

## Baker Market Update: Week in Review

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Yet another week of intense negotiations, and still no definitive trade deal with China. Even though signs of progress are uneven and the President has tempered his optimism, both sides are certainly doing their best and, no doubt, giving it the ol' college try. But, as we've learned this week, the ol' college try isn't what it used to be and plans for a late-March, Mar-a-Lago, celebratory keg party are up in the air. Back in jolly ol' England, the embattled Mrs. May could probably do with a cold one, or two, after another week of more failed attempts to somehow enable the United Kingdom to gracefully end its existing relationship with the European Union. Britannia may have once ruled the waves, but *that* ship has already sailed; there will be no graceful exit for the Brits.

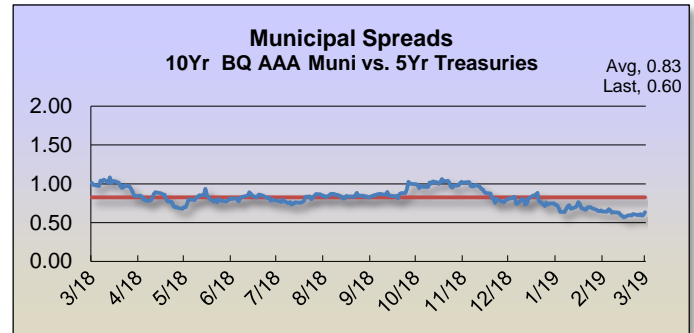
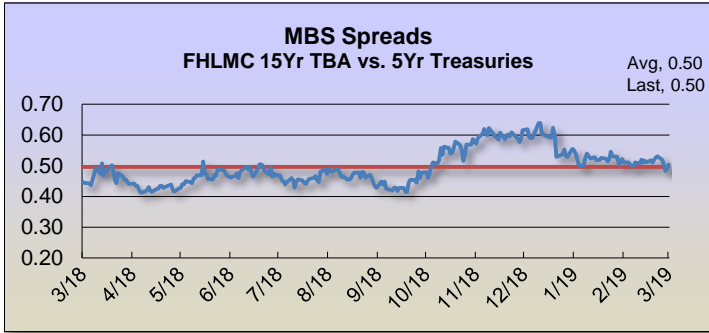
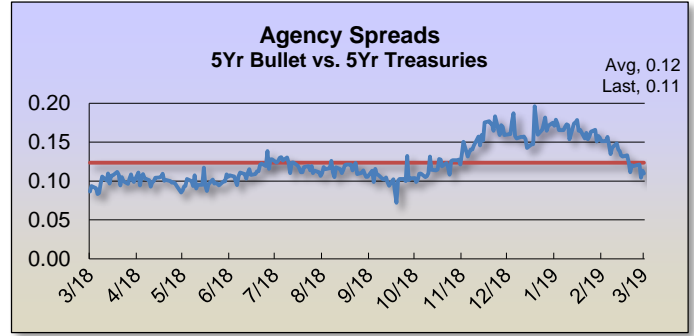
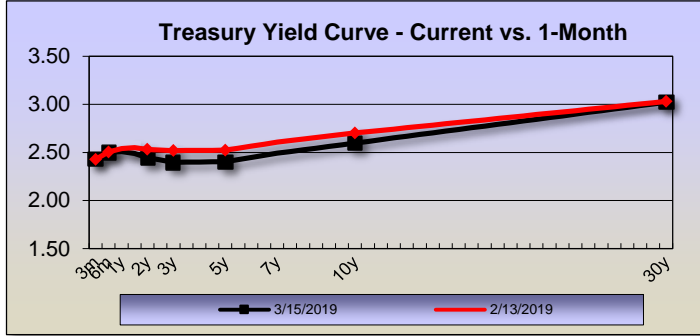
For America, the consumer has historically been the economy's saving grace but it's more about the spending, not the saving, that matters at the moment. The week began with a Retail Sales report that, relative to the last one, looked like consumptive salvation. The rise of 0.2% in overall Sales may not seem very shiny, but its luster begins to improve when compared to the prior month's decline of 1.2% and the expectation of things unchanged. Unfortunately, that didn't keep the National Federation of Independent Businesses Optimism Index from falling short of those pesky expectations. The move up to 101.7 from 101.2 was a move in the right direction, but it fell far short of the anticipated level of 102.5.

Another measure of economic performance that, these days, can be reliably counted on to fall short of expectations is inflation. Comfortable in its role as an underachiever, the Consumer Price Index (CPI) did not disappoint. The expected rise of 0.2% in the "core" index was only half of that and the year-over-year measure declined from 2.2% to 2.1%. This may not be the Fed's favorite inflation data, but it's still data and it's still saying that inflation is not going the Fed's way. A bright spot might be found in the measure of inflation-adjusted or *Real* Average Hourly Earnings. Last month, that year-over-year measure grew to 1.9% from 1.6%, but attentive observers may recall that in last week's Jobs report, Average Weekly Hours slipped a bit. Wholesale inflation also slipped a bit as the behavior of February's Producer Price Index (PPI) was a near mirror image of the CPI report: flat to slightly down.

But, there's nothing down about Durable Goods Orders. A preliminary report for January showed that measure rising by 0.4% when a drop of the same magnitude was expected by the experts. One assumes they're the same experts who managed to get all their other forecasts wrong this week. But, who's counting? Well, the Census Bureau counted up all the money that went toward Construction Spending last month and it was a lot more than the experts figured. January's 1.3% jump far outshone the 0.5% rise that surveys suggested. The suggestion that the American labor market is stronger than a new rope is perhaps fraying a bit as this week's Jobless Claims count was the highest in four weeks, while New Home Sales slipped to their lowest in three months.

An even bigger slip was experienced by the New York Fed's Empire Manufacturing Index. After February's reading of 8.8, the Empire struck back with a sharp decline to 3.7. The force was not with the experts who were predicting a new reading of 10. But, the universe was smiling on the University of Michigan's Consumer Sentiment Index as this morning's preliminary report improved to 97.8 from 93.8. An even bigger surprise, and another pleasant one, was the upward move in the report's Expectations sub-index. That measure sprung to 89.2 from 84.4.

For the week, bond yields did not spring anywhere. The 2.65% that the Ten-Year's yield opened up with on Monday morning has become today's 2.58% as the steady drip of disappointing data, unresolved trade issues, and unrequited Euro-love have combined to darken the economic outlook. But, succumb not to despair. Remember what we all learned in college: Was it over when the Germans bombed Pearl Harbor? Heck no! Just beware the Ides of March.



| 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                           | 2.43    | (0.01)     | 2.42       | 2.15 | 1.77 | 2yr               | 2.47          | 2.55    | 2.21                | 2.35                | 14.00    | 2Yr                 | 1.94         | 1.94 | 1.94         | -    |
| 6mo                           | 2.50    | (0.01)     | 2.50       | 2.33 | 1.94 | 3yr               | 2.44          | 2.49    | 2.24                | 2.38                | 19.67    | 3Yr                 | 2.10         | 2.11 | 2.11         | 2.10 |
| 1yr                           | 2.51    | (0.01)     | 2.54       | 2.56 | 2.05 | 5yr               | 2.48          | 2.46    | 2.38                | 2.53                | 31.00    | 5Yr                 | 2.19         | 2.22 | 2.24         | 2.24 |
| 2yr                           | 2.45    | (0.02)     | 2.52       | 2.78 | 2.29 | 7yr               | 2.67          | 2.50    | 2.55                | 2.71                | 47.00    | 7Yr                 | 2.42         | 2.47 | 2.52         | 2.53 |
| 3yr                           | 2.40    | (0.04)     | 2.49       | 2.86 | 2.40 | 10yr              | 2.89          | 2.60    | 2.87                | 3.05                | 61.00    | 10Yr                | 2.57         | 2.62 | 2.69         | 2.72 |
| 5yr                           | 2.40    | (0.03)     | 2.49       | 2.90 | 2.63 | 15yr              | 3.07          | 2.72    | 3.40                | 3.62                | 90.00    | April TBA MBS       |              |      |              |      |
| 7yr                           | 2.49    | (0.03)     | 2.57       | 2.96 | 2.76 | 20yr              | 3.26          | 2.77    | 3.78                | 4.02                | 81.00    | Cpn                 | 15Yr -Yld/AL |      | 30Yr -Yld/AL |      |
| 10yr                          | 2.60    | (0.03)     | 2.66       | 3.00 | 2.83 | 25yr              | 3.45          | 2.78    | 3.90                | 4.15                | 84.00    | 2.00                | 2.82         | 4.7y |              |      |
| 30yr                          | 3.02    | 0.01       | 2.99       | 3.13 | 3.06 | 30yr              |               | 2.79    | 4.02                | 4.28                | 87.00    | 2.50                | 2.79         | 5.1y |              |      |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 3.00                | 2.92         | 5.0y | 3.19         | 9.2y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 3.50                | 3.01         | 4.7y | 3.39         | 7.7y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 4.00                |              |      | 3.50         | 5.9y |
|                               |         |            |            |      |      |                   |               |         |                     |                     |          | 4.50                |              |      | 3.63         | 5.3y |

\* Interpolated

| Key Market Indices |         |            |            |       |       |
|--------------------|---------|------------|------------|-------|-------|
| Index              | Current | 1Wk Change | Historical |       |       |
|                    |         |            | 1 Mo       | 6 Mo  | 1 Yr  |
| Fed Funds          | 2.50    | --         | 2.50       | 2.00  | 1.50  |
| Primary Discount   | 3.00    | --         | 3.00       | 2.50  | 2.00  |
| 2ndary Discount    | 3.50    | --         | 3.50       | 3.00  | 2.50  |
| Prime Rate         | 5.50    | --         | 5.50       | 5.00  | 4.50  |
| Sec. O.N. Finance  | 2.42    | 0.04       | 2.39       | 1.95  | --    |
| 1 Month LIBOR      | 2.48    | --         | 2.49       | 2.16  | 1.78  |
| 3 Month LIBOR      | 2.61    | 0.02       | 2.68       | 2.33  | 2.12  |
| 6 Month LIBOR      | 2.68    | --         | 2.74       | 2.57  | 2.30  |
| 1 Year LIBOR       | 2.86    | --         | 2.92       | 2.87  | 2.58  |
| 6 Month CD         | 2.66    | --         | 2.72       | 2.54  | 2.32  |
| 1 Year CMT         | 2.52    | --         | 2.53       | 2.56  | 2.05  |
| REPO O/N           | 2.51    | 0.06       | 2.49       | 2.02  | 1.55  |
| REPO 1Wk           | 2.44    | --         | 2.44       | 1.98  | 1.57  |
| CoF Federal        | 2.280   | --         | 2.236      | 1.979 | 1.606 |
| 11th D. CoF (Jan)  | 1.125   | --         | 1.056      | 1.018 | 0.777 |

| FHLB Fixed Advance Rates |         |        |        |
|--------------------------|---------|--------|--------|
| Maturity                 | Chicago | Boston | Topeka |
| 3mo                      | 2.60    | 2.69   | 2.73   |
| 6mo                      | 2.65    | 2.69   | 2.78   |
| 1yr                      | 2.73    | 2.69   | 2.84   |
| 2yr                      | 2.60    | 2.77   | 2.84   |
| 3yr                      | 2.56    | 2.75   | 2.81   |
| 4yr                      | 2.59    | 2.78   | 2.84   |
| 5yr                      | 2.60    | 2.80   | 2.85   |
| 7yr                      | 2.85    | 3.10   | 3.03   |
| 10yr                     | 3.07    | 3.33   | 3.24   |
| 5yr Am                   | 2.62    |        | 2.85   |
| 10yr Am                  | 2.89    |        | 3.12   |

| Fed Fund Futures |       |  |
|------------------|-------|--|
| Maturity         | Rate  |  |
| Mar-19           | 2.400 |  |
| Apr-19           | 2.400 |  |
| May-19           | 2.395 |  |
| Jun-19           | 2.385 |  |
| Jul-19           | 2.370 |  |
| Aug-19           | 2.365 |  |
| Sep-19           | 2.360 |  |
| Oct-19           | 2.340 |  |
| Nov-19           | 2.335 |  |
| Dec-19           | 2.320 |  |
| Jan-20           | 2.305 |  |

| Weekly Economic Calendar |                                   |       |         |         |          |         |
|--------------------------|-----------------------------------|-------|---------|---------|----------|---------|
| This Week & Next         |                                   |       |         |         |          |         |
| Date                     | Release                           | Per.  | Est.    | Actual  | Prior    | Revised |
| 03/11                    | Retail Sales Ex Auto and Gas      | Jan   | 0.60%   | 1.20%   | -1.40%   | -1.60%  |
| 03/11                    | Retail Sales Control Group        | Jan   | 0.60%   | 1.10%   | -1.70%   | -2.30%  |
| 03/11                    | Business Inventories              | Dec   | 0.60%   | 0.60%   | -0.10%   | 0.00%   |
| 03/12                    | NFIB Small Business Optimism      | Feb   | 102.50  | 101.70  | 101.20   | --      |
| 03/12                    | CPI YoY                           | Feb   | 1.60%   | 1.50%   | 1.60%    | --      |
| 03/12                    | CPI Ex Food and Energy YoY        | Feb   | 2.20%   | 2.10%   | 2.20%    | --      |
| 03/12                    | CPI Core Index SA                 | Feb   | 261.19  | 260.99  | 260.70   | --      |
| 03/12                    | CPI Index NSA                     | Feb   | 252.87  | 252.78  | 251.71   | --      |
| 03/12                    | Real Avg Weekly Earnings YoY      | Feb   | --      | 1.60%   | 1.90%    | --      |
| 03/12                    | Real Avg Hourly Earning YoY       | Feb   | --      | 1.90%   | -1.70%   | 1.60%   |
| 03/13                    | MBA Mortgage Applications         | 3/8   | --      | 2.30%   | -2.50%   | --      |
| 03/13                    | PPI Final Demand YoY              | Feb   | 1.90%   | 1.90%   | 2.00%    | --      |
| 03/13                    | PPI Ex Food and Energy YoY        | Feb   | 2.60%   | 2.50%   | 2.60%    | --      |
| 03/13                    | PPI Ex Food, Energy, Trade YoY    | Feb   | --      | 2.30%   | 2.50%    | --      |
| 03/13                    | Durable Goods Orders              | Jan P | -0.40%  | 0.40%   | -1.20%   | 1.30%   |
| 03/13                    | Durables Ex Transportation        | Jan P | 0.10%   | -0.10%  | 0.10%    | 0.30%   |
| 03/13                    | Cap Goods Ship Nondef Ex Air      | Jan P | -0.20%  | 0.80%   | 0.00%    | 0.10%   |
| 03/13                    | Construction Spending MoM         | Jan   | 0.50%   | 1.30%   | -0.60%   | -0.80%  |
| 03/14                    | Import Price Index YoY            | Feb   | -1.50%  | -1.30%  | -1.70%   | -1.60%  |
| 03/14                    | Export Price Index YoY            | Feb   | --      | 0.30%   | -0.20%   | --      |
| 03/14                    | Initial Jobless Claims            | 3/9   | 225k    | 229k    | 223k     | --      |
| 03/14                    | Continuing Claims                 | 3/2   | 1763k   | 1776k   | 1755k    | 1758k   |
| 03/14                    | Bloomberg Consumer Comfort        | 3/10  | --      | 60.80   | 62.10    | --      |
| 03/14                    | New Home Sales                    | Jan   | 622k    | 607k    | 621k     | 652k    |
| 03/15                    | Empire Manufacturing              | Mar   | 10.00   | 3.70    | 8.80     | --      |
| 03/15                    | Industrial Production MoM         | Feb   | 0.40%   | 0.10%   | -0.60%   | -0.40%  |
| 03/15                    | Manufacturing (SIC) Production    | Feb   | 0.10%   | -0.40%  | -0.90%   | -0.50%  |
| 03/15                    | Capacity Utilization              | Feb   | 78.50%  | 78.20%  | 78.20%   | 78.30%  |
| 03/15                    | JOLTS Job Openings                | Jan   | 7225.00 | 7581.00 | 7335.00  | 7479.00 |
| 03/15                    | U. of Mich. Sentiment             | Mar P | 95.60   | 97.80   | 93.80    | --      |
| 03/15                    | U. of Mich. Current Conditions    | Mar P | 112.00  | 111.20  | 108.50   | --      |
| 03/15                    | U. of Mich. Expectations          | Mar P | 88.10   | 89.20   | 84.40    | --      |
| 03/15                    | U. of Mich. 1 Yr Inflation        | Mar P | --      | 2.40%   | 2.60%    | --      |
| 03/15                    | Net Long-term TIC Flows           | Jan   | --      | --      | -\$48.3b | --      |
| 03/15                    | Total Net TIC Flows               | Jan   | --      | --      | -\$33.1b | --      |
| 03/18                    | NAHB Housing Market Index         | Mar   | 63.00   | --      | 62.00    | --      |
| 03/19                    | Factory Orders Ex Trans           | Jan   | --      | --      | -0.60%   | --      |
| 03/20                    | FOMC Rate Decision (Upper Bound)  | 3/20  | 2.50%   | --      | 2.50%    | --      |
| 03/20                    | FOMC Rate Decision (Lower Bound)  | 3/20  | 2.25%   | --      | 2.25%    | --      |
| 03/20                    | Interest Rate on Excess Reserves  | 3/21  | 2.40%   | --      | 2.40%    | --      |
| 03/21                    | Philadelphia Fed Business Outlook | Mar   | 6.00    | --      | -4.10    | --      |
| 03/21                    | Bloomberg Economic Expectations   | Mar   | --      | --      | 54.50    | --      |
| 03/21                    | Leading Index                     | Feb   | 0.10%   | --      | -0.10%   | 0.00%   |
| 03/22                    | Markit US Manufacturing PMI       | Mar P | 54.00   | --      | 53.00    | --      |
| 03/22                    | Markit US Services PMI            | Mar P | 56.50   | --      | 56.00    | --      |
| 03/22                    | Markit US Composite PMI           | Mar P | --      | --      | 55.50    | --      |
| 03/22                    | Existing Home Sales               | Feb   | 5.10m   | --      | 4.94m    | --      |

| MBS Prepayments <sup>4</sup> |      |      |      |      |      |      |
|------------------------------|------|------|------|------|------|------|
| 3-Month CPR                  |      |      |      |      |      |      |
| Type                         | 2.0  | 2.5  | 3.0  | 3.5  | 4.0  | 4.5  |
| FN 10y                       | 10.9 | 11.6 | 13.2 | 14.0 | 14.9 | 33.4 |
| FH/FN 15y                    | 5.2  | 5.5  | 6.6  | 8.5  | 12.6 | 14.3 |
| GN 15y                       | 7.2  | 9.5  | 10.8 | 11.0 | 11.5 | 11.3 |
| FH/FN 20y                    |      | 4.7  | 5.7  | 6.6  | 7.5  | 8.7  |
| FH/FN 30y                    | 4.0  | 3.8  | 3.8  | 3.8  | 5.9  | 9.7  |
| GN 30y                       | 8.2  | 7.5  | 10.7 | 9.6  | 9.3  | 10.1 |
| CPR Projections              |      |      |      |      |      |      |
| Type                         | 2.0  | 2.5  | 3.0  | 3.5  | 4.0  | 4.5  |
| FN 10y                       | 10.7 | 12.6 | 13.1 | 20.3 | 12.7 | 17.6 |
| FH/FN 15y                    | 7.7  | 7.8  | 9.3  | 11.2 | 12.6 | 21.2 |
| GN 15y                       | 6.8  | 10.3 | 13.1 | 14.4 | 13.1 | 13.0 |
| FH/FN 20y                    | 0.1  | 6.9  | 7.9  | 11.0 | 13.6 | 11.5 |
| FH/FN 30y                    | 5.2  | 5.7  | 6.5  | 9.0  | 13.1 | 15.1 |
| GN 30y                       | 8.7  | 7.0  | 9.4  | 11.8 | 14.5 | 14.3 |

| Other Markets              |         |          |            |         |         |
|----------------------------|---------|----------|------------|---------|---------|
| Index                      | Current | 1Wk Chng | Historical |         |         |
|                            |         |          | 1 Mo       | 6 Mo    | 1 Yr    |
| <b>Currencies</b>          |         |          |            |         |         |
| Japanese Yen               | 111.40  | 0.23     | 110.47     | 111.85  | 106.34  |
| Euro                       | 1.13    | 0.01     | 1.13       | 1.17    | 1.23    |
| Dollar Index               | 96.50   | (0.81)   | 96.90      | 94.93   | 90.14   |
| <b>Major Stock Indices</b> |         |          |            |         |         |
| Dow Jones                  | 25,672  | 222      | 25,883     | 26,155  | 24,874  |
| S&P 500                    | 2,816.2 | 73.1     | 2,775.6    | 2,905.0 | 2,747.3 |
| NASDAQ                     | 7,679.0 | 271      | 7,472.4    | 8,010.0 | 7,481.7 |
| <b>Commodities</b>         |         |          |            |         |         |
| Gold                       | 1,304.9 | 5.6      | 1,318.1    | 1,196.2 | 1,317.8 |
| Crude Oil                  | 58.22   | 2.15     | 55.59      | 68.99   | 61.19   |
| Natural Gas                | 2.82    | (0.04)   | 2.63       | 2.77    | 2.68    |
| Wheat                      | 457.3   | 24.5     | 504.3      | 480.0   | 478.8   |
| Corn                       | 372.5   | 17.8     | 374.8      | 337.0   | 386.8   |

| Notes   |  |
|---|--|
| 1 Call Agy = Maturity at left w/ a 1-Year Call at Par |  |
| 2 Muni TEY (21% Fed, 0.5% CoF)                        |  |
| 3 S-Corp TEY Muni (29.6%, no TEFERA)                  |  |
| 4 MBS Prepayments are provided by Bloomberg           |  |

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