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That great monetary economist William Shakespeare wrote that “Those who rush, stumble and fall”. This observation may be starting to take hold with respect to the speed and magnitude of the Fed’s tightening campaign. Make no mistake, the single goal, purpose and objective of the aggressive Fed policy is to stamp out inflation. But after 300bps of rate hikes since March (soon to be 375bps), there seems to be a lot of chatter about time lags, over-tightening, and the rising odds of recession. Still, it’s a dueling narrative. If the Fed pulls back too soon, they run the risk of letting inflationary psychology become deeply embedded in household and business decision-making. Nobody wants that. If they go too far and over-tighten, however, they’re inviting a much deeper recession than might otherwise be the case. The debate is already playing out on the Fed’s speaking circuit. Jim Bullard the St. Louis Fed President notes that the strong US labor market gives the central bank room to continue the aggressive rate hikes, but his counterpart in San Francisco, Mary Daly, suggests that now is the time to start talking about stepping down to smaller increases. Fed governor Christopher Waller got in the middle and said, “we’ll have a very thoughtful discussion about the pace of tightening at our next meeting.” Shakespeare would approve.

UPCOMING EVENTS

Banks

Seminars:

Minneapolis, MN
Nov 29, 2022

Credit Unions

Seminars:

Dallas, TX
Nov 4, 2022

Save the Date

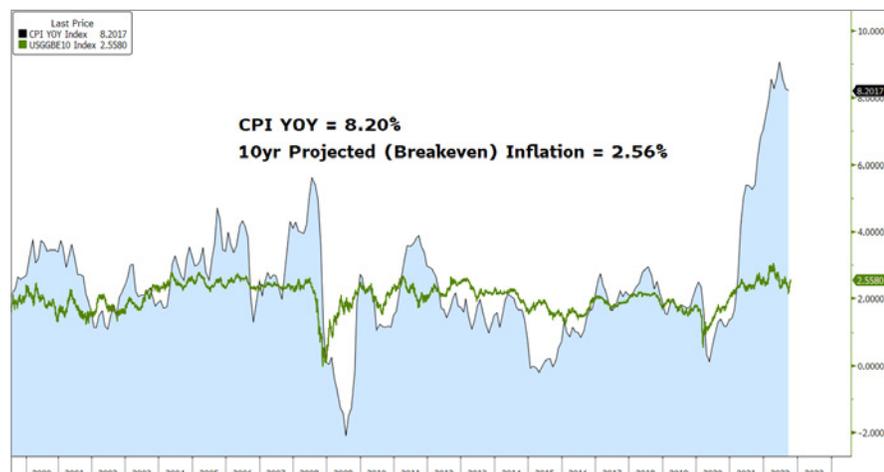
CU Webinar:

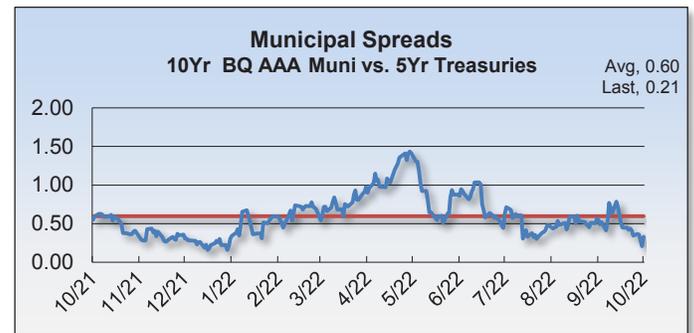
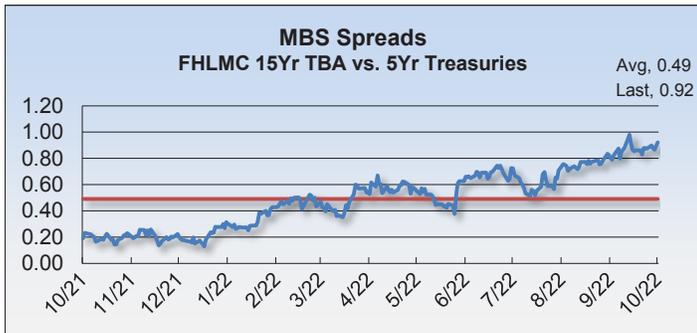
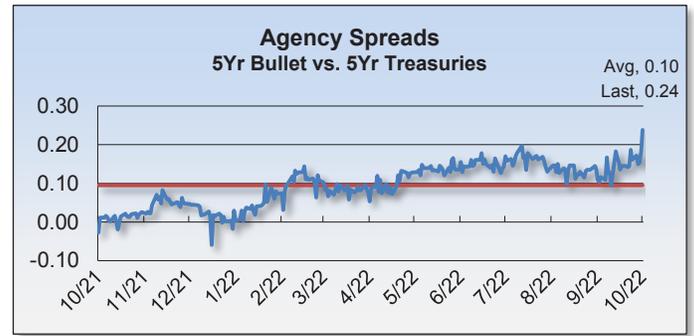
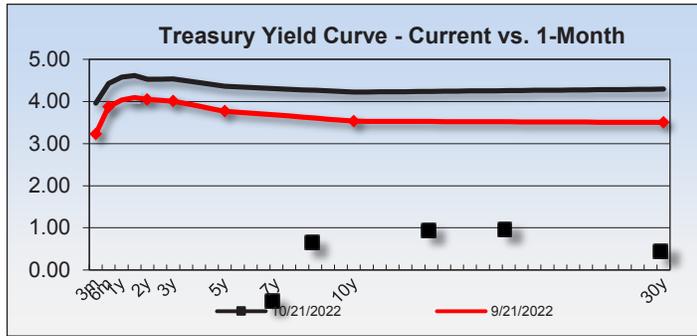
Q1 Conference Call
January 12, 2022

We all know that monetary policy works with “long and variable time-lags”. It’s also worth remembering that, as is often said on Wall Street, “all news is old news”. By the time the survey period is complete, the data is compiled, and the report is released, much economic news is stale. This is certainly true for inflation data. Fortunately, financial markets can provide forward looking measures like breakeven inflation rates which are embedded into the pricing of inflation-protected bonds. And when overlaid, the difference between observed historical inflation (8.20%) and projected future inflation (2.56%) is currently historic. To be clear, the market is expecting inflation to revert to the mean and come down from its current lofty levels, and that this will happen in fairly short order. As we move through the fourth quarter, it feels like we’re approaching a critical juncture on all of this.

The economic data released this week included housing starts which were weaker than expected at -8.1%, and existing home sales which clocked -1.5%... slightly less-weak than estimates. Importantly, Leading Economic Indicators (LEI) dropped 1.4% YOY. The six-month annualized growth rate for LEI has now fallen for five consecutive months... not good. As for bond yields, the 10yr looks set to close the week around a 4.22% yield... the highest weekly close since the first half of 2008. But the 2yr yield actually fell 12bps and the yield curve inversion (2s vs 10s) came in to -27bps from -54bps a week ago. Next week we’ll get a veritable smorgasbord of data on consumer sentiment, new home sales, capital expenditures and GDP among other things. All just in time for Halloween... tricks or treats... either way it should be fun..

US CPI and 10yr Breakeven Inflation: 1990 - Today





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	3.96	0.24	3.26	0.80	0.05	2yr	4.64	4.93	4.17	4.44	5.06	2Yr	5.29	5.29	5.29	-
6mo	4.42	0.11	3.90	1.29	0.06	3yr	4.65	4.69	4.20	4.47	5.11	3Yr	5.29	5.29	5.20	5.29
1yr	4.58	0.10	4.05	1.99	0.11	5yr	4.47	4.43	4.21	4.48	5.20	5Yr	5.14	5.14	5.13	5.07
2yr	4.52	0.03	4.05	2.69	0.46	7yr	4.54	4.33	4.27	4.54	5.27	7Yr	5.04	5.06	5.05	4.98
3yr	4.54	0.04	4.01	2.89	0.72	10yr	4.71	4.27	4.42	4.71	5.34	10Yr	4.93	4.99	4.98	4.92
5yr	4.36	0.09	3.77	2.98	1.24	15yr	4.89	4.24	4.79	5.10	5.53	November TBA MBS				
7yr	4.30	0.13	3.68	2.98	1.54	20yr	5.06	4.15	5.08	5.41	5.59	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	4.22	0.20	3.53	2.91	1.70	25yr	5.23	4.00	5.21	5.54	5.65	2.00	5.15	5.9y	5.29	
30yr	4.29	0.30	3.50	2.93	2.15	30yr		3.86	5.33	5.68	5.70	2.50	5.48	5.9y		
												3.00	5.67	5.9y	5.52	10.8y
												3.50	5.49	6.0y	5.61	10.8y
												4.00			5.63	10.8y
												4.50			5.72	10.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	3.25	--	3.25	0.50	0.25
Primary Discount	3.25	--	2.50	0.50	0.25
2ndary Discount	3.75	--	3.00	1.00	0.75
Prime Rate	6.25	--	5.50	3.50	3.25
Sec. O.N. Finance	3.03	(0.01)	2.26	0.27	--
1 Month LIBOR	3.50	0.16	3.01	0.62	0.09
3 Month LIBOR	4.28	0.27	3.57	1.10	0.13
6 Month LIBOR	4.74	0.25	4.12	1.61	0.17
1 Year LIBOR	5.34	0.27	4.67	2.30	0.29
6 Month CD	4.83	0.08	4.19	1.71	0.13
1 Year CMT	4.66	0.20	4.03	1.93	0.10
REPO O/N	3.05	(0.01)	2.30	0.27	0.01
REPO 1Wk	3.14	(0.02)	3.20	0.41	0.14
CoF Federal	2.022	--	1.762	0.870	0.752
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.22	4.31	4.26
6mo	4.69	4.74	4.72
1yr	4.85	4.91	5.01
2yr	4.74	4.87	4.94
3yr	4.74	4.86	4.91
4yr	4.69	4.85	4.84
5yr	4.60	4.72	4.69
7yr	4.77	4.90	4.80
10yr	5.01	5.16	5.01
5yr Am	4.78		4.84
10yr Am	4.90		4.90

Fed Fund Futures		
Maturity	Rate	
Oct-22	3.080	
Nov-22	3.790	
Dec-22	4.190	
Jan-23	4.455	
Feb-23	4.790	
Mar-23	4.835	
Apr-23	4.905	
May-23	4.925	
Jun-23	4.905	
Jul-23	4.895	
Aug-23	4.860	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
10/17	Empire Manufacturing	Oct	-4.3	-9.1	-1.5	--
10/18	Industrial Production MoM	Sep	0.1%	0.4%	-0.2%	-0.1%
10/18	Capacity Utilization	Sep	80.0%	80.3%	80.0%	80.1%
10/18	Manufacturing (SIC) Production	Sep	0.3%	0.4%	0.1%	0.4%
10/18	NAHB Housing Market Index	Oct	43	38	46	--
10/18	Net Long-term TIC Flows	Aug	--	\$197.9b	\$21.4b	--
10/18	Total Net TIC Flows	Aug	--	\$275.6b	\$153.5b	\$154.0b
10/19	MBA Mortgage Applications	10/14	--	-4.5%	-2.0%	--
10/19	Housing Starts	Sep	1461k	1439k	1575k	1566k
10/19	Building Permits	Sep	1530k	1564k	1517k	1542k
10/19	Housing Starts MoM	Sep	-7.2%	-8.1%	12.2%	13.7%
10/19	Building Permits MoM	Sep	-0.8%	1.4%	-10.0%	-8.5%
10/20	Philadelphia Fed Business Outlook	Oct	-5.0	-8.7	-9.9	--
10/20	Initial Jobless Claims	10/15	233k	214k	228k	226k
10/20	Continuing Claims	10/8	1378k	1385k	1368k	1364k
10/20	Existing Home Sales	Sep	4.70m	4.71m	4.80m	4.78m
10/20	Existing Home Sales MoM	Sep	-2.1%	-1.5%	-0.4%	-0.8%
10/20	Leading Index	Sep	-0.3%	-0.4%	-0.3%	0.0%
10/21	Monthly Budget Statement	Sep	-\$424.0b	--	-\$64.9b	--
10/24	Chicago Fed Nat Activity Index	Sep	--	--	0	--
10/24	S&P Global US Manufacturing PMI	Oct P	51.0	--	52.0	--
10/24	S&P Global US Services PMI	Oct P	49.6	--	49.3	--
10/24	S&P Global US Composite PMI	Oct P	--	--	49.5	--
10/25	S&P CoreLogic CS 20-City YoY NSA	Aug	14.00%	--	16.06%	--
10/25	S&P CoreLogic CS US HPI YoY NSA	Aug	--	--	15.77%	--
10/25	Conf. Board Consumer Confidence	Oct	105.5	--	108.0	--
10/25	Conf. Board Present Situation	Oct	--	--	149.6	--
10/25	Conf. Board Expectations	Oct	--	--	80.3	--
10/26	Advance Goods Trade Balance	Sep	-\$87.7b	--	-\$87.3b	--
10/26	New Home Sales	Sep	580k	--	685k	--
10/27	GDP Annualized QoQ	3Q A	2.3%	--	-0.6%	--
10/27	Durable Goods Orders	Sep P	0.6%	--	-0.2%	--
10/27	Personal Consumption	3Q A	0.8%	--	2.0%	--
10/27	Durables Ex Transportation	Sep P	0.2%	--	0.3%	--
10/27	GDP Price Index	3Q A	5.3%	--	9.0%	--
10/27	Cap Goods Orders Nondef Ex Air	Sep P	0.5%	--	1.4%	--
10/27	Core PCE QoQ	3Q A	4.6%	--	4.7%	--
10/27	Cap Goods Ship Nondef Ex Air	Sep P	0.3%	--	0.4%	--
10/28	Employment Cost Index	3Q	1.2%	--	1.3%	--
10/28	Personal Income	Sep	0.3%	--	0.3%	--
10/28	Real Personal Spending	Sep	0.1%	--	0.1%	--
10/28	PCE Deflator YoY	Sep	6.3%	--	6.2%	--
10/28	PCE Core Deflator YoY	Sep	5.2%	--	4.9%	--
10/28	Pending Home Sales NSA YoY	Sep	--	--	-22.5%	--
10/28	U. of Mich. Sentiment	Oct F	59.7	--	59.8	--
10/28	U. of Mich. Current Conditions	Oct F	65.0	--	65.3	--
10/28	U. of Mich. 1 Yr Inflation	Oct F	--	--	5.1%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	8.7	13.8	14.8	16.4	17.7	20.6
FH/FN 15y	6.8	7.7	8.2	12.7	16.4	17.8
GN 15y	15.3	13.2	14.9	16.9	18.6	19.2
FH/FN 20y	52.5	7.4	8.8	9.8	11.3	12.7
FH/FN 30y	2.1	5.2	8.5	7.8	9.2	11.3
GN 30y	5.1	6.4	12.4	14.5	10.4	11.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	8.3	8.3	9.2	10.8	10.1	10.2
FH/FN 15y	6.8	6.1	6.5	6.6	12.0	13.1
GN 15y	9.0	7.7	7.8	10.1	10.2	10.6
FH/FN 20y	4.9	5.4	5.9	6.2	7.2	7.9
FH/FN 30y	5.6	5.4	5.5	5.6	6.0	6.8
GN 30y	5.6	5.3	6.5	6.7	7.9	8.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	151.35	2.68	144.06	128.38	113.99
Euro	0.98	0.01	0.98	1.08	1.16
Dollar Index	112.99	(0.33)	110.64	100.58	93.77
Major Stock Indices					
Dow Jones	30,674	1,039	30,184	34,793	35,603
S&P 500	3,678.9	95.8	3,789.9	4,393.7	4,549.8
NASDAQ	10,676.4	355	11,220.2	13,174.7	15,215.7
Commodities					
Gold	1,634.1	(7.6)	1,665.8	1,944.9	1,781.2
Crude Oil	85.24	(0.37)	82.94	103.79	82.50
Natural Gas	5.04	(1.41)	7.78	6.96	5.12
Wheat	841.8	-18.0	903.8	1,068.0	741.3
Corn	683.0	-6.8	685.5	799.3	532.3

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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