

Baker Market Update

Week In Review

February 7, 2025



Ryan Hayhurst
President

This week began with a heavy focus on tariffs and their potential impact on inflation and the economy, but ended with a heavy focus just how strong the labor market actually was in 2024. On Saturday, President Trump placed 25% tariffs on Canada and Mexico and 10% tariffs on China. Canada responded with their own 25% tariffs on some US imports and markets were spooked that a full-blown trade war had broken out and the threat of ever-escalating tariffs sent stocks and bond yields lower in extended hours trading. But then Mexico negotiated a 30-day delay in the tariffs by agreeing to some of Trump’s terms including sending Mexican troops to the border and Canada soon followed with similar terms and Trump agreed to delayed Canadian tariffs by 30 days as well. And just like that, the Great North American Trade War of 2025 was over before it even started. China however, imposed 10-15% tariffs on a small subset of US exports (e.g. LNG, coal and pickup trucks) and put several companies, including Google, on notice that they could be sanctioned.

So how have markets reacted to all this tariff news? Not much so far. Stocks initially traded lower Monday morning, but then rose throughout the week to recover all the initial losses. Bond yields were mixed with the 2yr rising 6bp and the 10yr falling 5bp. Modest tariffs on Chinese imports will not significantly affect trade, inflation or the US economy. A lot of consumers and some economists believe tariffs cause inflation, but I disagree. If you raise the price of specific goods from a specific country, that is a one-time price adjustment to a small subset of goods, but it does not cause a broad, sustained increase in prices which is the definition of inflation. If consumers don’t have any more money in their pocket, they will simply buy less of the higher priced imports or buy other things. The only thing that can truly cause inflation is an increase in the money supply and by extension, government deficit spending, aka “printing money”.

Outside of tariffs, the big news this week was the labor market. On Tuesday, the JOLTS survey showed job openings fell more than 500k to 7.6mm, the second lowest reading in the last 4 years. Wednesday, private payroll firm ADP said the economy added 183k private sector jobs. And then Friday, the BLS showed the economy added just 143k non-farm payroll jobs in January and the unemployment rate fell to 4.0%. They also reduced average monthly employment in 2024 from 186k to 166k, confirming that employment growth was much weaker than initial reporting suggested. While job growth weakened in January and last year’s growth was revised down significantly, markets still believe the labor market remains strong enough to keep the Fed on hold until June or July when the first rate cut is priced in.

UPCOMING EVENTS

2025 Destination Seminar

Austin, TX
May 8–9, 2025

Banks

Webinars:

Q4 2024 Bank Trends
Feb 12, 2025

Q1 IRR Management
Mar 12, 2025

Seminars:

IA Seminar
Jun 17, 2025

NE Seminar
Jun 18, 2025

WI Seminar
Jul 24, 2025

CUs

Virtual Schools:

Virtual Bond School
Mar 26–27, 2025

Banks and CUs

Schools:

ALM School
Apr 24–25, 2025

Fed Funds Futures Rate Cut Probabilities

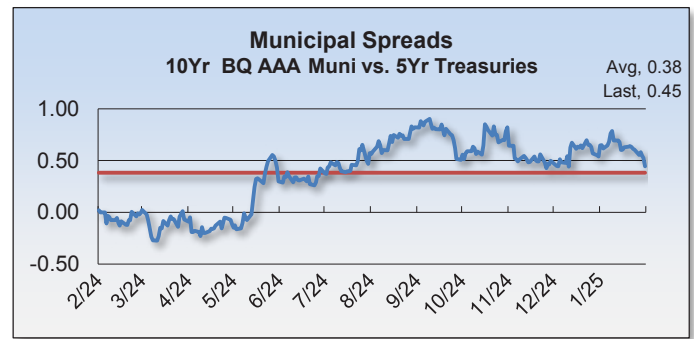
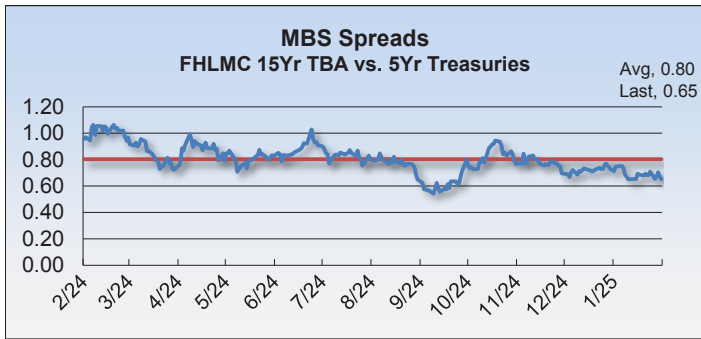
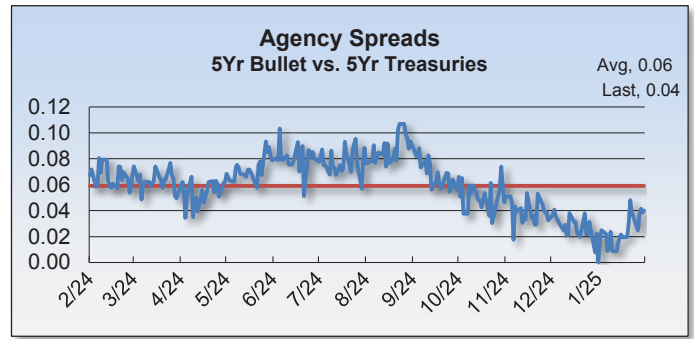
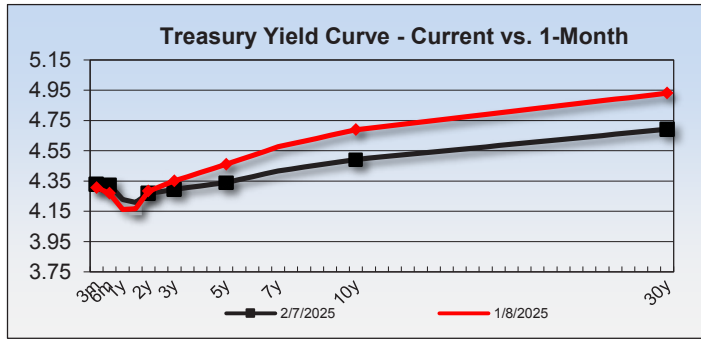
MEETING DATE	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES								
	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
3/19/2025			0.0%	0.0%	0.0%	0.0%	6.5%	93.5%	0.0%
5/7/2025	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	27.2%	71.3%	0.0%
6/18/2025	0.0%	0.0%	0.0%	0.0%	0.5%	10.7%	42.9%	45.9%	0.0%
7/30/2025	0.0%	0.0%	0.0%	0.1%	2.6%	17.3%	43.5%	36.4%	0.0%
9/17/2025	0.0%	0.0%	0.0%	0.8%	6.9%	24.9%	41.5%	25.9%	0.0%
10/29/2025	0.0%	0.0%	0.2%	1.9%	10.0%	27.7%	38.8%	21.5%	0.0%
12/10/2025	0.0%	0.0%	0.5%	3.6%	13.7%	30.1%	35.1%	16.9%	0.0%

Source: CME Group

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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	Agency Calls - Euro					
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr	
3mo	4.33	0.04	4.31	5.22	5.38	2yr	4.29	4.07	3.64	3.87	4.32	2Yr					
6mo	4.32	0.02	4.26	4.95	5.26	3yr	4.31	4.02	3.68	3.92	4.34	3Yr					
1yr	4.23	0.07	4.18	4.43	4.82	5yr	4.42	3.99	3.77	4.01	4.39	5Yr					
2yr	4.27	0.07	4.29	3.96	4.43	7yr	4.51	3.99	3.79	4.04	4.59	7Yr					
3yr	4.29	0.06	4.36	3.80	4.31	10yr	4.68	4.00	4.05	4.31	4.81	10Yr					
5yr	4.34	0.01	4.47	3.76	4.07	15yr	4.85	4.05	4.49	4.78	4.95		March TBA MBS				
7yr	4.42	(0.03)	4.58	3.83	4.10	20yr	5.03	4.04	5.17	5.50	5.27	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	4.49	(0.05)	4.69	3.94	4.12	25yr	5.20	3.97	5.31	5.65	5.33	3.50	5.06	4.8y	5.33		
30yr	4.69	(0.10)	4.91	4.25	4.33	30yr		3.88	5.46	5.81	5.39	4.00	4.98	4.8y			
												4.50	4.94	5.3y	5.43	9.8y	
												5.00	4.99	5.0y	5.54	9.3y	
												5.50			5.70	7.2y	
												6.00			5.78	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	4.36	--	4.27	5.33	--
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	4.32	(0.00)	4.35	4.94	5.31
1 Year CMT	4.19	0.03	4.17	4.46	4.82
REPO O/N	4.37	--	4.80	5.38	5.38
REPO 1Wk	4.36	(0.01)	4.40	5.35	5.35
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	4.51	4.50
6mo	4.44	4.46	4.50
1yr	4.35	4.35	4.47
2yr	4.36	4.38	4.43
3yr	4.39	4.42	4.47
4yr	4.43	4.47	4.50
5yr	4.45	4.48	4.51
7yr	4.65	4.70	4.71
10yr	4.78	4.86	4.84
5yr Am	4.15		4.53
10yr Am	4.21		4.74

Fed Fund Futures		
Maturity	Rate	
Feb-25	4.328	
Mar-25	4.320	
Apr-25	4.310	
May-25	4.260	
Jun-25	4.210	
Jul-25	4.155	
Aug-25	4.100	
Sep-25	4.070	
Oct-25	4.030	
Nov-25	3.990	
Dec-25	3.955	

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/3	S&P Global US Manufacturing PMI	Jan F	50.1	51.2	50.1	--
2/3	ISM Manufacturing	Jan	50.0	50.9	49.3	49.2
2/3	ISM New Orders	Jan	52.0	55.1	52.5	52.1
2/3	ISM Employment	Jan	47.8	50.3	45.3	45.4
2/3	ISM Prices Paid	Jan	54.2	54.9	52.5	--
2/4	JOLTS Job Openings	Dec	8000k	7600k	8098k	8156k
2/4	JOLTS Job Openings Rate	Dec	4.8%	4.5%	4.8%	4.9%
2/4	JOLTS Quits Level	Dec	3112k	3197k	3065k	3130k
2/4	JOLTS Quits Rate	Dec	--	2.0%	1.9%	2.0%
2/4	JOLTS Layoffs Level	Dec	1743k	1771k	1765k	1800k
2/4	JOLTS Layoffs Rate	Dec	--	1.1%	1.1%	--
2/5	ADP Employment Change	Jan	150k	183k	122k	176k
2/5	S&P Global US Services PMI	Jan F	52.9	52.9	52.8	--
2/5	S&P Global US Composite PMI	Jan F	52.5	52.7	52.4	--
2/5	ISM Services Index	Jan	54.0	52.8	54.1	54.0
2/5	ISM Services New Orders	Jan	--	51.3	54.2	54.4
2/5	ISM Services Employment	Jan	--	52.3	51.4	51.3
2/5	ISM Services Prices Paid	Jan	65.1	60.4	64.4	--
2/6	Challenger Job Cuts YoY	Jan	--	-39.5%	11.4%	--
2/6	Nonfarm Productivity	4Q P	1.2%	1.2%	2.2%	2.3%
2/6	Unit Labor Costs	4Q P	3.4%	3.0%	0.8%	0.5%
2/6	Initial Jobless Claims	2/1	213k	219k	207k	208k
2/6	Continuing Claims	1/25	1870k	1886k	1858k	1850k
2/7	Change in Nonfarm Payrolls	Jan	175k	143k	256k	307k
2/7	Two-Month Payroll Net Revision	Jan	--	100k	-8k	--
2/7	Change in Private Payrolls	Jan	158k	111k	223k	273k
2/7	Change in Manufact. Payrolls	Jan	1k	3k	-13k	-12k
2/7	Average Hourly Earnings MoM	Jan	0.3%	0.5%	0.3%	--
2/7	Average Hourly Earnings YoY	Jan	3.8%	4.1%	3.9%	4.1%
2/7	Average Weekly Hours All Employees	Jan	34.3	34.1	34.3	34.2
2/7	Unemployment Rate	Jan	4.1%	4.0%	4.1%	--
2/7	Labor Force Participation Rate	Jan	62.5%	62.6%	62.5%	--
2/7	Underemployment Rate	Jan	--	7.5%	7.5%	--
2/12	CPI MoM	Jan	0.3%	--	0.4%	--
2/12	CPI Ex Food and Energy MoM	Jan	0.3%	--	0.2%	--
2/12	CPI YoY	Jan	2.9%	--	2.9%	--
2/12	CPI Ex Food and Energy YoY	Jan	3.2%	--	3.2%	--
2/12	CPI Index NSA	Jan	317.42	--	315.61	--
2/12	CPI Core Index SA	Jan	--	--	323.38	--
2/12	Real Avg Weekly Earnings YoY	Jan	--	--	0.7%	0.5%
2/12	Real Avg Hourly Earning YoY	Jan	--	--	1.0%	1.2%
2/13	PPI Final Demand MoM	Jan	0.2%	--	0.2%	--
2/13	PPI Ex Food and Energy MoM	Jan	0.3%	--	0.0%	--
2/13	PPI Ex Food, Energy, Trade MoM	Jan	--	--	0.1%	--
2/13	PPI Final Demand YoY	Jan	3.2%	--	3.3%	--
2/13	PPI Ex Food and Energy YoY	Jan	--	--	3.5%	--
2/13	PPI Ex Food, Energy, Trade YoY	Jan	--	--	3.3%	--

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	6.4	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	14.5	17.1	18.6	20.8
FH/FN 15y	8.3	9.7	15.4	14.0	17.5	23.5
GN 15y	11.5	11.4	12.3	11.3	14.8	20.7
FH/FN 20y	6.8	7.8	8.9	11.7	13.1	14.6
FH/FN 30y	6.0	6.7	7.4	8.0	10.4	12.5
GN 30y	6.4	7.7	7.6	8.9	9.7	10.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	151.58	(3.61)	157.75	147.20	148.13
Euro	1.04	0.00	1.04	1.09	1.08
Dollar Index	107.75	(0.62)	108.54	103.20	104.06
Major Stock Indices					
Dow Jones	44,679	135	42,528	38,763	38,677
S&P 500	6,098.3	57.8	5,909.0	5,199.5	4,995.1
NASDAQ	19,656.7	29	19,489.7	16,195.8	15,756.6
Commodities					
Gold	2,873.8	61.3	2,665.4	2,390.5	2,035.2
Crude Oil	71.19	(1.34)	74.25	75.23	73.86
Natural Gas	3.39	0.34	3.45	2.11	1.97
Wheat	581.8	22.3	542.5	538.3	602.0
Corn	490.0	8.0	458.0	383.3	434.3

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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