

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



Now boarding Group 1 for the next flight to quality; passengers are required to leave *all* baggage in the terminal. Overhead bin space is limited and is reserved for Treasury bonds only. However, passengers will be permitted to carry-on one personal item, as long as it has coupons attached. We've got a full flight today, so the quicker y'all can get in your seats; the quicker we can get away from all this risk.

Investors are lining up for the stand-by list as new challenges appear and old challenges reappear while the oft-repeated story of reinvigorated global growth sounds more and more like a fairy tale. Fairy tales play a big role in Swedish folklore and it is perhaps appropriate that Jerome Powell was in Stockholm just this morning giving a speech about financial stability and central bank transparency. His remarks concluded that both are desirable concepts. Thank you, Jerome. In a convulsion of the Stockholm Syndrome, the Chairman's comments failed to address the angst-producing variables swirling around North Korea, China, Italy, Spain, Turkey, and Brexit's failure to launch. Are we leaving anything out?

A look at the recently released minutes of the last FOMC meeting discloses that our monetary mandarins didn't leave anything out and were conspicuously concerned about the trajectory of fiscal policy and the potential impact of protective tariffs on trade. To wit: "a number of participants viewed the range of possible outcomes for economic activity and inflation to be particularly wide." One can't help but admire the Committee's simple, yet elegant, articulation of its cluelessness. Clueless perhaps, but thankfully self-aware.

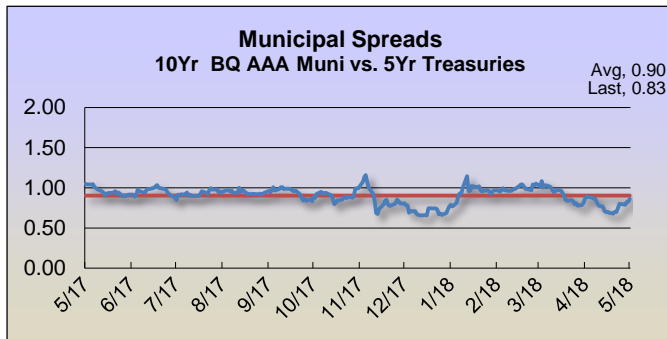
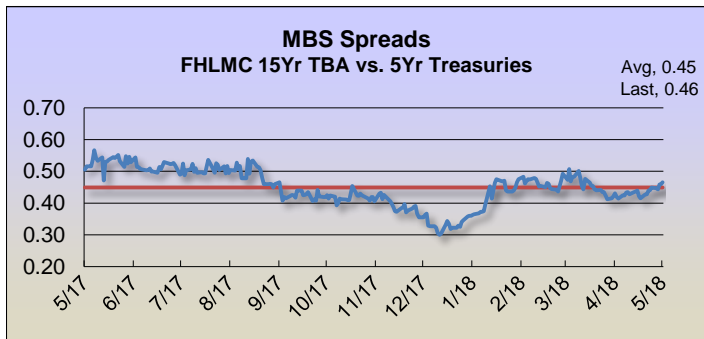
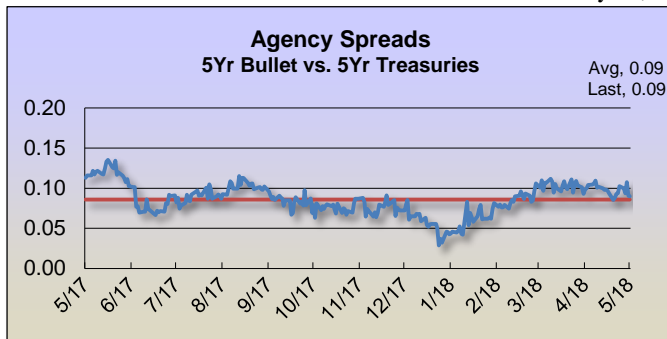
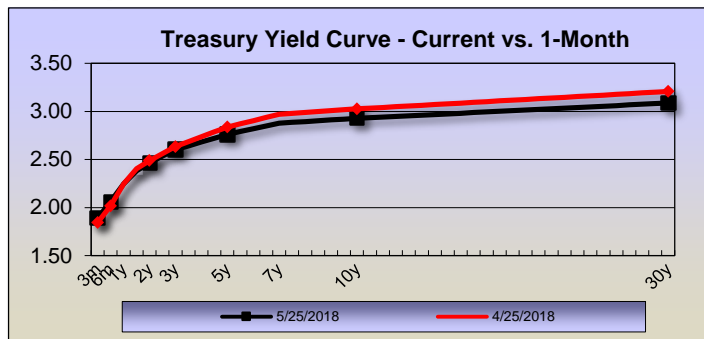
Market participants are aware that the loud and frequent proclamations of the bond market's bullish demise are at the very least premature, if not wholly and fundamentally, misguided. After spending a few days well above 3%, the Ten-Year Treasury yield has lost significant altitude and has returned to something not much over 2.90%. Nothing in the minutes, though, should cause any reviewer to conclude anything other than the Committee is still intent on another rate bump in June. After that, it gets a little murky. One lump, or two?

Some observers have gleaned that the hyper-bullish macroeconomic tone of the previous meetings might have lost a bit of enthusiasm as some unidentified Committee members "commented on a number of risks and uncertainties associated with their expectations for economic activity, the labor market, and inflation over the medium term." Again, high marks for self-awareness.

Investors are aware that both New & Existing Home Sales posted disappointing results this week as a 2.6% drop in Mortgage Applications added to the housing market's woes. Woeful, too, was the mere rise of 0.1% in the FHFA House Price Index. Isn't it funny what happens when mortgage rates go up? Nothing funny, though about April's 1.7% decline in Durable Goods orders. That's not really supposed to be happening. But, you couldn't tell it from the Kansas City Fed's Manufacturing Index. That measure is flashing green and rose unexpectedly to a value of 29 from its previous 26. The market was looking for a significant decline.

Consumers, though, are still feeling pretty good about things. The University of Michigan's Index of Consumer Sentiment for May was finalized this week and the overall index slipped slightly to 98 from the previous 98.8, but that's still pretty high. The more surprising result was the strength of the Current Conditions sub-index. Experts expected a significant retrenchment in that measure, but that didn't happen. Consumers are living-in-the-now and are loving it!

I'm loving the fact that I'm going to Idaho next week to walk around in the woods and somebody else will have to fix Lunch. There will be a lot to digest with a new Jobs Report, PCE inflation news, and another ciphering of GDP. Now, make sure your seat back and tray table are in their full, upright, and locked position. That risk thing isn't going away, and no outcomes are certain. Be careful out there.



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	1.89	(0.00)	1.85	1.27	0.92	2yr	2.52	2.71	2.55	2.71	25.00	2Yr	1.94	1.94	1.94	-	
6mo	2.06	(0.02)	2.02	1.44	1.07	3yr	2.64	2.80	2.67	2.85	32.00	3Yr	2.10	2.11	2.11	2.10	
1yr	2.23	(0.07)	2.25	1.59	1.16	5yr	2.86	2.87	2.87	3.05	46.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.46	(0.08)	2.49	1.75	1.30	7yr	3.02	2.91	3.21	3.41	53.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.60	(0.11)	2.63	1.85	1.46	10yr	3.21	2.97	3.51	3.74	74.00	10Yr	2.57	2.62	2.69	2.72	
5yr	2.76	(0.13)	2.84	2.06	1.80	15yr	3.34	3.02	3.82	4.07	89.00	June TBA MBS					
7yr	2.88	(0.13)	2.97	2.23	2.06	20yr	3.46	3.02	4.05	4.31	77.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	2.93	(0.13)	3.03	2.34	2.26	25yr	3.59	3.01	4.12	4.38	79.00		2.00	3.17	5.1y		
30yr	3.09	(0.11)	3.21	2.76	2.92	30yr		2.99	4.19	4.46	81.00		2.50	3.09	5.3y		
													3.00	3.17	5.1y	3.45	9.9y
													3.50	3.05	2.9y	3.60	9.2y
												4.00			3.68	7.7y	
												4.50			3.71	6.6y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	1.75	1.25	1.00
Primary Discount	2.25	--	2.25	1.75	1.50
2ndary Discount	2.75	--	2.75	2.25	2.00
Prime Rate	4.75	--	4.75	4.25	4.00
Sec. O.N. Finance	1.74				
1 Month LIBOR	1.96	0.02	1.90	1.33	1.02
3 Month LIBOR	2.33	--	2.36	1.46	1.19
6 Month LIBOR	2.50	--	2.52	1.65	1.41
1 Year LIBOR	2.75	--	2.77	1.93	1.72
6 Month CD	2.42	--	2.50	1.63	1.47
1 Year CMT	2.28	--	2.25	1.61	1.18
REPO O/N	1.82	0.12	1.77	1.05	0.97
REPO 1Wk	1.78	--	1.78	1.20	0.80
CoF Federal	1.811	--	1.749	1.472	1.269
11th D. CoF (Mar)	0.814	--	0.816	0.729	0.583

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.10	2.26	2.08	2.24	May-18	1.700
6mo	2.26	2.37	2.26	2.38	Jun-18	1.825
1yr	2.52	2.49	2.48	2.60	Jul-18	1.910
2yr	2.68	2.86	2.71	2.90	Aug-18	1.920
3yr	2.80	2.99	2.89	3.03	Sep-18	1.935
4yr	2.92	3.13	3.02	3.15	Oct-18	2.070
5yr	2.97	3.18	3.07	3.19	Nov-18	2.080
7yr	3.19	3.44	3.30	3.34	Dec-18	2.130
10yr	3.40	3.67	3.51	3.55	Jan-19	2.205
5yr Am	2.85		2.94	3.11	Feb-19	2.220
10yr Am	3.20		3.30	3.43	Mar-19	2.255

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
05/21	Chicago Fed Nat Activity Index	Apr	30.00%	34.00%	10.00%	32.00%
05/23	MBA Mortgage Applications	5/18	--	-2.60%	-2.70%	--
05/23	Markit US Manufacturing PMI	May P	56.50	56.60	56.50	--
05/23	Markit US Services PMI	May P	55.00	55.70	54.60	--
05/23	Markit US Composite PMI	May P	--	55.70	54.90	--
05/23	New Home Sales	Apr	680k	662k	694k	672k
05/24	Initial Jobless Claims	5/19	220k	234k	222k	223k
05/24	Continuing Claims	5/12	1746k	1741k	1707k	1712k
05/24	House Price Purchase Index QoQ	1Q	0.70%	1.70%	1.60%	1.70%
05/24	Bloomberg Consumer Comfort	5/20	--	55.20	54.60	--
05/24	Existing Home Sales	Apr	5.55m	5.46m	5.60m	--
05/24	Kansas City Fed Manf. Activity	May	20.00	29.00	26.00	--
05/25	Durables Ex Transportation	Apr P	0.50%	0.90%	0.10%	0.40%
05/25	Cap Goods Ship Nondef Ex Air	Apr P	0.40%	0.80%	0.80%	-0.70%
05/25	U. of Mich. Current Conditions	May F	98.60	111.80	113.30	--
05/25	U. of Mich. 1 Yr Inflation	May F	--	2.80%	2.80%	--
05/29	S&P CoreLogic CS 20-City YoY NSA	Mar	6.40%	--	6.80%	--
05/29	S&P CoreLogic CS US HPI YoY NSA	Mar	--	--	6.34%	--
05/29	Conf. Board Present Situation	May	--	--	159.60	--
05/30	ADP Employment Change	May	185k	--	204k	--
05/30	GDP Annualized QoQ	1Q S	2.30%	--	2.30%	--
05/30	GDP Price Index	1Q S	2.00%	--	2.00%	--
05/30	Core PCE QoQ	1Q S	--	--	2.50%	--
05/30	Advance Goods Trade Balance	Apr	-\$71.0b	--	-\$68.0b	-\$68.3b
05/31	Challenger Job Cuts YoY	May	--	--	-1.40%	--
05/31	PCE Core YoY	Apr	1.80%	--	1.90%	--
05/31	Personal Income	Apr	0.00	--	0.00	--
05/31	Real Personal Spending	Apr	--	--	0.40%	--
05/31	PCE Deflator YoY	Apr	2.00%	--	2.00%	--
05/31	Initial Jobless Claims	5/26	230k	--	234k	--
05/31	Continuing Claims	5/19	--	--	1741k	--
05/31	Chicago Purchasing Manager	May	58.00	--	57.60	--
05/31	Pending Home Sales NSA YoY	Apr	--	--	-4.40%	--
06/01	Change in Nonfarm Payrolls	May	190k	--	164k	--
06/01	Two-Month Payroll Net Revision	May	--	--	30k	--
06/01	Change in Private Payrolls	May	190k	--	168k	--
06/01	Change in Manufact. Payrolls	May	20k	--	24k	--
06/01	Unemployment Rate	May	3.90%	--	3.90%	--
06/01	Underemployment Rate	May	--	--	7.80%	--
06/01	Average Hourly Earnings YoY	May	2.70%	--	2.60%	--
06/01	Average Weekly Hours All Employees	May	34.50	--	34.50	--
06/01	Labor Force Participation Rate	May	--	--	62.80%	--
06/01	Markit US Manufacturing PMI	May F	--	--	56.60	--
06/01	ISM Manufacturing	May	58.00	--	57.30	--
06/01	ISM Employment	May	--	--	54.20	--
06/01	ISM Prices Paid	May	77.50	--	79.30	--
06/01	ISM New Orders	May	--	--	61.20	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	12.6	14.0	16.1	24.6	30.2
FH/FN 15y	5.2	5.4	6.4	13.0	14.9	18.3
GN 15y	7.4	10.9	12.4	12.1	12.8	12.8
FH/FN 20y	--	5.6	7.1	8.4	10.2	12.5
FH/FN 30y	3.0	4.5	3.1	4.9	8.4	13.7
GN 30y	6.4	9.0	10.9	14.0	14.2	15.9

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	11.3	12.1	17.3	18.6	21.9
FH/FN 15y	7.5	8.1	8.9	11.2	15.8	25.0
GN 15y	7.0	10.1	11.8	13.8	12.6	12.5
FH/FN 20y	3.1	6.7	7.6	9.4	11.0	13.4
FH/FN 30y	4.9	5.7	5.8	6.9	9.4	11.8
GN 30y	5.7	7.9	8.7	10.7	16.0	19.1

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.29	(1.49)	109.43	111.09	111.84
Euro	1.17	(0.01)	1.22	1.19	1.12
Dollar Index	94.17	0.54	91.17	92.78	97.25
Major Stock Indices					
Dow Jones	24,801	86	24,084	23,558	21,083
S&P 500	2,721.0	8.0	2,639.4	2,602.4	2,415.1
NASDAQ	7,445.6	91	7,003.7	6,889.2	6,205.3
Commodities					
Gold	1,304.0	12.7	1,321.2	1,287.3	1,256.4
Crude Oil	68.67	(2.61)	68.05	58.95	48.90
Natural Gas	2.95	0.10	2.79	2.81	3.18
Wheat	538.5	20.3	486.3	415.8	430.8
Corn	405.0	2.5	386.5	342.3	369.3

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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