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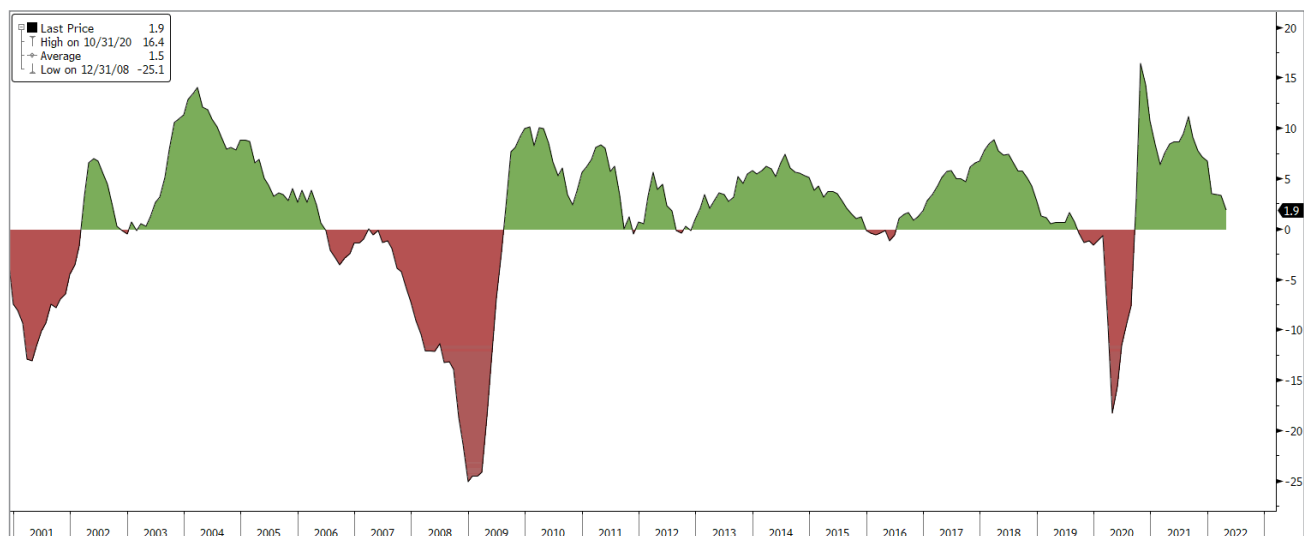
Most financial markets got clobbered again this week as Fed Chairman Powell reiterated the Fed's intention to raise interest rates as much as is necessary to break the back of inflation. The Dow, for example, lost another 1,000 points, failing to hold momentum from a mid-week rally. The bond market, however, was a notable exception. Treasuries rallied on safe-haven flows and growing concerns about recession risk, and the yield curve (as measured by the 2yr to 10yr yield spread) flattened to a range of 20-25bps, down from 45bps recently. Kansas City Fed President Esther George characterized the stock market selloff as a "rough week" but indicated that this is exactly what the Fed expects to happen as they see "the transmission of our policy through markets understanding that further tightening should be expected". Well said, Madam President. The markets are indeed getting the message that the Fed isn't fooling around.

The first quarter of this year was a textbook example of stagflation as GDP growth was negative while we hit a new decades-long high in inflation. For the year, the Dow is down more than 5,000 points (-15% from the January highs), and the S&P is down 18%. The carnage isn't limited to speculative technology stocks as consumer staples like Walmart and Target are reporting their worst quarterly results in over a quarter of a century. Analysts suggests that the odds of recession in the next year have risen to at least 30%.

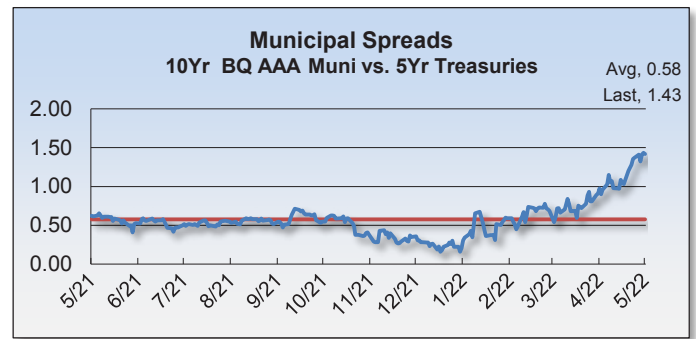
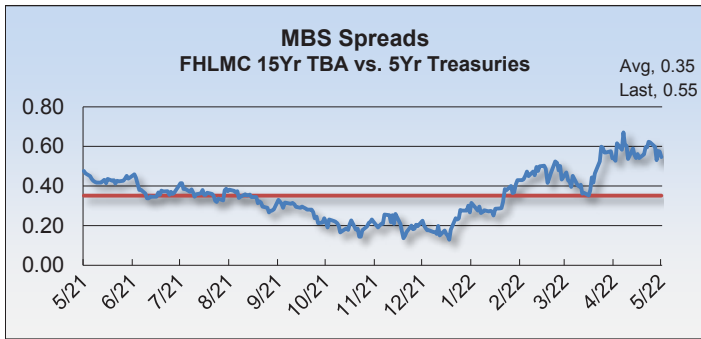
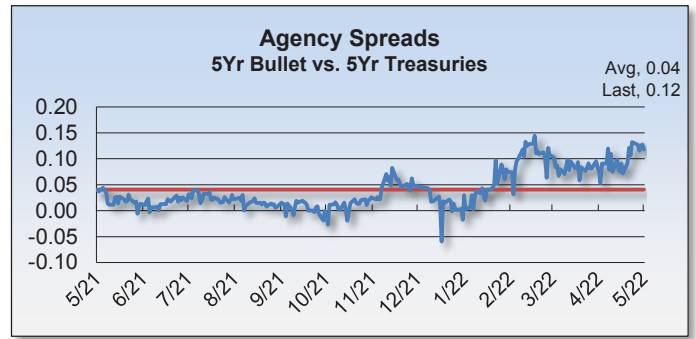
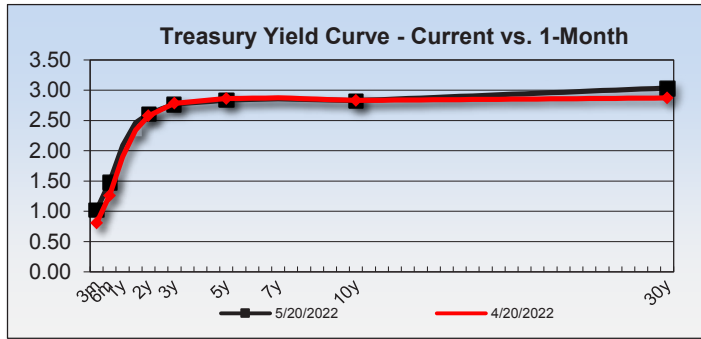
Markets are increasingly fearful that the Fed won't be able to tame inflation without significantly damaging economic growth and the labor market. Indeed, the Fed is only able to fight half of the inflation enemy... the half that is driven by robust demand. Raising rates will cool that to be sure. But the supply-side problems are different. Higher interest rates don't unlog trade routes or put dock-workers back to work. Raising the cost of borrowing won't accelerate the automation or innovation needed to solve labor market mismatch problems. Demand destruction alone will slow inflation, but not without substantial cost. That seems to be the message from the bond market, and the message isn't lost on Jay Powell who acknowledged that, "You'd still have a strong labor market if unemployment were to move up a few ticks, but there are a number of plausible paths to have, as I said, a softish landing." That's Fedpeak if I've ever heard it. When they say things like that, fasten your seat belts.

The economic calendar this week included two regional indices, NY and Philadelphia, both of which fell short of expectations and prior readings. Retail sales surprised somewhat to the upside, but Building Permits and Existing Home Sales were weaker than expected and Leading Economic Indicators showed the lowest reading in well over a year. Next week we'll get New Home Sales and Capital Expenditures data, and we'll see what the latest GDP readings look like.

## US Leading Economic Indicators (6mo MA) 2000-Today



Source: Bloomberg Finance L.P.



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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.02	0.05	0.82	0.05	0.01	2yr	2.64	2.91	3.21	3.41	3.17	2Yr	2.62	2.62	2.62	-
6mo	1.48	0.04	1.27	0.06	0.02	3yr	2.84	2.92	3.44	3.67	3.30	3Yr	2.78	2.78	2.70	2.78
1yr	2.09	0.16	1.92	0.15	0.04	5yr	2.96	2.89	3.60	3.83	3.57	5Yr	2.93	2.93	2.92	2.86
2yr	2.61	0.03	2.58	0.51	0.15	7yr	3.05	2.88	3.95	4.20	3.72	7Yr	2.95	2.97	2.96	2.89
3yr	2.77	(0.01)	2.79	0.86	0.37	10yr	3.22	2.91	4.19	4.46	3.92	10Yr	2.97	3.03	3.02	2.95
5yr	2.84	(0.03)	2.86	1.22	0.81	15yr	3.40	2.97	4.38	4.66	4.09	June TBA MBS				
7yr	2.86	(0.07)	2.88	1.45	1.28	20yr	3.58	2.95	4.49	4.78	4.21	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.83	(0.09)	2.83	1.55	1.63	25yr	3.77	2.87	4.59	4.88	4.27	2.00	3.27	5.8y	3.58	
30yr	3.04	(0.05)	2.87	1.91	2.33	30yr	3.77	2.78	4.68	4.98	4.32	2.50	3.47	5.6y		
												3.00	3.49	5.4y	3.75	9.7y
												3.50	3.35	3.8y	3.87	9.0y
												4.00			4.03	7.3y
												4.50			4.09	4.9y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.00	--	0.50	0.25	0.25
Primary Discount	1.00	--	0.50	0.25	0.25
2ndary Discount	1.50	--	1.00	0.75	0.75
Prime Rate	4.00	--	3.50	3.25	3.25
Sec. O.N. Finance	0.79	--	0.28	0.05	--
1 Month LIBOR	0.93	0.07	0.59	0.09	0.10
3 Month LIBOR	1.48	0.06	1.06	0.16	0.16
6 Month LIBOR	2.03	0.07	1.56	0.22	0.18
1 Year LIBOR	2.74	0.12	2.22	0.39	0.26
6 Month CD	2.15	0.12	1.65	0.28	0.14
1 Year CMT	2.11	0.15	1.94	0.18	0.05
REPO O/N	0.79	--	0.27	0.05	-0.01
REPO 1Wk	0.91	--	0.41	0.12	0.07
CoF Federal	0.963	--	0.870	0.749	0.823
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	1.32	1.39	1.31
6mo	1.74	1.83	1.78
1yr	2.32	2.40	2.41
2yr	2.79	2.89	2.87
3yr	2.94	3.05	3.02
4yr	3.02	3.14	3.07
5yr	3.03	3.15	3.07
7yr	3.24	3.37	3.25
10yr	3.42	3.56	3.43
5yr Am	2.92		3.01
10yr Am	3.22		3.26

Fed Fund Futures	
Maturity	Rate
May-22	0.767
Jun-22	1.100
Jul-22	1.425
Aug-22	1.865
Sep-22	1.980
Oct-22	2.245
Nov-22	2.520
Dec-22	2.670
Jan-23	2.780
Feb-23	2.920
Mar-23	2.990

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
5/16	Empire Manufacturing	May	15.0	-11.6	24.6	--
5/16	Net Long-term TIC Flows	Mar	--	\$23.1b	\$141.7b	--
5/16	Total Net TIC Flows	Mar	--	\$149.2b	\$162.6b	\$160.3b
5/17	Retail Sales Advance MoM	Apr	1.0%	0.9%	0.5%	1.4%
5/17	Retail Sales Ex Auto MoM	Apr	0.4%	0.6%	1.1%	2.1%
5/17	Retail Sales Ex Auto and Gas	Apr	0.7%	1.0%	0.2%	1.2%
5/17	Retail Sales Control Group	Apr	0.7%	1.0%	-0.1%	1.1%
5/17	Industrial Production MoM	Apr	0.5%	1.1%	0.9%	--
5/17	Capacity Utilization	Apr	78.6%	79.0%	78.3%	78.2%
5/17	Manufacturing (SIC) Production	Apr	0.4%	0.8%	0.9%	0.8%
5/17	Business Inventories	Mar	1.9%	2.0%	1.5%	1.8%
5/17	NAHB Housing Market Index	May	75	69	77	--
5/18	MBA Mortgage Applications	5/13	--	-11.0%	2.0%	--
5/18	Housing Starts	Apr	1756k	1724k	1793k	1728k
5/18	Housing Starts MoM	Apr	-2.1%	-0.2%	0.3%	-2.8%
5/18	Building Permits	Apr	1814k	1819k	1873k	1870k
5/18	Building Permits MoM	Apr	-3.0%	-3.2%	0.4%	0.3%
5/19	Philadelphia Fed Business Outlook	May	15.0	2.6	17.6	--
5/19	Initial Jobless Claims	5/14	200k	218k	203k	197k
5/19	Continuing Claims	5/7	1323k	1317k	1343k	1342k
5/19	Existing Home Sales	Apr	5.64m	5.61m	5.77m	5.75m
5/19	Existing Home Sales MoM	Apr	-2.3%	-2.4%	-2.7%	-3.0%
5/19	Leading Index	Apr	0.0%	-0.3%	0.3%	0.1%
5/23	Chicago Fed Nat Activity Index	Apr	--	--	0.44	--
5/24	S&P Global US Manufacturing PMI	May P	57.8	--	59.2	--
5/24	S&P Global US Services PMI	May P	55.5	--	55.6	--
5/24	S&P Global US Composite PMI	May P	55.5	--	56.0	--
5/24	Richmond Fed Manufact. Index	May	12.0	--	14.0	--
5/24	New Home Sales	Apr	750k	--	763k	--
5/25	Durable Goods Orders	Apr P	0.6%	--	1.1%	--
5/25	Durables Ex Transportation	Apr P	0.6%	--	1.4%	--
5/25	Cap Goods Orders Nondef Ex Air	Apr P	0.5%	--	1.3%	--
5/25	Cap Goods Ship Nondef Ex Air	Apr P	0.5%	--	0.4%	--
5/26	GDP Annualized QoQ	1Q S	-1.3%	--	-1.4%	--
5/26	Personal Consumption	1Q S	2.8%	--	2.7%	--
5/26	GDP Price Index	1Q S	8.0%	--	8.0%	--
5/26	Core PCE QoQ	1Q S	5.2%	--	5.2%	--
5/26	Pending Home Sales NSA YoY	Apr	--	--	-8.9%	--
5/27	Advance Goods Trade Balance	Apr	-\$114.8b	--	-\$125.3b	-\$127.1b
5/27	Personal Income	Apr	0.5%	--	0.5%	--
5/27	Personal Spending	Apr	0.6%	--	1.1%	--
5/27	Real Personal Spending	Apr	0.5%	--	0.2%	--
5/27	PCE Deflator YoY	Apr	6.2%	--	6.6%	--
5/27	PCE Core Deflator YoY	Apr	4.9%	--	5.2%	--
5/27	U. of Mich. Sentiment	May F	59.1	--	59.1	--
5/27	U. of Mich. Current Conditions	May F	--	--	63.6	--
5/27	U. of Mich. 1 Yr Inflation	May F	--	--	5.4%	--

MBS Prepayments <sup>4</sup>						
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	9.6	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	15.8	15.2	19.5	45.5
GN 30y	4.8	10.2	19.0	19.8	21.2	21.6

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	9.8	10.1	10.8	12.6	14.0	14.7
FH/FN 15y	8.0	8.2	9.3	12.5	16.9	19.6
GN 15y	10.8	10.4	11.2	14.4	14.9	15.5
FH/FN 20y	6.1	6.9	7.5	8.6	10.5	11.7
FH/FN 30y	5.9	6.3	7.1	8.4	11.3	16.2
GN 30y	6.9	7.0	8.1	10.3	12.2	12.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	128.16	(1.06)	127.86	114.88	108.78
Euro	1.05	0.01	1.09	1.12	1.22
Dollar Index	103.00	(1.56)	100.39	96.03	89.81
<b>Major Stock Indices</b>					
Dow Jones	31,316	(881)	35,161	35,602	34,084
S&P 500	3,933.2	(90.7)	4,459.5	4,698.0	4,159.1
NASDAQ	11,440.2	(365)	13,453.1	16,057.4	13,535.7
<b>Commodities</b>					
Gold	1,836.0	27.8	1,952.3	1,851.6	1,881.9
Crude Oil	112.72	2.23	102.75	76.10	62.05
Natural Gas	8.08	0.41	6.94	5.07	2.93
Wheat	1,179.8	12.5	1,088.0	823.0	675.3
Corn	778.0	-16.5	815.8	570.8	664.5

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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