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UPCOMING EVENTS

Banks

Webinars:

[Bank Trends Q4 Webinar](#)
Feb 14, 2024

[Q2 Bank CC Webinar](#)
Apr 4, 2024

Schools:

[Baker Bond School](#)
Apr 9-10, 2024

[Baker ALM School](#)
Aug 20-21, 2024

CUs

Webinars:

[Q2 CU CC Webinar](#)
Apr 11, 2024

Save the Date

Virtual Schools:

[Baker CU Bond School](#)
Mar 13-14, 2024

[Baker CU ALM School](#)
Jul 24-25, 2024

Banks and CUs

Seminar:

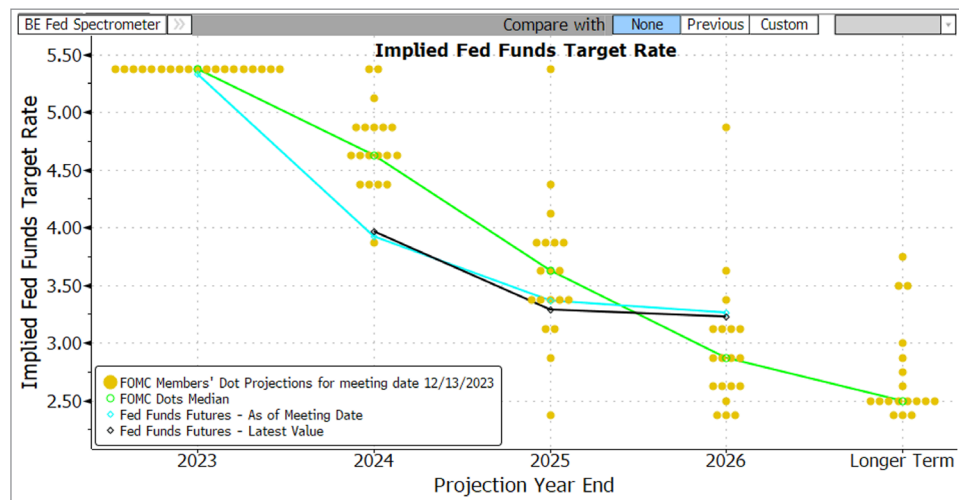
[Scottsdale, AZ
45th Anniversary
Celebration Seminar](#)
Nov 7-8, 2024

What a difference a week makes. Last week the 2yr yield plunged 24bp as markets priced in one additional rate cut this year bringing total expected cuts to 150-175bp. That was driven by relatively tame inflation reports and flight to quality buyers worried that US airstrikes in Yemen would spill over into a broader Mideast war. Fast forward to this week and the 2yr yield jumps 25bp as markets price out the rate cut they priced in last week! Why? This week the tensions in the Mideast settled down and we got better than expected economic reports on Retail Sales, Industrial Production, Housing Starts, Building Permits and Initial Jobless Claims. While all the data wasn't exceptionally strong, there were enough reports that beat expectations in different sectors of the economy to convince traders that the Fed will be less aggressive in cutting rates this year. Fed funds futures are now pricing just a 50% chance the Fed cuts in March and a total of 125-150bp of rate cuts for all of 2024. But why is the market pricing in twice as many rate cuts as the Fed's latest Dot Plot says they expect to cut (75bp)?

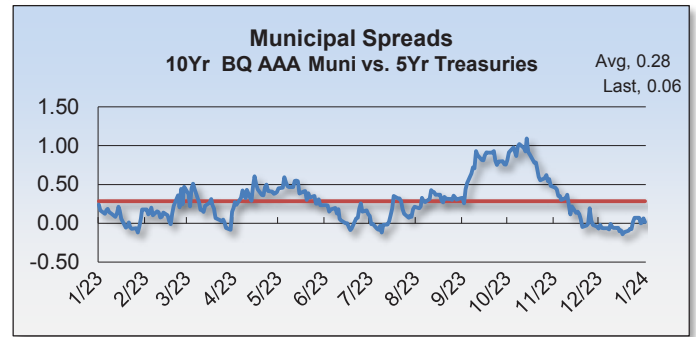
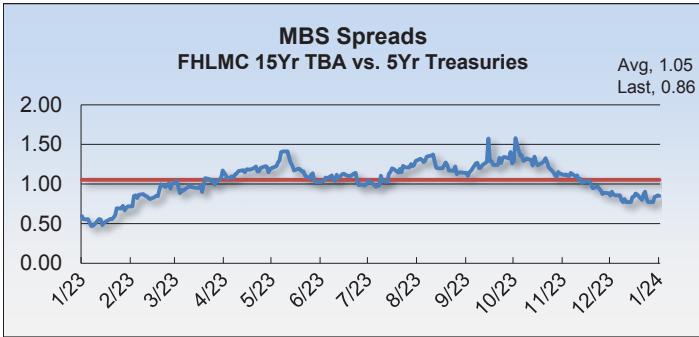
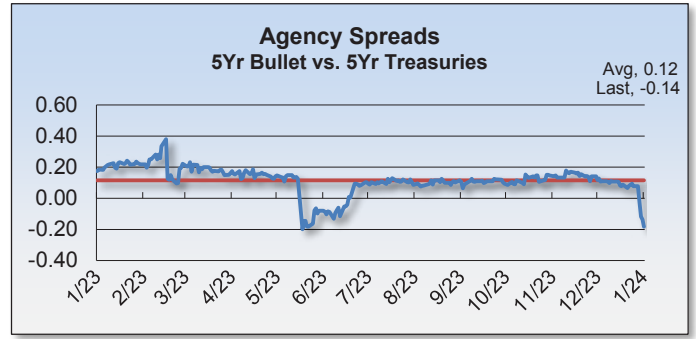
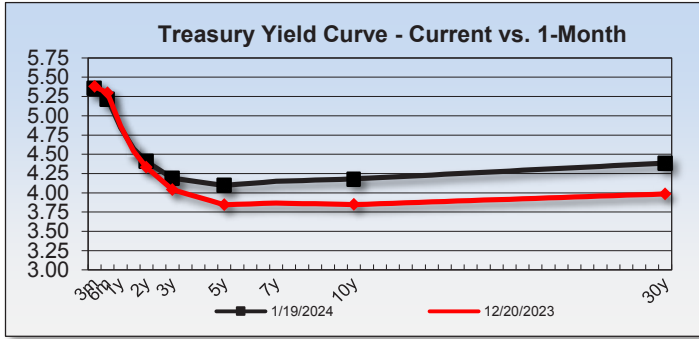
I think the main reason relates to the economic data the Fed focuses on versus what traders and investors watch. The Fed is mandated to maximize employment and achieve price stability so they must focus on the actual incoming data on unemployment and inflation (PCE, CPI, PPI, etc). Those data points are known as **lagging economic indicators** since they only tend to turn **after** the economy has turned down. Traders and investors are trying to anticipate whether the economy will turn down **before** it actually does so they tend to focus on **leading economic indicators** like building permits and manufacturing new orders. Unemployment remains low and the latest inflation reports are still above the Fed's 2% target so the Fed says only 75bp of cuts and probably starting in the second half of the year. But leading economic indicators have fallen for 20 consecutive months (a stretch never before seen without a recession) so traders are forecasting the economy will decline and the Fed will be forced to cut soon and twice as much as they say they will. So either the data needs to weaken like the market is anticipating or yields have to backup to match the path of rates laid out in the Dot Plot. And that is exactly what happened this week as traders priced out one 25bp rate hike in 2024 and that caused the 2yr yield to rise 25bp.

Next week we'll could see some volatility with reports on Leading Economic Indicators, Q4 GDP, Durable Goods, New Home Sales, Personal Income & Spending and the Fed's preferred measure of inflation, the PCE Deflator.

FOMC December 2023 Dot Plot



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	5.35	(0.01)	5.37	5.41	4.65	2yr	4.46	4.19	3.79	4.04	4.56	2Yr	5.20	5.20	5.20	-
6mo	5.22	0.04	5.33	5.48	4.82	3yr	4.27	3.94	3.65	3.89	4.51	3Yr	4.99	5.00	4.90	4.99
1yr	4.85	0.18	4.92	5.31	4.67	5yr	4.16	3.78	3.40	3.62	4.41	5Yr	4.98	4.98	4.97	4.91
2yr	4.40	0.26	4.44	4.77	4.13	7yr	4.35	3.75	3.39	3.61	4.62	7Yr	5.04	5.06	5.05	4.98
3yr	4.19	0.26	4.14	4.34	3.91	10yr	4.41	3.77	3.42	3.64	4.74	10Yr	5.12	5.17	5.17	5.10
5yr	4.10	0.26	3.94	3.99	3.48	15yr	4.47	3.82	4.16	4.43	4.96	February TBA MBS				
7yr	4.15	0.26	3.96	3.87	3.43	20yr	4.52	3.81	4.55	4.84	5.40	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	4.18	0.24	3.93	3.75	3.39	25yr	4.58	3.74	4.77	5.08	5.46	2.50	4.96	5.4y	4.92	
30yr	4.39	0.21	4.04	3.84	3.56	30yr		3.65	5.00	5.32	5.51	3.00	5.06	5.3y		
												3.50	4.79	5.3y	5.10	9.8y
												4.00	4.68	5.4y	5.14	9.5y
												4.50			5.24	9.2y
												5.00			5.35	8.3y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	5.50	--	5.50	5.25	4.50
Primary Discount	5.50	--	5.50	5.25	4.50
2ndary Discount	6.00	--	6.00	5.75	5.00
Prime Rate	8.50	--	8.50	8.25	7.50
Sec. O.N. Finance	5.31	--	5.32	5.06	--
1 Month LIBOR	5.45	0.00	5.47	5.36	4.47
3 Month LIBOR	5.57	(0.02)	5.63	5.58	4.80
6 Month LIBOR	5.54	(0.07)	5.65	5.82	5.12
1 Year LIBOR	6.04	0.12	5.73	5.48	3.62
6 Month CD	5.29	0.04	5.33	5.72	4.94
1 Year CMT	4.80	0.05	4.95	5.32	4.63
REPO O/N	5.35	--	5.36	5.11	4.34
REPO 1Wk	5.35	(0.03)	5.37	5.16	4.44
CoF Federal	3.855	--	3.848	3.544	2.794
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	5.48	5.51	5.52
6mo	5.30	5.31	5.36
1yr	4.88	4.89	5.03
2yr	4.47	4.54	4.57
3yr	4.29	4.35	4.36
4yr	4.25	4.31	4.31
5yr	4.22	4.26	4.27
7yr	4.46	4.52	4.51
10yr	4.61	4.70	4.66
5yr Am	4.15		4.43
10yr Am	4.21		4.57

Fed Fund Futures	
Maturity	Rate
Jan-24	5.330
Feb-24	5.325
Mar-24	5.280
Apr-24	5.195
May-24	5.005
Jun-24	4.850
Jul-24	4.750
Aug-24	4.535
Sep-24	4.440
Oct-24	4.305
Nov-24	4.180

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/16	Empire Manufacturing	Jan	-5.0	-43.7	-14.5	--
1/17	MBA Mortgage Applications	1/12	--	10.4%	9.9%	--
1/17	Retail Sales Advance MoM	Dec	0.4%	0.6%	0.3%	--
1/17	Retail Sales Ex Auto MoM	Dec	0.2%	0.4%	0.2%	--
1/17	Retail Sales Ex Auto and Gas	Dec	0.3%	0.6%	0.6%	--
1/17	Retail Sales Control Group	Dec	0.2%	0.8%	0.4%	0.5%
1/17	Import Price Index MoM	Dec	-0.5%	0.0%	-0.4%	-0.5%
1/17	Import Price Index ex Petroleum MoM	Dec	0.1%	0.0%	0.2%	--
1/17	Import Price Index YoY	Dec	-2.0%	-1.6%	-1.4%	-1.5%
1/17	Export Price Index MoM	Dec	-0.7%	-0.9%	-0.9%	--
1/17	Export Price Index YoY	Dec	--	-3.2%	-5.2%	--
1/17	Industrial Production MoM	Dec	-0.1%	0.1%	0.2%	0.0%
1/17	Manufacturing (SIC) Production	Dec	0.0%	0.1%	0.3%	0.2%
1/17	Business Inventories	Nov	-0.1%	-0.1%	-0.1%	--
1/17	NAHB Housing Market Index	Jan	39	44	37	--
1/18	Housing Starts	Dec	1425k	1460k	1560k	1525k
1/18	Building Permits	Dec	1477k	1495k	1460k	1467k
1/18	Housing Starts MoM	Dec	-8.7%	-4.3%	14.8%	10.8%
1/18	Building Permits MoM	Dec	0.7%	1.9%	-2.5%	-2.1%
1/18	Initial Jobless Claims	1/13	205k	187k	202k	203k
1/18	Continuing Claims	1/6	1840k	1806k	1834k	1832k
1/19	U. of Mich. Sentiment	Jan P	70.1	78.8	69.7	--
1/19	U. of Mich. Expectations	Jan P	67.0	75.9	67.4	--
1/19	U. of Mich. Current Conditions	Jan P	73.0	83.3	73.3	--
1/19	U. of Mich. 1 Yr Inflation	Jan P	3.1%	2.9%	3.1%	--
1/19	U. of Mich. 5-10 Yr Inflation	Jan P	3.0%	2.8%	2.9%	--
1/19	Existing Home Sales	Dec	3.83m	3.78m	3.82m	--
1/19	Existing Home Sales MoM	Dec	0.3%	-1.0%	0.8%	--
1/19	Total Net TIC Flows	Nov	--	--	-\$83.8b	--
1/19	Net Long-term TIC Flows	Nov	--	--	\$3.3b	--
1/23	Philadelphia Fed Non-Manufacturing Ac	Jan	--	--	6.3	--
1/24	S&P Global US Manufacturing PMI	Jan P	47.7	--	47.9	--
1/24	S&P Global US Services PMI	Jan P	51.0	--	51.4	--
1/24	S&P Global US Composite PMI	Jan P	--	--	50.9	--
1/25	GDP Annualized QoQ	4Q A	2.0%	--	4.9%	--
1/25	Personal Consumption	4Q A	2.4%	--	3.1%	--
1/25	GDP Price Index	4Q A	2.3%	--	3.3%	--
1/25	Core PCE Price Index QoQ	4Q A	--	--	2.0%	--
1/25	Durables Ex Transportation	Dec P	0.2%	--	0.4%	--
1/25	Cap Goods Orders Nondef Ex Air	Dec P	-0.1%	--	0.8%	--
1/25	Cap Goods Ship Nondef Ex Air	Dec P	0.1%	--	-0.2%	--
1/25	New Home Sales MoM	Dec	10.2%	--	-12.2%	--
1/26	Personal Income	Dec	0.3%	--	0.4%	--
1/26	Real Personal Spending	Dec	--	--	0.3%	--
1/26	PCE Deflator YoY	Dec	2.6%	--	2.6%	--
1/26	PCE Core Deflator YoY	Dec	3.0%	--	3.2%	--
1/26	Pending Home Sales NSA YoY	Dec	--	--	-5.1%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	10.8	11.7	11.3	13.7	10.4	10.8
FH/FN 15y	5.4	6.4	7.6	10.8	14.9	17.6
GN 15y	10.8	12.7	16.2	20.0	27.7	44.5
FH/FN 20y	4.3	5.5	6.2	7.0	8.8	10.3
FH/FN 30y	3.3	5.2	4.3	4.5	7.5	5.2
GN 30y	3.6	5.1	8.6	4.6	5.9	6.6
CPR Projections						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	12.8	12.8	13.0	12.8	11.2	12.4
FH/FN 15y	6.2	7.3	8.3	10.5	14.4	14.0
GN 15y	9.2	9.5	11.9	12.4	13.1	12.5
FH/FN 20y	6.3	6.2	7.0	8.4	9.5	10.4
FH/FN 30y	5.4	5.8	6.2	6.9	7.8	9.0
GN 30y	5.7	6.4	7.0	8.9	9.7	9.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	148.36	3.48	144.86	139.92	128.51
Euro	1.09	(0.01)	1.09	1.12	1.08
Dollar Index	103.45	1.16	102.17	100.28	102.06
Major Stock Indices					
Dow Jones	37,523	(188)	37,558	35,061	33,045
S&P 500	4,787.6	7.4	4,768.4	4,565.7	3,898.9
NASDAQ	15,120.1	150	15,003.2	14,358.0	10,852.3
Commodities					
Gold	2,030.8	11.6	2,038.4	1,980.8	1,923.9
Crude Oil	74.71	2.69	73.44	75.35	80.33
Natural Gas	2.61	(0.49)	2.49	2.60	3.28
Wheat	595.3	-8.5	622.8	727.8	734.5
Corn	447.0	-10.8	472.8	545.5	677.3

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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