



**Jeffrey F. Caughron**  
Senior Partner  
The Baker Group LP  
[JCaughron@GoBaker.com](mailto:JCaughron@GoBaker.com)

### UPCOMING EVENTS

#### Banks

##### Seminar:

West Des Moines, IA  
Jun 12, 2023

Springfield, IL  
Aug 7, 2023

Oklahoma City, OK  
Oct 18-20, 2023

#### Credit Unions

##### CU Seminar:

Minneapolis, MN  
Mar 21, 2023

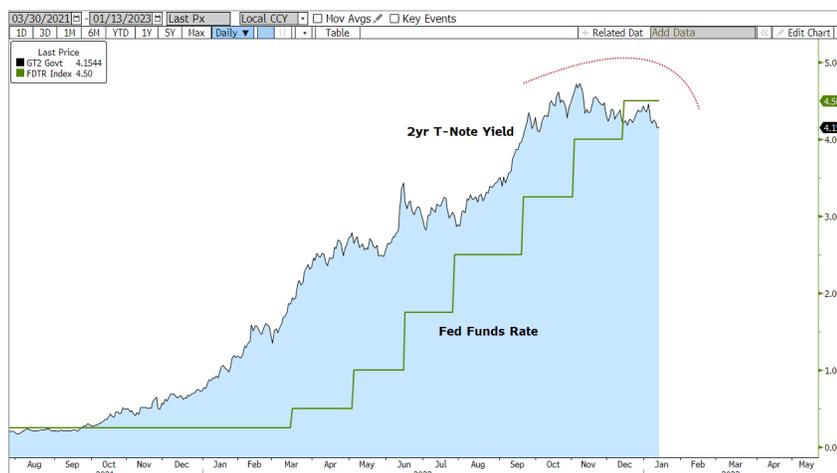
All news is old news as the market veterans say. And inflation, it seems, is last year's story if appetite for US Treasuries is any indication. Fed officials are quick to say no, inflation remains too high and their job is not finished by any means. Those who presume otherwise risk gambling on the now-defunct "Fed Put," something that won't be used as it has in the past to save us from economic distress. As St. Louis Fed President Bullard says, "the risk is that while inflation is moderating, it does not moderate as quickly as markets are currently expecting." Time will tell, but for now markets are trading like a tightening endpoint is getting close.

This week's release of the consumer price index (CPI) and related data showed an unmistakable trend lower as the index clocked a 6.5% reading at year-end, the sixth consecutive decline. It was much lower than the 7.1% in November and more than 2.5% lower than the mid-year high of 9.1%. The "core" level also was lower at 5.7%, down from 6.0% in the prior month. It was good news all around, and much of it was anticipated by bonds which rallied prior to the report and continued to do so through the week. As Friday rolled around, we were seeing a 3.45% yield on the 10yr T-Note, and a 4.17% on the 2yr. Those levels are remarkably lower than last year's highs which were 4.25% and 4.72% respectively. Moreover, the 2yr yield is now well below the Fed Funds rate which was bumped up to 4.50% in December... an inversion in the shortest segment of the maturity spectrum that warrants a close watch going forward.

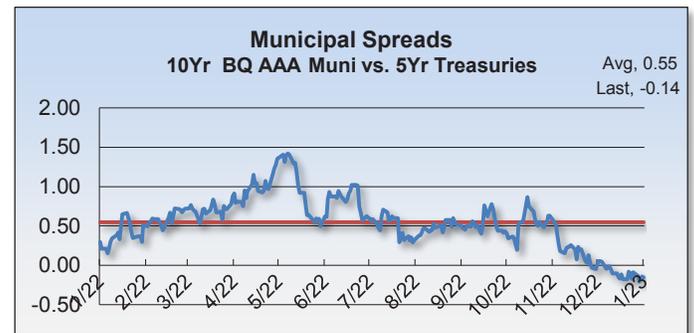
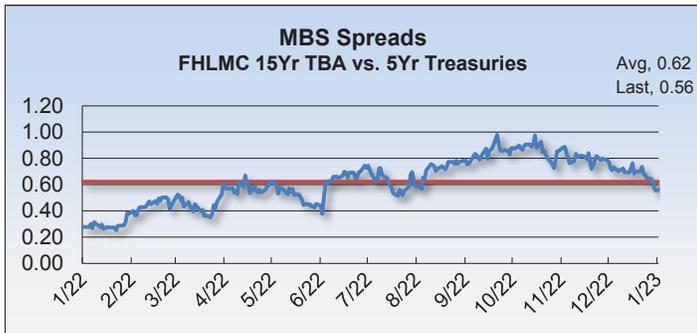
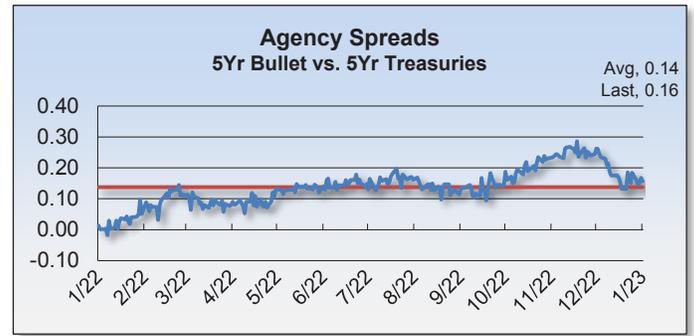
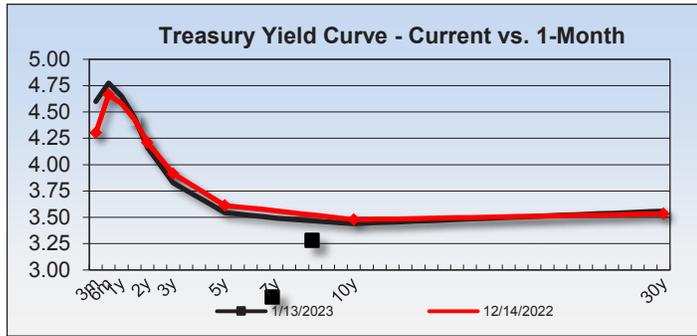
From a policy standpoint, improving inflation data suggests officials will strongly consider smaller increases of 25 basis points going forward. They know it takes time to see the full effects of their rate hikes, and they need to avoid causing unnecessary damage to employment and growth. Futures markets are now priced for a terminal rate just shy of 5%... one or two more hikes may do the trick. And then the focus turns to the resilience of the economy as all those rate hikes become fully absorbed. Pay particular attention to the labor market. The year-end jobs report showed a slowing of wage growth, an important input into the broader inflation trend, but payrolls growth remains strong. We'll see if that "Goldilocks" scenario can continue for the jobs market.

In addition to the CPI report, we got consumer sentiment data this week that showed improved perceptions of current conditions and inflation expectations. Importantly, there were also three very well-received auctions of US Treasuries... \$60billion in all... that were easily digested by the market. Next week's economic calendar is a full smorgasbord of data: retail sales, producer prices, industrial production, building permits, housing starts, existing home sales and leading indicators... all on tap. Stay tuned.

### US 2yr T-Note Yield and Fed Funds Rate: 2021 - Today



Source: Bloomberg, 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	4.60	(0.01)	4.34	2.36	0.12	2yr	4.33	4.45	3.21	3.41	4.38	2Yr	5.02	5.02	5.02	-
6mo	4.77	(0.04)	4.68	2.90	0.28	3yr	3.93	3.98	3.11	3.31	4.28	3Yr	4.72	4.73	4.70	4.72
1yr	4.65	(0.05)	4.62	3.17	0.45	5yr	3.61	3.58	3.08	3.28	4.09	5Yr	4.54	4.54	4.53	4.47
2yr	4.16	(0.09)	4.22	3.16	0.89	7yr	3.62	3.45	3.14	3.34	4.12	7Yr	4.49	4.51	4.50	4.43
3yr	3.83	(0.15)	3.95	3.15	1.09	10yr	3.78	3.41	3.26	3.47	4.33	10Yr	4.48	4.53	4.52	4.46
5yr	3.54	(0.16)	3.65	3.03	1.47	15yr	3.93	3.42	4.03	4.29	4.53	February TBA MBS				
7yr	3.49	(0.14)	3.59	3.02	1.64	20yr	4.08	3.38	4.27	4.54	4.76	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.44	(0.12)	3.50	2.94	1.71	25yr	4.23	3.27	4.42	4.70	4.82	2.00	3.98	5.6y	4.10	
30yr	3.56	(0.13)	3.54	3.12	2.04	30yr	4.23	3.17	4.56	4.86	4.87	2.50	4.15	5.5y	4.40	
												3.00	4.21	5.4y	4.30	10.5y
												3.50	4.11	5.3y	4.40	10.4y
												4.00			4.51	10.0y
												4.50			4.68	7.9y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.50	--	4.00	1.75	0.25
Primary Discount	4.50	--	4.00	1.75	0.25
2ndary Discount	5.00	--	4.50	2.25	0.75
Prime Rate	7.50	--	7.00	4.75	3.25
Sec. O.N. Finance	4.30	(0.01)	3.80	1.54	--
1 Month LIBOR	4.42	0.04	4.27	1.96	0.11
3 Month LIBOR	4.82	0.03	4.73	2.46	0.24
6 Month LIBOR	5.13	(0.01)	5.14	3.07	0.39
1 Year LIBOR	5.42	(0.04)	5.50	3.72	0.70
6 Month CD	4.97	(0.05)	5.20	3.24	0.40
1 Year CMT	4.66	(0.12)	4.75	3.07	0.48
REPO O/N	4.34	--	3.83	1.54	0.03
REPO 1Wk	4.44	0.05	4.39	1.40	0.16
CoF Federal	2.568	--	2.278	1.096	0.738
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.88	4.90	4.91
6mo	4.98	5.04	5.06
1yr	4.89	4.93	5.10
2yr	4.34	4.47	4.49
3yr	4.00	4.11	4.12
4yr	3.87	3.99	3.99
5yr	3.75	3.84	3.85
7yr	4.01	4.11	4.11
10yr	4.19	4.30	4.29
5yr Am	4.07		4.11
10yr Am	4.12		4.18

Fed Fund Futures		
Maturity	Rate	
Jan-23	4.330	
Feb-23	4.595	
Mar-23	4.665	
Apr-23	4.805	
May-23	4.900	
Jun-23	4.915	
Jul-23	4.915	
Aug-23	4.865	
Sep-23	4.830	
Oct-23	4.760	
Nov-23	4.615	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/9	Consumer Credit	Nov	\$25.000b	\$27.962b	\$27.078b	\$29.121b
1/10	NFIB Small Business Optimism	Dec	9150.0%	8980.0%	9190.0%	--
1/10	Wholesale Inventories MoM	Nov F	1.0%	1.0%	1.0%	--
1/10	Wholesale Trade Sales MoM	Nov	0.2%	-0.6%	0.4%	0.0%
1/11	MBA Mortgage Applications	1/6	--	1.2%	-10.3%	--
1/12	CPI MoM	Dec	-0.1%	-0.1%	0.1%	--
1/12	CPI Ex Food and Energy MoM	Dec	0.3%	0.3%	0.2%	--
1/12	CPI YoY	Dec	6.5%	6.5%	7.1%	--
1/12	CPI Ex Food and Energy YoY	Dec	5.7%	5.7%	6.0%	--
1/12	CPI Core Index SA	Dec	300.75	300.97	300.07	--
1/12	Real Avg Hourly Earning YoY	Dec	--	-1.7%	-1.9%	--
1/12	Real Avg Weekly Earnings YoY	Dec	--	-3.1%	-3.0%	--
1/12	Initial Jobless Claims	1/7	215k	205k	204k	206k
1/12	Continuing Claims	12/31	1710k	1634k	1694k	1697k
1/12	Monthly Budget Statement	Dec	-\$65.0b	-\$85.0b	-\$21.3b	--
1/13	Import Price Index MoM	Dec	-0.9%	0.4%	-0.6%	-0.7%
1/13	Import Price Index ex Petroleum MoM	Dec	-0.3%	0.8%	-0.3%	--
1/13	Import Price Index YoY	Dec	2.2%	3.5%	2.7%	--
1/13	Export Price Index MoM	Dec	-0.7%	-2.6%	-0.3%	-0.4%
1/13	Export Price Index YoY	Dec	7.3%	5.0%	6.3%	6.1%
1/13	U. of Mich. Sentiment	Jan P	60.7	64.6	59.7	--
1/13	U. of Mich. Current Conditions	Jan P	60.0	68.6	59.4	--
1/13	U. of Mich. Expectations	Jan P	59.0	62.0	59.9	--
1/13	U. of Mich. 1 Yr Inflation	Jan P	4.3%	4.0%	4.4%	--
1/13	U. of Mich. 5-10 Yr Inflation	Jan P	2.9%	3.0%	2.9%	--
1/17	Empire Manufacturing	Jan	-8.5	--	-11.2	--
1/18	New York Fed Services Business Activit	Jan	--	--	-17.6	--
1/18	Retail Sales Advance MoM	Dec	-0.8%	--	-0.6%	--
1/18	Retail Sales Ex Auto MoM	Dec	-0.4%	--	-0.2%	--
1/18	Retail Sales Ex Auto and Gas	Dec	-0.1%	--	-0.2%	--
1/18	Retail Sales Control Group	Dec	-0.3%	--	-0.2%	--
1/18	PPI Final Demand MoM	Dec	-0.1%	--	0.3%	--
1/18	PPI Ex Food and Energy MoM	Dec	0.1%	--	0.4%	--
1/18	PPI Ex Food, Energy, Trade MoM	Dec	0.2%	--	0.3%	--
1/18	PPI Final Demand YoY	Dec	6.8%	--	7.4%	--
1/18	PPI Ex Food and Energy YoY	Dec	5.5%	--	6.2%	--
1/18	PPI Ex Food, Energy, Trade YoY	Dec	4.6%	--	4.9%	0.0%
1/18	Industrial Production MoM	Dec	-0.1%	--	-0.2%	--
1/18	Manufacturing (SIC) Production	Dec	-0.2%	--	-0.6%	--
1/18	Capacity Utilization	Dec	79.6%	--	79.7%	--
1/18	Business Inventories	Nov	0.4%	--	0.3%	--
1/18	Net Long-term TIC Flows	Nov	--	--	\$67.8b	--
1/18	Total Net TIC Flows	Nov	--	--	\$179.9b	--
1/19	Building Permits	Dec	1370k	--	1342k	--
1/19	Philadelphia Fed Business Outlook	Jan	-11.0	--	-13.8	--
1/19	Housing Starts	Dec	1355k	--	1427k	--
1/20	Existing Home Sales	Dec	3.96m	--	4.09m	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	7.1	11.3	13.2	13.3	11.5	13.8
FH/FN 15y	5.8	5.9	6.9	8.5	13.4	16.8
GN 15y	5.1	11.3	12.3	13.2	17.2	18.6
FH/FN 20y	51.7	5.4	6.4	7.0	8.2	9.5
FH/FN 30y	10.9	3.9	5.0	5.4	6.3	7.0
GN 30y	2.7	5.1	8.2	8.0	7.5	7.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.6	14.6	15.2	15.6	15.2	14.3
FH/FN 15y	8.0	7.5	8.2	8.8	14.2	16.5
GN 15y	10.7	9.9	10.4	13.1	13.5	13.8
FH/FN 20y	5.4	6.2	6.9	7.7	8.7	9.5
FH/FN 30y	5.7	5.7	5.9	6.2	7.2	9.6
GN 30y	5.9	6.5	7.3	8.2	9.2	10.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	127.85	(4.23)	135.59	137.39	114.20
Euro	1.08	0.02	1.06	1.01	1.15
Dollar Index	102.34	(1.54)	103.98	107.96	94.79
<b>Major Stock Indices</b>					
Dow Jones	34,119	488	34,109	30,773	36,114
S&P 500	3,961.0	65.9	4,019.7	3,801.8	4,659.0
NASDAQ	10,948.6	379	11,256.8	11,247.6	14,806.8
<b>Commodities</b>					
Gold	1,913.4	43.7	1,813.9	1,735.5	1,821.4
Crude Oil	78.81	5.04	75.39	96.30	82.12
Natural Gas	3.56	(0.15)	6.94	6.69	4.27
Wheat	745.0	1.5	728.8	798.3	746.8
Corn	674.0	20.0	643.8	740.0	587.5

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: 01/13/2023 9:12AM