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UPCOMING EVENTS

Banks

Seminar:

West Des Moines, IA

Jun 12, 2023

Bismarck, ND

Jul 25, 2023

Springfield, IL

Aug 7, 2023

Stevens Point, WI

Aug 29, 2023

Oklahoma City, OK

Oct 18-20, 2023

Webinar:

Q2 Strategies Webinar

Apr 12, 2023

Credit Unions

CU Seminar:

Philadelphia, PA

Sep 27, 2023

Dallas, TX

Nov 9, 2023

CU School:

CU Bond School

Apr 26-27, 2023

CU ALM School

Aug 23-24, 2023

CU Webinar:

Q2 Strategies Webinar

Apr 13, 2023

Bank & Credit Unions

School:

Bond School

May 10-11, 2023

ALM School

Aug 8-9, 2023

Markets are relatively calm as we close out the last week of the quarter. And oh, what a quarter it's been. Following a year that marked the biggest annual jump in the 10yr Treasury yield on record, we saw in the last 90 days a series of tremors in the banking system that sent bonds into a frenzied rally. The 10yr yield dropped from 4.06% at the beginning of this month to a low of 3.37% last week. As we approach this weekend, it had drifted back up to 3.53%, while the 2yr yield sits at 4.11%. The yield curve as measured by the yield difference between 2s and 10s had inverted to a historic level of -108bps. It has now come in to less than -60bps, an indication that we've seen a significant change in sentiment with respect to Fed policy going forward. The good news as we close out March is that concerns about systemwide problems in the banking sector have lessened notably over the last couple of weeks.

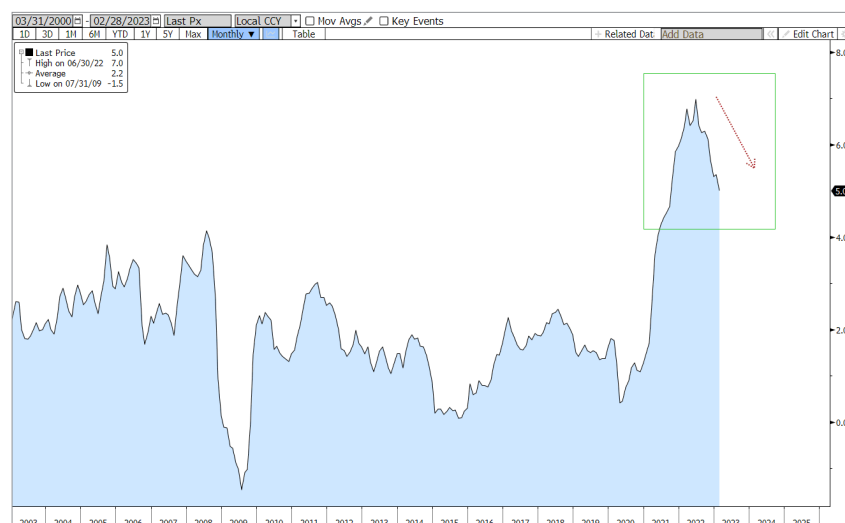
So, what about our old nemesis, inflation? This morning we got the latest reading on the Fed's preferred measure, the PCE inflation index. It showed a 5% year-over-year pace, a deceleration from January but still higher than the Fed's 2% target. Excluding food and energy, the core PCE index rose 4.6%, matching the smallest increase in a year and a half. And a nuanced measure preferred by the Fed Chairman (services inflation minus housing and energy) was clocked at 4.6% as well. This was the eighth consecutive drop in PCE inflation... we're trending in the right direction for sure.

Alongside the release of PCE inflation data was information about incomes and spending for the month. On spending, households continue to open their wallets as personal consumption expenditures rose a respectable 2.5% year-over-year. However, that's nominal, not adjusted for inflation. Expenditures for goods and services alike fell when adjusted for inflation. This week also brought us the final GDP number for Q4 which was revised down to 2.6%. Importantly, stripping out net exports and inventory buildup, we saw that Real Final Sales were a feeble 1.1%. This particular devil in the details indicates that the output of the economy is not as robust as headlines suggest.

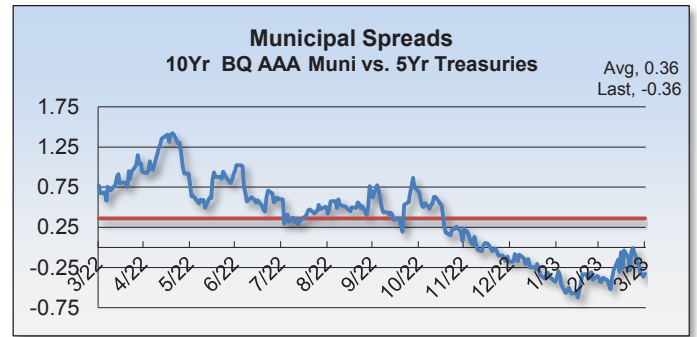
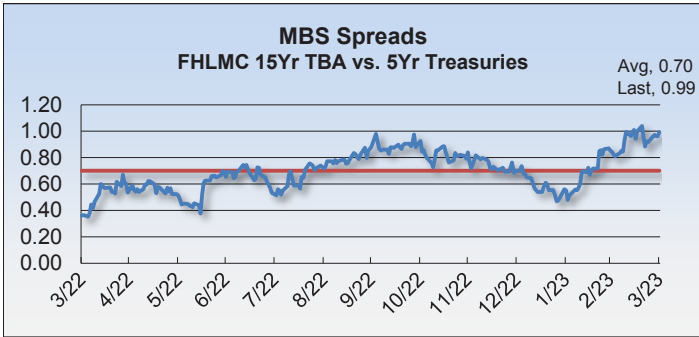
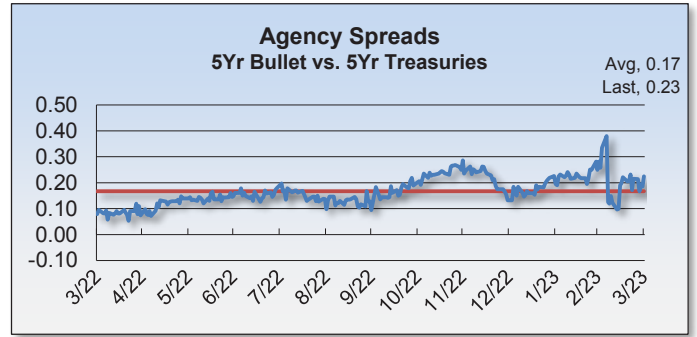
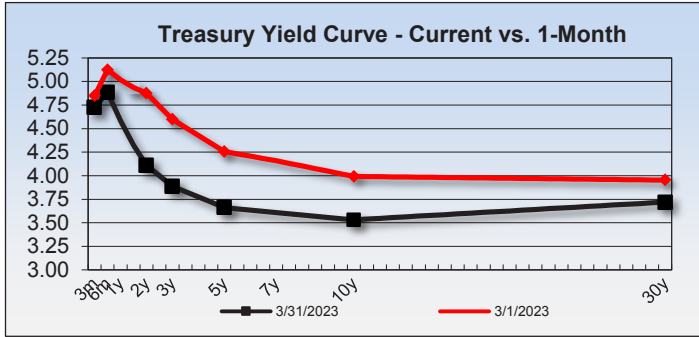
Another concern that's reared up in the wake of the banking turmoil has to do with a general tightening of financial conditions. As banks shore up their balance sheets, liquidity and capital positions, they also raise lending standards which limits the availability of credit and constricts growth of the economy. This can lead to a vicious cycle where credit constraint leads to declining asset values which leads to non-performing loans and even more credit constriction. Another conundrum for the Fed.

So, inflation is trending lower while growth, spending, and employment remain intact but certainly not vigorous. And the Fed's massive increase in rates over the last year is just now starting to stress the banking system and constrain credit, the lifeblood of the economy. Maybe it's time to hit the pause button on the rate hikes, sit back and marvel as the "long- and variable-time lags" of policy do their thing. Otherwise, the next quarter could be another wild one.

US Personal Consumption Expenditures (PCE) Inflation: 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	4.72	0.07	4.81	3.27	0.50	2yr	4.25	4.42	3.49	3.71	4.17	2Yr	4.90	4.90	4.90	-
6mo	4.88	0.18	5.15	3.93	1.02	3yr	4.00	4.05	3.35	3.56	4.12	3Yr	4.68	4.68	4.60	4.68
1yr	4.58	0.31	5.01	3.99	1.61	5yr	3.84	3.71	3.26	3.47	4.02	5Yr	4.53	4.53	4.52	4.46
2yr	4.11	0.34	4.82	4.28	2.34	7yr	3.85	3.58	3.25	3.46	4.09	7Yr	4.48	4.50	4.49	4.42
3yr	3.89	0.31	4.53	4.29	2.38	10yr	3.94	3.52	3.30	3.52	4.30	10Yr	4.45	4.51	4.50	4.44
5yr	3.66	0.25	4.18	4.09	2.46	15yr	4.03	3.52	4.17	4.44	4.43	April TBA MBS				
7yr	3.61	0.20	4.08	3.98	2.43	20yr	4.13	3.47	4.51	4.80	4.77	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.53	0.15	3.92	3.83	2.34	25yr	4.23	3.37	4.65	4.95	4.83	2.50	4.53	5.6y	4.45	
30yr	3.72	0.07	3.92	3.78	2.45	30yr	4.23	3.27	4.79	5.10	4.88	3.00	4.59	5.6y		
												3.50	4.46	5.7y	4.61	10.3y
												4.00	4.44	5.6y	4.71	10.1y
												4.50			4.86	9.7y
												5.00			5.08	8.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	5.00	--	4.75	3.25	0.50
Primary Discount	5.00	--	4.75	3.25	0.50
2ndary Discount	5.50	--	5.25	3.75	1.00
Prime Rate	8.00	--	7.75	6.25	3.50
Sec. O.N. Finance	4.82	0.02	4.55	2.98	--
1 Month LIBOR	4.84	0.04	4.67	3.13	0.46
3 Month LIBOR	5.16	0.08	4.97	3.74	1.01
6 Month LIBOR	5.21	0.09	5.26	4.21	1.50
1 Year LIBOR	5.16	(0.02)	5.68	4.79	2.20
6 Month CD	5.14	0.24	5.25	4.40	1.43
1 Year CMT	4.63	0.25	5.02	4.05	1.64
REPO O/N	4.88	0.03	4.57	3.00	0.31
REPO 1Wk	4.75	(0.13)	4.71	3.04	0.43
CoF Federal	3.139	--	2.998	1.762	0.791
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	5.05	5.15	5.08
6mo	5.08	5.13	5.09
1yr	4.82	4.88	4.96
2yr	4.40	4.50	4.59
3yr	4.19	4.29	4.38
4yr	4.02	4.13	4.24
5yr	3.96	4.07	4.12
7yr	4.15	4.27	4.41
10yr	4.32	4.45	4.44
5yr Am	4.25		4.38
10yr Am	4.29		4.46

Fed Fund Futures	
Maturity	Rate
Mar-23	4.650
Apr-23	4.815
May-23	4.940
Jun-23	4.930
Jul-23	4.900
Aug-23	4.800
Sep-23	4.755
Oct-23	4.665
Nov-23	4.500
Dec-23	4.425
Jan-24	4.350

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/28	Advance Goods Trade Balance	Feb	-\$90.0b	-\$91.6b	-\$91.5b	--
3/28	Wholesale Inventories MoM	Feb P	-0.1%	0.2%	-0.4%	-0.5%
3/28	Retail Inventories MoM	Feb	0.2%	0.8%	0.3%	0.1%
3/28	FHFA House Price Index MoM	Jan	-0.2%	0.2%	-0.1%	--
3/28	S&P CoreLogic CS 20-City MoM SA	Jan	-0.5%	-0.43%	-0.51%	-0.53%
3/28	S&P CoreLogic CS 20-City YoY NSA	Jan	2.6%	2.55%	4.65%	4.62%
3/28	S&P CoreLogic CS US HPI YoY NSA	Jan	--	3.79%	5.76%	5.63%
3/28	Conf. Board Consumer Confidence	Mar	101.0	104.2	102.9	103.4
3/28	Conf. Board Present Situation	Mar	--	151.1	152.8	153.0
3/28	Conf. Board Expectations	Mar	--	73.0	69.7	70.4
3/28	Richmond Fed Business Conditions	Mar	--	-17	-6	--
3/29	MBA Mortgage Applications	3/24	--	2.9%	3.0%	--
3/29	Pending Home Sales NSA YoY	Feb	--	-21.1%	-22.4%	--
3/30	Initial Jobless Claims	3/25	196k	198k	191k	--
3/30	Continuing Claims	3/18	1700k	1689k	1694k	1685k
3/30	GDP Annualized QoQ	4Q T	2.7%	2.6%	2.7%	--
3/30	Personal Consumption	4Q T	1.4%	1.0%	1.4%	--
3/30	GDP Price Index	4Q T	3.9%	3.9%	3.9%	--
3/30	Core PCE QoQ	4Q T	4.3%	4.4%	4.3%	--
3/31	Personal Income	Feb	0.2%	0.3%	0.6%	--
3/31	Personal Spending	Feb	0.3%	0.2%	1.8%	2.0%
3/31	Real Personal Spending	Feb	-0.1%	-0.1%	1.1%	1.5%
3/31	PCE Deflator YoY	Feb	5.1%	5.0%	5.4%	5.3%
3/31	PCE Core Deflator YoY	Feb	4.7%	4.6%	4.7%	--
3/31	MNI Chicago PMI	Mar	43.0	43.8	43.6	--
3/31	U. of Mich. Sentiment	Mar F	63.2	62.0	63.4	--
3/31	U. of Mich. Current Conditions	Mar F	66.4	66.3	66.4	--
3/31	U. of Mich. 1 Yr Inflation	Mar F	3.8%	3.6%	3.8%	--
4/3	S&P Global US Manufacturing PMI	Mar F	49.3	--	49.3	--
4/3	ISM Manufacturing	Mar	47.5	--	47.7	--
4/3	ISM Prices Paid	Mar	51.2	--	51.3	--
4/3	ISM Employment	Mar	--	--	49.1	--
4/3	ISM New Orders	Mar	47.5	--	47.0	--
4/4	Factory Orders Ex Trans	Feb	--	--	1.2%	--
4/4	JOLTS Job Openings	Feb	10450k	--	10824k	--
4/4	Durables Ex Transportation	Feb F	--	--	0.0%	--
4/4	Cap Goods Ship Nondef Ex Air	Feb F	--	--	0.0%	--
4/5	ADP Employment Change	Mar	210k	--	242k	--
4/5	S&P Global US Composite PMI	Mar F	--	--	53.3	--
4/5	ISM Services Index	Mar	54.5	--	55.1	--
4/5	ISM Services Prices Paid	Mar	--	--	65.6	--
4/5	ISM Services Employment	Mar	--	--	54.0	--
4/5	ISM Services New Orders	Mar	--	--	62.6	--
4/6	Challenger Job Cuts YoY	Mar	--	--	410.1%	--
4/7	Change in Nonfarm Payrolls	Mar	240k	--	311k	--
4/7	Two-Month Payroll Net Revision	Mar	--	--	-34k	--
4/7	Change in Private Payrolls	Mar	225k	--	265k	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	11.2	11.7	12.5	12.5	11.5	17.3
FH/FN 15y	5.2	6.2	8.0	13.2	16.7	25.1
GN 15y	11.7	12.8	13.9	18.2	18.6	22.4
FH/FN 20y	4.6	5.7	6.4	7.4	8.8	12.6
FH/FN 30y	3.2	3.9	4.3	5.1	6.5	8.1
GN 30y	4.0	7.4	5.4	5.2	6.2	6.5

CPR Projections						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	14.6	15.0	14.9	13.7	10.8	11.2
FH/FN 15y	7.0	7.4	7.7	14.4	15.9	16.2
GN 15y	9.6	9.9	11.3	11.9	13.8	13.5
FH/FN 20y	6.1	6.7	7.3	8.0	9.0	10.1
FH/FN 30y	5.7	5.9	6.1	6.8	7.6	9.3
GN 30y	6.3	7.1	7.3	8.6	9.0	7.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	132.89	2.16	136.17	144.74	121.70
Euro	1.09	0.01	1.06	0.98	1.11
Dollar Index	102.26	(0.86)	104.87	112.12	98.31
Major Stock Indices					
Dow Jones	33,019	781	32,657	28,726	34,678
S&P 500	4,071.3	100.3	3,970.2	3,585.6	4,530.4
NASDAQ	12,076.1	252	11,455.5	10,575.6	14,220.5
Commodities					
Gold	1,980.8	(3.0)	1,836.7	1,662.4	1,949.2
Crude Oil	75.31	6.05	77.05	79.49	100.28
Natural Gas	2.19	(0.02)	2.75	6.77	5.64
Wheat	689.5	1.0	691.5	921.5	1,006.0
Corn	650.5	7.5	629.5	677.5	748.8

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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