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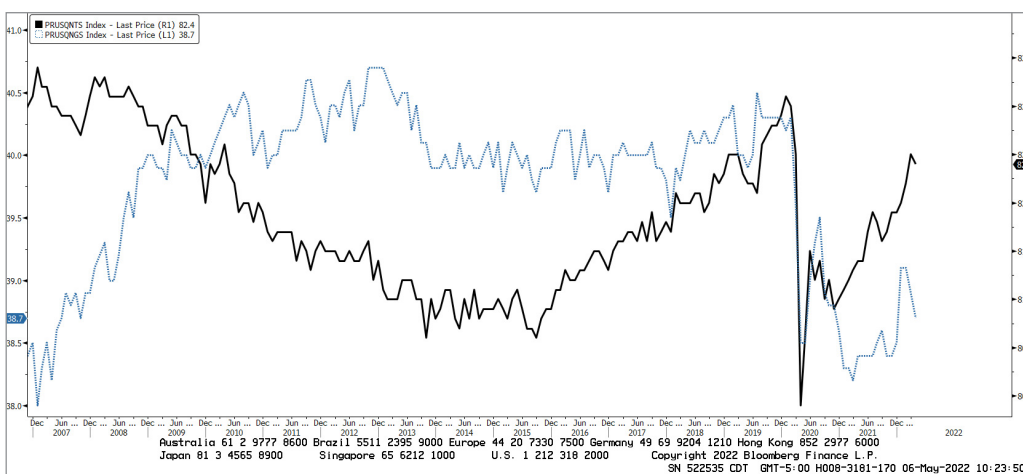
Here in the great plains, the month of May is traditionally considered “storm season” when the likelihood of tornados and severe weather is at its height. The first week of the month has also been volatile and stormy for financial markets. Indeed, it seems none have been spared. Stocks, bonds, gold... every asset class got hit hard at some point this week. To be sure, the trade-weighted dollar remains strong as an ox as it sits at 20-year highs, but assets denominated in the dollar (or any other currency for that matter) have gotten clocked. Remember, though, that nothing moves in a straight line. Volatility has been the word for the week as comments from the Fed chairman on Wednesday at first triggered a massive rally in both stocks and bonds, pushing the 10yr T-Note yield down below 2.90%, only to see a complete reversal of all that price action the next day, plus some. So what gives?

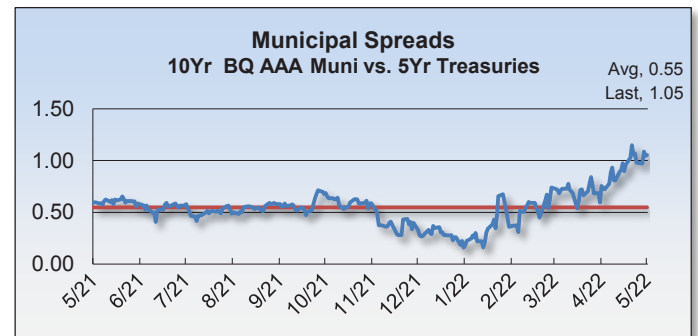
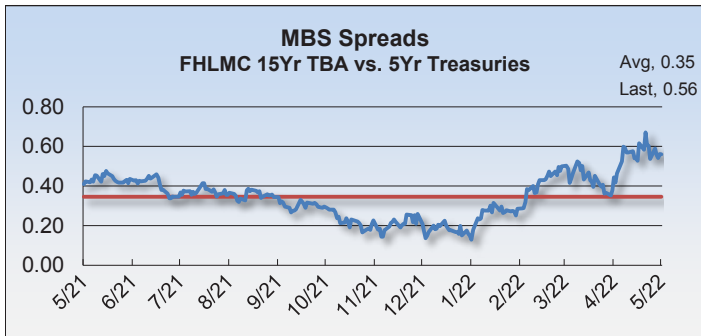
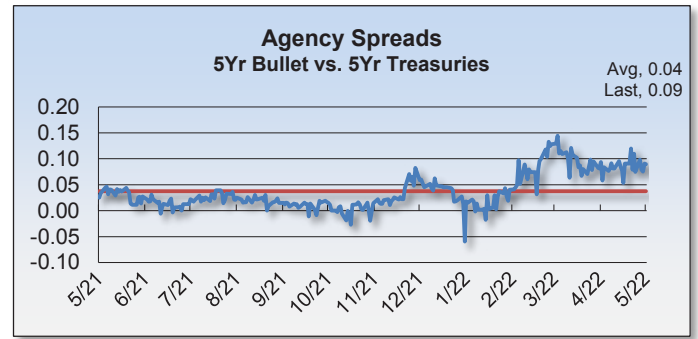
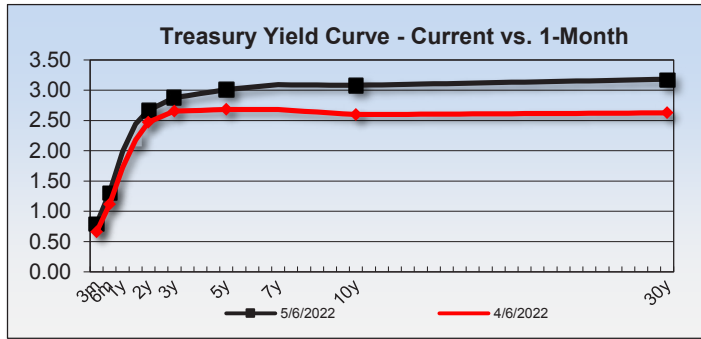
As the Fed strives to impress upon markets their seriousness in fighting inflation, the magnitude of their task is becoming more apparent. In their zest to get the fed funds rate to neutral (considered 2.5%-projected) or higher, they run the very real risk of choking the growth out of the economy and sending us into recession. The worst case would be a 1970’s-style period of “stagflation”. Historical reminder: As Fed Chairman, Paul Volker successfully crushed inflation during this period, but not without some pain. The level of the S&P 500 Index at the trough of the 1982 recession was about where it had been in 1976. Food for thought indeed. And this time around, there’s a gigantic Fed balance sheet that needs to be deflated. Storm season may be with us for a while.

The big data release for the week was this morning’s jobs report. On its face, the April employment report doesn’t rock anybody’s world... payrolls up 428K vs 380K projected, average hourly earnings YOY 5.5% vs 5.6% last month, and the UE rate remained at 3.6%. So at first glance we see slightly better payrolls growth and slightly less wage inflation than expected. There was an interesting downtick in labor force participation to 62.2% from 62.4% prior which feeds the narrative that the labor market continues to adjust to a post-pandemic world where labor supply is a major issue and the wide gulf between job openings and hires remains a head-scratcher. This keeps intact the fear that continuing (or resuming) upward pressure on wages will persist making the Fed’s job even more treacherous.

So, as we approach the weekend, we see the 10yr T-Note sitting at a lofty 3.10%. The range between 3.0 and 3.25% should serve as key yield resistance, but if we punch through 3.25%, it will bring us to the highest level in eleven years. We’ve also seen the yield curve steepen. The 2s / 10s yield spread is now out to 4bps, a notable difference from the inversion we had at the first of last month. More recession indicators (like the yield curve inversion) are starting to flash warning signs. The downdraft in financial markets may simply be adjusting to, and embracing the reality of an aggressive Fed. Bonds have led the way as the jump in yields has been rapid and substantial already. The wall clouds are forming, watch for rotation.

US Labor Force Participation: 2005 – Today Prime-Age (solid line) and 55+ (dotted line)





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	0.79	(0.04)	0.67	0.04	0.01	2yr	2.69	3.01	3.15	3.35	2.98	2Yr	2.67	2.67	2.67	-
6mo	1.31	(0.10)	1.13	0.06	0.04	3yr	2.93	3.09	3.39	3.61	3.15	3Yr	2.88	2.89	2.80	2.88
1yr	1.99	(0.08)	1.74	0.14	0.05	5yr	3.10	3.09	3.51	3.74	3.48	5Yr	3.09	3.09	3.08	3.02
2yr	2.67	(0.05)	2.47	0.40	0.16	7yr	3.24	3.12	3.71	3.95	3.63	7Yr	3.17	3.19	3.18	3.12
3yr	2.88	(0.01)	2.66	0.66	0.37	10yr	3.43	3.15	3.93	4.19	3.78	10Yr	3.21	3.27	3.26	3.20
5yr	3.01	0.05	2.68	1.06	0.81	15yr	3.62	3.17	4.10	4.37	4.03	June TBA MBS				
7yr	3.09	0.11	2.68	1.32	1.25	20yr	3.81	3.13	4.21	4.48	3.92	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.08	0.14	2.60	1.45	1.57	25yr	4.01	3.03	4.31	4.58	3.98	2.00	3.28	5.8y	3.61	
30yr	3.18	0.18	2.63	1.89	2.24	30yr		2.92	4.40	4.68	4.03	2.50	3.41	5.6y		
												3.00	3.43	5.4y	3.83 9.7y	
												3.50	3.49	3.8y	3.99 8.9y	
												4.00			4.14 7.9y	
												4.50			4.18 5.3y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.00	0.50	0.50	0.25	0.25
Primary Discount	1.00	0.50	0.50	0.25	0.25
2ndary Discount	1.50	0.50	1.00	0.75	0.75
Prime Rate	4.00	0.50	3.50	3.25	3.25
Sec. O.N. Finance	0.79	0.51	0.30	0.05	--
1 Month LIBOR	0.85	0.08	0.43	0.09	0.11
3 Month LIBOR	1.41	0.17	0.97	0.14	0.18
6 Month LIBOR	2.02	0.19	1.49	0.21	0.21
1 Year LIBOR	2.75	0.20	2.20	0.36	0.28
6 Month CD	1.94	0.15	1.43	0.11	0.15
1 Year CMT	2.08	0.04	1.77	0.14	0.06
REPO O/N	0.29	0.02	0.31	0.05	0.02
REPO 1Wk	0.82	0.05	0.37	0.12	0.09
CoF Federal	0.870	--	0.791	0.752	0.845
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	1.17	1.24	1.25
6mo	1.63	1.72	1.72
1yr	2.38	2.43	2.37
2yr	2.88	2.99	2.94
3yr	3.10	3.22	3.12
4yr	3.17	3.28	3.17
5yr	3.24	3.36	3.22
7yr	3.43	3.55	3.37
10yr	3.65	3.79	3.58
5yr Am	3.10		3.12
10yr Am	3.45		3.38

Fed Fund Futures	
Maturity	Rate
May-22	0.770
Jun-22	1.110
Jul-22	1.440
Aug-22	1.850
Sep-22	1.975
Oct-22	2.250
Nov-22	2.535
Dec-22	2.680
Jan-23	2.795
Feb-23	2.945
Mar-23	3.035

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
5/2	S&P Global US Manufacturing PMI	Apr F	59.7	59.2	59.7	--
5/2	ISM Manufacturing	Apr	57.6	55.4	57.1	--
5/2	ISM Prices Paid	Apr	87.4	84.6	87.1	--
5/2	ISM New Orders	Apr	54.1	53.5	53.8	--
5/2	ISM Employment	Apr	55.0	50.9	56.3	--
5/3	Factory Orders Ex Trans	Mar	--	2.5%	0.4%	1.0%
5/3	Durables Ex Transportation	Mar F	1.1%	1.4%	1.1%	--
5/3	Cap Goods Ship Nondef Ex Air	Mar F	--	0.4%	0.2%	--
5/3	JOLTS Job Openings	Mar	11200k	11549k	11266k	11344k
5/4	ADP Employment Change	Apr	383k	247k	455k	479k
5/4	S&P Global US Services PMI	Apr F	54.7	55.6	54.7	--
5/4	S&P Global US Composite PMI	Apr F	55.1	56.0	55.1	--
5/4	ISM Services Index	Apr	58.5	57.1	58.3	--
5/4	FOMC Rate Decision (Upper Bound)	5/4	1.00%	1.00%	0.50%	--
5/4	FOMC Rate Decision (Lower Bound)	5/4	0.75%	0.75%	0.25%	--
5/4	Interest on Reserve Balances Rate	5/5	0.90%	0.90%	0.40%	--
5/5	Challenger Job Cuts YoY	Apr	--	6.0%	-30.1%	--
5/5	Nonfarm Productivity	1Q P	-5.3%	-7.5%	6.6%	6.3%
5/5	Unit Labor Costs	1Q P	10.0%	11.6%	0.9%	1.0%
5/5	Initial Jobless Claims	4/30	180k	200k	480k	181k
5/5	Continuing Claims	4/23	1400k	1384k	1408k	1403k
5/6	Two-Month Payroll Net Revision	Apr	--	-39k	--	--
5/6	Change in Nonfarm Payrolls	Apr	380k	428k	431k	428k
5/6	Change in Private Payrolls	Apr	390k	406k	426k	424k
5/6	Change in Manufact. Payrolls	Apr	35k	55k	38k	43k
5/6	Unemployment Rate	Apr	3.5%	3.6%	3.6%	--
5/6	Average Hourly Earnings YoY	Apr	5.5%	5.5%	5.6%	--
5/6	Average Weekly Hours All Employees	Apr	34.7	34.6	34.6	--
5/6	Labor Force Participation Rate	Apr	62.5%	62.2%	62.4%	--
5/6	Underemployment Rate	Apr	--	7.0%	6.9%	--
5/6	Consumer Credit	Mar	\$25.000b	--	\$41.820b	--
5/11	CPI YoY	Apr	8.1%	--	8.5%	--
5/11	CPI Ex Food and Energy YoY	Apr	6.0%	--	6.5%	--
5/11	CPI Index NSA	Apr	288.77	--	287.50	--
5/11	CPI Core Index SA	Apr	289.86	--	288.81	--
5/11	Real Avg Hourly Earning YoY	Apr	--	--	-2.7%	-2.6%
5/11	Real Avg Weekly Earnings YoY	Apr	--	--	-3.6%	-3.5%
5/12	PPI Ex Food and Energy YoY	Apr	8.9%	--	9.2%	--
5/12	PPI Final Demand YoY	Apr	10.7%	--	11.2%	--
5/12	Initial Jobless Claims	5/7	194k	--	200k	--
5/12	PPI Ex Food, Energy, Trade YoY	Apr	--	--	7.0%	--
5/12	Continuing Claims	4/30	--	--	1384k	--
5/13	Import Price Index YoY	Apr	--	--	12.5%	--
5/13	Export Price Index YoY	Apr	--	--	18.8%	--
5/13	U. of Mich. Sentiment	May P	63.7	--	65.2	--
5/13	U. of Mich. Current Conditions	May P	70.0	--	69.4	--
5/13	U. of Mich. 1 Yr Inflation	May P	--	--	5.4%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.3	19.1	22.0	22.8	20.1	33.5
FH/FN 15y	8.8	9.8	12.3	27.5	26.7	24.3
GN 15y	11.7	17.2	19.5	18.5	21.2	20.8
FH/FN 20y	53.2	11.8	15.9	18.8	20.6	20.2
FH/FN 30y	12.1	9.0	16.0	15.0	19.0	44.4
GN 30y	4.8	10.2	19.0	19.8	21.2	21.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	9.9	10.1	10.8	12.9	14.1	14.9
FH/FN 15y	8.0	8.1	9.4	12.5	16.9	22.4
GN 15y	10.8	10.1	10.9	14.6	15.0	15.6
FH/FN 20y	6.1	6.9	7.6	9.2	10.4	11.7
FH/FN 30y	5.9	6.2	7.1	8.2	10.2	15.0
GN 30y	6.8	6.8	8.0	10.2	12.7	12.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	130.40	0.70	123.80	113.23	109.09
Euro	1.06	0.00	1.09	1.16	1.21
Dollar Index	103.37	0.41	99.60	94.32	90.95
Major Stock Indices					
Dow Jones	32,752	(225)	34,497	36,328	34,549
S&P 500	4,091.3	(40.7)	4,481.2	4,697.5	4,201.6
NASDAQ	12,213.3	(121)	13,888.8	15,971.6	13,632.8
Commodities					
Gold	1,884.4	(27.3)	1,918.4	1,816.8	1,815.7
Crude Oil	108.76	4.07	96.23	81.27	64.71
Natural Gas	8.48	1.24	6.03	5.52	2.93
Wheat	1,096.0	22.0	1,045.3	766.5	755.8
Corn	790.3	-28.0	756.5	553.0	759.5

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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