



**Jeffrey F. Caughron**  
Chairman of the Board  
The Baker Group LP  
[JCaughron@GoBaker.com](mailto:JCaughron@GoBaker.com)

Financial markets are very good at discounting future events. The anticipatory pricing-in of expected future Fed policy changes, for example, is already baked in the cake with respect to the shape of the yield curve today. We have to be careful, though, to consider how much of the future we can comfortably discount into current pricing. Feedback loops between expectations and economic fundamentals can cause havoc when conditions change unexpectedly.

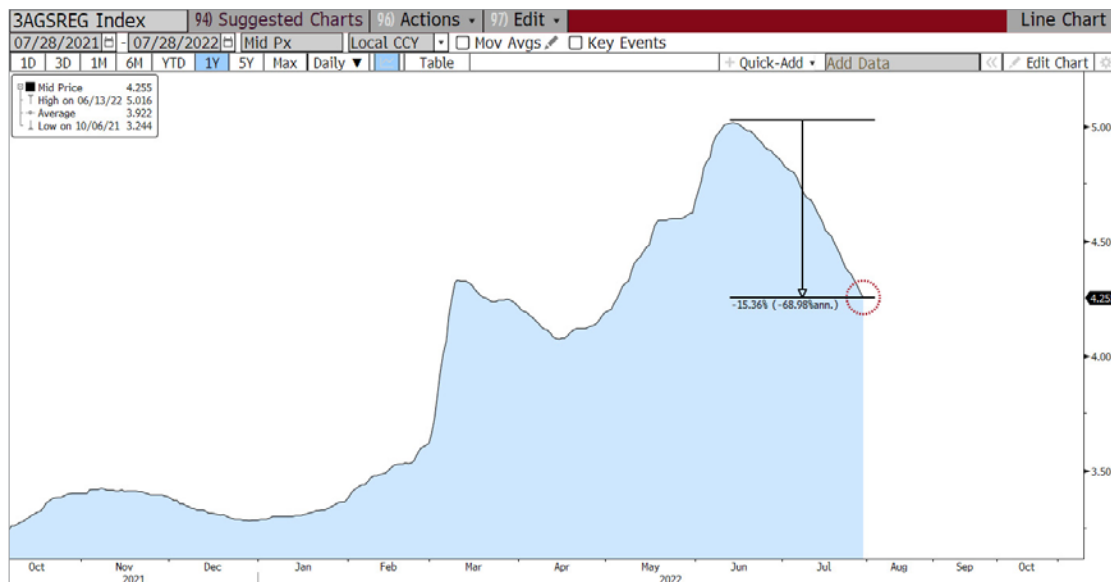
This week we got a ton of information and inputs into decision-making with respect to market conditions today, tomorrow and in the months ahead. The Fed's open market committee meeting gave us a second consecutive 75bps rate hike, and signals that the magnitude of future hikes may be lessened. We also heard from the chairman that the Fed is unwavering in their fight against inflation. We then got news that the US economy has now seen two consecutive quarters of contraction, not growth, as the initial estimate of second quarter GDP came in at a disappointing -0.9%, following a -1.6% for Q1. We've also watched commodities prices continue to march lower. Gasoline prices have fallen every single day for a month and a half, and lumber prices are back to pre-pandemic levels.

So right now, the bond market has determined that it makes sense to assume the Fed will continue to ratchet up the fed funds rate until they've reached around 3.25% which is expected to happen by year-end. Thereafter we can expect a pause and then gradual easing of the policy rate. Now all of this, mind you, is according to the futures market which is a constantly moving target. So, beware and be nimble. All news is old news... markets are forever looking ahead.

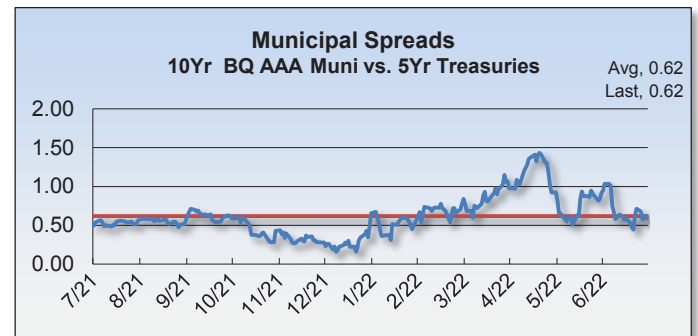
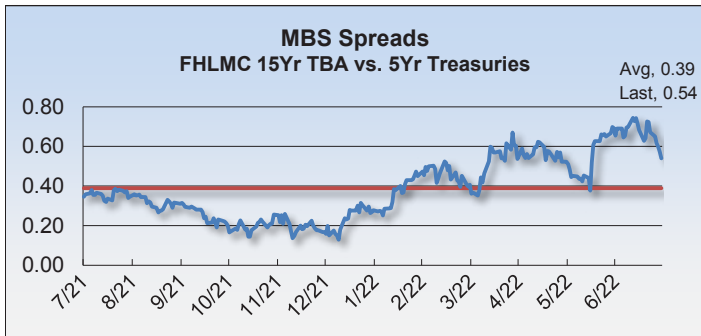
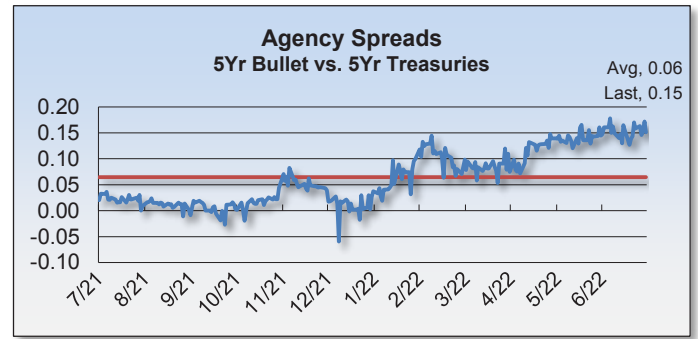
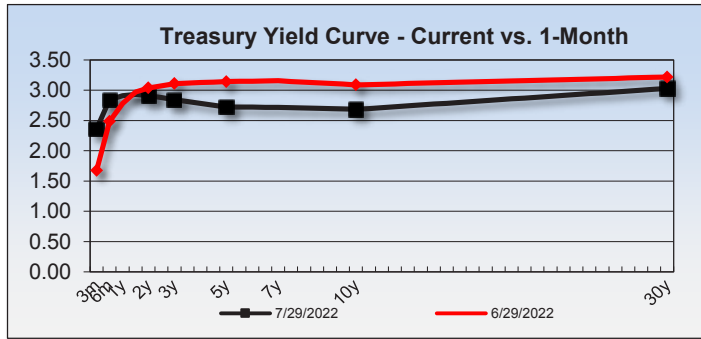
The fall in bond yields has been impressive. The 10yr T-Note now sits at a 2.67% yield, down 83bps in 45 days, and the lowest level since the first week of April. The 2yr yield is now at 2.90% producing a healthy 23bps inversion, the deepest we've seen in decades and a good precursor to a recession that everyone knows is nearly or already upon us. It seems that bonds have been on a mission to price-in a complete tightening cycle from trough to peak, and then a reversal.

We also found this week that inflation-adjusted consumer spending in the US was barely positive in June after falling -0.4% in May, and real final sales (domestic demand in the GDP calculation) are now negative for the first time since trough of the last recession. Regional Fed surveys, consumer confidence, and new home sales were all reported to be worse than expected. Durable goods orders and capital expenditures were slightly better than estimates, however, and the inflation numbers released this morning were no lower than previously. PCE inflation (the Fed's preferred measure) came in at 6.8%, right on the screws, while the core number was a tick higher at 4.8%. This inflation data is critical. These are the numbers that need to decline for the Fed to feel comfortable that they've accomplished the mission. Until that happens, we can expect continued rate hikes, continued inversion, and uncertain timing. Anticipate what will happen, but don't try to predict when.

### US Daily National Gasoline Prices: 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.36	(0.06)	1.72	0.19	0.05	2yr	2.96	3.16	2.24	2.38	3.16	2Yr	2.90	2.90	2.90	-
6mo	2.84	(0.08)	2.50	0.42	0.05	3yr	2.93	2.95	2.34	2.49	3.13	3Yr	2.84	2.85	2.80	2.84
1yr	2.91	(0.09)	2.82	0.74	0.06	5yr	2.84	2.75	2.52	2.68	3.06	5Yr	2.81	2.81	2.80	2.74
2yr	2.91	(0.06)	3.04	1.16	0.21	7yr	2.88	2.72	2.87	3.05	3.33	7Yr	2.81	2.83	2.82	2.75
3yr	2.84	(0.07)	3.11	1.38	0.38	10yr	3.07	2.76	3.12	3.32	3.61	10Yr	2.82	2.88	2.87	2.81
5yr	2.72	(0.12)	3.14	1.61	0.74	15yr	3.27	2.88	3.57	3.80	3.80	August TBA MBS				
7yr	2.72	(0.11)	3.16	1.74	1.03	20yr	3.46	2.90	3.88	4.13	4.13	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.68	(0.07)	3.09	1.77	1.27	25yr	3.66	2.83	3.98	4.23	4.19	2.00	3.09	5.6y	3.33	
30yr	3.03	0.05	3.22	2.08	1.92	30yr		2.77	4.07	4.34	4.24	2.50	3.22	5.5y		
												3.00	3.21	5.4y	3.55	9.7y
												3.50	3.23	5.0y	3.68	8.9y
												4.00			3.89	6.7y
												4.50			3.91	4.5y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.50	0.75	1.75	0.25	0.25
Primary Discount	2.50	0.75	1.75	0.25	0.25
2ndary Discount	3.00	0.75	2.25	0.75	0.75
Prime Rate	5.50	0.75	4.75	3.25	3.25
Sec. O.N. Finance	2.28	0.75	1.52	0.05	--
1 Month LIBOR	2.37	0.16	1.65	0.11	0.09
3 Month LIBOR	2.81	0.05	2.23	0.30	0.13
6 Month LIBOR	3.37	0.04	2.86	0.52	0.16
1 Year LIBOR	3.81	(0.08)	3.57	0.92	0.24
6 Month CD	3.37	(0.05)	3.10	0.59	0.13
1 Year CMT	2.93	(0.18)	2.88	0.75	0.07
REPO O/N	2.30	0.76	1.47	0.02	0.04
REPO 1Wk	2.37	0.13	1.75	0.09	0.11
CoF Federal	1.283	--	1.096	0.736	0.785
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.70	2.70	2.71
6mo	3.05	3.13	3.11
1yr	3.22	3.23	3.28
2yr	3.12	3.20	3.19
3yr	3.04	3.15	3.12
4yr	3.03	3.15	3.13
5yr	2.96	3.09	3.05
7yr	3.10	3.22	3.21
10yr	3.31	3.46	3.41
5yr Am	3.10		3.13
10yr Am	3.23		3.28

Fed Fund Futures	
Maturity	Rate
Jul-22	1.675
Aug-22	2.335
Sep-22	2.510
Oct-22	2.910
Nov-22	3.165
Dec-22	3.250
Jan-23	3.300
Feb-23	3.315
Mar-23	3.290
Apr-23	3.260
May-23	3.160

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
7/25	Chicago Fed Nat Activity Index	Jun	0.00	-0.19	0.00	-0.19
7/26	S&P CoreLogic CS 20-City YoY NSA	May	20.60%	20.50%	24.23%	21.22%
7/26	S&P CoreLogic CS US HPI YoY NSA	May	--	19.75%	20.39%	20.64%
7/26	Conf. Board Consumer Confidence	Jul	97.0	95.7	98.7	98.4
7/26	Conf. Board Present Situation	Jul	--	141.3	147.1	147.2
7/26	Conf. Board Expectations	Jul	--	65.3	66.4	65.8
7/26	New Home Sales	Jun	655k	590k	696k	642k
7/27	MBA Mortgage Applications	7/22	--	-1.8%	-6.3%	--
7/27	Durables Ex Transportation	Jun P	0.2%	0.3%	0.7%	0.5%
7/27	Cap Goods Ship Nondef Ex Air	Jun P	0.3%	0.7%	0.8%	1.0%
7/27	Pending Home Sales NSA YoY	Jun	-13.4%	-19.8%	-12.0%	-12.3%
7/27	FOMC Rate Decision (Upper Bound)	7/27	2.50%	2.50%	1.75%	--
7/27	FOMC Rate Decision (Lower Bound)	7/27	2.25%	2.25%	1.50%	--
7/27	Interest on Reserve Balances Rate	7/28	2.40%	2.40%	1.65%	--
7/28	GDP Annualized QoQ	2Q A	0.4%	-0.9%	-1.6%	--
7/28	Personal Consumption	2Q A	1.2%	1.0%	1.8%	--
7/28	GDP Price Index	2Q A	8.0%	8.7%	8.2%	--
7/28	Core PCE QoQ	2Q A	4.4%	4.4%	5.2%	--
7/28	Initial Jobless Claims	7/23	250k	256k	254k	261k
7/28	Continuing Claims	7/16	1386k	1359k	1384k	--
7/29	Employment Cost Index	2Q	1.2%	1.3%	1.4%	--
7/29	Personal Income	Jun	0.5%	0.6%	0.5%	0.6%
7/29	Real Personal Spending	Jun	0.0%	0.1%	-0.4%	-0.3%
7/29	PCE Deflator YoY	Jun	6.8%	6.8%	6.3%	--
7/29	PCE Core Deflator YoY	Jun	4.7%	4.8%	4.7%	--
7/29	MNI Chicago PMI	Jul	55.0	52.1	56.0	--
7/29	U. of Mich. Sentiment	Jul F	51.1	51.5	51.1	--
7/29	U. of Mich. Current Conditions	Jul F	57.1	58.1	57.1	--
7/29	U. of Mich. 1 Yr Inflation	Jul F	5.2%	5.2%	5.2%	--
8/1	S&P Global US Manufacturing PMI	Jul F	52.3	--	52.3	--
8/1	ISM Manufacturing	Jul	52.0	--	53.0	--
8/1	ISM Prices Paid	Jul	73.5	--	78.5	--
8/1	ISM New Orders	Jul	49.0	--	49.2	--
8/1	ISM Employment	Jul	48.2	--	47.3	--
8/2	JOLTS Job Openings	Jun	10994k	--	11254k	--
8/3	S&P Global US Services PMI	Jul F	47.0	--	47.0	--
8/3	S&P Global US Composite PMI	Jul F	--	--	47.5	--
8/3	ISM Services Index	Jul	54.0	--	55.3	--
8/3	Factory Orders Ex Trans	Jun	--	--	1.7%	--
8/4	Challenger Job Cuts YoY	Jul	--	--	58.8%	--
8/5	Two-Month Payroll Net Revision	Jul	--	--	-74k	--
8/5	Change in Nonfarm Payrolls	Jul	250k	--	372k	--
8/5	Change in Private Payrolls	Jul	220k	--	381k	--
8/5	Change in Manufact. Payrolls	Jul	18k	--	29k	--
8/5	Unemployment Rate	Jul	3.6%	--	3.6%	--
8/5	Average Hourly Earnings YoY	Jul	4.9%	--	5.1%	--
8/5	Average Weekly Hours All Employees	Jul	34.5	--	34.5	--

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	9.9	10.1	10.8	11.9	13.4	14.4
FH/FN 15y	8.2	8.3	9.2	11.0	15.6	19.9
GN 15y	10.5	10.3	11.0	14.3	14.7	15.3
FH/FN 20y	6.1	7.0	7.4	8.6	10.2	11.8
FH/FN 30y	6.0	6.3	7.1	8.5	11.8	16.5
GN 30y	6.8	7.0	7.9	10.4	12.2	12.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	133.96	(2.16)	136.59	115.11	109.48
Euro	1.02	(0.01)	1.04	1.12	1.19
Dollar Index	106.46	(0.27)	105.11	97.27	91.86
<b>Major Stock Indices</b>					
Dow Jones	32,639	740	31,029	34,725	35,085
S&P 500	4,100.2	138.6	3,818.8	4,431.9	4,419.2
NASDAQ	12,324.7	491	11,177.9	13,770.6	14,778.3
<b>Commodities</b>					
Gold	1,750.0	22.6	1,817.5	1,784.9	1,831.2
Crude Oil	99.95	5.25	109.78	86.82	73.62
Natural Gas	8.15	(0.15)	6.50	4.64	4.06
Wheat	837.3	78.3	915.5	786.3	705.3
Corn	630.5	66.3	770.3	636.0	558.0

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: 07/29/2022 9:23AM