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Financial markets were roiled this week by the Russian invasion of Ukraine. Rather than a limited incursion in the eastern region of the country a broad-based invasion was launched into all of Ukraine, triggering volatile selloffs in risk assets and forcing money into safe havens like US Treasuries and gold. Energy and commodity markets soared, with oil prices briefly surpassing \$100 a barrel Thursday. As we approach the weekend Russian troops were threatening the capital, Kyiv.

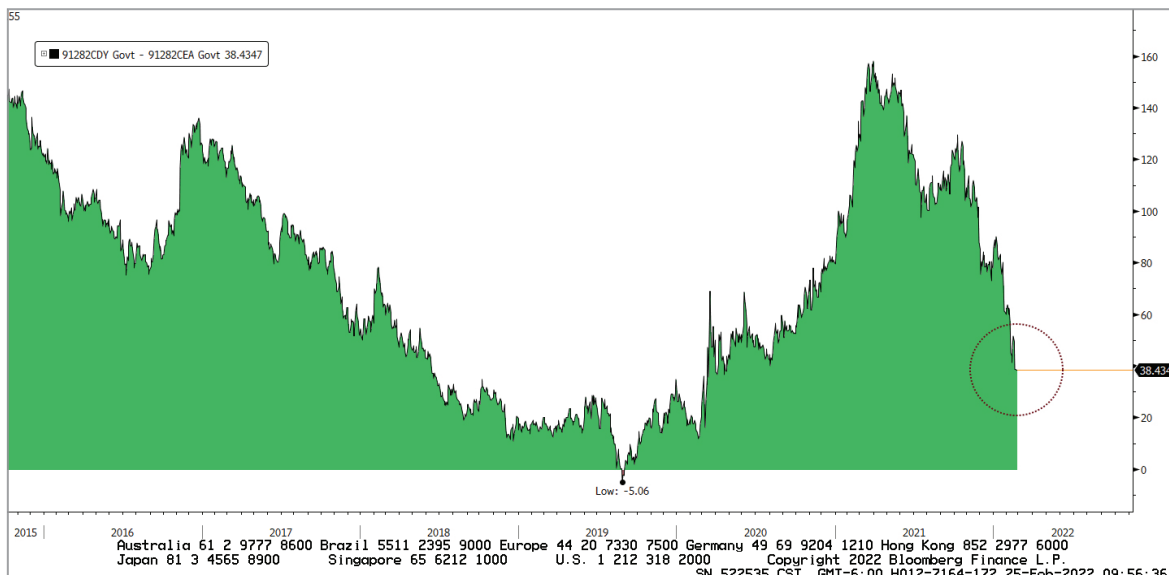
Treasury prices jumped sharply on the flight to quality, bringing the 10yr T-Note's intraday yield down to 1.84%, 22bps below the recent high of 2.06% established last week. It has subsequently traded back up toward 2%. Volatility is the word of the week, and there are now legitimate questions about whether and to what degree the Ukrainian mess might change the Fed's calculus regarding rate hikes and policy stance. Some policymakers like Christopher Waller believe the Fed should remain focused on the data stream rather than geopolitics. He has no problem with a 50bps hike in March if the inflation

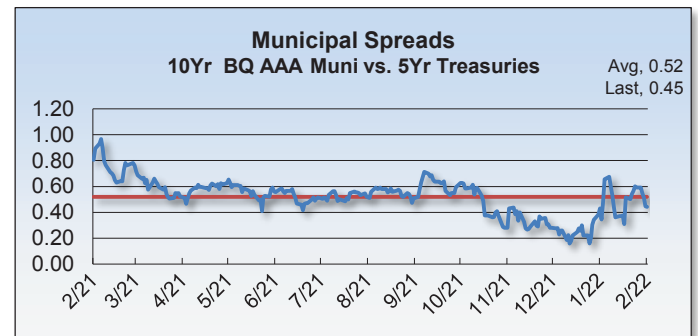
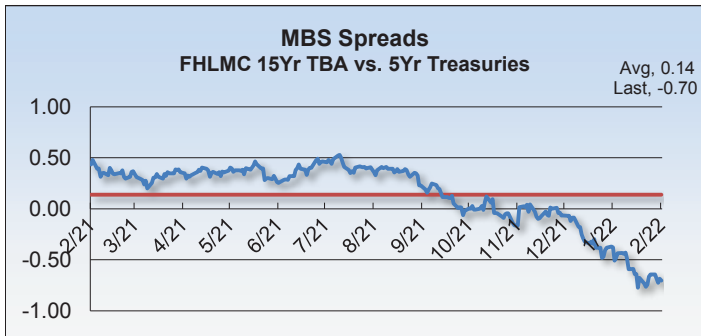
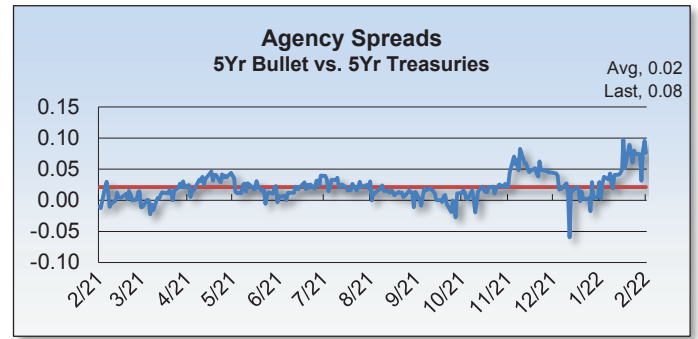
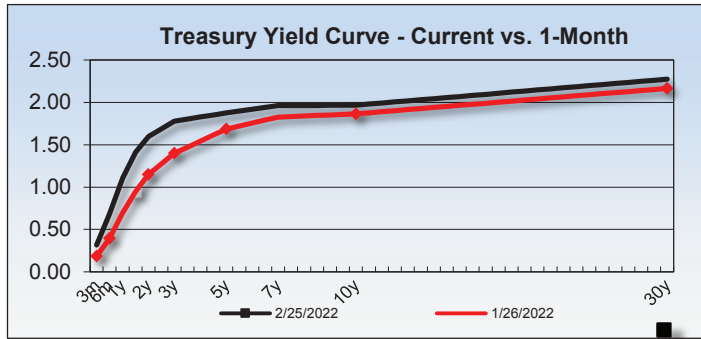
readings continue to come in hot. Cleveland Fed President Mester acknowledged that the unfolding situation in Ukraine will be a consideration in determining the pace at which to remove accommodation, saying "time will tell whether Ukraine changes the outlook for policy". But Atlanta bank President Bostic suggested that "we continue with our liftoff plan" if numbers come in close to what's expected. The inflation situation is compounded by the war-related jump in energy costs which could push headline inflation even higher than its already-elevated levels. Expect the Fed to stay the course and start normalizing policy in March as planned... but a 50bps move may be less likely now.

The yield curve has flattened even further in the wake of Ukraine. The yield spread between 2s and 10s is now inside of 38bps, the lowest level since April 2020 when the COVID pandemic was just getting started. Persistent curve flattening will be on the Fed's radar as an indicator of slower growth coming down the pipe and raising the specter of stagflation if price increases don't settle down.

Lost in the shuffle of war news was the drumbeat of positive economic data. The Case Shiller home price index rose 18.5% YoY, and the purchasing manager's index for both manufacturing and services beat expectations along with consumer confidence, personal spending, durable goods, and capital expenditures. The Fed's preferred measure of inflation came in at 5.2% as expected. That level is the highest it's been since Ronald Reagan was President and Vladimir Putin was a young KGB agent in training.

### US 10yr vs 2yr T-Note Yield Spread





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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.32	(0.02)	0.19	0.05	0.04	2yr	1.62	1.79	1.47	1.56	1.71	2Yr	1.60	1.60	1.60	-
6mo	0.68	0.05	0.38	0.05	0.06	3yr	1.83	1.93	1.61	1.71	1.86	3Yr	1.79	1.79	1.70	1.79
1yr	1.11	0.13	0.60	0.06	0.08	5yr	2.01	1.98	1.86	1.98	2.17	5Yr	1.97	1.97	1.96	1.90
2yr	1.60	0.13	1.02	0.24	0.17	7yr	2.12	2.02	2.06	2.19	2.35	7Yr	2.06	2.08	2.07	2.00
3yr	1.78	0.10	1.27	0.45	0.39	10yr	2.28	2.06	2.20	2.34	2.57	10Yr	2.11	2.17	2.16	2.10
5yr	1.88	0.06	1.55	0.82	0.82	15yr	2.44	2.13	2.35	2.50	2.86	March TBA MBS				
7yr	1.96	0.05	1.72	1.12	1.20	20yr	2.60	2.15	2.49	2.65	2.93	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.97	0.04	1.77	1.34	1.52	25yr	2.76	2.13	2.60	2.77	2.99	2.00	2.28	5.2y	2.66	
30yr	2.27	0.03	2.11	1.95	2.28	30yr	2.76	2.09	2.72	2.89	3.04	2.50	2.30	3.9y		
												3.00	2.30	3.5y	2.92	5.4y
												3.50	2.50	3.4y	2.79	4.1y
												4.00			2.73	3.8y
												4.50			2.78	3.7y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			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	--	0.04	0.05	--
1 Month LIBOR	0.19	0.05	0.11	0.08	0.12
3 Month LIBOR	0.50	0.01	0.26	0.13	0.19
6 Month LIBOR	0.83	0.04	0.44	0.15	0.20
1 Year LIBOR	1.34	0.01	0.80	0.24	0.28
6 Month CD	0.90	0.12	0.40	0.10	0.18
1 Year CMT	1.08	0.03	0.58	0.06	0.08
REPO O/N	0.06	0.01	0.02	0.05	-0.10
REPO 1Wk	0.15	0.07	0.17	0.14	0.06
CoF Federal	0.750	--	0.736	0.780	0.911
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.60	0.61	0.59
6mo	0.90	1.00	0.88
1yr	1.33	1.36	1.30
2yr	1.79	1.97	1.75
3yr	1.97	2.18	1.96
4yr	2.07	2.28	2.06
5yr	2.11	2.32	2.09
7yr	2.27	2.50	2.24
10yr	2.51	2.77	2.49
5yr Am	1.96		1.99
10yr Am	2.28		2.27

Fed Fund Futures		
Maturity	Rate	
Feb-22	0.082	
Mar-22	0.235	
Apr-22	0.390	
May-22	0.680	
Jun-22	0.840	
Jul-22	0.990	
Aug-22	1.160	
Sep-22	1.220	
Oct-22	1.360	
Nov-22	1.495	
Dec-22	1.600	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/22	House Price Purchase Index QoQ	4Q	--	3.3%	4.2%	--
2/22	S&P CoreLogic CS 20-City YoY NSA	Dec	18.10%	18.56%	<del>18.29%</del>	18.35%
2/22	S&P CoreLogic CS US HPI YoY NSA	Dec	--	18.84%	<del>18.81%</del>	18.79%
2/22	Markit US Manufacturing PMI	Feb P	56.0	57.5	55.5	--
2/22	Markit US Services PMI	Feb P	53.0	56.7	51.2	--
2/22	Markit US Composite PMI	Feb P	52.5	56.0	51.1	--
2/22	Conf. Board Consumer Confidence	Feb	110.0	110.5	<del>113.8</del>	111.1
2/22	Conf. Board Present Situation	Feb	--	145.1	<del>148.2</del>	144.5
2/23	MBA Mortgage Applications	2/18	--	-13.1%	-5.4%	--
2/24	Chicago Fed Nat Activity Index	Jan	16%	69%	<del>45%</del>	7%
2/24	Initial Jobless Claims	2/19	235k	232k	<del>248k</del>	249k
2/24	Continuing Claims	2/12	1580k	1476k	<del>1593k</del>	1588k
2/24	GDP Annualized QoQ	4Q S	7.0%	7.0%	6.9%	--
2/24	Personal Consumption	4Q S	3.4%	3.1%	3.3%	--
2/24	GDP Price Index	4Q S	6.9%	7.1%	6.9%	--
2/24	Core PCE QoQ	4Q S	4.9%	5.0%	4.9%	--
2/24	New Home Sales	Jan	803k	801k	<del>811k</del>	839k
2/25	Personal Income	Jan	-0.3%	0.0%	<del>0.3%</del>	0.4%
2/25	Personal Spending	Jan	1.6%	2.1%	<del>-0.6%</del>	-0.8%
2/25	Real Personal Spending	Jan	1.2%	1.5%	<del>-1.0%</del>	-1.3%
2/25	PCE Deflator YoY	Jan	6.0%	6.1%	5.8%	--
2/25	PCE Core Deflator YoY	Jan	5.2%	5.2%	4.9%	--
2/25	Durables Ex Transportation	Jan P	0.4%	0.7%	<del>0.6%</del>	0.9%
2/25	Cap Goods Ship Nondef Ex Air	Jan P	0.5%	1.9%	<del>1.3%</del>	1.6%
2/25	Pending Home Sales NSA YoY	Jan	-1.8%	-9.1%	<del>-6.6%</del>	-5.8%
2/25	U. of Mich. Sentiment	Feb F	61.7	62.8	61.7	--
2/25	U. of Mich. Current Conditions	Feb F	68.50	68.20	68.50	--
2/25	U. of Mich. 1 Yr Inflation	Feb F	--	4.9%	5.0%	--
2/28	Advance Goods Trade Balance	Jan	-\$99.0b	--	<del>-\$101.0b</del>	-\$100.5b
2/28	MNI Chicago PMI	Feb	62.0	--	65.2	--
3/1	ISM Manufacturing	Feb	57.9	--	57.6	--
3/1	ISM Prices Paid	Feb	78.8	--	76.1	--
3/1	ISM New Orders	Feb	--	--	57.9	--
3/1	ISM Employment	Feb	--	--	54.5	--
3/2	ADP Employment Change	Feb	325k	--	-301k	--
3/3	Challenger Job Cuts YoY	Feb	--	--	-7.6%	--
3/3	Nonfarm Productivity	4Q F	6.6%	--	6.6%	--
3/3	ISM Services Index	Feb	61.0	--	59.9	--
3/4	Average Hourly Earnings YoY	Feb	5.8%	--	5.7%	--
3/4	Change in Nonfarm Payrolls	Feb	400k	--	467k	--
3/4	Two-Month Payroll Net Revision	Feb	--	--	709k	--
3/4	Change in Private Payrolls	Feb	370k	--	444k	--
3/4	Change in Manufact. Payrolls	Feb	23k	--	13k	--
3/4	Unemployment Rate	Feb	3.9%	--	4.0%	--
3/4	Average Weekly Hours All Employees	Feb	34.6	--	34.5	--
3/4	Labor Force Participation Rate	Feb	62.2%	--	62.2%	--
3/4	Underemployment Rate	Feb	--	--	7.1%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.0	22.5	24.0	24.3	23.3	16.0
FH/FN 15y	10.2	23.9	26.4	32.0	29.8	23.0
GN 15y	25.4	17.1	18.9	19.4	20.2	19.7
FH/FN 20y	54.4	19.8	22.6	22.8	24.6	20.6
FH/FN 30y	1.3	11.7	33.1	39.2	43.6	44.4
GN 30y	4.8	16.3	33.6	36.6	39.4	24.8

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.9	17.4	17.9	18.3	19.4	19.3
FH/FN 15y	11.5	13.2	14.4	15.9	18.9	20.8
GN 15y	13.2	12.7	12.6	12.6	12.5	12.3
FH/FN 20y	54.4	11.2	11.4	11.7	12.4	12.8
FH/FN 30y	8.6	9.2	15.2	18.2	21.8	22.5
GN 30y	8.4	9.7	13.3	13.5	14.0	13.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	115.57	0.56	113.88	110.02	106.21
Euro	1.12	(0.01)	1.13	1.18	1.22
Dollar Index	96.79	0.99	95.95	92.83	90.13
<b>Major Stock Indices</b>					
Dow Jones	33,540	(772)	34,298	35,406	31,402
S&P 500	4,308.0	(72.3)	4,356.5	4,496.2	3,829.3
NASDAQ	13,477.9	(239)	13,539.3	15,041.9	13,119.4
<b>Commodities</b>					
Gold	1,888.2	(13.8)	1,852.5	1,788.8	1,775.4
Crude Oil	92.30	0.54	85.60	68.36	63.53
Natural Gas	4.49	0.01	4.05	3.90	2.78
Wheat	861.3	63.3	818.0	711.3	671.8
Corn	666.8	16.8	620.0	551.3	554.8

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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