



Ryan Hayhurst

President

The Baker Group LP

Ryan@GoBaker.com

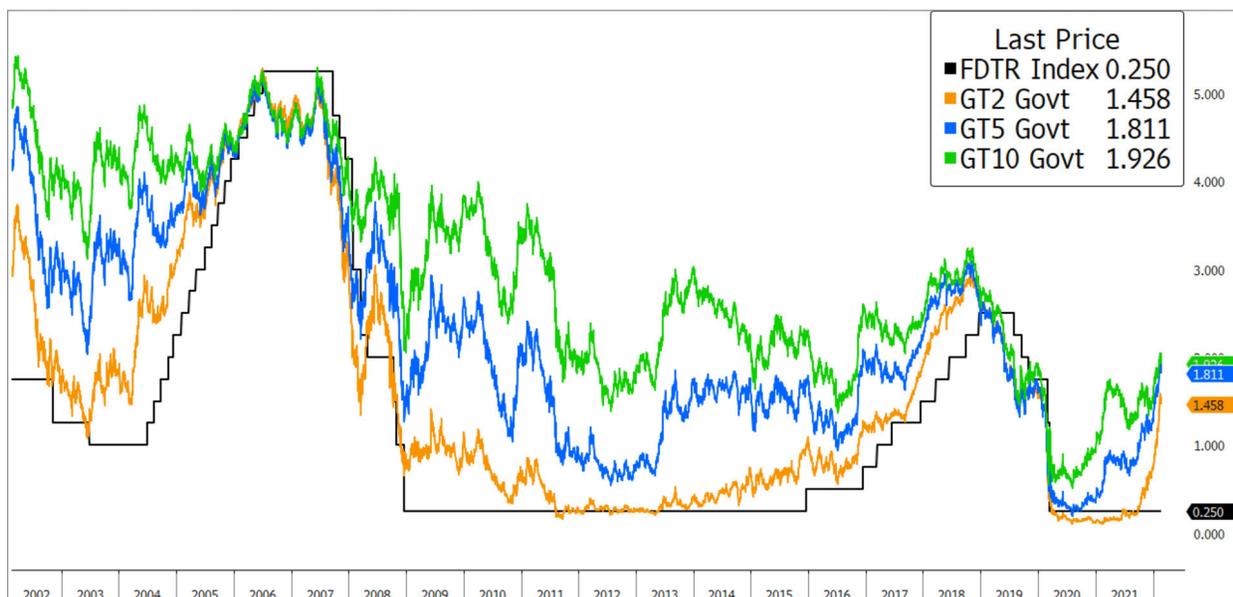
The recent surge in bond yields took a breather this week as the risk of the largest military conflict in Europe since World War II overshadowed soaring inflation and the potential for a more aggressive Federal Reserve tightening cycle in 2022. The 2-year Treasury yield peaked at 1.58% on Tuesday, up 137bp since Sep 2021, as the BLS reported producer prices spiked 1% in January alone and are up 9.7% over the last year. That combined with last week's hotter than expected CPI report that showed consumer prices rising at a 40yr high of 7.5% had traders anticipating the Fed may have to raise rates at every single FOMC meeting this year, including the possibility of a 50bp hike in March. But the threat of a Russian invasion of Ukraine and the potential havoc that could unleash on energies markets and the world economy were enough to remind markets that the Fed may not be able to raise rates as much of they may want. By the end of the week, 2-30yr yields had fallen 10bp or more from Tuesday's high.

Despite the late week rally in Treasuries, it is clear investors need to prepare for an aggressive Federal Reserve tightening cycle in 2022. It is almost a certainty the Fed will raise rates in March, but the markets are split on whether it will be a 25bp or 50bp. St. Louis Fed President James Bullard made headlines this week when he said he wanted the Fed to raise rates 100bp at the next three meetings between now and July 1, which would imply at least one of the hikes was 50bp. But Bullard remains the most hawkish Fed president and most other FOMC members have expressed a desire for a more measured approach that would imply 25 rate hikes at each meeting. The pace of rate hikes will almost certainly depend on whether and to what extent inflation falls and/or growth slows. In my opinion, there are 3 possible paths for rate hikes depending on the path of inflation/growth:

1. Inflation continues at its current elevated pace: Fed raises rates 25bp at each meeting until inflation falls
2. Inflation accelerates higher: Fed raises rates at every meeting with some hikes 50bp
3. Inflation falls and/or growth slows sharply: Fed raises rates at next 3-4 meeting and then pauses to reassess

This is only my expectation for possible paths the Fed may follow, but I think it's clear the Fed will be "data dependent" and they will be focused on tightening monetary policy until inflation falls. February CPI will be reported the week before the FOMC's next meeting (Mar 15-16) and I believe that report could very well determine whether that first rates hike is 25bp or 50bp.

Treasury Yields & Fed Funds Rate Since 2002



Source: Bloomberg, L.P.

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/15	PPI Final Demand YoY	Jan	9.1%	9.7%	9.7%	9.8%
2/15	PPI Ex Food and Energy YoY	Jan	7.9%	8.3%	8.3%	8.5%
2/15	PPI Ex Food, Energy, Trade YoY	Jan	6.3%	6.9%	6.9%	7.0%
2/15	Empire Manufacturing	Feb	12.0	3.1	-0.7	--
2/15	Net Long-term TIC Flows	Dec	--	\$114.5b	\$137.4b	\$137.9b
2/15	Total Net TIC Flows	Dec	--	-\$52.4b	\$223.9b	\$216.8b
2/16	MBA Mortgage Applications	2/11	--	-5.4%	-8.1%	--
2/16	Retail Sales Ex Auto and Gas	Jan	1.0%	3.8%	-2.5%	-3.2%
2/16	Retail Sales Control Group	Jan	1.3%	4.8%	-3.1%	-4.0%
2/16	Import Price Index YoY	Jan	10.0%	10.8%	10.4%	10.2%
2/16	Export Price Index YoY	Jan	13.1%	15.1%	14.7%	14.8%
2/16	Capacity Utilization	Jan	76.8%	77.6%	76.5%	76.6%
2/16	Manufacturing (SIC) Production	Jan	0.2%	0.2%	-0.3%	-0.1%
2/16	Business Inventories	Dec	2.1%	2.1%	1.3%	1.5%
2/16	NAHB Housing Market Index	Feb	82	82	83	--
2/17	Housing Starts	Jan	1695k	1638k	1702k	1708k
2/17	Building Permits	Jan	1750k	1899k	1873k	1885k
2/17	Initial Jobless Claims	2/12	218k	248k	223k	225k
2/17	Continuing Claims	2/5	1605k	1593k	1624k	1619k
2/17	Philadelphia Fed Business Outlook	Feb	20.0	16.0	23.2	--
2/18	Existing Home Sales	Jan	6.10m	6.50m	6.18m	6.09m
2/18	Leading Index	Jan	0.2%	-0.3%	0.8%	0.7%
2/22	House Price Purchase Index QoQ	4Q	--	--	4.2%	--
2/22	S&P CoreLogic CS 20-City MoM SA	Dec	1.10%	--	1.18%	--
2/22	S&P CoreLogic CS 20-City YoY NSA	Dec	18.30%	--	18.29%	--
2/22	S&P CoreLogic CS US HPI YoY NSA	Dec	--	--	18.81%	--
2/22	Markit US Manufacturing PMI	Feb P	56.0	--	55.5	--
2/22	Markit US Services PMI	Feb P	53.0	--	51.2	--
2/22	Markit US Composite PMI	Feb P	--	--	51.1	--
2/22	Conf. Board Consumer Confidence	Feb	110.0	--	113.8	--
2/22	Conf. Board Present Situation	Feb	--	--	148.2	--
2/22	Conf. Board Expectations	Feb	--	--	90.8	--
2/24	Chicago Fed Nat Activity Index	Jan	--	--	-15.0%	--
2/24	GDP Annualized QoQ	4Q S	7.0%	--	6.9%	--
2/24	Personal Consumption	4Q S	3.3%	--	3.3%	--
2/24	GDP Price Index	4Q S	6.9%	--	6.9%	--
2/24	Core PCE QoQ	4Q S	4.9%	--	4.9%	--
2/24	New Home Sales	Jan	806k	--	811k	--
2/25	Personal Income	Jan	-0.3%	--	0.3%	--
2/25	Durable Goods Orders	Jan P	1.0%	--	-0.7%	--
2/25	Durables Ex Transportation	Jan P	0.3%	--	0.6%	--
2/25	Real Personal Spending	Jan	--	--	-1.0%	--
2/25	Cap Goods Orders Nondef Ex Air	Jan P	0.3%	--	0.3%	--
2/25	Cap Goods Ship Nondef Ex Air	Jan P	--	--	1.3%	--
2/25	PCE Deflator YoY	Jan	6.0%	--	5.8%	--
2/25	PCE Core Deflator YoY	Jan	5.2%	--	4.9%	--
2/25	Pending Home Sales NSA YoY	Jan	--	--	-6.6%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.0	22.5	24.0	24.3	23.3	16.0
FH/FN 15y	10.2	23.9	26.4	32.0	29.8	23.0
GN 15y	25.4	17.1	18.9	19.4	20.2	19.7
FH/FN 20y	54.4	19.8	22.6	22.8	24.6	20.6
FH/FN 30y	1.3	11.7	33.1	39.2	43.6	44.4
GN 30y	4.8	16.3	33.6	36.6	39.4	24.8

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.1	17.5	18.0	18.4	19.5	19.4
FH/FN 15y	11.7	13.5	14.7	16.3	19.2	20.9
GN 15y	13.4	12.7	12.7	12.7	12.6	12.3
FH/FN 20y	54.5	11.4	11.5	11.8	12.6	12.9
FH/FN 30y	8.8	9.5	15.6	18.6	22.1	22.7
GN 30y	8.5	9.7	13.5	13.7	14.1	13.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	115.05	(0.37)	114.61	109.77	105.69
Euro	1.13	(0.00)	1.13	1.17	1.21
Dollar Index	95.89	(0.19)	95.73	93.14	90.59
Major Stock Indices					
Dow Jones	34,335	(403)	35,368	34,961	31,493
S&P 500	4,386.4	(32.2)	4,577.1	4,400.3	3,914.0
NASDAQ	13,660.4	(131)	14,506.9	14,525.9	13,865.4
Commodities					
Gold	1,895.2	54.4	1,812.4	1,781.6	1,773.4
Crude Oil	90.73	(2.37)	85.43	65.46	60.52
Natural Gas	4.54	0.60	4.28	3.85	3.08
Wheat	802.8	5.0	769.0	737.3	662.5
Corn	654.8	3.8	599.5	561.8	550.3

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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Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 02/18/2022 9:31AM