Baker Market Update
Week in Review

The Baker Group

September 2, 2022

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UPCOMING EVENTS

CECL and the Investment Portfolio Webinar
September 8, 2022
10:30 am CDT
Read More →

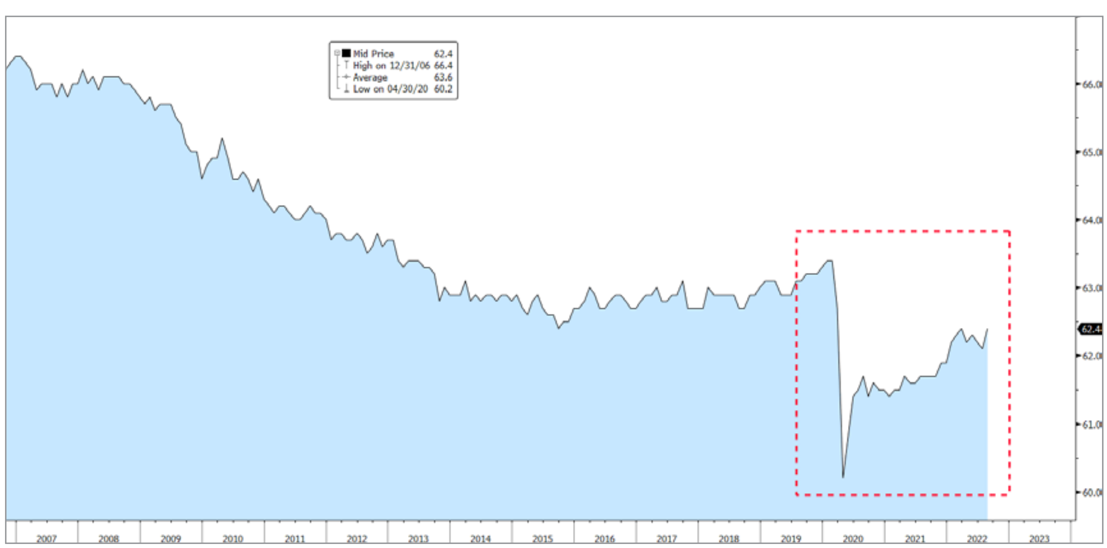
Interest Rate Risk and Investment Strategies Seminar
October 19–21, 2022
Oklahoma City, OK
Read More →

Bond yields drifted higher this week as markets continued to digest the blunt words of Fed Chairman Powell last Friday regarding the central bank's "overarching focus" on fighting inflation even if it involves a lengthy and painful process. New York Fed President Williams reiterated on Tuesday that we should expect restrictive policy for some time, and that the size of the next rate hike will depend on the totality of income data. Some of that data came this morning with the August employment report which showed that a healthy 315K new payrolls were created for the month, but because of an uptick in labor force participation the unemployment rate jumped two-tenths of a percent to 3.7%. The participation rate is key to understanding how much slack remains in the labor market, and there clearly seems to be room for more people to re-enter the workforce. At 62.4%, participation remains well below pre-pandemic levels, but it's grinding higher. Overall, with total employment now above pre-pandemic levels, it seems that job creation is on a sustainable but slowing pace. The wage component of the report showed a 5.2% YOY change in average hourly earnings, lower than expected and fairly benign in the current environment. So as summer comes to an end, the labor market is healthy… but keep an eye on what's coming down the pipe. Remember, less than six months ago the Fed Funds rate was near zero…. Now it sits at 2.50%. That substantial increase in overnight borrowing cost is just now starting to filter through into the" real economy", and it will no-doubt hit the jobs market.

As Gary Shilling and others have noted, a growth downshift is already well underway. Real wages (adjusted for inflation) have declined every month for well over a year, and though nominal retail sales have risen nearly 7%, they are down over 4% when adjusted for inflation. We've also seen five consecutive months of decline in leading economic indicators, and the banking system has experienced a massive drain of reserves as the Fed has tightened. To be sure, the cessation of fiscal stimulus at the end of last year combined with the 225bps of rate hikes since March have begun the process of demand destruction, but much more will be seen before it's all over. Indeed, the only reason not to call this a recession is that GDI (Gross Domestic Income) remains positive, a lingering effect of the enormous '20-21 fiscal stimulus. That will not last. Recession, however defined, is here or soon to arrive.

Earlier in the week, we also got fresh data on Durable Goods Orders (which were slightly negative) and Capital Expenditures (up less than expected). Also, consumer sentiment unexpectedly rose, and the ISM Manufacturing Index remained above 50%. Productivity growth, however, remained near historic lows. Next week we'll get updated numbers for consumer and producer price inflation… key inputs for the Fed.

US Labor Force Participation Rate: 2005 – Today



Source: Bloomberg Finance L.P.

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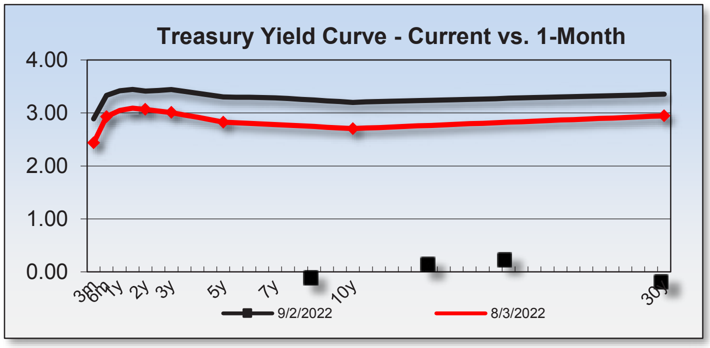

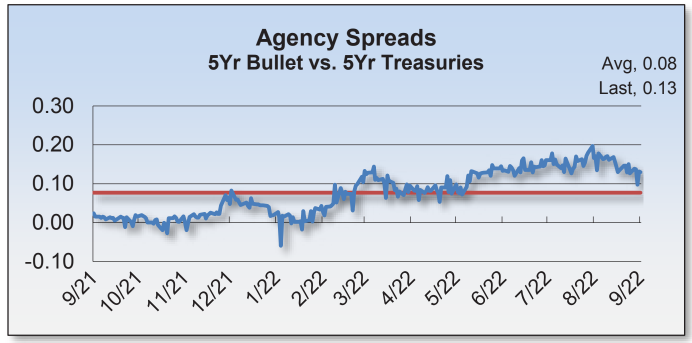

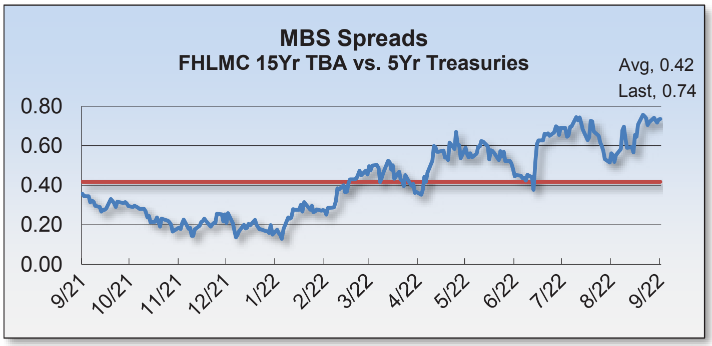

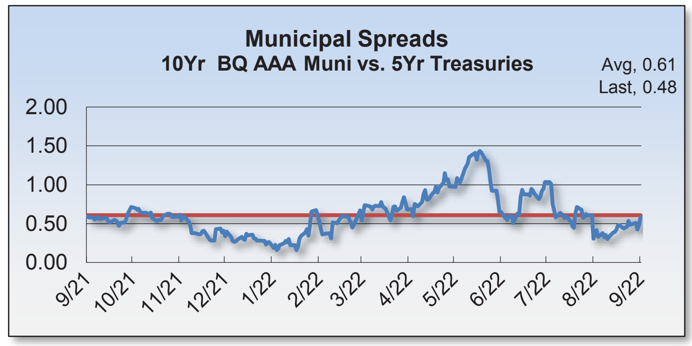

Treasury Market -- Historical

Maty	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
3mo	2.89	0.06	2.48	0.33	0.04
6mo	3.33	0.12	2.97	0.66	0.05
1yr	3.42	0.09	3.06	1.03	0.06
2yr	3.41	0.01	3.05	1.51	0.21
3yr	3.44	0.05	3.01	1.68	0.39
5yr	3.30	0.10	2.85	1.76	0.77
7yr	3.29	0.15	2.82	1.85	1.07
10yr	3.20	0.16	2.75	1.88	1.28
30yr	3.35	0.16	3.01	2.25	1.90

* *Interpolated*

Fixed Rate Market

Maty /AL	N-Call Agency	US Swap	AAA BQ Muni C-Corp[2]	AAA BQ Muni S-Corp[3]	Tax Muni
2yr	3.46	3.78	3.23	3.44	3.75
3yr	3.51	3.58	3.25	3.46	3.74
5yr	3.40	3.38	3.29	3.50	3.72
7yr	3.43	3.31	3.44	3.67	3.96
10yr	3.56	3.29	3.74	3.98	4.20
15yr	3.68	3.33	4.24	4.51	4.39
20yr	3.80	3.27	4.54	4.83	4.46
25yr	3.92	3.17	4.66	4.95	4.52
30yr		3.07	4.77	5.08	4.57

Agency Calls - Euro

Mty	3Mo	6mo	1Yr	2Yr
2Yr	3.42	3.42	3.42	-
3Yr	3.45	3.46	3.40	3.45
5Yr	3.39	3.39	3.38	3.32
7Yr	3.38	3.40	3.39	3.32
10Yr	3.34	3.40	3.39	3.32

October TBA MBS

Cpn	15Yr -Yld	/AL	30Yr -Yld	/AL
2.00	3.71	5.7y	3.88	
2.50	3.90	5.6y		
3.00	3.89	5.5y	4.12	10.2y
3.50	3.98	5.3y	4.25	9.7y
4.00			4.39	8.7y
4.50			4.58	7.1y

Key Market Indices

Index	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
Fed Funds	**2.50**	--	2.50	0.25	0.25
Primary Discount	**2.50**	--	2.50	0.25	0.25
2ndary Discount	**3.00**	--	3.00	0.75	0.75
Prime Rate	**5.50**	--	5.50	3.25	3.25
Sec. O.N. Finance	**2.29**	0.01	2.28	0.05	--
1 Month LIBOR	**2.55**	0.10	2.36	0.24	0.08
3 Month LIBOR	**3.10**	0.09	2.79	0.50	0.12
6 Month LIBOR	**3.66**	0.17	3.33	0.80	0.15
1 Year LIBOR	**4.22**	0.14	3.71	1.29	0.23
6 Month CD	**3.75**	0.10	3.39	0.86	0.10
1 Year CMT	**3.51**	0.18	2.98	0.91	0.07
REPO O/N	**2.30**	--	2.30	0.07	0.06
REPO 1Wk	**2.34**	(0.05)	2.41	0.14	0.14
CoF Federal	**1.508**	--	1.283	0.750	0.780
11th D. CoF (Dec)	**0.223**	--	0.218	0.282	0.460

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Topeka
3mo	3.22	3.27	3.21
6mo	3.57	3.65	3.60
1yr	3.73	3.78	3.87
2yr	3.64	3.74	3.87
3yr	3.61	3.71	3.81
4yr	3.56	3.67	3.75
5yr	3.50	3.62	3.68
7yr	3.64	3.77	3.80
10yr	3.80	3.94	3.94
5yr Am	3.64		3.78
10yr Am	3.77		3.88

Fed Fund Futures

Maturity	Rate
Sep-22	2.528
Oct-22	2.980
Nov-22	3.420
Dec-22	3.595
Jan-23	3.700
Feb-23	3.820
Mar-23	3.840
Apr-23	3.875
May-23	3.865
Jun-23	3.840
Jul-23	3.815

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Weekly Economic Calendar						
This Week & Next						
Date	**Release**	**Per.**	**Est.**	**Actual**	**Prior**	**Revised**
8/29	Dallas Fed Manf. Activity	Aug	-12.7	-12.9	-22.6	--
8/30	FHFA House Price Index MoM	Jun	0.8%	0.1%	~~1.4%~~	1.3%
8/30	House Price Purchase Index QoQ	2Q	--	4.0%	~~4.6%~~	4.7%
8/30	S&P CoreLogic CS 20-City MoM SA	Jun	0.90%	0.44%	~~1.32%~~	1.22%
8/30	S&P CoreLogic CS 20-City YoY NSA	Jun	19.20%	18.65%	~~20.50%~~	20.51%
8/30	S&P CoreLogic CS US HPI YoY NSA	Jun	--	17.96%	~~19.75%~~	19.90%
8/30	Conf. Board Consumer Confidence	Aug	98.0	103.2	~~95.7~~	95.3
8/30	Conf. Board Present Situation	Aug	--	145.4	~~141.3~~	139.7
8/30	Conf. Board Expectations	Aug	--	75.1	~~65.3~~	65.6
8/30	JOLTS Job Openings	Jul	10375k	11239k	~~10698k~~	11040k
8/31	MBA Mortgage Applications	8/26	--	-3.7%	-1.2%	--
8/31	ADP Employment Change	Aug	300k	132k	268k	--
8/31	MNI Chicago PMI	Aug	52.1	52.2	52.1	--
9/1	Challenger Job Cuts YoY	Aug	--	30.3%	36.3%	--
9/1	Initial Jobless Claims	8/27	248k	232k	~~243k~~	237k
9/1	Nonfarm Productivity	2Q F	-4.3%	-4.1%	-4.6%	--
9/1	Unit Labor Costs	2Q F	10.5%	10.2%	10.8%	--
9/1	Continuing Claims	8/20	1438k	1438k	~~1415k~~	1412k
9/1	S&P Global US Manufacturing PMI	Aug F	51.3	51.5	51.3	--
9/1	Construction Spending MoM	Jul	-0.2%	-0.4%	~~-1.1%~~	-0.5%
9/1	ISM Manufacturing	Aug	51.9	52.8	52.8	--
9/1	ISM Prices Paid	Aug	55.3	52.5	60.0	--
9/1	ISM New Orders	Aug	48.0	51.3	48.0	--
9/1	ISM Employment	Aug	49.5	54.2	49.9	--
9/1	Wards Total Vehicle Sales	Aug	13.30m	13.18m	13.35m	--
9/2	Two-Month Payroll Net Revision	Aug	--	-107k	--	--
9/2	Average Hourly Earnings MoM	Aug	0.4%	0.3%	0.5%	--
9/2	Change in Nonfarm Payrolls	Aug	298k	315k	~~528k~~	526k
9/2	Change in Private Payrolls	Aug	300k	308k	~~471k~~	477k
9/2	Change in Manufact. Payrolls	Aug	15k	22k	~~30k~~	36k
9/2	Unemployment Rate	Aug	3.5%	3.7%	3.5%	--
9/2	Average Hourly Earnings YoY	Aug	5.3%	5.2%	5.2%	--
9/2	Average Weekly Hours All Employees	Aug	34.6	34.5	34.6	--
9/2	Labor Force Participation Rate	Aug	62.2%	62.4%	62.1%	--
9/2	Underemployment Rate	Aug	--	7.0%	6.7%	--
9/2	Factory Orders	Jul	0.2%	-1.0%	~~2.0%~~	1.8%
9/2	Factory Orders Ex Trans	Jul	0.4%	-1.1%	~~1.4%~~	1.0%
9/2	Durable Goods Orders	Jul F	0.0%	-0.1%	0.0%	--
9/2	Durables Ex Transportation	Jul F	0.3%	0.2%	0.3%	--
9/2	Cap Goods Orders Nondef Ex Air	Jul F	--	0.3%	0.4%	--
9/2	Cap Goods Ship Nondef Ex Air	Jul F	--	0.5%	0.7%	--
9/6	S&P Global US Services PMI	Aug F	44.3	--	44.1	--
9/6	S&P Global US Composite PMI	Aug F	45.0	--	45.0	--
9/6	ISM Services Index	Aug	55.0	--	56.7	--
9/7	Trade Balance	Jul	-$70.3b	--	-$79.6b	--
9/8	Consumer Credit	Jul	$33.000b	--	$40.154b	--
9/9	Household Change in Net Worth	2Q	--	--	-$544b	--

MBS Prepayments[4]						
	3-Month CPR					
Type	**2.0**	**2.5**	**3.0**	**3.5**	**4.0**	**4.5**
FN 10y	9.4	15.2	16.8	17.0	18.2	14.5
FH/FN 15y	7.8	8.9	10.3	13.1	14.7	21.3
GN 15y	14.7	13.1	15.6	17.5	20.2	20.2
FH/FN 20y	52.8	8.1	10.3	11.7	13.4	14.9
FH/FN 30y	4.1	6.7	9.4	10.1	12.4	13.9
GN 30y	4.6	8.3	15.0	15.4	12.7	14.3
	CPR Projections					
Type	**2.0**	**2.5**	**3.0**	**3.5**	**4.0**	**4.5**
FN 10y	12.3	14.7	15.5	15.9	16.5	17.1
FH/FN 15y	9.1	8.2	8.8	9.8	14.9	20.0
GN 15y	8.9	9.0	9.6	10.2	11.0	11.3
FH/FN 20y	52.6	6.5	7.7	8.9	10.1	10.7
FH/FN 30y	6.3	6.0	6.5	7.0	8.8	11.6
GN 30y	5.3	6.6	8.4	8.6	9.5	11.2

Other Markets					
		1Wk	**Historical**		
Index	**Current**	**Chng**	**1 Mo**	**6 Mo**	**1 Yr**
Currencies					
Japanese Yen	140.13	2.49	133.17	115.52	109.94
Euro	1.00	0.00	1.02	1.11	1.19
Dollar Index	109.12	0.32	106.24	97.39	92.23
Major Stock Indices					
Dow Jones	31,974	(309)	32,396	33,891	35,444
S&P 500	4,007.5	(50.2)	4,091.2	4,386.5	4,537.0
NASDAQ	11,933.3	(208)	12,348.8	13,752.0	15,331.2
Commodities					
Gold	1,715.6	(25.0)	1,779.7	1,922.3	1,809.4
Crude Oil	89.03	(4.03)	94.42	110.60	69.99
Natural Gas	8.88	(0.42)	7.71	4.76	4.64
Wheat	815.5	30.8	774.8	1,059.0	717.0
Corn	667.0	-1.8	591.3	725.0	525.5

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

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 09/02/2022 9:51AM