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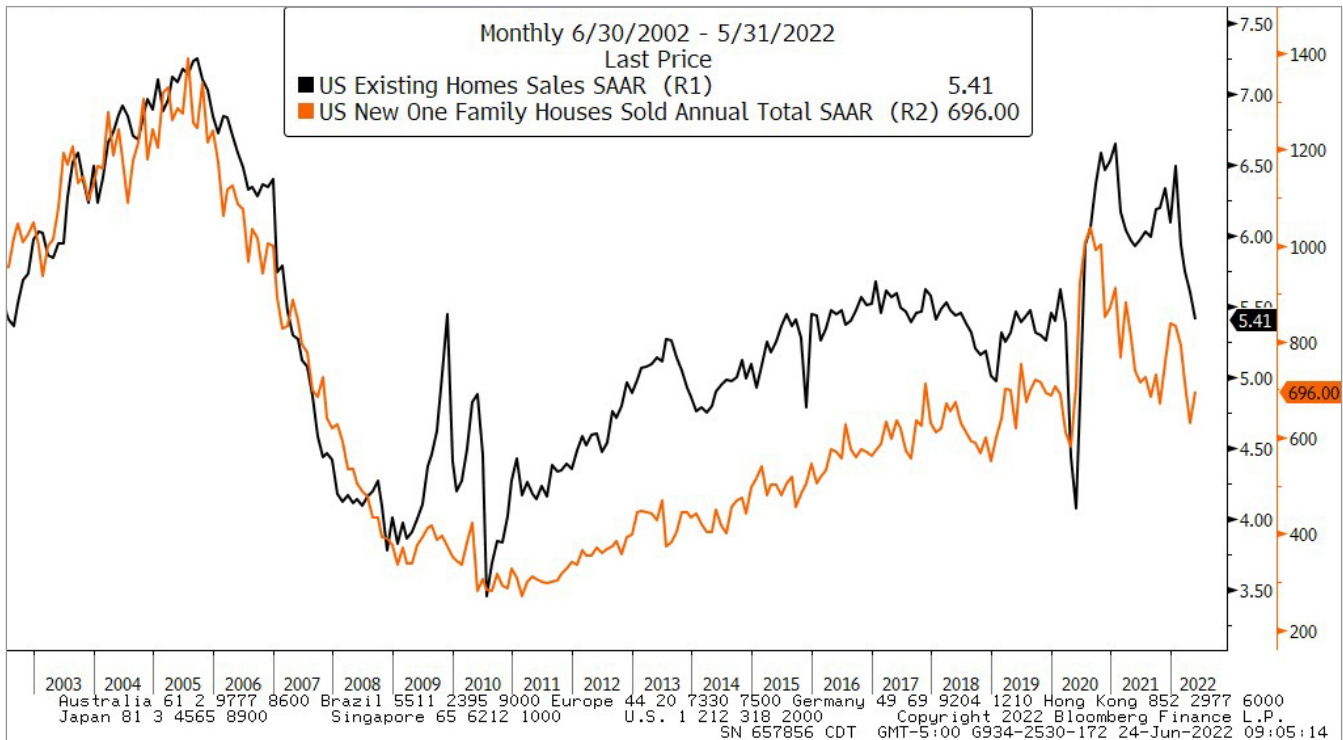
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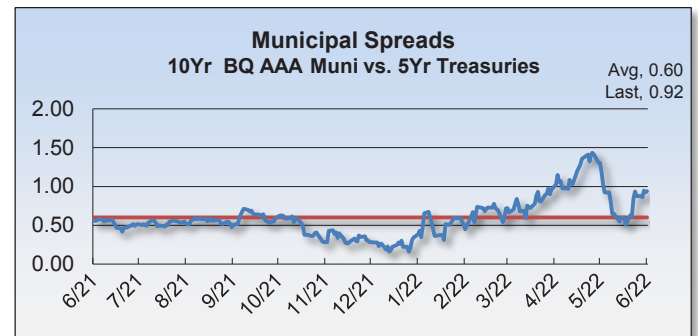
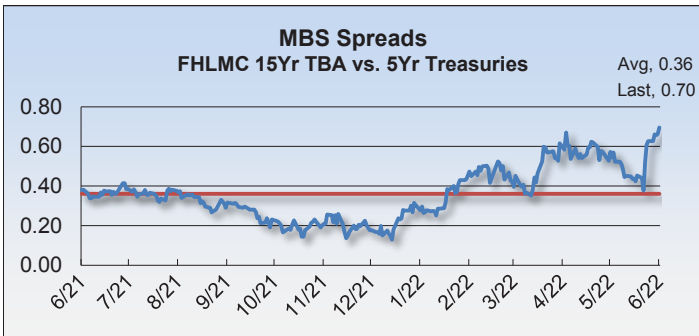
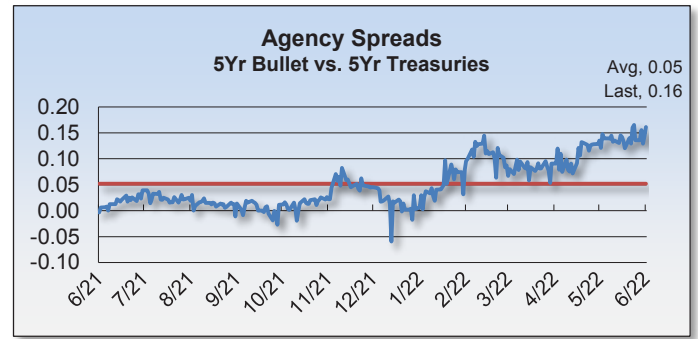
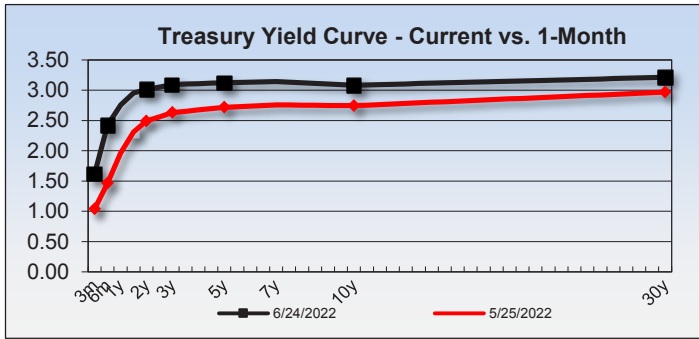
Bond prices continued to rally this week with the 3-year Treasury yield falling 24bp and the 10-year down 11bp as of this writing. On the short-end of the curve, 3- and 6-month bills rose 7bp and 24bp respectively. The yield curve has flattened sharply since mid last week as the market continues to “unwind” some of the Fed rate hikes that had been initially priced in. The 10-year yield is now down 37bp since June 14. Attention appears to be shifting away from the threat of inflation and focusing more on the threat of an impending recession.

Fed Chairman Powell presented his semi-annual monetary policy report to Congress this week and reiterated the Fed’s unwavering commitment to bring down inflation that is running at a 40-year high. Powell was repeatedly asked if the Fed would continue to hike rates if unemployment began to rise and inflation had not yet moderated. His answers were always diplomatic, but unmistakable: yes! The Fed is willing to risk a recession to cool inflation. Even the Fed’s own internal summary of economic projections show they believe the unemployment rate will rise to 4.1% in 2024 from 3.6% today. As economist David Rosenberg showed at a recent Baker seminar, all it takes to trigger a recession is a small rise in unemployment of around 0.3%. While a recession is not the Fed’s preferred outcome, Powell said “It’s certainly a possibility” and achieving a “soft landing” will be difficult. That is clear given the fact that the Fed has embarked on 14 tightening cycles since WWII and a recession has followed 11 times or nearly 80% of the time. The Fed does not have a great track record in preventing recessions as they raise rates and markets are beginning to accept this.

This week saw mixed reports for housing with existing sales down 3.4% and new home sales unexpectedly rose 10.7%. Rising mortgage rates and surging inventories of homes for sale will continue to pressure housing in the near-term. Next week we’ll get a slew of economic data on Durable Goods Orders, Pending Home Sales, Personal Income & Spending, PCE inflation and ISM Manufacturing PMI.

New and Existing Home Sales – Last 20 Years





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	1.62	0.02	1.06	0.07	0.05	2yr	3.11	3.36	2.76	2.94	3.19	2Yr	3.00	3.00	3.00	-
6mo	2.42	0.20	1.50	0.17	0.05	3yr	3.16	3.26	2.98	3.17	3.28	3Yr	3.08	3.09	3.00	3.08
1yr	2.76	(0.07)	1.99	0.28	0.08	5yr	3.24	3.17	3.16	3.37	3.47	5Yr	3.19	3.19	3.18	3.12
2yr	3.01	(0.17)	2.48	0.69	0.27	7yr	3.31	3.14	3.54	3.77	3.71	7Yr	3.21	3.24	3.23	3.16
3yr	3.09	(0.26)	2.65	0.97	0.48	10yr	3.49	3.16	3.91	4.16	3.92	10Yr	3.20	3.26	3.25	3.18
5yr	3.12	(0.22)	2.74	1.24	0.91	15yr	3.68	3.23	4.20	4.47	4.11	July TBA MBS				
7yr	3.14	(0.19)	2.78	1.41	1.25	20yr	3.87	3.19	4.35	4.63	4.22	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.08	(0.15)	2.75	1.49	1.49	25yr	4.05	3.08	4.45	4.74	4.28	2.00	3.59	5.9y	3.84	
30yr	3.21	(0.07)	2.97	1.91	2.10	30yr		2.98	4.55	4.84	4.33	2.50	3.85	5.7y		
												3.00	3.87	5.5y	4.12	10.1y
												3.50	3.78	5.4y	4.19	9.8y
												4.00			4.31	8.6y
												4.50			4.45	6.8y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	1.00	0.25	0.25
Primary Discount	1.75	--	1.00	0.25	0.25
2ndary Discount	2.25	--	1.50	0.75	0.75
Prime Rate	4.75	--	4.00	3.25	3.25
Sec. O.N. Finance	1.44	(0.01)	0.78	0.05	--
1 Month LIBOR	1.63	0.11	0.97	0.10	0.09
3 Month LIBOR	2.18	0.16	1.51	0.21	0.13
6 Month LIBOR	2.83	0.08	2.07	0.33	0.16
1 Year LIBOR	3.58	(0.03)	2.73	0.55	0.25
6 Month CD	2.97	0.14	2.05	0.31	0.10
1 Year CMT	2.78	(0.10)	2.09	0.31	0.08
REPO O/N	1.47	0.02	0.78	0.05	0.04
REPO 1Wk	1.13	(0.49)	0.91	0.66	0.12
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	2.10	2.08	2.13
6mo	2.65	2.72	2.70
1yr	3.07	3.16	3.19
2yr	3.15	3.37	3.28
3yr	3.22	3.41	3.36
4yr	3.26	3.44	3.40
5yr	3.28	3.45	3.41
7yr	3.49	3.64	3.62
10yr	3.63	3.79	3.76
5yr Am	3.29		3.39
10yr Am	3.55		3.62

Fed Fund Futures	
Maturity	Rate
Jun-22	1.208
Jul-22	1.685
Aug-22	2.310
Sep-22	2.490
Oct-22	2.905
Nov-22	3.260
Dec-22	3.390
Jan-23	3.470
Feb-23	3.545
Mar-23	3.570
Apr-23	3.575

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
6/21	Chicago Fed Nat Activity Index	May	47.0%	1.0%	47.0%	40.0%
6/21	Existing Home Sales	May	5.40m	5.41m	5.64m	5.60m
6/21	Existing Home Sales MoM	May	-3.7%	-3.4%	-2.4%	-2.6%
6/22	MBA Mortgage Applications	6/17	--	4.2%	6.6%	--
6/23	Current Account Balance	1Q	-\$275.0b	-\$291.4b	-\$247.9b	-\$224.8b
6/23	Initial Jobless Claims	6/18	226k	229k	229k	231k
6/23	Continuing Claims	6/11	1320k	1315k	1342k	1310k
6/23	S&P Global US Manufacturing PMI	Jun P	56.0	52.4	57.0	--
6/23	S&P Global US Services PMI	Jun P	53.3	51.6	53.4	--
6/23	S&P Global US Composite PMI	Jun P	53.0	51.2	53.6	--
6/23	Kansas City Fed Manf. Activity	Jun	10.0	12.0	23.0	--
6/24	U. of Mich. Sentiment	Jun F	50.2	50.0	50.2	--
6/24	U. of Mich. Current Conditions	Jun F	55.4	53.8	55.4	--
6/24	U. of Mich. Expectations	Jun F	--	47.5	46.8	--
6/24	U. of Mich. 1 Yr Inflation	Jun F	5.4%	5.3%	5.4%	--
6/24	U. of Mich. 5-10 Yr Inflation	Jun F	3.3%	3.1%	3.3%	--
6/24	New Home Sales	May	590k	696k	594k	629k
6/24	New Home Sales MoM	May	-0.2%	10.7%	-16.6%	-12.0%
6/27	Durable Goods Orders	May P	0.1%	--	0.5%	--
6/27	Durables Ex Transportation	May P	0.4%	--	0.4%	--
6/27	Cap Goods Orders Nondef Ex Air	May P	-0.1%	--	0.4%	--
6/27	Cap Goods Ship Nondef Ex Air	May P	0.0%	--	0.8%	--
6/27	Pending Home Sales MoM	May	-3.5%	--	-3.9%	--
6/27	Pending Home Sales NSA YoY	May	--	--	-11.5%	--
6/27	Dallas Fed Manf. Activity	Jun	--	--	-7.3	--
6/28	Advance Goods Trade Balance	May	-\$101.9b	--	-\$105.9b	-\$106.7b
6/28	Wholesale Inventories MoM	May P	--	--	2.2%	--
6/28	S&P CoreLogic CS 20-City YoY NSA	Apr	21.10%	--	21.17%	--
6/28	S&P CoreLogic CS US HPI YoY NSA	Apr	--	--	20.55%	--
6/28	Conf. Board Consumer Confidence	Jun	100.6	--	106.4	--
6/28	Conf. Board Present Situation	Jun	--	--	149.6	--
6/28	Conf. Board Expectations	Jun	--	--	77.5	--
6/28	Richmond Fed Manufact. Index	Jun	--	--	-9.0	--
6/29	GDP Annualized QoQ	1Q T	-1.4%	--	-1.5%	--
6/29	Personal Consumption	1Q T	3.1%	--	3.1%	--
6/29	GDP Price Index	1Q T	8.1%	--	8.1%	--
6/29	Core PCE QoQ	1Q T	--	--	5.1%	--
6/30	Personal Income	May	0.5%	--	0.4%	--
6/30	Personal Spending	May	0.5%	--	0.9%	--
6/30	Real Personal Spending	May	-0.3%	--	0.7%	--
6/30	PCE Deflator YoY	May	6.4%	--	6.3%	--
6/30	PCE Core Deflator YoY	May	4.8%	--	4.9%	--
6/30	MNI Chicago PMI	Jun	58.8	--	60.3	--
7/1	ISM Manufacturing	Jun	55.0	--	56.1	--
7/1	ISM Prices Paid	Jun	--	--	82.2	--
7/1	ISM New Orders	Jun	--	--	55.1	--
7/1	ISM Employment	Jun	--	--	49.6	--

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	11.7	13.2	14.3
FH/FN 15y	7.7	7.7	8.7	9.7	16.1	19.3
GN 15y	10.2	9.6	10.2	13.7	14.6	15.3
FH/FN 20y	5.8	6.7	7.1	7.7	9.0	10.9
FH/FN 30y	5.8	6.0	6.4	7.1	8.8	12.0
GN 30y	6.7	6.6	7.5	9.1	10.4	11.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	134.96	(0.06)	126.83	114.38	110.87
Euro	1.06	0.01	1.07	1.13	1.19
Dollar Index	104.23	0.60	101.86	96.02	91.81
Major Stock Indices					
Dow Jones	31,241	1,313	31,929	35,951	34,197
S&P 500	3,855.1	188.3	3,941.5	4,725.8	4,266.5
NASDAQ	11,528.7	883	11,264.5	15,653.4	14,369.7
Commodities					
Gold	1,819.8	(25.9)	1,865.4	1,811.2	1,775.6
Crude Oil	105.20	(12.39)	109.77	73.79	73.30
Natural Gas	6.15	(1.31)	8.80	3.73	3.42
Wheat	945.0	-133.3	1,154.8	814.8	651.3
Corn	749.5	-38.8	771.8	605.8	653.3

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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