

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



People who grind their teeth while they're asleep are often unaware of it. They're asleep. But there's no way anyone could have slept through this week's market gyrations nor the gnashing of teeth that ensued. With all that everyone has been through over the past year, is all this melodrama really necessary? Yes, bond prices have fallen significantly this week, but all that means is that the real, inflation-adjusted yield on the Ten-Year briefly became positive. OMG! In the meantime, some low-life reprobate has kidnapped Lady Gaga's dogs. Who does something like that?! Call the authorities!

Jerome Powell, the authority on all things monetary, was called this week and got to spend a couple of fun-filled days telling legislators that the course his policy is on is the course it will stay on and that he will be sure and let them know when he plans to change it. He may have said something like that before. Maybe about a thousand times before. Nevertheless, he did say we'll probably see some transitory, supply-related inflation but he's not worried about it and he doesn't want you to be worried about it either. He also said that the year's second-half is poised for prosperity, but we're not quite out of the woods yet, and might not be for a while. Right now, his greater concern is the labor market and the 9.5M Americans who have still not found a job after losing theirs when some other authorities locked down the economy.

And now that parts of that economy are starting to get unlocked, things definitely seem to be perking up. We got our first hint of that this week when, on Monday, the Chicago Fed reported that its National Activity Index perked up to 0.66 last month from a downwardly revised 0.41. Analysts only expected this broad-based measure of economic vitality to make it back to 0.5. That positive bit of data was then reinforced by the Conference Board when it reported that its Index of Leading Economic Indicators rose by 0.5% in January and that beat the prior month's boost of 0.4%. Also on Monday, the Dallas Fed supplied another pleasant surprise when it announced that its Manufacturing Index soared to the astounding level of 17.2 this month from January's value of 7 even as the experts predicted a decline to 5. Things are heating up in Dallas.

As for the red-hot housing market, it's still pretty warm. On Tuesday, the CoreLogic Case-Shiller report disclosed that its 20-City Price Index rose another 1.25% in December and that helped push the year-over-year price-growth rate to 10.1%. For all of the United States, prices are up 10.37% year-over-year. Also on Tuesday, the FHFA reported that its House Price Index was up by 1.1% in December and that slightly beat the pre-release estimates. The Conference Board followed that up with its February reading for Consumer Confidence and that also beat estimates by coming in at 91.3 instead of the 90 that was predicted. An even bigger surprise could be found in the Present Situation sub-index. That measure leaped to 92 from 85.5. One can't help but wonder just how much that Present Situation outcome was influenced by recent relief checks and the promise of more on the way. Perhaps seeing past the next "stimulus" check, the Expectations component fell to 90.8 from a downwardly revised 91.2. The Richmond Fed rounded out Tuesday's data with a report that its Manufacturing Index didn't fare quite as well as the one in Big D, but still managed to remain unchanged at 14.

It would have been nice if Mortgage Applications for the week ending February 19th had been unchanged, but they weren't. They fell 11.4%. It was pretty cold last week. But in January, it wasn't cold enough to keep the sales of New Homes from jumping 4.3% and that was a big surprise to those estimating almost no change.

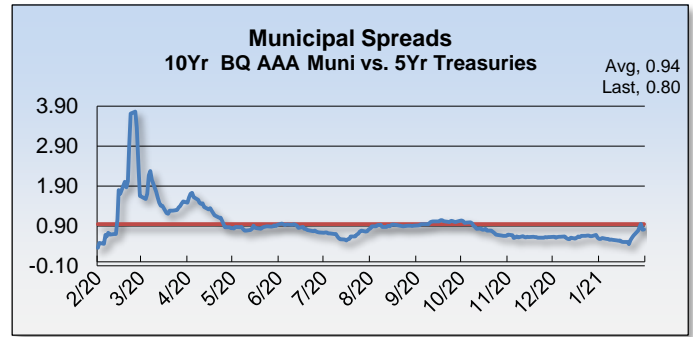
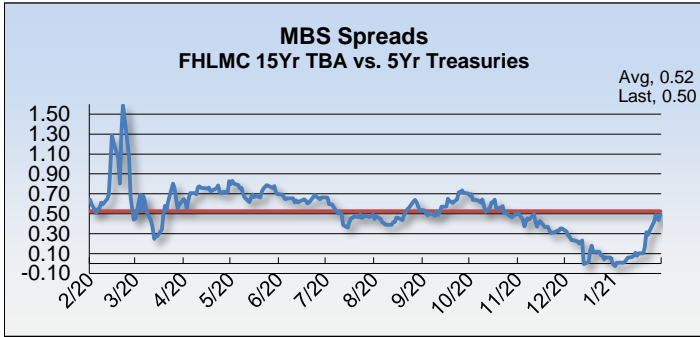
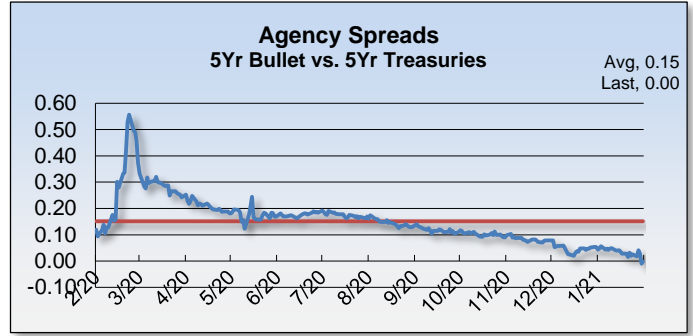
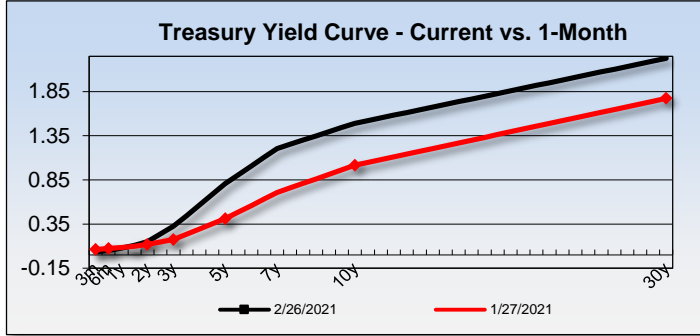
Yesterday brought us the weekly Jobless Claims numbers and for the week ending February 20th, Initial Claims amounted to 730k and that was less than the 825k that was expected and also less than the prior week's downwardly revised 841k. Continuing Claims for the week ending February 13th fell to 4.42M from a slightly revised 4.52M. This result was also slightly less than the estimate of 4.46M. A preliminary report from the Census Bureau portrayed a 3.4% jump in January's Durable Goods Orders in a big beat of the estimated rise of 1.1%. December's previously reported rise of 0.5% got a nice revisionist boost to 1.2%. Without Transportation, Orders grew by 1.4% and that was twice what analysts had expected. Core Capital Goods Orders were a little less robust with a January rise of 0.5% against an estimate of 0.8%.

We also got an update to Q4 GDP when the Bureau of Economic Analysis came out with its second take and that took the initial estimate of 4% up to 4.1%. Not sure about the future, but the past is getting better. The past got better for Pending Home Sales too, with a December revision to up 0.5% from down 0.3%, but that didn't help January's slide of 2.8%. Inventories of homes for sale are low all across the nation and it could be that there just aren't enough houses on the market. Yesterday also brought a fresh report from the Kansas City Fed on its Manufacturing Index and, like Dallas, it greatly overperformed. January's value of 17 was expected to fall to 15, but instead roared itself up to 24.

Today got started early with a report from the Census Bureau telling us that the nation's negative Trade Balance became slightly more so with a move last month to minus \$83.7B from a downwardly revised minus \$83.2B. We also learned that Retail Inventories unexpectedly fell by a shortage-inducing 0.6% last month when a rise of 0.5% was expected. But, Wholesale Inventories countered with a 1.3% rise against an expected boost of just 0.4%.

From the BEA, we also learned that Personal Income jumped a stimulating 10% last month after December's gain of just 0.6%. Transfer payments. Personal Spending grew 2.4% in a nice reversal of December's slide of 0.4%. Adjusted for inflation, Real Personal Spending grew by 2%, slightly less than the 2.2% estimate, but a lot better than December's minus 0.8%. And as for that inflation, the BEA reported this morning that its Personal Consumption Expenditures Index rose by the expected 0.3% last month with the year-over-year pace rising to 1.5% from 1.3%. Without food and energy, core PCE also notched a 0.3% monthly rise and a year-over-year pace of 1.5%. With today's rally in Treasury prices, the real yield on the Ten-Year is back into negative territory. And a quick word about the yield curve. One year ago, the Ten-Year's yield was about 13 basis points higher than the Two-Year. That spread today has widened to about 130 basis points. That's good for banks that aren't the Federal Reserve, but Jerome doesn't like it.

And if you asked him, he probably also wouldn't like the news that just came out from Market News International. It reported that its Chicago Purchasing Managers' Index fell unexpectedly to 59.5 from 63.8. That's still well over the expansion-defining level of 50, but it was only supposed to slip to 61. The University of Michigan concluded the week's data with this morning's report showing that its Consumer Sentiment Index rose to 76.8 from 76.2 and that beat estimates looking for 76.5. So, that's nice, but one year ago that Index stood at 101. Deeper within the report, the Current Conditions sub-index was unchanged at 86.2 with the Expectations component actually rising to 70.7 from 69.8. Good news for the consumer in a week that contained lots of good news for the economy. More vaccinations and fewer restrictions can only help foster more good news, but the bigger question is how we'll fare once we're taken off fiscal life support. An even bigger question might be what happens if we're not. That would definitely result in some teeth gnashing. In the meantime, Lady Gaga needs her dogs back; that's just wrong. Have a great weekend and 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	0.04	0.01	0.07	0.10	1.51	2yr	0.20	0.25	0.27	0.28	0.28	2Yr	0.08	0.08	0.08	-
6mo	0.05	0.01	0.08	0.11	1.42	3yr	0.37	0.44	0.45	0.48	0.51	3Yr	0.25	0.25	0.20	0.25
1yr	0.08	0.03	0.09	0.12	1.26	5yr	0.86	0.89	0.78	0.83	0.98	5Yr	0.81	0.81	0.80	0.74
2yr	0.15	0.04	0.12	0.15	1.17	7yr	1.22	1.23	1.12	1.19	1.38	7Yr	1.21	1.24	1.23	1.16
3yr	0.32	0.11	0.18	0.18	1.16	10yr	1.65	1.55	1.60	1.70	1.89	10Yr	1.55	1.61	1.60	1.53
5yr	0.81	0.23	0.41	0.29	1.16	15yr	2.08	1.80	1.96	2.09	2.29	March TBA MBS				
7yr	1.21	0.24	0.72	0.48	1.26	20yr	2.51	1.90	2.24	2.38	2.92	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.49	0.15	1.04	0.69	1.34	25yr	2.94	1.93	2.38	2.53	2.97	2.00	1.24	4.2y	1.97	
30yr	2.23	0.09	1.79	1.41	1.82	30yr		1.95	2.52	2.68	3.02	2.50	0.99	3.0y		
												3.00	1.07	3.0y	1.60	3.4y
												3.50	0.73	2.5y	1.08	2.6y
												4.00			0.91	2.5y
												4.50			0.74	2.5y

* 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	0.03	--	0.06	0.08	--
1 Month LIBOR	0.12	0.00	0.13	0.17	1.61
3 Month LIBOR	0.19	0.01	0.21	0.25	1.64
6 Month LIBOR	0.20	0.00	0.23	0.31	1.63
1 Year LIBOR	0.28	(0.01)	0.31	0.44	1.65
6 Month CD	0.25	0.04	0.19	0.27	1.61
1 Year CMT	0.09	0.03	0.10	0.13	1.30
REPO O/N	-0.03	(0.11)	-0.01	0.07	1.60
REPO 1Wk	0.06	(0.01)	0.13	0.13	1.59
CoF Federal	0.911	--	0.925	1.107	1.914
11th D. CoF (Dec)	0.460	--	0.466	0.682	1.036

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.23	0.34	0.27
6mo	0.24	0.33	0.28
1yr	0.29	0.30	0.31
2yr	0.35	0.51	0.36
3yr	0.51	0.70	0.54
4yr	0.72	0.93	0.77
5yr	0.94	1.16	1.01
7yr	1.36	1.62	1.42
10yr	1.71	1.98	1.77
5yr Am	0.62		0.74
10yr Am	1.26		1.36

Fed Fund Futures	
Maturity	Rate
Feb-21	0.075
Mar-21	0.065
Apr-21	0.075
May-21	0.085
Jun-21	0.085
Jul-21	0.085
Aug-21	0.090
Sep-21	0.090
Oct-21	0.090
Nov-21	0.095
Dec-21	0.090

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/22	Chicago Fed Nat Activity Index	Jan	0.50	0.66	0.52	0.41
2/22	Leading Index	Jan	0.4%	0.5%	0.3%	0.4%
2/23	House Price Purchase Index QoQ	4Q	--	3.8%	3.1%	3.4%
2/23	S&P CoreLogic CS 20-City YoY NSA	Dec	9.9%	10.1%	9.1%	9.2%
2/23	S&P CoreLogic CS US HPI YoY NSA	Dec	--	10.37%	9.49%	9.50%
2/23	Conf. Board Consumer Confidence	Feb	90.0	91.3	89.3	88.9
2/23	Conf. Board Present Situation	Feb	--	92.0	84.4	85.5
2/24	MBA Mortgage Applications	2/19	--	-11.4%	-5.1%	--
2/24	New Home Sales	Jan	856k	923k	842k	885k
2/25	Durables Ex Transportation	Jan P	0.7%	1.4%	1.1%	1.7%
2/25	Cap Goods Ship Nondef Ex Air	Jan P	0.6%	2.1%	0.7%	1.0%
2/25	Initial Jobless Claims	2/20	825k	730k	861k	841k
2/25	Continuing Claims	2/13	4460k	4419k	4494k	4520k
2/25	GDP Annualized QoQ	4Q S	4.2%	4.1%	4.0%	--
2/25	Personal Consumption	4Q S	2.5%	2.4%	2.5%	--
2/25	GDP Price Index	4Q S	2.0%	2.1%	2.0%	--
2/25	Core PCE QoQ	4Q S	1.4%	1.4%	1.4%	--
2/25	Bloomberg Consumer Comfort	2/21	--	47.3	45.8	--
2/25	Pending Home Sales NSA YoY	Jan	--	8.2%	22.8%	23.1%
2/26	Advance Goods Trade Balance	Jan	-\$83.0b	-\$83.7b	-\$82.5b	-\$83.2b
2/26	Personal Income	Jan	9.5%	10.0%	0.6%	--
2/26	Real Personal Spending	Jan	2.2%	2.0%	-0.6%	-0.8%
2/26	PCE Deflator YoY	Jan	1.4%	1.5%	1.3%	--
2/26	PCE Core Deflator YoY	Jan	1.4%	1.5%	1.5%	1.4%
2/26	MNI Chicago PMI	Feb	61.0	59.5	63.8	--
2/26	U. of Mich. Sentiment	Feb F	76.5	76.8	76.2	--
2/26	U. of Mich. Current Conditions	Feb F	--	86.2	86.2	--
2/26	U. of Mich. 1 Yr Inflation	Feb F	--	3.3%	3.3%	--
3/1	Markit US Manufacturing PMI	Feb F	58.5	--	58.5	--
3/1	ISM Manufacturing	Feb	58.6	--	58.7	--
3/1	ISM Prices Paid	Feb	81.3	--	82.1	--
3/1	ISM New Orders	Feb	60.0	--	61.1	--
3/1	ISM Employment	Feb	--	--	52.6	--
3/3	ADP Employment Change	Feb	170k	--	174k	--
3/4	Challenger Job Cuts YoY	Feb	--	--	17.4%	--
3/4	Nonfarm Productivity	4Q F	-4.8%	--	-4.8%	--
3/4	Unit Labor Costs	4Q F	6.8%	--	6.8%	--
3/4	Factory Orders Ex Trans	Jan	--	--	1.4%	--
3/5	Average Hourly Earnings YoY	Feb	5.3%	--	5.4%	--
3/5	Change in Nonfarm Payrolls	Feb	150k	--	49k	--
3/5	Two-Month Payroll Net Revision	Feb	--	--	-159k	--
3/5	Change in Private Payrolls	Feb	160k	--	6k	--
3/5	Change in Manufact. Payrolls	Feb	10k	--	-10k	--
3/5	Unemployment Rate	Feb	6.4%	--	6.3%	--
3/5	Average Weekly Hours All Employees	Feb	34.9	--	35.0	--
3/5	Labor Force Participation Rate	Feb	--	--	61.4%	--
3/5	Underemployment Rate	Feb	--	--	11.1%	--

MBS Prepayments ⁴						
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	12.8	15.9	16.2	20.3	17.6	15.5
FH/FN 15y	14.5	20.7	22.1	31.8	18.9	21.3
GN 15y	19.7	14.7	14.9	14.1	13.4	13.0
FH/FN 20y	9.2	18.5	20.6	28.4	20.0	17.8
FH/FN 30y	9.9	14.8	28.7	32.6	33.4	31.5
GN 30y	10.3	13.8	20.2	22.3	30.1	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	106.68	1.23	103.62	105.99	110.43
Euro	1.21	(0.00)	1.22	1.18	1.09
Dollar Index	90.80	0.43	90.17	93.01	99.00
Major Stock Indices					
Dow Jones	31,218	(276)	30,937	28,332	26,958
S&P 500	3,835.8	(70.9)	3,849.6	3,478.7	3,116.4
NASDAQ	13,316.8	(558)	13,626.1	11,665.1	8,980.8
Commodities					
Gold	1,715.7	(60.1)	1,850.9	1,940.7	1,640.0
Crude Oil	62.22	2.98	52.61	43.39	48.73
Natural Gas	2.75	(0.32)	2.66	2.46	1.82
Wheat	659.5	8.8	665.3	532.0	540.3
Corn	551.5	8.8	532.3	340.5	370.5

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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