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Former Fed Chairman Alan Greenspan once observed that asset price bubbles go up very slowly, then when you least expect it, they reverse very sharply. We may be seeing that same dynamic with the general inflation level for the post-pandemic US economy. Over the two-and-a-half-year period from the beginning of 2020 to the middle of last year, we saw the Fed’s preferred measure of inflation (the PCE deflator) steadily rise from 1.50% to 7.00%... an increase of enormous magnitude. Since the peak last June, however, we’ve seen inflation decline even more rapidly than it went up, and the rate of decline is accelerating. This morning we learned that overall PCE inflation is now 5% year-over-year. That’s the sixth consecutive decline, and down from 5.5% the prior month. Other inflation measures show much the same pattern. Commodities prices, for example, are now at a 28-month low, and supply-side challenges like clogged ports, slow transport and long delivery timelines have been almost completely eliminated.

Perhaps none of this should be a surprise given that the Fed has raised the cost of borrowing by 425bps in less than a year. The speed and magnitude of those rate hikes is unprecedented and cannot be overstated. And given the well-known “long- and variable-time lags” which affect monetary policy, it’s worth noting that most of the Fed’s rate hikes haven’t had time yet to filter through into the economy. We also learned this week that US economic growth for the entire year 2022 came in at 2.1%. That’s following the 5.4% reopening snapback (an inflationary pace to be sure) in 2021. But the outlook going forward is weak and growing weaker. Residential investment slumped at a 26.7% annual pace last year, a seventh consecutive quarterly decline, and home sales for all of last year fell by the most since the “great recession” of 2008-09. Consumer spending has slowed as well. Among other things, less home buying means less spending on appliances, furniture, paint, and other related goods.

We’re also seeing a shift in the international economic landscape as US imports have slowed and exports in particular have hit a wall in response to last year’s extreme increase in the value of the US dollar versus other currencies. Like the trend in inflation, dollar-strength has also waned in recent months as foreign exchange markets anticipate that the Fed’s tightening campaign is nearing an end. This also aligns with the deeply inverted Treasury yield curve as markets give a clear signal that recession may not be far off. Most estimates now put the probability of recession this year at nearly two-thirds.

Next week brings a slew of important data: durable goods and capital expenditures, factory orders and ISM data are all on tap, as well as the very important employment report next Friday. And of course, we’ll also have an FOMC meeting which will likely result in a 25bps rate hike bringing the funds rate to 4.75%. A level we haven’t seen since the summer of 2007, when Apple introduced the iPhone.

### UPCOMING EVENTS

#### Banks

##### Seminar:

West Des Moines, IA  
Jun 12, 2023

Springfield, IL  
Aug 7, 2023

Oklahoma City, OK  
Oct 18-20, 2023

##### Schools:

ALM School  
August 8-9, 2023

Bond School  
May 10-11, 2023

#### Credit Unions

##### CU Seminar:

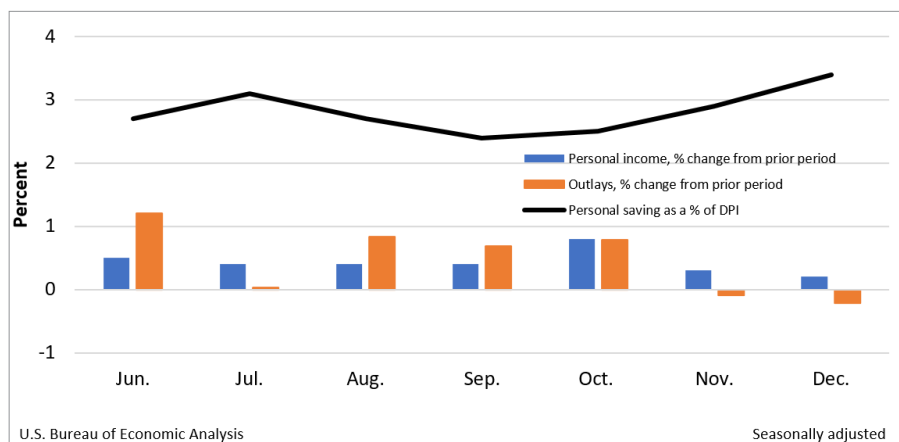
Minneapolis, MN  
Mar 21, 2023

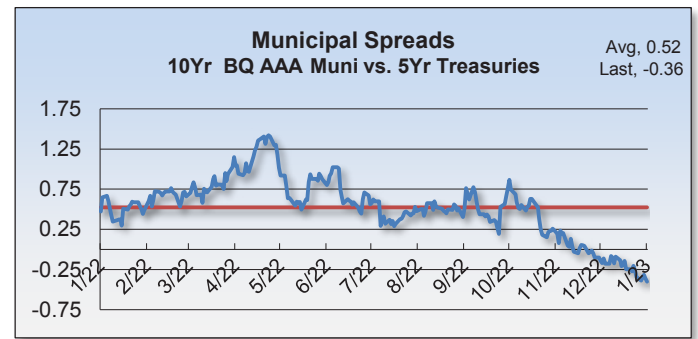
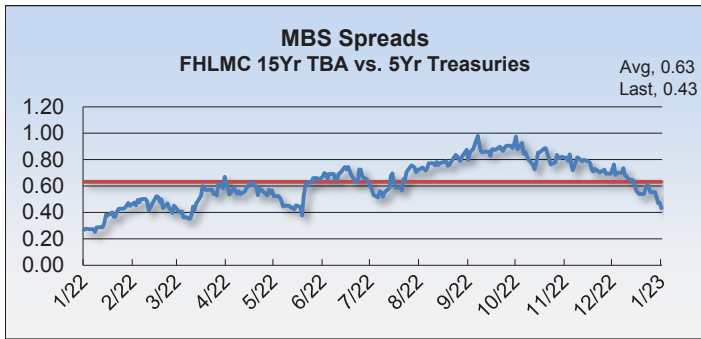
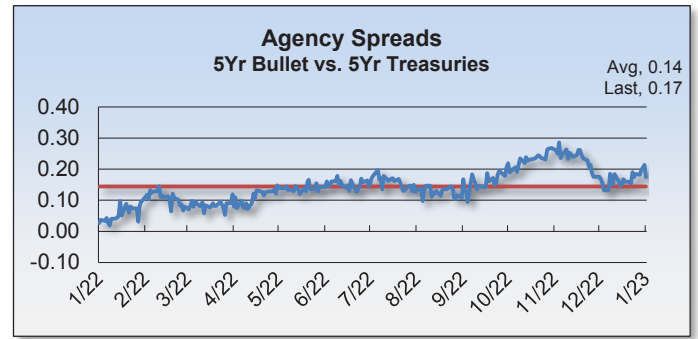
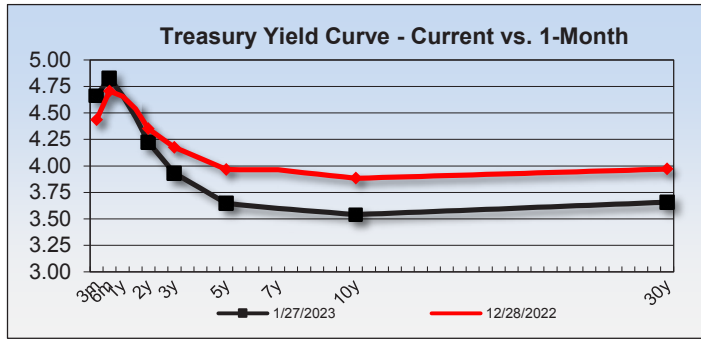
##### Save the Date:

CU ALM School  
August 23-24, 2023

CU Bond School  
August 26-27, 2023

### Personal Income, Outlays, and Savings





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	4.66	0.01	4.28	2.40	0.20	2yr	4.31	4.49	3.04	3.23	4.32	2Yr	4.99	4.99	4.99	-
6mo	4.83	0.01	4.66	2.89	0.43	3yr	4.00	4.06	2.94	3.13	4.23	3Yr	4.69	4.69	4.60	4.69
1yr	4.66	(0.01)	4.68	2.98	0.75	5yr	3.68	3.70	2.87	3.05	4.04	5Yr	4.48	4.48	4.47	4.41
2yr	4.22	0.05	4.38	3.00	1.19	7yr	3.70	3.57	2.93	3.11	4.07	7Yr	4.44	4.46	4.45	4.38
3yr	3.93	0.10	4.17	2.95	1.35	10yr	3.85	3.51	3.07	3.26	4.22	10Yr	4.43	4.49	4.48	4.42
5yr	3.65	0.08	3.94	2.84	1.66	15yr	3.99	3.52	3.92	4.17	4.42	February TBA MBS				
7yr	3.60	0.08	3.93	2.84	1.77	20yr	4.13	3.49	4.16	4.43	4.57	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.54	0.06	3.84	2.79	1.80	25yr	4.27	3.39	4.31	4.58	4.63	2.50	4.12	5.6y	4.18	
30yr	3.66	0.00	3.93	3.07	2.09	30yr	4.27	3.29	4.45	4.74	4.68	3.00	4.10	5.6y		
												3.50	4.07	5.5y	4.42	10.2y
												4.00	4.06	5.4y	4.55	9.9y
												4.50			4.73	8.3y
												5.00			4.93	7.0y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.50	--	4.50	2.50	0.25
Primary Discount	4.50	--	4.50	1.75	0.25
2ndary Discount	5.00	--	5.00	2.25	0.75
Prime Rate	7.50	--	7.50	4.75	3.25
Sec. O.N. Finance	4.30	(0.01)	4.30	1.53	--
1 Month LIBOR	4.52	0.03	4.39	2.30	0.11
3 Month LIBOR	4.81	0.01	4.73	2.77	0.27
6 Month LIBOR	5.11	0.00	5.15	3.29	0.45
1 Year LIBOR	5.34	(0.02)	5.44	3.78	0.79
6 Month CD	4.95	--	4.98	3.45	0.55
1 Year CMT	4.68	0.03	4.66	3.06	0.70
REPO O/N	4.32	(0.01)	4.34	1.54	0.02
REPO 1Wk	4.45	0.07	4.99	2.44	0.09
CoF Federal	2.794	--	2.568	1.283	0.736
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.86	4.96	4.91
6mo	4.98	5.03	5.03
1yr	4.93	4.97	5.08
2yr	4.46	4.61	4.63
3yr	4.09	4.20	4.20
4yr	3.97	4.09	4.07
5yr	3.84	3.92	3.90
7yr	4.03	4.13	4.10
10yr	4.19	4.33	4.27
5yr Am	4.17		4.19
10yr Am	4.17		4.20

Fed Fund Futures		
Maturity	Rate	
Jan-23	4.330	
Feb-23	4.580	
Mar-23	4.650	
Apr-23	4.795	
May-23	4.890	
Jun-23	4.910	
Jul-23	4.905	
Aug-23	4.850	
Sep-23	4.820	
Oct-23	4.760	
Nov-23	4.640	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/23	Leading Index	Dec	-0.7%	-1.0%	-1.0%	-1.1%
1/24	S&P Global US Manufacturing PMI	Jan P	46.0	46.8	46.2	--
1/24	S&P Global US Services PMI	Jan P	45.0	46.6	44.7	--
1/24	S&P Global US Composite PMI	Jan P	46.4	46.6	45.0	--
1/25	MBA Mortgage Applications	1/20	--	7.0%	27.9%	--
1/26	Chicago Fed Nat Activity Index	Dec	--	-49.0%	--	-51.0%
1/26	GDP Annualized QoQ	4Q A	2.6%	2.9%	3.2%	--
1/26	Personal Consumption	4Q A	2.9%	2.1%	2.3%	--
1/26	GDP Price Index	4Q A	3.2%	3.5%	4.4%	--
1/26	Core PCE QoQ	4Q A	3.9%	3.9%	4.7%	--
1/26	Advance Goods Trade Balance	Dec	-\$87.9b	-\$90.3b	-\$83.3b	-\$82.9b
1/26	Initial Jobless Claims	1/21	205k	186k	190k	192k
1/26	Continuing Claims	1/14	1658k	1675k	1647k	1655k
1/26	Durable Goods Orders	Dec P	2.5%	5.6%	-2.1%	-1.7%
1/26	Durables Ex Transportation	Dec P	-0.2%	-0.1%	0.1%	--
1/26	Cap Goods Orders Nondef Ex Air	Dec P	-0.2%	-0.2%	0.1%	0.0%
1/26	Cap Goods Ship Nondef Ex Air	Dec P	-0.4%	-0.4%	-0.1%	-0.2%
1/26	New Home Sales	Dec	612k	616k	640k	602k
1/27	Personal Income	Dec	0.2%	0.2%	0.4%	0.3%
1/27	Real Personal Spending	Dec	-0.1%	-0.3%	0.0%	-0.2%
1/27	PCE Deflator YoY	Dec	5.0%	5.0%	5.5%	--
1/27	PCE Core Deflator YoY	Dec	4.4%	4.4%	4.7%	--
1/27	Pending Home Sales NSA YoY	Dec	-35.4%	-34.3%	-38.6%	-37.7%
1/31	Employment Cost Index	4Q	1.1%	--	1.2%	--
1/31	S&P CoreLogic CS 20-City YoY NSA	Nov	6.80%	--	8.64%	--
1/31	S&P CoreLogic CS US HPI YoY NSA	Nov	--	--	9.24%	--
1/31	MNI Chicago PMI	Jan	45.3	--	44.9	--
1/31	Conf. Board Consumer Confidence	Jan	108.2	--	108.3	--
1/31	Conf. Board Present Situation	Jan	--	--	147.2	--
1/31	Conf. Board Expectations	Jan	--	--	82.4	--
2/1	ADP Employment Change	Jan	170k	--	235k	--
2/1	JOLTS Job Openings	Dec	--	--	10458k	--
2/1	FOMC Rate Decision (Lower Bound)	2/1	4.50%	--	4.25%	--
2/1	FOMC Rate Decision (Upper Bound)	2/1	4.75%	--	4.50%	--
2/1	Interest on Reserve Balances Rate	2/2	4.68%	--	4.40%	--
2/2	Challenger Job Cuts YoY	Jan	--	--	129.1%	--
2/2	Unit Labor Costs	4Q P	1.5%	--	2.4%	0.0%
2/2	Nonfarm Productivity	4Q P	2.5%	--	0.8%	--
2/3	Two-Month Payroll Net Revision	Jan	--	--	-28k	--
2/3	Change in Nonfarm Payrolls	Jan	185k	--	223k	--
2/3	Change in Private Payrolls	Jan	185k	--	220k	--
2/3	Change in Manufact. Payrolls	Jan	10k	--	8k	--
2/3	Unemployment Rate	Jan	3.6%	--	3.5%	--
2/3	Average Hourly Earnings YoY	Jan	4.3%	--	4.6%	--
2/3	Average Weekly Hours All Employees	Jan	34.4	--	34.3	--
2/3	Labor Force Participation Rate	Jan	62.3%	--	62.3%	--
2/3	Underemployment Rate	Jan	--	--	6.5%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	11.3	13.2	13.3	11.5	13.8	9.7
FH/FN 15y	5.9	6.9	8.5	13.4	16.8	22.3
GN 15y	11.3	12.3	13.2	17.2	18.6	21.3
FH/FN 20y	5.4	6.4	7.0	8.2	9.5	12.6
FH/FN 30y	3.9	5.0	5.4	6.3	7.0	7.2
GN 30y	5.1	8.2	8.0	7.5	7.7	7.9

CPR Projections						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	14.7	15.1	15.0	13.9	11.4	12.0
FH/FN 15y	7.2	7.7	8.2	14.5	16.1	17.1
GN 15y	9.9	10.2	12.8	13.2	13.5	13.0
FH/FN 20y	6.3	6.9	7.6	8.4	9.4	10.4
FH/FN 30y	5.7	6.0	6.4	7.1	8.9	10.6
GN 30y	6.4	7.3	7.6	9.1	10.2	7.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	129.89	0.29	133.49	136.57	115.37
Euro	1.09	0.00	1.06	1.02	1.11
Dollar Index	101.98	(0.04)	104.18	106.45	97.26
<b>Major Stock Indices</b>					
Dow Jones	34,069	693	33,242	32,198	34,161
S&P 500	4,066.0	93.4	3,829.3	4,023.6	4,326.5
NASDAQ	11,562.6	422	10,353.2	12,032.4	13,352.8
<b>Commodities</b>					
Gold	1,924.2	(4.0)	1,814.8	1,719.1	1,793.1
Crude Oil	81.71	0.40	79.53	97.26	86.61
Natural Gas	2.96	(0.21)	5.28	8.69	6.27
Wheat	751.3	9.8	774.5	790.3	777.0
Corn	681.5	5.3	674.8	600.3	625.3

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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