



Jeffrey F. Caughron
Senior Partner
The Baker Group LP
JCaughron@GoBaker.com

A week ago today, we found out that the US unemployment rate for January was 3.4%, the lowest level since “Broadway Joe” Namath guaranteed the NY Jets would win Super Bowl III in 1969. The Jets won, but the US economy entered recession in the fourth quarter of that year and the jobless rate steadily rose to 6%. Things can turn quickly indeed between Super Bowl Sunday and the end of a year.

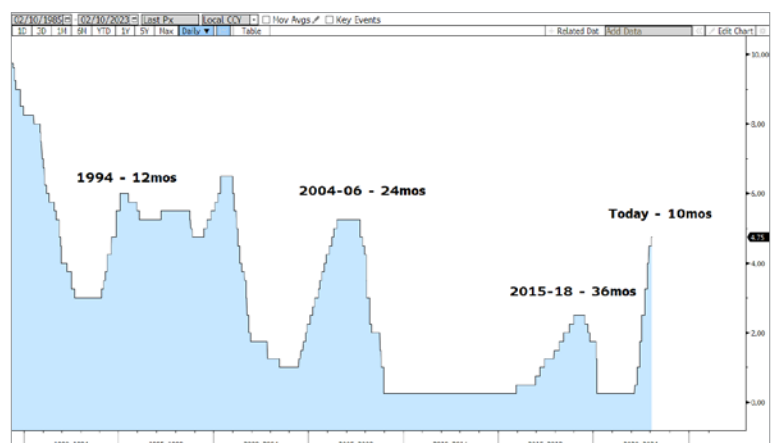
The most recent data are confusing. We added more than half a million jobs last month, roughly triple what economists had expected, and wage growth was reasonably tame at 4.4% year-over-year. Other recent inflation data has also been well-behaved. The Fed’s preferred measure was running at an annualized three-month rate of 2.9% in December, down from 6.7% last summer. However, leading economic indicators are sharply negative and there’s a “calm before the storm” feeling that employment growth, a lagging indicator, has seen its best days for this cycle. The University of Michigan’s Consumer Sentiment data shows a sharp difference between confidence about “current conditions” versus “expectations,” and it seems that layoff announcements continue to drip out daily.

As for the Fed, Chairman Powell largely reiterated the commentary he made at last week’s FOMC meeting when policymakers slowed the pace of interest rate hikes, delivering a 25bps increase. He was given several opportunities to turn more hawkish in a subsequent interview, but seems content to stick with the script. They’ve got more to do, but we’re in late innings of the tightening campaign. Powell wants everyone to “chill” a bit regarding when we’d see rate cuts... that’s not something on their radar. Higher for longer is what the Chairman wants us to expect.

So, market-based bets about the path of fed funds continue to shift. Today, probabilities derived from futures contracts are suggesting a 5.125% rate by the end of the third quarter, then a gradual drift down to less than 4.75% a year from now. Those levels have shifted higher this week. But the real noticeable bond market characteristic these days is the deeply inverted yield curve. Reaching -87bps during the week, the yield spread between 2yr and 10yr T-Notes is flashing bright red and warning of impending recession. Paying more to borrow for shorter periods makes little sense... but there’s a reason. If the aggregate wisdom of investors in the \$22 trillion Treasury market is that we should expect lower inflation and slower growth in the near future, then those expectations will be built into current pricing. And that’s exactly the case right now regardless of Powell’s comments. Who are you going to believe... the Fed, or the market?

Another point worth pondering is the impressive demand for US Treasuries. Wednesday’s \$35 billion auction of 10yr Notes was very well received. A bid/cover ratio of 2.66, much higher than average, and 95% of the bonds went to “real” accounts, not into street inventories. This tells you that a whole lot of investors around the world want to own bonds at these levels. They must think yields are heading lower regardless of who wins on Sunday.

US Fed Funds Rate: 1985 - Today



Source: Bloomberg, L.P.

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

Credit Unions

CU Seminar:

Minneapolis, MN
Mar 21, 2023

Save the Date:

CU ALM School
Aug 23-24, 2023

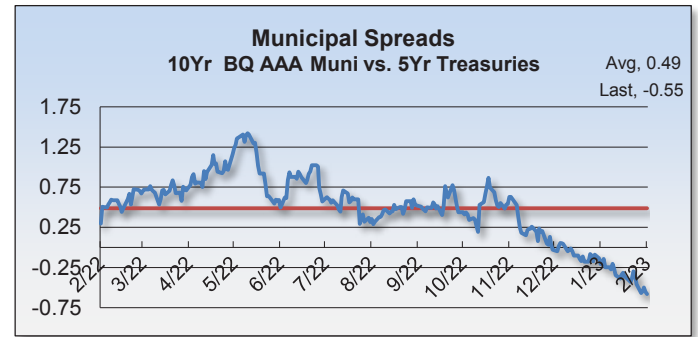
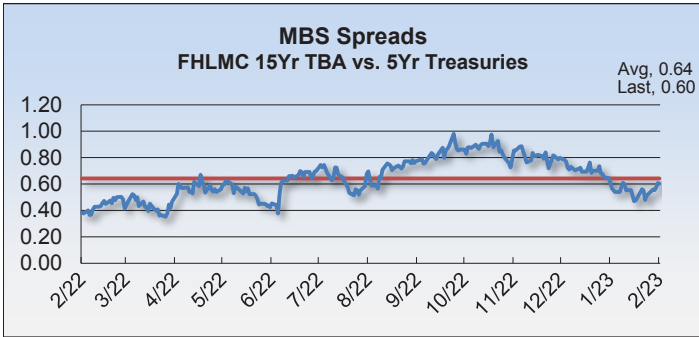
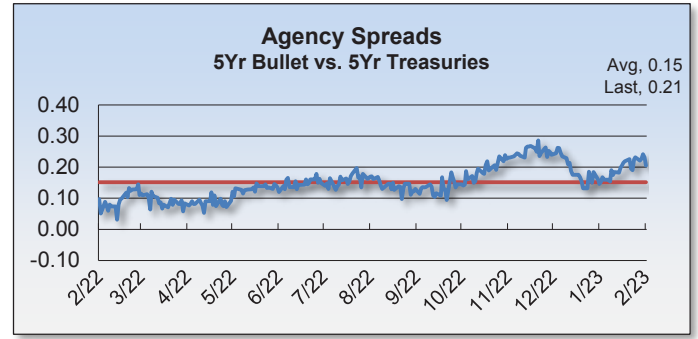
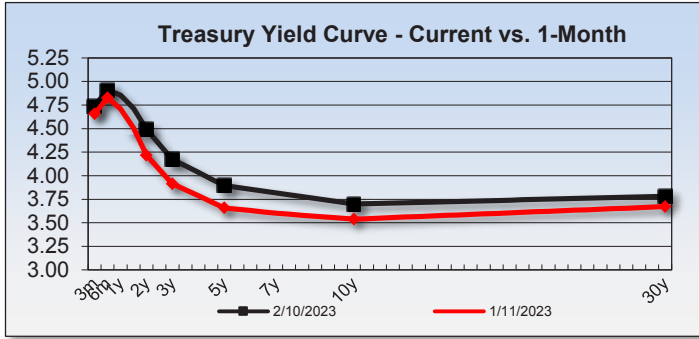
CU Bond School
Apr 26-27, 2023

Bank and Credit Unions

Schools:

ALM School
Aug 8-9, 2023

Bond School
May 10-11, 2023



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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	4.74	0.09	4.61	2.58	0.40	2yr	4.56	4.79	3.29	3.50	4.62	2Yr	5.28	5.28	5.28	-
6mo	4.91	0.08	4.84	3.06	0.77	3yr	4.23	4.34	3.09	3.29	4.49	3Yr	4.95	4.96	4.90	4.95
1yr	4.85	0.09	4.72	3.24	1.11	5yr	3.95	3.93	2.93	3.11	4.23	5Yr	4.75	4.75	4.75	4.68
2yr	4.49	0.20	4.25	3.22	1.58	7yr	3.92	3.77	2.95	3.14	4.22	7Yr	4.68	4.71	4.70	4.63
3yr	4.17	0.22	3.99	3.15	1.70	10yr	4.02	3.67	3.09	3.29	4.31	10Yr	4.62	4.68	4.67	4.60
5yr	3.89	0.23	3.73	2.92	1.95	15yr	4.13	3.64	4.02	4.28	4.51	March TBA MBS				
7yr	3.82	0.22	3.68	2.86	2.03	20yr	4.24	3.60	4.26	4.53	4.63	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.70	0.17	3.62	2.78	2.03	25yr	4.34	3.49	4.40	4.68	4.69	2.00	4.31	5.7y	4.29	
30yr	3.78	0.17	3.76	3.03	2.32	30yr	4.34	3.39	4.54	4.83	4.74	2.50	4.51	5.6y		
												3.00	4.50	5.7y	4.49	10.3y
												3.50	4.46	5.6y	4.59	10.1y
												4.00			4.71	9.8y
												4.50			4.87	9.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.75	--	4.50	2.50	0.25
Primary Discount	4.75	--	4.50	2.50	0.25
2ndary Discount	5.25	--	5.00	3.00	0.75
Prime Rate	7.75	--	7.50	5.50	3.25
Sec. O.N. Finance	4.55	(0.01)	4.31	2.29	--
1 Month LIBOR	4.58	--	4.40	2.39	0.13
3 Month LIBOR	4.86	0.06	4.81	2.91	0.37
6 Month LIBOR	5.15	0.06	5.20	3.57	0.64
1 Year LIBOR	5.47	0.15	5.56	3.99	1.09
6 Month CD	5.08	0.17	4.97	3.56	0.69
1 Year CMT	4.88	0.24	4.69	3.33	0.91
REPO O/N	4.58	--	4.34	2.30	0.06
REPO 1Wk	4.61	(0.02)	4.43	2.35	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	4.91	5.02	4.95
6mo	5.08	5.13	5.14
1yr	5.11	5.14	5.24
2yr	4.68	4.77	4.78
3yr	4.35	4.45	4.41
4yr	4.16	4.27	4.22
5yr	4.06	4.17	4.09
7yr	4.22	4.34	4.23
10yr	4.30	4.43	4.31
5yr Am	4.38		4.36
10yr Am	4.34		4.31

Fed Fund Futures		
Maturity	Rate	
Feb-23	4.568	
Mar-23	4.655	
Apr-23	4.845	
May-23	5.020	
Jun-23	5.100	
Jul-23	5.150	
Aug-23	5.170	
Sep-23	5.150	
Oct-23	5.125	
Nov-23	5.040	
Dec-23	4.950	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/7	Trade Balance	Dec	-\$68.5b	-\$67.4b	-\$61.5b	-\$61.0b
2/7	Consumer Credit	Dec	\$25.0b	\$11.565b	\$27.962b	\$33.107b
2/8	MBA Mortgage Applications	Feb 3	--	7.4%	-9.0%	--
2/8	Wholesale Inventories MoM	Dec F	0.10%	0.1%	0.1%	--
2/8	Wholesale Trade Sales MoM	Dec	-0.2%	0.0%	-0.6%	-1.4%
2/9	Initial Jobless Claims	Feb 4	190k	196k	183k	--
2/9	Continuing Claims	Jan 28	1660k	1688k	1655k	1650k
2/10	U. of Mich. Sentiment	Feb P	65.0	66.4	64.9	--
2/10	U. of Mich. Current Conditions	Feb P	68.5	72.6	68.4	--
2/10	U. of Mich. Expectations	Feb P	63.1	62.3	62.7	--
2/10	U. of Mich. 1 Yr Inflation	Feb P	4.0%	4.2%	3.9%	--
2/10	U. of Mich. 5-10 Yr Inflation	Feb P	2.9%	2.9%	2.9%	--
2/10	Monthly Budget Statement	Jan	-\$55.0b	--	\$118.7b	--
2/14	NFIB Small Business Optimism	Jan	91.0	--	89.8	--
2/14	CPI MoM	Jan	0.5%	--	-0.1%	--
2/14	CPI Ex Food and Energy MoM	Jan	0.4%	--	0.3%	--
2/14	CPI YoY	Jan	6.2%	--	6.5%	--
2/14	CPI Ex Food and Energy YoY	Jan	5.5%	--	5.7%	--
2/14	CPI Index NSA	Jan	298.558	--	296.797	--
2/14	CPI Core Index SA	Jan	--	--	300.974	--
2/14	Real Avg Hourly Earning YoY	Jan	--	--	-1.7%	--
2/14	Real Avg Weekly Earnings YoY	Jan	--	--	-3.1%	--
2/15	Empire Manufacturing	Feb	-20.0	--	-32.9	--
2/15	Retail Sales Advance MoM	Jan	1.7%	--	-1.1%	--
2/15	Retail Sales Ex Auto MoM	Jan	0.8%	--	-1.1%	--
2/15	Retail Sales Ex Auto and Gas	Jan	0.8%	--	-0.7%	--
2/15	Retail Sales Control Group	Jan	0.8%	--	-0.7%	--
2/15	Industrial Production MoM	Jan	0.5%	--	-0.7%	--
2/15	Capacity Utilization	Jan	79.1%	--	78.8%	--
2/15	Manufacturing (SIC) Production	Jan	0.6%	--	-1.3%	--
2/15	Business Inventories	Dec	0.3%	--	0.4%	--
2/15	NAHB Housing Market Index	Feb	37	--	35	--
2/15	Net Long-term TIC Flows	Dec	--	--	\$171.5b	--
2/15	Total Net TIC Flows	Dec	--	--	\$213.1b	--
2/16	Building Permits	Jan	1350k	--	1330k	--
2/16	Building Permits MoM	Jan	1.0%	--	-1.6%	--
2/16	Housing Starts	Jan	1360k	--	1382k	--
2/16	Housing Starts MoM	Jan	-1.6%	--	-1.4%	--
2/16	New York Fed Services Business Activit	Feb	--	--	-21.4	--
2/16	Philadelphia Fed Business Outlook	Feb	-6.9	--	-8.9	--
2/16	PPI Final Demand YoY	Jan	5.4%	--	6.2%	--
2/16	PPI Ex Food and Energy YoY	Jan	4.9%	--	5.5%	--
2/16	PPI Ex Food, Energy, Trade YoY	Jan	3.9%	--	4.6%	--
2/17	Import Price Index ex Petroleum MoM	Jan	--	--	0.8%	--
2/17	Import Price Index YoY	Jan	2.4%	--	3.5%	--
2/17	Export Price Index YoY	Jan	--	--	5.0%	--
2/17	Leading Index	Jan	-0.3%	--	-0.8%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	6.8	11.3	12.5	12.9	11.0	12.6
FH/FN 15y	5.6	5.3	6.4	8.2	13.2	16.6
GN 15y	5.0	11.9	12.3	13.9	17.6	19.6
FH/FN 20y	51.5	4.8	5.9	6.5	7.6	9.3
FH/FN 30y	7.9	3.4	3.7	4.7	5.5	7.2
GN 30y	1.7	4.7	8.3	7.0	5.7	6.7

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.1	14.6	14.9	14.9	13.8	11.1
FH/FN 15y	8.2	7.1	7.5	7.8	14.3	16.9
GN 15y	10.6	9.8	10.1	12.8	13.1	13.7
FH/FN 20y	5.4	6.2	6.8	7.4	8.2	9.3
FH/FN 30y	5.8	5.7	6.0	6.4	7.0	8.0
GN 30y	5.9	6.4	7.0	7.6	8.6	10.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	131.13	(0.06)	132.26	132.89	116.01
Euro	1.07	(0.01)	1.07	1.03	1.14
Dollar Index	103.43	0.51	103.24	105.20	95.55
Major Stock Indices					
Dow Jones	33,760	(166)	33,704	33,310	35,242
S&P 500	4,068.1	(68.4)	3,919.3	4,210.2	4,504.1
NASDAQ	11,738.9	(268)	10,742.6	12,854.8	14,185.6
Commodities					
Gold	1,859.4	(3.5)	1,876.5	1,795.6	1,836.2
Crude Oil	79.28	5.89	75.12	91.93	89.88
Natural Gas	2.48	0.07	3.64	8.20	3.96
Wheat	782.5	25.8	731.0	799.8	771.5
Corn	679.8	2.3	655.0	621.3	641.8

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	

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