



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

This shortened post-holiday week began with signs of a hawkish Fed, underscored by minutes from the June FOMC meeting and comments from two policymakers who reinforced the importance of staying focused on the fight to bring down inflation. St. Louis Fed President James Bullard said “it would make a lot of sense to go with 75 (basis points) at this juncture” in order to get the fed funds rate above 3% by the end of this year. Fed governor Christopher Waller agreed, saying in a separate interview that “Inflation is just too high and doesn’t seem to be coming down... we need to move to a much more restrictive setting in terms of interest rates... and we need to do that as quickly as possible.” Waller said he was definitely in support of doing another 75bps in July.

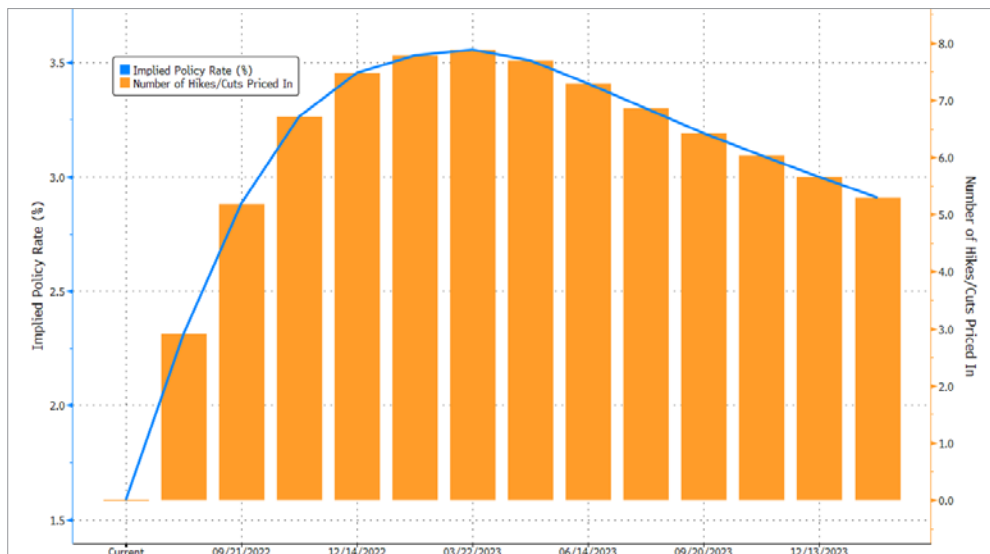
In recent days and weeks, markets have reacted to the rising probability of recession as the Fed continues its tightening campaign. But a common theme heard from policymakers as well as traders and money managers is that the Fed’s credibility rests heavily on their success in bringing down inflation. Concerns about pushing the economy into recession are missing the point that inflation itself is a tax on economic activity. The higher the inflation-tax, the more damaging to households and the economy overall. Per Bullard, “If we don’t get it under control, inflation on its own could put us in a really bad economic outcome down the road.” Well said. And as much as anything, it’s the inflationary psychology that really does long-term damage. If inflationary expectations become embedded into decision-making by households and businesses, the problem becomes self-perpetuating. Ultimately, it’s all about the Fed’s cred.

At this point, markets seem to be taking policymakers at their word. Bond yields have priced-in continued rate hikes to an ultimate terminal rate of 3.50% or so, and the Treasury yield curve has re-inverted with the 2yr yield about 5bps higher than that of the 10yr (3.12% vs 3.07% respectively). Still, the Fed cannot go wobbly and give any indication that they’re willing to abandon tight money policies and revert back to the days of QE and the “Fed Put”. They’ve got to stay on task.

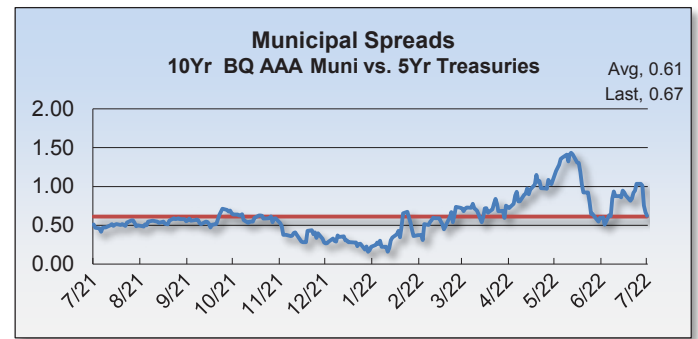
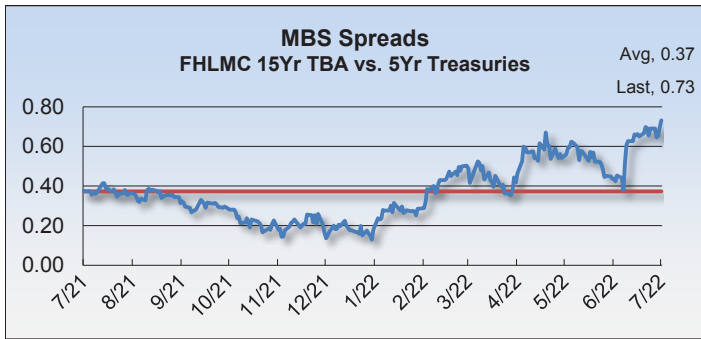
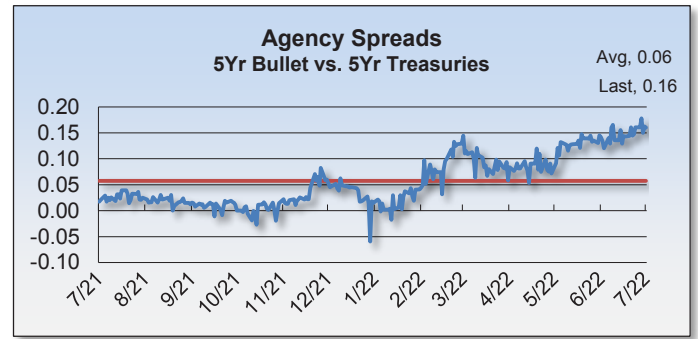
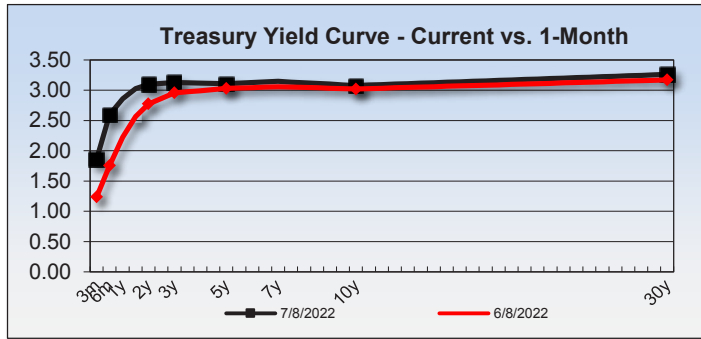
The other critical piece of market news came with this morning’s jobs report. A strong 372K increase in payrolls may be enough to seal the deal on another 75bps hike at the July FOMC meeting. The unemployment rate remained at 3.6% and total unemployment sits at just under 6 million... both measures roughly where they were pre-pandemic. The labor force participation rate clocked a still-sluggish 62.2%, and the employment to population ratio remained at 59.9%. Both of these measures remain below their February 2020 levels. It’s always worth remembering employment is a lagging indicator... beware of what may be coming down the pipe as the Fed hikes rates.

Next week we’ll look forward to release of the Consumer Price Index (CPI) for June. Expect another hot number, and let’s all hope for diligence from the Fed.

US Fed Funds Futures: Rate Probabilities



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	1.86	0.20	1.25	0.10	0.05	2yr	3.11	3.35	2.53	2.70	3.22	2Yr	3.09	3.09	3.09	-
6mo	2.60	0.12	1.76	0.24	0.05	3yr	3.22	3.21	2.70	2.88	3.28	3Yr	3.11	3.12	3.10	3.11
1yr	2.86	0.14	2.24	0.42	0.06	5yr	3.23	3.12	2.87	3.05	3.39	5Yr	3.18	3.18	3.17	3.11
2yr	3.10	0.26	2.77	0.86	0.20	7yr	3.34	3.11	3.22	3.43	3.65	7Yr	3.20	3.23	3.22	3.15
3yr	3.13	0.28	2.96	1.15	0.38	10yr	3.49	3.13	3.49	3.71	3.86	10Yr	3.18	3.24	3.23	3.17
5yr	3.11	0.23	3.03	1.50	0.74	15yr	3.64	3.21	3.79	4.04	4.05	August TBA MBS				
7yr	3.15	0.23	3.06	1.69	1.06	20yr	3.79	3.19	4.02	4.28	4.24	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.08	0.20	3.02	1.76	1.29	25yr	3.94	3.08	4.12	4.38	4.30	2.00	3.44	5.7y	3.77	
30yr	3.26	0.16	3.17	2.12	1.93	30yr	3.94	2.97	4.21	4.48	4.35	2.50	3.66	5.6y		
												3.00	3.67	5.4y	4.02	10.0y
												3.50	3.66	5.2y	4.15	9.4y
												4.00			4.28	8.2y
												4.50			4.43	6.6y

* 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	1.54	0.04	0.77	0.05	--
1 Month LIBOR	1.81	0.09	1.16	0.10	0.10
3 Month LIBOR	2.39	0.11	1.67	0.23	0.13
6 Month LIBOR	3.00	0.05	2.19	0.37	0.17
1 Year LIBOR	3.55	(0.06)	2.85	0.65	0.24
6 Month CD	3.13	0.03	2.28	0.30	0.22
1 Year CMT	2.87	0.07	2.26	0.43	0.08
REPO O/N	1.54	--	0.77	0.04	0.06
REPO 1Wk	1.62	(0.13)	0.93	0.08	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	2.24	2.31	2.29
6mo	2.86	2.95	2.92
1yr	3.25	3.31	3.33
2yr	3.29	3.39	3.41
3yr	3.30	3.42	3.43
4yr	3.32	3.45	3.45
5yr	3.31	3.43	3.43
7yr	3.49	3.61	3.60
10yr	3.64	3.77	3.73
5yr Am	3.33		3.44
10yr Am	3.55		3.63

Fed Fund Futures	
Maturity	Rate
Jul-22	1.677
Aug-22	2.315
Sep-22	2.485
Oct-22	2.880
Nov-22	3.240
Dec-22	3.375
Jan-23	3.460
Feb-23	3.535
Mar-23	3.550
Apr-23	3.570
May-23	3.540

Baker Market Update

Week in Review

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
7/5	Factory Orders	May	0.5%	1.6%	0.3%	0.7%
7/5	Factory Orders Ex Trans	May	--	1.7%	0.3%	0.6%
7/5	Durable Goods Orders	May F	0.7%	0.8%	0.7%	--
7/5	Durables Ex Transportation	May F	0.7%	0.7%	0.7%	--
7/5	Cap Goods Orders Nondef Ex Air	May F	0.5%	0.6%	0.5%	--
7/5	Cap Goods Ship Nondef Ex Air	May F	--	0.8%	0.8%	--
7/6	MBA Mortgage Applications	7/1	--	-5.4%	0.7%	--
7/6	S&P Global US Services PMI	Jun F	51.6	52.7	51.6	--
7/6	S&P Global US Composite PMI	Jun F	51.2	52.3	51.2	--
7/6	ISM Services Index	Jun	54.0	55.3	55.9	--
7/6	JOLTS Job Openings	May	1100k	11254k	11400k	11681k
7/6	FOMC Meeting Minutes	6/15	--	--	--	--
7/7	Challenger Job Cuts YoY	Jun	--	58.8%	-15.8%	--
7/7	Trade Balance	May	-\$84.7b	-\$85.5b	-\$87.1b	-\$86.7b
7/7	Initial Jobless Claims	7/2	230k	235k	231k	--
7/7	Continuing Claims	6/25	1328k	1375k	1328k	1324k
7/8	Two-Month Payroll Net Revision	Jun	--	-74k	--	--
7/8	Change in Nonfarm Payrolls	Jun	265k	372k	390k	384k
7/8	Change in Private Payrolls	Jun	233k	381k	333k	336k
7/8	Change in Manufact. Payrolls	Jun	21k	29k	18k	--
7/8	Unemployment Rate	Jun	3.6%	3.6%	3.6%	--
7/8	Average Hourly Earnings YoY	Jun	5.0%	5.1%	5.2%	5.3%
7/8	Average Weekly Hours All Employees	Jun	34.6	34.5	34.6	34.5
7/8	Labor Force Participation Rate	Jun	62.4%	62.2%	62.3%	--
7/8	Underemployment Rate	Jun	--	6.7%	7.1%	--
7/8	Consumer Credit	May	\$30.900b	--	\$38.069b	--
7/12	NFIB Small Business Optimism	Jun	92.8	--	93.1	--
7/13	CPI MoM	Jun	1.1%	--	1.0%	--
7/13	CPI YoY	Jun	8.8%	--	8.6%	--
7/13	CPI Ex Food and Energy YoY	Jun	5.8%	--	6.0%	--
7/13	CPI Index NSA	Jun	--	--	292.30	--
7/13	CPI Core Index SA	Jun	--	--	292.29	--
7/13	Real Avg Hourly Earning YoY	Jun	--	--	-3.0%	-2.9%
7/13	Real Avg Weekly Earnings YoY	Jun	--	--	-3.9%	-4.0%
7/13	Monthly Budget Statement	Jun	--	--	-\$66.2b	--
7/14	PPI Final Demand YoY	Jun	10.4%	--	10.8%	--
7/14	PPI Ex Food and Energy YoY	Jun	--	--	8.3%	--
7/14	PPI Ex Food, Energy, Trade YoY	Jun	--	--	6.8%	--
7/14	Initial Jobless Claims	7/9	235k	--	235k	--
7/14	Continuing Claims	7/2	--	--	1375k	--
7/15	Empire Manufacturing	Jul	-3.8	--	-1.2	--
7/15	Retail Sales Ex Auto and Gas	Jun	0.0%	--	0.1%	--
7/15	Retail Sales Control Group	Jun	0.3%	--	0.0%	--
7/15	Import Price Index YoY	Jun	--	--	11.7%	--
7/15	Export Price Index YoY	Jun	--	--	18.9%	--
7/15	Capacity Utilization	Jun	80.5%	--	79.0%	80.8%
7/15	Manufacturing (SIC) Production	Jun	--	--	-0.1%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.2	16.8	18.9	18.7	19.2	20.9
FH/FN 15y	8.9	9.8	11.6	13.8	13.5	22.7
GN 15y	11.9	15.7	17.2	17.8	21.5	21.6
FH/FN 20y	53.1	9.6	12.2	14.0	16.0	17.6
FH/FN 30y	7.8	7.5	10.9	11.9	14.3	16.9
GN 30y	5.2	9.9	16.5	18.0	17.2	17.4

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	13.1	14.2
FH/FN 15y	8.0	8.0	9.1	10.3	15.2	19.6
GN 15y	10.4	9.5	10.2	13.8	14.6	15.3
FH/FN 20y	6.0	6.9	7.4	8.1	9.6	11.1
FH/FN 30y	5.8	6.1	6.6	7.5	9.3	12.4
GN 30y	6.8	6.6	7.8	8.8	11.4	11.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	135.99	0.78	134.25	115.20	109.72
Euro	1.02	(0.02)	1.07	1.13	1.18
Dollar Index	107.32	2.19	102.54	95.72	92.42
Major Stock Indices					
Dow Jones	31,272	496	32,911	36,232	34,422
S&P 500	3,874.6	89.2	4,115.8	4,677.0	4,320.8
NASDAQ	11,541.5	513	12,086.3	14,935.9	14,559.8
Commodities					
Gold	1,735.5	(71.8)	1,851.9	1,797.4	1,800.2
Crude Oil	102.68	(3.08)	122.11	78.90	72.94
Natural Gas	6.15	0.73	8.70	3.92	3.69
Wheat	842.0	-26.8	1,074.8	758.5	612.3
Corn	765.8	22.0	764.5	606.8	638.0

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

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