



Jeffrey F. Caughron

Senior Partner

The Baker Group LP

JCaughron@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

Credit Unions

CU Seminar:

Minneapolis, MN

Mar 21, 2023

Save the Date:

Philadelphia, PA

Sep 27, 2023

Dallas, TX

Nov 9, 2023

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

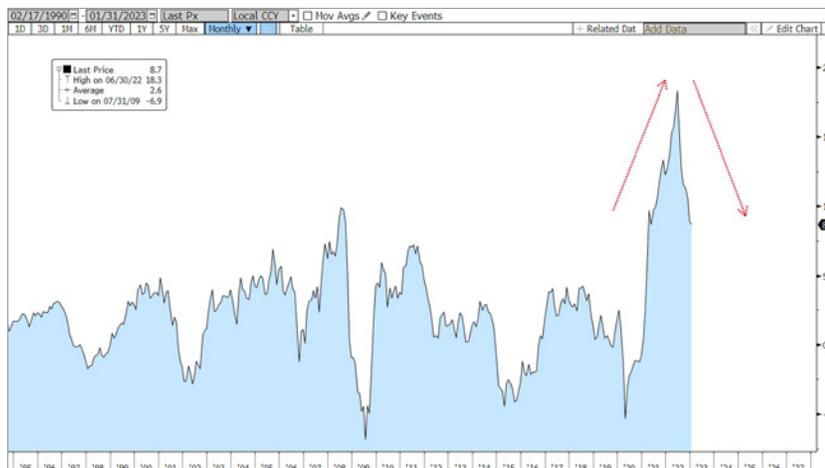
Fed Chairman Jay Powell warned us that the path to bringing down inflation was “probably going to be bumpy,” and indeed the bond market is experiencing some clear-air turbulence. After raising the fed funds rate nearly 500bps in less than a year, progress in the war on inflation has been made for sure. The consumer price index has fallen for seven consecutive months from a high of 9.1% last summer to 6.4% YOY through January. Producer prices have followed the same trajectory, down sharply and steadily from the high. Moreover, consensus estimates put the inflation rate at just 3.1% by year-end... all good. But the easy part seems to be in the rear-view mirror and further progress on inflation-reduction now becomes a grind. The “fasten seat belt” sign is back on.

In the last couple of weeks, we’ve seen that job growth is stellar, real incomes are rising, consumers are spending and the manufacturing sector is (re)expanding. Overall demand remains well in excess of supply and, though still falling, overall price pressures remain unacceptably high. It’s a Catch-22 (to coin a phrase). The improvement in inflation translates into higher real wages and therefore greater spending power. That fed into a rebound of Retail Sales for January, rising 3% on the month following back-to-back declines at the end of last year. So, the Fed’s “demand-destruction” rate-hike campaign is, in a sense, a victim of its own success. That reality has prompted policymakers like Fed Governor Michelle Bowman to offer the reminder: “We’re not finished yet. We haven’t beaten inflation”.

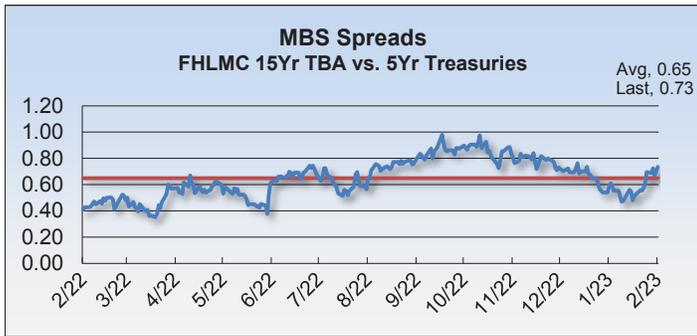
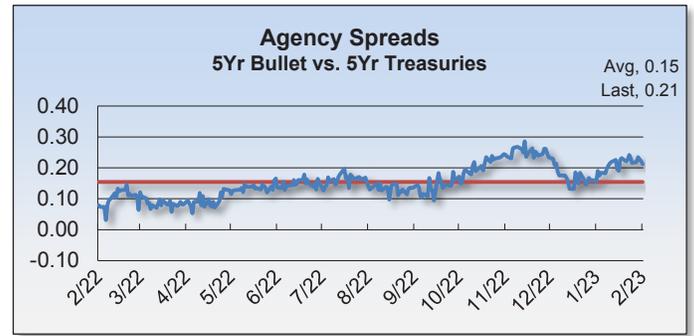
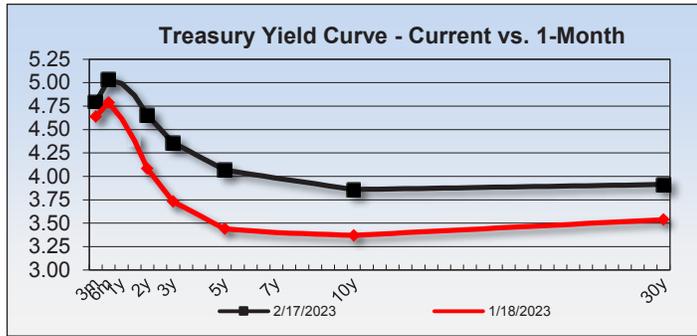
All of this has had an impact on market expectations regarding how much more the Fed will need to do, and how long to keep fed funds at whatever terminal rate is achieved. At this point, everything is a data-dependent moving-target. But for now, investors have backed-off bets on when the Fed would actually cut rates. Futures markets at the start of February signaled that the risk of recession was rising and that the Fed would be forced to reduce interest rates at least two times by the end of the year. This week they suggested roughly equal chances of one rate-cut or none by the end of 2023. Prior to the release of the January jobs report, the market projected a 5% funds rate by the second quarter, then dropping to about 4.4 per cent by year-end. Now, the terminal rate is projected to be 5.25% and to remain over 5% through year-end. Still, like the weather in Oklahoma, just stick around for a few minutes and conditions will change.

All this “rough air” disturbing the bond market has pushed the 10yr Treasury yield back to up over 3.83% and the 2yr to 4.63%. That’s within spitting distance of its cycle high at 4.72%. But remember. That -80bps yield curve inversion is substantial and it’s not something to be ignored. The timing can be tricky, but almost without exception an inversion like that will lead to recession, Fed ease, and lower bond yields.

US Producer Price Index: 1990 - 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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr	
3mo	4.80	0.04	4.60	2.63	0.36	2yr	4.71	4.98	3.77	4.01	4.73	2Yr	5.43	5.43	5.43	-	
6mo	5.03	0.11	4.76	3.10	0.64	3yr	4.42	4.57	3.50	3.73	4.62	3Yr	5.14	5.15	5.10	5.14	
1yr	4.99	0.11	4.68	3.26	1.00	5yr	4.13	4.15	3.35	3.56	4.40	5Yr	4.93	4.93	4.92	4.86	
2yr	4.65	0.13	4.21	3.29	1.47	7yr	4.10	3.98	3.33	3.55	4.39	7Yr	4.84	4.86	4.85	4.78	
3yr	4.36	0.16	3.88	3.28	1.59	10yr	4.20	3.87	3.42	3.64	4.47	10Yr	4.75	4.81	4.80	4.74	
5yr	4.07	0.14	3.62	3.05	1.84	15yr	4.29	3.82	4.33	4.60	4.67	March TBA MBS					
7yr	3.98	0.13	3.59	2.99	1.94	20yr	4.38	3.76	4.56	4.86	4.79	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.86	0.12	3.55	2.90	1.96	25yr	4.47	3.64	4.70	5.01	4.85		2.00	4.50	5.7y	4.44	
30yr	3.91	0.09	3.66	3.15	2.30	30yr		3.53	4.84	5.16	4.90		2.50	4.78	5.6y		
													3.00	4.80	5.7y	4.67	10.4y
													3.50	4.68	5.7y	4.80	10.3y
												4.00			4.90	10.2y	
												4.50			5.04	9.8y	

* 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	--	4.30	2.29	--
1 Month LIBOR	4.60	0.03	4.45	2.38	0.12
3 Month LIBOR	4.88	0.02	4.79	2.94	0.47
6 Month LIBOR	5.18	0.03	5.10	3.53	0.79
1 Year LIBOR	5.58	0.12	5.36	3.99	1.34
6 Month CD	5.16	0.08	4.96	3.48	0.77
1 Year CMT	4.99	0.11	4.69	3.26	1.09
REPO O/N	4.58	--	4.34	2.30	0.01
REPO 1Wk	4.64	0.03	4.44	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	4.97	5.07	5.02
6mo	5.17	5.21	5.22
1yr	5.21	5.23	5.37
2yr	4.84	4.95	5.01
3yr	4.55	4.65	4.70
4yr	4.38	4.48	4.52
5yr	4.26	4.37	4.40
7yr	4.39	4.50	4.51
10yr	4.46	4.59	4.58
5yr Am	4.57		4.64
10yr Am	4.51		4.59

Fed Fund Futures		
Maturity	Rate	
Feb-23	4.573	
Mar-23	4.670	
Apr-23	4.875	
May-23	5.085	
Jun-23	5.190	
Jul-23	5.270	
Aug-23	5.310	
Sep-23	5.305	
Oct-23	5.290	
Nov-23	5.230	
Dec-23	5.160	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/14	NFIB Small Business Optimism	Jan	91.0	90.3	89.8	--
2/14	CPI YoY	Jan	6.2%	6.4%	6.5%	--
2/14	CPI Ex Food and Energy YoY	Jan	5.5%	5.6%	5.7%	--
2/14	CPI Core Index SA	Jan	301.62	302.70	300.97	--
2/14	Real Avg Hourly Earning YoY	Jan	--	-1.8%	-1.7%	-1.6%
2/14	Real Avg Weekly Earnings YoY	Jan	--	-1.5%	-3.4%	-2.7%
2/15	MBA Mortgage Applications	2/10	--	-7.7%	7.4%	--
2/15	Empire Manufacturing	Feb	-18.0	-5.8	-32.9	--
2/15	Retail Sales Ex Auto and Gas	Jan	0.9%	2.6%	-0.7%	-0.4%
2/15	Retail Sales Control Group	Jan	1.0%	1.7%	-0.7%	--
2/15	Capacity Utilization	Jan	79.1%	78.3%	78.8%	78.4%
2/15	Manufacturing (SIC) Production	Jan	0.8%	1.0%	-1.3%	-1.8%
2/15	Business Inventories	Dec	0.3%	0.3%	0.4%	0.3%
2/15	Net Long-term TIC Flows	Dec	--	\$152.8b	\$171.5b	--
2/15	Total Net TIC Flows	Dec	\$165.0b	\$28.6b	\$213.1b	\$213.4b
2/16	PPI Final Demand MoM	Jan	0.4%	0.7%	-0.5%	-0.2%
2/16	PPI Ex Food and Energy MoM	Jan	0.3%	0.5%	0.4%	0.3%
2/16	PPI Ex Food, Energy, Trade MoM	Jan	0.2%	0.6%	0.4%	0.2%
2/16	PPI Final Demand YoY	Jan	5.4%	6.0%	6.2%	6.5%
2/16	PPI Ex Food and Energy YoY	Jan	4.9%	5.4%	5.5%	5.8%
2/16	PPI Ex Food, Energy, Trade YoY	Jan	4.0%	4.5%	4.6%	4.7%
2/16	Housing Starts	Jan	1356k	1309k	1382k	1371k
2/16	Building Permits	Jan	1350k	1339k	1330k	--
2/16	Initial Jobless Claims	2/11	200k	194k	196k	195k
2/16	Continuing Claims	2/4	1695k	1696k	1688k	1680k
2/16	Philadelphia Fed Business Outlook	Feb	-7.5	-24.3	-8.9	--
2/16	New York Fed Services Business Activit	Feb	-17.0	-12.8	-21.4	--
2/17	Import Price Index YoY	Jan	1.4%	0.8%	3.5%	3.0%
2/17	Export Price Index YoY	Jan	2.8%	2.3%	5.0%	4.3%
2/17	Leading Index	Jan	-0.3%	-0.3%	-0.8%	--
2/21	Philadelphia Fed Non-Manufacturing Ac	Feb	--	--	-6.5	--
2/21	S&P Global US Manufacturing PMI	Feb P	47.2	--	46.9	--
2/21	S&P Global US Services PMI	Feb P	47.3	--	46.8	--
2/21	S&P Global US Composite PMI	Feb P	47.5	--	46.8	--
2/21	Existing Home Sales	Jan	4.10m	--	4.02m	--
2/23	Chicago Fed Nat Activity Index	Jan	--	--	-0.49	--
2/23	GDP Annualized QoQ	4Q S	2.9%	--	2.9%	--
2/23	Personal Consumption	4Q S	2.0%	--	2.1%	--
2/23	GDP Price Index	4Q S	3.5%	--	3.5%	--
2/23	Core PCE QoQ	4Q S	3.9%	--	3.9%	--
2/24	Personal Income	Jan	1.0%	--	0.2%	--
2/24	Real Personal Spending	Jan	1.1%	--	-0.3%	--
2/24	PCE Deflator YoY	Jan	5.0%	--	5.0%	--
2/24	PCE Core Deflator YoY	Jan	4.3%	--	4.4%	--
2/24	U. of Mich. Sentiment	Feb F	66.4	--	66.4	--
2/24	U. of Mich. Current Conditions	Feb F	--	--	72.6	--
2/24	U. of Mich. 1 Yr Inflation	Feb F	--	--	4.2%	--

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	11.0	14.4	14.7	14.6	13.6	10.8
FH/FN 15y	8.1	7.0	7.3	7.5	13.8	15.5
GN 15y	10.4	9.4	9.7	12.4	12.8	13.4
FH/FN 20y	5.3	6.1	6.6	7.2	7.8	8.8
FH/FN 30y	5.6	5.6	5.8	6.0	6.6	7.4
GN 30y	5.5	6.2	6.9	7.1	8.6	8.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	134.49	3.13	128.12	135.05	114.94
Euro	1.06	(0.00)	1.08	1.02	1.14
Dollar Index	104.40	0.77	102.39	106.57	95.80
Major Stock Indices					
Dow Jones	33,593	(276)	33,911	33,980	34,312
S&P 500	4,058.1	(32.4)	3,991.0	4,274.0	4,380.3
NASDAQ	11,728.7	11	11,095.1	12,938.1	13,716.7
Commodities					
Gold	1,824.2	(38.6)	1,909.9	1,760.3	1,900.7
Crude Oil	75.30	(4.42)	80.18	88.11	91.76
Natural Gas	2.30	(0.22)	3.59	9.24	4.49
Wheat	764.0	-22.0	751.8	763.3	798.0
Corn	675.5	-5.0	685.3	615.0	650.0

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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