

## Baker Market Update: Week in Review

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Well, the sunny side of the Brazos got even sunnier this week after Baylor's Big Win Monday night. Sic 'em Bears! In a much-applauded gesture of support, the bond bears that have lately been pushing up Treasury yields decided to take the week off just to celebrate. At least until today. For many investors, it would be just fine if they stayed gone since there's no real reason for them to be prowling around annoying people anyway. Or is there?

In many ways, the economy is gathering steam; in other ways, it's not. But the prospects are good for more vigor for at least as long as government support keeps on supporting it. Whatever the source of the vigor, many investors are concerned that it could spark a vigorous rise in inflation that could ultimately derail the recovery-in-progress. But, opinions vary.

The opinion of the Bureau of Labor Statistics was delayed this morning due to problems with its website, but thankfully, those problems proved to be transitory. Will the rise in its portrayal of wholesale inflation also prove to be transitory? We'll all have to wait and see on that one, but in today's Producer Price Index report, last month's 1% jump was twice what analysts expected. With last March's deflationary experience falling out of the calculation, that helped push the year-over-year pace to 4.2% from 2.8% versus surveys suggesting 3.8%. Without food and energy, core PPI had a boost in March of 0.7% when only a 0.2% rise was expected. Year-over-year, the core measure rose to 3.1% from 2.5% against an expectation of 2.7%. The bond bears had already reemerged prior to this morning's release and Treasury yields have moved up in the long-end by a handful of basis points. Still, we may end up the week with slightly lower yields than where we started. Maybe.

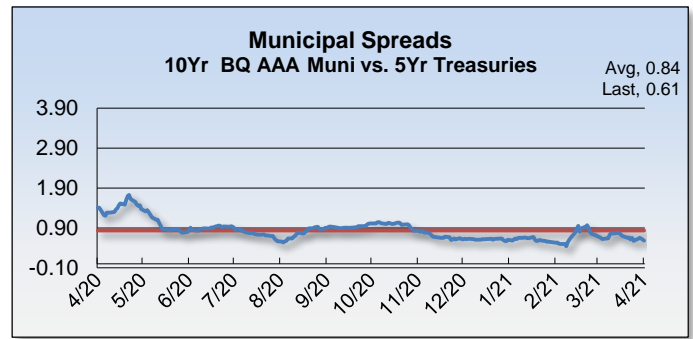
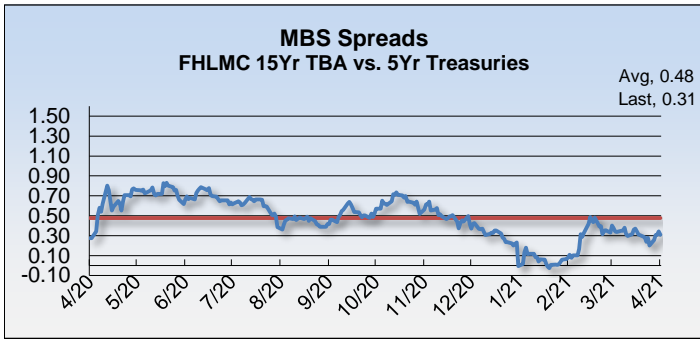
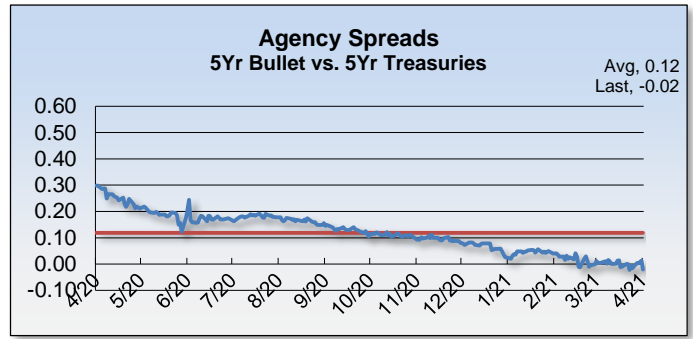
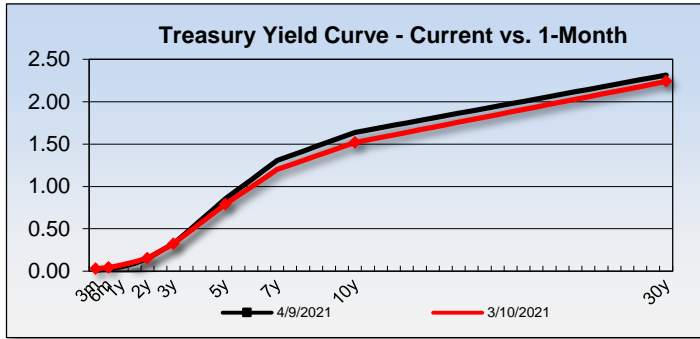
The week got started with some good news for the Services sector when Markit U.S. reported that its Services PMI rose in March to 60.4 in a final report that had preliminarily indicated a value of 60. That was followed by more good news from the Institute of Supply Management when it reported that its Services PMI leaped to a record high of 63.7 from 55.3 when only a move to 59 was expected. Unfortunately, that was followed by some disappointing news from the Census Bureau telling us that, in February, Factory Orders fell 0.8% and that was more than the 0.5% drop that was anticipated. Orders for Durable Goods didn't fare much better with a drop of 1.2%. That was only a slightly larger decline than what was expected, but it follows a 1.1% slip from the prior month. Core Capital Goods Orders also had a bad month with a 0.9% drop that followed January's bad month of an 0.8% decline.

A positive nugget of news that surprised many came on Tuesday with the Job Openings and Labor Turnover Survey (JOLTS) from the BLS. This week's report was for February and told us that Job Openings rose to 7.37M from 7.1M when a slip to 6.9M was predicted. A growing number of openings is considered to be a positive characteristic for the labor market as more businesses reopen and search for more workers. From an inflation perspective, we've seen most of the recent job growth take place in the Services sector with relatively low-paying Leisure and Hospitality openings being filled. In the minds of many, the growth in these types of jobs won't be very effective in moving the labor-cost needle that is the biggest driver of inflationary pressure. Yes, commodity prices play a role, but not nearly to the degree of labor-cost inputs. Remember, inflation measures a rate of change over time rather than short-lived price spikes.

Wednesday morning brought a bit of housing-related news with a report from the Mortgage Bankers Association telling us that Mortgage Applications fell 5.1% during the week ending April 2nd. That measure has shown declines in eight of the last nine weeks and tends to support the narrative held by some that last year's housing surge has seen its peak. The growing deficit in the nation's Trade Balance does not appear to have peaked and grew to minus \$71.1B from minus \$67.8B versus an estimate of \$70.5B. Wednesday afternoon also brought us the FOMC minutes from the March meeting and there was no startling news. But, some other news from the Federal Reserve was. The Fed reported that, in February, Consumer Credit grew by \$27.58B and that bumfuzzled the analysts who were looking for just \$2.8B. Those same analysts had yet to recover from the bumfuzzlement they experienced the prior month when they missed their estimate by about \$12B. Consumers are unpredictable.

Another missed estimate was revealed in Thursday morning's BLS report telling us that Initial Jobless Claims totaled 744k for the week ending April 3rd. That was higher than the prior week's 728k and higher than the 680k that was expected. Continuing Claims for the week ending March 27th fell less-than-expected to 3.73M from 3.75M when a decline to 3.64M was suggested by surveys.

Today's sell-off in Treasury prices suggests that the bond bears are still lurking, but can't seem to generate the same enthusiasm as their counterparts in Waco. That's a good thing and so is Baylor's National Championship! Well done! 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	0.01	(0.01)	0.03	0.10	0.22	2yr	0.20	0.29	0.18	0.19	0.26	2Yr	0.10	0.10	0.10	-
6mo	0.03	(0.01)	0.05	0.12	0.23	3yr	0.37	0.49	0.31	0.33	0.49	3Yr	0.28	0.28	0.20	0.27
1yr	0.05	(0.01)	0.08	0.13	0.22	5yr	0.91	0.99	0.66	0.70	0.94	5Yr	0.89	0.90	0.89	0.83
2yr	0.15	(0.04)	0.16	0.16	0.23	7yr	1.28	1.36	1.01	1.07	1.50	7Yr	1.35	1.37	1.36	1.30
3yr	0.32	(0.06)	0.32	0.20	0.29	10yr	1.74	1.69	1.44	1.53	1.93	10Yr	1.73	1.78	1.78	1.71
5yr	0.85	(0.12)	0.81	0.34	0.41	15yr	2.20	1.96	1.74	1.85	2.40	May TBA MBS				
7yr	1.31	(0.12)	1.22	0.55	0.60	20yr	2.65	2.07	2.02	2.15	2.89	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.64	(0.09)	1.53	0.78	0.72	25yr	3.11	2.10	2.16	2.29	2.94	2.00	1.26	4.2y	1.92	
30yr	2.31	(0.04)	2.24	1.57	1.35	30yr		2.11	2.30	2.44	2.99	2.50	1.07	3.2y		
												3.00	0.84	2.8y	1.61	3.8y
												3.50	0.65	2.5y	1.53	3.4y
												4.00			1.49	3.3y
												4.50			1.59	3.5y

\* 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	--	0.02	0.08	--
1 Month LIBOR	0.11	0.00	0.10	0.15	0.86
3 Month LIBOR	0.19	(0.00)	0.19	0.23	1.32
6 Month LIBOR	0.21	0.00	0.20	0.25	1.22
1 Year LIBOR	0.29	0.00	0.28	0.35	1.04
6 Month CD	0.20	0.01	0.12	0.25	0.76
1 Year CMT	0.05	(0.01)	0.09	0.13	0.23
REPO O/N	0.01	(0.03)	0.03	0.11	0.10
REPO 1Wk	0.07	(0.02)	0.07	0.09	0.20
CoF Federal	0.876	--	0.911	1.053	1.888
11th D. CoF (Feb)	0.408	--	0.457	0.529	0.989

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.32	0.26
6mo	0.22	0.31	0.25
1yr	0.29	0.30	0.27
2yr	0.37	0.55	0.39
3yr	0.56	0.76	0.58
4yr	0.84	1.05	0.84
5yr	1.09	1.32	1.09
7yr	1.53	1.80	1.56
10yr	1.90	2.19	1.94
5yr Am	0.71		0.80
10yr Am	1.43		1.48

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

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
4/5	Markit US Services PMI	Mar F	60.2	60.4	60.0	--
4/5	Markit US Composite PMI	Mar F	--	59.7	59.1	--
4/5	ISM Services Index	Mar	59.0	63.7	55.3	--
4/5	Factory Orders Ex Trans	Feb	-1.1%	-0.6%	4.7%	1.8%
4/5	Durables Ex Transportation	Feb F	-0.9%	-0.9%	-0.9%	--
4/5	Cap Goods Orders Nondef Ex Air	Feb F	-0.8%	-0.9%	-0.8%	--
4/5	Cap Goods Ship Nondef Ex Air	Feb F	--	-1.1%	-1.0%	--
4/6	JOLTS Job Openings	Feb	6900	7367	6917	7099
4/7	MBA Mortgage Applications	4/2	--	-5.1%	-2.2%	--
4/7	Trade Balance	Feb	-\$70.5b	-\$71.1b	-\$68.2b	-\$67.8b
4/7	Consumer Credit	Feb	\$2,800b	\$27,578b	-\$1,315b	\$0.094b
4/8	Initial Jobless Claims	4/3	680k	744k	749k	728k
4/8	Continuing Claims	3/27	3638k	3734k	3794k	3750k
4/8	Langer Consumer Comfort	4/4	--	51.9	50.0	--
4/9	PPI Final Demand MoM	Mar	0.5%	1.0%	0.5%	--
4/9	PPI Ex Food and Energy MoM	Mar	0.2%	0.7%	0.2%	--
4/9	PPI Ex Food, Energy, Trade MoM	Mar	0.2%	0.6%	0.2%	--
4/9	PPI Final Demand YoY	Mar	3.8%	4.2%	2.8%	--
4/9	PPI Ex Food and Energy YoY	Mar	2.7%	3.1%	2.5%	--
4/9	PPI Ex Food, Energy, Trade YoY	Mar	2.7%	3.1%	2.2%	--
4/9	Wholesale Inventories MoM	Feb F	0.5%	0.6%	0.5%	--
4/9	Wholesale Trade Sales MoM	Feb	--	-0.8%	4.9%	4.4%
4/12	Monthly Budget Statement	Mar	-\$660.0b	--	-\$310.9b	--
4/13	NFIB Small Business Optimism	Mar	98.0	--	95.8	--
4/13	CPI YoY	Mar	2.5%	--	1.7%	--
4/13	CPI Ex Food and Energy YoY	Mar	1.5%	--	1.3%	--
4/13	CPI Index NSA	Mar	264.75	--	263.01	--
4/13	CPI Core Index SA	Mar	271.04	--	270.30	--
4/13	Real Avg Weekly Earnings YoY	Mar	--	--	4.1%	--
4/13	Real Avg Hourly Earning YoY	Mar	--	--	3.4%	--
4/14	Import Price Index YoY	Mar	--	--	3.0%	--
4/14	Export Price Index YoY	Mar	--	--	5.2%	--
4/15	Empire Manufacturing	Apr	18.8	--	17.4	--
4/15	Retail Sales Ex Auto and Gas	Mar	6.3%	--	-3.3%	--
4/15	Retail Sales Control Group	Mar	6.9%	--	-3.5%	--
4/15	Philadelphia Fed Business Outlook	Apr	40.0	--	51.8	--
4/15	Capacity Utilization	Mar	75.6%	--	73.8%	--
4/15	Manufacturing (SIC) Production	Mar	4.0%	--	-3.1%	--
4/15	Business Inventories	Feb	0.5%	--	0.3%	--
4/15	NAHB Housing Market Index	Apr	84.0	--	82.0	--
4/15	Total Net TIC Flows	Feb	--	--	\$106.3b	--
4/15	Net Long-term TIC Flows	Feb	--	--	\$90.8b	--
4/16	Building Permits	Mar	1750k	--	4682k	1720k
4/16	Housing Starts	Mar	1606k	--	1421k	--
4/16	U. of Mich. Sentiment	Apr P	89.0	--	84.9	--
4/16	U. of Mich. Current Conditions	Apr P	--	--	93.0	--
4/16	U. of Mich. 1 Yr Inflation	Apr P	--	--	3.1%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.7	26.7	28.0	29.5	27.4	33.1
FH/FN 15y	9.8	37.7	43.5	46.2	33.7	22.5
GN 15y	22.2	19.2	19.4	19.8	20.6	19.5
FH/FN 20y	56.2	36.2	35.6	33.0	31.0	24.0
FH/FN 30y	6.4	24.3	58.7	58.1	56.2	53.6
GN 30y	9.1	20.4	41.6	51.8	47.6	28.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.3	18.9	19.4	20.2	21.6	20.0
FH/FN 15y	14.7	18.5	22.3	26.4	24.1	20.9
GN 15y	14.5	14.7	14.9	14.2	13.4	13.2
FH/FN 20y	13.4	16.7	16.8	16.9	17.1	16.7
FH/FN 30y	10.7	14.3	23.4	24.5	27.1	24.8
GN 30y	9.9	12.5	16.9	18.7	19.8	13.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	109.62	(1.07)	108.48	105.62	108.49
Euro	1.19	0.01	1.19	1.18	1.09
Dollar Index	92.20	(0.73)	91.96	93.06	99.52
<b>Major Stock Indices</b>					
Dow Jones	33,557	404	31,833	28,587	23,719
S&P 500	4,100.9	81.0	3,875.4	3,477.1	2,789.8
NASDAQ	13,792.3	312	13,073.8	11,579.9	8,153.6
<b>Commodities</b>					
Gold	1,733.3	6.8	1,716.9	1,919.5	1,736.2
Crude Oil	59.43	(2.02)	64.01	40.60	22.76
Natural Gas	2.54	(0.10)	2.66	2.74	1.73
Wheat	640.5	29.5	656.5	593.8	556.5
Corn	584.0	24.3	562.0	395.0	331.8

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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