

Baker Market Update: Week in Review

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Everyday on the masthead of *The New York Times*, one can find the same slogan that has appeared there since 1897: "All the news that's fit to print." Really? Seems a wee bit grandiose doesn't it? And besides, that so-called newspaper, along with the *Wall Street Journal* and the know-it-alls at Bloomberg News completely missed the biggest story of the week. Yep. I'm retiring. We had a go-away party and everything; it was nice. So, after ten years, well, almost ten years of having lunch together every single Friday, this will be our last time to break bread at the same table. Jerome will be okay, but Janet's taking this pretty hard. Not quite the Last Supper, but it is the last Lunch and I've enjoyed printing all the news that fits.

There was a lot of news in the news this week and is so often the case, some of it was good, some was not-so-good, and some of it didn't really matter much. The Chicago Fed got things going on Monday with a report that made it look like a lot more people than just me have decided to retire. In April, its very broadly-based National Activity Index plummeted to 0.24 from 1.71 while the guys at Bloomberg, the ones that missed the biggest story of the week, were expecting 1.20. That Index is part of the news that matters and it was among the not-so-good.

On Tuesday, housing prices were in the news with an FHFA report for March telling us that its House Price Index rose 1.4% and that outpaced estimates of just 1%. For the year's first quarter, the HPI rose 3.5%. More news about prices came from the CoreLogic Case-Shiller 20-City HPI report showing a March rise of 1.6% that also beat the estimate of 1.3%. Year-over-year, that measure jumped to 13.27% from the prior month's twelve-month pace of 12%. Analysts were only expecting a move to 12.55%. No one was expecting March's New Home Sales to be revised to 917k annualized units from 1.02M, but that's what happened when the Census Bureau reported a fall to 863k annualized units in April. Pre-release estimates suggested 950k so definitely not-so-good. With revisions, that 5.9% monthly drop in New Home Sales follows last week's reported drop of 2.7% for April's Existing Home Sales. Might that have anything to do with how consumers are feeling? Maybe. The Conference Board reported on Tuesday that its Consumer Confidence Index reading for April was revised to 117.5 from 121.7 while May came in at 117.2, well below the expected 118.8. For those who prefer to live-in-the-now, the Present Situation sub-index vaulted to 144.3 from a revised 131.9 while the Expectations component plunged to 99.1 from 107.9. Nothing lasts forever; not even stimulus checks. The Richmond Fed closed out the day's news by reporting that its Manufacturing Index rose to 18 this month from April's 17 and that was pretty close to the estimate of 19. The Treasury's sale of \$60B Two-Year notes produced a high-yield of 0.152%, but that doesn't seem all that high.

On Wednesday, after the Mortgage Bankers Association reported that Mortgage Applications fell 4.2% last week, the Treasury sold \$61B Five-Year notes at a high-yield of 79 basis points and that doesn't seem very high, either.

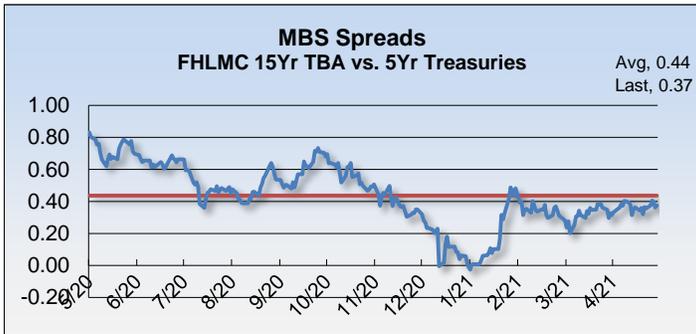
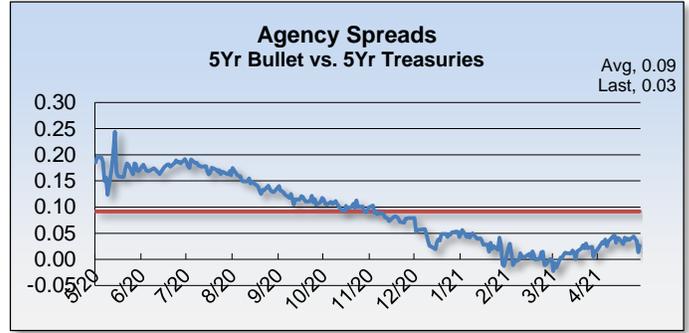
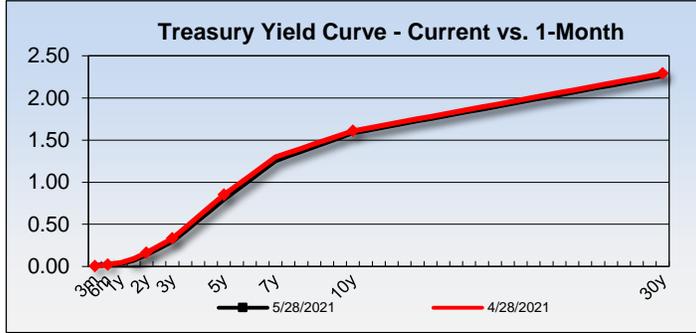
Yesterday was a pretty big news day that started with a preliminary report from the Census Bureau disclosing that Durable Goods Orders fell 1.3% last month in a big miss for those expecting an 0.8% rise. Without Transportation, that measure grew 1% and that beat the estimate of just 0.7%. Orders for Core Capital Goods also surprised to the upside by coming in with a 2.3% rise last month and that was much better than the 1% that was forecast. Thursday also marked the second coming of Q1 GDP and, according to the Bureau of Economic Analysis, remained unchanged at 6.4%. We also learned that Q1 Personal Consumption actually grew 11.3% and not the 10.7% that was initially reported. The Treasury reported that its \$62B Seven-Year notes got put away with a not-so-high-yield of 1.285%.

The Bureau of Labor Statistics was back at it yesterday with a fresh report on weekly Jobless Claims. Initial Claims for the week ending May 22nd totaled 406k and that was less than the prior week's 444k and also below the 425k that was predicted. Continuing Claims for the week ending May 15th fell more-than-expected to 3.64M from 3.74M and beat estimates looking for 3.68M. While both of these measures are trending in the right direction, they are each about twice as high as they ought to be. I know all about how things ought to be. And with all the buzz about the crazy market for residential real estate, one might reasonably think that Pending Home Sales ought not to be falling, but in April, they did. Similar to the declines in New and Existing Home Sales, Pending Sales fell 4.4% last month. Also falling unexpectedly was this month's Kansas City Fed Manufacturing Index. It slipped to 26 from April's 31.

Today, it's been mostly about inflation with the BEA issuing April's report for its Personal Consumption Expenditures Index. For the month, headline PCE rose by the expected 0.6% helping to push the year-over-year pace to 3.6% from 2.4%. That twelve-month rate was pretty close to the 3.5% that was predicted. Without food and energy, core PCE rose by 0.7% for the month with the twelve-month pace rising to 3.1% from 1.9% and that was a bit higher than the 2.9% estimate. Based on the behavior of the Treasury market, the bond vigilantes have either retired themselves or have decided to behave. Bond prices are actually up on the day and it looks like the Fed's transitory description of inflation's condition has gained acceptance. For now.

Also for now, it looks like we're still living and dying with the ebb and flow of stimulus checks and the BEA announced today that Personal Income ebbed by 13.1% in April after March's stimulus-fueled flow of 20.9%. Personal Spending managed a 0.5% rise last month but that was way down from March's 4.7% spending spree. Adjusted for inflation, Real Personal Spending suffered a 0.1% April dip on the heels of March's 4.1% burst. The Personal Savings Rate didn't quite burst in April, but it did fall significantly to 14.9% from 27.7%. Things got a little personal with the University of Michigan earlier today when it reported that its Index of Consumer Sentiment came in with a final value of 82.9 that was about what it was in its preliminary report. The Current Conditions sub-index slipped to 89.4 from 90.8 while Expectations rose to 78.8 from 77.6. Low expectations are the true key to happiness.

I'm pretty happy about retiring and getting to wander around in the woods to my heart's content. This is both the first day of the rest of my life and the last day of my life so far. I'll miss all of you and I'll miss my Baker family. I won't miss the "C" Terminal at DFW, but that's not really news. Happy trails until we meet again. Be careful out there; *Goo Goo G'job!*



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	0.01	0.01	0.01	0.08	0.14	2yr	0.17	0.23	0.15	0.16	0.20	2Yr	0.08	0.08	0.08	-
6mo	0.03	0.01	0.03	0.09	0.17	3yr	0.31	0.43	0.31	0.33	0.45	3Yr	0.24	0.25	0.20	0.24
1yr	0.04	(0.00)	0.05	0.10	0.17	5yr	0.81	0.88	0.69	0.73	0.94	5Yr	0.83	0.83	0.82	0.76
2yr	0.14	(0.01)	0.17	0.15	0.17	7yr	1.25	1.24	1.04	1.10	1.39	7Yr	1.29	1.31	1.31	1.24
3yr	0.30	(0.03)	0.33	0.19	0.23	10yr	1.67	1.57	1.40	1.49	1.93	10Yr	1.67	1.73	1.72	1.66
5yr	0.80	(0.02)	0.85	0.37	0.34	15yr	2.09	1.84	1.62	1.73	2.38	June TBA MBS				
7yr	1.26	(0.02)	1.30	0.61	0.53	20yr	2.52	1.95	1.86	1.98	2.73	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.59	(0.03)	1.61	0.84	0.69	25yr	2.95	1.98	2.00	2.12	2.78	2.00	1.14	4.1y	1.83	
30yr	2.27	(0.05)	2.29	1.57	1.45	30yr		1.99	2.13	2.26	2.83	2.50	1.02	3.2y		
												3.00	0.92	2.7y	1.62	3.6y
												3.50	0.54	2.5y	1.63	3.4y
												4.00			1.65	3.3y
												4.50			1.93	3.5y

* 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	0.08	--
1 Month LIBOR	0.09	(0.00)	0.11	0.15	0.17
3 Month LIBOR	0.14	(0.01)	0.18	0.22	0.37
6 Month LIBOR	0.17	(0.01)	0.20	0.26	0.57
1 Year LIBOR	0.25	(0.01)	0.28	0.33	0.68
6 Month CD	0.13	(0.01)	0.19	0.28	0.27
1 Year CMT	0.04	(0.01)	0.06	0.11	0.18
REPO O/N	-0.01	(0.01)	-0.01	0.07	0.12
REPO 1Wk	0.06	--	0.07	0.08	0.05
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	0.30	0.24
6mo	0.21	0.30	0.25
1yr	0.25	0.26	0.26
2yr	0.32	0.50	0.36
3yr	0.49	0.69	0.55
4yr	0.75	0.96	0.81
5yr	0.98	1.20	1.04
7yr	1.45	1.73	1.52
10yr	1.84	2.13	1.91
5yr Am	0.63		0.77
10yr Am	1.34		1.44

Fed Fund Futures	
Maturity	Rate
May-21	0.060
Jun-21	0.075
Jul-21	0.085
Aug-21	0.085
Sep-21	0.085
Oct-21	0.085
Nov-21	0.085
Dec-21	0.085
Jan-22	0.085
Feb-22	0.085
Mar-22	0.085

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
5/24	Chicago Fed Nat Activity Index	Apr	1.20	0.24	1.71	--
5/25	FHFA House Price Index MoM	Mar	1.0%	1.4%	0.9%	1.1%
5/25	House Price Purchase Index QoQ	1Q	--	3.5%	3.8%	3.9%
5/25	S&P CoreLogic CS 20-City YoY NSA	Mar	12.55%	13.27%	11.94%	12.00%
5/25	S&P CoreLogic CS US HPI YoY NSA	Mar	--	13.19%	11.97%	12.04%
5/25	New Home Sales	Apr	950k	863k	1021k	917k
5/25	Conf. Board Consumer Confidence	May	118.8	117.2	121.7	117.5
5/25	Conf. Board Present Situation	May	--	144.3	139.6	131.9
5/25	Conf. Board Expectations	May	--	99.1	109.8	107.9
5/25	Richmond Fed Manufact. Index	May	19.0	18.0	17.0	--
5/26	MBA Mortgage Applications	5/21	--	-4.2%	1.2%	--
5/27	Durables Ex Transportation	Apr P	0.7%	1.0%	1.9%	3.2%
5/27	Cap Goods Ship Nondef Ex Air	Apr P	0.8%	0.9%	1.6%	1.5%
5/27	Initial Jobless Claims	5/22	425k	406k	444k	--
5/27	Continuing Claims	5/15	3680k	3642k	3751k	3738k
5/27	GDP Annualized QoQ	1Q S	6.5%	6.4%	6.4%	--
5/27	Personal Consumption	1Q S	10.9%	11.3%	10.7%	--
5/27	GDP Price Index	1Q S	4.1%	4.3%	4.1%	--
5/27	Core PCE QoQ	1Q S	2.3%	2.5%	2.3%	--
5/27	Langer Consumer Comfort	5/23	--	53.8	55.3	--
5/27	Pending Home Sales NSA YoY	Apr	--	53.5%	25.3%	25.0%
5/28	Personal Income	Apr	-14.2%	-13.1%	21.1%	20.9%
5/28	Real Personal Spending	Apr	0.2%	-0.1%	3.6%	4.1%
5/28	PCE Deflator YoY	Apr	3.5%	3.6%	2.3%	2.4%
5/28	PCE Core Deflator YoY	Apr	2.9%	3.1%	1.8%	1.9%
5/28	MNI Chicago PMI	May	68.0	75.2	72.1	--
6/1	Markit US Manufacturing PMI	May F	61.5	--	61.5	--
6/1	ISM Manufacturing	May	61.0	--	60.7	--
6/1	ISM Prices Paid	May	89.3	--	89.6	--
6/1	ISM New Orders	May	--	--	64.3	--
6/1	ISM Employment	May	--	--	55.1	--
6/3	Challenger Job Cuts YoY	May	--	--	-96.6%	--
6/3	ADP Employment Change	May	690k	--	742k	--
6/3	Nonfarm Productivity	1Q F	5.5%	--	5.4%	--
6/3	Unit Labor Costs	1Q F	-0.4%	--	-0.3%	--
6/3	Markit US Composite PMI	May F	--	--	68.1	--
6/3	ISM Services Index	May	63.3	--	62.7	--
6/4	Change in Nonfarm Payrolls	May	678k	--	266k	--
6/4	Two-Month Payroll Net Revision	May	--	--	-78k	--
6/4	Change in Private Payrolls	May	600k	--	218k	--
6/4	Change in Manufact. Payrolls	May	25k	--	-18k	--
6/4	Unemployment Rate	May	5.9%	--	6.1%	--
6/4	Average Hourly Earnings YoY	May	1.6%	--	0.3%	--
6/4	Average Weekly Hours All Employees	May	34.9	--	35.0	--
6/4	Labor Force Participation Rate	May	--	--	61.7%	--
6/4	Underemployment Rate	May	--	--	10.4%	--
6/4	Factory Orders Ex Trans	Apr	--	--	1.7%	--

MBS Prepayments ⁴						
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	17.5	18.9	19.5	20.4	21.7	20.1
FH/FN 15y	15.1	18.7	22.5	26.6	24.2	21.1
GN 15y	14.5	14.7	14.9	14.1	13.4	13.2
FH/FN 20y	13.8	17.0	16.9	17.0	17.2	16.7
FH/FN 30y	11.3	15.2	23.7	24.8	26.9	24.5
GN 30y	9.8	12.5	16.6	18.6	19.4	13.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	110.00	1.04	108.60	104.31	107.65
Euro	1.22	(0.00)	1.21	1.19	1.11
Dollar Index	90.27	0.25	90.61	91.79	98.38
Major Stock Indices					
Dow Jones	34,605	397	33,820	29,910	25,401
S&P 500	4,212.1	56.3	4,183.2	3,638.4	3,029.7
NASDAQ	13,802.1	331	14,051.0	12,205.9	9,369.0
Commodities					
Gold	1,899.4	22.7	1,773.2	1,781.9	1,713.3
Crude Oil	67.24	3.66	63.86	45.53	33.71
Natural Gas	3.02	0.12	2.93	2.84	1.83
Wheat	663.8	-10.5	725.3	596.5	514.5
Corn	659.3	-0.3	686.3	425.5	327.5

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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