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It was a hot midsummer week, actually and metaphorically. Temperatures were about as high as expected, but inflation rates were even higher. Consumer prices over the last year through June rose a sizzling 9.1%, exceeding consensus estimates and reaching the highest level in four decades. That news caused markets to re-think and re-price for an even more aggressive Fed and a sharper upward path for rates. The expectation is now that the Fed Funds rate will reach 3.5% by year-end. Bond yields have already incorporated that math into current pricing as the 2yr T-Note yield hovers around 3.10%. Interestingly and importantly, the longer end of the yield curve has bent quite a bit lower. The 10yr yield is currently 2.92% (down from 3.5% a month ago), so we have a 2s/10s inversion of nearly 20bps... the last time we were that inverted was prior to the great recession. Historically, curve inversions precede either financial crisis or recessions most of the time. Food for thought indeed.

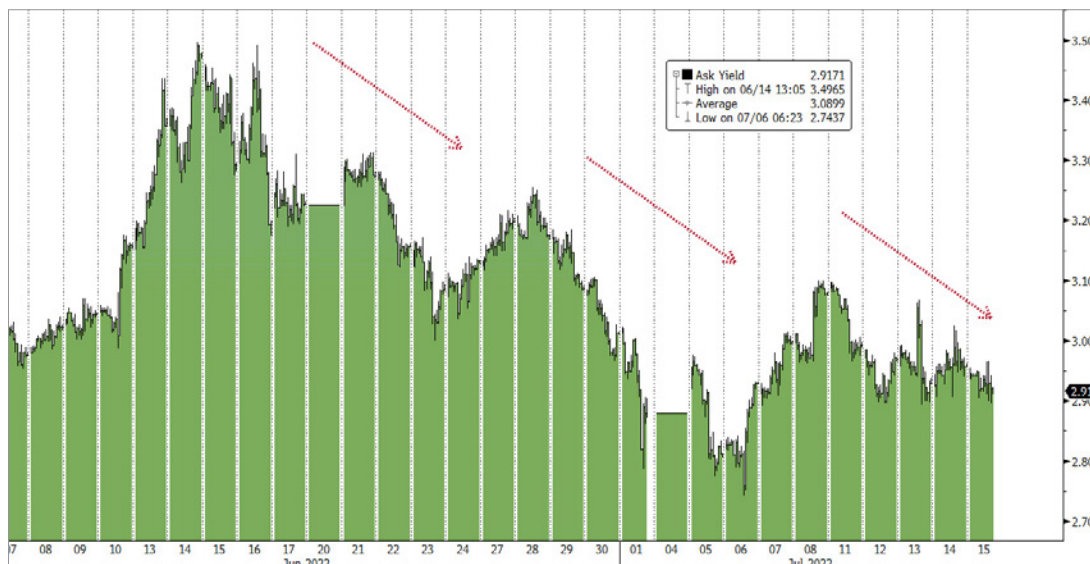
Fed officials are no doubt doing their best to land the plane softly, but the headwinds and inflation turbulence is severe. The Fed clocked negative growth in the first quarter, and most estimates and “nowcast” models are calling for negative or paltry growth in Q2 at best. Coupled with the inflation trend, this is the very definition of stagflation. For the sake of their credibility the Fed should learn the lessons of Paul Volker, stick to their guns and stamp out inflation regardless of what that does to growth and employment. St. Louis President James Bullard seems determined to do that saying that we may need to get the funds rate as high as 4% by the turn of the year. Not all of his colleagues agree and time will tell, but markets appear to respond favorably to a more aggressive approach, even knowing that the impact on growth will be negative.

To be sure, there are some nuggets of good news in the inflation data. Core inflation (stripping out volatile items to trim the mean) has actually fallen for six consecutive months. Inflation expectations from consumer surveys as well as financial markets are projecting lower, not higher, inflation going forward. A key survey of consumer sentiment has shown consistently falling 5–10-year inflation expectations every month this year. That corresponds with the fall in breakeven rates calculated from Treasury Inflation Protected Securities. This should give the Fed some comfort that things are slowly trending in the right direction.

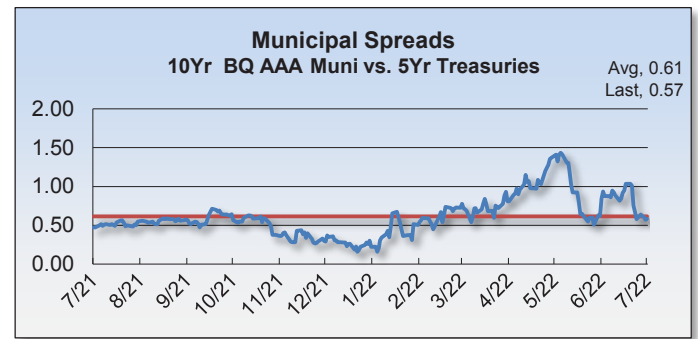
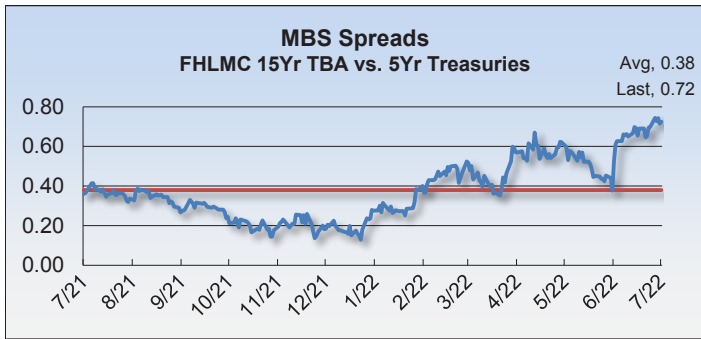
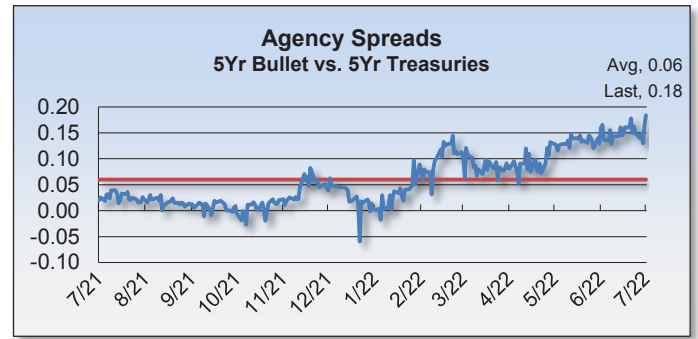
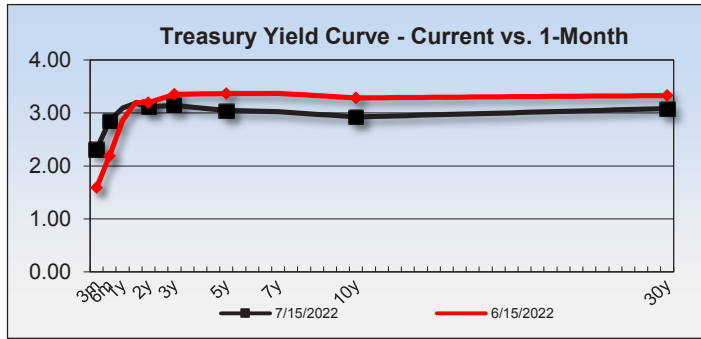
Other data released this week included retail sales and industrial production, both of which exceeded estimates, as well as the University of Michigan sentiment surveys which produced better than expected readings too.

It’s a strange time indeed. The Fed has found themselves way behind the curve and is trying heroically to get back in front of things. That’s a difficult task for a central bank when the economy is already turning south but inflation is far from dead. Hopefully things will cool off eventually, but for now it promises to be a long, hot summer.

### US 10yr T-Note Yield (Daily Chart): Last 30 Days



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	2.31	0.40	1.62	0.12	0.04	2yr	3.15	3.41	2.38	2.53	3.33	2Yr	3.11	3.12	3.13	-
6mo	2.85	0.22	2.21	0.29	0.05	3yr	3.24	3.22	2.55	2.71	3.34	3Yr	3.14	3.15	3.10	3.14
1yr	3.09	0.19	2.90	0.49	0.07	5yr	3.18	3.06	2.80	2.98	3.35	5Yr	3.12	3.13	3.13	3.06
2yr	3.12	0.01	3.19	0.97	0.23	7yr	3.21	3.02	3.15	3.35	3.57	7Yr	3.11	3.13	3.13	3.06
3yr	3.14	0.00	3.35	1.27	0.41	10yr	3.34	3.02	3.42	3.64	3.81	10Yr	3.06	3.12	3.12	3.05
5yr	3.05	(0.08)	3.37	1.56	0.78	15yr	3.47	3.08	3.75	3.99	4.00	August TBA MBS				
7yr	3.02	(0.13)	3.37	1.73	1.07	20yr	3.59	3.05	3.98	4.23	4.14	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.92	(0.16)	3.29	1.79	1.30	25yr	3.71	2.94	4.07	4.34	4.20	2.00	3.47	5.7y	3.67	
30yr	3.08	(0.17)	3.33	2.12	1.92	30yr		2.84	4.17	4.44	4.25	2.50	3.66	5.6y		
												3.00	3.69	5.5y	3.93	10.1y
												3.50	3.69	5.2y	4.07	9.6y
												4.00			4.26	8.2y
												4.50			4.46	6.3y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	1.75	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	1.53	(0.01)	0.69	0.05	--
1 Month LIBOR	2.00	0.19	1.32	0.11	0.09
3 Month LIBOR	2.51	0.12	1.83	0.24	0.13
6 Month LIBOR	3.06	0.06	2.51	0.40	0.15
1 Year LIBOR	3.73	0.18	3.37	0.71	0.24
6 Month CD	3.39	0.26	2.79	0.34	0.21
1 Year CMT	3.16	0.29	3.15	0.51	0.08
REPO O/N	1.54	--	0.68	0.03	0.05
REPO 1Wk	1.05	(0.63)	1.53	0.09	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	2.72	2.78	2.74
6mo	3.16	3.24	3.25
1yr	3.42	3.42	3.58
2yr	3.37	3.42	3.54
3yr	3.35	3.42	3.52
4yr	3.37	3.46	3.52
5yr	3.30	3.39	3.43
7yr	3.44	3.52	3.56
10yr	3.54	3.67	3.66
5yr Am	3.34		3.51
10yr Am	3.49		3.60

Fed Fund Futures	
Maturity	Rate
Jul-22	1.685
Aug-22	2.370
Sep-22	2.575
Oct-22	3.035
Nov-22	3.370
Dec-22	3.475
Jan-23	3.535
Feb-23	3.555
Mar-23	3.530
Apr-23	3.520
May-23	3.465

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
7/12	NFIB Small Business Optimism	Jun	92.5	89.5	93.1	--
7/13	CPI MoM	Jun	1.1%	1.3%	1.0%	--
7/13	CPI Ex Food and Energy MoM	Jun	0.5%	0.7%	0.6%	--
7/13	CPI YoY	Jun	8.8%	9.1%	8.6%	--
7/13	CPI Ex Food and Energy YoY	Jun	5.7%	5.9%	6.0%	--
7/13	CPI Index NSA	Jun	295.72	296.31	292.30	--
7/13	CPI Core Index SA	Jun	294.45	294.35	292.29	--
7/13	Real Avg Hourly Earning YoY	Jun	--	-3.6%	-3.0%	-2.9%
7/13	Real Avg Weekly Earnings YoY	Jun	--	-4.4%	-3.9%	-4.0%
7/14	PPI Final Demand MoM	Jun	0.8%	1.1%	0.8%	0.9%
7/14	PPI Ex Food and Energy MoM	Jun	0.5%	0.4%	0.5%	0.6%
7/14	PPI Ex Food, Energy, Trade MoM	Jun	0.5%	0.3%	0.5%	0.4%
7/14	PPI Final Demand YoY	Jun	10.7%	11.3%	10.8%	10.9%
7/14	PPI Ex Food and Energy YoY	Jun	8.2%	8.2%	8.3%	8.5%
7/14	PPI Ex Food, Energy, Trade YoY	Jun	6.6%	6.4%	6.8%	6.7%
7/14	Initial Jobless Claims	7/9	235k	244k	235k	--
7/14	Continuing Claims	7/2	1380k	1331k	1375k	1372k
7/15	Retail Sales Advance MoM	Jun	0.9%	1.0%	-0.3%	-0.1%
7/15	Retail Sales Ex Auto MoM	Jun	0.7%	1.0%	0.5%	0.6%
7/15	Retail Sales Ex Auto and Gas	Jun	0.1%	0.7%	0.1%	-0.1%
7/15	Retail Sales Control Group	Jun	0.3%	0.8%	0.0%	-0.3%
7/15	Import Price Index MoM	Jun	0.7%	0.2%	0.6%	0.5%
7/15	Import Price Index ex Petroleum MoM	Jun	0.2%	-0.4%	-0.1%	-0.2%
7/15	Import Price Index YoY	Jun	11.4%	10.7%	11.7%	11.6%
7/15	Export Price Index MoM	Jun	1.2%	0.7%	2.8%	2.9%
7/15	Export Price Index YoY	Jun	19.9%	18.2%	18.9%	18.7%
7/15	Capacity Utilization	Jun	80.8%	80.0%	79.0%	80.3%
7/15	Manufacturing (SIC) Production	Jun	-0.1%	-0.5%	-0.1%	-0.5%
7/15	Business Inventories	May	1.4%	1.4%	1.2%	1.3%
7/15	U. of Mich. Sentiment	Jul P	50.0	51.1	50.0	--
7/15	U. of Mich. Current Conditions	Jul P	53.7	57.1	53.8	--
7/15	U. of Mich. Expectations	Jul P	47.0	47.3	47.5	--
7/15	U. of Mich. 1 Yr Inflation	Jul P	5.3%	5.2%	5.3%	--
7/15	U. of Mich. 5-10 Yr Inflation	Jul P	3.0%	2.8%	3.1%	--
7/18	NAHB Housing Market Index	Jul	66	--	67	--
7/18	Net Long-term TIC Flows	May	--	--	\$87.7b	--
7/18	Total Net TIC Flows	May	--	--	\$1.3b	--
7/19	Housing Starts	Jun	1595k	--	1549k	--
7/19	Building Permits	Jun	1680k	--	1695k	--
7/20	MBA Mortgage Applications	7/15	--	--	-1.7%	--
7/20	Existing Home Sales	Jun	5.40m	--	5.41m	--
7/20	Existing Home Sales MoM	Jun	-0.2%	--	-3.4%	--
7/21	Initial Jobless Claims	7/16	240k	--	244k	--
7/21	Continuing Claims	7/9	1345k	--	1331k	--
7/22	S&P Global US Manufacturing PMI	Jul P	51.5	--	52.7	--
7/22	S&P Global US Services PMI	Jul P	52.5	--	52.7	--
7/22	S&P Global US Composite PMI	Jul P	--	--	52.3	--

MBS Prepayments <sup>4</sup>						
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	17.3
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	13.5	14.2
FH/FN 15y	8.0	7.9	8.9	10.4	15.2	19.6
GN 15y	9.9	9.4	10.1	13.5	14.4	15.0
FH/FN 20y	5.9	6.8	7.2	7.8	9.2	11.0
FH/FN 30y	5.8	6.0	6.5	7.3	9.1	12.5
GN 30y	6.7	6.5	7.6	9.0	10.7	11.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	138.64	2.54	133.84	114.63	109.83
Euro	1.01	(0.01)	1.04	1.14	1.18
Dollar Index	108.21	1.20	105.16	95.17	92.62
<b>Major Stock Indices</b>					
Dow Jones	31,088	(251)	30,669	35,912	34,987
S&P 500	3,821.9	(77.5)	3,790.0	4,662.9	4,360.0
NASDAQ	11,349.9	(285)	11,099.2	14,893.8	14,543.1
<b>Commodities</b>					
Gold	1,703.7	(38.6)	1,815.3	1,816.5	1,829.0
Crude Oil	97.60	(7.19)	115.31	83.82	71.65
Natural Gas	6.66	0.62	7.42	4.26	3.61
Wheat	779.0	-100.3	1,050.0	741.5	672.0
Corn	603.8	-174.5	774.0	596.3	564.3

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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