

Baker Market Update

Week In Review

February 14, 2025



Andrea Pringle

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This was a busy week for US markets with important policy announcements, notable economic data and a congressional appearance by Fed Chair Jerome Powell. On Monday, President Trump increased tariffs on steel and aluminum imports to a flat 25% “without exceptions or exemptions.” The move is intended to help struggling US companies compete but also risks igniting a multi-front trade war with countries like Canada, Brazil, and Mexico who are the largest suppliers of steel to the US.

On Thursday, President Trump followed up with a plan to impose reciprocal tariffs on US trading partners. The initiative would match the tax rates that other countries charge on imports and is intended to equalize the playing field for US and foreign manufacturers. However, under current law these new taxes would likely be paid by American consumers and businesses either directly or in the form of higher prices; although, there is still time for the rates to be studied over the weeks ahead and potentially resolve some of these challenges.

Federal Reserve Chairman Jerome Powell delivered his two-day semi-annual testimony to Congress this week, providing key insights into the Fed’s outlook on the economy. He indicated that economic fundamentals remain strong and the Fed sees no immediate need to adjust interest rates, telling the committee “With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance.” Other Fed officials echoed Powell’s sentiment this week, reiterating that the Fed is in no hurry to further lower rates given so many wider uncertainties.

Inflation data presented a mixed picture this week. The Consumer Price Index (CPI) came in hotter than expected on Wednesday, rising 0.5% in January (est = 0.3%) and 3.0% from a year ago (est = 2.9%). Core CPI rose 0.4% (est = 0.3%) and 3.3% from a year ago (est = 3.1%). The price increases were broad-based with most categories showing larger monthly increases than prior months except for apparel where prices fell. The monthly increase was the largest since August 2023 and annual CPI accelerated for the fourth consecutive month since hitting a low of 2.4% in September.

Thursday’s Producer Price Index (PPI) also came in higher than forecast for the month of January, rising 0.4% on a monthly basis and 3.5% annually (vs. 0.3% and 3.3% est). PPI often leads consumer inflation and several of its components feed into the Fed’s preferred inflation measure, Personal Consumption Expenditures (PCE). The disappointing inflation readings initially helped fuel the worst selloff in Treasuries since December, but they quickly rebounded after the PPI print as it signaled a softer PCE print may be to come. The specific categories that go into the PCE calculation actually registered declines for the month of January, which would presage a weaker PCE reading on February 28th.

(Continued)

UPCOMING EVENTS

2025 Destination Seminar

Austin, TX
May 8–9, 2025

Banks

Webinars:

Q1 IRR Management
Mar 12, 2025

Seminars:

KS Seminar
May 22, 2025

IA Seminar
Jun 17, 2025

NE Seminar
Jun 18, 2025

WI Seminar
Jul 24, 2025

IL Seminar
Aug 04, 2025

CUs

Virtual Schools:

Virtual Bond School
Mar 26–27, 2025

Banks and CUs

Schools:

ALM School
Apr 24–25, 2025

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Finally, Friday's retail sales data showed a significant downturn in consumer spending, with sales dropping 0.9% MoM (vs. -0.2% est). This marks the largest decline in two years and suggests consumers are still grappling with stubborn inflation, high borrowing costs, and rising debt delinquencies. A separate report from the Federal Reserve Bank of New

York out yesterday also showed the share of outstanding US consumer debt that is in delinquency rose to the highest level in almost five years in the fourth quarter of 2024.

Hope everyone has a very happy Valentines Day and a nice long weekend!

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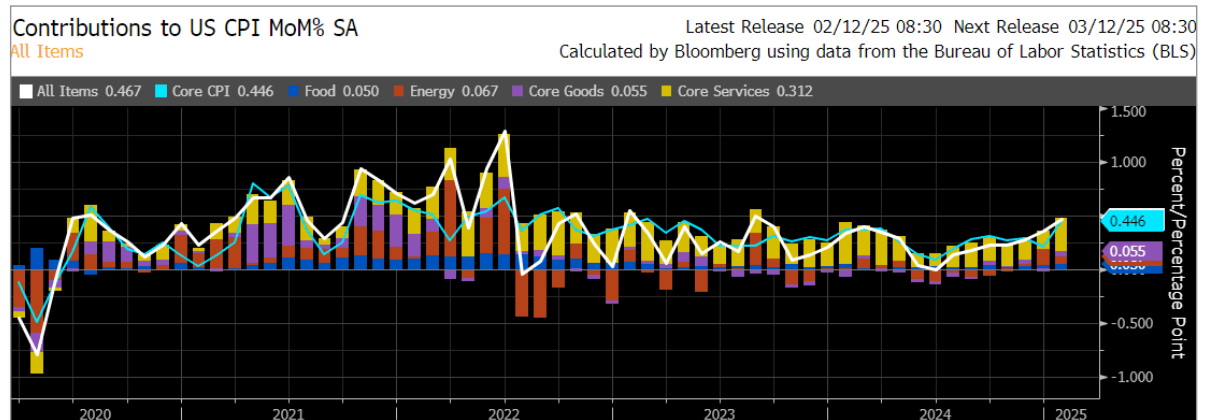
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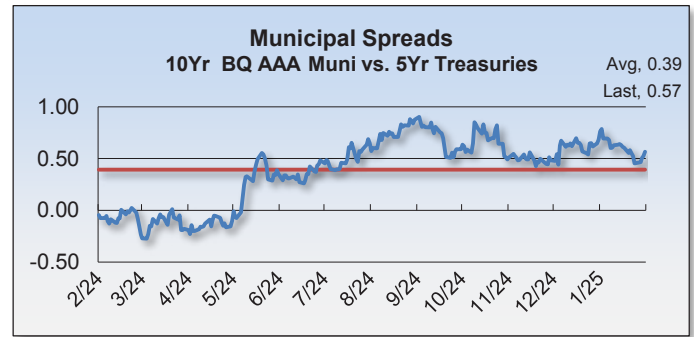
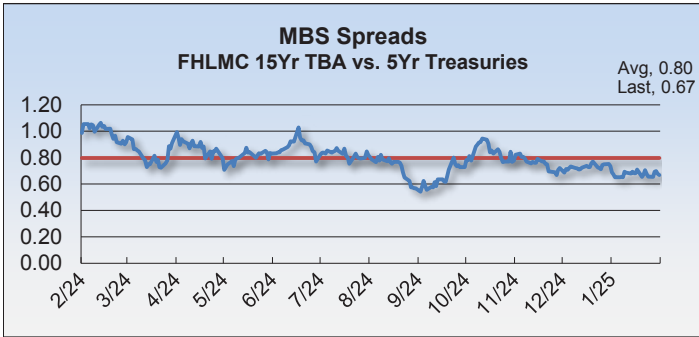
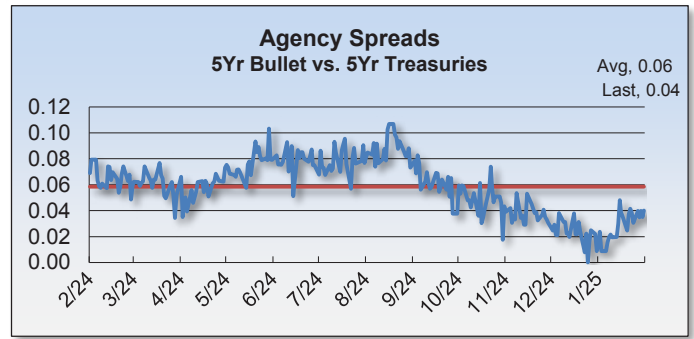
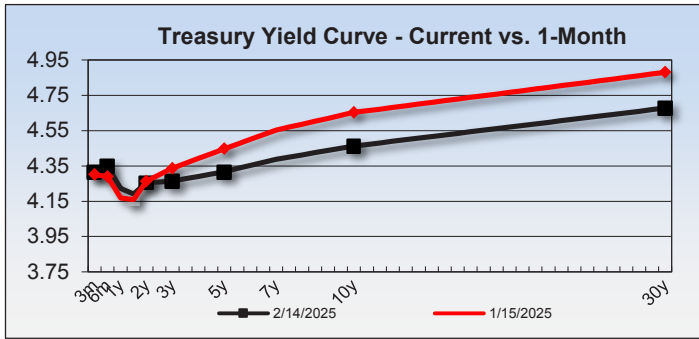


Source: Bloomberg, L.P.

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Treasury Market -- Historical						Fixed Rate Market										
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Mty	Agency Calls - Euro			
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³			3Mo	6mo	1Yr	2Yr
3mo	4.32	(0.02)	4.31	5.21	5.39	2yr	4.28	4.15	3.78	4.02	4.50	2Yr				
6mo	4.35	0.01	4.32	4.96	5.33	3yr	4.28	4.12	3.82	4.07	4.54	3Yr				
1yr	4.22	(0.01)	4.21	4.43	4.95	5yr	4.39	4.11	3.91	4.16	4.63	5Yr				
2yr	4.25	(0.04)	4.37	3.96	4.58	7yr	4.46	4.12	4.02	4.28	4.82	7Yr				
3yr	4.26	(0.05)	4.47	3.77	4.47	10yr	4.65	4.15	4.27	4.54	5.02	10Yr				
5yr	4.32	(0.03)	4.60	3.68	4.24	15yr	4.84	4.21	4.70	5.01	5.16					
7yr	4.39	(0.03)	4.71	3.73	4.27	20yr	5.03	4.20	5.39	5.74	5.35					
10yr	4.46	(0.03)	4.79	3.84	4.26	25yr	5.22	4.13	5.53	5.89	5.41					
30yr	4.68	(0.02)	4.98	4.13	4.44	30yr		4.05	5.67	6.03	5.47					
													March TBA MBS			
												Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
												3.50	5.04	4.9y	5.28	
												4.00	4.96	4.9y		
												4.50	4.94	5.3y	5.38	9.8y
												5.00	4.99	4.9y	5.52	9.2y
												5.50			5.68	7.9y
												6.00			5.77	5.8y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.50	--	4.50	5.50	5.50
Primary Discount	4.50	--	4.50	5.50	5.50
2ndary Discount	5.00	--	5.00	6.00	6.00
Prime Rate	7.50	--	7.50	8.50	8.50
Sec. O.N. Finance	4.33	(0.03)	4.29	5.34	--
1 Month LIBOR	4.96	(0.01)	5.31	5.44	5.43
3 Month LIBOR	4.85	(0.08)	5.28	5.56	5.66
6 Month LIBOR	4.68	(0.08)	5.14	5.65	5.90
1 Year LIBOR	6.04	0.12	5.73	5.48	3.62
6 Month CD	4.39	0.07	4.39	4.94	5.39
1 Year CMT	4.27	0.08	4.24	4.40	4.99
REPO O/N	4.37	--	4.33	5.38	5.38
REPO 1Wk	4.36	(0.03)	4.38	5.35	5.38
CoF Federal	3.719	--	3.767	3.969	3.855
11th D. CoF (Dec)	2.990	--	3.038	3.240	3.126

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.46	4.49	4.51
6mo	4.46	4.48	4.53
1yr	4.36	4.36	4.52
2yr	4.36	4.39	4.51
3yr	4.37	4.41	4.53
4yr	4.41	4.46	4.58
5yr	4.44	4.49	4.62
7yr	4.62	4.69	4.81
10yr	4.77	4.85	4.95
5yr Am	4.15		4.62
10yr Am	4.21		4.83

Fed Fund Futures		
Maturity	Rate	
Feb-25	4.328	
Mar-25	4.325	
Apr-25	4.325	
May-25	4.290	
Jun-25	4.240	
Jul-25	4.180	
Aug-25	4.130	
Sep-25	4.095	
Oct-25	4.040	
Nov-25	3.995	
Dec-25	3.955	

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/10	NY Fed 1-Yr Inflation Expectations	Jan	3.1%	3.0%	3.0%	--
2/11	NFIB Small Business Optimism	Jan	104.7	102.8	105.1	--
2/12	MBA Mortgage Applications	2/7	--	2.3%	2.2%	--
2/12	CPI MoM	Jan	0.3%	0.5%	0.4%	--
2/12	CPI Ex Food and Energy MoM	Jan	0.3%	0.4%	0.2%	--
2/12	CPI YoY	Jan	2.9%	3.0%	2.9%	--
2/12	CPI Ex Food and Energy YoY	Jan	3.1%	3.3%	3.2%	--
2/12	CPI Index NSA	Jan	317.42	317.67	315.61	--
2/12	CPI Core Index SA	Jan	324.24	324.74	323.38	323.30
2/12	Real Avg Hourly Earning YoY	Jan	--	1.0%	1.0%	1.2%
2/12	Real Avg Weekly Earnings YoY	Jan	--	0.7%	0.7%	0.6%
2/13	PPI Final Demand MoM	Jan	0.3%	0.4%	0.2%	0.5%
2/13	PPI Ex Food and Energy MoM	Jan	0.3%	0.3%	0.0%	0.4%
2/13	PPI Ex Food, Energy, Trade MoM	Jan	0.2%	0.3%	0.1%	0.4%
2/13	PPI Final Demand YoY	Jan	3.3%	3.5%	3.3%	3.5%
2/13	PPI Ex Food and Energy YoY	Jan	3.3%	3.6%	3.5%	3.7%
2/13	PPI Ex Food, Energy, Trade YoY	Jan	3.1%	3.4%	3.3%	3.5%
2/13	Initial Jobless Claims	2/8	216k	213k	219k	220k
2/13	Continuing Claims	2/1	1882k	1850k	1886k	--
2/14	Retail Sales Advance MoM	Jan	-0.2%	-0.9%	0.4%	0.7%
2/14	Retail Sales Ex Auto MoM	Jan	0.3%	-0.4%	0.4%	0.7%
2/14	Retail Sales Ex Auto and Gas	Jan	0.3%	-0.5%	0.3%	0.5%
2/14	Retail Sales Control Group	Jan	0.3%	-0.8%	0.7%	0.8%
2/14	Import Price Index MoM	Jan	0.4%	0.3%	0.1%	0.2%
2/14	Import Price Index ex Petroleum MoM	Jan	0.2%	0.1%	0.2%	--
2/14	Import Price Index YoY	Jan	1.9%	1.9%	2.2%	2.3%
2/14	Export Price Index MoM	Jan	0.3%	1.3%	0.3%	0.5%
2/14	Export Price Index YoY	Jan	1.4%	2.7%	1.8%	2.0%
2/14	Industrial Production MoM	Jan	0.3%	0.5%	0.9%	1.0%
2/14	Capacity Utilization	Jan	77.7%	77.8%	77.6%	77.5%
2/14	Manufacturing (SIC) Production	Jan	0.1%	-0.1%	0.6%	0.5%
2/14	Business Inventories	Dec	-0.1%	-0.2%	0.1%	--
2/18	Empire Manufacturing	Feb	-1.0	--	-12.6	--
2/18	NAHB Housing Market Index	Feb	47.0	--	47.0	--
2/18	Net Long-term TIC Flows	Dec	--	--	\$79.0b	--
2/18	Total Net TIC Flows	Dec	--	--	\$159.9b	--
2/19	Housing Starts	Jan	1394k	--	1499k	--
2/19	New York Fed Services Business Activit	Feb	--	--	-5.6	--
2/20	Philadelphia Fed Business Outlook	Feb	25.4	--	44.3	--
2/20	Leading Index	Jan	0.0%	--	-0.1%	--
2/21	S&P Global US Manufacturing PMI	Feb P	--	--	51.2	--
2/21	S&P Global US Services PMI	Feb P	--	--	52.9	--
2/21	S&P Global US Composite PMI	Feb P	--	--	52.7	--
2/21	U. of Mich. Sentiment	Feb F	--	--	67.8	--
2/21	U. of Mich. Current Conditions	Feb F	--	--	68.7	--
2/21	U. of Mich. 1 Yr Inflation	Feb F	--	--	4.3%	--
2/21	Existing Home Sales	Jan	4.15m	--	4.24m	--

MBS Prepayments ⁴						
3-Month CPR						
Type	3.5	4.0	4.5	5.0	5.5	6.0
FN 10y	14.6	14.8	14.0	18.3	21.3	24.0
FH/FN 15y	8.9	11.7	17.8	14.8	12.5	18.8
GN 15y	26.5	32.6	48.7	35.1	95.2	76.3
FH/FN 20y	7.1	8.1	10.0	12.2	16.0	17.5
FH/FN 30y	5.2	5.6	5.1	7.9	7.1	8.9
GN 30y	5.6	4.4	5.7	6.3	7.0	7.0

CPR Projections						
Type	3.5	4.0	4.5	5.0	5.5	6.0
FN 10y	11.6	12.2	14.2	16.8	18.0	20.5
FH/FN 15y	8.1	9.4	15.4	14.1	17.0	23.5
GN 15y	11.6	11.5	12.4	11.5	14.9	20.7
FH/FN 20y	6.8	7.8	8.9	11.4	13.1	14.6
FH/FN 30y	6.1	6.5	7.3	7.9	9.7	12.5
GN 30y	6.4	7.8	7.6	8.9	9.7	10.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	152.30	0.89	157.83	146.87	150.59
Euro	1.05	0.02	1.03	1.10	1.07
Dollar Index	106.64	(1.40)	109.27	102.57	104.72
Major Stock Indices					
Dow Jones	44,719	415	42,518	40,008	38,424
S&P 500	6,120.2	94.2	5,842.9	5,455.2	5,000.6
NASDAQ	19,968.9	446	19,044.4	17,192.6	15,859.2
Commodities					
Gold	2,921.6	54.3	2,682.3	2,439.4	1,990.3
Crude Oil	71.57	0.57	77.50	76.98	76.64
Natural Gas	3.76	0.45	3.97	2.22	1.61
Wheat	595.0	12.3	546.3	534.8	585.5
Corn	498.3	10.8	474.5	381.0	424.3

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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