr BQ AAA Muni vs. 5Yr Treasuries



| 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                           | 0.04    | 0.01       | 0.08       | 0.09 | 1.57 | 2yr               | 0.14          | 0.21    | 0.11                | 0.12                | 0.19     | 2Yr                 | 0.04         | 0.04 | 0.04         | -    |
| 6mo                           | 0.05    | (0.00)     | 0.09       | 0.12 | 1.55 | 3yr               | 0.25          | 0.31    | 0.14                | 0.15                | 0.36     | 3Yr                 | 0.13         | 0.14 | 0.10         | 0.13 |
| 1yr                           | 0.06    | (0.01)     | 0.10       | 0.13 | 1.48 | 5yr               | 0.57          | 0.66    | 0.28                | 0.30                | 0.69     | 5Yr                 | 0.53         | 0.53 | 0.52         | 0.46 |
| 2yr                           | 0.11    | (0.00)     | 0.14       | 0.15 | 1.43 | 7yr               | 0.90          | 0.99    | 0.53                | 0.57                | 1.07     | 7Yr                 | 0.90         | 0.92 | 0.91         | 0.84 |
| 3yr                           | 0.21    | 0.02       | 0.21       | 0.18 | 1.43 | 10yr              | 1.41          | 1.35    | 0.97                | 1.03                | 1.60     | 10Yr                | 1.31         | 1.37 | 1.36         | 1.30 |
| 5yr                           | 0.53    | 0.05       | 0.45       | 0.30 | 1.42 | 15yr              | 1.91          | 1.66    | 1.33                | 1.42                | 2.02     | March TBA MBS       |              |      |              |      |
| 7yr                           | 0.89    | 0.07       | 0.77       | 0.50 | 1.51 | 20yr              | 2.41          | 1.79    | 1.61                | 1.71                | 2.61     | Cpn                 | 15Yr -Yld/AL |      | 30Yr -Yld/AL |      |
| 10yr                          | 1.26    | 0.11       | 1.08       | 0.71 | 1.59 | 25yr              | 2.91          | 1.85    | 1.74                | 1.86                | 2.66     | 2.00                | 0.86         | 3.8y | 1.55         |      |
| 30yr                          | 2.08    | 0.13       | 1.83       | 1.45 | 2.04 | 30yr              |               | 1.88    | 1.88                | 2.00                | 2.71     | 2.50                | 0.46         | 2.5y |              |      |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 3.00                | 0.96         | 2.9y | 0.92         | 2.5y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 3.50                | 0.51         | 2.3y | 0.46         | 2.1y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 4.00                |              |      | 0.59         | 2.3y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 4.50                |              |      | 0.62         | 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 | 0.05    | 0.03       | 0.08       | 0.09  | --    |
| 1 Month LIBOR     | 0.11    | (0.01)     | 0.13       | 0.16  | 1.65  |
| 3 Month LIBOR     | 0.19    | 0.00       | 0.23       | 0.26  | 1.70  |
| 6 Month LIBOR     | 0.20    | (0.01)     | 0.25       | 0.34  | 1.73  |
| 1 Year LIBOR      | 0.30    | (0.00)     | 0.33       | 0.46  | 1.81  |
| 6 Month CD        | 0.16    | 0.04       | 0.20       | 0.20  | 1.71  |
| 1 Year CMT        | 0.06    | --         | 0.11       | 0.13  | 1.49  |
| REPO O/N          | 0.09    | 0.02       | 0.10       | 0.12  | 1.61  |
| REPO 1Wk          | 0.07    | --         | 0.09       | 0.09  | 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      | --      | --     | --     |
| 6mo      | --      | --     | --     |
| 1yr      | --      | --     | --     |
| 2yr      | --      | --     | --     |
| 3yr      | --      | --     | --     |
| 4yr      | --      | --     | --     |
| 5yr      | --      | --     | --     |
| 7yr      | --      | --     | --     |
| 10yr     | --      | --     | --     |
| 5yr Am   | --      | --     | --     |
| 10yr Am  | --      | --     | --     |

Fed Fund Futures

| Maturity | Rate  |
|----------|-------|
| Feb-21   | 0.072 |
| Mar-21   | 0.065 |
| Apr-21   | 0.075 |
| May-21   | 0.080 |
| Jun-21   | 0.075 |
| Jul-21   | 0.080 |
| Aug-21   | 0.075 |
| Sep-21   | 0.080 |
| Oct-21   | 0.080 |
| Nov-21   | 0.080 |
| Dec-21   | 0.080 |

| Weekly Economic Calendar |                                   |       |          |        |          |         |
|--------------------------|-----------------------------------|-------|----------|--------|----------|---------|
| This Week & Next         |                                   |       |          |        |          |         |
| Date                     | Release                           | Per.  | Est.     | Actual | Prior    | Revised |
| 2/16                     | Empire Manufacturing              | Feb   | 6.0      | 12.1   | 3.5      | --      |
| 2/16                     | Total Net TIC Flows               | Dec   | --       | --     | \$214.1b | --      |
| 2/16                     | Net Long-term TIC Flows           | Dec   | --       | --     | \$149.2b | --      |
| 2/17                     | MBA Mortgage Applications         | 2/12  | --       | --     | -4.1%    | --      |
| 2/17                     | PPI Final Demand YoY              | Jan   | 0.9%     | --     | 0.8%     | --      |
| 2/17                     | PPI Ex Food and Energy YoY        | Jan   | 1.1%     | --     | 1.2%     | --      |
| 2/17                     | PPI Ex Food, Energy, Trade YoY    | Jan   | 1.0%     | --     | 1.1%     | --      |
| 2/17                     | Retail Sales Ex Auto and Gas      | Jan   | 0.8%     | --     | -2.1%    | --      |
| 2/17                     | Retail Sales Control Group        | Jan   | 1.0%     | --     | -1.9%    | --      |
| 2/17                     | Capacity Utilization              | Jan   | 74.9%    | --     | 74.5%    | --      |
| 2/17                     | Manufacturing (SIC) Production    | Jan   | 0.7%     | --     | 0.9%     | --      |
| 2/17                     | Business Inventories              | Dec   | 0.5%     | --     | 0.5%     | --      |
| 2/17                     | NAHB Housing Market Index         | Feb   | 83       | --     | 83       | --      |
| 2/18                     | Building Permits                  | Jan   | 1679k    | --     | 1709k    | 1704k   |
| 2/18                     | Housing Starts                    | Jan   | 1660k    | --     | 1669k    | --      |
| 2/18                     | Initial Jobless Claims            | 2/13  | 770k     | --     | 793k     | --      |
| 2/18                     | Continuing Claims                 | 2/6   | 4450k    | --     | 4545k    | --      |
| 2/18                     | Philadelphia Fed Business Outlook | Feb   | 20.0     | --     | 26.5     | --      |
| 2/18                     | Import Price Index YoY            | Jan   | 0.4%     | --     | -0.3%    | --      |
| 2/18                     | Export Price Index YoY            | Jan   | --       | --     | 0.2%     | --      |
| 2/18                     | Bloomberg Consumer Comfort        | 2/14  | --       | --     | 44.9     | --      |
| 2/18                     | Bloomberg Economic Expectations   | Feb   | --       | --     | 39.5     | --      |
| 2/19                     | Markit US Manufacturing PMI       | Feb P | 58.5     | --     | 59.2     | --      |
| 2/19                     | Markit US Composite PMI           | Feb P | --       | --     | 58.7     | --      |
| 2/19                     | Markit US Services PMI            | Feb P | 57.9     | --     | 58.3     | --      |
| 2/19                     | Existing Home Sales               | Jan   | 6.60m    | --     | 6.76m    | --      |
| 2/22                     | Chicago Fed Nat Activity Index    | Jan   | --       | --     | 52.0%    | --      |
| 2/22                     | Leading Index                     | Jan   | 0.3%     | --     | 0.3%     | --      |
| 2/23                     | House Price Purchase Index QoQ    | 4Q    | --       | --     | 3.1%     | --      |
| 2/23                     | S&P CoreLogic CS 20-City YoY NSA  | Dec   | --       | --     | 9.08%    | --      |
| 2/23                     | S&P CoreLogic CS US HPI YoY NSA   | Dec   | --       | --     | 9.49%    | --      |
| 2/23                     | Conf. Board Consumer Confidence   | Feb   | 90.0     | --     | 89.3     | --      |
| 2/23                     | Conf. Board Present Situation     | Feb   | --       | --     | 84.4     | --      |
| 2/23                     | Conf. Board Expectations          | Feb   | --       | --     | 92.5     | --      |
| 2/25                     | Durables Ex Transportation        | Jan P | 0.6%     | --     | 1.1%     | --      |
| 2/25                     | Cap Goods Orders Nondef Ex Air    | Jan P | --       | --     | 0.7%     | --      |
| 2/25                     | GDP Annualized QoQ                | 4Q S  | 4.2%     | --     | 4.0%     | --      |
| 2/25                     | Cap Goods Ship Nondef Ex Air      | Jan P | --       | --     | 0.7%     | --      |
| 2/25                     | Personal Consumption              | 4Q S  | --       | --     | 2.5%     | --      |
| 2/25                     | GDP Price Index                   | 4Q S  | --       | --     | 2.0%     | --      |
| 2/25                     | Core PCE QoQ                      | 4Q S  | --       | --     | 1.4%     | --      |
| 2/25                     | Pending Home Sales NSA YoY        | Jan   | --       | --     | 22.8%    | --      |
| 2/26                     | Advance Goods Trade Balance       | Jan   | -\$83.0b | --     | -\$82.5b | --      |
| 2/26                     | Personal Income                   | Jan   | 9.4%     | --     | 0.6%     | --      |
| 2/26                     | Real Personal Spending            | Jan   | --       | --     | -0.6%    | --      |
| 2/26                     | PCE Deflator YoY                  | Jan   | --       | --     | 1.3%     | --      |
| 2/26                     | PCE Core Deflator YoY             | Jan   | --       | --     | 1.5%     | --      |

| 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 | 28.5 |
| CPR Projections              |      |      |      |      |      |      |
| Type                         | 2.0  | 2.5  | 3.0  | 3.5  | 4.0  | 4.5  |
| FN 10y                       | 16.5 | 20.9 | 18.9 | 22.6 | 18.3 | 15.8 |
| FH/FN 15y                    | 16.6 | 24.6 | 23.5 | 34.8 | 19.2 | 22.0 |
| GN 15y                       | 25.2 | 15.9 | 15.8 | 14.6 | 13.5 | 13.1 |
| FH/FN 20y                    | 14.3 | 20.4 | 22.5 | 30.5 | 20.0 | 17.8 |
| FH/FN 30y                    | 12.9 | 20.8 | 36.1 | 37.6 | 36.0 | 32.8 |
| GN 30y                       | 12.0 | 19.5 | 26.7 | 25.2 | 30.1 | 22.7 |

| Other Markets              |          |          |            |          |         |
|----------------------------|----------|----------|------------|----------|---------|
| Index                      | Current  | 1Wk Chng | Historical |          |         |
|                            |          |          | 1 Mo       | 6 Mo     | 1 Yr    |
| <b>Currencies</b>          |          |          |            |          |         |
| Japanese Yen               | 105.71   | 1.12     | 103.69     | 106.00   | 109.88  |
| Euro                       | 1.21     | (0.00)   | 1.21       | 1.19     | 1.08    |
| Dollar Index               | 90.52    | (0.42)   | 90.77      | 93.10    | 99.12   |
| <b>Major Stock Indices</b> |          |          |            |          |         |
| Dow Jones                  | 31,458   | 310      | 30,814     | 27,931   | 29,398  |
| S&P 500                    | 3,934.8  | 48.0     | 3,768.3    | 3,372.9  | 3,380.2 |
| NASDAQ                     | 14,095.5 | 239      | 12,998.5   | 11,019.3 | 9,731.2 |
| <b>Commodities</b>         |          |          |            |          |         |
| Gold                       | 1,817.6  | (14.3)   | 1,829.9    | 1,937.0  | 1,582.7 |
| Crude Oil                  | 59.72    | 1.75     | 52.36      | 42.01    | 52.05   |
| Natural Gas                | 3.19     | 0.31     | 2.74       | 2.36     | 1.84    |
| Wheat                      | 643.8    | -12.0    | 675.5      | 500.0    | 542.8   |
| Corn                       | 541.5    | -22.3    | 531.5      | 324.5    | 377.8   |

| 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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