



Matt Harris, CFA

Associate Partner

The Baker Group LP

MHarris@GoBaker.com

UPCOMING EVENTS

Banks

Seminar:

West Des Moines, IA

Jun 12, 2023

Bismarck, ND

Jul 25, 2023

Springfield, IL

Aug 7, 2023

Stevens Point, WI

Aug 29, 2023

Oklahoma City, OK

Oct 18-20, 2023

Schools:

ALM School

Aug 8-9, 2023

Bond School

May 10-11, 2023

Credit Unions

CU Seminar:

Minneapolis, MN

Mar 21, 2023

Save the Date:

CU ALM School

Aug 23-24, 2023

CU Bond School

Apr 26-27, 2023

This week Punxsutawney Phil was back at it again celebrating Groundhog Day with thousands in Pennsylvania on Thursday. Unfortunately for us, Phil saw his shadow and the prediction came with a massive winter storm that hit much of the US, causing at least 300,000 Texas residents (myself included) without power and forcing the cancellation of over 2,250 airline flights! What Phil didn't know is that the financial markets were also in store for a busy week of predictions and prognostications as a slew of economic data was released along with the highly anticipated first Federal Open Market Committee for the year.

First, let's knock out the weekly numbers. Looking at the bond market, yields took a 10 to 15 basis point round trip this week as the 2 Year T-Note yield started the week around 4.2%, dropped down to 4.1% during the middle of the week and have bounced back to 4.26% as of Friday morning. The 10 Year performed similar as it was 3.54% Monday traded down to around 3.38% Wednesday is now back to 3.54%. Given the parallel movement in rates the 2s-10s yield curve inversion remains approximately 70bps and continues to flash the warning signal of a slowdown in the economy. Speaking of the warning signals, Leading Economic Indicators (LEI) continues to slide as it has now fallen 10 consecutive months, we've never seen that stretch without economy already being in recession since it's tracking since 1960. Turning to equities, all three major indices are looking to finish in the green this week. As of Friday, the S&P 500 is up approximately 2.50% over the last five trading days. The S&P remains up 8% YTD.

Now, let's unpack some of the economic data that was released this week. First let's start with the Consumer Confidence Index released on Tuesday. The Conference Board's index slipped to 107.1 from 109.0 in December. While the overall index is bouncing around 100-110 the last 6 months, one key metric within the readings is the expectations index which is based on consumer's short-term outlook for business and labor market conditions dropped to below 80 which is typically associated with a recession. Another set of key readings released this week was the ISM Manufacturing and ISM Services Indices. On Wednesday we saw the manufacturing index contract for a third month in a row coming in at 47.4 (above 50 indicates growth) and today the Services Index jumped up to 55.2 (from a 12 month low of 49.2 in December). Another interesting piece of data circling the news is that from the recent GDP readings from the Bureau of Economic Analysis for Q4 was the massive drop (over \$1 trillion) in real disposable income which is the biggest decline since the great depression further pushing the recession stories out there. While the 2.9% increase in growth from 2.1% was an overall positive, this decline in real disposable income should have more alarm bells ringing.

Finally, the most important happenings this week: the FOMC Meeting and January jobs report. On Wednesday, as expected, the Federal Reserve raised the Fed Funds rate only 25bps points. The unanimous vote was another downshift in rate increase from 50bps that happened during the December meeting. There was a small, but important change to the language that indicated they are now focused on the "extent" of future rate increases rather than the "pace" of increases. This is a clear indication the FOMC is nearing the end of their tightening cycle and trying to determine the appropriate peak for Fed Funds rather than just how quickly they moved. Today, the labor market showed no signs of softening in January as job growth surged and the unemployment rate unexpectedly fell to the lowest level in 53 years at 3.4% (3.6% survey). Nonfarm payrolls soared to 517k, substantially higher than the 188k survey. The surprising strength of the January employment report will likely bolster the Fed's resolve to continue hiking rates in the months ahead as Chairman Powell continues to acknowledge the jobs market is extremely tight and out of balance. The average hourly earnings component decelerated helping.

(Continued)



Matt Harris, CFA
Associate Partner
The Baker Group LP
MHarris@GoBaker.com

Next week will be light on the data front. On Tuesday, the US Census Bureau will release figures behind the current US Trade deficit and on Wednesday they will give us the figures related to wholesale inventories. On Thursday we'll get weekly initial jobless claims and on Friday we will see the University of Michigan release their Surveys of Consumers (Sentiment and Conditions).

Happy Groundhog Day and Stay Warm out there!

Average Hourly Earnings

Good sign on the inflationary front as average hourly earnings (AHE) came in 4.4% YoY and continues to trend lower. The Fed estimates 3 to 3.5% is consistent with an inflation target of 2% indicating there is still more work to be done on unwinding wage pressures.

UPCOMING EVENTS

Banks

Seminar:

West Des Moines, IA
Jun 12, 2023

Bismarck, ND
Jul 25, 2023

Springfield, IL
Aug 7, 2023

Stevens Point, WI
Aug 29, 2023

Oklahoma City, OK
Oct 18-20, 2023

Schools:

ALM School
Aug 8-9, 2023

Bond School
May 10-11, 2023

Credit Unions

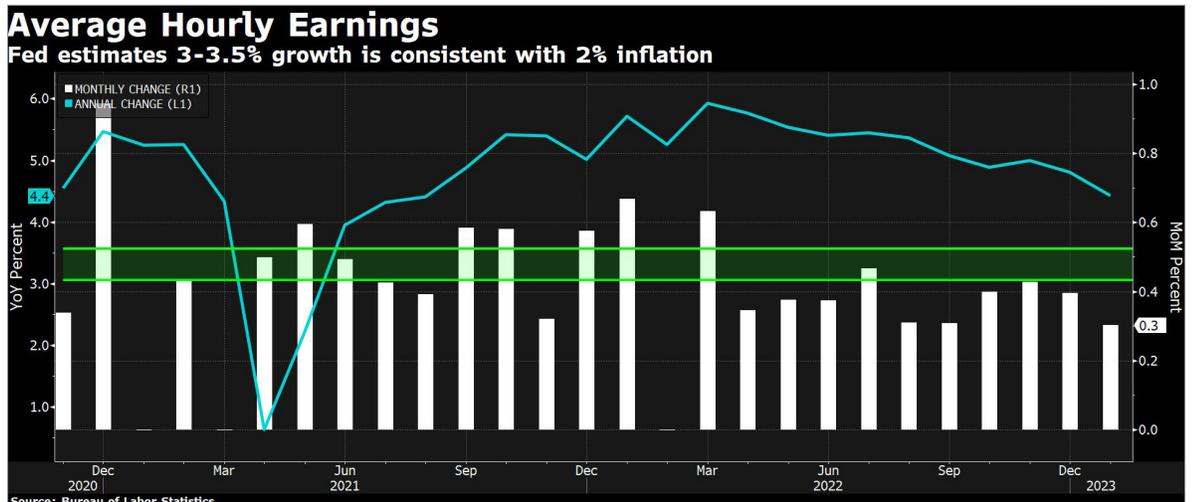
CU Seminar:

Minneapolis, MN
Mar 21, 2023

Save the Date:

CU ALM School
Aug 23-24, 2023

CU Bond School
Apr 26-27, 2023



Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/31	Employment Cost Index	4Q	1.1%	1.0%	1.2%	--
1/31	S&P CoreLogic CS 20-City YoY NSA	Nov	6.80%	6.77%	8.64%	--
1/31	S&P CoreLogic CS US HPI YoY NSA	Nov	--	7.69%	9.24%	9.23%
1/31	MNI Chicago PMI	Jan	45.0	44.3	44.9	--
1/31	Conf. Board Consumer Confidence	Jan	109.00	107.10	108.30	109.00
1/31	Conf. Board Present Situation	Jan	--	150.9	147.2	147.4
1/31	Conf. Board Expectations	Jan	--	77.8	82.4	83.4
2/1	MBA Mortgage Applications	1/27	--	-9.0%	7.0%	--
2/1	ADP Employment Change	Jan	180k	106k	235k	253k
2/1	S&P Global US Manufacturing PMI	Jan F	46.8	46.9	46.8	--
2/1	ISM Manufacturing	Jan	48.0	47.4	48.4	--
2/1	ISM Prices Paid	Jan	40.4	44.5	39.4	--
2/1	ISM Employment	Jan	--	50.6	51.4	--
2/1	ISM New Orders	Jan	--	42.5	45.2	--
2/1	JOLTS Job Openings	Dec	10300k	11012k	10458k	10440k
2/1	FOMC Rate Decision (Upper Bound)	2/1	4.75%	4.75%	4.50%	--
2/1	FOMC Rate Decision (Lower Bound)	2/1	4.50%	4.50%	4.25%	--
2/1	Interest on Reserve Balances Rate	2/2	4.65%	4.65%	4.40%	--
2/1	Wards Total Vehicle Sales	Jan	15.50m	15.74m	13.31m	--
2/2	Challenger Job Cuts YoY	Jan	--	440.0%	129.1%	--
2/2	Nonfarm Productivity	4Q P	2.4%	3.0%	0.8%	1.4%
2/2	Unit Labor Costs	4Q P	1.5%	1.1%	2.4%	2.0%
2/2	Initial Jobless Claims	1/28	195k	183k	186k	--
2/2	Continuing Claims	1/21	1684k	1655k	1675k	1666k
2/2	Factory Orders Ex Trans	Dec	0.2%	-1.2%	-0.8%	-1.2%
2/2	Durables Ex Transportation	Dec F	-0.1%	-0.2%	-0.1%	--
2/2	Cap Goods Ship Nondef Ex Air	Dec F	--	-0.6%	-0.4%	--
2/3	Two-Month Payroll Net Revision	Jan	--	71k	--	--
2/3	Change in Nonfarm Payrolls	Jan	188k	517k	223k	260k
2/3	Change in Private Payrolls	Jan	190k	443k	220k	269k
2/3	Change in Manufact. Payrolls	Jan	7k	19k	8k	12k
2/3	Unemployment Rate	Jan	3.6%	3.4%	3.5%	--
2/3	Average Hourly Earnings MoM	Jan	0.3%	0.3%	0.3%	0.4%
2/3	Average Hourly Earnings YoY	Jan	4.3%	4.4%	4.6%	4.8%
2/3	Average Weekly Hours All Employees	Jan	34.3	34.7	34.3	34.4
2/3	Labor Force Participation Rate	Jan	62.3%	62.4%	62.3%	--
2/3	Underemployment Rate	Jan	--	6.6%	6.5%	0.0%
2/3	S&P Global US Services PMI	Jan F	46.6	46.8	46.6	--
2/3	S&P Global US Composite PMI	Jan F	46.6	46.8	46.6	--
2/3	ISM Services Index	Jan	50.5	55.2	49.6	--
2/3	ISM Services Prices Paid	Jan	--	67.8	67.6	--
2/3	ISM Services Employment	Jan	--	50.0	49.8	--
2/3	ISM Services New Orders	Jan	--	60.4	45.2	--
2/7	Consumer Credit	Dec	\$25.000b	--	\$27.962b	--
2/10	U. of Mich. Sentiment	Feb P	65.0	--	64.9	--
2/10	U. of Mich. Current Conditions	Feb P	--	--	68.4	--
2/10	U. of Mich. 1 Yr Inflation	Feb P	--	--	3.9%	--

MBS Prepayments ⁴						
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	15.2	15.1	13.9	11.6	12.2
FH/FN 15y	7.2	7.8	8.3	14.7	17.2	18.4
GN 15y	10.0	10.4	12.9	13.3	13.7	13.1
FH/FN 20y	6.4	7.0	7.7	8.5	9.5	10.6
FH/FN 30y	5.8	6.2	6.5	7.3	9.4	11.2
GN 30y	6.5	7.4	7.7	9.2	10.4	8.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	130.97	1.09	131.02	133.86	114.97
Euro	1.08	(0.00)	1.05	1.02	1.14
Dollar Index	102.41	0.48	104.52	106.51	95.38
Major Stock Indices					
Dow Jones	33,876	(102)	33,136	32,813	35,111
S&P 500	4,153.2	82.7	3,824.1	4,155.2	4,477.4
NASDAQ	12,067.7	446	10,387.0	12,668.2	13,878.8
Commodities					
Gold	1,881.5	(47.9)	1,846.1	1,758.0	1,803.0
Crude Oil	76.98	(2.70)	76.93	90.66	90.27
Natural Gas	2.38	(0.73)	3.99	8.27	4.89
Wheat	766.0	16.0	775.5	763.8	751.8
Corn	679.3	-3.8	670.5	591.5	616.8

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: 02/03/2023 9:13AM