

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



The fear that this week's ocean of debt put up for sale by the Treasury would turn credit markets sideways, thankfully proved to be ungrounded. The actual grounding happened to an actual ship that is now actually sideways in the Suez Canal. Oceans of cargo ships are now going nowhere while the Treasury market has gotten through the week with no serious injuries. In fact, depending on what happens the rest of today, Treasury yields will end the week lower than where they began the week. The Captain of the stranded container ship wishes this week had never happened.

But it did, and it started with the unpleasant news that the Chicago Fed's National Activity Index plunged unexpectedly last month to a value of minus 1.09 from its previously positive level of 0.75. Yes, it was cold in February, but one assumes that the analysts predicting a positive 0.72 already knew that and still managed a big miss. Another miss could be also be seen in Monday's report from the National Association of Realtors disclosing that Existing Home Sales fell last month by a greater-than-expected 6.6% versus the estimate of a 2.8% slide.

Tuesday's news didn't get any better for the Housing sector when the Census Bureau reported that New Home Sales plunged 18.2% last month versus an anticipated slow-down of just 5.7%. Apparently, February was even colder than previously thought. The Richmond Fed then tried to warm things up by reporting that this month, its Manufacturing Index outperformed estimates by rising to 17 from 14 when only a move to 16 was expected.

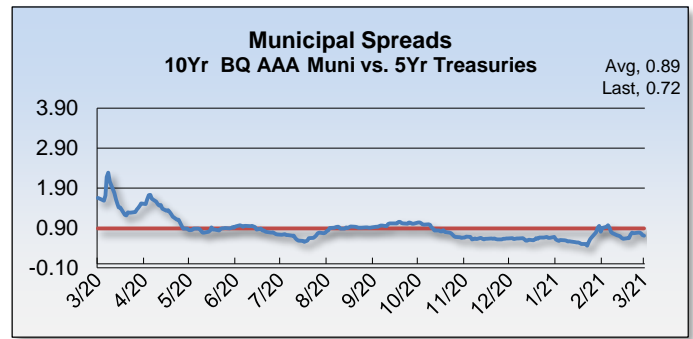
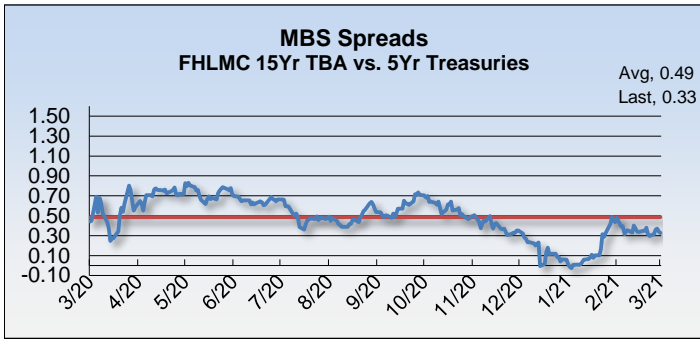
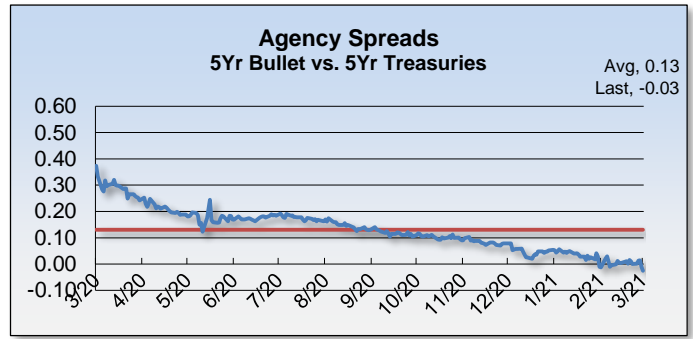
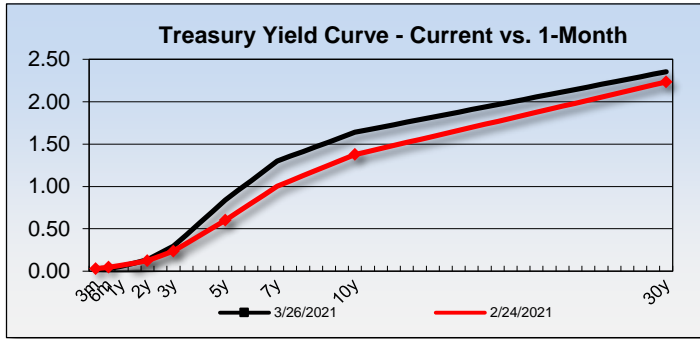
Wednesday began with the disquieting news that orders for Durable Goods took an icy plunge of 1.1% last month versus the expected rise of 0.5%. Orders for core Capital Goods also surprised markets with an 0.8% dive against an expected 0.5% boost. The winter storms of February were not a secret and the fact that these big misses still occurred might just suggest that there was something else going on last month besides bad weather. Jumping ahead to this morning's news, last month's 7.1% implosion in February's Personal Income reported by the Bureau of Economic Analysis might have had something to do with it. January's 10% surge was helped by relief payments that didn't happen in February. Personal Spending was also announced in today's report and it fell 1% against estimates of an 0.8% dip. But, that decline looks a little "less bad" after January's 2.4% growth was revised to 3.4%.

A little bit better news came our way Wednesday from Markit U.S. when it reported that its Purchasing Managers' Index for Manufacturing rose slightly this month to 59 from 58.6 but fell short of the 59.5 that surveys suggested. Markit's PMI for Services also managed a small improvement to 60 from 59.8 and that was pretty close to what was expected.

The drop in Jobless Claims was happily greater than expected and on Thursday we learned from the BLS that Initial Claims for the week ending March 20th totaled 684k. That was less than the prior week's upwardly revised 781k and also less than the 730k that was forecast. Continuing Claims for the week ending March 13th fell to 3.87M from 4.13M and beat estimates looking for 4M. Since the beginning of the pandemic-induced lockdown, these are lows for both measures and that's good news. The past is looking a little better also, after the BEA reported its final count for Q4 GDP got a boost to 4.3% from the previously estimated 4.1%. The Kansas City Fed closed out yesterday's news by reporting that its Manufacturing Index rose to 26 from 24 this month and that matched the estimates.

This morning, besides the reports for Spending and Income, the BEA announced that, adjusted for inflation, Real Personal Spending fell by a greater-than-expected 1.2% last month. That negative tidbit was tempered somewhat by the revision of January's 2% growth to 3%. The inflation for which that adjustment is made was also shared with us by the BEA when it reported today that its Personal Consumption Expenditures Index rose by a smaller-than-expected 0.2% with the year-over-year pace edging up to 1.6% from 1.4%. Without food and energy, core PCE rose by 0.1% but the year-over-year growth rate slowed to 1.4% from 1.5%. That was for February and the picture may change next month when the deflationary experience of last March drops off the twelve-month rate. Also included in the BEA's array of statistics was the news that the Personal Savings Rate fell to 13.6% last month from the prior month's slightly revised 19.8%. That's still about double what the "normal" rate would be.

A little while ago, the University of Michigan gave us its final March report for Consumer Sentiment and that measure cheerily rose to 84.9 from 83 and that beat the estimates looking for just 83.6. The Current Conditions sub-index also rose to 93 from 91.5 while the Expectations Component rose to 79.7 from 77.5. The consumer expectations for inflation over the next year remained unchanged at 3.1%. That part won't be much fun if things work out that way, but at least we won't be stranded on some ship stuck on an Egyptian sand bar. 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	0.02	0.01	0.04	0.10	-0.09	2yr	0.18	0.26	0.20	0.21	0.24	2Yr	0.08	0.08	0.08	-
6mo	0.03	0.01	0.05	0.11	0.00	3yr	0.31	0.45	0.36	0.39	0.47	3Yr	0.24	0.25	0.20	0.24
1yr	0.06	(0.00)	0.07	0.12	0.13	5yr	0.88	0.95	0.70	0.75	0.92	5Yr	0.87	0.87	0.86	0.80
2yr	0.13	(0.02)	0.13	0.13	0.30	7yr	1.28	1.34	1.06	1.13	1.50	7Yr	1.34	1.36	1.35	1.28
3yr	0.30	(0.04)	0.28	0.15	0.37	10yr	1.76	1.68	1.55	1.65	1.95	10Yr	1.72	1.78	1.77	1.71
5yr	0.84	(0.04)	0.73	0.27	0.53	15yr	2.24	1.97	1.88	2.00	2.36	April TBA MBS				
7yr	1.30	(0.07)	1.12	0.46	0.73	20yr	2.73	2.08	2.16	2.29	2.94	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.64	(0.08)	1.41	0.66	0.85	25yr	3.23	2.12	2.30	2.44	2.99	2.00	1.33	4.4y	2.00	
30yr	2.35	(0.08)	2.15	1.40	1.44	30yr		2.13	2.44	2.59	3.04	2.50	1.20	3.4y		
												3.00	1.13	3.1y	1.79	3.9y
												3.50	1.00	2.8y	1.48	3.1y
												4.00			1.29	2.9y
												4.50			1.01	2.7y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	0.25
Primary Discount	0.25	--	0.25	0.25	0.25
2ndary Discount	0.75	--	0.75	0.75	0.75
Prime Rate	3.25	--	3.25	3.25	3.25
Sec. O.N. Finance	0.01	--	0.03	0.08	--
1 Month LIBOR	0.11	--	0.11	0.14	0.92
3 Month LIBOR	0.20	0.01	0.19	0.23	1.23
6 Month LIBOR	0.21	0.01	0.20	0.27	0.98
1 Year LIBOR	0.28	(0.00)	0.28	0.37	0.96
6 Month CD	0.20	--	0.25	0.28	0.93
1 Year CMT	0.07	(0.01)	0.09	0.12	0.19
REPO O/N	0.04	0.05	0.08	0.08	0.02
REPO 1Wk	0.07	0.01	0.06	0.13	0.09
CoF Federal	0.876	--	0.911	1.053	1.888
11th D. CoF (Jan)	0.457	--	0.460	0.653	0.984

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.31	0.26
6mo	0.22	0.31	0.26
1yr	0.28	0.29	0.29
2yr	0.33	0.51	0.36
3yr	0.49	0.69	0.53
4yr	0.78	0.98	0.80
5yr	1.03	1.24	1.04
7yr	1.49	1.75	1.49
10yr	1.90	2.18	1.90
5yr Am	0.64		0.76
10yr Am	1.38		1.43

Fed Fund Futures	
Maturity	Rate
Mar-21	0.067
Apr-21	0.065
May-21	0.070
Jun-21	0.070
Jul-21	0.075
Aug-21	0.075
Sep-21	0.075
Oct-21	0.075
Nov-21	0.075
Dec-21	0.075
Jan-22	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/22	Chicago Fed Nat Activity Index	Feb	0.72	-1.09	0.66	0.75
3/22	Existing Home Sales	Feb	6.49m	6.22m	6.69m	6.66m
3/23	Current Account Balance	4Q	-\$188.0b	-\$188.5b	-\$178.5b	-\$180.9b
3/23	New Home Sales	Feb	870k	775k	923k	948k
3/24	MBA Mortgage Applications	3/19	--	-2.5%	-2.2%	--
3/24	Durables Ex Transportation	Feb P	0.5%	-0.9%	1.3%	1.6%
3/24	Cap Goods Ship Nondef Ex Air	Feb P	-1.0%	-1.0%	1.8%	1.9%
3/24	Markit US Manufacturing PMI	Mar P	59.5	59.0	58.6	--
3/24	Markit US Composite PMI	Mar P	--	59.1	59.5	--
3/25	Initial Jobless Claims	3/20	730k	684k	770k	781k
3/25	Continuing Claims	3/13	4000k	3870k	4124k	4134k
3/25	GDP Annualized QoQ	4Q T	4.1%	4.3%	4.1%	--
3/25	Personal Consumption	4Q T	2.4%	2.3%	2.4%	--
3/25	GDP Price Index	4Q T	2.1%	2.0%	2.1%	--
3/25	Core PCE QoQ	4Q T	1.4%	1.3%	1.4%	--
3/25	Langer Consumer Comfort	3/21	--	49.1	48.6	--
3/26	Advance Goods Trade Balance	Feb	-\$86.0b	-\$86.7b	-\$83.7b	-\$84.6b
3/26	Retail Inventories MoM	Feb	0.8%	0.0%	-0.6%	-0.3%
3/26	Wholesale Inventories MoM	Feb P	0.8%	0.5%	1.3%	1.4%
3/26	Personal Income	Feb	-7.2%	-7.1%	10.0%	10.1%
3/26	Real Personal Spending	Feb	-1.0%	-1.2%	2.0%	3.0%
3/26	PCE Deflator YoY	Feb	1.6%	1.6%	1.5%	1.4%
3/26	PCE Core Deflator YoY	Feb	1.5%	1.4%	1.5%	--
3/26	U. of Mich. Sentiment	Mar F	83.6	84.9	83.0	--
3/26	U. of Mich. Current Conditions	Mar F	93.1	93.0	91.5	--
3/26	U. of Mich. 1 Yr Inflation	Mar F	--	3.1%	3.1%	--
3/30	S&P CoreLogic CS 20-City YoY NSA	Jan	11.25%	--	10.10%	--
3/30	S&P CoreLogic CS US HPI YoY NSA	Jan	--	--	10.37%	--
3/30	Conf. Board Consumer Confidence	Mar	96.1	--	91.3	--
3/30	Conf. Board Present Situation	Mar	--	--	92.0	--
3/31	ADP Employment Change	Mar	550k	--	117k	--
3/31	MNI Chicago PMI	Mar	60.0	--	59.5	--
3/31	Pending Home Sales NSA YoY	Feb	--	--	8.2%	--
4/1	Challenger Job Cuts YoY	Mar	--	--	-39.1%	--
4/1	ISM Manufacturing	Mar	61.0	--	60.8	--
4/1	ISM Prices Paid	Mar	82.0	--	86.0	--
4/1	ISM New Orders	Mar	--	--	64.8	--
4/1	ISM Employment	Mar	--	--	54.4	--
4/2	Change in Nonfarm Payrolls	Mar	630k	--	379k	--
4/2	Two-Month Payroll Net Revision	Mar	--	--	38k	--
4/2	Change in Private Payrolls	Mar	598k	--	465k	--
4/2	Change in Manufact. Payrolls	Mar	39k	--	21k	--
4/2	Unemployment Rate	Mar	6.0%	--	6.2%	--
4/2	Average Hourly Earnings YoY	Mar	4.5%	--	5.3%	--
4/2	Average Weekly Hours All Employees	Mar	34.7	--	34.6	--
4/2	Labor Force Participation Rate	Mar	--	--	61.4%	--
4/2	Underemployment Rate	Mar	--	--	11.1%	--

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	13.3	15.9	16.8	19.2	18.0	16.2
FH/FN 15y	13.0	17.9	20.4	28.2	19.0	21.7
GN 15y	16.1	14.7	15.0	14.3	13.5	13.1
FH/FN 20y	9.4	14.0	17.5	19.3	20.0	18.7
FH/FN 30y	7.9	13.1	24.2	28.2	30.4	29.4
GN 30y	9.9	13.0	19.7	19.1	27.4	21.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.75	0.87	106.57	105.50	109.58
Euro	1.18	(0.01)	1.21	1.17	1.10
Dollar Index	92.79	0.87	90.88	94.64	99.35
Major Stock Indices					
Dow Jones	32,810	182	30,932	27,174	22,552
S&P 500	3,933.4	20.3	3,811.2	3,298.5	2,630.1
NASDAQ	13,063.6	(152)	13,192.4	10,913.6	7,797.5
Commodities					
Gold	1,728.3	(13.4)	1,728.8	1,857.8	1,651.2
Crude Oil	61.07	(0.35)	61.50	40.25	22.60
Natural Gas	2.56	0.02	2.77	2.14	1.64
Wheat	609.8	-17.3	655.0	544.3	569.0
Corn	547.5	-10.3	555.5	365.3	348.8

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

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