

Baker Market Update: Week in Review

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Oscar Wilde is famous for being Ireland's second-greatest poet. He's also famous for famously saying that a cynic is one who knows the price of everything, but the value of nothing. These days, the price of everything seems to be on the minds of everyone as the prospects of inflation, to some, cast a shadow over the economy's mighty struggle to free itself from the repressive shackles of pandemic-propelled policies. But, there are skeptics a-plenty, including our own monetary policy-makers, who think that inflationary fears are overblown and any near-term blips should be viewed as a temporary condition while supply and demand variables rebalance themselves. Which side is the cynical one?

That question wasn't answered this week, but investors did get a look at some more inflation evidence they can use in whatever cynical manner they choose. On Tuesday, the Bureau of Labor Statistics reported that its Consumer Price Index rose last month by a higher-than-expected 0.6%. The year-over-year measure, skewed by the effects of a significantly changing reference base, jumped to 2.6% from 1.7%. Some good advice might be to ignore these twelve-month rate changes for a few months until the worst readings from the depths of last year's lockdown work themselves out of the calculations. Calculating CPI without food and energy resulted in a March rise of 0.3% that helped push the year-over-year pace to 1.6% from 1.3%.

With inflation measurements on the rise, inflation-adjusted measures of workers' compensation are on the decline. According to the BLS, Real Average Hourly Earnings fell in March to a 1.5% year-over-year growth rate from February's 3.4% annualized pace. Real Average Weekly Earnings were less affected with a year-over-year dip to 3.9% from 4.1%. A cynic might say that if domestic inflation doesn't get you, foreign inflation will. Whether it will or not is hard to know, but the BLS knows that its Import Price Index rose by 1.2% last month when only a rise of 0.9% was expected. Year-over-year, that measure got a boost to 6.9% in March and that was up big from February's 3.1% twelve-month rate. More base effects. For exports, that Index rose by 2.1% and that was a lot more than the 1% rise that analysts expected. More changing base effects pushed that year-over-year rate to 9.1% from 5.3%. Would it be cynical to say that at least the stuff we're selling is inflating faster than the stuff we're buying?

No cynicism came from the New York Fed yesterday morning when it reported that its Empire Manufacturing Index roared to an April level of 26.3 from 17.4 soundly beating expectations of 20. The BLS followed that with more positive news that Initial Jobless Claims only totaled 576k for the week ending April 10th and that was way below the predictions of 700k. It was also way below the prior week's upwardly-revised 765k and the lowest reading since the beginning of the lockdown. Continuing Claims for the week ending April 3rd didn't fare quite as well and they actually rose slightly to 3.731M after the prior week was downwardly revised to 3.727M. But, if one rounds to the second decimal place, they didn't change. Don't be a cynic.

But a big change took place in Retail Sales last month and we learned yesterday that those Sales rose 9.8% while experts were only looking for a gain of 5.8%. The relief-check fueled rise in consumption more than compensated for February's 2.7% decline. Without autos, the growth in Sales was 8.4% versus estimates of just 5%. The Retail Sales Control Group, without food, autos, gas stations, and building materials, also notched a significant rise of 6.9%, but fell just short of the estimated 7.2% growth that analysts expected.

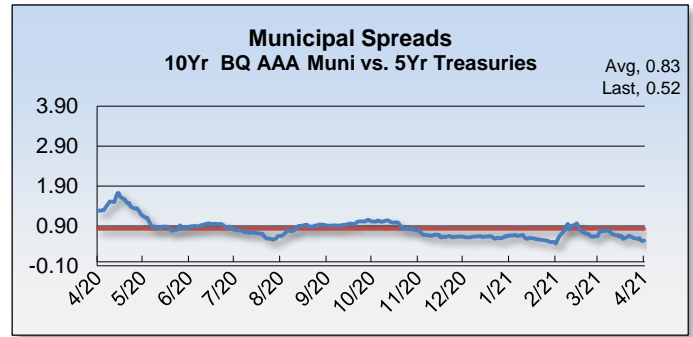
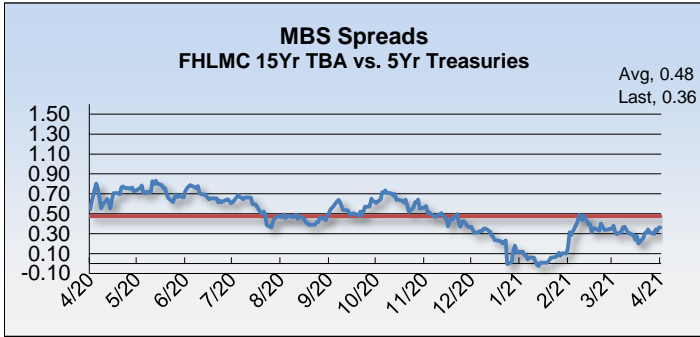
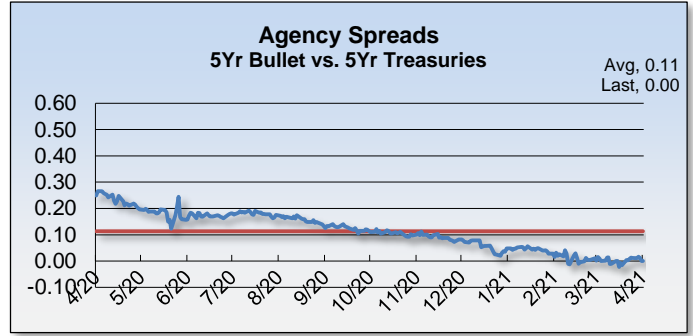
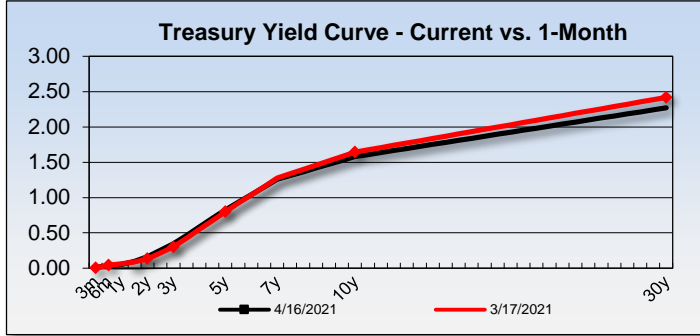
Also yesterday, the Philadelphia Fed had a good news/bad news report for this month's Business Outlook Survey of Business Conditions. That broad measure astounded most observers last month when it unexpectedly soared to 51.8 from 28.7 and the bad news is that this month's report downwardly revised that result to 44.5. The good news is that it makes April's new level of 50.2 look like an increase and was much more robust than the pre-release estimate of 41.5.

Thursday's news also included a report from the Census Bureau telling us that Industrial Production didn't produce quite enough last month and its 1.4% growth rate was a disappointment for those expecting 2.5%. But, it was still a lot better than February's 2.6% fall. Capacity Utilization also underperformed last month and even though it rose to 74.4% from 73.4%, that was substantially below the 75.6% analysts were predicting. There's still a lot of slack out there and the incremental narrowing of the economy's output gap will become a more difficult task as conditions improve.

Conditions have improved a lot for the Housing sector over the past year and further incremental gains may likewise prove difficult to achieve. Nevertheless, the National Association of Home Builders reported that its Housing Market Index stayed strong this month with a move to 83 from 82. And as for incremental gains, we learned today that Housing Starts positively leaped by 19.4% last month against an already heady expectation of 13.5%. The numbers for March helped erase February's revised plunge of 11.3% and January's dip of 5.1%. Building Permits also had a good month in March with a rise of 2.7% and that beat the estimates calling for just 1.7%. Cynics of Housing's momentum might point to last week's 3.7% fall in Mortgage Applications as a fly in the ointment. That's because it is, and was also the sixth consecutive weekly decline for a measure that's been negative for nine of the last ten weeks.

But, that little bit of negativity couldn't stop the University of Michigan from reporting today that its Index of Consumer Sentiment improved this month to 86.5 from 84.9, but it may have prevented it from reaching the 89 that was forecast. Within the report, we also learned that the Current Conditions sub-index rose to 97.2 from 93 and beat the estimates calling for 96. The Expectations component proved to be a disappointment by staying at 79.7 instead of getting the boost to 85 that was expected. Would it be cynical to say that consumers realize our economic fortunes seem to live and die with relief checks and this result shows that consumers expect them to eventually stop coming?

That's a tricky one, but no less tricky than trying to figure out what the bond vigilantes are up to. Their hair-on-fire view of inflation is sounding more and more like the boy-who-cried-wolf and earlier attempts to push bond yields higher have now resulted in two consecutive weeks in which the Ten-Year's yield will land up lower than where it started. Who's the cynic now? And who is Ireland's greatest poet? Well, that's W.B. Yeats, of course. 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	0.01	(0.00)	0.02	0.09	0.13	2yr	0.20	0.28	0.10	0.10	0.27	2Yr	0.10	0.10	0.10	-
6mo	0.04	0.00	0.05	0.11	0.17	3yr	0.35	0.46	0.20	0.21	0.48	3Yr	0.28	0.29	0.20	0.28
1yr	0.06	(0.00)	0.07	0.12	0.16	5yr	0.87	0.90	0.50	0.54	0.89	5Yr	0.85	0.85	0.84	0.78
2yr	0.16	0.01	0.15	0.14	0.21	7yr	1.25	1.25	0.87	0.92	1.39	7Yr	1.28	1.30	1.29	1.23
3yr	0.34	0.01	0.34	0.18	0.26	10yr	1.66	1.56	1.30	1.39	1.83	10Yr	1.65	1.71	1.70	1.63
5yr	0.83	(0.04)	0.83	0.32	0.36	15yr	2.07	1.83	1.62	1.73	2.30	May TBA MBS				
7yr	1.26	(0.07)	1.28	0.53	0.51	20yr	2.48	1.93	1.90	2.03	2.76	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.58	(0.08)	1.62	0.75	0.63	25yr	2.89	1.97	2.04	2.17	2.81	2.00	1.24	4.5y	1.86	
30yr	2.27	(0.06)	2.38	1.53	1.23	30yr		1.98	2.17	2.31	2.86	2.50	0.96	3.1y		
												3.00	1.02	3.0y	1.51	3.5y
												3.50	0.89	2.7y	1.26	2.9y
												4.00			1.13	2.8y
												4.50			0.92	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	--	0.01	0.10	--
1 Month LIBOR	0.12	0.00	0.11	0.15	0.79
3 Month LIBOR	0.18	(0.01)	0.19	0.23	1.18
6 Month LIBOR	0.22	0.01	0.19	0.25	1.16
1 Year LIBOR	0.29	0.00	0.28	0.34	1.03
6 Month CD	0.14	(0.06)	0.14	0.26	0.97
1 Year CMT	0.06	0.01	0.08	0.12	0.19
REPO O/N	0.01	0.01	0.02	0.13	0.11
REPO 1Wk	0.07	--	0.09	0.13	0.14
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	0.31	0.26
6mo	0.22	0.31	0.26
1yr	0.28	0.29	0.28
2yr	0.37	0.55	0.40
3yr	0.53	0.72	0.58
4yr	0.80	1.00	0.84
5yr	1.03	1.24	1.08
7yr	1.45	1.71	1.51
10yr	1.82	2.10	1.88
5yr Am	0.67		0.80
10yr Am	1.35		1.45

Fed Fund Futures	
Maturity	Rate
Apr-21	0.070
May-21	0.085
Jun-21	0.090
Jul-21	0.090
Aug-21	0.095
Sep-21	0.095
Oct-21	0.090
Nov-21	0.090
Dec-21	0.090
Jan-22	0.095
Feb-22	0.100

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
4/12	Monthly Budget Statement	Mar	-\$658.0b	-\$659.6b	-\$119.1b	--
4/13	NFIB Small Business Optimism	Mar	98.5	98.2	95.8	--
4/13	CPI MoM	Mar	0.5%	0.6%	0.4%	--
4/13	CPI Ex Food and Energy MoM	Mar	0.2%	0.3%	0.1%	--
4/13	CPI YoY	Mar	2.5%	2.6%	1.7%	--
4/13	CPI Ex Food and Energy YoY	Mar	1.5%	1.6%	1.3%	--
4/13	CPI Index NSA	Mar	264.70	264.88	263.01	--
4/13	CPI Core Index SA	Mar	270.97	271.21	270.30	--
4/13	Real Avg Weekly Earnings YoY	Mar	--	3.9%	4.1%	--
4/13	Real Avg Hourly Earning YoY	Mar	--	1.5%	3.4%	--
4/14	MBA Mortgage Applications	4/9	--	-3.7%	-5.1%	--
4/14	Import Price Index MoM	Mar	0.9%	1.2%	1.3%	--
4/14	Import Price Index ex Petroleum MoM	Mar	0.4%	0.9%	0.5%	--
4/14	Import Price Index YoY	Mar	6.4%	6.9%	3.0%	3.1%
4/14	Export Price Index MoM	Mar	1.0%	2.1%	1.6%	--
4/14	Export Price Index YoY	Mar	--	9.1%	5.2%	5.3%
4/15	Empire Manufacturing	Apr	20.0	26.3	17.4	--
4/15	Initial Jobless Claims	4/10	700k	576k	744k	769k
4/15	Continuing Claims	4/3	3700k	3731k	3734k	3727k
4/15	Retail Sales Advance MoM	Mar	5.8%	9.8%	-3.0%	-2.7%
4/15	Retail Sales Ex Auto MoM	Mar	5.0%	8.4%	-2.7%	-2.5%
4/15	Retail Sales Ex Auto and Gas	Mar	6.4%	8.2%	-3.3%	-3.1%
4/15	Retail Sales Control Group	Mar	7.2%	6.9%	-3.5%	-3.4%
4/15	Philadelphia Fed Business Outlook	Apr	41.5	50.2	54.8	44.5
4/15	Industrial Production MoM	Mar	2.5%	1.4%	-2.2%	-2.6%
4/15	Capacity Utilization	Mar	75.6%	74.4%	73.8%	73.4%
4/15	Manufacturing (SIC) Production	Mar	3.6%	2.7%	-3.1%	-3.7%
4/15	Business Consumer Comfort	4/11	--	53.9	51.9	--
4/15	Langer Inventories	Feb	0.5%	0.5%	0.3%	0.4%
4/15	NAHB Housing Market Index	Apr	83	83	82	--
4/15	Total Net TIC Flows	Feb	--	\$72.6b	\$106.3b	\$105.8b
4/15	Net Long-term TIC Flows	Feb	--	\$4.2b	\$90.8b	\$91.0b
4/16	Housing Starts	Mar	1613k	1739k	1421k	1457k
4/16	Housing Starts MoM	Mar	13.5%	19.4%	-10.3%	-11.3%
4/16	Building Permits	Mar	1750k	1766k	1682k	1720k
4/16	Building Permits MoM	Mar	1.7%	2.7%	-10.8%	-8.8%
4/16	U. of Mich. Sentiment	Apr P	89.0	86.5	84.9	--
4/16	U. of Mich. Current Conditions	Apr P	96.0	97.2	93.0	--
4/16	U. of Mich. 1 Yr Inflation	Apr P	3.3%	3.7%	3.1%	--
4/22	Chicago Fed Nat Activity Index	Mar	--	--	-1.09	--
4/22	Leading Index	Mar	0.7%	--	0.2%	--
4/22	Existing Home Sales	Mar	6.19m	--	6.22m	--
4/22	Kansas City Fed Manf. Activity	Apr	--	--	26.0	--
4/23	Markit US Manufacturing PMI	Apr P	60.3	--	59.1	--
4/23	Markit US Services PMI	Apr P	61.5	--	60.4	--
4/23	Markit US Composite PMI	Apr P	--	--	59.7	--
4/23	New Home Sales	Mar	875k	--	775k	--

MBS Prepayments ⁴						
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	13.6	16.6	17.1	19.7	18.2	16.3
FH/FN 15y	13.3	19.6	21.0	28.9	19.2	21.8
GN 15y	17.6	14.9	15.2	14.2	13.4	13.2
FH/FN 20y	11.1	13.1	17.7	19.1	19.4	18.5
FH/FN 30y	8.5	14.1	25.1	28.2	30.8	29.4
GN 30y	10.0	14.8	21.8	19.9	27.0	20.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	108.78	(0.89)	109.00	105.40	107.92
Euro	1.20	0.01	1.19	1.17	1.08
Dollar Index	91.50	(0.66)	91.87	93.68	100.03
Major Stock Indices					
Dow Jones	34,170	370	32,826	28,606	23,538
S&P 500	4,179.6	50.8	3,962.7	3,483.8	2,799.6
NASDAQ	14,015.8	116	13,471.6	11,671.6	8,532.4
Commodities					
Gold	1,778.1	34.8	1,730.9	1,900.8	1,720.4
Crude Oil	62.97	3.65	64.80	40.88	19.87
Natural Gas	2.68	0.15	2.56	2.77	1.69
Wheat	652.5	13.8	647.0	625.3	529.8
Corn	590.8	13.5	554.3	402.0	319.8

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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