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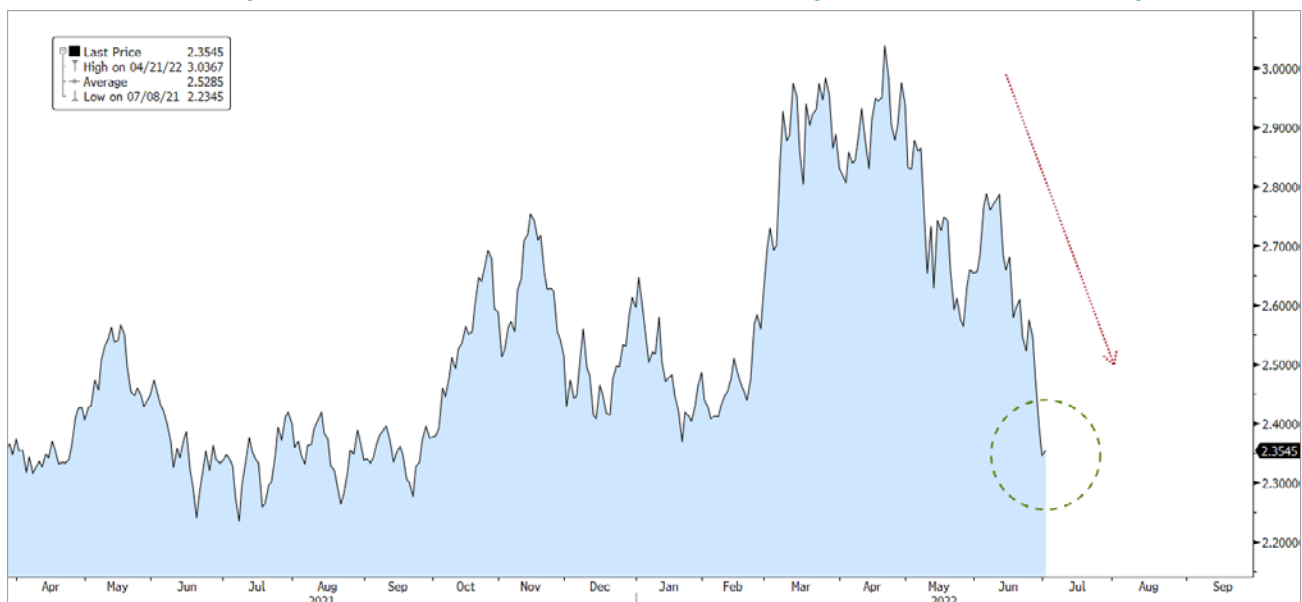
Don't look now, but the bond market has rallied like a monster in the last two weeks. After reaching 3.50%, the highest level in eleven years, the 10yr T-Note yield has now collapsed by 70bps to 2.80% on mounting concerns about a slowdown in the US economy and a sense of relief that inflation fears seem to be fading. Indeed, the fall in bond yields corresponds to an equally impressive drop in projected inflation. The Fed, still walking a tightrope between inflation and recession, must now stick to their guns and follow-through with tightening until "price stability" is restored. Otherwise, previous criticism about policymakers' credibility will justifiably return. For now, the market seems pleased with the forceful-inflation-fighting Fed as opposed to the never-ending-quantitative-ease Fed. The yield curve from 2- to 10-years has flattened to a spread of 5 or 6 basis points, very nearly another inversion. Stay tuned on that.

One of the reasons for concern about US growth is the loss of momentum from consumer spending in the second quarter. Personal income and spending data revealed that real consumption fell by 0.4% in May while April's 0.7% gain was revised down to just 0.2%, with downward revisions to prior months as well. As consumption expenditures represent the lion's share of GDP, the likely effect on overall output for the second quarter will be to keep GDP growth to no more than 1% annualized at best. That comes after a 1.6% contraction in Q1. Not a picture of health. It remains a very real possibility that we are already in recession, but must wait for the data to confirm. In any case, none of this news is inflationary... hence the bond market relief.

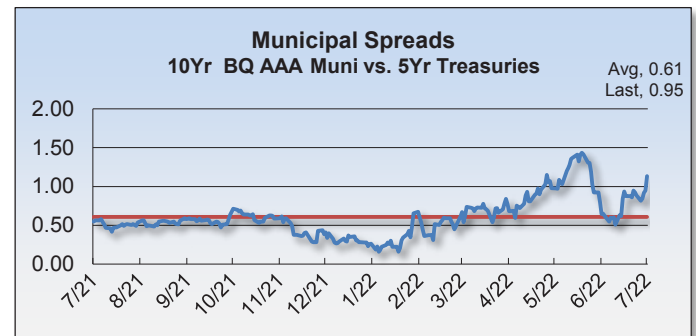
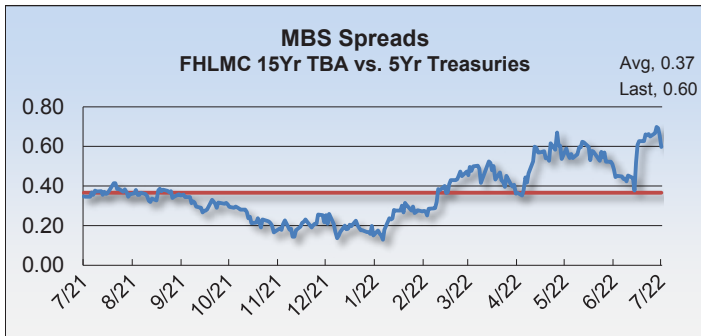
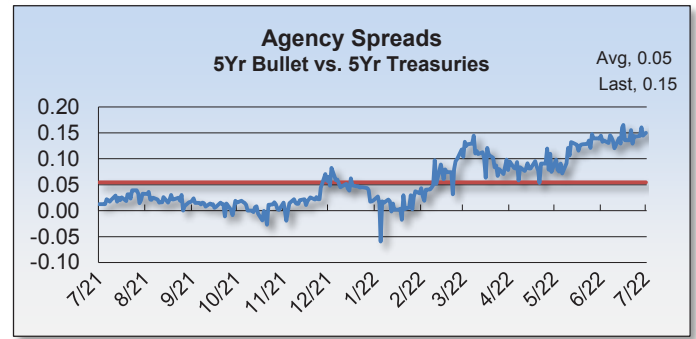
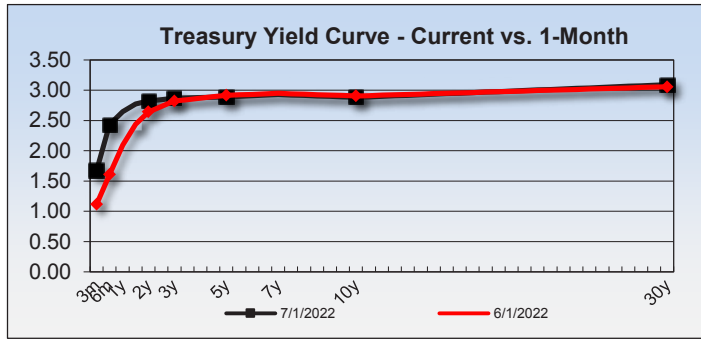
On the inflation data front, we saw this week that the Fed's preferred measure of inflation fell in May for the third consecutive month. The core PCE price index now sits at 4.69%, down 63bps from the 5.31% high in February. We've also seen a substantial falloff in commodities prices as the CRB composite index of all commodities is down 7.4% (33% annualized) in two months. Moreover, the Institute for Supply Management (ISM) "prices-paid" index was weaker than both the prior month's reading and the consensus estimate.

As for Fed policy, there's nothing at this point to suggest the Fed will be ready to slow the pace of tightening next month, and there remains strong sentiment among policymakers for another 75bps. That would get the funds rate roughly to "neutral" by summer's end. Before that meeting, policymakers will assess the coming stream of data which include the June employment report next week as well as CPI and retail sales among other data. Powell recently reiterated that the Fed is "strongly committed to bringing inflation back down" and described price stability as "the bedrock of the economy". Still, the collateral damage of a war on inflation, including a possible recession, is something the Fed must consider. The tightrope remains a perilous trek.

US 10yr Breakeven Inflation Rate (TIPS Spread): 2021 - 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	1.67	0.01	1.13	0.04	0.05	2yr	2.88	3.04	2.73	2.91	3.11	2Yr	3.12	3.12	3.12	-
6mo	2.43	(0.04)	1.62	0.19	0.05	3yr	2.95	2.88	2.93	3.11	3.19	3Yr	3.20	3.21	3.20	3.20
1yr	2.64	(0.14)	2.11	0.38	0.07	5yr	3.01	2.83	3.11	3.31	3.34	5Yr	3.33	3.33	3.32	3.26
2yr	2.82	(0.24)	2.65	0.73	0.25	7yr	3.07	2.84	3.47	3.70	3.60	7Yr	3.34	3.37	3.36	3.29
3yr	2.87	(0.28)	2.82	0.96	0.47	10yr	3.29	2.88	3.81	4.05	3.82	10Yr	3.32	3.37	3.37	3.30
5yr	2.89	(0.30)	2.92	1.26	0.89	15yr	3.50	2.99	4.07	4.34	4.01	August TBA MBS				
7yr	2.93	(0.27)	2.95	1.44	1.23	20yr	3.71	2.98	4.26	4.53	4.16	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.88	(0.25)	2.91	1.51	1.46	25yr	3.93	2.89	4.35	4.63	4.22	2.00	3.23	5.8y	3.57	
30yr	3.09	(0.17)	3.06	1.90	2.06	30yr		2.79	4.45	4.74	4.27	2.50	3.43	5.6y		
												3.00	3.41	5.5y	3.83	10.0y
												3.50	3.39	5.3y	3.92	9.6y
												4.00			4.05	8.1y
												4.50			4.17	6.2y

* 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	1.50	0.06	0.78	0.05	--
1 Month LIBOR	1.71	0.08	1.06	0.10	0.10
3 Month LIBOR	2.28	0.09	1.60	0.22	0.14
6 Month LIBOR	2.95	0.12	2.09	0.35	0.16
1 Year LIBOR	3.61	0.03	2.70	0.59	0.25
6 Month CD	3.10	0.13	2.19	0.25	0.10
1 Year CMT	2.80	0.02	2.01	0.38	0.07
REPO O/N	1.54	0.07	0.80	0.05	0.06
REPO 1Wk	1.62	0.49	0.92	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	2.11	2.17	2.15
6mo	2.75	2.83	2.80
1yr	3.08	3.17	3.19
2yr	3.03	3.15	3.14
3yr	3.02	3.15	3.15
4yr	3.06	3.20	3.20
5yr	3.07	3.20	3.20
7yr	3.25	3.40	3.39
10yr	3.38	3.56	3.53
5yr Am	3.09		3.19
10yr Am	3.31		3.40

Fed Fund Futures	
Maturity	Rate
Jul-22	1.670
Aug-22	1.670
Sep-22	2.230
Oct-22	2.375
Nov-22	2.730
Dec-22	3.125
Jan-23	3.185
Mar-23	3.225
Apr-23	3.220
May-23	3.155

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
6/27	Durable Goods Orders	May P	0.10%	0.70%	0.50%	0.40%
6/27	Durables Ex Transportation	May P	0.30%	0.70%	0.40%	0.20%
6/27	Cap Goods Orders Nondef Ex Air	May P	0.20%	0.50%	0.40%	0.30%
6/27	Cap Goods Ship Nondef Ex Air	May P	0.20%	0.80%	0.80%	--
6/27	Pending Home Sales NSA YoY	May	--	-12.00%	-11.50%	--
6/28	Advance Goods Trade Balance	May	-\$104.8b	-\$104.3b	-\$105.9b	-\$106.7b
6/28	S&P CoreLogic CS 20-City YoY NSA	Apr	21.05%	21.23%	21.17%	21.15%
6/28	S&P CoreLogic CS US HPI YoY NSA	Apr	--	20.39%	20.55%	20.64%
6/28	Conf. Board Consumer Confidence	Jun	100.0	98.7	106.4	103.2
6/28	Conf. Board Present Situation	Jun	--	147.1	149.6	147.4
6/28	Conf. Board Expectations	Jun	--	66.4	77.5	73.7
6/29	MBA Mortgage Applications	6/24	--	0.7%	4.2%	--
6/29	GDP Annualized QoQ	1Q T	-1.5%	-1.6%	-1.5%	--
6/29	Personal Consumption	1Q T	3.1%	1.8%	3.1%	--
6/29	GDP Price Index	1Q T	8.1%	8.2%	8.1%	--
6/29	Core PCE QoQ	1Q T	5.1%	5.2%	5.1%	--
6/30	Personal Income	May	0.5%	0.5%	0.4%	0.5%
6/30	Personal Spending	May	0.4%	0.2%	0.9%	0.6%
6/30	Real Personal Spending	May	-0.3%	-0.4%	0.7%	0.3%
6/30	PCE Deflator YoY	May	6.4%	6.3%	6.3%	--
6/30	PCE Core Deflator YoY	May	4.8%	4.7%	4.9%	--
6/30	Initial Jobless Claims	6/25	230k	231k	229k	233k
6/30	Continuing Claims	6/18	1318k	1328k	1345k	1331k
6/30	MNI Chicago PMI	Jun	58.0	56.0	60.3	--
7/1	S&P Global US Manufacturing PMI	Jun F	52.4	52.7	52.4	--
7/1	ISM Manufacturing	Jun	54.5	53.0	56.1	--
7/1	ISM Prices Paid	Jun	80.0	78.5	82.2	--
7/1	ISM New Orders	Jun	52.0	49.2	55.1	--
7/1	ISM Employment	Jun	50.0	47.3	49.6	--
7/1	Wards Total Vehicle Sales	Jun	13.30m	--	12.68m	--
7/5	Factory Orders	May	0.5%	--	0.3%	--
7/6	S&P Global US Services PMI	Jun F	51.6	--	51.6	--
7/6	S&P Global US Composite PMI	Jun F	--	--	51.2	--
7/6	ISM Services Index	Jun	54.5	--	55.9	--
7/6	JOLTS Job Openings	May	1100k	--	1140k	--
7/7	Challenger Job Cuts YoY	Jun	--	--	-15.8%	--
7/7	Trade Balance	May	-\$85.0b	--	-\$87.1b	--
7/7	Initial Jobless Claims	7/2	230k	--	231k	--
7/7	Continuing Claims	6/25	1320k	--	1328k	--
7/8	Two-Month Payroll Net Revision	Jun	--	--	-22k	--
7/8	Change in Nonfarm Payrolls	Jun	275k	--	390k	--
7/8	Change in Private Payrolls	Jun	240k	--	333k	--
7/8	Change in Manufact. Payrolls	Jun	25k	--	18k	--
7/8	Unemployment Rate	Jun	3.6%	--	3.6%	--
7/8	Average Hourly Earnings YoY	Jun	5.1%	--	5.2%	--
7/8	Labor Force Participation Rate	Jun	62.3%	--	62.3%	--
7/8	Underemployment Rate	Jun	--	--	7.1%	--

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	9.7	9.9	10.5	11.7	13.2	14.2
FH/FN 15y	7.8	7.9	8.8	10.1	16.4	19.4
GN 15y	10.4	9.8	10.5	14.1	14.7	15.5
FH/FN 20y	5.8	6.8	7.2	7.9	9.3	11.3
FH/FN 30y	5.8	6.0	6.6	7.4	9.3	12.8
GN 30y	6.8	6.7	7.6	9.4	10.8	11.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	134.88	(0.35)	130.13	115.32	111.53
Euro	1.04	(0.02)	1.07	1.13	1.19
Dollar Index	105.57	1.38	102.50	95.67	92.60
Major Stock Indices					
Dow Jones	30,522	(979)	32,813	36,338	34,634
S&P 500	3,767.6	(144.2)	4,101.2	4,766.2	4,319.9
NASDAQ	10,945.1	(663)	11,994.5	15,645.0	14,522.4
Commodities					
Gold	1,800.2	(26.3)	1,843.3	1,828.6	1,776.8
Crude Oil	107.47	(0.15)	115.26	75.21	75.23
Natural Gas	5.79	(0.43)	8.70	3.73	3.66
Wheat	852.0	-71.8	1,041.3	770.8	658.5
Corn	748.3	-2.0	731.3	593.3	719.8

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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