



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

### UPCOMING EVENTS

#### Banks

##### Seminar:

Minneapolis, MN  
Nov 29, 2022

##### Webinar:

Q1 Conference Call  
Jan 11, 2023

#### Credit Unions

##### CU Webinar:

Q1 Conference Call  
Jan 12, 2023

##### CU Seminar:

Minneapolis, MN  
Mar 21, 2023

In a holiday-shortened week, we gobbled up some small helpings of economic data but the main show was Wednesday's release of the minutes for the Fed's Open Market Committee meeting earlier this month. The essential takeaway was clear... "A substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate." That sentiment was written into the minutes accompanying the fourth consecutive 75bps rate hike, which now brings the upper band of the Fed Funds target to 4.00%, the highest level since early 2008. Bond prices rallied on the news, stocks held recent higher levels, and the dollar sold off as investors generally welcomed the Fed's slower trajectory for rates. To be sure, the Fed isn't finished tightening. They are simply dialing down the magnitude of hikes. The "slowing in pace" was taken by markets to mean we can look for a 50bps bump in December. Fed Governor Waller likened it to piloting a plane after takeoff... "As the policy rate gets higher, the stronger is the case for slowing the rate of ascent while continuing to climb."

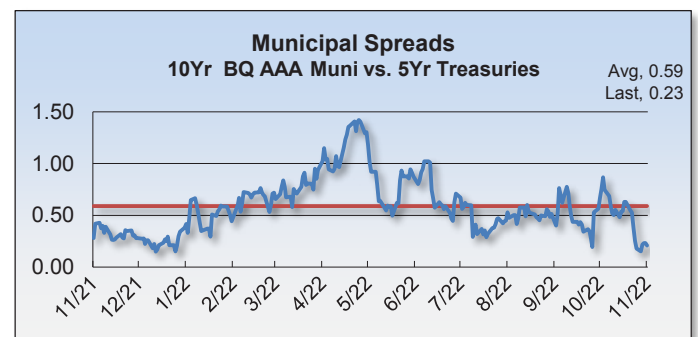
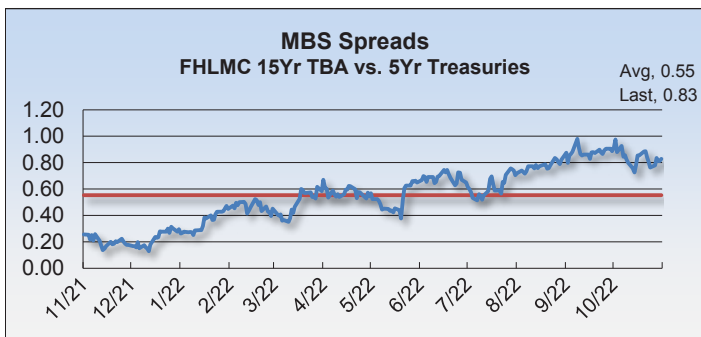
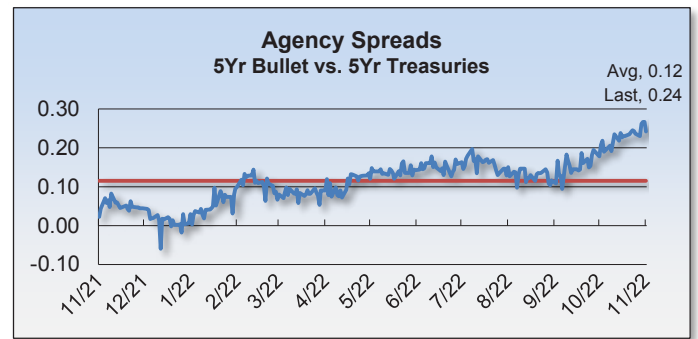
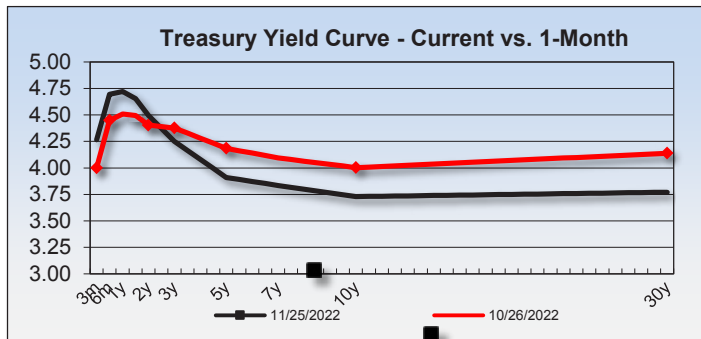
The price action in the bond market is instructive. The 10yr T-Note yield has rallied more than 50bps since it's October 24th high of 4.24%. Since the FOMC meeting we've also gotten friendly readings on consumer price inflation and inflation expectations. Moreover, given the imprecise time-lags of monetary policy, we can reasonably expect that demand destruction from the Fed's 375bps of tightening to-date will become quite apparent as we move into a new year. Futures markets currently project a 5% peak for fed funds, then a back-bend of 35bps or so by end of '23. Meanwhile, the yield curve is deeply inverted as the spread between 2s and 10s is -75bps... we'd have to go back to Ronald Reagan's first term to find the curve more negative... and that was during the reign of Fed inflation-slayer Paul Volker whose playbook the Powell Fed is now using. Perhaps we're finally about to reach cruising altitude and the seat belt signs will come off.

The data thread this week was light and mixed but meaningful. Durable Goods and Capital Expenditures were stronger than expected (perhaps dollar-related), but jobless claims jumped unexpectedly as the labor market comes off high boil. New home sales showed unexpected improvement, and consumer sentiment was a bit higher per the University of Michigan survey. But readings from S&P's Purchasing Manger's Indices (PMI) were not pretty, as both manufacturing and services showed contraction. Next week we'll have a look at housing prices and the Fed's preferred inflation measure as well as the employment report for November.

### US Treasury Yield Curve: (2yr vs 10yr Yield Spread) 2005 - 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	4.27	0.02	4.03	1.06	0.06	2yr	4.62	4.81	3.71	3.95	4.70	2Yr	5.28	5.28	5.28	-
6mo	4.70	0.06	4.51	1.49	0.10	3yr	4.36	4.39	3.74	3.98	4.64	3Yr	5.03	5.04	5.00	5.03
1yr	4.72	(0.00)	4.58	2.01	0.21	5yr	4.03	3.98	3.82	4.07	4.52	5Yr	4.76	4.76	4.75	4.69
2yr	4.49	(0.04)	4.48	2.49	0.64	7yr	4.12	3.81	3.88	4.13	4.59	7Yr	4.69	4.71	4.70	4.63
3yr	4.25	(0.05)	4.46	2.63	0.88	10yr	4.24	3.70	4.00	4.26	4.74	10Yr	4.62	4.68	4.67	4.61
5yr	3.91	(0.10)	4.26	2.72	1.34	15yr	4.36	3.67	4.54	4.83	4.93	December TBA MBS				
7yr	3.83	(0.10)	4.18	2.76	1.57	20yr	4.49	3.59	4.73	5.04	5.03	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.73	(0.10)	4.10	2.75	1.64	25yr	4.62	3.46	4.88	5.19	5.09	2.50	4.65	5.7y	4.53	
30yr	3.77	(0.16)	4.26	2.97	1.96	30yr	4.62	3.33	5.03	5.35	5.14	3.00	4.84	5.7y	4.87 10.4y	
												3.50	4.71	5.7y	4.78	10.7y
												4.00	4.68	5.7y	4.87	10.4y
												4.50			5.00	9.3y
												5.00			5.14	7.4y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.00	--	3.25	1.00	0.25
Primary Discount	4.00	--	3.25	1.00	0.25
2ndary Discount	4.50	--	3.75	1.50	0.75
Prime Rate	7.00	--	6.25	4.00	3.25
Sec. O.N. Finance	3.79	(0.02)	3.02	0.78	--
1 Month LIBOR	4.04	0.13	3.59	1.01	0.09
3 Month LIBOR	4.76	0.08	4.36	1.52	0.18
6 Month LIBOR	5.23	0.14	4.88	2.06	0.25
1 Year LIBOR	5.64	0.17	5.48	2.72	0.45
6 Month CD	4.94	0.03	4.94	2.10	0.26
1 Year CMT	4.75	0.13	4.58	2.09	0.21
REPO O/N	3.82	--	3.04	0.78	0.05
REPO 1Wk	3.88	(0.01)	3.03	0.83	0.12
CoF Federal	2.278	--	2.022	0.963	0.749
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.56	4.66	4.61
6mo	4.92	4.97	4.97
1yr	5.02	5.05	5.18
2yr	4.77	4.88	4.94
3yr	4.45	4.58	4.62
4yr	4.27	4.39	4.43
5yr	4.14	4.28	4.30
7yr	4.41	4.55	4.56
10yr	4.60	4.74	4.73
5yr Am	4.49		4.55
10yr Am	4.54		4.61

Fed Fund Futures		
Maturity	Rate	
Nov-22	3.783	
Dec-22	4.135	
Jan-23	4.375	
Feb-23	4.745	
Mar-23	4.825	
Apr-23	4.950	
May-23	5.015	
Jun-23	5.025	
Jul-23	5.025	
Aug-23	4.990	
Sep-23	4.975	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/21	Chicago Fed Nat Activity Index	Oct	0.00	-0.05	0.10	0.17
11/22	Richmond Fed Manuf. Index	Nov	-8.0	-9.0	-10.0	--
11/23	MBA Mortgage Applications	11/18	--	2.20%	2.70%	--
11/23	Durable Goods Orders	Oct P	0.4%	1.0%	0.4%	0.3%
11/23	Durables Ex Transportation	Oct P	0.0%	0.5%	-0.5%	-0.9%
11/23	Cap Goods Orders Nondef Ex Air	Oct P	0.0%	0.7%	-0.4%	-0.8%
11/23	Cap Goods Ship Nondef Ex Air	Oct P	0.2%	1.3%	-0.5%	-0.1%
11/23	Initial Jobless Claims	11/19	225k	240k	222k	223k
11/23	Continuing Claims	11/12	1520k	1551k	1507k	1503k
11/23	S&P Global US Manufacturing PMI	Nov P	50.0	47.6	50.4	--
11/23	S&P Global US Services PMI	Nov P	48.0	46.1	47.8	--
11/23	S&P Global US Composite PMI	Nov P	48.0	46.3	48.2	--
11/23	U. of Mich. Sentiment	Nov F	55.0	56.8	54.7	--
11/23	U. of Mich. Current Conditions	Nov F	57.8	58.8	57.8	--
11/23	U. of Mich. Expectations	Nov F	52.5	55.6	52.7	--
11/23	U. of Mich. 1 Yr Inflation	Nov F	5.1%	4.9%	5.1%	--
11/23	U. of Mich. 5-10 Yr Inflation	Nov F	3.0%	3.0%	3.0%	--
11/23	New Home Sales	Oct	570k	632k	603k	588k
11/29	House Price Purchase Index QoQ	3Q	--	--	4.0%	--
11/29	S&P CoreLogic CS 20-City YoY NSA	Sep	10.65%	--	13.08%	--
11/29	S&P CoreLogic CS US HPI YoY NSA	Sep	--	--	12.99%	--
11/29	Conf. Board Consumer Confidence	Nov	100.0	--	102.5	--
11/29	Conf. Board Present Situation	Nov	--	--	138.9	--
11/30	ADP Employment Change	Nov	195k	--	239k	--
11/30	Personal Consumption	3Q S	1.5%	--	1.4%	--
11/30	GDP Price Index	3Q S	4.1%	--	4.1%	--
11/30	Core PCE QoQ	3Q S	--	--	4.5%	--
11/30	MNI Chicago PMI	Nov	47.0	--	45.2	--
11/30	Pending Home Sales NSA YoY	Oct	--	--	-30.4%	--
11/30	JOLTS Job Openings	Oct	10325k	--	10717k	--
12/1	Challenger Job Cuts YoY	Nov	--	--	48.3%	--
12/1	Personal Income	Oct	0.4%	--	0.4%	--
12/1	Real Personal Spending	Oct	0.6%	--	0.3%	--
12/1	PCE Deflator YoY	Oct	6.0%	--	6.2%	--
12/1	PCE Core Deflator YoY	Oct	5.0%	--	5.1%	--
12/1	ISM Manufacturing	Nov	49.8	--	50.2	--
12/1	ISM Prices Paid	Nov	--	--	46.6	--
12/1	ISM New Orders	Nov	--	--	49.2	--
12/1	ISM Employment	Nov	--	--	50.0	--
12/2	Change in Nonfarm Payrolls	Nov	200k	--	261k	--
12/2	Change in Private Payrolls	Nov	200k	--	233k	--
12/2	Change in Manuf. Payrolls	Nov	20k	--	32k	--
12/2	Unemployment Rate	Nov	3.7%	--	3.7%	--
12/2	Average Hourly Earnings YoY	Nov	4.6%	--	4.7%	--
12/2	Average Weekly Hours All Employees	Nov	34.5	--	34.5	--
12/2	Labor Force Participation Rate	Nov	62.3%	--	62.2%	--
12/2	Underemployment Rate	Nov	--	--	6.8%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	13.2	14.6	15.5	16.8	22.2	0.9
FH/FN 15y	7.4	7.8	11.3	15.9	19.0	27.5
GN 15y	13.4	14.0	15.3	18.4	18.8	22.1
FH/FN 20y	6.9	8.2	9.0	10.5	11.8	15.0
FH/FN 30y	4.6	7.5	7.1	7.6	10.1	10.7
GN 30y	6.0	9.4	13.4	10.3	10.3	9.8
CPR Projections						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	13.8	14.3	14.6	14.6	14.4	13.3
FH/FN 15y	7.0	7.4	7.7	12.9	14.8	14.5
GN 15y	9.3	9.6	12.2	12.9	13.4	12.9
FH/FN 20y	5.8	6.3	6.9	7.7	8.9	9.9
FH/FN 30y	5.4	5.5	5.8	6.5	7.9	10.1
GN 30y	6.2	7.3	7.4	9.4	10.5	8.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	139.27	(1.10)	147.93	127.32	115.36
Euro	1.04	0.01	1.00	1.07	1.12
Dollar Index	106.16	(0.53)	110.95	102.06	#N/A N/A
<b>Major Stock Indices</b>					
Dow Jones	34,327	781	31,500	31,929	35,804
S&P 500	4,031.6	85.0	3,797.3	3,941.5	4,701.5
NASDAQ	11,247.9	103	10,952.6	11,264.5	15,845.2
<b>Commodities</b>					
Gold	1,749.7	(13.3)	1,652.8	1,846.3	1,784.3
Crude Oil	78.14	(3.50)	85.32	110.33	78.39
Natural Gas	7.20	0.83	5.61	8.97	5.07
Wheat	794.3	-12.5	834.8	1,148.3	836.8
Corn	668.0	0.5	686.3	772.3	579.8

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	

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: 11/25/2022 9:50AM