

## Baker Market Update: Week in Review

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Almost daily, it seems, we're reminded of the fractures and fissures that exist among and between the various factions of our society. The Left versus the Right, the Haves versus the Have Nots, Capitalists versus the pseudo-Capitalists, and, when it comes to Congress, the dumb versus the dumber; just to name a few. And, we learned this week that even the central bank is not immune from rifts within itself.

At least part of the reason that Treasury yields rose this week was due to comments made by a couple of Federal Reserve Bank Presidents, namely Robert Kaplan of Dallas and Raphael Bostic of Atlanta, that the Fed's monthly purchases of \$120B worth of Treasuries and mortgage-backed securities might have to be reined in a bit this year. Similar sounding references came from Philly Fed President Patrick Harker and James Bullard from St. Louis. Yes, the prospect of the dreaded "taper" had raised its ugly head. That got the attention of the true heavy-hitters and it wasn't long before Governor Lael Brainard, Vice-Chairman Richard Clarida and the heaviest hitter of them all, Chairman Powell, threw some cold water on the prospect of tapering. Not gonna happen, was the paraphrased message delivered by those three at various speaking engagements this week. In a virtual panel discussion conducted by Princeton University yesterday, Mr. Powell said "Now is not the time to be talking about exit" as he referenced the prospect of reducing asset purchases. As for when that time might be, the Chairman said "We'll let the world know. We'll communicate very clearly to the public and we'll do so, by the way, well in advance of active consideration of beginning a gradual taper of asset purchases." So, there you have it.

There will also come a time, one supposes, when actual macro-economic performance measurements, undistorted by pandemic-induced governmental intervention, will once again determine the policy path chosen by policy-makers. Until that day, investors will continue to view underlying fundamentals as interesting tidbits of information with little influence over the direction of markets whose true fate is determined by the juggernaut of Federal spending-and-lending.

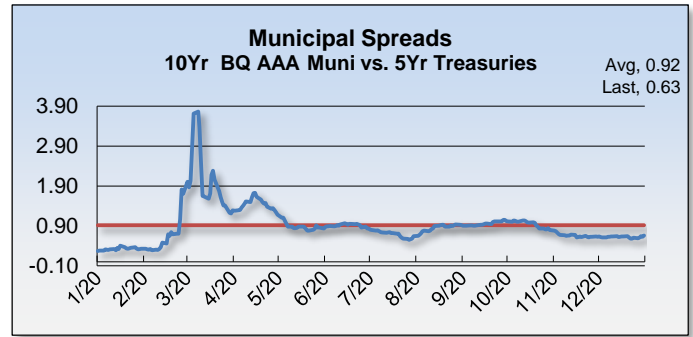
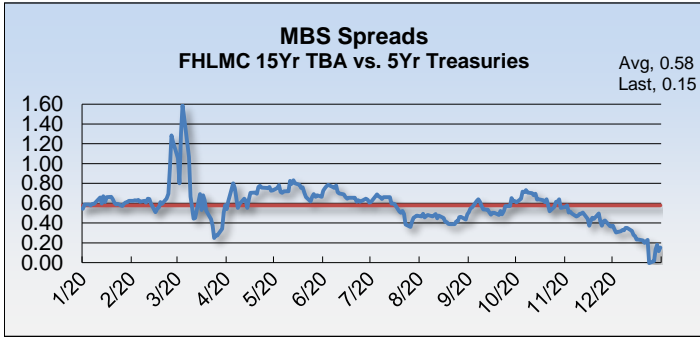
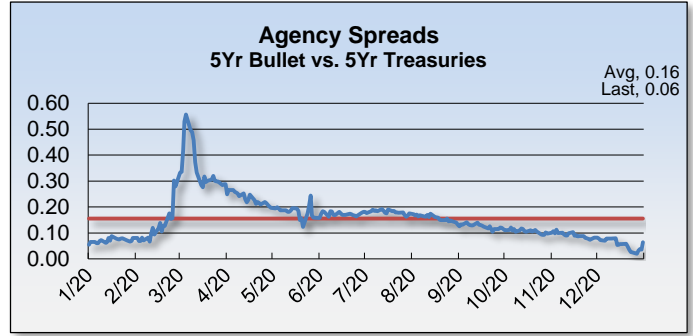
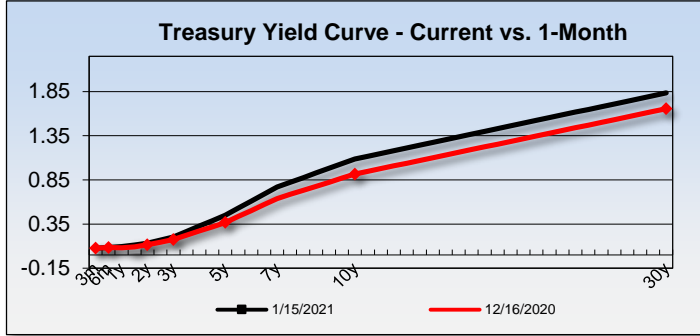
As such, this week contained lots of those interesting tidbits beginning with Tuesday's announcement by the National Federation of Independent Businesses that its Small Business Optimism Index fell, surprisingly, to 95.9 in December from 101.4 when it was only "supposed" to fall to 100.2. The obvious question is, why was that a surprise? That jolt to optimism was followed by the JOLTS report from the Bureau of Labor Statistics telling us that the number of new job openings fell to 6.45M in November from 6.63M the month before. This was a surprise to analysts expecting 6.53M. But, should that have really been surprising? A more pleasant surprise could be found in Tuesday's auction of \$38B Ten-Year Treasury notes. The Treasury has been selling a lot of debt and will sell a lot more and that has caused concern among some that rising supply could crowd out other issuers of debt while also sparking a rise in yields. Tuesday's auction went well and investor demand was robust. With an accepted high-yield of 1.16% among competitive tenders, the bid/cover ratio of 2.47 was greater than the 2.4 average ratio of the preceding four auctions. Today, the Ten-Year is yielding around 1.09%.

On Wednesday, we learned from the Mortgage Bankers Association that new Mortgage Applications rose 16.7% during the week ending January 8th and that was a big jump from the prior week's 1.7% boost. The touchy topic of inflation was also in Wednesday's headlines when the BLS reported that its Consumer Price Index rose by the expected 0.4% last month with "core" CPI rising by the expected 0.1%. Year-over-year, headline CPI rose two-tenths to 1.4% with core CPI staying unchanged at 1.6%. This morning, the BLS reported that "wholesale" inflation as measured by the Producer Price Index rose 0.3% last month while "core" PPI rose 0.1%. Year-over-year, headline PPI remained unchanged at 0.8% and "core" PPI fell to 1.2% from 1.4%. Evaluating inflation measurements is always tricky, but it seems that the pockets of inflation now being seen have more to do with supply disruptions than demand increases. Many commodities have gotten a little pricey of late for just that very reason and the reality of our massive output gap is not a supporting argument for those arguing that rapidly rising inflation is soon headed our way. We'll see.

As always, the behavior of consumers is a huge variable that hugely affects everything. Every single thing. Our economy is described by the interactions of economic actors and every single one of those actors is a consumer of something. Unfortunately, the Census Bureau reported this morning that consumption as measured by Retail Sales plunged another 0.7% last month after falling by a negatively revised 1.4% the month before. Surprised analysts were expecting December's Sales to be flat. What's more surprising is that these outcomes are actually so surprising to so many. The surprises didn't stop there. Without Autos, Retail Sales plunged 1.4% against an expectation of a mere 0.2% slip while November's plunge of 0.9% was revised to a plunge of 1.3%. Core Retail Sales, without food, gas stations, autos, and building materials, crawled by 1.9% and that, unsurprisingly, surprised all the analysts looking for a 0.1% rise. But, it gets worse; November's slide of 0.5% got revised to a bigger slide of 1.1%. Y'all need to get out more.

We were all reminded yesterday of why many people aren't getting out more when the BLS reported that 965k Initial Jobless Claims were filed for the week ending January 9th and that was up big from the prior week's 784k. Surprise! Forecasters were only expecting 789k. Continuing Claims, which had been enjoying steady declines, suffered a reversal for the week ending January 2nd, with a rise to 5.27M from 5.07M. And, yes, this surprised the experts calling for a drop to 5M. Also yesterday, we got some surprising news about the prices of Imports and Exports. The Census Bureau reported that its Import Price Index rose by 0.9% last month with the year-over-year deflation rate falling to minus 0.3% from minus 1%. For Export Prices, that Index almost doubled expectations with a December rise of 1.1% as the year-over-year rate left a deflationary minus 1.1% that became a positive 0.2% growth rate. When one stops to think about recently rising commodity prices, these results aren't all that surprising. Also out today, the New York Fed announced that its Empire Manufacturing Index fell to 3.5 this month from December's 4.9 in the face of forecasters looking for a rise to 6. What were they thinking?! But better news came with a report that Industrial Production rose by a greater-than-expected 1.6% last month while Capacity Utilization rose to 74.5% from 73.4%. Let's close that output gap!

But, that will be hard to do in the face of darkening consumer outlooks. Earlier today, the University of Michigan in its preliminary report for January, announced that its Index of Consumer Sentiment fell to 79.2 from 80.7. The sub-index of Consumer Expectations dropped to 73.8 from 74.6. The only surprises there, may be that these measures didn't fall even further. As the incoming administration's just-unveiled \$1.9T covid-relief plan is digested and processed by investors who are also consumers and by consumers who are also investors, it might take a little longer before America becomes undivided. 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	0.08	(0.00)	0.07	0.13	1.56	2yr	0.17	0.21	0.21	0.22	0.22	2Yr	0.10	0.10	0.10	-
6mo	0.09	(0.00)	0.08	0.14	1.57	3yr	0.25	0.27	0.25	0.27	0.37	3Yr	0.17	0.17	0.10	0.17
1yr	0.10	(0.00)	0.09	0.15	1.54	5yr	0.50	0.53	0.38	0.40	0.66	5Yr	0.52	0.51	0.49	0.45
2yr	0.13	(0.00)	0.12	0.16	1.55	7yr	0.76	0.80	0.67	0.72	1.08	7Yr	0.77	0.86	0.86	0.81
3yr	0.20	(0.02)	0.17	0.18	1.57	10yr	1.26	1.10	1.11	1.18	1.54	10Yr	1.08	1.25	1.26	1.21
5yr	0.45	(0.03)	0.37	0.29	1.60	15yr	1.76	1.38	1.51	1.61	2.07	February TBA MBS				
7yr	0.77	(0.04)	0.64	0.47	1.71	20yr	2.27	1.51	1.79	1.91	2.61	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.09	(0.03)	0.91	0.63	1.78	25yr	2.78	1.57	1.93	2.05	2.66	2.00	0.83	3.8y	1.38	
30yr	1.84	(0.04)	1.65	1.33	2.24	30yr		1.59	2.06	2.19	2.71	2.50	0.79	2.9y		
												3.00	1.08	2.8y	0.81	2.5y
												3.50	0.72	2.4y	0.44	2.1y
												4.00			0.73	2.3y
												4.50			0.72	2.4y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	1.75
Primary Discount	0.25	--	0.25	0.25	2.25
2ndary Discount	0.75	--	0.75	0.75	2.75
Prime Rate	3.25	--	3.25	3.25	4.75
Sec. O.N. Finance	0.08	(0.02)	0.08	0.11	--
1 Month LIBOR	0.13	(0.00)	0.15	0.18	1.67
3 Month LIBOR	0.23	0.00	0.22	0.27	1.84
6 Month LIBOR	0.25	--	0.25	0.34	1.86
1 Year LIBOR	0.33	(0.00)	0.33	0.48	1.96
6 Month CD	0.20	0.02	0.29	0.39	1.82
1 Year CMT	0.10	(0.01)	0.10	0.17	1.53
REPO O/N	0.10	(0.02)	0.10	0.15	1.55
REPO 1Wk	0.09	--	0.09	0.13	1.55
CoF Federal	0.958	--	1.003	1.224	1.998
11th D. CoF (Nov)	0.466	--	0.503	0.755	1.035

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.37	0.31
6mo	0.26	0.36	0.31
1yr	0.30	0.31	0.33
2yr	0.35	0.51	0.37
3yr	0.41	0.60	0.45
4yr	0.54	0.75	0.58
5yr	0.68	0.90	0.73
7yr	1.01	1.26	1.07
10yr	1.39	1.66	1.45
5yr Am	0.48		0.58
10yr Am	0.98		1.07

Fed Fund Futures	
Maturity	Rate
Jan-21	0.087
Feb-21	0.080
Mar-21	0.075
Apr-21	0.070
May-21	0.070
Jun-21	0.070
Jul-21	0.070
Aug-21	0.070
Sep-21	0.070
Oct-21	0.070
Nov-21	0.070

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/12	NFIB Small Business Optimism	Dec	100.2	95.9	101.4	--
1/12	JOLTS Job Openings	Nov	6450	6527	6652	6632
1/13	MBA Mortgage Applications	1/8	--	16.7%	1.7%	--
1/13	CPI MoM	Dec	0.4%	0.4%	0.2%	--
1/13	CPI Ex Food and Energy MoM	Dec	0.1%	0.1%	0.2%	--
1/13	CPI YoY	Dec	1.3%	1.4%	1.2%	--
1/13	CPI Ex Food and Energy YoY	Dec	1.6%	1.6%	1.6%	--
1/13	CPI Index NSA	Dec	260.40	260.47	260.23	--
1/13	CPI Core Index SA	Dec	270.24	270.12	269.89	--
1/13	Real Avg Hourly Earning YoY	Dec	--	3.7%	3.2%	--
1/13	Real Avg Weekly Earnings YoY	Dec	--	4.9%	4.7%	--
1/13	Monthly Budget Statement	Dec	-\$143.5b	-\$143.6b	-\$13.3b	--
1/14	Initial Jobless Claims	1/9	789k	965k	787k	784k
1/14	Continuing Claims	1/2	5000k	5271k	5072k	--
1/14	Import Price Index MoM	Dec	0.7%	0.9%	0.4%	0.2%
1/14	Import Price Index ex Petroleum MoM	Dec	0.1%	0.4%	0.0%	--
1/14	Import Price Index YoY	Dec	-0.8%	-0.3%	-1.0%	--
1/14	Export Price Index MoM	Dec	0.6%	1.1%	0.6%	0.7%
1/14	Export Price Index YoY	Dec	--	0.2%	-1.1%	--
1/14	Bloomberg Consumer Comfort	1/10	--	43.2	44.4	--
1/15	PPI Final Demand MoM	Dec	0.4%	0.3%	0.1%	--
1/15	PPI Ex Food and Energy MoM	Dec	0.2%	0.1%	0.1%	--
1/15	PPI Ex Food, Energy, Trade MoM	Dec	0.2%	0.4%	0.1%	--
1/15	PPI Final Demand YoY	Dec	0.8%	0.8%	0.8%	--
1/15	PPI Ex Food and Energy YoY	Dec	1.3%	1.2%	1.4%	--
1/15	PPI Ex Food, Energy, Trade YoY	Dec	0.9%	1.1%	0.9%	--
1/15	Empire Manufacturing	Jan	6.0	3.5	4.9	--
1/15	Retail Sales Advance MoM	Dec	0.0%	-0.7%	-1.1%	-1.4%
1/15	Retail Sales Ex Auto MoM	Dec	-0.2%	-1.4%	-0.9%	-1.3%
1/15	Retail Sales Ex Auto and Gas	Dec	-0.3%	-2.1%	-0.8%	-1.3%
1/15	Retail Sales Control Group	Dec	0.1%	-1.9%	-0.5%	-1.1%
1/15	Industrial Production MoM	Dec	0.5%	1.6%	0.4%	0.5%
1/15	Capacity Utilization	Dec	73.6%	74.5%	73.3%	73.4%
1/15	Manufacturing (SIC) Production	Dec	0.5%	0.9%	0.8%	--
1/15	Business Inventories	Nov	0.5%	0.5%	0.7%	0.8%
1/15	U. of Mich. Sentiment	Jan P	79.5	79.2	80.7	--
1/15	U. of Mich. Current Conditions	Jan P	87.0	87.7	90.0	--
1/15	U. of Mich. 1 Yr Inflation	Jan P	2.5%	3.0%	2.5%	--
1/19	Total Net TIC Flows	Nov	--	--	-\$10.4b	--
1/19	Net Long-term TIC Flows	Nov	--	--	\$51.9b	--
1/20	NAHB Housing Market Index	Jan	85	--	86	--
1/21	Building Permits	Dec	1600k	--	1639k	1635k
1/21	Philadelphia Fed Business Outlook	Jan	12.0	--	11.1	9.1
1/21	Housing Starts	Dec	1564k	--	1547k	--
1/21	Bloomberg Economic Expectations	Jan	--	--	38.5	--
1/22	Markit US Manufacturing PMI	Jan P	56.5	--	57.1	--
1/22	Markit US Services PMI	Jan P	53.6	--	54.8	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.4	24.8	27.3	29.5	30.4	16.0
FH/FN 15y	16.9	35.0	43.5	47.9	22.3	22.1
GN 15y	25.1	20.4	19.8	20.2	17.8	19.0
FH/FN 20y	53.5	34.1	35.1	33.7	32.2	25.4
FH/FN 30y	8.2	47.0	58.5	58.7	59.5	53.3
GN 30y	13.4	20.3	42.0	51.6	41.9	31.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.3	21.1	19.1	22.8	18.3	15.8
FH/FN 15y	16.3	22.6	24.0	34.4	19.3	21.9
GN 15y	23.7	16.1	16.0	14.6	13.5	13.1
FH/FN 20y	14.3	20.6	22.4	30.1	20.3	17.8
FH/FN 30y	13.7	22.2	36.7	37.9	36.4	32.9
GN 30y	11.9	19.9	27.6	25.0	29.8	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	103.80	(0.14)	103.67	106.94	109.90
Euro	1.21	(0.01)	1.22	1.14	1.12
Dollar Index	90.72	0.62	90.47	96.08	97.23
<b>Major Stock Indices</b>					
Dow Jones	30,865	(233)	30,199	26,870	29,030
S&P 500	3,762.6	(62.1)	3,694.6	3,226.6	3,289.3
NASDAQ	13,044.7	(157)	12,595.1	10,550.5	9,258.7
<b>Commodities</b>					
Gold	1,823.8	(11.6)	1,852.3	1,813.8	1,554.0
Crude Oil	52.06	(0.18)	47.62	41.20	57.81
Natural Gas	2.72	0.01	2.68	1.78	2.12
Wheat	667.3	28.5	599.8	550.8	573.3
Corn	532.5	36.3	424.8	326.3	387.5

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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