

## Baker Market Update: Week in Review

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Only a man confidently unafraid of inflation would deign to wear green on St. Patrick's Day. And that is exactly what Federal Reserve Chairman Jerome Powell deigned to do at his post-meeting press conference on Wednesday. Mr. Powell's self-assuredness surely comes from his awareness that the economy's year-long lockdown and the damage still being wrought has been a hugely deflationary event that no amount of fiscal largesse nor monetary accommodation can cover-up forever. It can't, can it? Yet, bond investors seem to see inflation everywhere and when that occurs, they sell their bonds and yields go up. When policy-makers then ignore their whiny pleas to do something about rising rates, they panic some more.

On August 27, 2020, the FOMC first told the world that, henceforth, "it seeks to achieve inflation that averages 2% over time." Since then, hardly a week has gone by when some Fed Speaker, speaking somewhere, hasn't reminded market participants of that change in monetary strategy. A lot of investors have apparently not been paying attention because Jerome gives the same answer every time he's asked about inflation and many investors still act like that's the first time they've heard it. Either that, or they cannot comprehend the arithmetic concept of averaging. Some might wonder if Mr. Powell secretly enjoys irritating the bond vigilantes. Or, are they trying to irritate him?

Yesterday, they got so irritated that the Ten-Year Treasury yield got higher than it's been in over a year and much hand-wringing ensued. In this morning's early trading, the slide in bond prices has at least temporarily been arrested and yields are slightly lower. Not sure if the hand-wringing has stopped.

On Monday, before it began, the New York Fed got the week started with the good news that its Empire Manufacturing Index outperformed expectations with a move this month to 17.4 from 12.1 against analysts' estimates of 15.

Tuesday was a big data day starting with a report from the Bureau of Labor Statistics telling us that its Import Price Index rose 1.3% last month and that was slightly higher than the 1% forecast. Year-over-year, that measure rose to 3% versus estimates of 2.6%. The prior month's year-over-year pace was only 1%. For stuff we sell to others, the Export Price Index notched a 1.6% rise that was also greater than the 1% that estimates suggested. Year-over-year, Export Prices rose 5.2% from January's 2.3% twelve-month pace. Market participants were then greeted by the unwelcome news that Retail Sales fell 3% in February when they were only supposed to fall 0.5%. But, that looks a little less bad since January's 5.3% growth was significantly revised to 7.6%. The Retail Sales Control Group, without food services, autos, gas stations, and building materials fell by an unexpectedly large 3.5%, but January's 6% growth was revised to 8.7%.

The Federal Reserve also disappointingly reported on Tuesday that Industrial Production fell 2.2% in February when a rise of 0.3% was expected. Even more disconcerting was the accompanying report for Capacity Utilization. That measure of the economy's mining, manufacturing, and utility output against its potential fell to 73.8% from 75.5% when it was expected to remain unchanged. One year ago, that measure was 76.93% and underscores the significant output gap that currently exists. That should not be overlooked by those fearing inflation, and even those who are not, since it's really hard for inflation to be sustained in the face of such underutilization and it's not a characteristic of an economy that's running "hot." The housing market has certainly been running hot the past year but there may be signs that some cooling is in the offing. The National Association of Home Builders also reported on Tuesday that its Housing Market Index slipped from 84 to 82 this month while analysts were expecting no change.

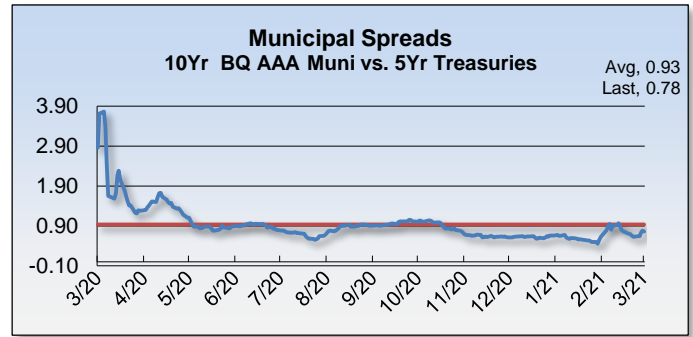
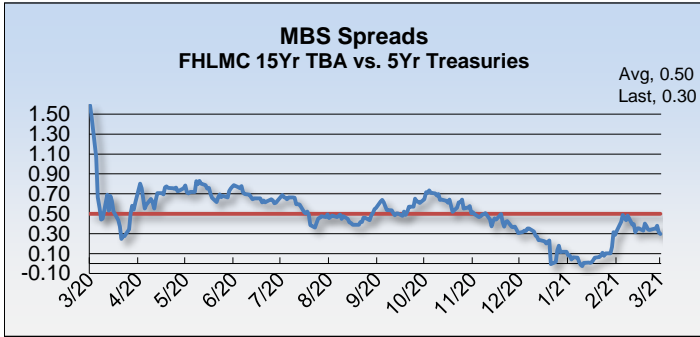
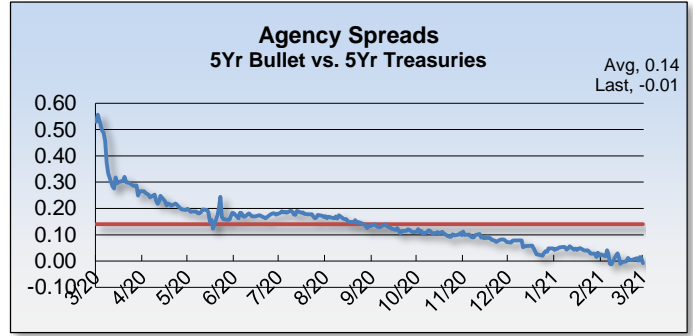
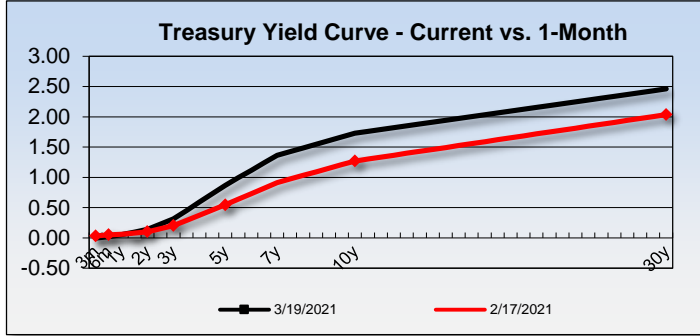
More signs of a decline in the vigor of the Housing sector came on Wednesday with the news that Housing Starts plummeted by 10.3% in February. Yes, the weather was pretty bad last month but the analysts who predicted a dip of only 1.3% knew that too, so why the big miss? Building Permits are not really weather related but they still fell 10.8% in February and that was significantly more than the 7.2% decline that was estimated.

Wednesday afternoon heralded the completion of the FOMC's policy meeting and the publication of the latest Summary of Economic Projections. Acknowledging that things are looking up, the Committee's median projection for 2021 GDP improved to 6.5% from the 4.2% that December's poll produced. For Unemployment, the Committee expects to see that rate fall to 4.5% by year's end and that's a little better than the 5% they thought we'd end up with back in December. The Committee also raised its expectation for core inflation with a move to 2.2% by the end of the year and that's up from its previous 1.8% projection. During his press conference, Chairman Powell took great pains to explain that these Projections are a compilation of individual members' outlooks and not a consensus forecast produced by Committee discussions. That goes for the dot-plot, too. And speaking of the dot-plot, a few more dots suggest a preference for a rate increase by year-end 2023, but 11 of the 18 still say "no."

The Fed made some more news just this morning with the announcement that the temporary change it made last year to its Supplemental Leverage Ratio that allowed bank holding companies to own Treasuries without the requisite capital requirement will expire as scheduled at the end of this month. This could affect the amount of those securities that big banks acquire relative to other alternatives. The slight price gains that Treasuries enjoyed earlier today have since evaporated on that news.

The news we got yesterday about Jobless Claims wasn't too uplifting either, when the BLS reported that for the week ending March 13th, Initial Claims totaled 770k and that was higher than the prior week's 725k and also higher than the 700k that was expected. Continuing Claims for the week ending March 6th fell slightly to 4.12M from 4.14M versus an expectation of 4.03M. But, yesterday's news got a lot better when the Philadelphia Fed reported that its broadly-based Business Outlook Survey Index roared to 51.8 this month from 23.1. This greatly exceeded analysts' expectations of 23.3. Things are indeed sunny in Philadelphia! The Conference Board closed out the week's data reports yesterday when it disclosed that its Index of Leading Economic Indicators experienced a 0.2% rise last month and that was a little below the pre-release estimate of 0.3%.

Tomorrow is the first day of Spring and things are coming to life horticulturally as well as economically. Jerome needs to get himself a green necktie. 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	0.00	(0.03)	0.03	0.09	0.02	2yr	0.20	0.26	0.29	0.31	0.26	2Yr	0.09	0.09	0.09	-
6mo	0.02	(0.02)	0.04	0.11	0.03	3yr	0.34	0.45	0.46	0.49	0.50	3Yr	0.26	0.27	0.20	0.26
1yr	0.06	(0.01)	0.05	0.12	0.16	5yr	0.93	0.97	0.80	0.85	0.99	5Yr	0.90	0.90	0.89	0.83
2yr	0.14	(0.01)	0.11	0.14	0.45	7yr	1.34	1.37	1.13	1.21	1.55	7Yr	1.39	1.42	1.41	1.34
3yr	0.31	(0.03)	0.21	0.16	0.53	10yr	1.84	1.73	1.62	1.73	2.07	10Yr	1.80	1.86	1.85	1.79
5yr	0.87	0.03	0.58	0.28	0.69	15yr	2.34	2.02	1.95	2.07	2.48	April TBA MBS				
7yr	1.36	0.08	0.97	0.48	1.02	20yr	2.84	2.12	2.23	2.37	3.09	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.73	0.10	1.34	0.70	1.14	25yr	3.33	2.16	2.37	2.52	3.14	2.00	1.38	4.4y	2.06	
30yr	2.46	0.08	2.14	1.45	1.79	30yr		2.18	2.51	2.67	3.19	2.50	1.13	3.1y		
												3.00	1.16	3.1y	1.73	3.6y
												3.50	0.89	2.7y	1.35	2.9y
												4.00			1.11	2.8y
												4.50			0.90	2.6y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	0.25
Primary Discount	0.25	--	0.25	0.25	0.25
2ndary Discount	0.75	--	0.75	0.75	0.75
Prime Rate	3.25	--	3.25	3.25	3.25
Sec. O.N. Finance	0.01	--	0.03	0.09	--
1 Month LIBOR	0.11	0.00	0.11	0.16	0.75
3 Month LIBOR	0.19	0.01	0.18	0.23	1.05
6 Month LIBOR	0.20	0.01	0.20	0.28	0.91
1 Year LIBOR	0.28	0.00	0.30	0.38	0.86
6 Month CD	0.20	0.04	0.21	0.30	1.30
1 Year CMT	0.08	--	0.06	0.13	0.21
REPO O/N	-0.01	(0.03)	0.09	0.11	0.08
REPO 1Wk	0.07	--	0.07	0.12	0.13
CoF Federal	0.911	--	0.925	1.107	1.914
11th D. CoF (Jan)	0.457	--	0.460	0.653	0.984

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.30	0.26
6mo	0.22	0.31	0.25
1yr	0.31	0.32	0.28
2yr	0.36	0.54	0.38
3yr	0.52	0.71	0.57
4yr	0.81	1.00	0.85
5yr	1.05	1.26	1.10
7yr	1.54	1.79	1.61
10yr	1.95	2.23	2.04
5yr Am	0.67		0.80
10yr Am	1.42		1.54

Fed Fund Futures	
Maturity	Rate
Mar-21	0.067
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	0.075
Nov-21	0.075
Dec-21	0.080
Jan-22	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/15	Empire Manufacturing	Mar	15.0	17.4	12.1	--
3/15	Total Net TIC Flows	Jan	--	\$106.3b	<del>-\$0.6b</del>	\$8.0b
3/15	Net Long-term TIC Flows	Jan	--	\$90.8b	\$121.0b	--
3/16	Import Price Index MoM	Feb	1.0%	1.3%	1.4%	--
3/16	Import Price Index ex Petroleum MoM	Feb	0.4%	0.5%	0.9%	--
3/16	Import Price Index YoY	Feb	2.6%	3.0%	<del>0.9%</del>	1.0%
3/16	Export Price Index MoM	Feb	1.0%	1.6%	2.5%	--
3/16	Export Price Index YoY	Feb	4.4%	5.2%	2.3%	--
3/16	Retail Sales Ex Auto and Gas	Feb	-0.5%	-3.3%	<del>6.1%</del>	8.5%
3/16	Retail Sales Control Group	Feb	-0.6%	-3.5%	<del>6.0%</del>	8.7%
3/16	Industrial Production MoM	Feb	0.3%	-2.2%	<del>0.9%</del>	1.1%
3/16	Capacity Utilization	Feb	75.5%	73.8%	<del>75.6%</del>	75.5%
3/16	Manufacturing (SIC) Production	Feb	0.2%	-3.1%	<del>4.0%</del>	1.2%
3/16	Business Inventories	Jan	0.3%	0.3%	<del>0.6%</del>	0.8%
3/16	NAHB Housing Market Index	Mar	84	82	84	--
3/17	MBA Mortgage Applications	3/12	--	-2.2%	-1.3%	--
3/17	Housing Starts	Feb	1560k	1421k	<del>1580k</del>	1584k
3/17	Building Permits	Feb	1750k	1682k	<del>1881k</del>	1886k
3/17	FOMC Rate Decision (Lower Bound)	3/17	0.00%	0.00%	0.00%	--
3/17	FOMC Rate Decision (Upper Bound)	3/17	0.25%	0.25%	0.25%	--
3/17	Interest Rate on Excess Reserves	3/18	0.10%	0.10%	0.10%	--
3/18	Initial Jobless Claims	3/13	700k	770k	<del>742k</del>	725k
3/18	Continuing Claims	3/6	4034k	4124k	<del>4144k</del>	4142k
3/18	Philadelphia Fed Business Outlook	Mar	23.3	51.8	23.1	--
3/18	Langer Consumer Comfort	3/14	--	48.6	49.4	--
3/18	Leading Index	Feb	0.3%	0.2%	0.5%	--
3/22	Chicago Fed Nat Activity Index	Feb	72.0%	--	66.0%	--
3/22	Existing Home Sales	Feb	6.50m	--	6.69m	--
3/23	Current Account Balance	4Q	-\$188.8b	--	-\$178.5b	--
3/23	New Home Sales	Feb	879k	--	923k	--
3/24	Durables Ex Transportation	Feb P	0.6%	--	1.3%	--
3/24	Cap Goods Ship Nondef Ex Air	Feb P	-0.8%	--	1.8%	--
3/24	Markit US Manufacturing PMI	Mar P	59.5	--	58.6	--
3/24	Markit US Services PMI	Mar P	60.1	--	59.8	--
3/24	Markit US Composite PMI	Mar P	--	--	59.5	--
3/25	GDP Annualized QoQ	4Q T	4.1%	--	4.1%	--
3/25	Personal Consumption	4Q T	2.4%	--	2.4%	--
3/25	GDP Price Index	4Q T	2.1%	--	2.1%	--
3/25	Core PCE QoQ	4Q T	1.4%	--	1.4%	--
3/26	Advance Goods Trade Balance	Feb	-\$85.5b	--	-\$83.7b	--
3/26	Personal Income	Feb	-7.0%	--	10.0%	--
3/26	Real Personal Spending	Feb	-1.0%	--	2.0%	--
3/26	PCE Deflator YoY	Feb	1.6%	--	1.5%	--
3/26	PCE Core Deflator YoY	Feb	1.5%	--	1.5%	--
3/26	U. of Mich. Sentiment	Mar F	83.6	--	83.0	--
3/26	U. of Mich. Current Conditions	Mar F	--	--	91.5	--
3/26	U. of Mich. 1 Yr Inflation	Mar F	--	--	3.1%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.0	25.5	26.8	28.0	29.2	28.0
FH/FN 15y	15.5	35.6	41.3	44.5	22.5	22.1
GN 15y	18.3	17.9	18.9	19.8	19.0	19.3
FH/FN 20y	55.4	33.7	33.7	31.8	29.7	23.8
FH/FN 30y	4.6	22.8	57.3	56.2	55.2	51.9
GN 30y	10.3	18.5	41.9	50.6	43.1	27.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.9	15.6	16.4	18.8	17.9	15.9
FH/FN 15y	13.5	18.7	20.3	29.4	18.8	21.6
GN 15y	17.7	14.6	14.9	14.2	13.4	13.1
FH/FN 20y	8.4	14.0	17.5	19.3	20.0	18.7
FH/FN 30y	8.5	13.6	24.7	28.6	30.9	29.8
GN 30y	10.1	12.5	18.2	19.9	27.4	21.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	108.92	(0.11)	105.45	104.65	110.71
Euro	1.19	(0.01)	1.21	1.18	1.07
Dollar Index	92.10	0.42	90.36	92.93	102.76
<b>Major Stock Indices</b>					
Dow Jones	32,635	(143)	31,494	27,657	20,087
S&P 500	3,894.9	(48.5)	3,906.7	3,319.5	2,409.4
NASDAQ	13,173.5	(146)	13,874.5	10,793.3	7,150.6
<b>Commodities</b>					
Gold	1,735.4	15.6	1,775.8	1,953.2	1,479.3
Crude Oil	60.09	(5.52)	59.24	41.11	25.22
Natural Gas	2.50	(0.10)	3.07	2.05	1.65
Wheat	624.8	-7.0	650.8	575.0	535.0
Corn	553.8	4.5	542.8	378.5	345.5

**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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