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It was another volatile week in the markets. Stocks are set to close with their fourth weekly loss and bond yields have bounced around as they digest the Fed's plans to raise the Fed Funds Rate in March and reduce the \$7 trillion balance sheet. Looking at the Treasury market, we are continuing to see a flattening of the yield curve as short-term interest rates are moving faster than long term rates. The 10Yr went up to 1.87% as of Wednesday's close since retracing back to 1.80% Friday morning. The long bond (30Yr) is currently trading at 2.10%, down 10bps from the high made earlier this year and still 30bps lower than the peak in 2021. The 2Yr Treasury yield made a larger move starting the week sub 1% and now climbing as high as of 1.20%. Looking at the spread between these two rates, the 10s/2s are now at 63 basis points which peaked to 130bps in the Fall of last year. This creates a unique situation for the Fed hiking into a relatively flat curve versus prior economic cycles. It was a busy week with economic data and continued geo-political issues between Ukraine and Russia.

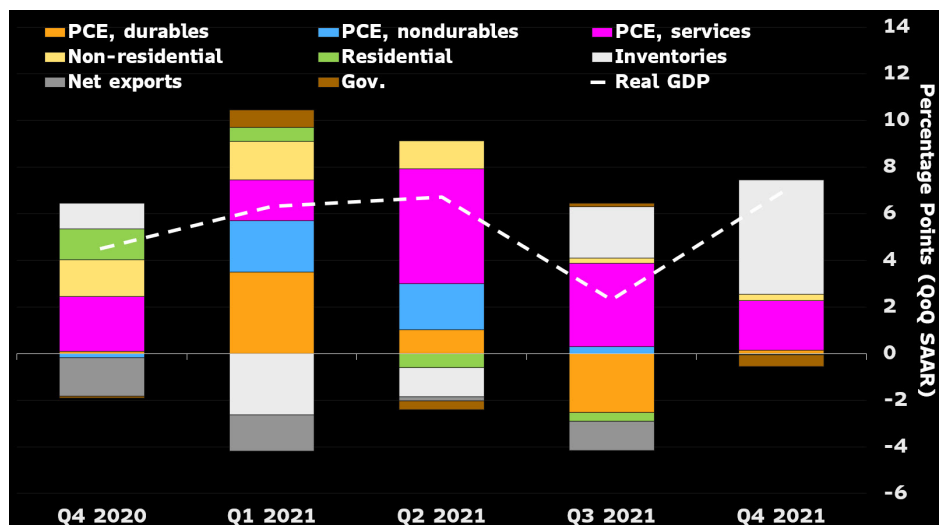
In the middle part of the week the Federal Open Market Committee had their January meeting and signaled it would begin steadily increasing interest rates beginning at March meeting. Chairman Powell indicated they are ready to move steadily away from highly accommodate policy given they've reached the employment goals and are more concerned with the elevated inflation they have been dealing with since earlier last year. When asked about their intentions of forward guidance on the path of the rate hikes this year, Chairman Powell suggested the Fed wasn't likely to offer any which contrasts with the rate hiking cycle back from 2015 to 2018. Rates traders are currently pricing in four hikes this year.

On Thursday GDP was released showing the US economy grew rapidly at 6.9% annual rate, capping the strongest year of growth in nearly four decades. Adjusted for inflation, this quarterly print exceeded most expectations of around 5.5% and improve significantly from the slow down of 2.3% in the third quarter last year. Looking at this year, most economist think output will grow at a more moderate pace. Thursday's report did show the majority of the growth components were related to firms restocking inventory versus consumers and firms purchasing new inventory and equipment. Today's releases included the University of Michigan Sentiment Survey which dropped to lowest level in decades based on Omicron fears and the BLS released the Employee Cost Index which showed that firms spent 4% or more on wages and benefits last year showing some of the highest pay increases seen in over 20 years.

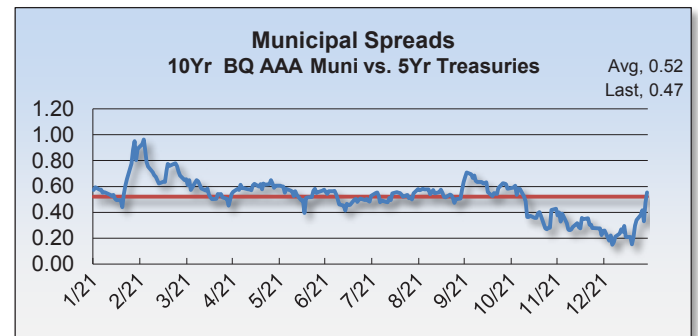
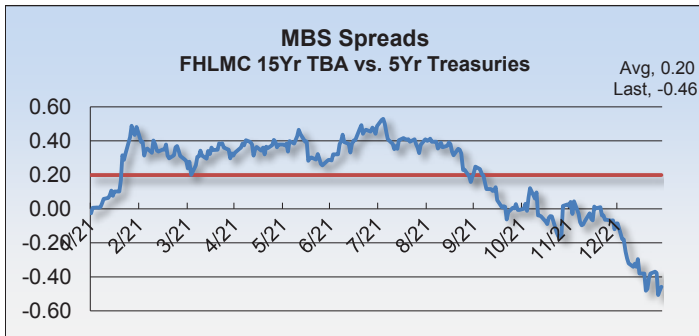
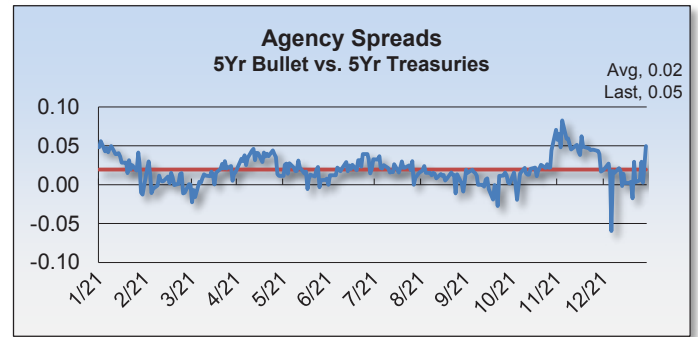
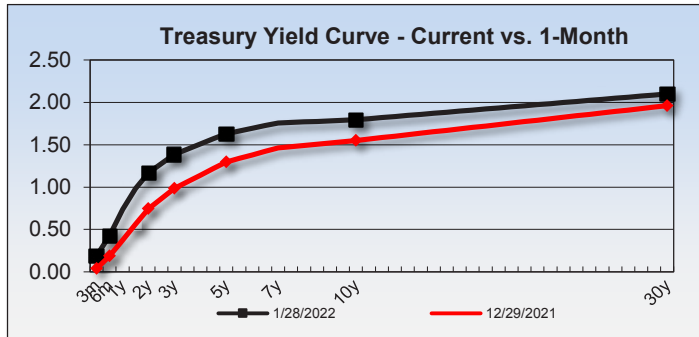
Looking at next week's economic calendar there will be plenty for the markets to digest relating to manufacturing, housing and jobs. On Monday, the Dallas and Chicago Fed will release their PMI and Manufacturing indices, respectively. On Tuesday we see the Institute of Supply Chain Management (ISM) release their manufacturing data and also the BLS will release the JOLTS (Job Opening and Labor Turnover Survey). Housing data from the Mortgage Bankers Associations will be released on Wednesday. And finally on Friday we will get the key jobs report for the month of January which will tell us if the unemployment rate will continue on its trajectory of 3.5% (from currently 3.9%). Have a Great Weekend Everyone!

### GDP Breakdown by Quarter

4th Quarter GDP was well beyond expectations but under neath the data it shows some potential future weakness. For example, more than two thirds of the growth was concentrated in inventory investment.



Bloomberg & BEA (Bureau of Economic Analysis)



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	0.19	0.02	0.05	0.05	0.06	2yr	1.18	1.32	1.11	1.18	1.35	2Yr	1.18	1.18	1.18	-	
6mo	0.42	0.07	0.20	0.05	0.08	3yr	1.42	1.54	1.30	1.39	1.54	3Yr	1.40	1.40	1.40	1.40	
1yr	0.74	0.18	0.28	0.06	0.08	5yr	1.70	1.71	1.55	1.65	1.91	5Yr	1.72	1.72	1.71	1.65	
2yr	1.17	0.16	0.75	0.20	0.12	7yr	1.83	1.79	1.82	1.94	2.08	7Yr	1.85	1.87	1.86	1.80	
3yr	1.39	0.10	0.97	0.37	0.22	10yr	1.99	1.87	2.03	2.16	2.31	10Yr	1.94	1.99	1.99	1.92	
5yr	1.63	0.07	1.25	0.71	0.43	15yr	2.14	1.95	2.20	2.34	2.60		February TBA MBS				
7yr	1.76	0.04	1.41	0.99	0.74	20yr	2.30	1.98	2.37	2.52	2.63	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	1.79	0.03	1.48	1.23	1.05	25yr	2.46	1.97	2.48	2.64	2.69	2.00	1.90	4.6y	2.38		
30yr	2.10	0.03	1.90	1.88	1.81	30yr		1.94	2.59	2.76	2.74	2.50	1.82	3.5y			
* Interpolated												3.00	1.82	3.3y	2.44	4.3y	
												3.50	2.03	3.2y	2.14	3.5y	
												4.00			2.12	3.4y	
												4.50			2.24	3.4y	

\* 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	0.04	--	0.05	0.05	--
1 Month LIBOR	0.11	--	0.10	0.09	0.12
3 Month LIBOR	0.28	0.02	0.22	0.13	0.22
6 Month LIBOR	0.46	0.02	0.34	0.16	0.23
1 Year LIBOR	0.81	0.01	0.57	0.24	0.31
6 Month CD	0.59	0.21	0.28	0.11	0.18
1 Year CMT	0.75	0.15	0.33	0.07	0.09
REPO O/N	0.02	(0.04)	0.05	0.05	0.05
REPO 1Wk	0.10	(0.07)	0.76	0.11	0.07
CoF Federal	0.736	--	0.738	0.785	0.925
11th D. CoF (Nov)	0.218	--	0.225	0.306	0.466

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.39	0.48	0.41
6mo	0.62	0.72	0.67
1yr	0.98	1.02	1.00
2yr	1.39	1.56	1.41
3yr	1.61	1.80	1.67
4yr	1.76	1.94	1.80
5yr	1.86	2.05	1.90
7yr	2.03	2.26	2.07
10yr	2.23	2.47	2.27
5yr Am	1.62		1.73
10yr Am	1.98		2.05

Fed Fund Futures	
Maturity	Rate
Jan-22	0.078
Feb-22	0.085
Mar-22	0.220
Apr-22	0.370
May-22	0.540
Jun-22	0.665
Jul-22	0.775
Aug-22	0.885
Sep-22	0.935
Oct-22	1.055
Nov-22	1.145

# Baker Market Update

## Week in Review

January 28, 2022

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/24	Chicago Fed Nat Activity Index	Dec	--	-15.0%	37.0%	44.0%
1/24	Markit US Manufacturing PMI	Jan P	56.7	55.0	57.7	--
1/24	Markit US Services PMI	Jan P	55.4	50.9	57.6	--
1/24	Markit US Composite PMI	Jan P	--	50.8	57.0	--
1/25	S&P CoreLogic CS 20-City YoY NSA	Nov	18.00%	18.29%	18.41%	18.46%
1/25	S&P CoreLogic CS US HPI YoY NSA	Nov	--	18.81%	19.08%	19.03%
1/25	Conf. Board Consumer Confidence	Jan	111.2	113.8	115.8	115.2
1/25	Conf. Board Present Situation	Jan	--	148.2	144.1	144.8
1/25	Conf. Board Expectations	Jan	--	90.8	96.9	95.4
1/26	MBA Mortgage Applications	1/21	--	-7.1%	2.3%	--
1/26	Advance Goods Trade Balance	Dec	-\$96.0b	-\$101.0b	-\$97.8b	-\$98.0b
1/26	FOMC Rate Decision (Lower Bound)	1/26	0.00%	0.00%	0.00%	--
1/26	FOMC Rate Decision (Upper Bound)	1/26	0.25%	0.25%	0.25%	--
1/26	Interest on Reserve Balances Rate	1/27	0.15%	0.15%	0.15%	--
1/27	Initial Jobless Claims	1/22	265k	260k	286k	290k
1/27	Continuing Claims	1/15	1653k	1675k	1635k	1624k
1/27	Durables Ex Transportation	Dec P	0.3%	0.4%	0.9%	1.1%
1/27	Cap Goods Ship Nondef Ex Air	Dec P	0.5%	1.3%	0.3%	0.4%
1/27	GDP Annualized QoQ	4Q A	5.5%	6.9%	2.3%	--
1/27	Personal Consumption	4Q A	3.4%	3.3%	2.0%	--
1/27	GDP Price Index	4Q A	6.0%	6.9%	6.0%	--
1/27	Core PCE QoQ	4Q A	4.9%	4.9%	4.6%	--
1/27	Pending Home Sales NSA YoY	Dec	-4.0%	-6.6%	0.2%	--
1/28	Employment Cost Index	4Q	1.2%	1.0%	1.3%	--
1/28	Real Personal Spending	Dec	-1.1%	-1.0%	0.0%	-0.2%
1/28	PCE Deflator YoY	Dec	5.8%	5.8%	5.7%	--
1/28	PCE Core Deflator YoY	Dec	4.8%	4.9%	4.7%	--
1/31	MNI Chicago PMI	Jan	62.1	--	63.1	64.3
2/1	ISM New Orders	Jan	--	--	60.4	61.0
2/1	ISM Manufacturing	Jan	57.6	--	58.7	58.8
2/1	ISM Employment	Jan	--	--	54.2	53.9
2/1	ISM Prices Paid	Jan	67.0	--	68.2	--
2/1	JOLTS Job Openings	Dec	10300k	--	10562k	--
2/2	ADP Employment Change	Jan	220k	--	807k	--
2/3	Challenger Job Cuts YoY	Jan	--	--	-75.3%	--
2/3	Unit Labor Costs	4Q P	1.5%	--	9.6%	--
2/3	Nonfarm Productivity	4Q P	2.5%	--	-5.2%	--
2/3	ISM Services Index	Jan	59.50	--	62.00	62.30
2/4	Change in Nonfarm Payrolls	Jan	175k	--	199k	--
2/4	Two-Month Payroll Net Revision	Jan	--	--	141k	--
2/4	Change in Private Payrolls	Jan	183k	--	211k	--
2/4	Change in Manufact. Payrolls	Jan	23k	--	26k	--
2/4	Unemployment Rate	Jan	3.9%	--	3.9%	--
2/4	Average Hourly Earnings YoY	Jan	5.2%	--	4.7%	--
2/4	Average Weekly Hours All Employees	Jan	34.7	--	34.7	--
2/4	Labor Force Participation Rate	Jan	61.9%	--	61.9%	--
2/4	Underemployment Rate	Jan	--	--	7.3%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.4	23.9	24.7	25.4	23.4	13.1
FH/FN 15y	11.6	27.5	29.0	34.7	30.6	22.7
GN 15y	19.5	18.2	19.7	18.9	19.7	19.5
FH/FN 20y	55.3	23.0	25.1	24.9	26.5	21.6
FH/FN 30y	1.8	15.4	39.8	42.2	45.0	46.6
GN 30y	4.1	17.0	41.0	42.0	38.8	26.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.0	17.7	18.4	19.0	20.1	20.1
FH/FN 15y	12.9	15.5	16.3	18.1	20.2	21.3
GN 15y	13.8	13.0	13.3	13.2	12.6	12.2
FH/FN 20y	55.6	12.7	12.5	12.6	13.6	15.0
FH/FN 30y	9.5	11.3	20.0	22.8	24.3	24.3
GN 30y	9.3	10.1	15.4	15.6	16.2	13.3

Other Markets					
Index	Current	1Wk	Historical		
		Chng	1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	115.37	1.69	114.82	109.91	104.24
Euro	1.11	(0.02)	1.13	1.18	1.21
Dollar Index	97.24	1.60	96.20	92.32	90.46
Major Stock Indices					
Dow Jones	33,982	(283)	36,398	34,931	30,603
S&P 500	4,315.4	(82.6)	4,786.4	4,400.6	3,787.4
NASDAQ	13,318.2	(451)	15,781.7	14,762.6	13,337.2
Commodities					
Gold	1,782.8	(49.0)	1,810.2	1,799.7	1,837.9
Crude Oil	88.22	3.08	75.98	72.39	52.34
Natural Gas	4.63	0.63	4.06	4.04	2.66
Wheat	785.0	5.0	783.5	688.8	647.0
Corn	633.3	17.0	604.8	549.3	534.5

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

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