

Baker Market Update: Week in Review

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*** Next week we will return you to our regularly scheduled programming of Lunch with Lester ***

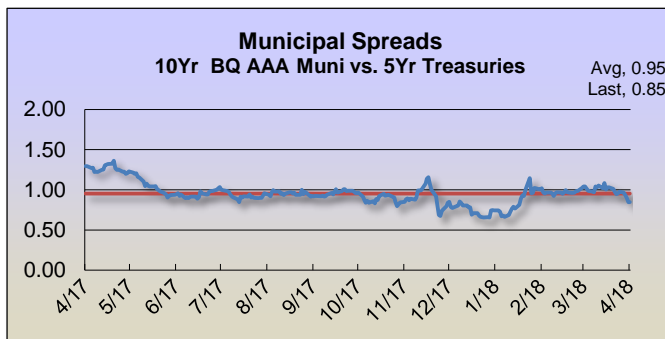
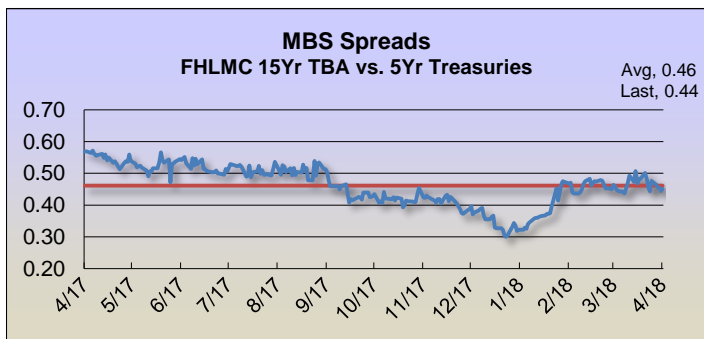
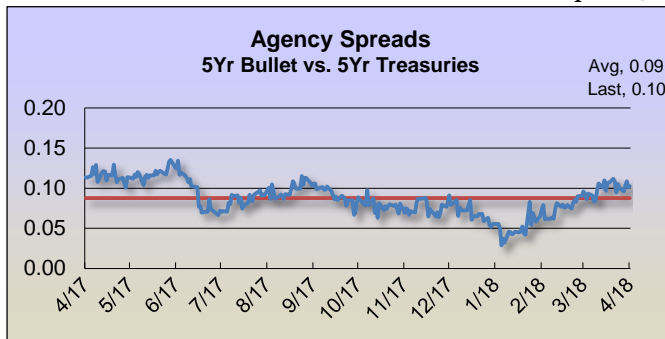
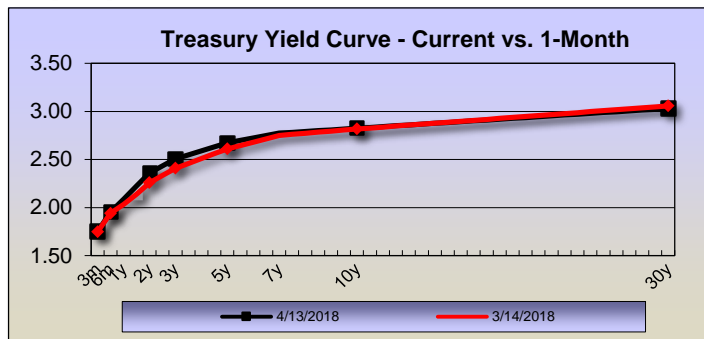
Markets- Treasuries yields and equities alike drifted up this week volatility continued to decline from the mid-February run-up. Yields across the curve are up modestly (2Yr 2.36%, 10Yr 2.82%) and the 10s-2s spread remains tight around 50bps. This is the tightest spread this cycle, and to place in historical context- 50bps occurred only a few months away from the beginnings of the Great Recession in 2007. Given the current levels of rates, two more hikes of Fed Funds would invert the yield curve, which typically portends a recession. Of course, correlation does not imply causation but since 1950 given the Fed's 13 hiking cycles, 10 landed ended in recession. June's Fed meeting holds an 87% likelihood we'll see a hike of 25 basis points and prospects for a third hike in 2018 (perhaps September) are hovering around 67%. On top of the two, more likely three rate hikes, the Fed also needs to unwind their balance sheet to the tune of about \$600 billion a year. Analysts have indicated that this volume would translate to approximately 100bps tightening in short term rates.

FOMC Minutes- "All participants agreed that the outlook for the economy beyond the current quarter had strengthen in recent months." On Wednesday the FOMC March meeting minutes were released, our first look at the Fed in the post-Yellen era. Chairman's Powell group seems to be more aligned and hawkish in their assessment of the economy. Financial conditions such as volatility in the equity markets seem to be on the back-burner for Powell as he intends to get the Fed further along in the hiking cycle versus his predecessor. As far as uncertainty goes, which there is a lot of, they indicated the transitory nature of the tax cuts, the potential swelling of the budget deficit and ongoing global trade friction as downside risks to their outlook. On top of their consensus for a stronger growth, they unanimously agreed that year-over-year inflation will to continue push upwards to their 2% goal.

Small Business- Main Street confidence slid for the month as the NFIB Small Business Optimism Index dropped 2.9 points to 104.7. While a disappointing dip given analyst expectations, one can't be too upset since February's index of 107.6 was the second highest on record and March marks the 16th consecutive month of readings in the top five percent given its 45yr history. The largest contributors to the decline were expectations for real final sales (-8%) and an improving economy (-11%). When asked the single most important problem related to their business, the most selected answer by respondents was quality of labor. Of the firms currently hiring, 89% reported few or no qualified applicants for their open positions. Regardless if the labor mismatches are related to skills or geography this dampens labor productivity and long-term economic growth. On the bright side, not since 1982, taxes were voted the least as the "Single Most Important Problem"; hopefully that can translate into future capital expenditures. Only a year ago, regulations and taxes were the top two answers to this question.

Inflation- While PPI (Producer Price Index) came in hot last week, CPI (Consumer Price Index), was in line with expectations, both core and headline. The core measure, which strips out more volatile items such as food & energy, came in at a 0.2% increase for the month. Year-over-Year core now sits at 2.1% (up from 1.8% last month) and the trend will continue to increase as the low inflation seen in early 2017 (+0.1%) will roll off in the YoY calculation. Key reasons for the low inflation level back in early 2017 were changes to cell phone pricing plans (unlimited data plans) and pricing drops for prescription drugs (think EpiPen). Even though the Fed prefers a different measurement for inflation (PCE) which is still below 2% (1.6%), there is no denying that inflation is on its way up no matter how you figure it. Some analysts indicate there's an 80% change we see these numbers around 2.50% by year-end.

Next week we'll take a look at the March retail sales on Monday, Industrial Production on Tuesday, Leading Indicators and Beige Book on Wednesday, and the Fed's balance sheet Thursday.



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	1.75	0.04	1.71	1.07	0.81	2yr	2.42	2.67	2.42	2.58	2.60	2Yr	1.94	1.94	1.94	-
6mo	1.96	0.06	1.90	1.25	0.92	3yr	2.55	2.75	2.59	2.76	2.77	3Yr	2.10	2.11	2.11	2.10
1yr	2.09	0.04	2.03	1.39	1.01	5yr	2.77	2.81	2.91	3.10	3.10	5Yr	2.19	2.22	2.24	2.24
2yr	2.36	0.09	2.26	1.49	1.21	7yr	2.91	2.83	3.12	3.32	3.29	7Yr	2.42	2.47	2.52	2.53
3yr	2.51	0.10	2.41	1.63	1.39	10yr	3.09	2.87	3.36	3.58	3.54	10Yr	2.57	2.62	2.69	2.72
5yr	2.67	0.09	2.62	1.90	1.77	15yr	3.17	2.92	3.71	3.95	3.70	May TBA MBS				
7yr	2.77	0.07	2.77	2.11	2.05	20yr	3.26	2.93	3.95	4.20	3.74	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.82	0.05	2.84	2.27	2.24	25yr	3.34	2.92	4.03	4.29	3.79	2.00	2.97	5.5y		
30yr	3.03	0.01	3.10	2.81	2.89	30yr		2.90	4.12	4.38	3.84	2.50	2.96	5.4y		
												3.00	3.05	5.3y	3.38	9.8y
												3.50	3.04	4.5y	3.52	9.2y
												4.00			3.60	7.1y
												4.50			3.60	6.1y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	1.50	1.25	1.00
Primary Discount	2.25	--	2.00	1.75	1.50
2ndary Discount	2.75	--	2.50	2.25	2.00
Prime Rate	4.75	--	4.50	4.25	4.00
Sec. O.N. Finance	1.73				
1 Month LIBOR	1.90	--	1.75	1.24	0.99
3 Month LIBOR	2.34	0.02	2.09	1.36	1.16
6 Month LIBOR	2.47	0.01	2.27	1.53	1.42
1 Year LIBOR	2.71	0.03	2.54	1.81	1.79
6 Month CD	2.48	0.02	2.27	1.50	1.41
1 Year CMT	2.11	0.04	2.05	1.41	1.04
REPO O/N	1.79	--	1.43	1.18	1.06
REPO 1Wk	1.78	--	1.52	1.24	0.95
CoF Federal	1.664	--	1.606	1.429	1.183
11th D. CoF (Feb)	0.816	--	0.777	0.732	0.591

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	1.93	2.06	1.91	2.02	Apr-18	1.685
6mo	2.07	2.19	2.08	2.20	May-18	1.690
1yr	2.40	2.40	2.36	2.46	Jun-18	1.805
2yr	2.63	2.80	2.65	2.77	Jul-18	1.900
3yr	2.77	2.95	2.84	2.91	Aug-18	1.915
4yr	2.87	3.06	2.94	3.03	Sep-18	1.930
5yr	2.93	3.13	3.00	3.06	Oct-18	2.070
7yr	3.10	3.34	3.18	3.17	Nov-18	2.090
10yr	3.24	3.50	3.31	3.32	Dec-18	2.125
5yr Am	2.80		2.87	2.99	Jan-19	2.185
10yr Am	3.10		3.16	3.26	Feb-19	2.200

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
04/10	NFIB Small Business Optimism	Mar	107.00	104.70	107.60	--
04/10	PPI Final Demand MoM	Mar	0.10%	0.30%	0.20%	--
04/10	PPI Ex Food and Energy MoM	Mar	0.20%	0.30%	0.20%	--
04/10	PPI Ex Food, Energy, Trade MoM	Mar	0.20%	0.40%	0.40%	--
04/10	PPI Final Demand YoY	Mar	2.90%	3.00%	2.80%	--
04/10	PPI Ex Food and Energy YoY	Mar	2.60%	2.70%	2.50%	--
04/10	PPI Ex Food, Energy, Trade YoY	Mar	--	2.90%	2.70%	--
04/10	Wholesale Inventories MoM	Feb F	0.80%	1.00%	1.10%	--
04/10	Wholesale Trade Sales MoM	Feb	0.10%	1.00%	-1.40%	-1.50%
04/11	MBA Mortgage Applications	4/6	--	-1.90%	-3.30%	--
04/11	CPI MoM	Mar	0.00%	-0.10%	0.20%	--
04/11	CPI Ex Food and Energy MoM	Mar	0.20%	0.20%	0.20%	--
04/11	CPI YoY	Mar	2.40%	2.40%	2.20%	--
04/11	CPI Ex Food and Energy YoY	Mar	2.10%	2.10%	1.80%	--
04/11	CPI Index NSA	Mar	249.59	249.55	248.99	--
04/11	CPI Core Index SA	Mar	256.20	256.20	255.75	--
04/11	Real Avg Weekly Earnings YoY	Mar	--	0.90%	0.60%	--
04/11	Real Avg Hourly Earning YoY	Mar	--	0.40%	0.40%	0.30%
04/11	Monthly Budget Statement	Mar	-\$186.0b	-\$208.7b	-\$176.2b	--
04/12	Initial Jobless Claims	4/7	230k	233k	242k	--
04/12	Continuing Claims	3/31	1843k	1871k	1808k	1818k
04/12	Import Price Index YoY	Mar	3.80%	3.60%	3.50%	3.40%
04/12	Export Price Index YoY	Mar	--	3.40%	3.30%	3.20%
04/12	Bloomberg Consumer Comfort	4/8	--	58.00	57.20	--
04/13	JOLTS Job Openings	Feb	6024.00	6052.00	6342.00	6228.00
04/13	U. of Mich. Sentiment	Apr P	100.40	97.80	101.40	--
04/13	U. of Mich. Current Conditions	Apr P	--	115.00	121.20	--
04/13	U. of Mich. 1 Yr Inflation	Apr P	--	2.70%	2.80%	--
04/16	Empire Manufacturing	Apr	18.20	--	22.50	--
04/16	Retail Sales Ex Auto and Gas	Mar	0.40%	--	0.30%	--
04/16	Retail Sales Control Group	Mar	0.30%	--	0.10%	--
04/16	Business Inventories	Feb	0.60%	--	0.60%	--
04/16	NAHB Housing Market Index	Apr	70.00	--	70.00	--
04/16	Total Net TIC Flows	Feb	--	--	\$119.7b	--
04/16	Net Long-term TIC Flows	Feb	--	--	\$62.1b	--
04/17	Housing Starts	Mar	1270k	--	1236k	--
04/17	Building Permits	Mar	1330k	--	1298k	1321k
04/17	Industrial Production MoM	Mar	0.30%	--	1.10%	0.90%
04/17	Manufacturing (SIC) Production	Mar	0.10%	--	1.20%	--
04/17	Capacity Utilization	Mar	77.90%	--	78.10%	77.70%
04/18	MBA Mortgage Applications	4/13	--	--	-1.90%	--
04/19	Initial Jobless Claims	4/14	229k	--	233k	--
04/19	Continuing Claims	4/7	--	--	1871k	--
04/19	Philadelphia Fed Business Outlook	Apr	20.80	--	22.30	--
04/19	Bloomberg Economic Expectations	Apr	--	--	56.00	--
04/19	Bloomberg Consumer Comfort	4/15	--	--	58.00	--
04/19	Leading Index	Mar	0.30%	--	0.60%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.8	12.4	14.3	16.3	24.5	31.4
FH/FN 15y	7.0	8.0	9.2	11.1	14.2	18.8
GN 15y	6.4	9.6	12.1	11.9	12.7	13.1
FH/FN 20y		4.9	6.9	8.3	10.2	12.9
FH/FN 30y	1.6	4.8	6.5	8.3	10.7	13.0
GN 30y	5.4	8.5	11.4	11.7	13.1	15.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.5	11.5	12.1	17.3	19.6	21.5
FH/FN 15y	6.8	7.6	8.5	11.3	18.1	25.0
GN 15y	6.1	8.1	11.3	14.1	13.1	13.0
FH/FN 20y	3.1	6.4	7.2	9.5	11.6	14.7
FH/FN 30y	4.9	5.2	6.0	7.0	10.4	13.3
GN 30y	5.5	7.8	8.9	11.6	15.5	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	107.53	0.60	106.58	111.82	109.09
Euro	1.23	0.01	1.24	1.18	1.06
Dollar Index	89.78	(0.32)	89.66	93.09	100.49
Major Stock Indices					
Dow Jones	24,468	536	25,007	22,872	20,453
S&P 500	2,671.5	67.0	2,765.3	2,553.2	2,329.0
NASDAQ	7,125.6	210	7,511.0	6,605.8	5,805.2
Commodities					
Gold	1,342.8	10.9	1,327.1	1,301.5	1,285.9
Crude Oil	67.32	5.26	60.71	51.45	53.18
Natural Gas	2.74	0.04	2.79	3.00	3.23
Wheat	475.5	3.3	485.5	439.5	429.8
Corn	388.0	-0.5	385.5	352.8	371.0

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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