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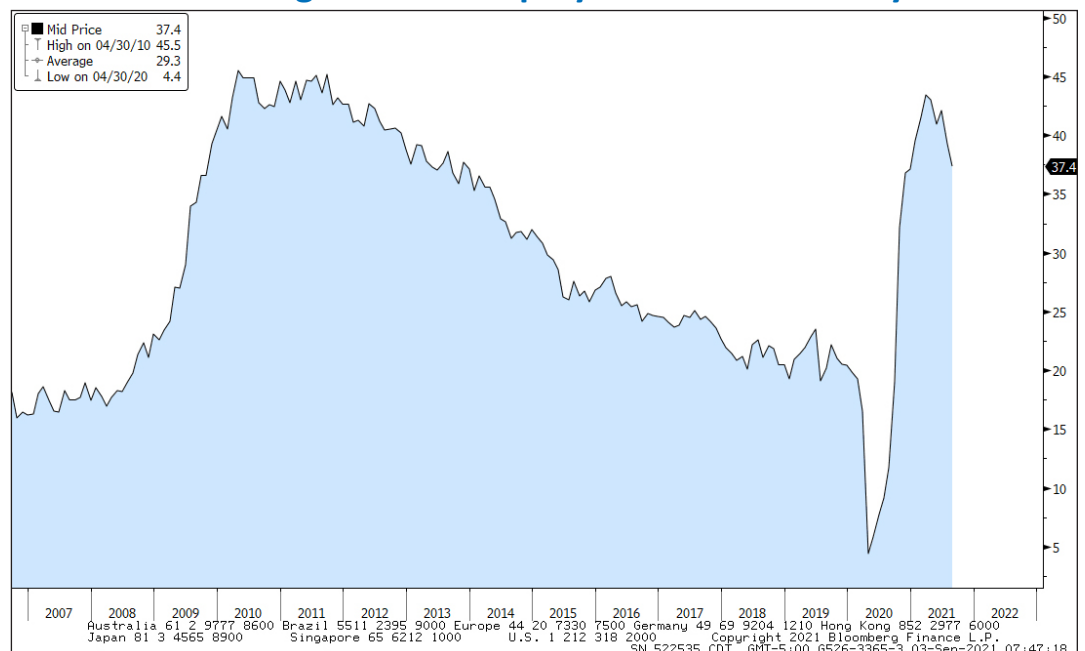
The first week of September brought relief to long-suffering college football fans along with a slew of economic data that raises questions about the pace and strength of the US economic recovery. The recent data stream included a disappointment from the Dallas Fed's manufacturing index which came at 9% versus 23% estimated, and down sharply from 27.3 the prior month. We also saw another ugly consumer confidence survey, this time from the Conference Board which clocked 113.8%, a drop of over 15 points. The ISM manufacturing index ticked up slightly to 59.9, but that's still far below the 64.7% high last March. Numbers for factory orders, durable goods and capital expenditures all came in close to estimates, but that certainly cannot be said about the non-farm payrolls employment data released this morning.

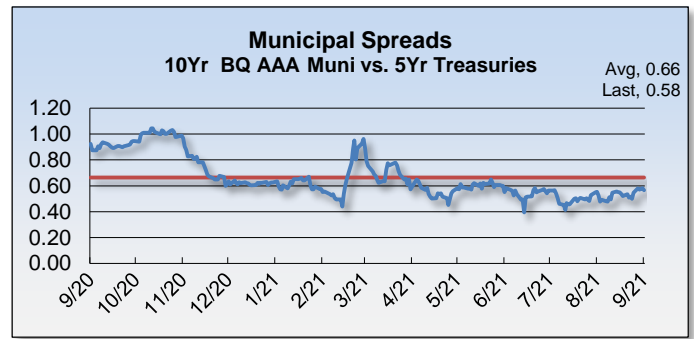
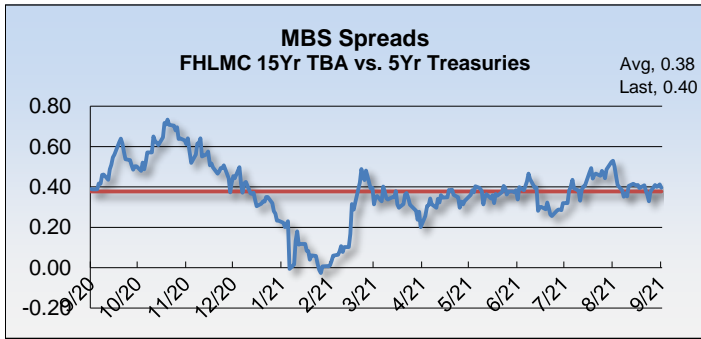
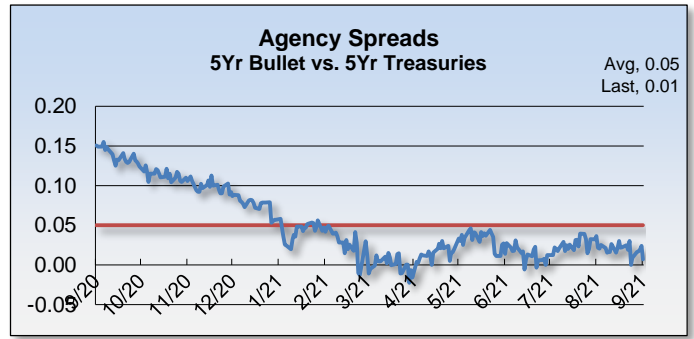
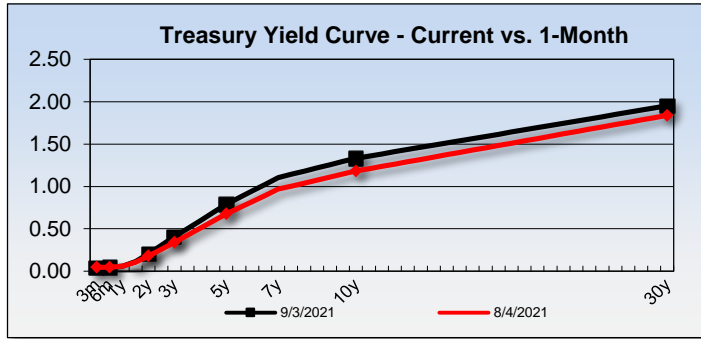
The labor department tells us that job creation for August was a paltry (by comparison) 235k versus a consensus forecast of 733k and the prior month's revised gain of over 1mm. Moreover, the participation rate remained unchanged at 61.7% and hours worked showed no improvement for the month. There was noteworthy weakness in the services sectors such as retail, leisure and hospitality. That is almost certainly

an effect of the rising number of COVID-19 cases tied to the Delta variant which has slowed the return to work for employees in those sectors. Importantly, there are large and growing disconnects between available jobs and available (and qualified) workers to fill those openings. This is not just due to COVID knock-on effects, but also caused in part by the challenge of skills mismatch. The longer people are out of work, the more likely they are to lose their ability to compete in a labor market where technology is quickly changing how work gets done. Fully 37% of unemployed persons have been out of work for more than half a year. These mismatch dynamics are part of the reason that average hourly earnings popped by 4.3% YOY, well above the 4% estimate, as employers pay up to find qualified workers. One bright spot in the report was the so-called "underemployment rate" (those working part-time but wanting full-time) which has steadily fallen from its 22.9% high to just 8.8% today. And the headline unemployment rate dropped two ticks to 5.2%, the lowest level since COVID first hit.

As for Fed policy and market behavior, we were reminded by Fed Chairman Powell at Jackson Hole last week that there is an important distinction between reducing or "tapering" the pace of Quantitative Ease asset purchases and actually raising the Fed Funds rate. That distinction, along with sluggish growth data, would argue for a steepening of the yield curve which is indeed what we are seeing as the week comes to an end. There may be an argument that the urgency of tapering is lessened, but it's a fairly weak case. If for no other reason, that's because the distortion effect on financial markets needs to be removed and a steady chorus of FOMC officials has said as much. For now, the bond market seems content with a somewhat steeper curve, and an eye toward the next batch of numbers which include the JOLTS job openings report and wholesale inflation data next week.

US Long-Term Unemployment: 2005 - 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)	0.04	0.04	0.10	2yr	0.23	0.30	0.15	0.16	0.28	2Yr	0.08	0.08	0.08	-
6mo	0.05	(0.00)	0.05	0.06	0.11	3yr	0.40	0.52	0.24	0.25	0.48	3Yr	0.28	0.28	0.20	0.28
1yr	0.06	(0.00)	0.06	0.08	0.12	5yr	0.81	0.87	0.57	0.61	0.88	5Yr	0.74	0.74	0.73	0.67
2yr	0.20	(0.01)	0.17	0.14	0.13	7yr	1.16	1.11	0.92	0.98	1.23	7Yr	1.06	1.08	1.07	1.00
3yr	0.41	(0.01)	0.32	0.29	0.17	10yr	1.45	1.34	1.30	1.39	1.61	10Yr	1.33	1.39	1.38	1.32
5yr	0.79	(0.01)	0.65	0.73	0.25	15yr	1.75	1.54	1.61	1.71	2.06	October TBA MBS				
7yr	1.10	0.01	0.94	1.15	0.44	20yr	2.04	1.64	1.86	1.98	2.35	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.33	0.02	1.17	1.48	0.64	25yr	2.34	1.66	2.00	2.12	2.40	2.00	1.04	3.9y	1.76	
30yr	1.95	0.03	1.84	2.28	1.36	30yr		1.67	2.13	2.26	2.45	2.50	0.90	3.1y		
												3.00	0.97	2.8y	1.66	4.0y
												3.50	0.64	2.5y	1.72	3.8y
												4.00			1.80	3.7y
												4.50			2.06	3.9y

* 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	--	0.05	0.04	--
1 Month LIBOR	0.08	(0.00)	0.09	0.11	0.16
3 Month LIBOR	0.12	(0.00)	0.12	0.18	0.25
6 Month LIBOR	0.15	(0.01)	0.15	0.20	0.30
1 Year LIBOR	0.23	(0.01)	0.24	0.28	0.43
6 Month CD	0.20	0.09	0.21	0.19	0.32
1 Year CMT	0.07	--	0.07	0.08	0.13
REPO O/N	0.06	0.01	0.06	0.08	0.11
REPO 1Wk	0.14	--	0.11	0.07	0.08
CoF Federal	0.780	--	0.785	0.911	1.107
11th D. CoF (Jul)	0.263	--	0.282	0.457	0.653

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.33	0.26
6mo	0.22	0.32	0.26
1yr	0.27	0.28	0.29
2yr	0.38	0.57	0.42
3yr	0.58	0.78	0.62
4yr	0.82	1.02	0.86
5yr	0.95	1.17	0.99
7yr	1.31	1.56	1.34
10yr	1.63	1.92	1.66
5yr Am	0.68		0.78
10yr Am	1.24		1.30

Fed Fund Futures	
Maturity	Rate
Sep-21	0.078
Oct-21	0.070
Nov-21	0.075
Dec-21	0.075
Jan-22	0.080
Feb-22	0.080
Mar-22	0.080
Apr-22	0.080
May-22	0.080
Jun-22	0.090
Jul-22	0.100

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
8/30	Pending Home Sales MoM	Jul	0.3%	-1.8%	-1.9%	-2.0%
8/30	Dallas Fed Manf. Activity	Aug	23.0	9.0	27.3	--
8/31	FHFA House Price Index MoM	Jun	1.9%	1.6%	1.7%	1.8%
8/31	House Price Purchase Index QoQ	2Q	--	4.9%	3.5%	3.9%
8/31	S&P CoreLogic CS 20-City MoM SA	Jun	1.80%	1.77%	1.81%	--
8/31	S&P CoreLogic CS 20-City YoY NSA	Jun	18.60%	19.08%	16.99%	17.14%
8/31	S&P CoreLogic CS US HPI YoY NSA	Jun	--	18.61%	16.61%	16.78%
8/31	MNI Chicago PMI	Aug	68.0	66.8	73.4	--
8/31	Conf. Board Consumer Confidence	Aug	123.0	113.8	129.1	125.1
8/31	Conf. Board Present Situation	Aug	--	147.3	160.3	157.2
8/31	Conf. Board Expectations	Aug	--	91.4	108.4	103.8
9/1	MBA Mortgage Applications	8/27	--	-2.4%	1.6%	--
9/1	ADP Employment Change	Aug	625k	374k	330k	326k
9/1	Markit US Manufacturing PMI	Aug F	61.2	61.1	61.2	--
9/1	Construction Spending MoM	Jul	0.2%	0.3%	0.1%	0.0%
9/1	ISM Manufacturing	Aug	58.5	59.9	59.5	--
9/1	ISM Prices Paid	Aug	84.0	79.4	85.7	--
9/1	ISM New Orders	Aug	61.0	66.7	64.9	--
9/1	ISM Employment	Aug	--	49.0	52.9	--
9/1	Wards Total Vehicle Sales	Aug	14.45m	13.06m	14.75m	--
9/2	Challenger Job Cuts YoY	Aug	--	-86.4%	-92.8%	--
9/2	Initial Jobless Claims	8/28	345k	340k	353k	354k
9/2	Continuing Claims	8/21	2808k	2748k	2862k	2908k
9/2	Nonfarm Productivity	2Q F	2.5%	2.1%	2.3%	--
9/2	Unit Labor Costs	2Q F	0.9%	1.3%	1.0%	--
9/2	Trade Balance	Jul	-\$70.9b	-\$70.1b	-\$75.7b	-\$73.2b
9/2	Factory Orders	Jul	0.3%	0.4%	1.5%	--
9/2	Factory Orders Ex Trans	Jul	0.5%	0.8%	1.4%	1.5%
9/2	Durable Goods Orders	Jul F	-0.1%	-0.1%	-0.1%	--
9/2	Durables Ex Transportation	Jul F	0.7%	0.8%	0.7%	--
9/2	Cap Goods Orders Nondef Ex Air	Jul F	0.0%	0.1%	0.0%	--
9/2	Cap Goods Ship Nondef Ex Air	Jul F	--	0.9%	1.0%	--
9/3	Change in Nonfarm Payrolls	Aug	733k	235k	943k	1053k
9/3	Two-Month Payroll Net Revision	Aug	--	134k	--	--
9/3	Change in Private Payrolls	Aug	610k	243k	703k	798k
9/3	Change in Manufact. Payrolls	Aug	25k	37k	27k	52k
9/3	Unemployment Rate	Aug	5.2%	5.2%	5.4%	--
9/3	Average Hourly Earnings MoM	Aug	0.3%	0.6%	0.4%	--
9/3	Average Hourly Earnings YoY	Aug	3.9%	4.3%	4.0%	4.1%
9/3	Average Weekly Hours All Employees	Aug	34.8	34.7	34.8	34.7
9/3	Labor Force Participation Rate	Aug	61.8%	61.7%	61.7%	--
9/3	Underemployment Rate	Aug	--	8.8%	9.2%	--
9/3	Markit US Services PMI	Aug F	55.2	55.1	55.2	--
9/3	Markit US Composite PMI	Aug F	--	55.4	55.4	--
9/3	ISM Services Index	Aug	61.6	61.7	64.1	--
9/8	JOLTS Job Openings	Jul	10000k	--	10073k	--
9/8	Consumer Credit	Jul	\$28.300b	--	\$37.690b	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.0	24.8	27.0	27.6	29.3	21.4
FH/FN 15y	11.8	29.8	35.8	42.1	33.2	23.0
GN 15y	15.2	20.4	19.9	19.5	19.9	18.7
FH/FN 20y	54.1	24.2	28.6	28.9	30.0	23.7
FH/FN 30y	2.1	15.7	46.1	49.0	50.7	50.1
GN 30y	4.7	20.3	30.8	54.0	55.6	30.6
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.8	18.9	19.4	20.5	21.6	20.2
FH/FN 15y	15.6	19.1	22.4	26.1	23.9	21.5
GN 15y	14.4	14.5	14.6	13.8	13.0	12.7
FH/FN 20y	14.6	17.3	16.8	17.0	17.0	16.6
FH/FN 30y	11.7	14.7	22.1	22.9	24.3	22.6
GN 30y	9.3	12.1	16.1	16.9	17.4	13.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.67	(0.17)	109.04	107.01	106.19
Euro	1.19	0.01	1.19	1.21	1.19
Dollar Index	92.14	(0.55)	92.08	90.95	92.74
Major Stock Indices					
Dow Jones	35,296	(160)	35,116	31,270	28,293
S&P 500	4,528.0	18.7	4,423.2	3,819.7	3,455.1
NASDAQ	15,317.7	188	14,761.3	12,997.8	11,458.1
Commodities					
Gold	1,821.4	4.8	1,810.1	1,715.8	1,930.2
Crude Oil	70.14	1.40	70.56	61.28	41.37
Natural Gas	4.70	0.33	4.03	2.82	2.49
Wheat	701.0	-17.5	724.5	652.0	543.3
Corn	517.0	-41.0	550.5	550.3	344.5

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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