

Baker Market Update: Week in Preview

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Lady Gaga's dogs have made it back home, but that hasn't been able to prevent Treasury prices from resuming their slide this morning. Traders are expecting another volatile week after the wild ride just endured. For some, perhaps many, the prospect of a sooner-than-expected adjustment to monetary policy has become a source of anxiety fueled by the prospect of sooner-than-expected inflation. Despite repeated and emphatic assurances by a variety of Fed officials that no letting up of any accommodation in any of its many forms is being contemplated, it appears that Fed uncertainty might be back in play. Does that mean fundamental measures of economic performance will start to have the influence they once did in determining market direction? Well, let's not get crazy. And even though it's been a little while since he said it, Mr. Powell's last comment about the policy rate was that the FOMC was not even thinking about, thinking about, raising it. Has anyone heard anything different?

Everyone is waiting to hear from the Bureau of Labor Statistics this week when it comes out with the latest Employment Report, but that's not until Friday. A little later this morning, Markit U.S. will report its Manufacturing PMI for February and if that comes in at the expected level of 58.5, that will leave it unchanged from the month before. Also today, the Census Bureau is expected to report that Construction Spending rose another 0.7% in January after December's boost of 1%. Have you looked at the price of lumber lately? Then, the Institute of Supply Management will be reporting that its Manufacturing PMI might have slipped slightly to 58.6 last month from January's 58.7.

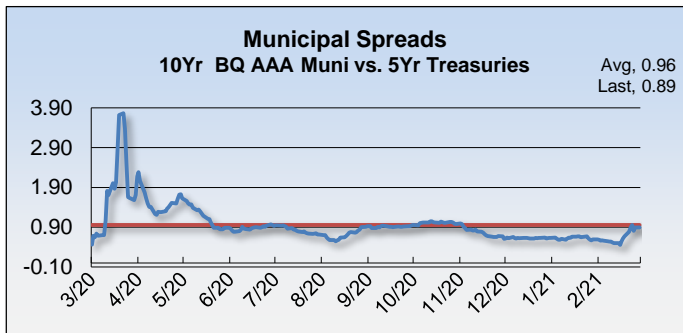
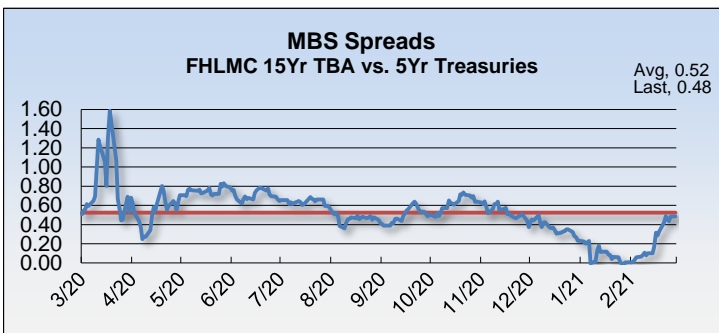
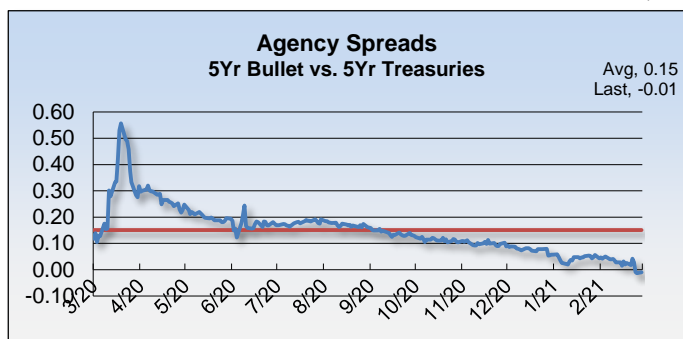
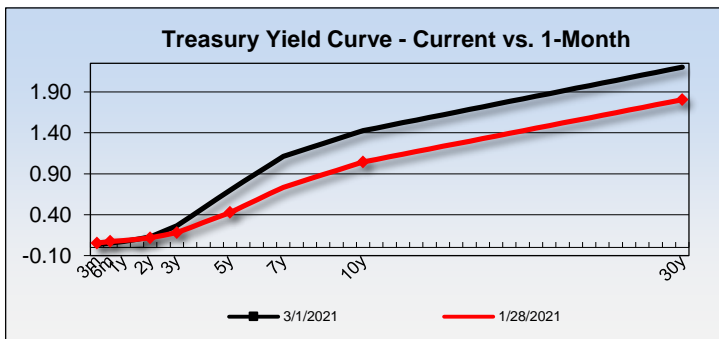
The only item on tomorrow's calendar is a report from Wards Automotive Group that is expected to tell us that the annualized pace of car sales fell in February to 16.2M from 16.63M. Last month's report was an upside surprise and over the past year, the average monthly annualized pace of sales has been just under 14.5M.

Wednesday brings us an early look at the private jobs picture when ADP releases its Employment Change Report for February. Analysts' estimates suggest an additional 180k new jobs were added last month after a gain of 174k in January. Then we'll get a look at Markit's PMI for Services and no change to January's 58.9 is expected. Nor is much change expected in ISM's PMI for Services and January's 58.7 will likely be the same for February. Just a reminder, these PMI's are diffusion indices with a value of 50 being the demarcation between expansion and contraction. The higher the better. The Fed's Beige Book compilation of regional conditions also comes out on Wednesday and surveys suggest it will still be beige.

Thursday looks to be a big data day and the BLS will get things started with its weekly Jobless Claims report. For the week ending February 27th, Initial Claims are expected to come in at 755k and that would be up slightly from the prior week's 730k. Continuing Claims for the week ending February 20th are expected to fall to 4.3M from 4.42M. Don't be surprised if these totals get revised more than a little bit since the winter storm in Texas created some reporting issues along with no heat, no lights, and no water. Texans are tough. Also from the BLS, we'll be getting Q4 averages for Unit Labor Costs and Non-Farm Productivity. Both of these variables factor hugely into what our economy's inflation landscape looks like and both have been seriously skewed by a locked-down economy and massive governmental relief efforts. Nevertheless, the BLS is expected to tell us that in last year's fourth quarter, Non-Farm Productivity fell 4.7% after falling 4.8% the quarter before. For the same period, Unit Labor Costs rose 6.7% after Q3's 6.8% rise. Those measures would indeed be alarming for those fearful of inflation were it not for the damage done and the damage yet to be done by the pandemic and the policies it has promulgated. So, don't be too alarmed, yet, by these numbers and others like it. Yet.

From the Census Bureau, investors can also expect to hear on Thursday that last week's preliminary reports for Durable Goods Orders, Factory Orders, and Capital Goods Orders will be finalized and unchanged. In January, Durable Goods were up 3.4%, Factory Orders up 1.8%, and core Capital Goods rose 0.5%.

Friday is jobs day and early surveys suggest that the BLS will tell us that Non-Farm Payrolls grew by 180k in February and the Unemployment Rate rose one-tenth to 6.4%. Average Hourly Earnings are expected to show an outsized growth of 5.3% year-over-year after January's outsized year-over-year growth of 5.4%. For the month, Average Hourly Earnings should notch a 0.2% gain. The most crucial stat these days may be the Labor Force Participation Rate and it's expected to remain unchanged at 61.4%, but we need better than "unchanged." At the end of last February, the LFPR was 63.3%. The Fed will then close out the week's news with its January report for Consumer Credit, which, analysts think, rose by \$12B after December's lower-than-expected growth of \$9.73B. And keep in mind, it doesn't matter whether the markets treat you kindly or harshly, your dog will still be glad to see you when you get home. Have a great week; 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	0.04	0.01	0.05	0.10	1.28	2yr	0.18	0.24	0.27	0.28	0.26	2Yr	0.05	0.05	0.05	-
6mo	0.05	0.01	0.07	0.12	1.16	3yr	0.32	0.40	0.45	0.48	0.49	3Yr	0.19	0.20	0.10	0.19
1yr	0.07	0.02	0.08	0.12	1.02	5yr	0.76	0.85	0.78	0.83	0.96	5Yr	0.71	0.71	0.70	0.64
2yr	0.13	0.02	0.11	0.13	0.92	7yr	1.14	1.20	1.12	1.19	1.39	7Yr	1.12	1.15	1.14	1.07
3yr	0.27	0.04	0.17	0.15	0.92	10yr	1.61	1.53	1.60	1.70	1.83	10Yr	1.49	1.54	1.54	1.47
5yr	0.70	0.10	0.42	0.25	0.94	15yr	2.08	1.80	1.96	2.09	2.21	April TBA MBS				
7yr	1.11	0.11	0.76	0.46	1.06	20yr	2.54	1.91	2.24	2.38	2.79	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.43	0.06	1.08	0.67	1.15	25yr	2.99	1.95	2.38	2.53	2.84	2.00	1.17	4.4y	1.87	
30yr	2.20	0.03	1.86	1.42	1.68	30yr		1.97	2.52	2.68	2.89	2.50	0.93	3.0y		
												3.00	1.04	3.0y	1.48	3.3y
												3.50	0.84	2.6y	1.18	2.8y
												4.00			1.07	2.7y
												4.50			0.86	2.6y

* 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	0.01	(0.01)	0.03	0.07	--
1 Month LIBOR	0.12	0.00	0.12	0.16	1.60
3 Month LIBOR	0.19	0.01	0.22	0.26	1.61
6 Month LIBOR	0.20	0.01	0.23	0.31	1.59
1 Year LIBOR	0.28	(0.00)	0.31	0.45	1.61
6 Month CD	0.15	(0.06)	0.18	0.22	1.30
1 Year CMT	0.08	0.01	0.09	0.12	1.26
REPO O/N	0.04	0.04	0.13	0.12	1.78
REPO 1Wk	0.06	(0.01)	0.07	0.08	1.42
CoF Federal	0.911	--	0.925	1.107	1.914
11th D. CoF (Jan)	0.457	--	0.460	0.653	0.984

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.23	0.33	0.27
6mo	0.24	0.33	0.28
1yr	0.29	0.31	0.31
2yr	0.35	0.53	0.36
3yr	0.51	0.71	0.54
4yr	0.72	0.95	0.77
5yr	0.94	1.21	1.01
7yr	1.36	1.66	1.42
10yr	1.71	2.02	1.77
5yr Am	0.62		0.74
10yr Am	1.26		1.36

Fed Fund Futures	
Maturity	Rate
Mar-21	0.070
Mar-21	0.070
May-21	0.085
May-21	0.085
Jul-21	0.090
Jul-21	0.090
Aug-21	0.090
Sep-21	0.095
Oct-21	0.095
Nov-21	0.095
Dec-21	0.095

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/1	Markit US Manufacturing PMI	Feb F	58.5	--	58.5	--
3/1	Construction Spending MoM	Jan	0.8%	--	1.0%	--
3/1	ISM Manufacturing	Feb	58.9	--	58.7	--
3/1	ISM Prices Paid	Feb	80.0	--	82.1	--
3/1	ISM New Orders	Feb	60.0	--	61.1	--
3/1	ISM Employment	Feb	--	--	52.6	--
3/3	Wards Total Vehicle Sales	Feb	16.00m	--	16.63m	--
3/3	MBA Mortgage Applications	2/26	--	--	-11.40%	--
3/3	ADP Employment Change	Feb	200k	--	174k	--
3/3	Markit US Composite PMI	Feb F	--	--	58.8	--
3/3	Markit US Services PMI	Feb F	58.9	--	58.9	--
3/3	ISM Services Index	Feb	58.7	--	58.7	--
3/4	Challenger Job Cuts YoY	Feb	--	--	17.4%	--
3/4	Nonfarm Productivity	4Q F	-4.7%	--	-4.8%	--
3/4	Unit Labor Costs	4Q F	6.6%	--	6.8%	--
3/4	Initial Jobless Claims	2/27	755k	--	730k	--
3/4	Continuing Claims	2/20	4300k	--	4419k	--
3/4	Langer Consumer Comfort	2/28	--	--	47.3	--
3/4	Durables Ex Transportation	Jan F	1.4%	--	1.4%	--
3/4	Factory Orders Ex Trans	Jan	--	--	1.4%	--
3/4	Cap Goods Orders Nondef Ex Air	Jan F	0.5%	--	0.5%	--
3/4	Cap Goods Ship Nondef Ex Air	Jan F	--	--	2.1%	--
3/5	Average Hourly Earnings YoY	Feb	5.3%	--	5.4%	--
3/5	Change in Nonfarm Payrolls	Feb	188k	--	49k	--
3/5	Two-Month Payroll Net Revision	Feb	--	--	-159k	--
3/5	Change in Private Payrolls	Feb	194k	--	6k	--
3/5	Change in Manufact. Payrolls	Feb	15k	--	-10k	--
3/5	Unemployment Rate	Feb	6.3%	--	6.3%	--
3/5	Average Hourly Earnings MoM	Feb	0.2%	--	0.2%	--
3/5	Average Weekly Hours All Employees	Feb	34.9	--	35.0	--
3/5	Labor Force Participation Rate	Feb	61.4%	--	61.4%	--
3/5	Underemployment Rate	Feb	--	--	11.1%	--
3/9	NFIB Small Business Optimism	Feb	--	--	95	--
3/10	CPI YoY	Feb	--	--	1.4%	--
3/10	CPI Ex Food and Energy YoY	Feb	--	--	1.4%	--
3/10	CPI Index NSA	Feb	--	--	261.58	--
3/10	CPI Core Index SA	Feb	--	--	270.03	--
3/10	Real Avg Weekly Earnings YoY	Feb	--	--	6.1%	--
3/10	Real Avg Hourly Earning YoY	Feb	--	--	4.0%	--
3/11	JOLTS Job Openings	Jan	--	--	6646.00	--
3/11	Household Change in Net Worth	4Q	--	--	\$3817b	--
3/12	PPI Final Demand YoY	Feb	--	--	1.7%	--
3/12	PPI Ex Food and Energy YoY	Feb	--	--	2.0%	--
3/12	PPI Ex Food, Energy, Trade YoY	Feb	--	--	2.0%	--
3/12	U. of Mich. Sentiment	Mar P	--	--	76.8	--
3/12	U. of Mich. Current Conditions	Mar P	--	--	86.2	--
3/12	U. of Mich. 1 Yr Inflation	Mar P	--	--	3.3%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.4	25.0	26.7	28.6	28.5	27.5
FH/FN 15y	13.8	34.4	40.4	45.0	22.3	22.2
GN 15y	20.3	19.3	18.9	19.8	17.8	19.0
FH/FN 20y	54.3	32.5	33.3	32.1	30.4	24.0
FH/FN 30y	3.5	23.0	57.6	56.5	56.8	52.3
GN 30y	11.4	18.1	42.3	51.7	41.8	28.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.4	16.7	16.7	20.8	17.7	15.5
FH/FN 15y	13.5	20.6	22.4	30.5	19.0	21.5
GN 15y	17.9	14.9	15.1	14.3	13.4	13.0
FH/FN 20y	10.0	18.4	20.3	27.1	20.0	17.8
FH/FN 30y	8.7	15.2	28.7	32.0	32.8	31.1
GN 30y	9.5	13.9	20.5	20.5	30.1	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	106.72	1.64	104.93	105.96	108.33
Euro	1.20	(0.01)	1.21	1.19	1.11
Dollar Index	91.03	1.02	90.98	92.34	98.13
Major Stock Indices					
Dow Jones	30,932	(562)	30,212	28,646	25,409
S&P 500	3,811.2	(95.6)	3,773.9	3,526.7	2,954.2
NASDAQ	13,192.4	(682)	13,403.4	11,939.7	8,567.4
Commodities					
Gold	1,736.7	(70.0)	1,860.8	1,970.8	1,566.7
Crude Oil	62.25	0.76	53.55	42.76	44.76
Natural Gas	2.73	(0.22)	2.85	2.53	1.68
Wheat	658.8	-5.3	651.0	555.8	529.0
Corn	555.8	4.8	549.3	349.5	366.5

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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