

Baker Market Update

Week In Review

August 01, 2025

The
BakerGroup



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UPCOMING EVENTS

► Banks

Webinars:

Q2 Bank Trends

Aug 13, 2025

Seminars:

IL Seminar

Aug 04, 2025

OH Seminar

Oct 01, 2025

MI Seminar

Oct 02, 2025

MN Seminar

Dec 08, 2025

► CUs

Seminars:

MI CU Seminar

Sep 30, 2025

► Banks and CUs

Schools:

Bond School

Sep 18-19, 2025

Treasury yields are plunging this morning as US payroll data showed job growth slowed dramatically over the past three months. Two-year notes tumbled 22 bps to 3.74% and 10-year yields fell 13 bps to 4.24% in the first few hours after the release of July's Employment Situation Report. It showed just 73k jobs were added to non-farm payrolls last month, far fewer than the 106k jobs the market was expecting. Equally important, it also showed the two prior months of job gains were revised sharply lower. June non-farm payrolls were amended to show just 14k jobs added and May's report was revised down to 19k, a total downward revision of 258k. This means that over the last three months, employment growth has averaged a paltry 35k, the worst growth rate since the pandemic.

The unemployment rate also increased to 4.2% as 239k workers left the workforce. The unexpected drop to 62.2% in the labor force participation rate brings the share of the population working or looking for work to its lowest level in nearly three years, an important indicator as fewer people contributing to the production of goods and services can slow overall economic growth. The report clearly shows the labor market is losing steam and directly challenges the Fed's hawkish posture coming out of this week's FOMC meeting.

It also caps a week of high-profile data that showed economic momentum slowing and inflation progress stalling, one of the key reasons the FOMC elected to hold policy rates steady on Wednesday. Chairman Powell noted that the central bank must be cautious of inflation risks, especially with a new round of tariff implementation beginning this month. However, in the first double dissent in more than 30 years, Fed Governors Christopher Waller and Michelle Bowman voted against the Fed's decision to keep rates unchanged. In separate statements released this morning, they voiced concerns that policymakers' hesitance to lower rates poses a risk to a labor market that is showing increasing signs of weakness.

Futures traders have already taken this morning's jobs report as fodder for significantly upping their rate cut bets. FF futures now have two 25 bp rate cuts fully priced in for this year, with an 86% chance of the first one coming at the next meeting in September. Prior to the release of the payrolls numbers, futures markets were pricing in a 36% chance of a September rate cut. With some questioning whether the Fed might already regret holding rates steady this week, bets on a 50 bp cut in September are also increasing.

The path forward for the Fed is most certainly a delicate one. If inflation moves higher alongside a deteriorating labor market, the two sides of its dual mandate will be in competition and warrant contradictory actions. All else equal, if the Fed were forced to choose between the two, it would likely ease policy to stave off significant labor market damage, but it may not be as fast or as accommodating in changing policy as it could be without the upside risk to inflation.

That, of course, is the scenario weighing on the minds of policymakers and investors alike, especially in light of this week's news. The weakening jobs picture comes just days after data showed the Fed's key inflation gauge increased in June at one of the fastest paces this year and just hours after President Trump unveiled a new round of tariffs that increase the average US tariff rate to 15.2% (from 13.3% previously and 2.3% in 2024).

(Continued)

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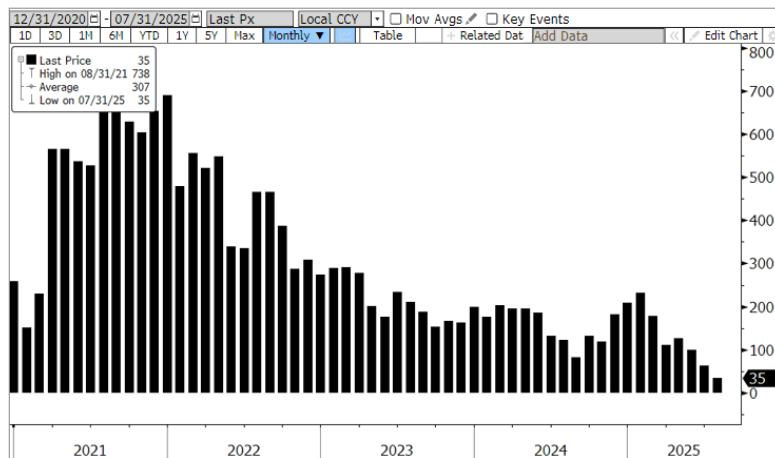
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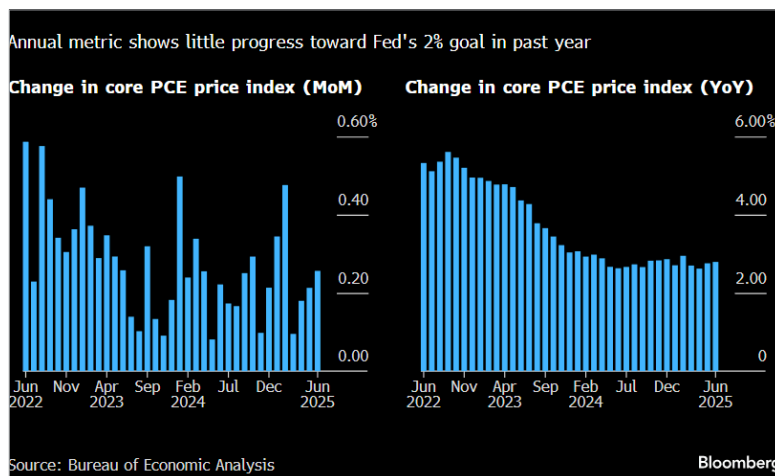
Sep 18-19, 2025

The Personal Consumption Expenditures (PCE) price index rose 2.6% on an annual basis and 0.3% in the month of June. Core PCE increased 2.8% YoY and 0.3% MoM. The annual change in core PCE has held near this level for most of this year, fueling concerns that that progress towards the Fed's 2% goal has essentially stalled at a time when central bankers are already concerned about tariff impacts being passed on to consumers in the form of higher prices. Last night, new tariff rates were announced for more than 65 countries plus the European Union. These tariffs will take effect after midnight on August 7th with rates ranging from 10% - 50%.

Next week has a lighter data docket but will be heavier on FedSpeak and undoubtedly deliver more headlines on tariffs. Have a wonderful weekend!



Source: Bloomberg, L.P.

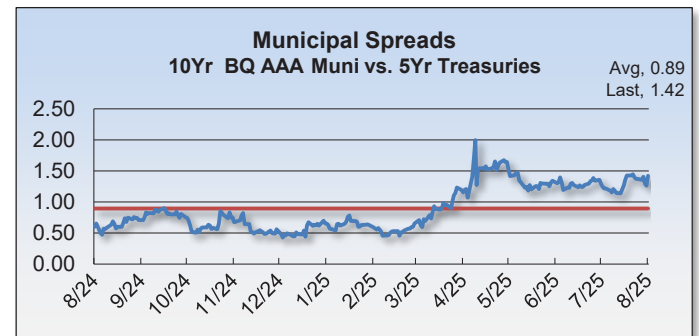
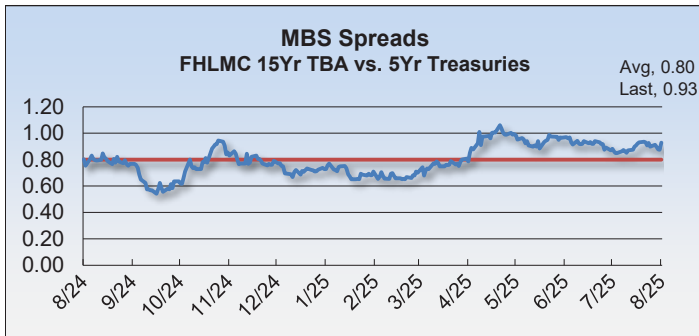
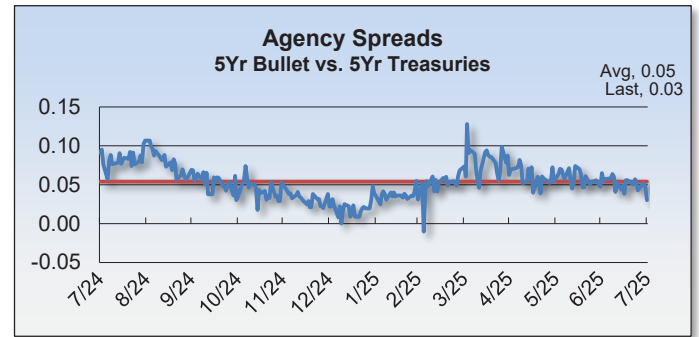
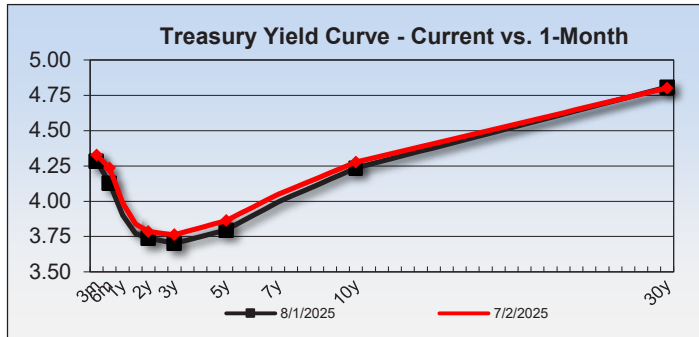


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Treasury Market -- Historical						Fixed Rate Market														
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni		Agency Calls - Euro							
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr				
3mo	4.28	(0.07)	4.33	4.29	5.26	2yr	3.83	3.72	3.35	3.56	4.02	2Yr								
6mo	4.13	(0.14)	4.24	4.30	5.02	3yr	3.75	3.61	3.36	3.58	3.98	3Yr								
1yr	3.90	(0.20)	4.00	4.16	4.63	5yr	3.86	3.61	3.54	3.77	4.09	5Yr								
2yr	3.74	(0.19)	3.77	4.20	4.15	7yr	4.08	3.71	3.99	4.25	4.39	7Yr								
3yr	3.70	(0.17)	3.74	4.24	4.05	10yr	4.41	3.86	4.65	4.95	4.74	10Yr								
5yr	3.80	(0.16)	3.83	4.33	3.84	15yr	4.73	4.05	5.57	5.93	4.88						September TBA MBS			
7yr	3.99	(0.16)	4.02	4.44	3.88	20yr	5.05	4.13	6.23	6.63	5.55	Cpn					15Yr -Yld/AL		30Yr -Yld/AL	
10yr	4.24	(0.15)	4.24	4.54	3.98	25yr	5.38	4.12	6.38	6.79	5.61	3.50	4.62	4.6y	5.13					
30yr	4.81	(0.12)	4.77	4.79	4.28	30yr		4.08	6.54	6.96	5.67	4.00	4.60	4.6y						
* Interpolated													4.50	4.64	4.8y	5.24	9.1y			
													5.00	4.74	4.5y	5.36	8.5y			
													5.50			5.47	6.5y			
													6.00			5.41	4.7y			
Key Market Indices																				
		1Wk	Historical																	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.50	--	4.50	4.50	5.50
Primary Discount	4.50	--	4.50	4.50	5.50
2ndary Discount	5.00	--	5.00	5.00	6.00
Prime Rate	7.50	--	7.50	7.50	8.50
Sec. O.N. Finance	4.39	0.09	4.45	4.38	--
1 Month LIBOR	4.96	(0.01)	5.31	5.44	5.43
3 Month LIBOR	4.85	(0.08)	5.28	5.56	5.66
6 Month LIBOR	4.68	(0.08)	5.14	5.65	5.90
1 Year LIBOR	6.04	0.12	5.73	5.48	3.62
6 Month CD	4.34	0.02	4.23	4.32	5.15
1 Year CMT	4.10	--	3.96	4.17	4.73
REPO O/N	4.40	0.08	4.32	4.37	5.46
REPO 1Wk	4.37	(0.01)	4.37	4.39	5.35
CoF Federal	3.677	--	3.662	3.719	3.969
11th D. CoF (Jun)	2.948	--	2.933	2.990	3.240

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.47	4.50	4.52
6mo	4.33	4.33	4.49
1yr	4.06	4.10	4.35
2yr	3.85	3.91	4.12
3yr	3.83	3.90	4.07
4yr	3.89	3.97	4.11
5yr	3.93	4.02	4.16
7yr	4.24	4.34	4.45
10yr	4.57	4.68	4.75
5yr Am	4.15		4.18
10yr Am	4.21		4.50

Fed Fund Futures	
Maturity	Rate
Aug-25	4.318
Aug-25	4.318
Oct-25	4.100
Oct-25	4.100
Dec-25	3.790
Dec-25	3.790
Jan-26	3.715
Mar-26	3.565
Apr-26	3.485
May-26	3.415
Jun-26	3.355

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
7/29	S&P CoreLogic CS US HPI YoY NSA	May	--	2.25%	2.72%	2.73%
7/29	JOLTS Job Openings	Jun	7500k	7437k	7769k	7712k
7/29	JOLTS Job Openings Rate	Jun	--	4.4%	4.6%	--
7/29	JOLTS Quits Level	Jun	3262k	3142k	3293k	3270k
7/29	JOLTS Quits Rate	Jun	--	2.0%	2.1%	2.0%
7/29	JOLTS Layoffs Level	Jun	1568k	1604k	1604k	1611k
7/29	JOLTS Layoffs Rate	Jun	--	1.0%	1.0%	--
7/30	ADP Employment Change	Jul	76k	104k	-33k	-23k
7/30	GDP Annualized QoQ	2Q A	2.6%	3.0%	-0.5%	--
7/30	Core PCE Price Index QoQ	2Q A	2.3%	2.5%	3.5%	--
7/30	Pending Home Sales NSA YoY	Jun	-2.1%	-0.3%	-0.3%	--
7/30	FOMC Rate Decision (Upper Bound)	7/30	4.50%	4.50%	4.50%	--
7/30	FOMC Rate Decision (Lower Bound)	7/30	4.25%	4.25%	4.25%	--
7/30	Fed Interest on Reserve Balances Rate	7/31	4.40%	4.40%	4.40%	--
7/30	Fed Reverse Repo Rate	7/31	--	4.25%	4.25%	--
7/31	Challenger Job Cuts YoY	Jul	--	139.8%	-1.6%	--
7/31	PCE Price Index MoM	Jun	0.3%	0.3%	0.4%	0.2%
7/31	PCE Price Index YoY	Jun	2.5%	2.6%	2.3%	2.4%
7/31	Core PCE Price Index MoM	Jun	0.3%	0.3%	0.2%	--
7/31	Core PCE Price Index YoY	Jun	2.7%	2.8%	2.7%	2.8%
7/31	Employment Cost Index	2Q	0.8%	0.9%	0.9%	--
7/31	Initial Jobless Claims	7/26	224k	218k	217k	--
7/31	Continuing Claims	7/19	1953k	1946k	1955k	1946k
7/31	MNI Chicago PMI	Jul	42.0	47.1	40.4	--
8/1	Change in Nonfarm Payrolls	Jul	104k	73k	147k	14k
8/1	Change in Private Payrolls	Jul	100k	83k	74k	3k
8/1	Change in Manufact. Payrolls	Jul	0k	-11k	-7k	-15k
8/1	Two-Month Payroll Net Revision	Jul	--	-258k	16k	--
8/1	Average Hourly Earnings MoM	Jul	0.3%	0.3%	0.2%	--
8/1	Average Hourly Earnings YoY	Jul	3.8%	3.9%	3.7%	3.8%
8/1	Average Weekly Hours All Employees	Jul	34.2	34.3	34.2	--
8/1	Unemployment Rate	Jul	4.2%	4.2%	4.1%	--
8/1	Labor Force Participation Rate	Jul	62.3%	62.2%	62.3%	--
8/1	Underemployment Rate	Jul	--	7.9%	7.7%	--
8/1	S&P Global US Manufacturing PMI	Jul F	49.7	49.8	49.5	--
8/1	ISM Manufacturing	Jul	49.5	48.0	49.0	--
8/1	ISM Prices Paid	Jul	70.0	64.8	69.7	--
8/1	ISM New Orders	Jul	48.7	47.1	46.4	--
8/1	ISM Employment	Jul	46.8	43.4	45.0	--
8/5	S&P Global US Services PMI	Jul F	--	--	55.2	--
8/5	S&P Global US Composite PMI	Jul F	--	--	54.6	--
8/5	ISM Services Index	Jul	51.5	--	50.8	--
8/5	ISM Services Prices Paid	Jul	--	--	67.5	--
8/5	ISM Services New Orders	Jul	--	--	51.3	--
8/5	ISM Services Employment	Jul	--	--	47.2	--
8/7	Nonfarm Productivity	2Q P	--	--	-1.5%	--
8/7	Unit Labor Costs	2Q P	1.5%	--	6.6%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	3.5	4.0	4.5	5.0	5.5	6.0
FN 10y	16.6	17.9	15.0	21.2	21.7	25.7
FH/FN 15y	9.3	11.5	15.9	8.5	13.5	19.0
GN 15y	26.8	29.4	35.6	71.5	-2.3	76.3
FH/FN 20y	8.0	9.1	10.8	11.8	20.4	22.0
FH/FN 30y	7.1	7.3	6.9	5.6	7.6	9.0
GN 30y	6.7	8.3	6.5	7.3	7.8	7.7
CPR Projections						
Type	3.5	4.0	4.5	5.0	5.5	6.0
FN 10y	12.1	12.8	15.1	17.4	19.5	21.1
FH/FN 15y	8.8	10.1	16.2	16.1		26.7
GN 15y	7.9	14.0	14.8	14.2	23.8	30.7
FH/FN 20y	7.2	8.2	9.4	12.3	14.0	15.9
FH/FN 30y	6.2	6.8	7.7	8.8	11.6	15.6
GN 30y	6.5	8.2	7.9	9.2	10.0	11.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	148.04	0.35	142.98	154.94	150.03
Euro	1.16	(0.02)	1.18	1.02	1.08
Dollar Index	98.83	1.18	96.82	108.37	104.42
Major Stock Indices					
Dow Jones	43,508	(1,394)	44,495	44,545	40,348
S&P 500	6,231.1	(157.5)	6,198.0	6,040.5	5,446.7
NASDAQ	20,698.4	(410)	20,202.9	19,627.4	17,194.1
Commodities					
Gold	3,345.5	9.9	3,349.8	2,812.5	2,435.0
Crude Oil	68.02	2.86	65.45	72.53	76.31
Natural Gas	3.07	(0.04)	3.42	3.04	1.97
Wheat	518.5	-19.8	537.3	559.5	532.0
Corn	391.0	-8.5	420.0	482.0	382.0

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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