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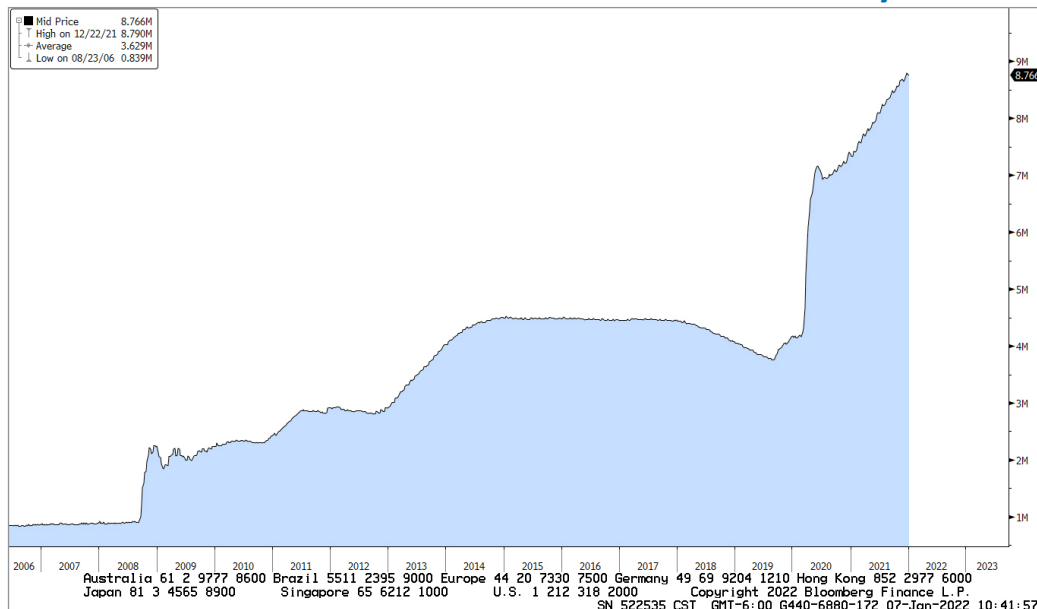
The first week of 2022 was not boring. Bond yields rose to levels not seen in more than a year, stocks fell sharply, and speculative assets got hammered. It seems the minutes of the Fed's December policy meeting (released on Wednesday) got the attention of financial markets in a way that the actual post-meeting statement did not. The post-pandemic era of massive stimulus is clearly ending. Then came the release of the December jobs report this morning. That release showed once again that there's wide divergence between the "establishment survey" which produces the payrolls number and the "household survey" which produces the unemployment rate. New non-farm payrolls creation showed a weak 199K (versus a 450K consensus estimate), but the unemployment rate fell three tenths of a percent to just 3.9%... the estimate was 4.1%. We're now within spitting distance of the pre-pandemic unemployment rate of 3.5%.

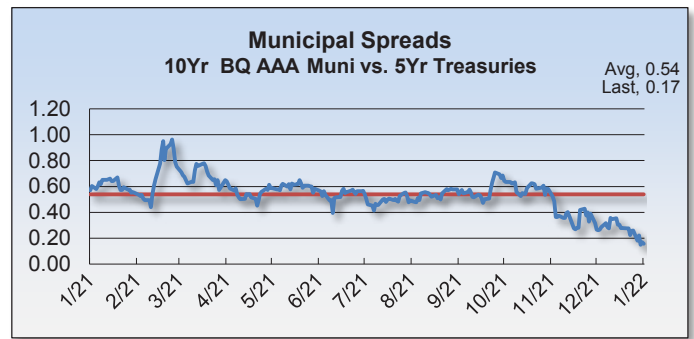
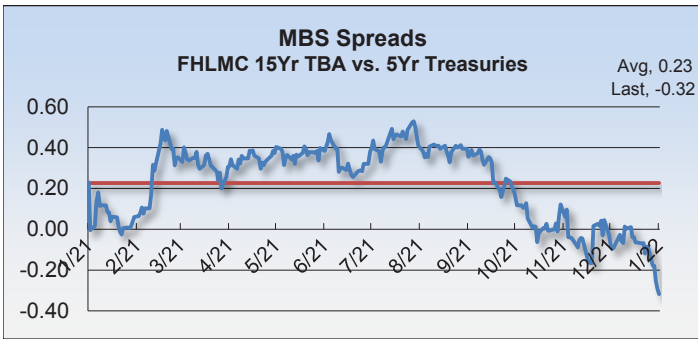
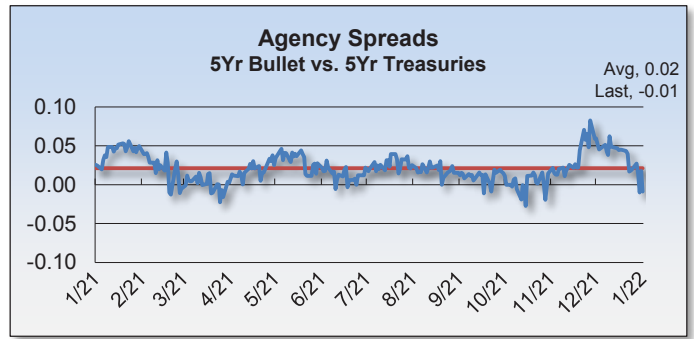
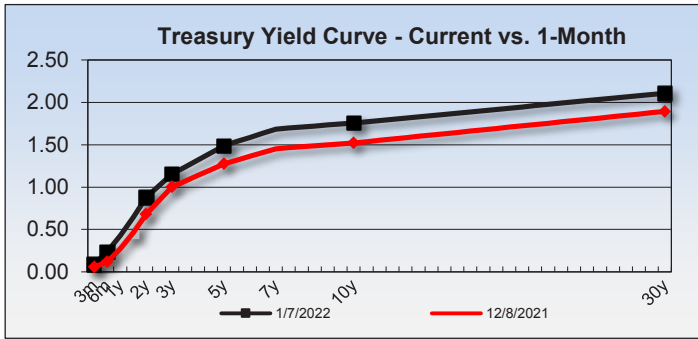
There continues to be noise in the jobs data. Revisions to prior months' payrolls count were once again higher (141K over the last two months), and it's become clear that lot of employers are late or delayed in submitting data (perhaps due to COVID) so a pattern of upward revisions has set in over recent months. Wage data YOY was 4.7%, below last month's revised 5.1%, but higher than the 4.2% estimate as the composition of job creation favored higher paying jobs. All in all, though, nothing in the jobs report should detract the Fed from their task of accelerating the reduction of bond purchases (aka "tapering"), then beginning to raise rates perhaps as soon as the second quarter of the year.

Another component of the Fed policy shift has to do with balance sheet reduction. Halting purchases and raising rates are two important steps, but that doesn't reduce the Fed's gigantic balance sheet. Some policymakers like James Bullard the President of the St. Louis Fed suggest going ahead with balance-sheet runoff shortly after lifting off the policy rate. That could be accomplished passively by not reinvesting the proceeds of paydowns from current holdings, or actively by the actual sale of assets. We may be a long way from that, however. First things first. The "dot plot" suggests three rate hikes during the course of the year once tapering is complete.

Other data this week included the ISM manufacturing report which came in about as advertised at 58.7%, and the "Prices Paid" component which was notably lower than the prior month and lower than estimates as well. Durable goods orders and trade data was right on the screws versus expectations. Next week we'll be treated to inflation data for both wholesale and consumer prices, plus retail sales for December.

Federal Reserve Balance Sheet: 2005 - 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	0.09	0.04	0.06	0.05	0.08	2yr	0.92	1.09	0.49	0.52	1.04	2Yr	0.89	0.89	0.89	-
6mo	0.24	0.05	0.15	0.05	0.08	3yr	1.21	1.36	0.62	0.66	1.25	3Yr	1.16	1.17	1.10	1.16
1yr	0.43	0.05	0.30	0.06	0.11	5yr	1.56	1.59	0.95	1.01	1.68	5Yr	1.58	1.58	1.57	1.51
2yr	0.88	0.14	0.69	0.22	0.14	7yr	1.77	1.72	1.33	1.42	1.94	7Yr	1.78	1.80	1.79	1.72
3yr	1.16	0.20	0.96	0.40	0.25	10yr	1.93	1.83	1.57	1.67	2.23	10Yr	1.89	1.95	1.94	1.88
5yr	1.49	0.23	1.26	0.78	0.46	15yr	2.09	1.94	1.76	1.88	2.52	February TBA MBS				
7yr	1.68	0.25	1.43	1.09	0.78	20yr	2.25	1.99	1.97	2.10	2.63	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.76	0.24	1.48	1.32	1.08	25yr	2.40	1.98	2.09	2.23	2.69	2.00	1.62	4.5y	2.26	
30yr	2.11	0.20	1.80	1.94	1.85	30yr		1.95	2.21	2.35	2.74	2.50	1.63	3.7y		
												3.00	1.56	3.3y	2.36	5.5y
												3.50	1.75	3.2y	2.30	4.9y
												4.00			2.50	4.8y
												4.50			2.70	4.6y

* 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	--	0.05	0.05	--
1 Month LIBOR	0.10	(0.00)	0.10	0.10	0.13
3 Month LIBOR	0.23	0.00	0.19	0.14	0.24
6 Month LIBOR	0.34	(0.01)	0.27	0.16	0.25
1 Year LIBOR	0.60	0.01	0.46	0.24	0.33
6 Month CD	0.30	0.05	0.30	0.22	0.21
1 Year CMT	0.45	0.07	0.28	0.07	0.11
REPO O/N	0.05	0.02	0.07	0.07	0.12
REPO 1Wk	0.09	(0.00)	0.12	0.11	0.09
CoF Federal	0.738	--	0.749	0.806	0.958
11th D. CoF (Nov)	0.218	--	0.225	0.306	0.466

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.30	0.38	0.30
6mo	0.40	0.50	0.45
1yr	0.69	0.71	0.68
2yr	1.11	1.29	1.13
3yr	1.37	1.56	1.42
4yr	1.56	1.76	1.61
5yr	1.71	1.92	1.76
7yr	1.94	2.18	1.98
10yr	2.15	2.40	2.20
5yr Am	1.42		1.53
10yr Am	1.87		1.94

Fed Fund Futures	
Maturity	Rate
Jan-22	0.082
Feb-22	0.100
Mar-22	0.195
Apr-22	0.300
May-22	0.395
Jun-22	0.485
Jul-22	0.565
Aug-22	0.635
Sep-22	0.675
Oct-22	0.765
Nov-22	0.825

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/3	Markit US Manufacturing PMI	Dec F	57.7	57.7	57.8	--
1/3	Construction Spending MoM	Nov	0.6%	0.4%	0.2%	0.4%
1/4	ISM Manufacturing	Dec	60.0	58.7	61.1	--
1/4	ISM Prices Paid	Dec	79.3	68.2	82.4	--
1/4	ISM New Orders	Dec	60.4	60.4	61.5	--
1/4	ISM Employment	Dec	53.6	54.2	53.3	--
1/4	JOLTS Job Openings	Nov	11079k	10562k	11033k	11091k
1/5	MBA Mortgage Applications	12/31	--	-5.6%	3.2%	--
1/5	ADP Employment Change	Dec	410k	807k	534k	505k
1/5	Markit US Services PMI	Dec F	57.5	57.6	57.5	--
1/5	Markit US Composite PMI	Dec F	--	57.0	56.9	--
1/6	Challenger Job Cuts YoY	Dec	--	-75.3%	-77.0%	--
1/6	Trade Balance	Nov	-\$81.0b	-\$80.2b	-\$67.1b	-\$67.2b
1/6	Initial Jobless Claims	1/1	195k	207k	198k	200k
1/6	Continuing Claims	12/25	1678k	1754k	1716k	1718k
1/6	ISM Services Index	Dec	67.0	62.0	69.1	--
1/6	Factory Orders Ex Trans	Nov	1.1%	0.8%	1.6%	1.5%
1/6	Durables Ex Transportation	Nov F	--	0.9%	0.8%	--
1/6	Cap Goods Ship Nondef Ex Air	Nov F	--	0.3%	0.3%	--
1/7	Change in Nonfarm Payrolls	Dec	450k	199k	210k	249k
1/7	Two-Month Payroll Net Revision	Dec	--	141k	--	--
1/7	Change in Private Payrolls	Dec	400k	211k	235k	270k
1/7	Change in Manufact. Payrolls	Dec	35k	26k	34k	35k
1/7	Unemployment Rate	Dec	4.1%	3.9%	4.2%	--
1/7	Average Hourly Earnings YoY	Dec	4.2%	4.7%	4.8%	5.1%
1/7	Average Weekly Hours All Employees	Dec	34.8	34.7	34.8	34.7
1/7	Labor Force Participation Rate	Dec	61.9%	61.9%	61.8%	61.9%
1/7	Underemployment Rate	Dec	--	7.3%	7.8%	7.7%
1/7	Consumer Credit	Nov	\$20,000b	--	\$16,897b	--
1/11	NFIB Small Business Optimism	Dec	98.5	--	98.4	--
1/12	CPI YoY	Dec	7.1%	--	6.8%	--
1/12	CPI Ex Food and Energy YoY	Dec	5.4%	--	4.9%	--
1/12	CPI Index NSA	Dec	278.78	--	277.95	--
1/12	CPI Core Index SA	Dec	284.68	--	283.20	--
1/12	Real Avg Hourly Earning YoY	Dec	--	--	-1.9%	-1.7%
1/12	Real Avg Weekly Earnings YoY	Dec	--	--	-1.9%	--
1/12	Monthly Budget Statement	Dec	--	--	-\$191.3b	--
1/13	PPI Ex Food and Energy YoY	Dec	8.0%	--	7.7%	--
1/13	PPI Ex Food, Energy, Trade YoY	Dec	--	--	6.9%	--
1/13	PPI Final Demand YoY	Dec	9.8%	--	9.6%	--
1/14	Retail Sales Control Group	Dec	0.3%	--	-0.1%	--
1/14	Retail Sales Ex Auto and Gas	Dec	-0.2%	--	0.2%	--
1/14	Import Price Index YoY	Dec	--	--	11.7%	--
1/14	Export Price Index YoY	Dec	--	--	18.2%	--
1/14	Capacity Utilization	Dec	77.0%	--	76.8%	--
1/14	Manufacturing (SIC) Production	Dec	0.5%	--	0.7%	--
1/14	Business Inventories	Nov	1.0%	--	1.2%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.4	23.9	24.7	25.4	23.4	13.1
FH/FN 15y	11.6	27.5	29.0	34.7	30.6	22.7
GN 15y	19.5	18.2	19.7	18.9	19.7	19.5
FH/FN 20y	55.3	23.0	25.1	24.9	26.5	21.6
FH/FN 30y	1.8	15.4	39.8	42.2	45.0	46.6
GN 30y	4.1	17.0	41.0	42.3	38.8	26.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.7	17.4	18.2	18.8	19.8	19.3
FH/FN 15y	13.3	14.6	15.6	18.5	20.3	20.8
GN 15y	13.6	13.3	13.3	12.9	12.4	12.1
FH/FN 20y	55.4	12.1	13.0	13.5	14.4	14.8
FH/FN 30y	9.6	11.0	15.1	16.3	17.4	17.7
GN 30y	8.3	9.7	14.2	13.3	13.9	11.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	115.68	0.60	113.60	110.66	103.81
Euro	1.13	(0.00)	1.13	1.18	1.23
Dollar Index	95.99	0.32	96.37	92.64	89.83
Major Stock Indices					
Dow Jones	36,225	(114)	35,719	34,682	31,041
S&P 500	4,702.0	(64.2)	4,686.8	4,358.1	3,803.8
NASDAQ	15,127.9	(517)	15,686.9	14,665.1	13,067.5
Commodities					
Gold	1,790.8	(37.8)	1,782.6	1,802.1	1,913.6
Crude Oil	79.49	4.28	72.05	72.20	50.83
Natural Gas	3.90	0.17	3.71	3.60	2.73
Wheat	744.3	-26.5	799.3	614.8	642.3
Corn	600.3	7.0	586.3	652.5	494.0

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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