



Jeffrey F. Caughron
Chairman of the Board
The Baker Group LP
JCaughron@GoBaker.com

As we approach the mid-point of the year, all eyes have been focused on the Fed and their “expeditious” determination to stamp out inflation. An enormous liquidity bubble created by the excessive buildup of reserves in the prior two years has conspired with the Treasury’s equally excessive fiscal support from stimulus checks, enhanced unemployment benefits and PPP loans to set the stage for an inflation wildfire which is now raging and requires a powerful response. The wealth-effect of all that stimulus spurred strong consumer demand as well as heavy speculative investment in nonsensical things like pretend computer dog-image money. To top it all off, the Russian invasion of Ukraine and continued drag from clogged supply chains made a bad situation much worse. The result was the highest level of consumer price inflation in over forty years. Now, to get inflation back under control... the piper must be paid.

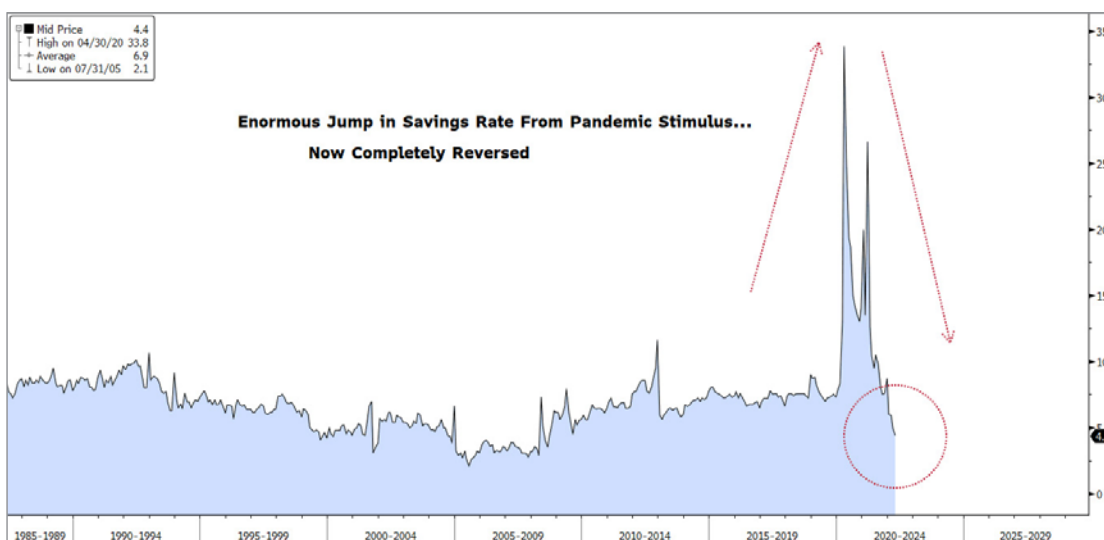
On Wednesday, the Fed decisively channeled the lessons of Paul Volker, raising the Fed Funds rate by 75bps this week to 1.75%, and telegraphing a steady march to 2.50% by summer’s end and more than 3% by year-end. The 75bps hike was the largest since 1994, and the Fed’s revised “Dot Plot” now projects an eventual 3.80% rate in 2023. Bond yields across the maturity spectrum jumped substantially to price-in the Fed’s guidance, and now offer the highest returns in nearly 15 years.

Let’s not forget that monetary policy tightening slows inflation by indiscriminately crushing demand so that it no longer needs supply. The cost of credit becomes more expensive. Households spend less and companies invest less. Asset prices fall and markets become less liquid, so companies and households become poorer and less inclined to spend creating a “negative wealth effect”. Unemployment can be expected to rise in the process. Monetary tightening is not a scalpel; it is a sledgehammer, and as Shakespeare said, “violent delights have violent ends.” A recession, it seems, is imminent at some point.

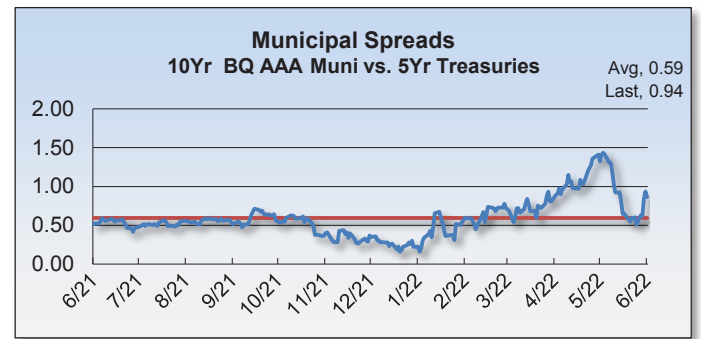
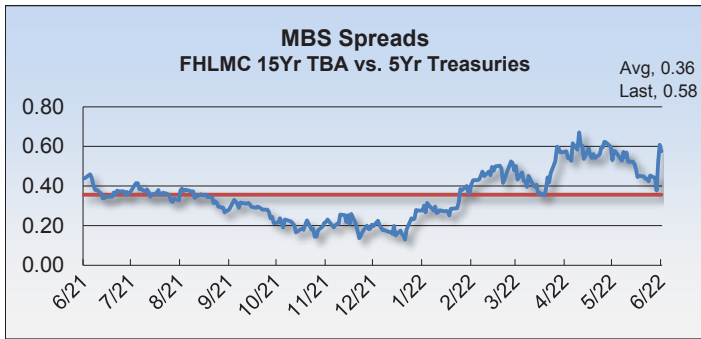
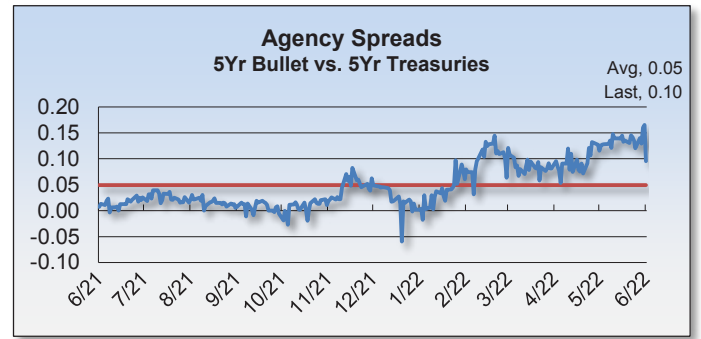
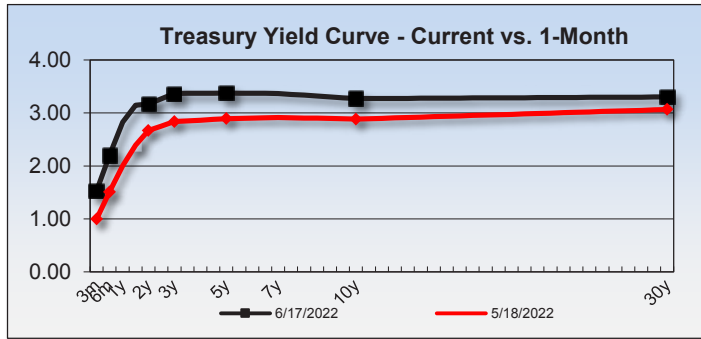
Lost in the news about Wednesday’s FOMC meeting was a rather alarming emergency European Central Bank meeting as policymakers around the globe scramble to react appropriately given their unique circumstances vis a vis the US. The Bank of England raised rates for the fifth consecutive meeting and said larger moves may still be needed across the pond, and the Bank of Japan is walking a tightrope with currency valuation a critical consideration for them.

Knowing all of this, financial markets can be expected to focus intently on economic data trends in coming months as well as the reaction of inflation measures. One number that came this week was monthly Retail Sales for May which slowed to a crawl unexpectedly as the so-called “control group” showed zero growth while expectations were for a .3% increase. Housing Starts and Building Permits fell 14.4% and 7% respectively, both far worse than expected. Industrial Production and Capacity Utilization underperformed as well. The producer price index also came this week, showing 10.8% wholesale inflation, the highest level since the 1970s. Looks like the Fed’s got a lot more work to do. Stay tuned.

US Personal Savings Rate: 1980 - 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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.53	0.19	1.07	0.04	0.03	2yr	3.25	3.61	2.88	3.07	3.44	2Yr	3.16	3.16	3.16	-
6mo	2.20	0.26	1.52	0.13	0.05	3yr	3.42	3.54	3.09	3.29	3.56	3Yr	3.35	3.36	3.30	3.35
1yr	2.83	0.33	2.05	0.25	0.07	5yr	3.48	3.40	3.30	3.52	3.81	5Yr	3.44	3.44	3.43	3.37
2yr	3.17	0.10	2.70	0.64	0.21	7yr	3.54	3.34	3.71	3.95	4.05	7Yr	3.44	3.46	3.45	3.38
3yr	3.37	0.13	2.89	0.92	0.43	10yr	3.67	3.31	4.07	4.34	4.26	10Yr	3.39	3.45	3.44	3.38
5yr	3.38	0.12	2.97	1.18	0.88	15yr	3.81	3.32	4.37	4.65	4.45	July TBA MBS				
7yr	3.37	0.13	3.01	1.34	1.25	20yr	3.95	3.24	4.54	4.83	4.40	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.27	0.11	2.99	1.40	1.51	25yr	4.09	3.11	4.63	4.93	4.46	2.00	3.80	5.9y	4.06	
30yr	3.30	0.11	3.18	1.81	2.09	30yr	4.09	2.99	4.73	5.04	4.51	2.50	4.03	5.7y		
												3.00	4.07	5.5y	4.26	10.1y
												3.50	3.95	5.2y	4.35	9.5y
												4.00			4.48	8.8y
												4.50			4.63	7.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	0.75	1.00	0.25	0.25
Primary Discount	1.75	0.75	1.00	0.25	0.25
2ndary Discount	2.25	0.75	1.50	0.75	0.75
Prime Rate	4.75	0.75	4.00	3.25	3.25
Sec. O.N. Finance	1.45	0.70	0.80	0.05	--
1 Month LIBOR	1.52	0.32	0.89	0.11	0.08
3 Month LIBOR	2.03	0.34	1.44	0.22	0.12
6 Month LIBOR	2.75	0.48	2.00	0.30	0.15
1 Year LIBOR	3.61	0.70	2.65	0.52	0.23
6 Month CD	2.83	0.52	1.80	0.35	0.14
1 Year CMT	2.88	0.53	2.07	0.26	0.08
REPO O/N	1.45	0.68	0.79	0.02	0.06
REPO 1Wk	1.62	0.40	0.83	0.13	0.11
CoF Federal	1.096	--	0.963	0.738	0.806
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.07	2.17	2.17
6mo	2.62	2.75	2.72
1yr	3.16	3.19	3.36
2yr	3.29	3.44	3.56
3yr	3.48	3.59	3.72
4yr	3.48	3.62	3.74
5yr	3.49	3.65	3.77
7yr	3.68	3.87	3.96
10yr	3.81	4.03	4.08
5yr Am	3.43		3.71
10yr Am	3.69		3.95

Fed Fund Futures	
Maturity	Rate
Jun-22	1.208
Jul-22	1.685
Aug-22	2.295
Sep-22	2.470
Oct-22	2.900
Nov-22	3.295
Dec-22	3.460
Jan-23	3.575
Feb-23	3.705
Mar-23	3.740
Apr-23	3.780

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
6/14	NFIB Small Business Optimism	May	93.0	93.1	93.2	--
6/14	PPI Final Demand MoM	May	0.8%	0.8%	0.5%	0.4%
6/14	PPI Ex Food and Energy MoM	May	0.6%	0.5%	0.4%	0.2%
6/14	PPI Ex Food, Energy, Trade MoM	May	0.5%	0.5%	0.6%	0.4%
6/14	PPI Final Demand YoY	May	10.9%	10.8%	11.0%	10.9%
6/14	PPI Ex Food and Energy YoY	May	8.6%	8.3%	8.8%	8.6%
6/14	PPI Ex Food, Energy, Trade YoY	May	6.9%	6.8%	6.9%	6.8%
6/15	MBA Mortgage Applications	6/10	--	6.6%	-6.5%	--
6/15	Empire Manufacturing	Jun	2.3	-1.2	-11.6	--
6/15	Retail Sales Advance MoM	May	0.1%	-0.3%	0.9%	0.7%
6/15	Retail Sales Ex Auto MoM	May	0.7%	0.5%	0.6%	0.4%
6/15	Retail Sales Ex Auto and Gas	May	0.4%	0.1%	1.0%	0.8%
6/15	Retail Sales Control Group	May	0.3%	0.0%	1.0%	0.5%
6/15	Import Price Index MoM	May	1.1%	0.6%	0.0%	0.4%
6/15	Import Price Index ex Petroleum MoM	May	0.6%	-0.1%	0.4%	0.5%
6/15	Import Price Index YoY	May	11.9%	11.7%	12.0%	12.5%
6/15	Export Price Index MoM	May	1.3%	2.8%	0.6%	0.8%
6/15	Export Price Index YoY	May	--	18.9%	18.0%	18.3%
6/15	Business Inventories	Apr	1.2%	1.2%	2.0%	2.4%
6/15	NAHB Housing Market Index	Jun	67	67	69	--
6/15	FOMC Rate Decision (Upper Bound)	6/15	1.50%	1.75%	1.00%	--
6/15	FOMC Rate Decision (Lower Bound)	6/15	1.25%	1.50%	0.75%	--
6/15	Interest on Reserve Balances Rate	6/16	1.65%	1.65%	0.90%	--
6/15	Net Long-term TIC Flows	Apr	--	\$87.7b	\$23.1b	--
6/15	Total Net TIC Flows	Apr	--	\$1.3b	\$149.2b	\$108.7b
6/16	Housing Starts	May	1693k	1549k	1724k	1810k
6/16	Building Permits	May	1778k	1695k	1819k	1823k
6/16	Housing Starts MoM	May	-1.8%	-14.4%	-0.2%	5.5%
6/16	Building Permits MoM	May	-2.5%	-7.0%	-3.2%	-3.0%
6/16	Philadelphia Fed Business Outlook	Jun	5.0	-3.3	2.6	--
6/16	Initial Jobless Claims	6/11	217k	229k	229k	232k
6/16	Continuing Claims	6/4	1304k	1312k	1306k	1309k
6/17	Industrial Production MoM	May	0.4%	0.2%	1.1%	1.4%
6/17	Capacity Utilization	May	79.2%	79.0%	79.0%	78.9%
6/17	Manufacturing (SIC) Production	May	0.3%	-0.1%	0.8%	--
6/17	Leading Index	May	-0.4%	-0.4%	-0.3%	-0.4%
6/21	Chicago Fed Nat Activity Index	May	--	--	47.0%	--
6/21	Existing Home Sales	May	5.40m	--	5.61m	--
6/21	Existing Home Sales MoM	May	-3.7%	--	-2.4%	--
6/23	Current Account Balance	1Q	-\$279.0b	--	-\$217.9b	--
6/23	S&P Global US Manufacturing PMI	Jun P	56.3	--	57.0	--
6/23	S&P Global US Services PMI	Jun P	53.5	--	53.4	--
6/23	S&P Global US Composite PMI	Jun P	--	--	53.6	--
6/23	Kansas City Fed Manf. Activity	Jun	--	--	23.0	--
6/24	U. of Mich. Sentiment	Jun F	50.2	--	50.2	--
6/24	U. of Mich. Current Conditions	Jun F	--	--	55.4	--
6/24	U. of Mich. 1 Yr Inflation	Jun F	--	--	5.4%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.9	18.4	21.7	21.4	19.9	30.7
FH/FN 15y	9.2	10.0	11.5	14.2	25.5	24.5
GN 15y	13.2	17.0	19.1	18.9	21.8	21.4
FH/FN 20y	53.2	10.8	14.2	16.9	19.0	19.7
FH/FN 30y	12.3	8.7	12.2	13.8	17.0	21.3
GN 30y	6.1	10.3	18.8	18.2	20.8	20.2
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	9.6	9.8	10.4	12.5	13.7	14.6
FH/FN 15y	7.8	7.8	8.9	10.7	16.6	19.6
GN 15y	10.3	9.5	10.1	13.1	14.3	15.1
FH/FN 20y	5.9	6.8	7.3	8.2	9.6	10.8
FH/FN 30y	5.8	6.0	6.4	7.3	8.7	11.3
GN 30y	6.8	6.4	7.6	8.8	10.9	12.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	134.87	0.46	129.38	113.63	110.21
Euro	1.05	(0.00)	1.06	1.12	1.19
Dollar Index	104.69	0.54	103.36	96.57	91.89
Major Stock Indices					
Dow Jones	29,995	(1,398)	32,655	35,365	33,823
S&P 500	3,693.0	(207.8)	4,088.9	4,620.6	4,221.9
NASDAQ	10,777.3	(563)	11,984.5	15,169.7	14,161.4
Commodities					
Gold	1,844.9	(26.6)	1,818.9	1,803.8	1,773.8
Crude Oil	114.12	(6.55)	112.40	70.86	71.04
Natural Gas	7.33	(1.52)	8.30	3.69	3.25
Wheat	1,076.0	5.3	1,277.5	775.0	639.0
Corn	792.5	19.3	800.8	593.3	633.0

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

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, L.P. This report was printed as of: 06/17/2022 9:14AM