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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:

Q3 Strategies Webinar

Jul 12, 2023

Credit Unions

CU Seminar:

Philadelphia, PA

Sep 27, 2023

Dallas, TX

Nov 9, 2023

CU Webinar:

Q3 CU Strategies Webinar

Jul 13, 2023

CU School:

CU ALM School

Aug 23-24, 2023

Bank & Credit Unions

ALM School

Aug 8-9, 2023

Following 10 consecutive rate hikes totaling 500bp since March 2022, the Federal Reserve decided to leave interest rates unchanged at the June FOMC meeting. Markets were expecting that outcome, but they were not expecting the new “Dot Plot” to show a majority of FOMC members now expect to hike rates an additional 50bp before year-end. This “hawkish skip” came despite the fact that both CPI (4.0% YOY) and PPI (1.1% YOY) came in lower than expected for May and Industrial Production unexpectedly fell 0.2%.

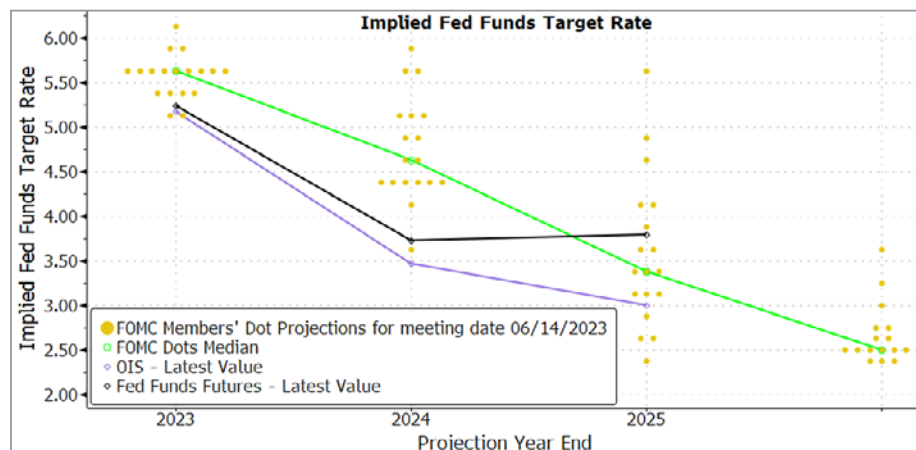
So why would the Fed say they want to raise rates another 50bp but then choose not to raise them in June? I can think of a few possibilities. First, they may have decided to simply continue their pattern of slowing their pace of rate hikes yet again by raising rates 25bp at every other meeting until they reach their target. They raised rates 75bp at four consecutive meetings between June and November 2022 before hiking just 50bp in December and then 25bp at the February, March and May meetings. Raising rates 25bp at every other meeting would further slow the pace of tightening. Another possibility is they did not want to add unnecessary market volatility following the debt ceiling showdown and the need for the Treasury to issue as much as \$1 trillion of debt in coming months. Finally, they may have no intention of actually raising rates again, but want markets to believe that they will so rates remain high and financial conditions remain tight to continue bringing inflation down towards their 2% target.

Despite the Fed’s forecast they will hike rates another 50bp, markets don’t believe them. Fed funds futures are pricing in just one more rate hike in July to a peak of 5.25-5.5% with less than a 15% probability they go above that. The Fed says they are “data dependent” so markets will be hyper focused on the employment and inflation readings each month to determine the expected peak in rates. One bad employment number or another big drop in inflation could give them the cover they need to stop raising rates.

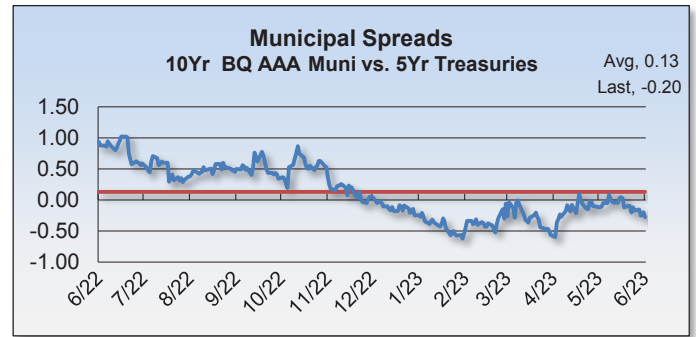
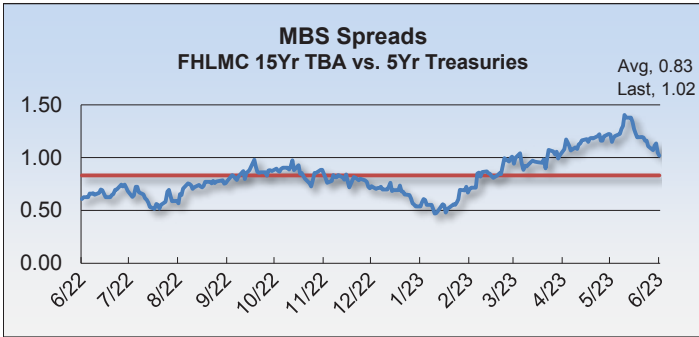
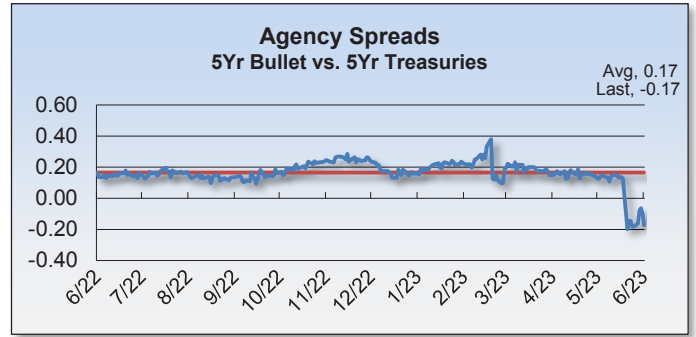
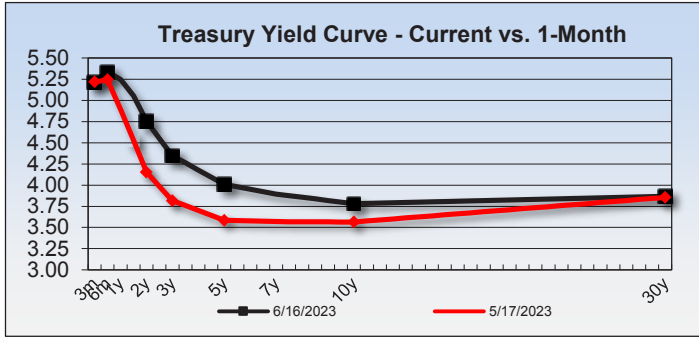
For the week, the 2-year yield rose 16bp to 4.75% and the 10-year yield rose 4bp to 3.78%, leaving the 10yr2yr spread at -97bp.

We will get more clarity on the Fed’s thinking next week with no less than 10 speeches from various Fed officials including Chairman Powell. We will also see reports on Housing Starts, Building Permits, Existing Home Sales and Leading Economic Indicators.

June 2023 Dot Plot



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	5.22	(0.03)	5.16	4.28	1.53	2yr	4.83	4.95	4.10	4.37	4.91	2Yr	5.55	5.55	5.55	-
6mo	5.34	(0.04)	5.22	4.65	2.19	3yr	4.43	4.50	3.92	4.17	4.76	3Yr	5.15	5.15	5.10	5.15
1yr	5.25	0.04	4.90	4.59	2.82	5yr	4.09	4.07	3.70	3.93	4.47	5Yr	4.89	4.89	4.88	4.82
2yr	4.75	0.16	4.09	4.18	3.10	7yr	4.08	3.90	3.57	3.80	4.50	7Yr	4.78	4.80	4.79	4.73
3yr	4.35	0.10	3.75	3.91	3.16	10yr	4.07	3.80	3.60	3.83	4.58	10Yr	4.71	4.77	4.76	4.70
5yr	4.01	0.09	3.53	3.63	3.29	15yr	4.05	3.76	4.34	4.62	4.71	July TBA MBS				
7yr	3.89	0.06	3.53	3.59	3.28	20yr	4.04	3.71	4.59	4.89	4.91	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.78	0.04	3.54	3.49	3.20	25yr	4.04	3.60	4.75	5.05	4.97	2.50	4.83	5.5y	4.53	
30yr	3.87	(0.01)	3.85	3.55	3.25	30yr	4.04	3.49	4.90	5.22	5.02	3.00	4.85	5.6y		
												3.50	4.70	5.6y	4.78	10.2y
												4.00	4.71	5.5y	4.87	9.8y
												4.50			5.00	10.3y
												5.00			5.24	9.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	5.25	--	5.25	4.50	1.75
Primary Discount	5.25	--	5.25	4.50	1.00
2ndary Discount	5.75	--	5.75	5.00	1.50
Prime Rate	8.25	--	8.25	7.50	4.75
Sec. O.N. Finance	5.06	0.01	5.06	4.32	--
1 Month LIBOR	5.16	(0.02)	5.11	4.33	1.51
3 Month LIBOR	5.51	(0.00)	5.32	4.74	2.00
6 Month LIBOR	5.65	0.01	5.34	5.13	2.67
1 Year LIBOR	5.82	0.07	5.26	5.41	3.58
6 Month CD	5.51	(0.06)	5.36	4.93	2.84
1 Year CMT	5.21	0.09	4.73	4.65	2.93
REPO O/N	5.10	--	5.13	4.34	0.68
REPO 1Wk	5.11	(0.04)	5.11	4.39	1.66
CoF Federal	3.302	--	3.239	2.278	0.963
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	5.40	5.46	5.46
6mo	5.48	5.53	5.57
1yr	5.41	5.48	5.58
2yr	4.86	4.97	4.97
3yr	4.47	4.57	4.56
4yr	4.29	4.41	4.40
5yr	4.13	4.25	4.24
7yr	4.30	4.43	4.41
10yr	4.41	4.55	4.51
5yr Am	4.15		4.59
10yr Am	4.21		4.56

Fed Fund Futures	
Maturity	Rate
Jun-23	5.078
Jul-23	5.105
Aug-23	5.260
Sep-23	5.275
Oct-23	5.305
Nov-23	5.310
Dec-23	5.265
Jan-24	5.235
Feb-24	5.125
Mar-24	5.065
Apr-24	4.980

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
6/13	NFIB Small Business Optimism	May	88.5	89.4	89.0	--
6/13	CPI MoM	May	0.1%	0.1%	0.4%	--
6/13	CPI Ex Food and Energy MoM	May	0.4%	0.4%	0.4%	--
6/13	CPI YoY	May	4.1%	4.0%	4.9%	--
6/13	CPI Ex Food and Energy YoY	May	5.2%	5.3%	5.5%	--
6/13	CPI Core Index SA	May	307.5	307.8	306.5	--
6/13	Real Avg Weekly Earnings YoY	May	--	-0.7%	-1.4%	-1.2%
6/13	Real Avg Hourly Earning YoY	May	--	0.2%	+0.5%	-0.6%
6/14	MBA Mortgage Applications	6/9	--	7.2%	-1.4%	--
6/14	PPI Final Demand MoM	May	-0.1%	-0.3%	0.2%	--
6/14	PPI Ex Food and Energy MoM	May	0.2%	0.2%	0.2%	--
6/14	PPI Ex Food, Energy, Trade MoM	May	0.2%	0.0%	0.2%	0.1%
6/14	PPI Final Demand YoY	May	1.5%	1.1%	2.3%	--
6/14	PPI Ex Food and Energy YoY	May	2.9%	2.8%	3.2%	3.1%
6/14	PPI Ex Food, Energy, Trade YoY	May	3.1%	2.8%	3.4%	3.3%
6/14	FOMC Rate Decision (Upper Bound)	6/14	5.25%	5.25%	5.25%	--
6/14	FOMC Rate Decision (Lower Bound)	6/14	5.00%	5.00%	5.00%	--
6/14	Interest on Reserve Balances Rate	6/15	5.15%	5.15%	5.15%	--
6/15	Retail Sales Ex Auto and Gas	May	0.2%	0.4%	0.6%	0.5%
6/15	Retail Sales Control Group	May	0.2%	0.2%	0.7%	0.6%
6/15	Import Price Index MoM	May	-0.5%	-0.6%	0.4%	0.3%
6/15	Import Price Index ex Petroleum MoM	May	-0.1%	-0.2%	-0.1%	-0.2%
6/15	Import Price Index YoY	May	-5.6%	-5.9%	-4.8%	-4.9%
6/15	Export Price Index MoM	May	-0.1%	-1.9%	0.2%	-0.1%
6/15	Export Price Index YoY	May	-8.4%	-10.1%	-5.9%	-6.0%
6/15	Initial Jobless Claims	6/10	245k	262k	261k	262k
6/15	Continuing Claims	6/3	1768k	1775k	1757k	1755k
6/15	Empire Manufacturing	Jun	-15.1	6.6	-31.8	--
6/15	Philadelphia Fed Business Outlook	Jun	-14.0	-13.7	-10.4	--
6/15	Capacity Utilization	May	79.7%	79.6%	79.7%	79.8%
6/15	Manufacturing (SIC) Production	May	-0.1%	0.1%	1.0%	0.9%
6/15	Business Inventories	Apr	0.2%	0.2%	-0.1%	-0.2%
6/15	Net Long-term TIC Flows	Apr	--	\$127.8b	\$133.3b	\$205.6b
6/15	Total Net TIC Flows	Apr	--	\$48.4b	\$56.7b	\$129.0b
6/16	U. of Mich. Sentiment	Jun P	60.0	63.9	59.2	--
6/16	U. of Mich. Current Conditions	Jun P	65.1	68.0	64.9	--
6/16	U. of Mich. Expectations	Jun P	55.2	61.3	55.4	--
6/16	U. of Mich. 1 Yr Inflation	Jun P	4.1%	3.3%	4.2%	--
6/16	U. of Mich. 5-10 Yr Inflation	Jun P	3.0%	3.0%	3.1%	--
6/20	Building Permits	May	1425k	--	1416k	1417k
6/20	Housing Starts	May	1400k	--	1401k	--
6/22	Chicago Fed Nat Activity Index	May	--	--	7.0%	--
6/22	Existing Home Sales	May	4.25m	--	4.28m	--
6/22	Leading Index	May	-0.8%	--	-0.6%	--
6/23	S&P Global US Manufacturing PMI	Jun P	48.5	--	48.4	--
6/23	S&P Global US Services PMI	Jun P	54.0	--	54.9	--
6/23	S&P Global US Composite PMI	Jun P	53.5	--	54.3	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	12.5	14.1	13.3	13.9	15.1	16.3
FH/FN 15y	6.8	7.4	8.6	14.1	16.6	25.1
GN 15y	12.9	14.2	17.2	19.9	22.3	29.6
FH/FN 20y	5.2	6.8	7.7	8.3	9.8	13.1
FH/FN 30y	3.9	6.4	5.8	6.5	6.9	8.7
GN 30y	4.8	7.5	7.0	5.0	7.0	7.8
CPR Projections						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	12.6	12.5	12.7	12.4	10.2	11.2
FH/FN 15y	7.9	7.8	8.0	12.0	14.0	14.7
GN 15y	9.0	9.3	11.0	11.7	13.4	13.5
FH/FN 20y	6.4	7.2	7.8	8.1	8.1	9.1
FH/FN 30y	5.4	5.8	6.0	6.6	6.5	7.6
GN 30y	6.3	6.7	6.9	8.4	9.5	6.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	141.28	1.88	136.39	136.60	132.21
Euro	1.10	0.02	1.09	1.06	1.05
Dollar Index	102.15	(1.40)	102.56	104.70	103.63
Major Stock Indices					
Dow Jones	34,481	604	33,012	32,920	29,927
S&P 500	4,430.5	131.6	4,109.9	3,852.4	3,666.8
NASDAQ	13,770.8	512	12,343.1	10,705.4	10,646.1
Commodities					
Gold	1,962.9	0.7	1,993.0	1,790.0	1,845.7
Crude Oil	70.62	0.45	70.86	74.29	117.59
Natural Gas	2.54	0.29	2.38	6.60	7.46
Wheat	684.8	54.5	647.5	753.5	1,078.3
Corn	634.5	30.3	581.3	653.0	788.3

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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