

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



Whether one considers the American Rescue Plan to be stimulus, relief, or pernicious porcine patronage, it's now the law of the land and lots of places and people are going to be getting lots of money. For now, that prospect has propelled some markets to new peaks and provided a pleasant distraction after last week's obsession with inflation. That, and Jerome isn't allowed to talk to anyone outside of immediate family members until after next week's FOMC meeting.

But the BLS does not labor under the same yoke of repression as the Fed, and it had a lot to say this week. And, a lot of it was about inflation. But even before investors could react to this morning's Producer Price Index report, an unexpected wave of overnight selling pushed the yield on Thirty-Year Treasury bonds clear up past 2.35%; a level not seen since last January. The Ten-Year's yield has touched the same 1.61% it briefly saw last week after the Treasury's desultory Seven-Year auction.

In today's report, investors learned that headline PPI rose by the expected, energy-fueled 0.5% last month with the year-over-year pace rising slightly higher-than-expected to 2.8% from 1.7%. That surge in the twelve-month rate was significantly affected by the elimination of last February's monthly plunge of 0.5% from the calculation. More of this changing base effect will be seen in this measurement and others as the experience of early pandemic lock-down months fall from the year-over-year view and are replaced by revitalized contemporary months. Without food and energy, core PPI rose by 0.2% as expected with the year-over-year rate moving to 2.5% from 2% and that was slightly lower than expected.

Earlier in the week, the BLS reported that its Consumer Price Index rose by 0.4% last month and that was about what forecasters were expecting. Year-over-year, headline CPI rose from 1.4% to 1.7%; also meeting expectations. Without food and energy, core CPI rose by a less-than-expected 0.1% with the year-over-year pace actually falling one-tenth to 1.3%. Armed with these measurements, the BLS also reported that year-over-year growth in inflation-adjusted Real Average Weekly Earnings came in at 4.1% in February and that was a drop from January's downwardly revised pace of 5.7%. For Real Average Hourly Earnings, that twelve-month growth rate fell to 3.4% last month from 3.9%. Thanks to all the government transfer payments, those are pretty heady results for an economy that's been largely shuttered for the past year.

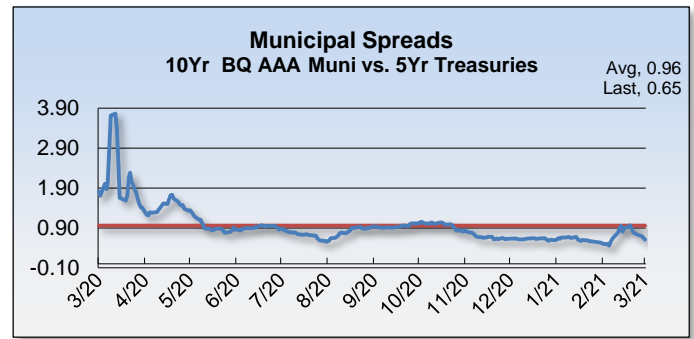
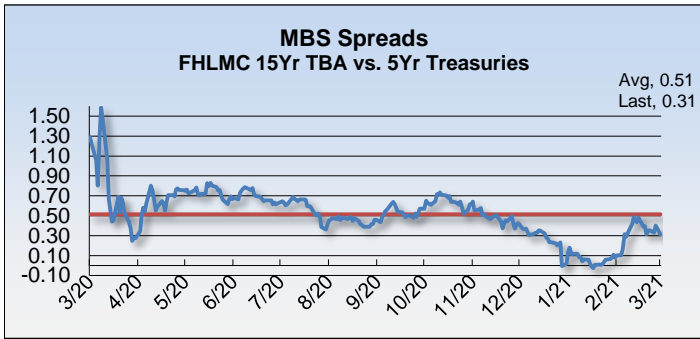
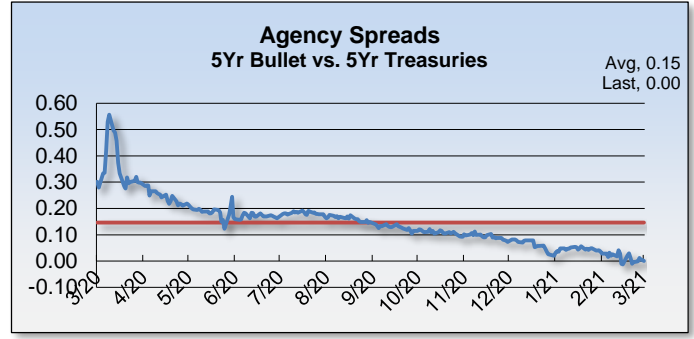
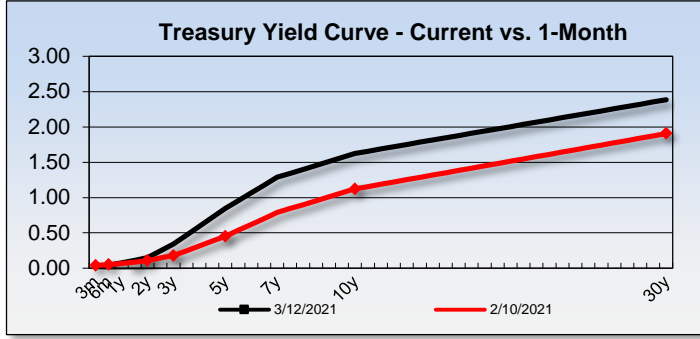
The week began on another positive note when, on Monday, the Census Bureau reported that Wholesale Inventories rose by 1.3% in January and even though that result was largely expected, it could be taken as a sign that the supply chain disruptions causing angst-producing price spikes might be easing. Might be. We also learned from the Census Bureau that, in January, Wholesale Trade Sales blew through estimates looking for a rise of 0.9% by coming in at 4.9%. Somebody's buying something out there.

On Tuesday, the National Federation of Independent Businesses issued a lukewarm report for its Small Business Optimism Index and disappointed analysts expecting a move to 97 from 95. The lukewarm part was its February reading of just 95.8. The 1.3% weekly drop in Mortgage Applications reported by the Mortgage Bankers Association was pretty chilly for the housing market as was the Average 30-Year fixed rate of 3.26%. But, that still seems pretty low to people of a certain age. In another sign of the times, we learned from the Treasury that its Budget Deficit grew by a greater-than-expected \$310.9B in February and that pushed the fiscal year-to-date deficit to \$1.047T. This time last year, the year-to-date deficit was \$625B. The Treasury's fiscal year started October 1st, and has never produced this large a deficit five months in. Did you hear about the American Rescue Plan? One wonders who will rescue us from these deficits.

We can keep wondering about that while lots of Americans are wondering if they can find a job. On Thursday, the BLS reported that, for the week ending March 6th, Initial Jobless Claims totaled 712k and that was less than the 725k that was expected and also less than the prior week's upwardly revised 754k. Still too high, the week's tally was the lowest since November. Continuing Claims for the week ending February 27th fell to 4.14M from 4.34M and managed to beat estimates looking for 4.2M.

The Treasury managed to get its \$120B worth of Threes, Tens, and Thirties sold this week and while these auctions avoided the debacle of last week's Seven-Year sale, investor demand was a bit tepid. The highest accepted tender at the Ten-Year auction was 1.52% and today's sell-off to around 1.60% can't feel very good for those folks.

But, the University of Michigan just reported this morning that it found some other folks who are feeling pretty good about everything. For its Consumer Sentiment Index, the University reported a big boost to 83 this month from 76.8 versus an estimate of just 78.5. The Current Conditions sub-index also surprised to the upside with a move to 91.5 from 86.2 as analysts were only expecting 88.3. The Expectations component also beat estimates looking for 72 by coming in at 77.5. That measure was 70.7 last month. Also surprising amid all the inflation concerns was a drop in Consumers' One-Year Inflation Expectations to 3.1% from 3.3%. Chairman Powell is probably gratified to learn that someone out there might actually believe what he's been repeating. 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)	0.04	0.11	0.33	2yr	0.20	0.26	0.13	0.13	0.24	2Yr	0.09	0.09	0.09	-
6mo	0.04	(0.01)	0.05	0.12	0.35	3yr	0.37	0.45	0.29	0.31	0.46	3Yr	0.29	0.29	0.20	0.29
1yr	0.08	0.00	0.06	0.13	0.37	5yr	0.90	0.93	0.60	0.64	0.90	5Yr	0.87	0.87	0.86	0.80
2yr	0.15	0.01	0.11	0.13	0.48	7yr	1.29	1.30	0.94	1.00	1.39	7Yr	1.32	1.34	1.33	1.26
3yr	0.34	0.03	0.20	0.15	0.53	10yr	1.77	1.64	1.43	1.52	1.90	10Yr	1.70	1.76	1.75	1.69
5yr	0.84	0.05	0.49	0.25	0.61	15yr	2.24	1.91	1.75	1.86	2.28	April TBA MBS				
7yr	1.29	0.05	0.85	0.45	0.75	20yr	2.71	2.01	2.03	2.16	2.89	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.62	0.06	1.21	0.67	0.81	25yr	3.18	2.05	2.17	2.31	2.94	2.00	1.25	4.3y	1.97	
30yr	2.38	0.08	2.01	1.41	1.44	30yr		2.07	2.31	2.46	2.99	2.50	0.99	3.0y		
												3.00	1.17	3.1y	1.50	3.3y
												3.50	0.88	2.6y	1.16	2.8y
												4.00			1.01	2.7y
												4.50			0.90	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	0.01	(0.01)	0.06	0.09	--
1 Month LIBOR	0.11	0.00	0.11	0.15	0.81
3 Month LIBOR	0.18	(0.01)	0.20	0.25	0.78
6 Month LIBOR	0.19	(0.02)	0.21	0.28	0.77
1 Year LIBOR	0.28	(0.00)	0.31	0.41	0.79
6 Month CD	0.16	(0.07)	0.12	0.35	0.96
1 Year CMT	0.08	--	0.07	0.13	0.40
REPO O/N	-0.02	(0.06)	0.07	0.12	1.10
REPO 1Wk	0.07	(0.02)	0.07	0.12	0.43
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	0.23	0.32	0.27
1yr	0.30	0.31	0.30
2yr	0.36	0.53	0.37
3yr	0.53	0.73	0.54
4yr	0.80	1.00	0.79
5yr	1.01	1.22	0.99
7yr	1.43	1.70	1.42
10yr	1.84	2.12	1.82
5yr Am	0.67		0.74
10yr Am	1.36		1.39

Fed Fund Futures	
Maturity	Rate
Mar-21	0.067
Apr-21	0.070
May-21	0.075
Jun-21	0.080
Jul-21	0.080
Aug-21	0.085
Sep-21	0.085
Oct-21	0.090
Nov-21	0.090
Dec-21	0.090
Jan-22	0.090

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/8	Wholesale Inventories MoM	Jan F	1.3%	1.3%	1.3%	--
3/8	Wholesale Trade Sales MoM	Jan	0.9%	4.9%	4.2%	1.9%
3/9	NFIB Small Business Optimism	Feb	97.0	95.8	95.0	--
3/10	MBA Mortgage Applications	3/5	--	-1.3%	0.5%	--
3/10	CPI MoM	Feb	0.4%	0.4%	0.3%	--
3/10	CPI Ex Food and Energy MoM	Feb	0.2%	0.1%	0.0%	--
3/10	CPI YoY	Feb	1.7%	1.7%	1.4%	--
3/10	CPI Ex Food and Energy YoY	Feb	1.4%	1.3%	1.4%	--
3/10	CPI Index NSA	Feb	263.12	263.01	261.58	--
3/10	CPI Core Index SA	Feb	270.39	270.30	270.03	--
3/10	Real Avg Weekly Earnings YoY	Feb	--	4.1%	6.1%	5.7%
3/10	Real Avg Hourly Earning YoY	Feb	--	3.4%	4.0%	3.9%
3/10	Monthly Budget Statement	Feb	-\$305.0b	-\$310.9b	-\$235.3b	--
3/11	Initial Jobless Claims	3/6	725k	712k	745k	754k
3/11	Continuing Claims	2/27	4200k	4144k	4295k	4337k
3/11	Langer Consumer Comfort	3/7	--	49.4	48.9	--
3/11	JOLTS Job Openings	Jan	6700	6917	6646	6752
3/11	Household Change in Net Worth	4Q	--	\$6925b	\$3817b	\$3640b
3/12	PPI Final Demand MoM	Feb	0.5%	0.5%	1.3%	--
3/12	PPI Ex Food and Energy MoM	Feb	0.2%	0.2%	1.2%	--
3/12	PPI Ex Food, Energy, Trade MoM	Feb	0.3%	0.2%	1.2%	--
3/12	PPI Final Demand YoY	Feb	2.7%	2.8%	1.7%	--
3/12	PPI Ex Food and Energy YoY	Feb	2.6%	2.5%	2.0%	--
3/12	PPI Ex Food, Energy, Trade YoY	Feb	2.5%	2.2%	2.0%	--
3/12	U. of Mich. Sentiment	Mar P	78.5	83.0	76.8	--
3/12	U. of Mich. Current Conditions	Mar P	88.3	91.5	86.2	--
3/12	U. of Mich. Expectations	Mar P	72.0	77.5	70.7	--
3/12	U. of Mich. 1 Yr Inflation	Mar P	3.3%	3.1%	3.3%	--
3/12	U. of Mich. 5-10 Yr Inflation	Mar P	--	2.7%	2.7%	--
3/15	Empire Manufacturing	Mar	14.5	--	12.1	--
3/15	Total Net TIC Flows	Jan	--	--	-\$0.6b	--
3/15	Net Long-term TIC Flows	Jan	--	--	\$121.0b	--
3/16	Import Price Index YoY	Feb	2.6%	--	0.9%	--
3/16	Export Price Index YoY	Feb	--	--	2.3%	--
3/16	Retail Sales Ex Auto and Gas	Feb	-1.3%	--	6.1%	--
3/16	Retail Sales Control Group	Feb	-1.1%	--	6.0%	--
3/16	Capacity Utilization	Feb	75.6%	--	75.6%	--
3/16	Manufacturing (SIC) Production	Feb	0.2%	--	1.0%	--
3/16	Business Inventories	Jan	0.3%	--	0.6%	--
3/16	NAHB Housing Market Index	Mar	84	--	84	--
3/17	Building Permits	Feb	1750k	--	488k	1886k
3/17	Housing Starts	Feb	1565k	--	1580k	--
3/17	FOMC Rate Decision (Lower Bound)	3/17	0.00%	--	0.00%	--
3/17	FOMC Rate Decision (Upper Bound)	3/17	0.25%	--	0.25%	--
3/17	Interest Rate on Excess Reserves	3/18	0.10%	--	0.10%	--
3/18	Philadelphia Fed Business Outlook	Mar	24.0	--	23.1	--
3/18	Leading Index	Feb	0.3%	--	0.5%	--

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	50.6	43.1	27.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.8	16.5	17.1	19.5	18.2	16.0
FH/FN 15y	13.8	20.0	20.7	30.1	19.2	21.9
GN 15y	18.2	15.0	15.2	14.3	13.5	13.2
FH/FN 20y	10.5	14.0	18.3	24.0	20.2	18.7
FH/FN 30y	9.1	15.0	26.6	29.9	31.9	30.1
GN 30y	10.3	14.1	20.7	20.8	27.4	21.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.08	0.77	104.94	105.73	104.64
Euro	1.19	0.00	1.21	1.19	1.12
Dollar Index	91.95	(0.03)	90.48	93.33	97.47
Major Stock Indices					
Dow Jones	32,604	1,108	31,458	27,666	21,201
S&P 500	3,923.6	81.6	3,934.8	3,341.0	2,480.6
NASDAQ	13,184.2	264	14,095.5	10,853.5	7,201.8
Commodities					
Gold	1,700.2	1.7	1,821.6	1,939.5	1,590.3
Crude Oil	65.80	(0.29)	59.47	37.33	31.50
Natural Gas	2.65	(0.05)	2.91	2.27	1.84
Wheat	636.3	-13.5	633.5	533.8	517.3
Corn	546.0	-16.0	538.8	365.0	369.8

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

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 03/12/2021 10:23AM