

Baker Market Update: Week in Review

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It was clear from his remarks yesterday that Jerome Powell feels even more like he does now than he did before. Yes, that makes about as much sense as the bond market selling off because it fears inflation and then selling off some more because the Fed doesn't. In his speech given to a Wall Street Journal- sponsored Jobs Summit, Chairman Powell reaffirmed his intention to keep doing what he's been doing until it's time to do something else. As he has said many, many times, it will not be time to do something else until he's convinced that employment has reached its maximum and inflation gets to 2% or higher with the likelihood that it will stay at 2% or higher for a while. Nevertheless, investors disappointed that Jerome hasn't displayed the same hair-on-fire panic that they have, knee-jerked the Ten-Year's yield clear up past 1.50%. Maybe those investors are forgetting that Mr. Powell was around when the Prime Rate was 20% and 1.50% on the Ten-Year may not seem all that frightening. Unless, of course, those investors are investing borrowed money and have become used to paying nothing for it.

Jerome also knows, and has said, transitory inflation will probably start showing up soon, as vaccinations and re-openings kick in. The Chairman also knows that evolving base levels of year-over-year measurements will make it look worse than it really is and also that current price-spiking supply shortages will get worked out. Inflation requires demand; sustained and growing demand. The American economy is still 9.5M jobs shy of the full employment it enjoyed before the American government shut it down, and until Jerome can find jobs for those people, aggregate demand is unlikely to grow enough to produce the sustained growth in the rate of price-level changes that defines inflation. It's the fate of those people out of work and the effect that their unemployed condition has on the economy that worries Jerome; not 1.50% on the Ten-Year.

No doubt, this morning's February Jobs Report from the BLS is what Jerome was reading with his coffee and was probably pleased to see that the 379k gain in Non-farm Payrolls exceeded the estimate of 200k while net revisions for the past two months added another 38k. He was also probably glad to see that the Unemployment Rate managed to dip one-tenth to 6.2% without the aid of a falling Labor Force Participation Rate that managed to remain unchanged at 61.4%. Average Hourly Earnings achieved its expected monthly rise of 0.2% and the year-over-year growth rate remained unchanged at 5.3%. But, Average Weekly Hours fell 0.3 to 34.6 and that is a little disconcerting. Leisure and Hospitality was the sector that gained the most jobs with a rise of 355k while Construction lost 61k and Government lost 86k. Manufacturing added 21k with Retail Trade contributing another 41k. The Chairman's perceived insouciance toward inflation and higher yields has left the Treasury market trying to figure out how this strong Jobs Report figures into things as it initially sold off only to rally back before selling off again right before embarking upon its present rally. Sounds about right.

On Monday, a report issued by Markit U.S. about its Manufacturing PMI for February sounded about right when it came in at 58.6 and that was one-tenth better than both the January reading and the estimate for last month. The Institute of Supply Management followed that up with its own Manufacturing PMI and it did even better with a rise to 60.8 from 58.7 and also beat estimates looking for 58.9. The Employment sub-index rose to 54.4 from 52.6 and that was more unexpected good news. The Census Bureau made another positive contribution when it reported that Construction Spending more than doubled the expected January rise of 0.8% by coming in at 1.7%.

Tuesday's only data point was a report from Wards Automotive Group describing Total Vehicle Sales in February and it was a little disappointing. January's annualized pace of 16.63M was expected to slip a little to 16M but instead slipped a lot to 15.67M. That's just the second reading under 16M since last August.

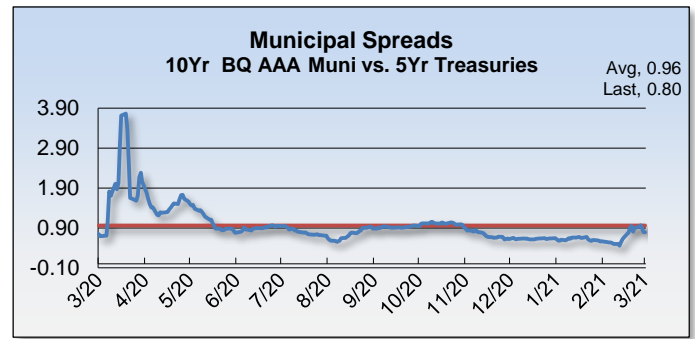
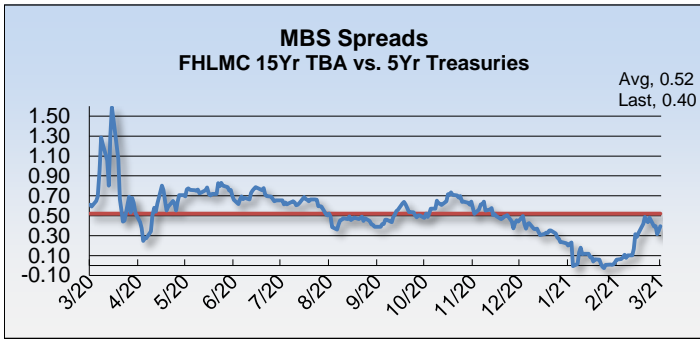
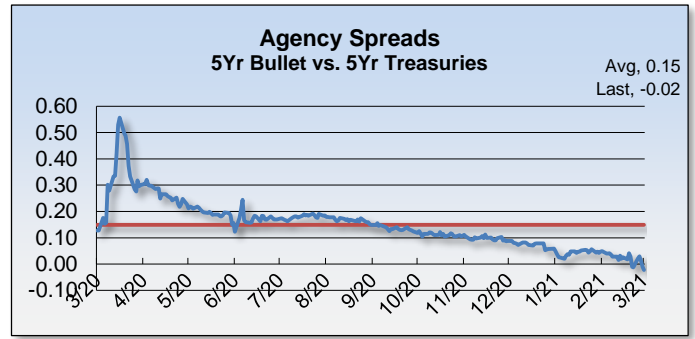
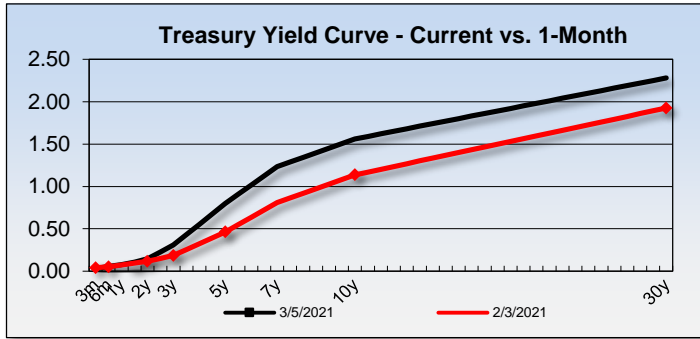
Wednesday started early with a report from the Mortgage Bankers Association that Mortgage Applications rose 0.5% for the week ending February 26th and while that was pretty dismal, it was much better than the prior week's slide of 11.4%. The February ADP Private Payroll Employment Change Report was then released showing a gain of 117k and that was a disappointment for the analysts expecting 205k. But that's all forgotten after today's Jobs Report. Markit U.S. then reported that its PMI for Services rose unexpectedly to 59.8 from 58.9 against an expectation of no change. More good news. But, the ISM then rained on that with its own Services PMI depicting a February plummet to 55.3 from 58.7, where it was supposed to have remained.

More labor-related news came our way Thursday starting with a report from Challenger, Gray, and Christmas telling us that Job Cuts in February fell 39.1% year-over-year and that's much better news than January's twelve-month growth of 17.4%. The BLS also released its weekly Jobless Claims count and for the week ending February 27th, Initial Claims totaled 745k and that was up from the prior week's upwardly revised 736k, but less than the expected 750k. Continuing Claims for the week ending February 20th fell to 4.3M and that was about what was expected. It was also a slight dip from the prior week's 4.42M. Also from the BLS, Q4 averages for Nonfarm Productivity and Unit Labor Costs were reported, but their relevance is pretty iffy in light of the lockdown's distortions. For the record, Nonfarm Productivity fell 4.2% in the last quarter of last year while Unit Labor Costs rose 6%. If these measures were for any quarter of any year that was not 2020, they would indeed be alarming, but they're not. They're also way old.

Also on Thursday, the Census Bureau issued finalized, January reports for Factory Orders, Durable Goods Orders, and core Capital Goods Orders. There were a few changes. The previously reported 1.6% growth in Factory Orders became 2.6% while the growth in Durable Goods Orders remained the same at 3.4%. Core Capital Goods Orders came in with growth of 0.4% in a slight comedown from the expected 0.5%.

Besides this morning's Jobs Report, we learned from the Census Bureau that the nation's Trade Imbalance grew more negative in January with a move to minus \$68.2B from a revised \$67B. It was supposed to narrow a bit to \$67.5B. This afternoon, the Federal Reserve is expected to report that Consumer Credit grew by \$12B in January after December's addition of \$9.73B.

This week's volatility in both equity and credit markets belies the underlying tone of what was mostly positive economic measurements. Maybe things will settle down once people stop whining about the Fed not coming in to save the day when it doesn't need saving. They can stop whining about Dr. Seuss while they're at it. 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 | 0.03 | (0.01) | 0.03 | 0.11 | 0.62 | 2yr | 0.19 | 0.25 | 0.18 | 0.19 | 0.26 | 2Yr | 0.06 | 0.06 | 0.06 | - |
| 6mo | 0.06 | 0.01 | 0.04 | 0.12 | 0.53 | 3yr | 0.35 | 0.44 | 0.36 | 0.39 | 0.48 | 3Yr | 0.23 | 0.24 | 0.20 | 0.23 |
| 1yr | 0.08 | 0.01 | 0.06 | 0.12 | 0.49 | 5yr | 0.86 | 0.91 | 0.70 | 0.75 | 0.93 | 5Yr | 0.81 | 0.81 | 0.80 | 0.74 |
| 2yr | 0.14 | 0.01 | 0.10 | 0.14 | 0.60 | 7yr | 1.25 | 1.28 | 1.08 | 1.15 | 1.43 | 7Yr | 1.24 | 1.27 | 1.28 | 1.19 |
| 3yr | 0.31 | 0.03 | 0.18 | 0.18 | 0.63 | 10yr | 1.72 | 1.62 | 1.57 | 1.67 | 1.92 | 10Yr | 1.62 | 1.68 | 1.67 | 1.60 |
| 5yr | 0.80 | 0.07 | 0.46 | 0.30 | 0.68 | 15yr | 2.18 | 1.88 | 1.92 | 2.04 | 2.30 | April TBA MBS | | | | |
| 7yr | 1.24 | 0.11 | 0.82 | 0.50 | 0.82 | 20yr | 2.64 | 1.97 | 2.20 | 2.34 | 2.92 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 1.56 | 0.15 | 1.17 | 0.72 | 0.91 | 25yr | 3.10 | 2.01 | 2.34 | 2.49 | 2.97 | 2.00 | 1.22 | 4.4y | 1.92 | |
| 30yr | 2.28 | 0.13 | 1.97 | 1.47 | 1.54 | 30yr | | 2.02 | 2.48 | 2.64 | 3.02 | 2.50 | 0.95 | 3.0y | | |
| | | | | | | | | | | | | 3.00 | 1.04 | 3.0y | 1.53 | 3.3y |
| | | | | | | | | | | | | 3.50 | 0.88 | 2.6y | 1.20 | 2.8y |
| | | | | | | | | | | | | 4.00 | | | 1.06 | 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 | 1.25 |
| Primary Discount | 0.25 | -- | 0.25 | 0.25 | 1.75 |
| 2ndary Discount | 0.75 | -- | 0.75 | 0.75 | 2.25 |
| Prime Rate | 3.25 | -- | 3.25 | 3.25 | 4.25 |
| Sec. O.N. Finance | 0.02 | (0.01) | 0.05 | 0.09 | -- |
| 1 Month LIBOR | 0.10 | (0.01) | 0.12 | 0.15 | 1.02 |
| 3 Month LIBOR | 0.18 | (0.02) | 0.19 | 0.25 | 1.00 |
| 6 Month LIBOR | 0.20 | 0.00 | 0.22 | 0.29 | 0.99 |
| 1 Year LIBOR | 0.28 | 0.00 | 0.31 | 0.42 | 0.97 |
| 6 Month CD | 0.23 | (0.02) | 0.12 | 0.32 | 1.00 |
| 1 Year CMT | 0.08 | (0.01) | 0.07 | 0.13 | 0.59 |
| REPO O/N | 0.05 | (0.04) | 0.06 | 0.14 | 1.12 |
| REPO 1Wk | 0.07 | 0.01 | 0.11 | 0.08 | 1.10 |
| 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 | 0.30 | 0.31 | 0.31 |
| 2yr | 0.35 | 0.51 | 0.37 |
| 3yr | 0.52 | 0.70 | 0.56 |
| 4yr | 0.79 | 0.98 | 0.84 |
| 5yr | 1.00 | 1.21 | 1.05 |
| 7yr | 1.45 | 1.69 | 1.51 |
| 10yr | 1.85 | 2.12 | 1.92 |
| 5yr Am | 0.65 | | 0.78 |
| 10yr Am | 1.35 | | 1.45 |

| Fed Fund Futures | |
|------------------|-------|
| Maturity | Rate |
| Mar-21 | 0.067 |
| Apr-21 | 0.070 |
| May-21 | 0.085 |
| Jun-21 | 0.080 |
| Jul-21 | 0.080 |
| Aug-21 | 0.080 |
| Sep-21 | 0.085 |
| Oct-21 | 0.085 |
| Nov-21 | 0.090 |
| Dec-21 | 0.090 |
| Jan-22 | 0.085 |

| Weekly Economic Calendar | | | | | | |
|--------------------------|------------------------------------|-------|-----------|----------|-----------|----------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 3/1 | Markit US Manufacturing PMI | Feb F | 58.5 | 58.6 | 58.5 | -- |
| 3/1 | Construction Spending MoM | Jan | 0.8% | 1.7% | 4.0% | 1.1% |
| 3/1 | ISM Manufacturing | Feb | 58.9 | 60.8 | 58.7 | -- |
| 3/1 | ISM Prices Paid | Feb | 80.0 | 86.0 | 82.1 | -- |
| 3/1 | ISM New Orders | Feb | 60.0 | 64.8 | 61.1 | -- |
| 3/1 | ISM Employment | Feb | -- | 54.4 | 52.6 | -- |
| 3/3 | MBA Mortgage Applications | 2/26 | -- | 0.5% | -11.4% | -- |
| 3/3 | ADP Employment Change | Feb | 205k | 117k | 474k | 195k |
| 3/3 | Markit US Services PMI | Feb F | 58.9 | 59.8 | 58.9 | -- |
| 3/3 | Markit US Composite PMI | Feb F | -- | 59.5 | 58.8 | -- |
| 3/3 | ISM Services Index | Feb | 58.7 | 55.3 | 58.7 | -- |
| 3/4 | Challenger Job Cuts YoY | Feb | -- | -39.1% | 17.4% | -- |
| 3/4 | Nonfarm Productivity | 4Q F | -4.7% | -4.2% | -4.8% | -- |
| 3/4 | Unit Labor Costs | 4Q F | 6.6% | 6.0% | 6.8% | -- |
| 3/4 | Initial Jobless Claims | 2/27 | 750k | 745k | 730k | 736k |
| 3/4 | Continuing Claims | 2/20 | 4300k | 4295k | 4419k | -- |
| 3/4 | Langer Consumer Comfort | 2/28 | -- | 48.9 | 47.3 | -- |
| 3/4 | Factory Orders Ex Trans | Jan | -- | 1.7% | 4.4% | 1.9% |
| 3/4 | Durables Ex Transportation | Jan F | 1.4% | 1.3% | 1.4% | -- |
| 3/4 | Cap Goods Ship Nondef Ex Air | Jan F | -- | 1.8% | 2.1% | -- |
| 3/5 | Two-Month Payroll Net Revision | Feb | -- | 38k | -- | -- |
| 3/5 | Change in Nonfarm Payrolls | Feb | 200k | 379k | 49k | 166k |
| 3/5 | Change in Private Payrolls | Feb | 200k | 465k | 6k | -- |
| 3/5 | Change in Manufact. Payrolls | Feb | 15k | 21k | 40k | -14k |
| 3/5 | Unemployment Rate | Feb | 6.3% | 6.2% | 6.3% | -- |
| 3/5 | Average Hourly Earnings MoM | Feb | 0.2% | 0.2% | 0.2% | 0.1% |
| 3/5 | Average Hourly Earnings YoY | Feb | 5.3% | 5.3% | 5.4% | 5.3% |
| 3/5 | Average Weekly Hours All Employees | Feb | 35 | 35 | 35 | 35 |
| 3/5 | Labor Force Participation Rate | Feb | 61.4% | 61.4% | 61.4% | -- |
| 3/5 | Underemployment Rate | Feb | -- | 11.1% | 11.1% | -- |
| 3/5 | Trade Balance | Jan | -\$67.5b | -\$68.2b | -\$66.6b | -\$67.0b |
| 3/5 | Consumer Credit | Jan | \$12.000b | -- | \$9.734b | -- |
| 3/9 | NFIB Small Business Optimism | Feb | 96.3 | -- | 95.0 | -- |
| 3/10 | CPI YoY | Feb | 1.7% | -- | 1.4% | -- |
| 3/10 | CPI Ex Food and Energy YoY | Feb | 1.4% | -- | 1.4% | -- |
| 3/10 | CPI Index NSA | Feb | 263.13 | -- | 261.58 | -- |
| 3/10 | CPI Core Index SA | Feb | 270.58 | -- | 270.03 | -- |
| 3/10 | Real Avg Weekly Earnings YoY | Feb | -- | -- | 6.1% | 5.7% |
| 3/10 | Real Avg Hourly Earning YoY | Feb | -- | -- | 4.0% | 3.9% |
| 3/10 | Monthly Budget Statement | Feb | -- | -- | -\$162.8b | -- |
| 3/11 | JOLTS Job Openings | Jan | 6600 | -- | 6646 | -- |
| 3/12 | PPI Final Demand YoY | Feb | 2.7% | -- | 1.7% | -- |
| 3/12 | PPI Ex Food and Energy YoY | Feb | 2.6% | -- | 2.0% | -- |
| 3/12 | PPI Ex Food, Energy, Trade YoY | Feb | -- | -- | 2.0% | -- |
| 3/12 | U. of Mich. Sentiment | Mar P | 78.0 | -- | 76.8 | -- |
| 3/12 | U. of Mich. Current Conditions | Mar P | 88.3 | -- | 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 | 16.0 | 25.5 | 26.8 | 28.0 | 29.2 | 28.0 |
| FH/FN 15y | 15.5 | 35.6 | 41.3 | 44.5 | 22.5 | 22.1 |
| GN 15y | 18.3 | 17.9 | 18.9 | 19.8 | 19.0 | 19.3 |
| FH/FN 20y | 55.4 | 33.7 | 33.7 | 31.8 | 29.7 | 23.8 |
| FH/FN 30y | 4.6 | 22.8 | 57.3 | 56.2 | 55.2 | 51.9 |
| GN 30y | 10.3 | 18.5 | 41.9 | 50.8 | 43.1 | 28.0 |
| CPR Projections | | | | | | |
| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
| FN 10y | 13.5 | 16.8 | 16.8 | 20.9 | 17.8 | 15.5 |
| FH/FN 15y | 13.6 | 20.8 | 22.3 | 30.4 | 19.0 | 21.6 |
| GN 15y | 17.9 | 14.9 | 15.0 | 14.3 | 13.5 | 13.2 |
| FH/FN 20y | 10.1 | 18.6 | 20.3 | 27.1 | 20.0 | 17.8 |
| FH/FN 30y | 8.7 | 14.7 | 28.2 | 31.4 | 32.4 | 30.9 |
| GN 30y | 9.5 | 14.0 | 20.9 | 20.6 | 30.4 | 22.7 |

| Other Markets | | | | | |
|----------------------------|----------|----------|------------|----------|---------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 108.24 | 1.67 | 105.39 | 106.27 | 106.16 |
| Euro | 1.19 | (0.02) | 1.20 | 1.18 | 1.12 |
| Dollar Index | 92.02 | 1.14 | 91.04 | 92.72 | 96.82 |
| Major Stock Indices | | | | | |
| Dow Jones | 30,822 | (111) | 31,148 | 28,133 | 26,121 |
| S&P 500 | 3,750.5 | (60.6) | 3,886.8 | 3,427.0 | 3,023.9 |
| NASDAQ | 12,428.6 | (764) | 13,856.3 | 11,313.1 | 8,738.6 |
| Commodities | | | | | |
| Gold | 1,694.4 | (34.4) | 1,810.9 | 1,926.2 | 1,668.0 |
| Crude Oil | 65.51 | 4.01 | 56.85 | 39.77 | 45.90 |
| Natural Gas | 2.70 | (0.07) | 2.86 | 2.59 | 1.77 |
| Wheat | 651.0 | -4.0 | 641.3 | 539.8 | 524.3 |
| Corn | 554.0 | -1.5 | 548.5 | 347.3 | 384.5 |

| 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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