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One month ago, it cost the US Treasury 1.85% to borrow money for ten years. Now that cost is 2.69%, an 84bps difference. The increase for a two-year maturity has been even greater. The magnitude of this year's rise in bond yields is profound no matter how you look at it. Even the sharp increase in 1994, an infamous year for the bond market, wasn't quite as painful in as short a period of time. The good news is that for investment officers with money to spend, it's a very welcome opportunity to put higher yields into the bond portfolio and boost earnings.

The first quarter chaos is largely due to the Fed's scrambled attempt to get back in front of the market after failing woefully to acknowledge the sustainability of the current decades-high rates of inflation. Now they're walking a tightrope and hoping to keep hold of the baby while ditching the bathwater. The minutes from the March FOMC meeting, as well as a parade of Fed officials, are reinforcing their commitment to aggressively tighter policy. Market sentiment as evidenced by the flat-to-inverted yield curve is flashing some early warning signs of recession at some point, but the timing is tricky. Futures

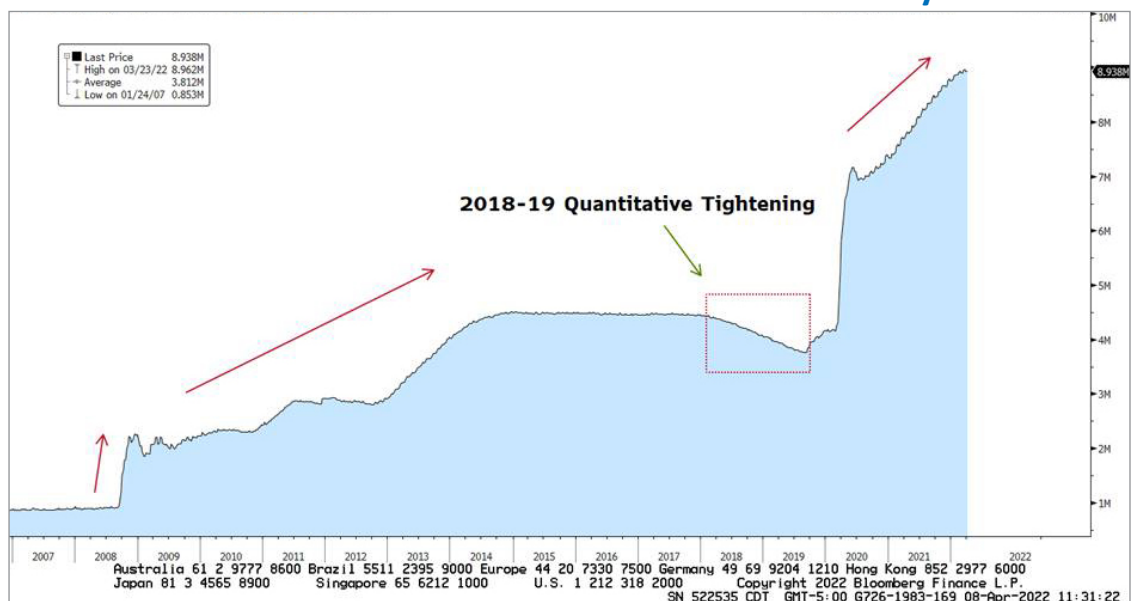
markets at last check were calculating a 2.55% "implied" rate for Fed Funds by the end of the year, and the spread between 2yr and 10yr T-Note yields has ranged between -2bps and 20bps in recent sessions. A slight re-steepening of the curve that took place after release of the minutes can be viewed as quiet applause for the Fed's newfound seriousness.

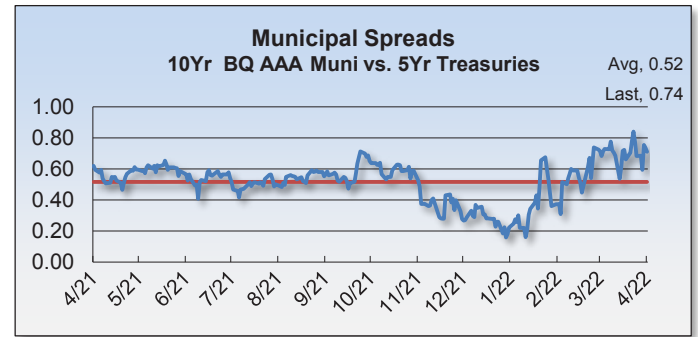
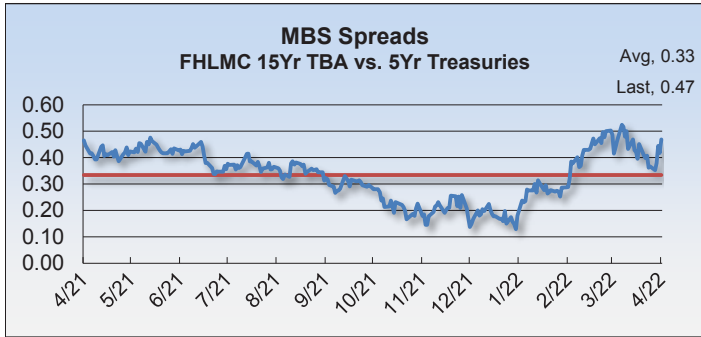
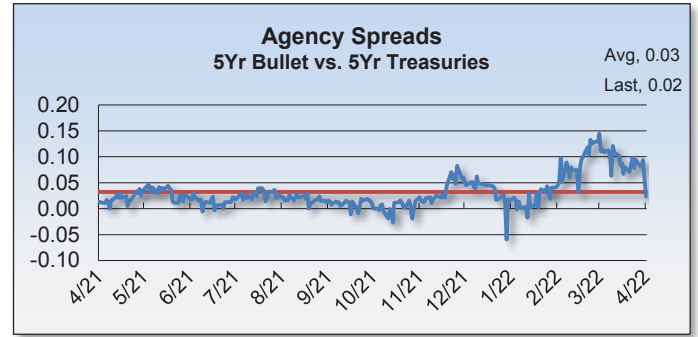
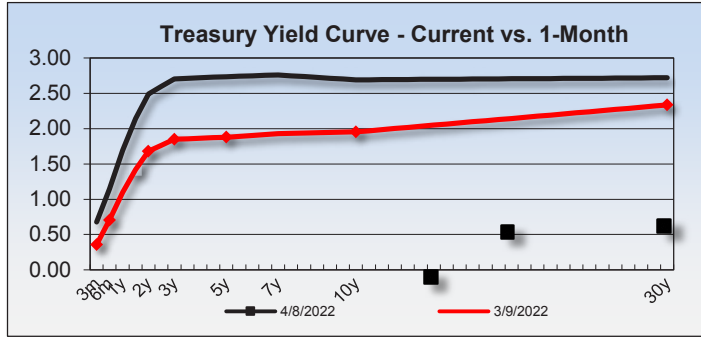
Among Fed speakers this week, James Bullard was again the alpha-hawk, bluntly stating that the Fed was behind in its mission to get an "exceptionally high" rate of inflation under control and suggesting that they'll need to move "forthrightly" in order to get to the "right level" to deal with it. For him, that means a Fed Funds rate above 3%. Several policymakers favored a more aggressive interest rate hike in March (rather than the 25bps they did) to kick off a series of increases this year, but the FOMC held off due to uncertainty regarding the war in Ukraine. Fed Chair Powell said later that nothing would keep them from hiking rates by 50bps in coming meetings if that was deemed appropriate. Markets seem to be building-in that expectation.

Another key takeaway from the minutes is that they plan to begin balance sheet reduction or Quantitative Tightening (QT) as soon as the May meeting. That is welcome news to those of us concerned about market distortions and artificial asset price bubbles from a Fed balance sheet that now approaches \$9 trillion. The QT process introduces potential complications for reserves targeting. They've created an asset/liability mismatch for themselves by buying assets further out on the maturity spectrum, funded by the creation of bank reserves. Reversing that won't be easy. Stay tuned.

The data this week was relatively light: factory orders, durable goods, and manufacturing activity came in largely as expected. Next week promises to be more exciting as we'll get data for inflation, retail sales, and consumer sentiment among other things. And next Friday will be a Good Friday indeed.

Federal Reserve Balance Sheet: 2005 - Today





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	0.68	0.16	0.36	0.06	0.01	2yr	2.48	2.75	2.65	2.82	2.64	2Yr	2.49	2.49	2.49	-
6mo	1.14	0.08	0.70	0.07	0.03	3yr	2.76	2.86	2.79	2.97	2.78	3Yr	2.70	2.71	2.70	2.70
1yr	1.69	(0.01)	1.07	0.09	0.06	5yr	2.81	2.80	2.94	3.13	3.06	5Yr	2.83	2.83	2.82	2.76
2yr	2.49	0.03	1.60	0.32	0.15	7yr	2.90	2.77	3.07	3.26	3.18	7Yr	2.85	2.87	2.86	2.80
3yr	2.70	0.07	1.75	0.58	0.38	10yr	2.93	2.75	3.25	3.46	3.30	10Yr	2.83	2.89	2.88	2.82
5yr	2.74	0.18	1.78	1.06	0.84	15yr	2.97	2.73	3.44	3.67	3.61	May TBA MBS				
7yr	2.76	0.26	1.83	1.40	1.29	20yr	3.00	2.70	3.56	3.78	3.45	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.69	0.31	1.85	1.61	1.62	25yr	3.02	2.62	3.65	3.88	3.51	2.00	2.92	5.7y	3.18	
30yr	2.72	0.29	2.23	2.17	2.31	30yr	3.02	2.54	3.74	3.98	3.56	2.50	3.04	5.4y		
												3.00	3.12	3.8y	3.52 9.2y	
												3.50	3.13	3.8y	3.69 8.1y	
												4.00			3.78 5.3y	
												4.50			3.79 4.6y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.50	--	0.25	0.25	0.25
Primary Discount	0.50	--	0.25	0.25	0.25
2ndary Discount	1.00	--	0.75	0.75	0.75
Prime Rate	3.50	--	3.25	3.25	3.25
Sec. O.N. Finance	0.30	0.01	0.05	0.05	--
1 Month LIBOR	0.45	(0.00)	0.31	0.09	0.11
3 Month LIBOR	0.99	0.02	0.61	0.12	0.20
6 Month LIBOR	1.50	0.03	0.94	0.16	0.20
1 Year LIBOR	2.24	0.12	1.35	0.24	0.29
6 Month CD	1.47	0.01	1.07	0.19	0.12
1 Year CMT	1.78	0.15	1.07	0.10	0.06
REPO O/N	0.31	--	0.07	0.05	0.02
REPO 1Wk	0.37	(0.06)	0.25	0.14	0.08
CoF Federal	0.791	--	0.750	0.761	0.876
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.91	0.94	0.93
6mo	1.36	1.46	1.38
1yr	2.06	2.11	2.06
2yr	2.71	2.79	2.70
3yr	2.92	3.02	2.91
4yr	2.97	3.08	2.96
5yr	3.01	3.12	2.98
7yr	3.13	3.24	3.09
10yr	3.26	3.38	3.23
5yr Am	2.88		2.89
10yr Am	3.14		3.10

Fed Fund Futures	
Maturity	Rate
Apr-22	0.343
May-22	0.755
Jun-22	1.050
Jul-22	1.335
Aug-22	1.680
Sep-22	1.790
Oct-22	2.025
Nov-22	2.280
Dec-22	2.420
Jan-23	2.540
Feb-23	2.725

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
4/4	Factory Orders	Feb	-0.6%	-0.5%	1.4%	1.5%
4/4	Factory Orders Ex Trans	Feb	0.3%	0.4%	1.0%	1.2%
4/4	Durable Goods Orders	Feb F	-2.2%	-2.1%	-2.2%	--
4/4	Durables Ex Transportation	Feb F	-0.6%	-0.6%	-0.6%	--
4/4	Cap Goods Orders Nondef Ex Air	Feb F	--	-0.2%	-0.3%	--
4/4	Cap Goods Ship Nondef Ex Air	Feb F	--	0.3%	0.5%	--
4/5	Trade Balance	Feb	-\$88.5b	-\$89.2b	-\$89.7b	-\$89.2b
4/5	S&P Global US Services PMI	Mar F	58.9	58.0	58.9	--
4/5	S&P Global US Composite PMI	Mar F	58.5	57.7	58.5	--
4/5	ISM Services Index	Mar	58.5	58.3	56.5	--
4/6	MBA Mortgage Applications	4/1	--	-6.3%	-6.8%	--
4/6	FOMC Meeting Minutes	3/16	--	--	--	--
4/7	Initial Jobless Claims	4/2	200k	166k	202k	171k
4/7	Continuing Claims	3/26	1302k	1523k	1307k	1506k
4/7	Consumer Credit	Feb	\$18.100b	\$41.820b	\$6.838b	\$8.931b
4/12	NFIB Small Business Optimism	Mar	95.00	--	95.70	--
4/12	CPI MoM	Mar	1.2%	--	0.8%	--
4/12	CPI YoY	Mar	8.4%	--	7.9%	--
4/12	CPI Ex Food and Energy YoY	Mar	6.6%	--	6.4%	--
4/12	CPI Index NSA	Mar	287.44	--	283.72	--
4/12	CPI Core Index SA	Mar	288.32	--	287.88	--
4/12	Real Avg Hourly Earning YoY	Mar	--	--	-2.6%	-2.5%
4/12	Real Avg Weekly Earnings YoY	Mar	--	--	-2.3%	-2.2%
4/12	Monthly Budget Statement	Mar	--	--	-\$216.6b	--
4/13	PPI Final Demand YoY	Mar	10.6%	--	10.0%	--
4/13	PPI Ex Food and Energy YoY	Mar	8.4%	--	8.4%	--
4/13	PPI Ex Food, Energy, Trade YoY	Mar	6.6%	--	6.6%	--
4/14	Retail Sales Ex Auto and Gas	Mar	0.0%	--	-0.4%	--
4/14	Retail Sales Control Group	Mar	-0.1%	--	-1.2%	--
4/14	Import Price Index MoM	Mar	2.4%	--	1.4%	--
4/14	Import Price Index YoY	Mar	--	--	10.9%	--
4/14	Export Price Index MoM	Mar	2.2%	--	3.0%	--
4/14	Initial Jobless Claims	4/9	175k	--	166k	--
4/14	Export Price Index YoY	Mar	--	--	16.6%	--
4/14	Continuing Claims	4/2	1500k	--	1523k	--
4/14	Business Inventories	Feb	1.3%	--	1.1%	--
4/14	U. of Mich. Sentiment	Apr P	58.8	--	59.4	--
4/14	U. of Mich. Current Conditions	Apr P	67.0	--	67.2	--
4/14	U. of Mich. Expectations	Apr P	54.0	--	54.3	--
4/14	U. of Mich. 1 Yr Inflation	Apr P	--	--	0.1	--
4/14	U. of Mich. 5-10 Yr Inflation	Apr P	--	--	0.0	--
4/15	Empire Manufacturing	Apr	1.0	--	-11.8	--
4/15	Industrial Production MoM	Mar	0.4%	--	0.5%	--
4/15	Capacity Utilization	Mar	77.8%	--	77.6%	--
4/15	Manufacturing (SIC) Production	Mar	0.4%	--	1.2%	--
4/15	Net Long-term TIC Flows	Feb	--	--	\$58.8b	--
4/15	Total Net TIC Flows	Feb	--	--	\$294.2b	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	19.8	22.5	22.9	20.1	28.9
FH/FN 15y	#####	#####	22.4	28.4	27.3	23.5
GN 15y	18.6	16.5	18.7	19.3	20.9	20.6
FH/FN 20y	53.3	13.0	17.7	19.8	21.4	19.7
FH/FN 30y	8.0	8.7	16.3	15.8	40.8	44.8
GN 30y	5.4	10.4	21.6	22.0	26.9	22.3

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.4	16.4	17.2	17.3	18.1	18.1
FH/FN 15y	9.8	9.5	11.9	12.8	16.9	20.0
GN 15y	11.1	11.1	11.7	11.8	12.0	12.2
FH/FN 20y	53.1	8.3	9.9	10.4	11.0	11.4
FH/FN 30y	7.1	6.8	8.3	9.4	14.7	17.4
GN 30y	6.5	8.0	10.8	11.0	11.5	11.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	124.48	1.96	115.67	112.24	109.26
Euro	1.09	(0.02)	1.09	1.16	1.19
Dollar Index	100.11	1.48	99.06	94.07	92.06
Major Stock Indices					
Dow Jones	34,619	(200)	32,633	34,746	33,504
S&P 500	4,485.1	(60.8)	4,170.7	4,391.3	4,097.2
NASDAQ	13,752.7	(509)	12,795.6	14,579.5	13,829.3
Commodities					
Gold	1,950.0	26.3	2,043.3	1,757.4	1,758.2
Crude Oil	96.97	(2.30)	123.70	79.35	59.60
Natural Gas	6.36	0.64	4.53	5.57	2.52
Wheat	1,042.8	58.3	1,286.5	734.0	628.8
Corn	766.3	31.3	753.0	530.5	579.8

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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