

Baker Market Update: Week in Review

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As tired, old sayings go, “the more things change; the more they stay the same” has got to be among the tiredest and oldest. But, sayings don’t get a chance to become old and tired unless there’s a healthy dose of pragmatic empiricism behind them. While last year’s trade fears have been traded in for this year’s pandemic fears, the replacement of the source has left the variables unchanged. Fear and uncertainty, and the degree to which those two motivating states are present or absent continue to be the primary drivers of investor behavior and sometimes misbehavior.

The change in circumstance portrayed by evolving fundamentals has taken a back seat to headlines, anecdotal narratives, and rumors. That will change someday, but it won’t be today. Today, bonds are rallying and equities are cratering because fear is up. But, what about tomorrow? Well, tomorrow’s Saturday.

But, when this holiday-shortened week began on Tuesday, it began with some good news. The New York Fed told us that its Empire Manufacturing Index has shown no fear this month with an unexpected leap to 12.9 from 4.8. It wasn’t expected to change much, but, well, it did anyway. Go figure. At the same time, the National Association of Home Builders figured out that its Housing Market Index didn’t change much, nor was it expected to. Someday, this thing with the coronavirus virus will all be cleared up and the threat to human health will recede. Human nature, though, will likely remain unaffected and reality will continue to provide surprises for those intent upon creating those expectations.

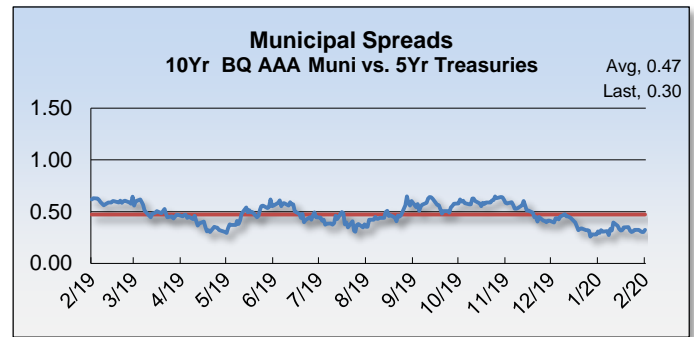
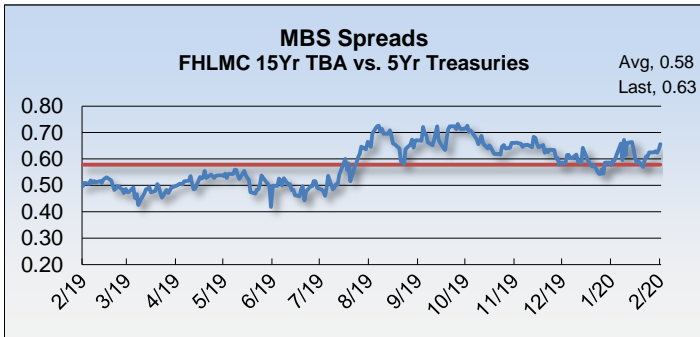
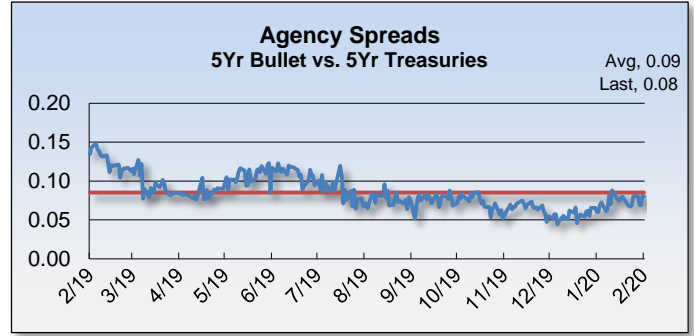
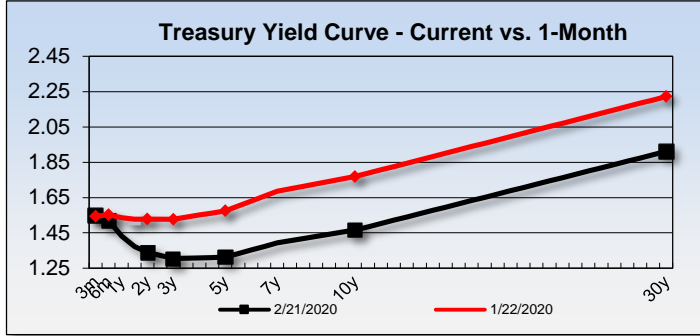
On Wednesday, we learned that the creation of new houses got nicked a little bit when the Census Bureau reported that Housing Starts for January fell by 3.6%. That would normally be bad news, but not when expectations were for a plunge of 11%. See how this works? The Bureau also reported that Building Permits were up 9.2% last month and that actually *is* good news. On that same day, some good news may have come to those looking for inflation when the BLS reported that the core Producer Price Index rose by a whole, half per-cent last month and the year-over-year rate soared to 1.7% from 1.1%. In technical terms, that’s a lot. But wait, that’s not all! The all-inclusive headline rate surged by the same half per-cent in January and that year-over-year rate got a boost to 2.1% from 1.3%. Yep, that’s a lot, too.

The Federal Reserve Bank of Philadelphia had a lot to say yesterday when it reported that its Business Outlook Survey Diffusion Index of General Conditions scooted up to almost 37 this month after only achieving a value of 17 in January. That measurement counts as a leading indicator and helps reinforce the upward move made by the Index that reflects it. That index, by the way, is the Conference Board’s Index of Leading Economic Indicators and its January rise of 0.8% helped market participants forget about December’s fall of 0.3%.

But, we can’t forget about the makers of monetary policy and they reminded us of their presence this week with the publication of the FOMC minutes from January’s meeting. Looks like things are okay for the time being but the fear and uncertainty caused by the coronavirus outbreak could cause problems down the road. But, until that happens the Committee members will just keep wringing, and washing, their hands.

A private Purchasing Managers’ report released this morning by Markit U.S. provided further reasons for hand wringing with the disclosure that its Manufacturing Index fell to 50.8 from 51.9 while the Services Index wafted into contractionary territory with a fall from 53.4 to 49.4. The whole Band-Aid got ripped off with the news that the Composite PMI took a deep dive to 49.6 from 53.3. Levels below “50” describe contraction. None of that, by the way, was expected to happen.

And for those expecting to get at least 1 ½% on a Ten-Year Treasury, well, today’s not the day. And since tomorrow is Saturday, that won’t be the day, either. But if 1.90% floats your boat, that *can* be had on the 30-year. Don’t be afraid to be afraid. 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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.55	(0.02)	1.54	1.97	2.45	2yr	1.39	1.36	1.18	1.25	1.50	2Yr	1.53	1.54	1.47	-
6mo	1.52	(0.03)	1.55	1.90	2.51	3yr	1.33	1.31	1.18	1.25	1.53	3Yr	1.58	1.60	1.50	1.40
1yr	1.43	(0.04)	1.53	1.78	2.54	5yr	1.38	1.29	1.19	1.27	1.60	5Yr	1.67	1.71	1.69	1.59
2yr	1.34	(0.09)	1.53	1.58	2.53	7yr	1.50	1.32	1.32	1.40	1.83	7Yr	1.77	1.81	1.80	1.74
3yr	1.31	(0.09)	1.53	1.50	2.52	10yr	1.71	1.39	1.60	1.70	2.12	10Yr	1.87	1.94	1.96	1.90
5yr	1.31	(0.10)	1.58	1.47	2.51	15yr	1.91	1.48	1.93	2.06	2.49	March TBA MBS				
7yr	1.39	(0.12)	1.69	1.54	2.60	20yr	2.10	1.52	2.20	2.34	2.69	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.47	(0.12)	1.78	1.59	2.69	25yr	2.30	1.54	2.33	2.48	2.74	2.00	1.98	5.2y		
30yr	1.91	(0.13)	2.24	2.07	3.05	30yr	2.30	1.54	2.46	2.62	2.78	2.50	2.11	5.1y		
												3.00	2.15	3.9y	2.41	4.4y
												3.50	1.97	3.1y	2.11	2.7y
												4.00			1.91	2.5y
												4.50			2.01	2.7y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	1.75	2.25	2.50
Primary Discount	2.25	--	2.25	2.75	3.00
2ndary Discount	2.75	--	2.75	3.25	3.50
Prime Rate	4.75	--	4.75	5.25	5.50
Sec. O.N. Finance	1.60	0.03	1.54	2.13	--
1 Month LIBOR	1.64	(0.01)	1.65	2.17	2.48
3 Month LIBOR	1.70	(0.01)	1.82	2.15	2.64
6 Month LIBOR	1.70	(0.03)	1.84	2.03	2.74
1 Year LIBOR	1.77	(0.04)	1.92	1.95	2.89
6 Month CD	1.69	(0.02)	1.80	1.93	2.67
1 Year CMT	1.46	(0.02)	1.56	1.72	2.54
REPO O/N	1.60	(0.01)	1.57	2.17	2.43
REPO 1Wk	1.61	0.02	1.59	2.15	2.44
CoF Federal	1.955	--	1.998	2.297	2.236
11th D. CoF (Dec)	1.036	--	1.035	1.141	1.056

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	1.74	1.85	1.86
6mo	1.71	1.83	1.83
1yr	1.68	1.69	1.78
2yr	1.58	1.75	1.70
3yr	1.56	1.74	1.68
4yr	1.56	1.75	1.69
5yr	1.57	1.77	1.68
7yr	1.74	1.97	1.79
10yr	1.92	2.18	1.97
5yr Am	1.58		1.77
10yr Am	1.77		1.97

Fed Fund Futures	
Maturity	Rate
Feb-20	1.585
Mar-20	1.570
Apr-20	1.560
May-20	1.495
Jun-20	1.440
Jul-20	1.400
Aug-20	1.330
Sep-20	1.290
Oct-20	1.235
Nov-20	1.205
Dec-20	1.155

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/18	Empire Manufacturing	Feb	5.0	12.9	4.8	--
2/18	NAHB Housing Market Index	Feb				
2/18	Net Long-term TIC Flows	Dec	--	\$85.6b	\$22.9b	\$27.1b
2/18	Total Net TIC Flows	Dec	--	\$78.2b	\$73.4b	\$77.3b
2/19	MBA Mortgage Applications	2/14	--	-6.4%	1.1%	--
2/19	Housing Starts	Jan	1428k	1567k	1608k	1626k
2/19	Building Permits	Jan	1450k	1551k	1416k	1420k
2/19	PPI Final Demand YoY	Jan	1.6%	2.1%	1.3%	--
2/19	PPI Ex Food and Energy YoY	Jan	1.3%	1.7%	1.1%	--
2/19	PPI Ex Food, Energy, Trade YoY	Jan	--	1.5%	1.5%	--
2/19	FOMC Meeting Minutes	1/29	--	--	--	--
2/20	Philadelphia Fed Business Outlook	Feb	11.0	36.7	17.0	--
2/20	Initial Jobless Claims	2/15	210k	210k	205k	206k
2/20	Continuing Claims	2/8	1717k	1726k	1698k	1701k
2/20	Leading Index	Jan	0.4%	0.8%	-0.3%	--
2/21	Markit US Manufacturing PMI	Feb P	51.5	50.8	51.9	--
2/21	Markit US Services PMI	Feb P	53.4	49.4	53.4	--
2/21	Markit US Composite PMI	Feb P	--	49.6	53.3	--
2/21	Existing Home Sales	Jan	5.44m	5.46m	5.54m	5.53m
2/24	Chicago Fed Nat Activity Index	Jan	-0.16	--	-0.35	--
2/24	Dallas Fed Manf. Activity	Feb	0.00	--	-0.20	--
2/25	House Price Purchase Index QoQ	4Q	--	--	1.1%	--
2/25	S&P CoreLogic CS US HPI YoY NSA	Dec	--	--	3.54%	--
2/25	S&P CoreLogic CS US HPI NSA Index	Dec	--	--	212.56	--
2/25	S&P CoreLogic CS 20-City YoY NSA	Dec	--	--	2.55%	--
2/25	S&P CoreLogic CS 20-City NSA Index	Dec	--	--	218.68	--
2/25	Conf. Board Consumer Confidence	Feb	132.1	--	131.6	--
2/25	Conf. Board Expectations	Feb	--	--	102.5	--
2/25	Conf. Board Present Situation	Feb	--	--	175.3	--
2/25	Richmond Fed Manufact. Index	Feb	13	--	20	--
2/26	New Home Sales	Jan	710k	--	694k	--
2/27	GDP Annualized QoQ	4Q S	2.2%	--	2.1%	--
2/27	Personal Consumption	4Q S	1.8%	--	1.8%	--
2/27	GDP Price Index	4Q S	1.4%	--	1.4%	--
2/27	Core PCE QoQ	4Q S	--	--	1.3%	--
2/27	Durable Goods Orders	Jan P	-1.5%	--	2.4%	--
2/27	Durables Ex Transportation	Jan P	0.2%	--	-0.1%	--
2/27	Cap Goods Orders Nondef Ex Air	Jan P	0.2%	--	-0.8%	--
2/27	Cap Goods Ship Nondef Ex Air	Jan P	0.1%	--	-0.3%	--
2/27	Kansas City Fed Manf. Activity	Feb	-1	--	-1	--
2/28	Advance Goods Trade Balance	Jan	-\$68.5b	--	-\$68.3b	--
2/28	Personal Income	Jan	0.3%	--	0.2%	--
2/28	Personal Spending	Jan	0.3%	--	0.3%	--
2/28	Real Personal Spending	Jan	0.2%	--	0.1%	--
2/28	PCE Deflator YoY	Jan	1.8%	--	1.6%	--
2/28	PCE Core Deflator YoY	Jan	1.7%	--	1.6%	--
2/28	MNI Chicago PMI	Feb	46.3	--	42.9	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.7	15.7	17.4	21.6	28.1	22.7
FH/FN 15y	5.9	14.3	25.3	36.6	15.9	16.3
GN 15y	6.4	12.7	13.6	13.2	13.5	13.2
FH/FN 20y		7.5	11.1	14.9	19.0	15.6
FH/FN 30y	1.7	4.7	13.6	37.2	44.4	47.3
GN 30y	6.3	9.2	15.3	18.9	15.5	16.2
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.6	14.6	15.2	26.3	16.5	15.2
FH/FN 15y	9.7	9.1	14.3	20.8	15.7	22.5
GN 15y	9.4	11.0	16.4	15.5	14.0	13.7
FH/FN 20y	0.3	10.6	13.2	19.6	20.9	17.6
FH/FN 30y	6.5	9.5	20.9	30.4	31.5	27.4
GN 30y	8.5	10.7	14.2	20.6	28.6	21.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.56	1.78	109.87	106.62	110.70
Euro	1.08	0.00	1.11	1.11	1.13
Dollar Index	99.42	0.30	97.53	98.30	96.61
Major Stock Indices					
Dow Jones	28,968	(455)	29,196	26,203	25,851
S&P 500	3,339.0	(34.9)	3,320.8	2,924.4	2,774.9
NASDAQ	9,627.0	(85)	9,370.8	8,020.2	7,459.7
Commodities					
Gold	1,641.1	66.0	1,557.9	1,504.6	1,323.5
Crude Oil	52.85	1.43	58.34	55.68	56.96
Natural Gas	1.90	0.07	1.90	2.17	2.70
Wheat	567.0	22.8	581.5	462.5	486.5
Corn	379.8	0.3	387.5	362.5	375.5

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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