

Baker Market Update

Week In Review

March 21, 2025



Carson Francis

Senior Vice President,
Financial Strategies Group

Markets this week danced to a familiar rhythm—central banks, inflation fears, and investor caution. The sports world joined the action this week as the NCAA Championship, famously known as “The Big Dance,” tipped off yesterday. As expected from the notoriously unpredictable 5-seed vs. 12-seed matchup, brackets were busted last night as 12-seed McNeese State pulled off a thrilling 69–67 upset over the 5-seed Clemson Tigers. Since the expansion of the NCAA Tournament field in 1985, there have been 56 victories against No.5 seeds, resulting in a win rate of 35.7%, including McNeese State’s victory over Clemson last night. This upset echoes recent events in markets, where expectations were set, but reality delivered a different result.

UPCOMING EVENTS

2025 Destination Seminar

Austin, TX
May 8–9, 2025

Banks

Webinars:

Q2 Investment Strategies
Apr 9, 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

Webinars:

Q2 Strategies
Apr 10, 2025

Banks and CUs

Schools:

ALM School
Apr 24–25, 2025

The US Federal reserve announced its second monetary policy decision of 2025 earlier this week, following a two-day Federal Open Market Committee (FOMC) meeting, and as no surprise to many, voted to keep the benchmark interest rate steady at 4.25% to 4.50%, in line with expectations. While the decision to hold rates grabbed headlines, a more subtle shift emerged in the Fed’s approach to quantitative tightening, signaling potential adjustments ahead regarding the Federal Reserve’s balance sheet.

Federal Reserve officials announced an adjustment to their strategy for reducing their \$6.75 balance sheet, that saw most of its growth during the peak of the COVID-19 pandemic. For the past several years, the central bank has been reducing the size of their portfolio of Treasuries and mortgage-backed securities. Previously, the Federal Reserve was allowing \$25 billion of US Treasuries and \$35 billion of mortgage-backed securities to roll off their balance sheet, without the possibility of principal on those securities to be reinvested back into the market. As of April 1st, of this year, officials said that they would slow down the pace of that runoff, by reducing the runoff cap on US Treasuries \$5 billion, and left the cap for mortgage-backed securities unchanged. As the Federal Reserve presses forward with reducing its balance sheet and debt ceiling negotiations remain at a standstill in Washington, markets could be in for a bumpy ride, with investors bracing for uncertainty on multiple fronts.

The New York Fed’s Empire Manufacturing Index, reported on March 17, posted a steep drop to -20, missing the projected -1.9 and signaling a significant decline in the sentiment of manufacturing activity. Extending the soft momentum seen on Monday from the manufacturing sector, February building permits fell by 1.2%, accelerating from January’s 0.6% decrease and signaling further housing market weakness.

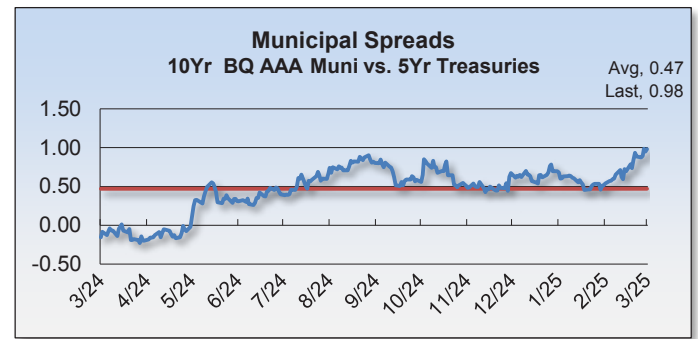
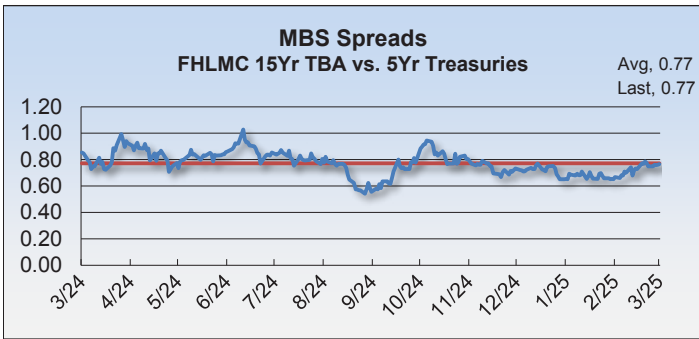
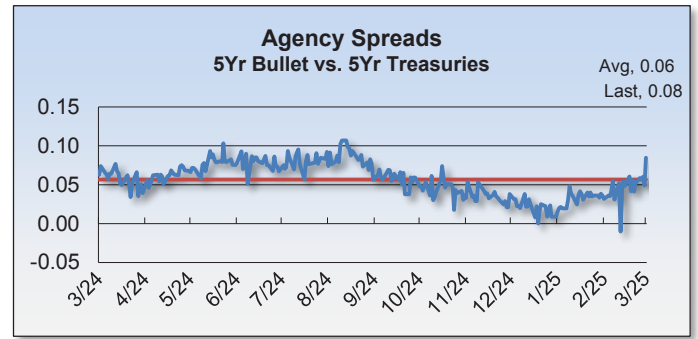
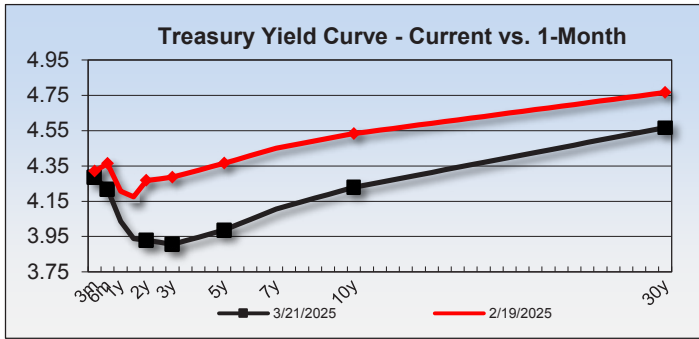
Looking into financial markets, treasury yields edged lower on Friday as early signs of weakness in the stock market prompted the buying of US Government debt. Soft economic data and Fed Chair Jerome Powell’s reassurance on Wednesday that tariff-induced inflation is seen as “transitory”, have also played a role in dragging yields lower. Jerome Powell calling tariff-induced inflation “transitory”, brought flashbacks to many market participants who recall the same language being used in March 2021 to characterize rapidly increasing inflation brought on by the COVID-era stimulus. While the term “transitory” sparked skepticism, this round of inflation is fundamentally different from the pandemic-era surge. In 2021, inflation was driven by demand shocks, fueled by direct stimulus payments and widespread supply chain bottlenecks. Tariff-induced inflation, by contrast, reflects a narrower, more targeted cost increase, primarily affecting select imported goods. These effects tend to fade over time as markets adjust, supply chains reroute, and consumers shift their behavior through substitution toward untaxed or domestically produced alternatives. Additionally, since the Fed’s preferred inflation gauge, the PCE index, rebalances monthly to reflect actual consumer spending patterns, it is likely to show a more muted impact from tariff-related price increases than the CPI, which uses a fixed basket.

Market participants will turn their focus to next week’s data on housing, jobs, and consumer trends, which could provide clearer signals on where the economy is headed. With recent reports pointing to some signs of slowing, investors will be watching to see if this continues or if conditions begin to stabilize. Have a great weekend everyone!

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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)	4.30	4.66	5.39	2yr	3.98	3.78	3.68	3.92	4.09	2Yr					
6mo	4.22	(0.03)	4.33	4.47	5.31	3yr	3.93	3.71	3.74	3.98	4.08	3Yr					
1yr	4.04	(0.04)	4.16	3.94	5.00	5yr	4.05	3.70	3.92	4.17	4.16	5Yr					
2yr	3.93	(0.09)	4.20	3.59	4.64	7yr	4.18	3.73	4.05	4.31	4.39	7Yr					
3yr	3.91	(0.10)	4.21	3.48	4.51	10yr	4.41	3.79	4.38	4.66	4.63	10Yr					
5yr	3.99	(0.10)	4.27	3.50	4.25	15yr	4.63	3.88	4.86	5.17	4.77		April TBA MBS				
7yr	4.11	(0.10)	4.35	3.61	4.27	20yr	4.85	3.90	5.53	5.89	5.18	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	4.23	(0.09)	4.43	3.74	4.27	25yr	5.07	3.86	5.68	6.04	5.24	3.50	4.63	4.7y	5.04		
30yr	4.57	(0.06)	4.68	4.08	4.44	30yr		3.79	5.82	6.20	5.30	4.00	4.62	4.7y			
												4.50	4.70	5.2y	5.20	9.2y	
												5.00	4.81	4.5y	5.33	8.2y	
												5.50			5.48	6.1y	
												6.00			5.37	3.9y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.50	--	4.50	5.00	5.50
Primary Discount	4.50	--	4.50	5.00	5.50
2ndary Discount	5.00	--	5.00	5.50	6.00
Prime Rate	7.50	--	7.50	8.00	8.50
Sec. O.N. Finance	4.29	(0.01)	4.33	4.83	--
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	4.28	0.02	4.38	4.48	5.26
1 Year CMT	4.06	0.03	4.20	3.92	5.01
REPO O/N	4.37	--	4.37	4.86	5.37
REPO 1Wk	4.39	0.01	4.37	4.87	5.39
CoF Federal	3.666	--	3.673	3.988	3.889
11th D. CoF (Jan)	2.944	--	2.990	3.274	3.147

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.45	4.46	4.48
6mo	4.36	4.37	4.41
1yr	4.15	4.15	4.28
2yr	4.02	4.07	4.13
3yr	4.01	4.06	4.10
4yr	4.06	4.11	4.14
5yr	4.11	4.16	4.17
7yr	4.33	4.40	4.39
10yr	4.53	4.61	4.57
5yr Am	4.15		4.19
10yr Am	4.21		4.42

Fed Fund Futures	
Maturity	Rate
Mar-25	4.330
Apr-25	4.330
May-25	4.285
Jun-25	4.215
Jul-25	4.100
Aug-25	3.995
Sep-25	3.920
Oct-25	3.815
Nov-25	3.730
Dec-25	3.645
Jan-26	3.595

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/17	Empire Manufacturing	Mar	-1.9	-20.0	5.7	--
3/17	Retail Sales Ex Auto MoM	Feb	0.3%	0.3%	-0.4%	-0.6%
3/17	Retail Sales Ex Auto and Gas	Feb	0.4%	0.5%	-0.5%	-0.8%
3/17	Retail Sales Control Group	Feb	0.4%	1.0%	-0.8%	-1.0%
3/17	NAHB Housing Market Index	Mar	42.0	39.0	42.0	--
3/18	Housing Starts MoM	Feb	1.4%	11.2%	-9.8%	-11.5%
3/18	Building Permits MoM	Feb P	-1.4%	-1.2%	-0.6%	--
3/18	Import Price Index YoY	Feb	1.6%	2.0%	1.9%	1.8%
3/18	Export Price Index YoY	Feb	--	2.1%	2.7%	--
3/18	Industrial Production MoM	Feb	0.2%	0.7%	0.5%	0.3%
3/18	Manufacturing (SIC) Production	Feb	0.3%	0.9%	-0.1%	0.1%
3/19	MBA Mortgage Applications	3/14	--	-6.2%	11.2%	--
3/19	FOMC Rate Decision (Upper Bound)	3/19	4.50%	4.50%	4.50%	--
3/19	FOMC Rate Decision (Lower Bound)	3/19	4.25%	4.25%	4.25%	--
3/19	Fed Interest on Reserve Balances Rate	3/20	4.40%	4.40%	4.40%	--
3/19	FOMC Median Rate Forecast: Current Yr	3/19	3.88%	3.88%	4.38%	--
3/19	FOMC Median Rate Forecast: Next Yr	3/19	3.38%	3.38%	3.88%	--
3/19	FOMC Median Rate Forecast: +2 Yrs	3/19	3.13%	3.13%	3.38%	--
3/19	FOMC Median Rate Forecast: Long-Run	3/19	3.13%	3.00%	3.00%	--
3/19	Net Long-term TIC Flows	Jan	--	-\$45.2b	\$72.0b	\$75.0b
3/19	Total Net TIC Flows	Jan	--	-\$48.8b	\$87.1b	\$103.2b
3/20	Initial Jobless Claims	3/15	224k	223k	220k	--
3/20	Continuing Claims	3/8	1887k	1892k	1870k	--
3/20	Philadelphia Fed Business Outlook	Mar	9.0	12.5	18.1	--
3/20	Leading Index	Feb	-0.2%	-0.3%	-0.3%	-0.2%
3/20	Existing Home Sales	Feb	3.95m	4.26m	4.08m	4.09m
3/20	Existing Home Sales MoM	Feb	-3.2%	4.2%	-4.9%	-4.7%
3/24	S&P Global US Manufacturing PMI	Mar P	51.7	--	52.7	--
3/24	S&P Global US Services PMI	Mar P	50.9	--	51.0	--
3/24	S&P Global US Composite PMI	Mar P	--	--	51.6	--
3/25	Philadelphia Fed Non-Manufacturing Ac	Mar	--	--	-13.1	--
3/25	S&P CoreLogic CS 20-City YoY NSA	Jan	--	--	4.5%	--
3/25	S&P CoreLogic CS US HPI YoY NSA	Jan	--	--	3.9%	--
3/25	New Home Sales MoM	Feb	3.2%	--	-10.5%	--
3/25	Conf. Board Consumer Confidence	Mar	94.0	--	98.3	--
3/25	Conf. Board Present Situation	Mar	--	--	136.5	--
3/25	Conf. Board Expectations	Mar	--	--	72.9	--
3/26	Durables Ex Transportation	Feb P	0.2%	--	0.0%	--
3/26	Cap Goods Ship Nondef Ex Air	Feb P	--	--	-0.3%	--
3/27	GDP Annualized QoQ	4Q T	2.4%	--	2.3%	--
3/27	GDP Price Index	4Q T	2.4%	--	2.4%	--
3/27	Core PCE Price Index QoQ	4Q T	--	--	2.7%	--
3/27	Pending Home Sales NSA YoY	Feb	--	--	-5.2%	--
3/28	Personal Income	Feb	0.4%	--	0.9%	--
3/28	Real Personal Spending	Feb	--	--	-0.5%	--
3/28	PCE Price Index YoY	Feb	--	--	2.5%	--
3/28	Core PCE Price Index YoY	Feb	2.7%	--	2.6%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	3.5	4.0	4.5	5.0	5.5	6.0
FN 10y	14.9	14.0	13.2	17.6	19.7	24.0
FH/FN 15y	8.8	11.8	18.1	13.3	12.0	17.2
GN 15y	26.1	33.8	51.9	49.4	94.6	76.3
FH/FN 20y	7.0	7.9	10.0	10.2	16.5	16.7
FH/FN 30y	5.2	5.0	5.3	6.8	6.6	7.8
GN 30y	5.5	5.7	5.5	6.5	7.0	7.1
CPR Projections						
Type	3.5	4.0	4.5	5.0	5.5	6.0
FN 10y	12.2	13.0	15.4	17.7	20.1	22.2
FH/FN 15y	8.8	10.1	16.0	15.9	19.8	27.3
GN 15y	11.0	10.9	13.3	12.2	15.7	21.0
FH/FN 20y	7.6	8.5	9.7	12.5	14.4	16.6
FH/FN 30y	6.2	7.0	8.0	9.0	12.0	17.4
GN 30y	6.6	8.1	8.3	9.4	10.3	11.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	148.84	0.20	149.27	143.37	151.11
Euro	1.08	(0.00)	1.05	1.11	1.09
Dollar Index	103.98	0.26	106.61	100.72	104.01
Major Stock Indices					
Dow Jones	41,507	18	43,428	42,063	39,781
S&P 500	5,622.0	(17.0)	6,013.1	5,702.6	5,241.5
NASDAQ	17,565.2	(189)	19,524.0	17,948.3	16,401.8
Commodities					
Gold	3,009.8	8.7	2,937.6	2,622.4	2,184.7
Crude Oil	67.96	0.78	70.40	71.92	81.07
Natural Gas	4.04	(0.07)	4.23	2.43	1.68
Wheat	559.8	14.0	590.0	568.5	546.8
Corn	466.5	21.0	491.3	401.8	440.8

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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