

Baker Market Update

Week In Review

February 28, 2025



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The long-forgotten fears of an economic slowdown that resurfaced late last week continued to burden markets week, sending shutters across both bonds and stocks. The benchmark 10-year Treasury yield is continuing a steady march downward for the seventh trading day in a row this morning, a slide that has resulted in a nearly 30bp drop. That move is being helped along this morning by news that the Fed's favorite inflation gauge rose at a mild pace last month and is reinforcing bets that the Federal Reserve will cut rates at least twice this year.

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

ND Seminar
Jul 15, 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

The Personal Consumption Expenditure Price Index (PCE) rose in line with expectations, up 0.3% in January and 2.5% from a year ago. Notably, Core PCE, which excludes volatile food and energy items, also rose 0.3% MoM and 2.6% YoY, matching the smallest annual increase since early 2021. The report was undoubtedly good news for the Fed as it followed a series of other economic readings which had suggested inflation pressures were heating up again.

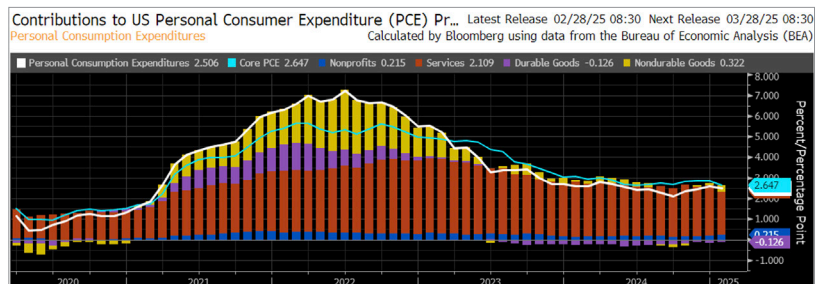
Also released in the PCE report was data on consumer spending, which showed inflation-adjusted spending fell 0.5% in January, marking the biggest monthly decline in nearly four years. This drop in spending follows a surprisingly poor retail sales reading a couple of weeks ago that showed sales falling 0.9% in January (vs. -0.2% survey), suggesting the economy may be starting 2025 on a weaker than expected footing.

Wall Street appears quite concerned about the resiliency of the American consumer and a potential economic slowdown. All major indices have given up considerable ground over the last two weeks. The S&P 500 lost its 6,000 handle on Monday and the Nasdaq and Russel 2000 have both turned negative for the year.

Business surveys have begun to sputter as well as a host of uncertainty around import duties, immigration, federal worker cuts, and wavering international alliances weigh on firms' ability to plan and invest. Consumer sentiment is dreary as well. Tuesday's report from the Conference Board showed consumer confidence deteriorated at its sharpest pace in 3.5 years in February as consumers worry about inflation and tariffs increasing the price of household goods.

At the risk of delivering one too many downtrodden measures, there was also housing data out this week the bears reporting. Pending home sales dropped to a record low in January, down 4.6%, the largest drop since the Covid-19 pandemic. Sales of new single-family homes also fell more than expected in January, dropping 10.5% (vs. -2.6% survey). Persistently high mortgage rates and rising home prices that have resulted in a 49% increase in the median sale price over five years, are clearly sidelining potential buyers (though perhaps we can blame some of this on poor weather too!).

The good news is that Fed easing hopes have gone up a touch this week. The futures market is now pricing in ~2.5 rate cuts by year end. The Fed meets again next month and is not expected to make any changes to the policy rate at that time. However, markets are betting on one full cut this summer in June or July. Have a great weekend!

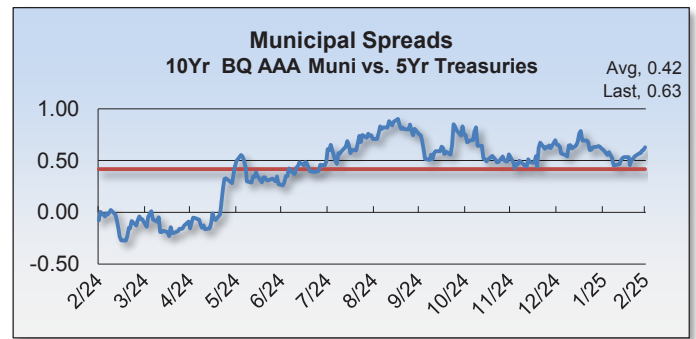
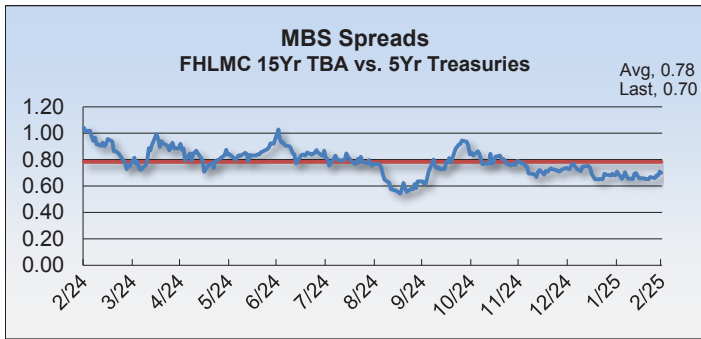
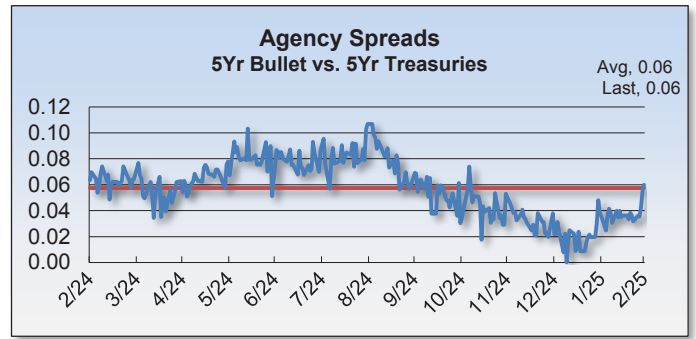
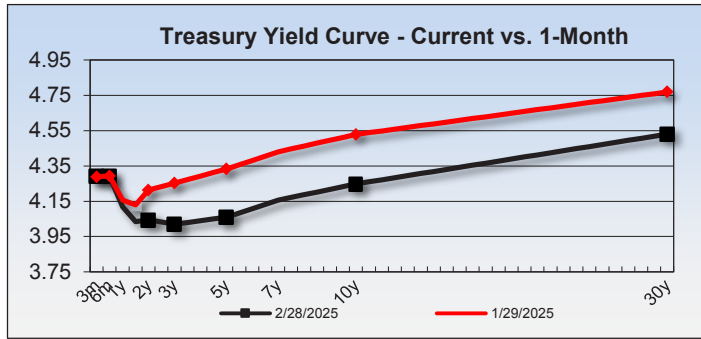


Source: Bloomberg, L.P.

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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	Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	4.29	(0.01)	4.29	5.12	5.38	2yr	4.05	3.90	3.56	3.78	4.20	2Yr				
6mo	4.29	(0.04)	4.30	4.86	5.33	3yr	4.02	3.82	3.61	3.84	4.18	3Yr				
1yr	4.12	(0.04)	4.16	4.41	5.00	5yr	4.13	3.78	3.68	3.92	4.23	5Yr				
2yr	4.04	(0.16)	4.20	3.92	4.62	7yr	4.23	3.79	3.77	4.01	4.43	7Yr				
3yr	4.02	(0.19)	4.24	3.78	4.50	10yr	4.41	3.83	4.00	4.26	4.64	10Yr				
5yr	4.06	(0.21)	4.33	3.70	4.25	15yr	4.59	3.90	4.48	4.77	4.78		March TBA MBS			
7yr	4.16	(0.20)	4.44	3.80	4.27	20yr	4.78	3.90	5.19	5.53	5.17	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	4.25	(0.18)	4.54	3.90	4.25	25yr	4.96	3.85	5.35	5.69	5.23	3.50	4.66	4.8y	5.04	
30yr	4.53	(0.15)	4.79	4.20	4.38	30yr		3.77	5.50	5.86	5.29	4.00	4.63	4.8y		
												4.50	4.66	5.2y	5.15	9.2y
												5.00	4.80	4.8y	5.31	8.2y
												5.50			5.46	6.1y
												6.00			5.38	3.9y

* 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	0.03	4.34	5.35	--
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	4.30	(0.08)	4.30	4.87	5.40
1 Year CMT	4.13	(0.07)	4.13	4.34	5.03
REPO O/N	4.37	--	4.37	5.44	5.37
REPO 1Wk	4.36	(0.00)	4.37	5.38	5.37
CoF Federal	3.673	--	3.719	4.003	3.876
11th D. CoF (Jan)	2.944	--	2.990	3.274	3.147

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.46	4.50	4.50
6mo	4.43	4.44	4.49
1yr	4.23	4.23	4.37
2yr	4.14	4.17	4.27
3yr	4.11	4.16	4.25
4yr	4.15	4.21	4.29
5yr	4.16	4.22	4.29
7yr	4.37	4.45	4.50
10yr	4.53	4.63	4.65
5yr Am	4.15		4.33
10yr Am	4.21		4.54

Fed Fund Futures	
Maturity	Rate
Feb-25	4.330
Mar-25	4.325
Apr-25	4.315
May-25	4.270
Jun-25	4.200
Jul-25	4.100
Aug-25	4.020
Sep-25	3.960
Oct-25	3.875
Nov-25	3.805
Dec-25	3.745

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/24	Chicago Fed Nat Activity Index	Jan	-5.0%	-3.0%	15.0%	18.0%
2/25	FHFA House Price Index MoM	Dec	0.3%	0.4%	0.3%	0.4%
2/25	House Price Purchase Index QoQ	4Q	--	1.4%	0.7%	0.9%
2/25	S&P CoreLogic CS 20-City MoM SA	Dec	0.40%	0.52%	0.41%	0.44%
2/25	S&P CoreLogic CS 20-City YoY NSA	Dec	4.41%	4.48%	4.33%	4.35%
2/25	S&P CoreLogic CS US HPI YoY NSA	Dec	--	3.92%	3.75%	3.68%
2/25	Conf. Board Consumer Confidence	Feb	102.5	98.3	104.1	105.3
2/25	Conf. Board Present Situation	Feb	--	136.5	134.3	139.9
2/25	Conf. Board Expectations	Feb	--	72.9	83.9	82.2
2/26	MBA Mortgage Applications	2/21	--	-1.2%	-6.6%	--
2/26	Building Permits MoM	Jan F	--	-0.6%	0.1%	--
2/26	New Home Sales MoM	Jan	-2.6%	-10.5%	3.6%	8.1%
2/27	GDP Price Index	4Q S	2.2%	2.4%	2.2%	--
2/27	Core PCE Price Index QoQ	4Q S	2.5%	2.7%	2.5%	--
2/27	Durables Ex Transportation	Jan P	0.3%	0.0%	0.3%	0.1%
2/27	Cap Goods Ship Nondef Ex Air	Jan P	0.3%	-0.3%	0.5%	0.3%
2/27	Initial Jobless Claims	2/22	221k	242k	249k	220k
2/27	Continuing Claims	2/15	1871k	1862k	1869k	1867k
2/28	Personal Income	Jan	0.4%	0.9%	0.4%	--
2/28	PCE Price Index MoM	Jan	0.3%	0.3%	0.3%	--
2/28	PCE Price Index YoY	Jan	2.5%	2.5%	2.6%	--
2/28	Core PCE Price Index MoM	Jan	0.3%	0.3%	0.2%	--
2/28	Core PCE Price Index YoY	Jan	2.6%	2.6%	2.8%	2.9%
2/28	MNI Chicago PMI	Feb	40.8	45.5	39.5	--
3/3	S&P Global US Manufacturing PMI	Feb F	--	--	51.6	--
3/3	ISM New Orders	Feb	--	--	55.1	--
3/3	ISM Employment	Feb	--	--	50.3	--
3/5	ADP Employment Change	Feb	148k	--	183k	--
3/5	S&P Global US Services PMI	Feb F	--	--	49.7	--
3/5	S&P Global US Composite PMI	Feb F	--	--	50.4	--
3/5	ISM Services Index	Feb	53.0	--	52.8	--
3/5	ISM Services Prices Paid	Feb	--	--	60.4	--
3/5	ISM Services New Orders	Feb	--	--	51.3	--
3/5	ISM Services Employment	Feb	--	--	52.3	--
3/6	Challenger Job Cuts YoY	Feb	--	--	-39.5%	--
3/6	Nonfarm Productivity	4Q F	1.2%	--	1.2%	--
3/6	Unit Labor Costs	4Q F	3.0%	--	3.0%	--
3/7	Change in Nonfarm Payrolls	Feb	158k	--	143k	--
3/7	Two-Month Payroll Net Revision	Feb	--	--	100k	--
3/7	Change in Private Payrolls	Feb	130k	--	111k	--
3/7	Change in Manufact. Payrolls	Feb	5k	--	3k	--
3/7	Average Hourly Earnings MoM	Feb	0.3%	--	0.5%	--
3/7	Average Hourly Earnings YoY	Feb	4.2%	--	4.1%	--
3/7	Average Weekly Hours All Employees	Feb	34.2	--	34.1	--
3/7	Unemployment Rate	Feb	4.0%	--	4.0%	--
3/7	Labor Force Participation Rate	Feb	--	--	62.6%	--
3/7	Underemployment Rate	Feb	--	--	7.5%	--

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	12.2	12.9	15.3	17.8	20.1	22.2
FH/FN 15y	8.7	10.1	15.9	14.7	18.9	27.0
GN 15y	11.7	11.6	12.6	11.6	14.9	20.7
FH/FN 20y	7.6	8.6	9.7	12.3	14.3	15.9
FH/FN 30y	6.2	7.0	8.0	9.1	12.2	17.6
GN 30y	6.5	7.9	8.3	9.2	10.3	11.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	150.63	1.36	155.19	146.81	150.10
Euro	1.04	(0.00)	1.04	1.11	1.08
Dollar Index	107.28	0.67	108.37	101.70	104.16
Major Stock Indices					
Dow Jones	43,489	61	44,545	41,563	38,996
S&P 500	5,863.5	(149.7)	6,040.5	5,648.4	5,096.3
NASDAQ	18,583.2	(941)	19,627.4	17,713.6	16,091.9
Commodities					
Gold	2,844.8	(92.8)	2,812.5	2,504.5	2,054.7
Crude Oil	69.19	(1.21)	72.53	73.55	78.26
Natural Gas	3.89	(0.34)	3.04	2.13	1.86
Wheat	552.5	-37.5	559.5	532.8	577.5
Corn	461.8	-29.5	482.0	378.0	415.8

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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