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UPCOMING EVENTS

Banks

Seminar:

West Des Moines, IA
Jun 12, 2023

Springfield, IL
Aug 7, 2023

Oklahoma City, OK
Oct 18-20, 2023

Credit Unions

CU Seminar:

Minneapolis, MN
Mar 21, 2023

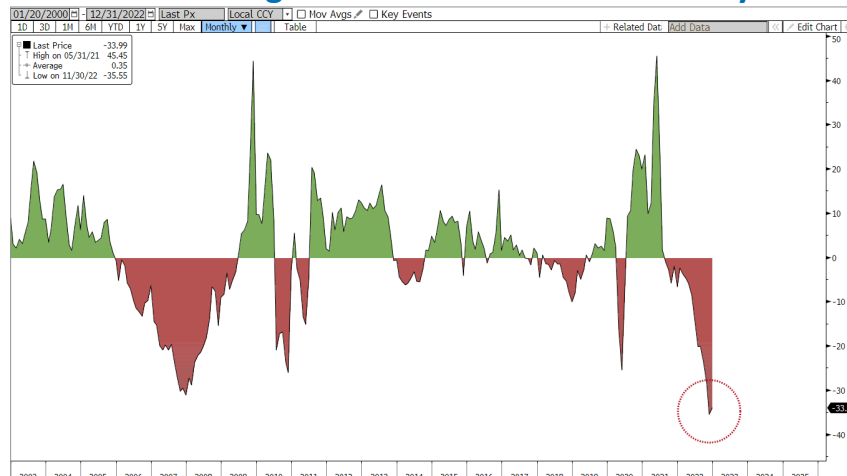
We're three weeks into a new year and across the curve the bond market is off to one of its best starts in decades. The 10yr T-Note yield is now down 75bps since the 4.25% peak last October. To be sure, this follows one of the worst years on record for stocks, bonds and virtually all financial assets. Nonetheless, after 425 basis points of Fed tightening, sentiment has clearly changed, the frenzied fear of inflation has lessened, and bond yields have fallen sharply. Now the concern is about recession and whether the Fed's demand destruction has gone too far. We know that the effect of all those rate hikes has yet to be fully felt. Indeed, the "long and variable" time lags through which monetary policy works are particularly important given the fact that most of last year's tightening took place in the final six months of the year. The speed and magnitude of the initial increases in the cost of money is just now being felt. Beware of what's to come.

Most forecasts now call for a contraction in economic activity over consecutive quarters this year. The question is whether it will be a mild or severe recession. In the final quarter of last year, retail sales fell 2.5% annualized, industrial production was down 1%, and housing starts dropped at a 12.4% annual rate. Companies are now becoming defensive and announcing layoffs as economists forecast the unemployment rate to rise from 3.5% to 5% by year-end. And then there's inflation. After last year's historic spike, the broad-based inflation trends are all showing notable improvement. By some measures, inflation over the last six months has essentially drifted back to pre-pandemic levels. The Fed's preferred index, PCE inflation, will be reported next week and is likely to remain very well behaved at a 2.3% annualized rate over the last three months. Is it any wonder that the yield curve is deeply inverted?

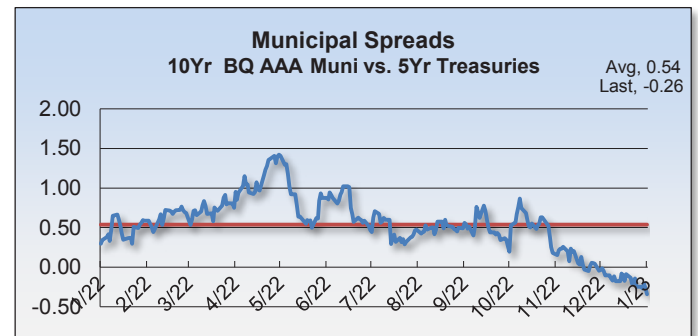
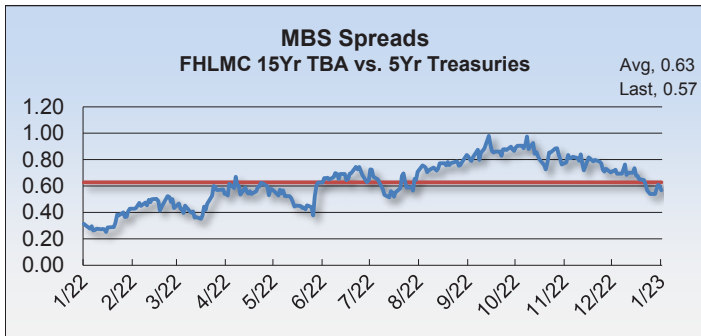
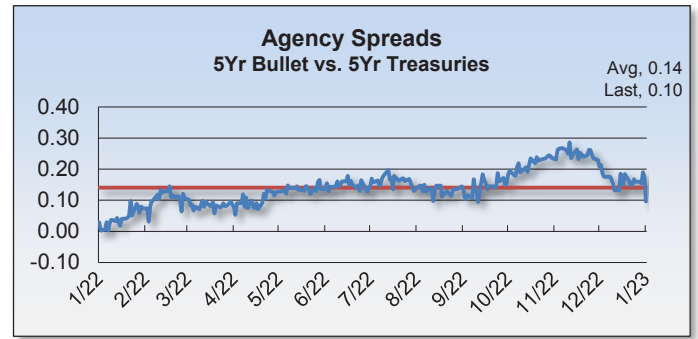
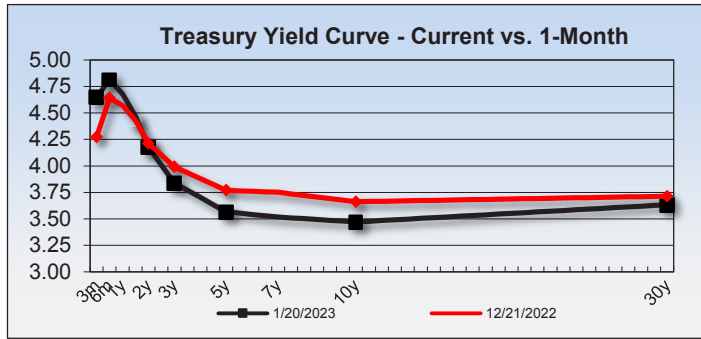
In fairness to the Fed hawks, the worst mistake they could make would be to stop and reverse policy too early, then allowing the genie back out of the bottle. Policymakers are determined not to make that mistake, so they tell us to still look for a terminal fed funds rate at or above 5%, even if they just get there in 25bps increments. Afterward, time will tell if/when we'll see a pivot or shift in response to an economic slowdown. Right now, the bond market is betting that the Fed won't have the luxury of waiting too long before easing again. At the moment, futures markets are looking for something less than a 5% peak for the funds rate, and expect that to drift more than a half-percent lower by the beginning of 2024.

Next week we'll get to see the latest reading on Leading Economic Indicators, and the initial GDP tally for Q4 of last year as well as data on durable goods and capital expenditures. Then on Friday, we get the PCE data including the all-important inflation-index, plus consumer sentiment. Plus we'll know who's in the Super Bowl.

US Existing Home Sales YOY: 2000 - Today



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	4.65	0.05	4.30	2.47	0.17	2yr	4.24	4.43	3.04	3.23	4.31	2Yr	4.98	4.98	4.98	-
6mo	4.81	0.03	4.70	3.00	0.35	3yr	3.94	3.97	2.94	3.13	4.20	3Yr	4.63	4.64	4.60	4.63
1yr	4.68	(0.00)	4.63	3.17	0.55	5yr	3.59	3.61	2.90	3.08	3.99	5Yr	4.44	4.44	4.43	4.37
2yr	4.18	(0.06)	4.26	3.23	1.03	7yr	3.62	3.49	2.95	3.14	4.01	7Yr	4.39	4.41	4.40	4.33
3yr	3.84	(0.06)	4.02	3.23	1.21	10yr	3.78	3.44	3.09	3.29	4.18	10Yr	4.39	4.45	4.44	4.37
5yr	3.57	(0.05)	3.79	3.17	1.59	15yr	3.94	3.46	3.86	4.11	4.38	February TBA MBS				
7yr	3.52	(0.04)	3.77	3.14	1.75	20yr	4.10	3.43	4.10	4.37	4.56	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.47	(0.03)	3.69	3.03	1.81	25yr	4.27	3.34	4.25	4.52	4.62	2.00	3.94	5.6y	4.12	
30yr	3.63	0.02	3.74	3.16	2.12	30yr		3.24	4.40	4.68	4.67	2.50	4.12	5.5y	4.12	
												3.00	4.15	5.4y	4.32 10.3y	
												3.50	4.11	5.3y	4.43 10.2y	
												4.00			4.56 9.9y	
												4.50			4.76 7.7y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	4.50	--	4.50	1.75	0.25
Primary Discount	4.50	--	4.50	1.75	0.25
2ndary Discount	5.00	--	5.00	2.25	0.75
Prime Rate	7.50	--	7.50	4.75	3.25
Sec. O.N. Finance	4.31	0.01	4.30	1.54	--
1 Month LIBOR	4.49	0.06	4.35	2.13	0.10
3 Month LIBOR	4.81	(0.01)	4.75	2.71	0.25
6 Month LIBOR	5.11	(0.02)	5.19	3.27	0.43
1 Year LIBOR	5.36	(0.05)	5.48	3.86	0.79
6 Month CD	4.95	(0.02)	5.23	3.42	0.42
1 Year CMT	4.65	(0.01)	4.64	3.18	0.57
REPO O/N	4.34	--	4.34	1.54	0.02
REPO 1Wk	4.39	(0.05)	4.39	1.74	0.17
CoF Federal	2.794	--	2.568	1.283	0.736
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	4.85	4.94	4.88
6mo	4.99	5.04	5.02
1yr	4.93	4.97	5.08
2yr	4.36	4.50	4.50
3yr	3.98	4.10	4.07
4yr	3.85	3.97	3.92
5yr	3.75	3.84	3.79
7yr	3.94	4.04	3.98
10yr	4.11	4.23	4.19
5yr Am	4.07		4.06
10yr Am	4.08		4.09

Fed Fund Futures		
Maturity	Rate	
Jan-23	4.330	
Feb-23	4.585	
Mar-23	4.655	
Apr-23	4.790	
May-23	4.880	
Jun-23	4.895	
Jul-23	4.895	
Aug-23	4.850	
Sep-23	4.820	
Oct-23	4.760	
Nov-23	4.625	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/17	Empire Manufacturing	Jan	-8.7	-32.9	-11.2	--
1/18	MBA Mortgage Applications	1/13	--	27.9%	1.2%	--
1/18	New York Fed Services Business Activit	Jan	--	-21.4	-17.6	--
1/18	Retail Sales Ex Auto and Gas	Dec	0.0%	-0.7%	-0.2%	-0.5%
1/18	Retail Sales Control Group	Dec	-0.3%	-0.7%	-0.2%	--
1/18	PPI Final Demand MoM	Dec	-0.1%	-0.5%	0.3%	0.2%
1/18	PPI Ex Food and Energy MoM	Dec	0.1%	0.1%	0.4%	0.2%
1/18	PPI Ex Food, Energy, Trade MoM	Dec	0.2%	0.1%	0.3%	--
1/18	PPI Final Demand YoY	Dec	6.8%	6.2%	7.4%	7.3%
1/18	PPI Ex Food and Energy YoY	Dec	5.6%	5.5%	6.2%	--
1/18	PPI Ex Food, Energy, Trade YoY	Dec	4.6%	4.6%	4.9%	--
1/18	Industrial Production MoM	Dec	-0.1%	-0.7%	-0.2%	-0.6%
1/18	Capacity Utilization	Dec	79.5%	78.8%	79.7%	79.4%
1/18	Manufacturing (SIC) Production	Dec	-0.2%	-1.3%	-0.6%	-1.1%
1/18	Business Inventories	Nov	0.4%	0.4%	0.3%	0.2%
1/18	Net Long-term TIC Flows	Nov	--	\$171.5b	\$67.8b	--
1/18	Total Net TIC Flows	Nov	--	\$213.1b	\$179.9b	\$179.3b
1/19	Housing Starts	Dec	1358k	1382k	1427k	1401k
1/19	Building Permits	Dec	1365k	1330k	1342k	--
1/19	Housing Starts MoM	Dec	-4.8%	-1.4%	-0.5%	-1.8%
1/19	Building Permits MoM	Dec	1.0%	-1.6%	-11.2%	--
1/19	Philadelphia Fed Business Outlook	Jan	-11.0	-8.9	-13.8	--
1/19	Initial Jobless Claims	1/14	214k	190k	205k	--
1/19	Continuing Claims	1/7	1655k	1647k	1634k	1630k
1/20	Existing Home Sales	Dec	3.95m	4.02m	4.09m	4.08m
1/23	Leading Index	Dec	-0.7%	--	-1.0%	--
1/24	S&P Global US Manufacturing PMI	Jan P	46.8	--	46.2	--
1/24	S&P Global US Services PMI	Jan P	45.5	--	44.7	--
1/24	S&P Global US Composite PMI	Jan P	--	--	45.0	--
1/24	Richmond Fed Business Conditions	Jan	--	--	-14.0	--
1/26	Chicago Fed Nat Activity Index	Dec	--	--	-5.0%	--
1/26	GDP Annualized QoQ	4Q A	2.5%	--	3.2%	--
1/26	Personal Consumption	4Q A	2.9%	--	2.3%	--
1/26	GDP Price Index	4Q A	3.2%	--	4.4%	--
1/26	Core PCE QoQ	4Q A	3.9%	--	4.7%	--
1/26	Advance Goods Trade Balance	Dec	-\$88.8b	--	-\$83.3b	--
1/26	Durables Ex Transportation	Dec P	-0.2%	--	0.1%	0.0%
1/26	Cap Goods Ship Nondef Ex Air	Dec P	-0.5%	--	-0.1%	--
1/26	New Home Sales	Dec	615k	--	640k	--
1/27	Personal Income	Dec	0.2%	--	0.4%	--
1/27	Real Personal Spending	Dec	-0.2%	--	0.0%	--
1/27	PCE Deflator YoY	Dec	5.0%	--	5.5%	--
1/27	PCE Core Deflator YoY	Dec	4.4%	--	4.7%	--
1/27	Pending Home Sales NSA YoY	Dec	--	--	-38.6%	--
1/27	U. of Mich. Sentiment	Jan F	64.6	--	64.6	--
1/27	U. of Mich. Current Conditions	Jan F	--	--	68.6	--
1/27	U. of Mich. 1 Yr Inflation	Jan F	--	--	4.0%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	7.1	11.3	13.2	13.3	11.5	13.8
FH/FN 15y	5.8	5.9	6.9	8.5	13.4	16.8
GN 15y	5.1	11.3	12.3	13.2	17.2	18.6
FH/FN 20y	51.7	5.4	6.4	7.0	8.2	9.5
FH/FN 30y	10.9	3.9	5.0	5.4	6.3	7.0
GN 30y	2.7	5.1	8.2	8.0	7.5	7.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.6	14.6	15.2	15.6	15.2	14.4
FH/FN 15y	8.0	7.5	8.2	8.9	14.6	16.9
GN 15y	10.8	10.1	10.5	13.2	13.6	13.9
FH/FN 20y	5.4	6.2	6.9	7.7	8.7	9.6
FH/FN 30y	5.8	5.7	6.0	6.4	7.2	9.7
GN 30y	5.9	6.5	7.4	8.0	9.2	10.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	129.97	2.10	131.73	138.21	114.11
Euro	1.08	(0.00)	1.06	1.02	1.13
Dollar Index	102.17	(0.08)	103.97	107.08	95.74
Major Stock Indices					
Dow Jones	33,061	(1,129)	32,850	31,875	34,715
S&P 500	3,921.5	(61.7)	3,821.6	3,959.9	4,482.7
NASDAQ	10,956.1	(45)	10,547.1	11,897.7	14,154.0
Commodities					
Gold	1,929.4	30.6	1,815.9	1,700.2	1,842.6
Crude Oil	80.40	2.01	76.09	102.26	86.90
Natural Gas	3.32	(0.38)	5.33	8.01	3.80
Wheat	736.0	-6.8	750.5	819.5	790.3
Corn	674.0	3.0	652.0	592.3	611.0

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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