



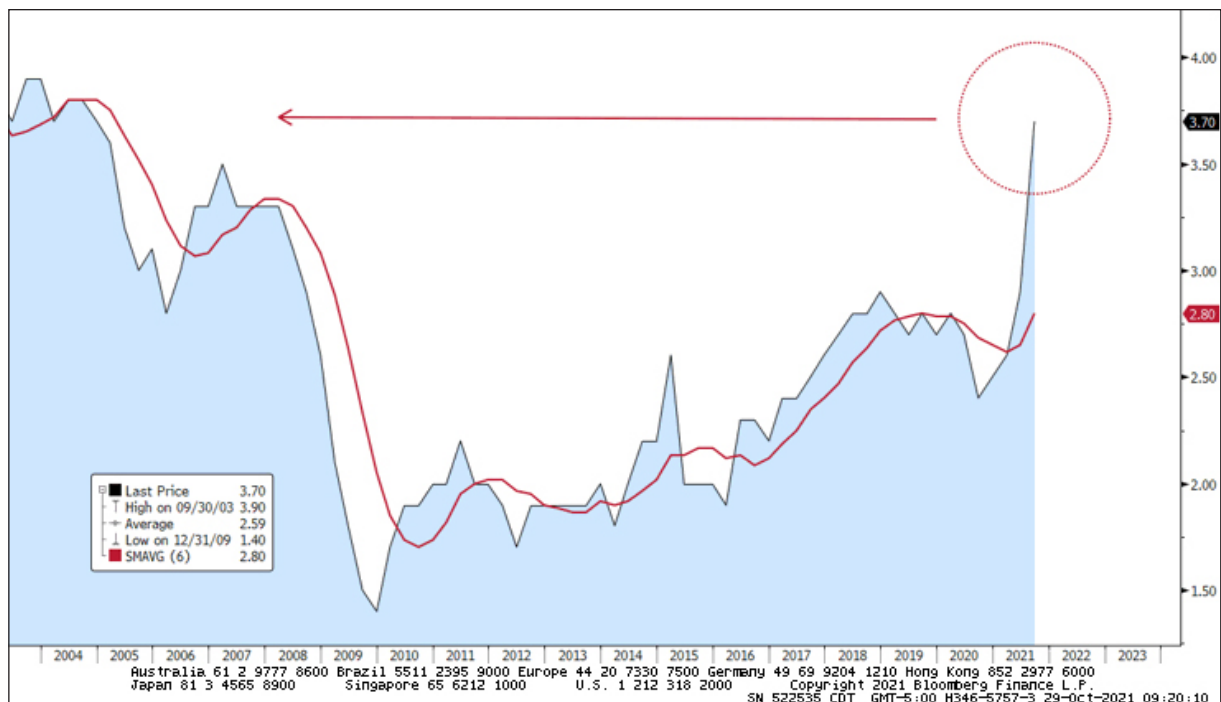
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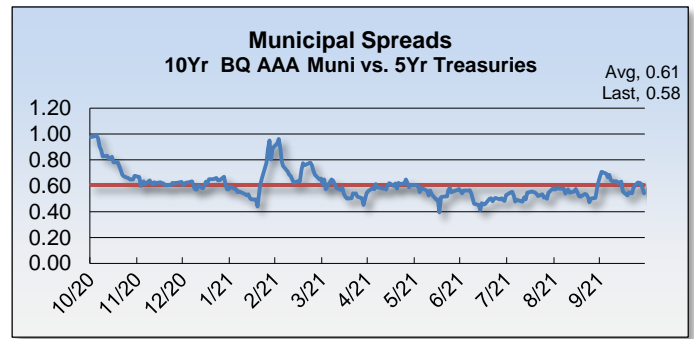
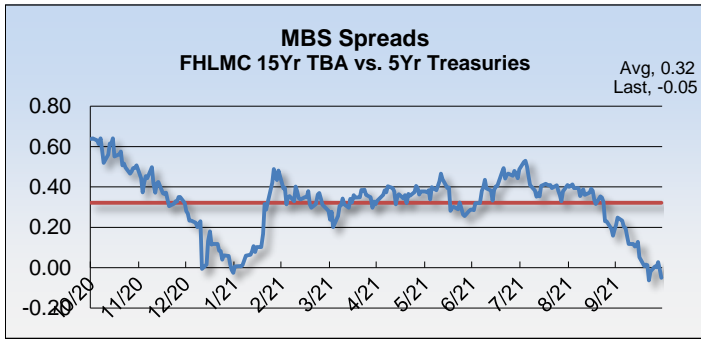
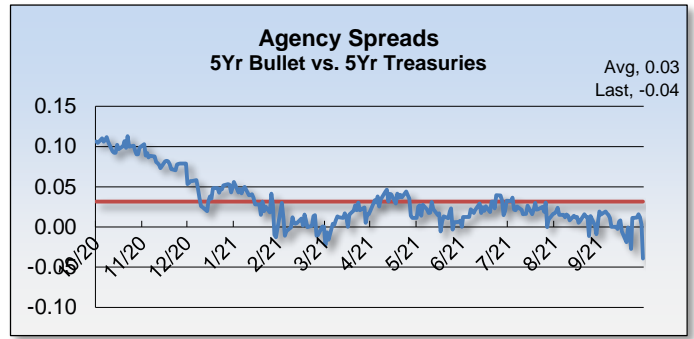
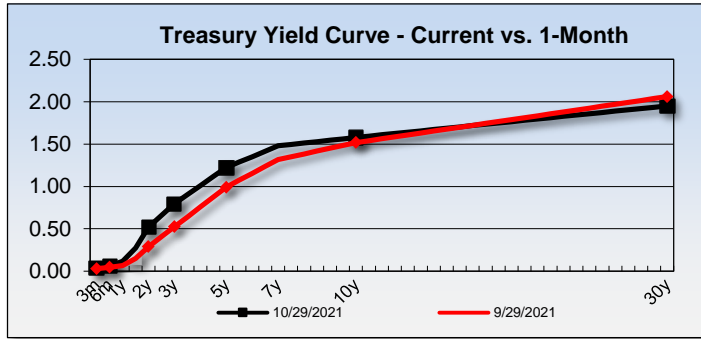
The bond market is scared. Spooked by something that's caused a creepy inversion in the long end of the yield curve just as the Fed is preparing to begin "tapering" the size of its asset purchases. Instead of a curve-steepening tantrum a la 2013, we're seeing an eerie flattening that has narrowed the yield spread between 2yr and 10yr Treasuries to just 107bps. That's a collapse of 20bps in the last nine days and 30bps in less than a month. It would seem from this bond market reaction that the Fed does face an "Impossible Task" as described by Dr. Gary Shilling among others. That is to say they risk moving too quickly in removing stimulus and tapping the brakes on the economy, potentially triggering a frightening slowdown in the economy before we're even recovered from the whole COVID nightmare. The fear was reinforced by a less-than stellar GDP report for the third quarter which showed only 2% annualized growth, well below the 2.6% consensus expectation.

Despite the fright, this week's economic data was generally benign or slightly positive. The housing market sure hasn't been scared as home price appreciation over the last year was up nearly 20% according to the Case-Shiller report. Consumer confidence improved last month as did core capital goods orders and jobless claims. New home sales were higher than anticipated, though still down for the year. The threat of inflation, to be sure, remains terrifying to many. That was reinforced by a jump in the Employment Cost Index which includes all forms of compensation and benefits. That number for the third quarter was up 1.3% versus an expected .9%, and up 3.7% for the year... the highest level since 2004. Another inflation measure, the PCE core deflator, came in at 3.6% YOY, less than expected but an uptick from the prior month. The Fed projects a final inflation reading of 3.7% for all of 2021, and a pullback to 2.3% next year. Transitory, episodic... whatever you think it is, it's downright chilling right now.

So next week, after some tricks and treats, we'll welcome the arrival of November. With that comes data on construction spending, manufacturing, factory orders, and the all-important jobs report for October. Let's hope next month's price action in bonds is less scary and the employment report doesn't turn out to be a Turkey.

US Employment Cost Index: 2004 - Today





| 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 | 0.04 | (0.01) | 0.03 | 0.01 | 0.09 | 2yr | 0.53 | 0.71 | 0.35 | 0.37 | 0.59 | 2Yr | 0.39 | 0.39 | 0.39 | - |
| 6mo | 0.06 | (0.00) | 0.05 | 0.03 | 0.10 | 3yr | 0.77 | 1.00 | 0.46 | 0.49 | 0.83 | 3Yr | 0.67 | 0.68 | 0.60 | 0.67 |
| 1yr | 0.12 | 0.00 | 0.08 | 0.05 | 0.12 | 5yr | 1.24 | 1.27 | 0.90 | 0.95 | 1.30 | 5Yr | 1.17 | 1.18 | 1.17 | 1.10 |
| 2yr | 0.52 | 0.07 | 0.29 | 0.16 | 0.15 | 7yr | 1.51 | 1.44 | 1.32 | 1.40 | 1.61 | 7Yr | 1.43 | 1.45 | 1.44 | 1.37 |
| 3yr | 0.80 | 0.03 | 0.53 | 0.34 | 0.22 | 10yr | 1.71 | 1.58 | 1.69 | 1.80 | 1.94 | 10Yr | 1.58 | 1.63 | 1.63 | 1.56 |
| 5yr | 1.22 | 0.03 | 0.99 | 0.86 | 0.37 | 15yr | 1.91 | 1.70 | 1.89 | 2.01 | 2.34 | November TBA MBS | | | | |
| 7yr | 1.48 | 0.01 | 1.32 | 1.32 | 0.60 | 20yr | 2.10 | 1.75 | 2.09 | 2.22 | 2.43 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 1.58 | (0.06) | 1.52 | 1.64 | 0.82 | 25yr | 2.29 | 1.75 | 2.23 | 2.37 | 2.48 | 2.00 | 1.38 | 4.3y | 2.04 | |
| 30yr | 1.95 | (0.12) | 2.06 | 2.30 | 1.60 | 30yr | | 1.73 | 2.37 | 2.52 | 2.53 | 2.50 | 1.32 | 3.5y | | |
| | | | | | | | | | | | | 3.00 | 1.32 | 3.1y | 1.95 | 4.6y |
| | | | | | | | | | | | | 3.50 | 1.10 | 2.7y | 1.99 | 4.3y |
| | | | | | | | | | | | | 4.00 | | | 2.07 | 4.2y |
| | | | | | | | | | | | | 4.50 | | | 2.27 | 4.2y |

* Interpolated

| Key Market Indices | | | | | |
|--------------------|---------|------------|------------|-------|-------|
| Index | Current | 1Wk Change | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Fed Funds | 0.25 | -- | 0.25 | 0.25 | 0.25 |
| Primary Discount | 0.25 | -- | 0.25 | 0.25 | 0.25 |
| 2ndary Discount | 0.75 | -- | 0.75 | 0.75 | 0.75 |
| Prime Rate | 3.25 | -- | 3.25 | 3.25 | 3.25 |
| Sec. O.N. Finance | 0.05 | 0.02 | 0.05 | 0.01 | -- |
| 1 Month LIBOR | 0.09 | 0.00 | 0.09 | 0.11 | 0.14 |
| 3 Month LIBOR | 0.13 | 0.00 | 0.13 | 0.18 | 0.21 |
| 6 Month LIBOR | 0.18 | 0.01 | 0.16 | 0.21 | 0.25 |
| 1 Year LIBOR | 0.33 | 0.04 | 0.24 | 0.28 | 0.33 |
| 6 Month CD | 0.32 | 0.05 | 0.23 | 0.19 | 0.23 |
| 1 Year CMT | 0.15 | 0.03 | 0.09 | 0.05 | 0.12 |
| REPO O/N | 0.03 | 0.01 | 0.06 | 0.01 | 0.11 |
| REPO 1Wk | 0.14 | -- | 0.11 | 0.10 | 0.09 |
| CoF Federal | 0.752 | -- | 0.761 | 0.845 | 1.019 |
| 11th D. CoF (Aug) | 0.238 | -- | 0.263 | 0.408 | 0.529 |

| FHLB Fixed Advance Rates | | | |
|--------------------------|---------|--------|--------|
| Maturity | Chicago | Boston | Topeka |
| 3mo | 0.22 | 0.34 | 0.26 |
| 6mo | 0.23 | 0.33 | 0.27 |
| 1yr | 0.32 | 0.37 | 0.35 |
| 2yr | 0.74 | 0.93 | 0.76 |
| 3yr | 1.02 | 1.20 | 1.06 |
| 4yr | 1.23 | 1.43 | 1.26 |
| 5yr | 1.40 | 1.59 | 1.42 |
| 7yr | 1.69 | 1.94 | 1.70 |
| 10yr | 1.89 | 2.17 | 1.92 |
| 5yr Am | 1.07 | | 1.18 |
| 10yr Am | 1.59 | | 1.64 |

| Fed Fund Futures | |
|------------------|-------|
| Maturity | Rate |
| Oct-21 | 0.078 |
| Nov-21 | 0.075 |
| Dec-21 | 0.075 |
| Jan-22 | 0.080 |
| Feb-22 | 0.095 |
| Mar-22 | 0.115 |
| Apr-22 | 0.140 |
| May-22 | 0.190 |
| Jun-22 | 0.245 |
| Jul-22 | 0.300 |
| Aug-22 | 0.365 |

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October 29, 2021

| Weekly Economic Calendar | | | | | | |
|--------------------------|------------------------------------|-------|----------|----------|---------------------|----------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 10/25 | Chicago Fed Nat Activity Index | Sep | 20.0% | -13.0% | 29.0% | 5.0% |
| 10/26 | S&P CoreLogic CS 20-City YoY NSA | Aug | 20.00% | 19.66% | 19.95% | 20.02% |
| 10/26 | S&P CoreLogic CS US HPI YoY NSA | Aug | -- | 19.84% | 19.70% | 19.75% |
| 10/26 | New Home Sales | Sep | 756k | 800k | 740k | 702k |
| 10/26 | Conf. Board Present Situation | Oct | -- | 147.4 | 143.4 | 144.3 |
| 10/26 | Conf. Board Expectations | Oct | -- | 91.3 | 86.6 | 86.7 |
| 10/27 | Advance Goods Trade Balance | Sep | -\$88.3b | -\$96.3b | -\$87.6b | -\$88.2b |
| 10/27 | Durables Ex Transportation | Sep P | 0.4% | 0.4% | 0.3% | -- |
| 10/27 | Cap Goods Ship Nondef Ex Air | Sep P | 0.5% | 1.4% | 0.8% | 0.6% |
| 10/28 | Initial Jobless Claims | 10/23 | 288k | 281k | 290k | 291k |
| 10/28 | Continuing Claims | 10/16 | 2420k | 2243k | 2481k | 2480k |
| 10/28 | GDP Annualized QoQ | 3Q A | 2.6% | 2.0% | 6.7% | -- |
| 10/28 | Personal Consumption | 3Q A | 0.9% | 1.6% | 12.0% | -- |
| 10/28 | GDP Price Index | 3Q A | 5.3% | 5.7% | 6.1% | -- |
| 10/28 | Core PCE QoQ | 3Q A | 4.5% | 4.5% | 6.1% | -- |
| 10/28 | Pending Home Sales NSA YoY | Sep | -3.1% | -7.2% | -6.3% | -- |
| 10/29 | Employment Cost Index | 3Q | 0.9% | 1.3% | 0.7% | -- |
| 10/29 | Personal Income | Sep | -0.3% | -1.0% | 0.2% | -- |
| 10/29 | Real Personal Spending | Sep | 0.3% | 0.3% | 0.4% | 0.6% |
| 10/29 | PCE Deflator YoY | Sep | 4.4% | 4.4% | 4.3% | 4.2% |
| 10/29 | PCE Core Deflator YoY | Sep | 3.7% | 3.6% | 3.6% | -- |
| 10/29 | MNI Chicago PMI | Oct | 63.7 | 68.4 | 64.7 | -- |
| 10/29 | U. of Mich. Current Conditions | Oct F | 77.9 | 77.7 | 77.9 | -- |
| 10/29 | U. of Mich. Expectations | Oct F | 67.2 | 67.9 | 67.2 | -- |
| 10/29 | U. of Mich. 1 Yr Inflation | Oct F | 4.8% | 4.8% | 4.8% | -- |
| 11/1 | ISM Manufacturing | Oct | 60.3 | -- | 61.1 | -- |
| 11/1 | ISM Prices Paid | Oct | 82.5 | -- | 81.2 | -- |
| 11/1 | ISM New Orders | Oct | -- | -- | 66.7 | -- |
| 11/1 | ISM Employment | Oct | -- | -- | 50.2 | -- |
| 11/3 | ADP Employment Change | Oct | 400k | -- | 568k | -- |
| 11/3 | ISM Services Index | Oct | 61.9 | -- | 61.9 | -- |
| 11/3 | Markit US Composite PMI | Oct F | -- | -- | 57.3 | -- |
| 11/3 | FOMC Rate Decision (Lower Bound) | 11/3 | 0.00% | -- | 0.00% | -- |
| 11/3 | FOMC Rate Decision (Upper Bound) | 11/3 | 0.25% | -- | 0.25% | -- |
| 11/3 | Interest on Reserve Balances Rate | 11/4 | 0.15% | -- | 0.15% | -- |
| 11/4 | Challenger Job Cuts YoY | Oct | -- | -- | -84.9% | -- |
| 11/4 | Nonfarm Productivity | 3Q P | -1.3% | -- | 2.1% | -- |
| 11/4 | Unit Labor Costs | 3Q P | 5.4% | -- | 1.3% | -- |
| 11/5 | Change in Nonfarm Payrolls | Oct | 400k | -- | 194k | -- |
| 11/5 | Two-Month Payroll Net Revision | Oct | -- | -- | 169k | -- |
| 11/5 | Change in Private Payrolls | Oct | 400k | -- | 317k | -- |
| 11/5 | Change in Manufact. Payrolls | Oct | 32k | -- | 26k | -- |
| 11/5 | Unemployment Rate | Oct | 4.7% | -- | 4.8% | -- |
| 11/5 | Average Hourly Earnings YoY | Oct | 4.9% | -- | 4.6% | -- |
| 11/5 | Average Weekly Hours All Employees | Oct | 34.8 | -- | 34.8 | -- |
| 11/5 | Labor Force Participation Rate | Oct | -- | -- | 61.6% | -- |
| 11/5 | Underemployment Rate | Oct | -- | -- | 8.5% | -- |

| MBS Prepayments ⁴ | | | | | | |
|------------------------------|------|------|------|------|------|------|
| 3-Month CPR | | | | | | |
| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
| FN 10y | 17.2 | 25.6 | 26.4 | 27.6 | 29.3 | 12.8 |
| FH/FN 15y | 13.3 | 31.1 | 35.2 | 39.5 | 31.2 | 23.8 |
| GN 15y | 27.1 | 20.2 | 21.2 | 19.8 | 19.5 | 20.5 |
| FH/FN 20y | 56.1 | 25.9 | 28.0 | 27.5 | 28.1 | 24.0 |
| FH/FN 30y | 8.0 | 15.4 | 45.1 | 46.4 | 47.3 | 47.9 |
| GN 30y | 7.7 | 18.3 | 39.1 | 49.4 | 51.0 | 28.7 |
| CPR Projections | | | | | | |
| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
| FN 10y | 16.3 | 17.9 | 18.6 | 19.3 | 20.6 | 19.6 |
| FH/FN 15y | 14.3 | 16.1 | 18.9 | 22.7 | 21.9 | 20.8 |
| GN 15y | 13.8 | 13.6 | 13.8 | 13.2 | 12.5 | 12.3 |
| FH/FN 20y | 12.2 | 13.9 | 14.5 | 14.9 | 15.6 | 15.5 |
| FH/FN 30y | 10.3 | 12.4 | 18.5 | 19.4 | 20.7 | 20.2 |
| GN 30y | 8.8 | 10.6 | 15.5 | 15.1 | 15.3 | 12.2 |

| Other Markets | | | | | |
|----------------------------|----------|----------|------------|----------|----------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 113.92 | 0.42 | 111.96 | 108.93 | 104.61 |
| Euro | 1.16 | (0.00) | 1.16 | 1.21 | 1.17 |
| Dollar Index | 93.73 | 0.08 | 94.34 | 90.61 | 93.96 |
| Major Stock Indices | | | | | |
| Dow Jones | 35,723 | 46 | 34,391 | 34,060 | 26,659 |
| S&P 500 | 4,583.9 | 39.0 | 4,359.5 | 4,211.5 | 3,310.1 |
| NASDAQ | 15,371.4 | 281 | 14,512.4 | 14,082.6 | 11,185.6 |
| Commodities | | | | | |
| Gold | 1,775.1 | (20.4) | 1,721.5 | 1,768.3 | 1,868.0 |
| Crude Oil | 82.46 | (1.30) | 74.83 | 65.01 | 36.17 |
| Natural Gas | 5.60 | 0.32 | 5.48 | 2.91 | 3.30 |
| Wheat | 767.8 | 11.8 | 710.3 | 737.5 | 603.8 |
| Corn | 563.8 | 25.8 | 539.0 | 702.0 | 398.5 |

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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