

## Baker Market Update: Week in Review

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Not unlike the capricious and stormy weather of springtime, thunderstorms rolled across financial markets this week bringing a degree of volatility not seen in a while. But the market for Bitcoin is a little different than the market for Treasuries, thankfully, and the deportment of government bonds this week was downright exemplary in the face of much angst and hand-wringing elsewhere. Barring the development of some afternoon market-melting-mesocyclone, Treasury bonds will experience another week that closes with lower yields on Friday than on Monday. Bonds are real! That other stuff is just noise.

Not much noise was generated after the release on Wednesday of the FOMC's latest meeting minutes. The Fed has not changed its dovish tune although some attention was given to a reference that, at some point, the central bank may have to possibly contemplate thinking about considering adjustments to its monthly asset purchases. Maybe. Until that happens, our policy-makers will continue to let the data drive things along as the re-opening renaissance continues and the creaky joints of economic hibernation work out their kinks.

Some of this week's news was startling for both its hits and misses, but none of it was startling enough to cause much of a move in the real world of Treasury bonds. The New York Fed got things started on Monday with a sort of good miss when it reported that its Empire Manufacturing Index only fell to 24.3 this month from 26.3 and that was better than the slip to 23.9 that analysts estimated. But it still fell and that's why it was only "kind of" a good miss. The National Association of Home Builders then told us that its Housing Market Index remained unchanged in May at 83. That measure reached its all-time high of 90 back in November.

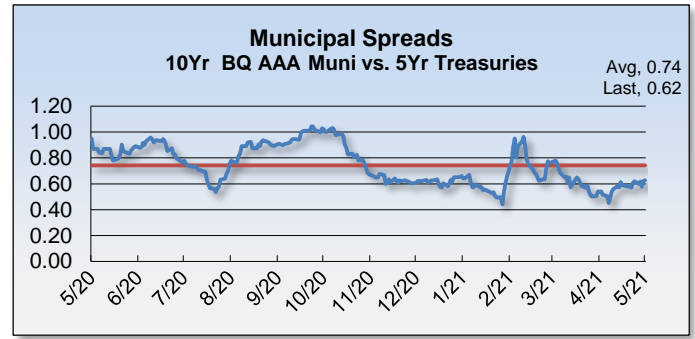
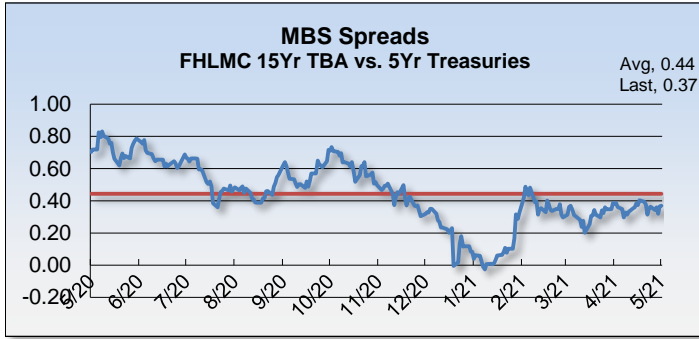
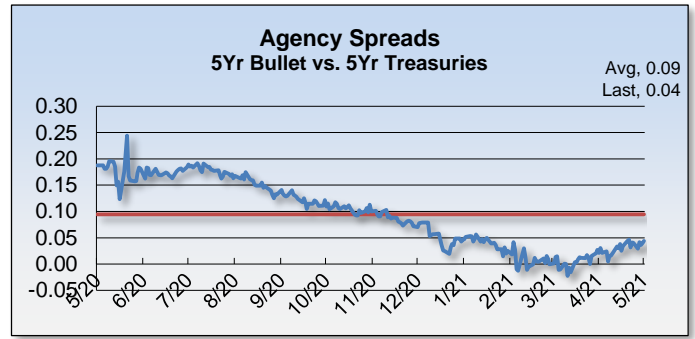
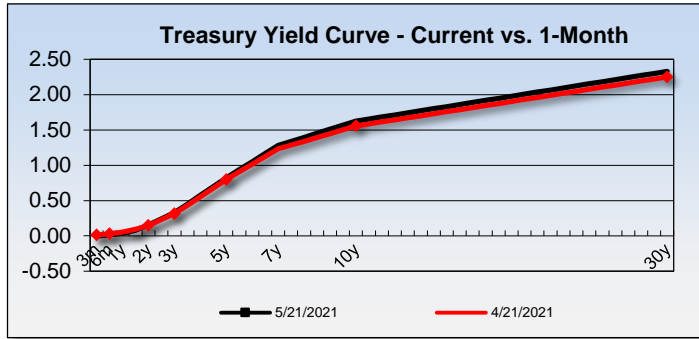
Anecdotally, the market for homes seems to remain red-hot even though the Census Bureau reported on Tuesday that Housing Starts fell 9.5% in April after March's micro-burst of 19.8%. Building Permits also proved to be a disappointment with only a 0.3% rise in April that was half of the growth that was expected.

Wednesday morning brought more housing-related news when the Mortgage Bankers Association reported that new Mortgage Applications rose 1.2% last week on the heels of the prior week's 2.1% increase. But, Purchase Applications fell 4.1% after only rising by 0.8% the week before. Last week's Average Thirty-Year Fixed Rate was 3.15%. Also on Wednesday, the Treasury held a semi-stormy auction for \$27B Twenty-Year bonds that saw a high yield of 2.29% amidst a pretty weak bid-to-cover ratio of 2.24. The Treasury's prior sale of Twenty-Years came in at 2.14% with a bid-to-cover of 2.42.

We learned on Thursday that it was definitely not sunny in Philadelphia this month when the Philly Fed reported that its broad-based Business Conditions Survey Index absolutely plummeted to 31.5 from 50.2 and that was even worse than the dark cloud of 41.5 that forecasters were looking for. Other forecasters were looking for Initial Jobless Claims to fall and they did. For the week ending May 15<sup>th</sup>, the Bureau of Labor Statistics reported that those Claims totaled 444k and that was down from the prior week's 478k and also less than the 450k that was expected. Whenever things get back to "normal", one can expect those weekly totals to flatten-out at around 200k. Continuing Claims for the week ending May 8<sup>th</sup> didn't flatten-out at all and actually rose unexpectedly to 3.75M from 3.64M when they were supposed to decline to 3.62M. That's still about twice what they ought to be. And according to the Conference Board, things ought to be getting better even sooner than expected with its Index of Leading Economic Indicators outpacing estimates of a 1.3% April rise by coming in with a 1.6% gain.

This morning, investors were greeted with a good news/bad news combination with the positive portion belonging to Markit's Services PMI for May. The reawakening of Leisure and Hospitality activities was on full display when that diffusion index soared to 70.1 from 64.7 against an expected slip to 64.3. Markit's Manufacturing PMI also managed to improve, albeit less dramatically, with an April move to 61.5 from 60.5 versus estimates of 60.2. The bad news part of today's data came from the National Association of Realtors when it disclosed that Existing Home Sales fell 2.7% last month while experts were calling for a 1.1% rise. Not to pile on, but that's the third month in a row that those sales have fallen.

The chances for anymore upper-level disturbances also seem to have fallen with Treasuries flat-lining so far today. But it's still tornado-season in many parts of the country and now we've got UFO's showing up on those fancy Doppler radar screens. Complacency is discouraged. 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	(0.01)	0.02	0.07	0.12	2yr	0.19	0.25	0.20	0.21	0.20	2Yr	0.09	0.09	0.09	-	
6mo	0.02	(0.01)	0.03	0.09	0.14	3yr	0.34	0.45	0.35	0.37	0.46	3Yr	0.26	0.27	0.20	0.26	
1yr	0.04	(0.01)	0.06	0.10	0.16	5yr	0.83	0.90	0.70	0.75	0.97	5Yr	0.83	0.83	0.82	0.76	
2yr	0.15	0.01	0.15	0.16	0.17	7yr	1.27	1.26	1.04	1.10	1.41	7Yr	1.29	1.31	1.30	1.24	
3yr	0.33	0.00	0.32	0.21	0.23	10yr	1.73	1.59	1.41	1.50	1.95	10Yr	1.69	1.74	1.74	1.67	
5yr	0.82	0.01	0.80	0.37	0.34	15yr	2.19	1.86	1.67	1.77	2.40		June TBA MBS				
7yr	1.28	0.00	1.23	0.61	0.52	20yr	2.65	1.98	1.95	2.07	2.78	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	1.62	(0.01)	1.56	0.83	0.67	25yr	3.11	2.02	2.08	2.21	2.83	2.00	1.19	4.2y	1.87		
30yr	2.33	(0.01)	2.25	1.52	1.39	30yr		2.03	2.21	2.35	2.88	2.50	1.05	3.2y			
* Interpolated																	
Key Market Indices																	
		1Wk	Historical														

\* 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	--	0.01	0.05	--
1 Month LIBOR	0.10	(0.00)	0.11	0.15	0.17
3 Month LIBOR	0.15	(0.00)	0.19	0.21	0.37
6 Month LIBOR	0.18	(0.01)	0.22	0.26	0.59
1 Year LIBOR	0.26	(0.00)	0.29	0.34	0.72
6 Month CD	0.14	0.01	0.20	0.22	0.46
1 Year CMT	0.05	--	0.07	0.11	0.16
REPO O/N	0.02	0.02	-0.01	0.07	-0.04
REPO 1Wk	0.07	(0.02)	0.07	0.13	0.10
CoF Federal	0.823	--	0.845	1.003	1.333
11th D. CoF (Mar)	0.377	--	0.408	0.523	0.884

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.21	0.29	0.24
6mo	0.21	0.29	0.24
1yr	0.26	0.27	0.26
2yr	0.33	0.51	0.38
3yr	0.52	0.72	0.58
4yr	0.77	0.98	0.86
5yr	0.99	1.21	1.09
7yr	1.47	1.72	1.58
10yr	1.85	2.14	1.97
5yr Am	0.64		0.80
10yr Am	1.35		1.50

Fed Fund Futures	
Maturity	Rate
May-21	0.060
Jun-21	0.070
Jul-21	0.075
Aug-21	0.080
Sep-21	0.080
Oct-21	0.075
Nov-21	0.075
Dec-21	0.080
Jan-22	0.080
Feb-22	0.075
Mar-22	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
5/17	Empire Manufacturing	May	23.9	24.3	26.3	--
5/17	NAHB Housing Market Index	May	83.0	83.0	83.0	--
5/17	Total Net TIC Flows	Mar	--	\$146.4b	\$72.6b	\$73.7b
5/17	Net Long-term TIC Flows	Mar	--	\$262.2b	\$4.2b	\$4.3b
5/18	Housing Starts	Apr	1704k	1569k	1739k	1733k
5/18	Housing Starts MoM	Apr	-2.0%	-9.5%	19.4%	19.8%
5/18	Building Permits	Apr	1770k	1760k	1766k	1755k
5/18	Building Permits MoM	Apr	0.6%	0.3%	2.7%	1.7%
5/19	MBA Mortgage Applications	5/14	--	1.2%	2.1%	--
5/19	FOMC Meeting Minutes	4/28	--	--	--	--
5/20	Philadelphia Fed Business Outlook	May	41.5	31.5	50.2	--
5/20	Initial Jobless Claims	5/15	450k	444k	473k	478k
5/20	Continuing Claims	5/8	3620k	3751k	3655k	3640k
5/20	Langer Consumer Comfort	5/16	--	55.3	54.6	--
5/20	Leading Index	Apr	1.3%	1.6%	1.3%	--
5/21	Markit US Manufacturing PMI	May P	60.2	--	60.5	--
5/21	Markit US Services PMI	May P	64.3	--	64.7	--
5/21	Markit US Composite PMI	May P	--	--	63.5	--
5/21	Existing Home Sales	Apr	6.07m	--	6.01m	--
5/21	Existing Home Sales MoM	Apr	1.0%	--	-3.7%	--
5/24	Chicago Fed Nat Activity Index	Apr	--	--	1.71	--
5/25	FHFA House Price Index MoM	Mar	1.4%	--	0.9%	--
5/25	House Price Purchase Index QoQ	1Q	--	--	3.8%	--
5/25	S&P CoreLogic CS 20-City MoM SA	Mar	1.45%	--	1.17%	--
5/25	S&P CoreLogic CS 20-City YoY NSA	Mar	11.90%	--	11.94%	--
5/25	S&P CoreLogic CS US HPI YoY NSA	Mar	--	--	11.97%	--
5/25	New Home Sales	Apr	950k	--	1021k	--
5/25	New Home Sales MoM	Apr	-7.0%	--	20.7%	--
5/25	Conf. Board Consumer Confidence	May	119.8	--	121.7	--
5/25	Conf. Board Present Situation	May	--	--	139.6	--
5/25	Conf. Board Expectations	May	--	--	109.8	--
5/27	Durables Ex Transportation	Apr P	0.7%	--	1.9%	--
5/27	Cap Goods Ship Nondef Ex Air	Apr P	--	--	1.6%	--
5/27	GDP Annualized QoQ	1Q S	6.4%	--	6.4%	--
5/27	Personal Consumption	1Q S	10.8%	--	10.7%	--
5/27	GDP Price Index	1Q S	4.1%	--	4.1%	--
5/27	Core PCE QoQ	1Q S	2.3%	--	2.3%	--
5/27	Pending Home Sales NSA YoY	Apr	--	--	25.3%	--
5/28	Advance Goods Trade Balance	Apr	-\$92.0b	--	-\$90.6b	--
5/28	Personal Income	Apr	-14.8%	--	21.1%	--
5/28	Real Personal Spending	Apr	0.4%	--	3.6%	--
5/28	PCE Deflator YoY	Apr	3.5%	--	2.3%	--
5/28	PCE Core Deflator YoY	Apr	3.0%	--	1.8%	--
5/28	MNI Chicago PMI	May	69.0	--	72.1	--
5/28	U. of Mich. Sentiment	May F	83.0	--	82.8	--
5/28	U. of Mich. Current Conditions	May F	--	--	90.8	--
5/28	U. of Mich. 1 Yr Inflation	May F	--	--	4.6%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.2	27.1	28.6	31.0	28.6	21.9
FH/FN 15y	11.6	37.5	44.4	47.9	35.1	23.3
GN 15y	25.3	19.9	21.1	19.4	21.3	19.1
FH/FN 20y	55.8	35.3	36.5	34.4	32.8	25.5
FH/FN 30y	9.4	25.5	57.1	58.8	58.5	55.3
GN 30y	9.5	21.7	45.3	50.9	52.6	30.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.3	18.8	19.4	20.2	21.6	20.1
FH/FN 15y	14.9	18.3	22.1	26.2	24.0	21.0
GN 15y	14.5	14.6	14.8	14.1	13.4	13.1
FH/FN 20y	13.5	16.6	16.6	16.8	17.1	16.6
FH/FN 30y	11.2	15.0	23.5	24.6	26.7	24.4
GN 30y	9.8	12.4	16.5	18.5	19.3	13.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	108.75	(0.60)	108.08	104.52	107.61
Euro	1.22	0.00	1.20	1.18	1.10
Dollar Index	89.89	(0.44)	91.16	92.39	99.37
Major Stock Indices					
Dow Jones	34,304	(79)	34,137	29,263	24,474
S&P 500	4,159.1	(14.7)	4,173.4	3,557.5	2,948.5
NASDAQ	13,594.4	164	13,950.2	11,855.0	9,284.9
Commodities					
Gold	1,886.4	48.3	1,792.3	1,872.4	1,721.9
Crude Oil	63.31	(2.06)	61.35	42.15	33.92
Natural Gas	2.91	(0.05)	2.69	2.65	1.71
Wheat	669.8	-57.5	673.3	593.3	516.0
Corn	658.3	-26.8	625.5	423.3	317.8

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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