Baker Market Update

Week in Review



December 16, 2022



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UPCOMING EVENTS

Banks •

Seminar:

West Des Moines, IA Jun 12, 2023

> Springfield, IL Aug 7, 2023

Oklahoma City, OK Oct 18-20, 2023

Webinar:

Q1 Conference Call Jan 11, 2023

Credit Unions

CU Webinar:

Q1 Conference Call Jan 12, 2023

CU Strategies for 2023 with Dakota Credit Union Association Jan 12, 2023

CU Seminar: Minneapolis, MN Mar 21, 2023

Tis the season everyone! Bowl Season that is! Tonight, we can all enjoy the Hometown Lenders Bahamas Bowl! Don't worry if you miss tonight's bowl game because there are 41 more to enjoy. Happy Holidays and Happy Friday everyone! This is your week in review.

The markets were focused on this week's (and final for the year) Federal Reserve meeting which concluded on Wednesday with the Fed announcing another hike in interest rates. The announcement of a rate hike didn't come to a surprise to many; however, the 50-basis point increase marked a slower pace of rate increases from the Fed after four consecutive 75-basis point rate hikes. With the 50-basis point rate this week, the Federal Reserve has raised rates 425 basis points this year. The updated Dot Plot (illustration below) showed a terminal or peak Fed Funds rate of 5.1% next year before dropping down to 4.1% in 2024 and 3.1% by 2025.

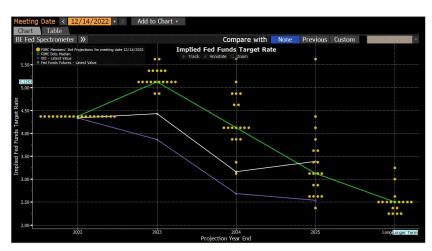
On Tuesday, the November Consumer Price Index (CPI) was released. Stock and bond prices soared on Tuesday as the BLS report showed the CPI rose less than expected in November, further reinforcing the thought that inflation has peaked, and the Fed is nearing the end of their most aggressive tightening cycle in 40 years. CPI rose just 0.1% in November with expectations for a 0.3% increase. CPI rose 7.1% from a year ago, below the expectations for a 7.3% increase. Excluding food and energy, Core CPI rose just 0.2% for the month and 6.0% from a year ago, below the expectations for a 0.3% monthly increase and a 6.1% year over year increase. The largest drops were in energy prices, commodities, used cars, and medical services while the closely watched shelter component rose by the smallest amount since July. This CPI report was very good news for the Fed and solidified their decision to raise rates by 50-basis points this week.

Consumers pulled back on spending in November (my Amazon account would beg to differ) as retail sales for the month declined 0.6%, worse than the expected 0.3% decline. Measures that exclude autos and both autos and gas sales both showed 0.2% declines. Spending increased in some areas, including at grocery stores, health, and personal care stores and restaurants and bars. Inflation, which Americans have been experiencing most of this year, is shaping up to become the defining factor for the holiday shopping season.

Next week marks the last week of Christmas and is typically the week when I finally start my Christmas shopping. Next week brings us important housing market data. Housing starts, building permits, and existing home sales data will be released early next week. Many housing related economic releases are seen as leading economics indicators and can paint a good picture of where the economy may be heading before other lagging or coincident economic indicators start to downturn.

Have a great weekend!

Federal Reserve DOT Plot – December 2022



Source: Bloomberg, L.P.

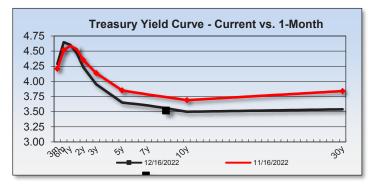
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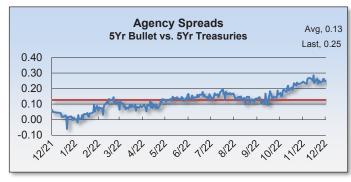
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4.50

5.00

Treasury Market Historical					Fixed Rate Market											
Maty	Current	1Wk		Historical	l	Maty	N-Call	US	AAA B	Q Muni	Tax			Agency	Calls - Eu	ro
Waty	Current	Change	1 Mo	6 Mo	1 Yr	/AL	Agency	Swap	C-Corp ²	S-Corp ³	Muni	Mty	3Мо	6mo	1Yr	2Yr
3mo	4.29	0.01	4.22	1.53	0.04	2yr	4.48	4.60	3.49	3.71	4.55	2Yr	5.05	5.05	5.05	-
6mo	4.65	(0.08)	4.55	2.19	0.12	3yr	4.10	4.16	3.39	3.61	4.48	3Yr	4.76	4.76	4.70	4.75
1yr	4.60	(0.10)	4.60	2.82	0.24	5yr	3.66	3.78	3.40	3.62	4.33	5Yr	4.51	4.51	4.50	4.44
2yr	4.24	(0.11)	4.36	3.10	0.62	7yr	3.61	3.63	3.43	3.65	4.33	7Yr	4.45	4.47	4.46	4.39
3yr	3.95	(0.15)	4.14	3.28	0.80	10yr	3.89	3.55	3.46	3.68	4.48	10 Yr	4.39	4.44	4.43	4.37
5yr	3.65	(0.12)	3.85	3.29	1.17	15yr	4.17	3.53	4.19	4.46	4.67		January TBA MBS			
7yr	3.60	(0.10)	3.79	3.28	1.33	20yr	4.45	3.47	4.49	4.78	4.79	Cpn	15 Y r -Y	ld/AL	30Yr -Y	ld/AL
10yr	3.50	(0.08)	3.69	3.20	1.41	25yr	4.73	3.34	4.64	4.94	4.85	2.50	4.42	5.6y	4.31	
30yr	3.54	(0.02)	3.84	3.25	1.85	30yr		3.21	4.79	5.10	4.90	3.00	4.53	5.6y		
* Interpolated											3.50	4.40	5.5y	4.61	9.9y	
_												4.00	4.39	5.2y	4.72	9.2y

Key Market Indices									
		1Wk	Historical						
Index	Current	Change	1 Mo	6 Mo	1 Yr				
Fed Funds	4.50	0.50	4.00	1.75	0.25				
Primary Discount	4.50	0.50	4.00	1.00	0.25				
2ndary Discount	5.00	0.50	4.50	1.50	0.75				
Prime Rate	7.50	0.50	7.00	4.75	3.25				
Sec. O.N. Finance	4.32	0.52	3.80	0.70					
1 Month LIBOR	4.33	0.09	3.89	1.51	0.11				
3 Month LIBOR	4.74	0.01	4.64	2.00	0.21				
6 Month LIBOR	5.13	(0.05)	5.10	2.67	0.29				
1 Year LIBOR	5.41	(0.12)	5.48	3.58	0.50				
6 Month CD	4.93	0.01	4.87	2.84	0.32				
1 Year CMT	4.65	(0.06)	4.60	2.93	0.29				
REPO O/N	4.34	0.50	3.82	0.68	0.03				
REPO 1Wk	4.39	0.50	3.89	1.66	0.08				
CoF Federal	2.278		2.022	0.963	0.749				
11th D. CoF (Dec)	0.223		0.218	0.282	0.460				

Maturity	Chicago	Boston	Topeka	
3mo	4.66	4.75	4.71	
6то	4.86	4.91	4.92	
1yr	4.89	4.90	5.05	
2yr	4.47	4.57	4.61	
3yr	4.11	4.22	4.23	
4yr	3.96	4.07	4.07	
5yr	3.84	3.95	3.94	
7yr	4.11	4.18	4.20	
10yr	4.31	4.37	4.40	
5yr Am	4.17		4.20	
10yr Am	4.24		4.27	

1	Fed Fund Futures						
1	Maturity	Rate					
-	Dec-22	4.105					
1	Jan-23	4.330					
1	Feb-23	4.640					
1	Mar-23	4.705					
1	Apr-23	4.815					
1	May-23	4.875					
1	Jun-23	4.880					
1	Jul-23	4.875					
1	Aug-23	4.835					
1	Sep-23	4.810					
1	Oct-23	4.755					

4.83

4.97

8.1y

6.2y

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	Weekly Economic Calendar									
This Week & Next										
Date	Release	Per.	Est.	Actual	Prior	Revised				
12/12	Monthly Budget Statement	Nov	-\$248.0b	-\$248.5b	-\$191.3b					
12/13	NFIB Small Business Optimism	Nov	90.5	91.9	91.3					
12/13	CPI YoY	Nov	7.3%	7.1%	7.7%					
12/13	CPI Ex Food and Energy YoY	Nov	6.1%	6.0%	6.3%					
12/13	CPI Index NSA	Nov	298.1	297.7	298.0					
12/13	CPI Core Index SA	Nov	300.4	300.1	299.5					
12/13	Real Avg Hourly Earning YoY	Nov		-1.9%	-2.8%	-2.7%				
12/13	Real Avg Weekly Earnings YoY	Nov		-3.0%	-3.7%	-3.5%				
12/14	Import Price Index YoY	Nov	3.2%	2.7%	4.2%	4.1%				
12/14	Export Price Index YoY	Nov	5.7%	6.3%	6.9%	7.4%				
12/14	FOMC Rate Decision (Upper Bound)	12/14	4.5%	4.5%	4.0%					
12/14	FOMC Rate Decision (Lower Bound)	12/14	4.3%	4.3%	3.8%					
12/14	Interest on Reserve Balances Rate	12/15	4.4%	4.4%	3.9%					
12/15	Empire Manufacturing	Dec	-1.0	-11.2	4.5					
12/15	Retail Sales Ex Auto and Gas	Nov	0.0%	-0.2%	0.9%	0.8%				
12/15	Retail Sales Control Group	Nov	0.1%	-0.2%	0.7%	0.5%				
12/15	Continuing Claims	12/3	1674k	1671k	1671k	1670k				
12/15	Philadelphia Fed Business Outlook	Dec	-10.0	-13.8	-19.4					
12/15	Capacity Utilization	Nov	79.8%	79.7%	79.9%					
12/15	Manufacturing (SIC) Production	Nov	-0.2%	-0.6%	0.1%	0.3%				
12/15	Business Inventories	Oct	0.4%	0.3%	0.4%	0.2%				
12/15	Net Long-term TIC Flows	Oct		\$67.8b	\$118.0b	\$117.7b				
12/15	Total Net TIC Flows	Oct		\$179.9b	\$30.9b	\$30.4b				
12/16	S&P Global US Manufacturing PMI	Dec P	47.8	46.2	47.7					
12/16	S&P Global US Services PMI	Dec P	46.5	44.4	46.2					
12/16	S&P Global US Composite PMI	Dec P	46.9	44.6	46.4					
12/19	NAHB Housing Market Index	Dec	34.0		33.0					
12/20	Housing Starts	Nov	1400k		1425k					
12/20	Building Permits	Nov	1485k		1526k	1512k				
12/21	MBA Mortgage Applications	12/16			3.2%					
12/21	Current Account Balance	3Q	-\$224.0b		-\$251.1b					
12/21	Existing Home Sales	Nov	4.20m		4.43m					
12/21	Conf. Board Consumer Confidence	Dec	101.0		100.2					
12/21	Conf. Board Present Situation	Dec			137.4					
12/21	Conf. Board Expectations	Dec			75.4					
12/22	Chicago Fed Nat Activity Index	Nov			-0.1					
12/22	GDP Annualized QoQ	3Q T	2.9%		2.9%					
12/22	Personal Consumption	3Q T	1.7%		1.7%					
12/22	GDP Price Index	3Q T	4.3%		4.3%					
12/22	Core PCE QoQ	3Q T	4.6%		4.6%					
12/22	Initial Jobless Claims	12/17	225k		211k					
12/22	Leading Index	Nov	-0.4%		-0.8%					
12/22	Kansas City Fed Manf. Activity	Dec	-6.0		-6.0					
12/23	Personal Income	Nov	0.3%		0.7%					
12/23	Personal Spending	Nov	0.2%		0.8%					
12/23	Real Personal Spending	Nov	0.0%		0.5%					
12/23	PCE Deflator YoY	Nov	5.5%		6.0%					

MBS Prepayments ⁴									
	3-Month CPR								
Туре	2.5	3.0	3.5	4.0	4.5	5.0			
FN 10y	12.0	13.6	13.6	14.1	16.6	3.3			
FH/FN 15y	6.5	7.2	9.5	14.4	17.6	21.6			
GN 15y	12.9	12.9	14.5	17.2	18.7	21.6			
FH/FN 20y	6.1	7.2	7.8	9.2	10.6	13.5			
FH/FN 30y	4.3	5.4	6.1	6.3	8.5	7.8			
GN 30y	5.7	7.2	11.7	8.0	8.8	8.9			
		(CPR Pr	ojection	ıs				
Type	2.5	3.0	3.5	4.0	4.5	5.0			
FN 10y	14.1	14.7	15.2	14.9	14.0	14.0			
FH/FN 15y	8.0	8.2	8.9	13.7	15.7	19.5			
GN 15y	8.2	8.6	9.0	9.8	10.4	11.1			
FH/FN 20y	6.1	7.1	7.9	9.3	10.3	11.5			
FH/FN 30y	5.8	6.2	6.6	7.9	9.9	12.7			
GN 30y	6.1	7.7	7.8	8.6	10.7	10.1			

Other Markets								
		1Wk	Historical					
Index	Current	Chng	1 Mo	6 Mo	1 Yr			
Currencies								
Japanese Yen	137.32	0.76	139.50	132.21	113.67			
Euro	1.06	0.01	1.04	1.05	1.13			
Dollar Index	104.48	(0.33)	106.28	103.63	96.04			
Major Stock	Indices							
Dow Jones	33,202	(579)	33,554	29,927	35,898			
S&P 500	3,895.8	(67.8)	3,958.8	3,666.8	4,668.7			
NASDAQ	10,810.5	(271)	11,183.7	10,646.1	15,180.4			
Commoditi	es							
Gold	1,794.8	(15.9)	1,775.8	1,849.9	1,798.2			
Crude Oil	73.70	2.68	85.59	117.59	72.38			
Natural Gas	6.47	0.22	6.20	7.46	3.77			
Wheat	756.3	22.0	817.5	1,078.3	770.5			
Corn	653.5	9.5	665.3	788.3	591.3			

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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Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 12/16/2022 10:22AM

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