Baker Market Update Week in Review





Ryan Hayhurst President The Baker Group LP Ryan@GoBaker.com

The recent surge in bond yields took a breather this week as the risk of the largest military conflict in Europe since World War II overshowed soaring inflation and the potential for a more aggressive Federal Reserve tightening cycle in 2022. The 2-year Treasury yield peaked at 1.58% on Tuesday, up 137bp since Sep 2021, as the BLS reported producer prices spiked 1% in January alone and are up 9.7% over the last year. That combined with last week's hotter than expected CPI report that showed consumer prices rising at a 40yr high of 7.5% had traders anticipating the Fed may have to raise rates at every single FOMC meeting this year, including the possibility of a 50bp hike in March. But the threat of a Russian invasion of Ukraine and the potential havoc that could unleash on energies markets and the world economy were enough to remind markets that the Fed may not be able to raise rates as much of they may want. By the end of the week, 2-30yr yields had fallen 10bp or more from Tuesday's high.

Despite the late week rally in Treasuries, it is clear investors need to prepare for an aggressive Federal Reserve tightening cycle in 2022. It is almost a certainty the Fed will raise rates in March, but the markets are split on whether it will be a 25bp or 50bp. St. Louis Fed President James Bullard made headlines this week when he said he wanted the Fed to raise rates 100bp at the next three meetings between now and July 1, which would imply at least one of the hikes was 50bp. But Bullard remains the most hawkish Fed president and most other FOMC members have expressed a desire for a more measured approach that would imply 25 rate hikes at each meeting. The pace of rate hikes will almost certainly depend on whether and to what extent inflation falls and/or growth slows. In my opinion, there are 3 possible paths for rate hikes depending on the path of inflation/growth:

- 1. Inflation continues at its current elevated pace: Fed raises rates 25bp at each meeting until inflation falls
- 2. Inflation accelerates higher: Fed raises rates at every meeting with some hikes 50bp
- 3. Inflation falls and/or growth slows sharply: Fed raises rates at next 3-4 meeting and then pauses to reassess

This is only my expectation for possible paths the Fed may follow, but I think it's clear the Fed will be "data dependent" and they will we focused on tightening monetary policy until inflation falls. February CPI will be reported the week before the FOMC's next meeting (Mar 15-16) and I believe that report could very well determine whether that first rates hike is 25bp or 50bp.



Treasury Yields & Fed Funds Rate Since 2002

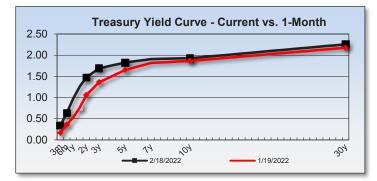
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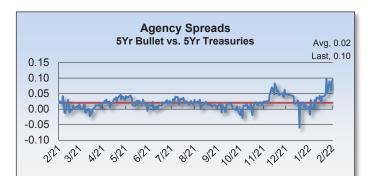
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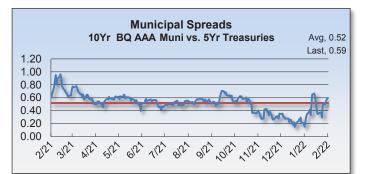
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Treasury Market Historical					Fixed Rate Market											
Maty	Current	1Wk		Historica	torical Mat		Maty N-Call		AAA BQ Muni		Tax			Agency Calls - Euro		
		Change	1 Mo	6 Mo	1 Yr	/AL	Agency	Swap	C-Corp ²	S-Corp ³	Muni	Mty	3Mo	6mo	1Yr	2Yr
3mo	0.34	(0.02)	0.13	0.06	0.03	2yr	1.52	1.67	1.55	1.65	1.64	2Yr	1.47	1.47	1.47	-
6mo	0.64	(0.06)	0.35	0.05	0.04	3yr	1.74	1.82	1.72	1.83	1.79	3Yr	1.69	1.69	1.60	1.68
1yr	0.99	(0.04)	0.55	0.07	0.05	5yr	1.92	1.91	1.97	2.10	2.10	5Yr	1.90	1.91	1.90	1.83
2yr	1.47	(0.03)	1.04	0.22	0.11	7yr	2.06	1.95	2.17	2.31	2.30	7Yr	2.00	2.02	2.01	1.94
3yr	1.69	(0.04)	1.36	0.43	0.26	10yr	2.22	2.01	2.34	2.49	2.52	10Yr	2.06	2.12	2.11	2.05
5yr	1.82	(0.03)	1.66	0.77	0.55	15yr	2.37	2.09	2.51	2.67	2.81		March TBA MBS			
7yr	1.91	(0.03)	1.83	1.04	0.94	20yr	2.52	2.12	2.65	2.82	2.90	Cpn	15Yr -Y	ld/AL	30Yr -Yld/AL	
10yr	1.93	(0.01)	1.88	1.26	1.30	25yr	2.67	2.10	2.76	2.94	2.96	2.00	2.20	5.1y	2.61	
30yr	2.26	0.02	2.19	1.90	2.08	30yr		2.07	2.87	3.05	3.01	2.50	2.19	3.9y		
* Interpolated											3.00	2.25	3.4v	2.87	5.2y	

Key Market Indices											
		1Wk	Historical								
Index	Current	Change	1 Mo	6 Mo	1 Yr						
Fed Funds	0.25		0.25	0.25	0.25						
Primary Discount	0.25		0.25	0.25	0.25						
2ndary Discount	0.75		0.75	0.75	0.75						
Prime Rate	3.25		3.25	3.25	3.25						
Sec. O.N. Finance	0.05		0.05	0.05							
1 Month LIBOR	0.14	0.01	0.10	0.09	0.11						
3 Month LIBOR	0.49	0.11	0.24	0.12	0.19						
6 Month LIBOR	0.79	0.15	0.40	0.16	0.20						
1 Year LIBOR	1.33	0.24	0.73	0.24	0.30						
6 Month CD	0.78	(0.02)	0.44	0.15	0.15						
1 Year CMT	1.05	(0.09)	0.51	0.07	0.07						
REPO O/N	0.05	(0.01)	0.05	0.05	-0.03						
REPO 1Wk	0.09	(0.00)	0.17	0.14	0.07						
CoF Federal	0.736		0.738	0.785	0.925						
11th D. CoF (Dec)	0.223		0.218	0.282	0.460						

			.50		2.0	56 3.7y	
FH	LB Fixed	Advance	Г	Fed	l Fund	1 Futures	
Maturity	Chicago	Boston	Topeka		Ma	Maturity R	
3mo	0.62	0.68	0.62	1	Fe	b-22	0.080
6mo	0.85	0.95	0.92		Ma	ar-22	0.250
1yr	1.29	1.33	1.32		Ap	or-22	0.415
2yr	1.65	1.85	1.75		Ma	iy-22	0.670
3yr	1.86	2.07	1.98		Ju	n-22	0.825
4yr	1.98	2.18	2.08		Ju	1-22	0.960
5yr	2.04	2.25	2.14		Au	ig-22	1.120
7yr	2.20	2.43	2.29		Se	p-22	1.180
10yr	2.38	2.62	2.47		0	ct-22	1.315
5yr Am	1.87		2.02		No	ov-22	1.425
10yr Am	2.17		2.29		De	ec-22	1.510

3.50 4.00

2.45

3.4y

2.71

2.57

4.0y

3.7y

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February 18, 2022

Weekly Economic Calendar								MBS Prepayments ⁴						
This Week & Next								3-Month CPR						
Date	Release	Per.	Est.	Actual	Prior	Revised	Туре	2.0	2.5	3.0	3.5	4.0	4.5	
2/15	PPI Final Demand YoY	Jan	9.1%	9.7%	9.7%	9.8%	FN 10y	14.0	22.5	24.0	24.3	23.3	16.0	
2/15	PPI Ex Food and Energy YoY	Jan	7.9%	8.3%	8.3%	8.5%	FH/FN 15y	10.2	23.9	26.4	32.0	29.8	23.0	
2/15	PPI Ex Food, Energy, Trade YoY	Jan	6.3%	6.9%	6.9%	7.0%	GN 15y	25.4	17.1	18.9	19.4	20.2	19.7	
2/15	Empire Manufacturing	Feb	12.0	3.1	-0.7		FH/FN 20y	54.4	19.8	22.6	22.8	24.6	20.6	
2/15	Net Long-term TIC Flows	Dec		\$114.5b	\$137.4b	\$137.9b	FH/FN 30y	1.3	11.7	33.1	39.2	43.6	44.4	
2/15	Total Net TIC Flows	Dec		-\$52.4b	\$223.9b	\$216.8b	GN 30y	4.8	16.3	33.6	36.6	39.4	24.8	
2/16	MBA Mortgage Applications	2/11		-5.4%	-8.1%		,		(CPR Pro				
2/16	Retail Sales Ex Auto and Gas	Jan	1.0%	3.8%	-2.5%	-3.2%	Туре	2.0	2.5	3.0	3.5	4.0	4.5	
2/16	Retail Sales Control Group	Jan	1.3%	4.8%	-3.1%	-4.0%	FN 10y	15.1	17.5	18.0	18.4	19.5	19.4	
2/16	Import Price Index YoY	Jan	10.0%	10.8%	10.4%	10.2%	FH/FN 15y	11.7	13.5	14.7	16.3	19.2	20.9	
2/16	Export Price Index YoY	Jan	13.1%	15.1%	14.7%	14.8%	GN 15y	13.4	12.7	12.7	12.7	12.6	12.3	
2/16	Capacity Utilization	Jan	76.8%	77.6%	76.5%	76.6%	FH/FN 20y	54.5	11.4	11.5	11.8	12.6	12.9	
2/16	Manufacturing (SIC) Production	Jan	0.2%	0.2%	-0.3%	-0.1%	FH/FN 30y	8.8	9.5	15.6	18.6	22.1	22.7	
$\frac{2}{16}$	Business Inventories	Dec	2.1%	2.1%	1.3%	1.5%	GN 30y	8.5	9.7	13.5	13.7	14.1	13.0	
2/16	NAHB Housing Market Index	Feb	82	82	83		, ,			1 1	I			
2/17	Housing Starts	Jan	1695k	1638k	1702k	1708k								
2/17	Building Permits	Jan	1750k	1899k	1873k	1885k								
2/17	Initial Jobless Claims	2/12	218k	248k	223k	225k								
2/17	Continuing Claims	2/5	1605k	1593k	1621k	1619k								
2/17	Philadelphia Fed Business Outlook	Feb	20.0	16.0	23.2				Other I	Markets				
2/18	Existing Home Sales	Jan	6.10m	6.50m	6.18m	6.09m			1Wk		Histo	rical		
2/18	Leading Index	Jan	0.2%	-0.3%	0.8%	0.7%	Index	Current	Chng	1 Mo	6 M	[0]	1 Yr	
2/22	House Price Purchase Index QoQ	4Q			4.2%		Currencies	Guirein	unig	11110	0 11			
2/22	S&P CoreLogic CS 20-City MoM SA	Dec	1.10%		1.18%		Japanese Yen	115.05	(0.37)	114.6	1 1	09.77	105.69	
2/22	S&P CoreLogic CS 20-City YoY NSA	Dec	18.30%		18.29%		Euro	1.13	(0.00)	1.1		1.17	1.21	
2/22	S&P CoreLogic CS US HPI YoY NSA	Dec			18.81%		Dollar Index	95.89	(0.19)	95.7		93.14	90.59	
2/22	Markit US Manufacturing PMI	Feb P	56.0		55.5		Major Stock		(/					
2/22	Markit US Services PMI	Feb P	53.0		51.2		Dow Jones	34,335	(403)	35,368	34	,961	31,493	
2/22	Markit US Composite PMI	Feb P			51.1		S&P 500	4,386.4	(32.2)	4,577.1		400.3	3,914.0	
2/22	Conf. Board Consumer Confidence	Feb	110.0		113.8		NASDAQ	13,660.4	(131)	14,506.9		525.9	13,865.4	
2/22	Conf. Board Present Situation	Feb			148.2		Commoditie		(101)	- 1,0 - 0.0	- 1,0			
2/22	Conf. Board Expectations	Feb			90.8		Gold	1,895.2	54.4	1,812.	4 1.	781.6	1,773.4	
2/24	Chicago Fed Nat Activity Index	Jan			-15.0%		Crude Oil	90.73	(2.37)	85.4	· · · · · ·	65.46	60.52	
2/24	GDP Annualized QoQ	4Q S	7.0%		6.9%		Natural Gas	4.54	0.60	4.2		3.85	3.08	
2/24	Personal Consumption	4Q S	3.3%		3.3%		Wheat	802.8	5.0	769.		737.3	662.5	
2/24	GDP Price Index	4Q S	6.9%		6.9%		Corn	654.8	3.8	599.		561.8	550.3	
2/24	Core PCE QoQ	4Q S	4.9%		4.9%									
2/24	New Home Sales	Jan	806k		811k									
2/25	Personal Income	Jan	-0.3%		0.3%									
2/25	Durable Goods Orders	Jan P	1.0%		-0.7%									
2/25	Durables Ex Transportation	Jan P	0.3%		0.6%									
2/25	Real Personal Spending	Jan			-1.0%				No	otes				
2/25	Cap Goods Orders Nondef Ex Air	Jan P	0.3%		0.3%		1 Call Agy = Ma	aturity at left			ar			
2/25	Cap Goods Ship Nondef Ex Air	Jan P			1.3%		2 Muni TEY (2	,						
2/25	PCE Deflator YoY	Jan	6.0%		5.8%				,	RA)				
		5					3 S-Corp TEY Muni (29.6%, no TEFERA)4 MBS Prepayments are provided by Bloomberg							
2/25	PCE Core Deflator YoY	Jan	5.2%		4.9%		4 MBS Prepavr	ments are pro	ovided by	Bloombera				

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