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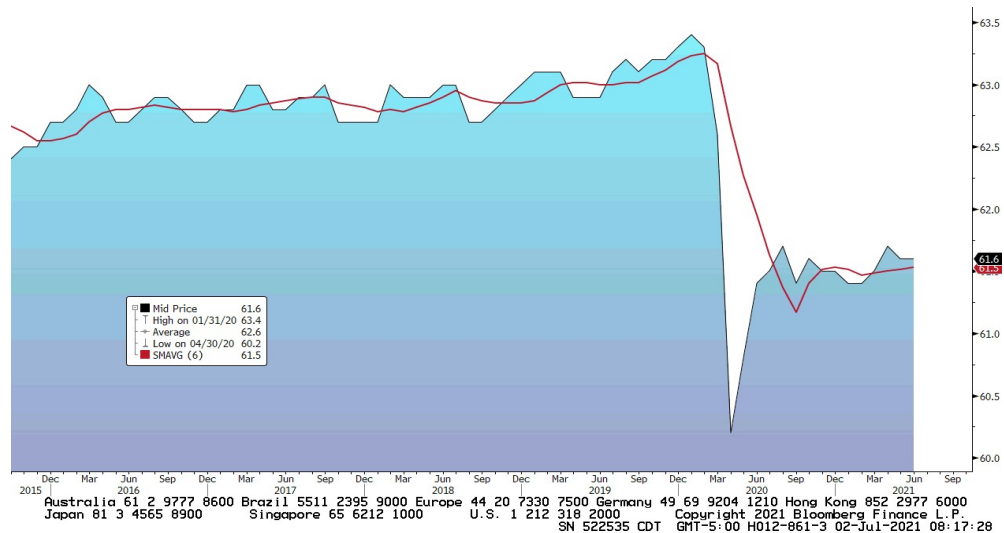
This week we crossed the mid-year threshold and closed out a second quarter that was punctuated by continued strong growth and an unwelcome but unsurprising jump in inflation to the highest levels in a decade or more. We learned that manufacturing activity remains in expansion mode, that home prices around the country are soaring, and that consumer sentiment is buoyant with positive expectations about the future. The big event for the week was the labor department's employment report this morning which showed that US non-farm payrolls growth was a solid 850K in June, well above estimates and the biggest jump since last August. However, the labor force participation rate remained stubbornly stuck at 61.6%. The unemployment rate (calculated from a different survey) showed an uptick to 5.9% which was three ticks higher than the estimate. Underemployment, which includes marginally attached and part-time workers wanting full-time jobs, fell four tenths to 9.8%. Average hourly earnings came in as expected at 3.6% annualized, and average hours worked unexpectedly fell to 34.7 a week.

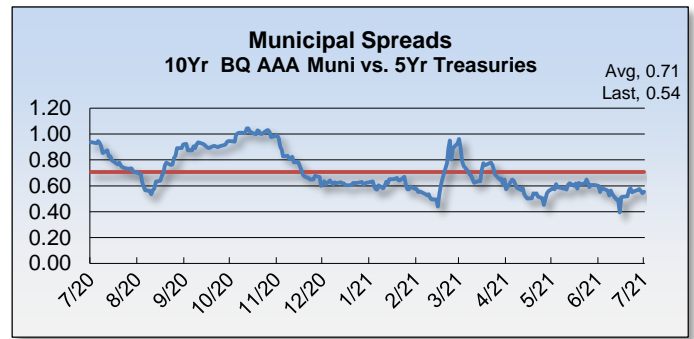
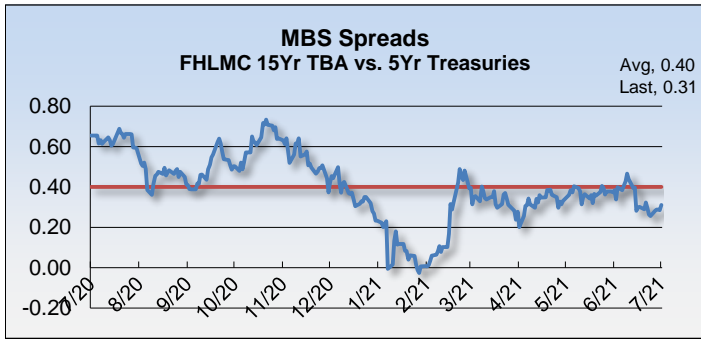
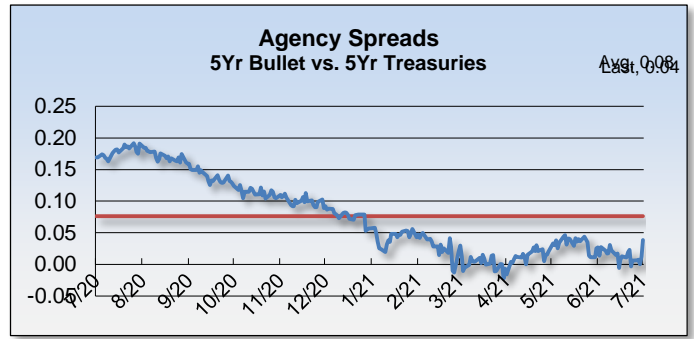
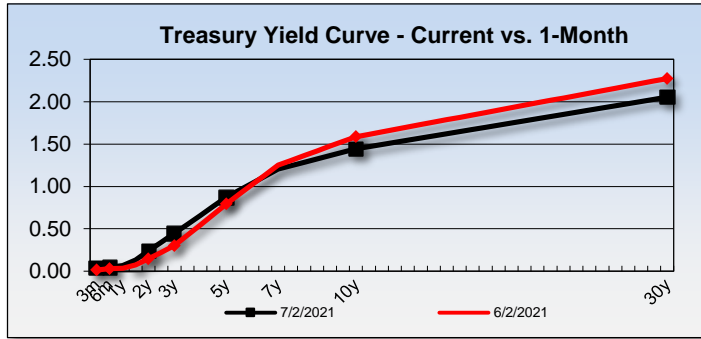
Labor market indicators remain well below pre-pandemic levels when the unemployment rate was 3.5% and the participation rate was over 63%. There are still nearly 7 million fewer employed persons in the US than at the beginning of 2020. Still, the June report shows clear and steady improvement. Sectors hit hard by the pandemic continued to show progress in returning to full employment. Jobs in leisure and hospitality increased by 343,000 as restrictions continued to ease. There remains a lot of noise in the numbers as staffing fluctuations in education due to the pandemic, in part reflecting the return to in-person learning and other school-related activities, have distorted the normal seasonal buildup and layoff patterns, likely contributing to the job gains in June. The number of persons not in the labor force who currently want a job was 6.4 million, little changed over the month but still up by 1.4 million since the beginning of last year.

Other data for the week included the US Merchandise Trade Balance for June which was slightly lower at \$71.2b, factory orders which ticked up to 1.7%. Durable goods orders and capital expenditures showed modest but steady improvement.

Fed officials continue to reinforce the idea that the US economy is making good progress toward meeting their objectives, and that the inflation surge will fade in the second half of the year. Still, policymakers now expect to be shifting gears on policy and raising rates a bit sooner than previously thought. An actual policy pivot won't take place until the economy achieves "substantial further progress", the cryptic and undefined phrase that allows the Fed to waffle on precise timing. The first increase in the fed funds rate is now plotted for 2023, two years from now. Still, that is sooner than previously expected, and QE "tapering" will certainly begin before that. Dallas Fed President Kaplan, made clear this week that it will soon be time to slow the pace of asset purchases from the current \$120 billion a month. "If we take our foot off the accelerator gently now, we'll have more flexibility down the road to avoid more abrupt action." Amen to that. Let's steer clear of tantrums this time. Happy Independence Day!

US Labor Force Participation Rate: June 2015 - Today





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)	0.02	0.07	0.14	2yr	0.26	0.31	0.24	0.25	0.32	2Yr	0.14	0.14	0.14	-
6mo	0.05	(0.01)	0.03	0.08	0.16	3yr	0.47	0.56	0.35	0.37	0.56	3Yr	0.35	0.36	0.30	0.35
1yr	0.07	(0.01)	0.04	0.11	0.15	5yr	0.87	0.94	0.70	0.75	1.03	5Yr	0.85	0.85	0.84	0.78
2yr	0.24	(0.03)	0.15	0.12	0.15	7yr	1.21	1.20	0.98	1.04	1.35	7Yr	1.19	1.22	1.21	1.14
3yr	0.45	(0.03)	0.30	0.17	0.20	10yr	1.49	1.42	1.37	1.46	1.80	10Yr	1.48	1.53	1.53	1.46
5yr	0.87	(0.05)	0.79	0.36	0.30	15yr	1.77	1.62	1.62	1.73	2.25	August TBA MBS				
7yr	1.21	(0.08)	1.25	0.65	0.50	20yr	2.06	1.71	1.83	1.95	2.53	Cpn	15Yr -Yld/AL	4.0y	30Yr -Yld/AL	
10yr	1.44	(0.08)	1.59	0.92	0.67	25yr	2.34	1.73	1.96	2.09	2.58	2.00	1.15	4.0y	1.80	
30yr	2.05	(0.10)	2.27	1.65	1.43	30yr		1.74	2.09	2.22	2.63	2.50	1.02	3.2y		
												3.00	1.01	2.8y	1.70	3.8y
												3.50	0.56	2.5y	1.78	3.6y
												4.00			1.82	3.5y
												4.50			2.10	3.7y

* 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	0.05	--	0.01	0.07	--
1 Month LIBOR	0.10	0.01	0.09	0.14	0.17
3 Month LIBOR	0.14	(0.00)	0.13	0.24	0.30
6 Month LIBOR	0.16	(0.00)	0.17	0.26	0.38
1 Year LIBOR	0.24	(0.00)	0.25	0.34	0.53
6 Month CD	0.23	0.13	0.15	0.24	0.33
1 Year CMT	0.09	0.01	0.04	0.10	0.16
REPO O/N	0.07	0.01	-0.02	0.12	0.13
REPO 1Wk	0.11	(0.01)	0.06	0.10	0.08
CoF Federal	0.806	--	0.823	0.958	1.224
11th D. CoF (May)	0.306	--	0.343	0.466	0.755

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.34	0.26
6mo	0.22	0.33	0.27
1yr	0.26	0.27	0.29
2yr	0.44	0.62	0.47
3yr	0.65	0.85	0.69
4yr	0.86	1.07	0.90
5yr	1.06	1.28	1.10
7yr	1.40	1.65	1.44
10yr	1.69	1.96	1.73
5yr Am	0.74		0.85
10yr Am	1.30		1.38

Fed Fund Futures	
Maturity	Rate
Jul-21	0.097
Aug-21	0.095
Sep-21	0.095
Oct-21	0.095
Nov-21	0.090
Dec-21	0.090
Jan-22	0.090
Jan-22	0.090
Mar-22	0.105
Apr-22	0.115
May-22	0.120

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
6/28	Dallas Fed Manf. Activity	Jun	32.5	31.1	34.9	--
6/29	S&P CoreLogic CS 20-City YoY NSA	Apr	14.7%	14.9%	13.3%	13.4%
6/29	S&P CoreLogic CS US HPI YoY NSA	Apr	--	14.6%	13.2%	13.3%
6/29	Conf. Board Consumer Confidence	Jun	119.0	127.3	117.2	120.0
6/29	Conf. Board Present Situation	Jun	--	157.7	144.3	148.7
6/29	Conf. Board Expectations	Jun	--	107.0	99.1	100.9
6/30	MBA Mortgage Applications	6/25	--	-6.9%	2.1%	--
6/30	ADP Employment Change	Jun	600k	692k	978k	886k
6/30	MNI Chicago PMI	Jun	70.0	66.1	75.2	--
6/30	Pending Home Sales MoM	May	-1.0%	8.0%	-4.4%	--
7/1	Challenger Job Cuts YoY	Jun	--	-88.0%	-93.8%	--
7/1	Initial Jobless Claims	6/26	388k	364k	411k	415k
7/1	Continuing Claims	6/19	3340k	3469k	3390k	3413k
7/1	Markit US Manufacturing PMI	Jun F	62.6	62.1	62.6	--
7/1	Construction Spending MoM	May	0.4%	-0.3%	0.2%	0.1%
7/1	ISM Manufacturing	Jun	60.9	60.6	61.2	--
7/1	ISM Prices Paid	Jun	87.0	92.1	88.0	--
7/1	ISM New Orders	Jun	65.0	66.0	67.0	--
7/1	ISM Employment	Jun	--	49.9	50.9	--
7/1	8W High Yield Rate	7/1	--	0.05%	0.05%	--
7/1	8W Bid/Cover Ratio	7/1	--	4.46	3.60	--
7/1	8W Direct Accepted %	7/1	--	16.8%	4.4%	--
7/1	8W Indirect Accepted %	7/1	--	48.6%	56.2%	--
7/1	Wards Total Vehicle Sales	Jun	16.50m	15.36m	16.99m	--
7/2	Change in Nonfarm Payrolls	Jun	720k	850k	559k	583k
7/2	Two-Month Payroll Net Revision	Jun	--	15k	--	--
7/2	Change in Private Payrolls	Jun	615k	662k	492k	516k
7/2	Change in Manufact. Payrolls	Jun	25k	15k	23k	39k
7/2	Unemployment Rate	Jun	5.6%	5.9%	5.8%	--
7/2	Average Hourly Earnings MoM	Jun	0.3%	0.3%	0.5%	0.4%
7/2	Average Hourly Earnings YoY	Jun	3.6%	3.6%	2.0%	1.9%
7/2	Average Weekly Hours All Employees	Jun	34.9	34.7	34.9	34.8
7/2	Labor Force Participation Rate	Jun	61.7%	61.6%	61.6%	--
7/2	Underemployment Rate	Jun	--	9.8%	10.2%	--
7/2	Trade Balance	May	-\$71.3b	-\$71.2b	-\$68.9b	-\$69.1b
7/2	Factory Orders	May	1.6%	1.7%	-0.6%	-0.1%
7/2	Factory Orders Ex Trans	May	--	0.7%	0.5%	1.0%
7/2	Durable Goods Orders	May F	2.3%	2.3%	2.3%	--
7/2	Durables Ex Transportation	May F	0.3%	0.3%	0.3%	--
7/2	Cap Goods Orders Nondef Ex Air	May F	-0.1%	0.1%	-0.1%	--
7/2	Cap Goods Ship Nondef Ex Air	May F	--	1.1%	0.9%	--
7/6	Markit US Services PMI	Jun F	64.8	--	64.8	--
7/6	Markit US Composite PMI	Jun F	--	--	63.9	--
7/6	ISM Services Index	Jun	63.5	--	64.0	--
7/7	JOLTS Job Openings	May	9388k	--	9286k	--
7/7	FOMC Meeting Minutes	6/16	--	--	--	--
7/8	Consumer Credit	May	\$18.250b	--	\$18.612b	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.7	26.7	28.2	31.0	28.3	25.4
FH/FN 15y	11.9	35.1	42.4	47.4	35.5	23.9
GN 15y	26.0	20.7	20.6	19.4	21.4	19.4
FH/FN 20y	54.9	31.8	34.7	33.8	33.0	25.4
FH/FN 30y	7.1	23.9	54.2	56.9	57.9	55.1
GN 30y	9.0	22.0	42.4	50.6	54.9	31.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.5	18.9	19.4	20.4	21.8	20.3
FH/FN 15y	15.2	18.7	22.4	26.4	24.1	21.2
GN 15y	14.5	14.7	14.8	14.2	13.4	13.1
FH/FN 20y	14.0	17.0	16.9	17.0	17.2	16.7
FH/FN 30y	11.4	15.3	23.3	24.3	26.1	23.9
GN 30y	9.7	12.6	16.5	18.2	18.7	13.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.29	0.54	109.56	103.13	107.50
Euro	1.18	(0.01)	1.22	1.22	1.12
Dollar Index	92.44	0.59	89.91	89.94	97.32
Major Stock Indices					
Dow Jones	34,678	244	34,600	30,606	25,827
S&P 500	4,333.4	52.7	4,208.1	3,756.1	3,130.0
NASDAQ	14,567.6	207	13,756.3	12,888.3	10,207.6
Commodities					
Gold	1,783.0	6.4	1,907.5	1,895.1	1,790.0
Crude Oil	75.00	0.95	68.83	48.52	40.65
Natural Gas	3.66	0.16	3.08	2.54	1.73
Wheat	645.5	8.5	687.5	640.5	490.0
Corn	698.5	62.0	675.0	484.0	342.5

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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