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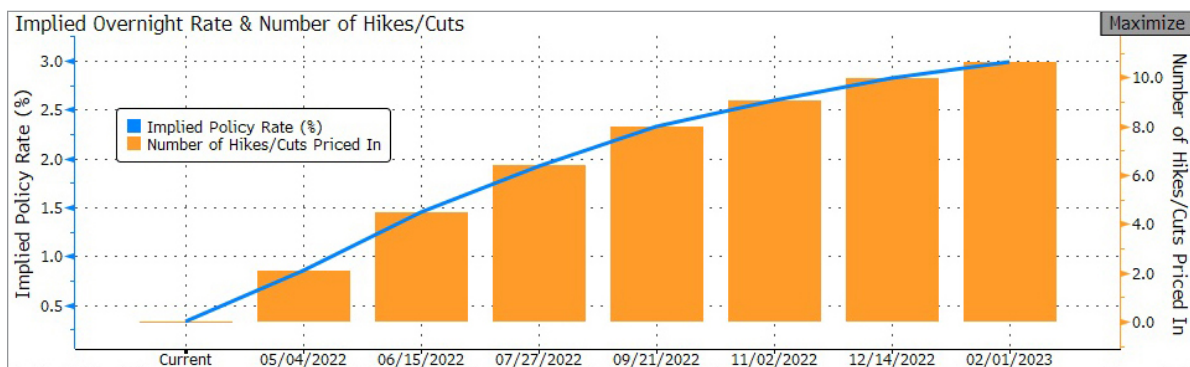
Bond yields continued to march higher this week as Fed Chairman Jerome Powell reinforced expectations of aggressive tightening policy including a likely 50bps hike at the next FOMC meeting. Futures markets now project a fed funds rate of nearly 3.00% one year from now. Speaking on a panel with other central bankers, Powell said he sees it as appropriate to move more quickly and suggested that “front-end loading” the pace of rate hikes was a good idea. This follows earlier comments along the same lines from his colleagues on the FOMC. Treasury yields across the maturity spectrum drifted higher on the week as maturities from five years out traded above 3% at times during the week. As we approach the weekend, 10-year is trading around 2.90%, and the spread between 2-year and 10-year T-Notes hovered around 16bps.

The other component of the Fed’s tightening campaign is their intention to reduce the size of their balance sheet beginning next month. Formally announced plans call for a reduction of \$95 billion a month in MBS and Treasury holdings. The effect on MBS is expected to be ambiguous depending on coupon and structure. The specific MBS-types held by the Fed will, of course, be affected, but others may perform quite well as the net supply of securities this year will be far less than originally forecast. In any case, much of what the Fed has telegraphed has already been priced-into markets.

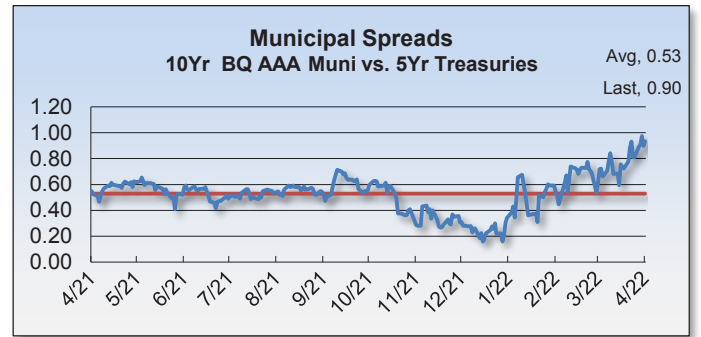
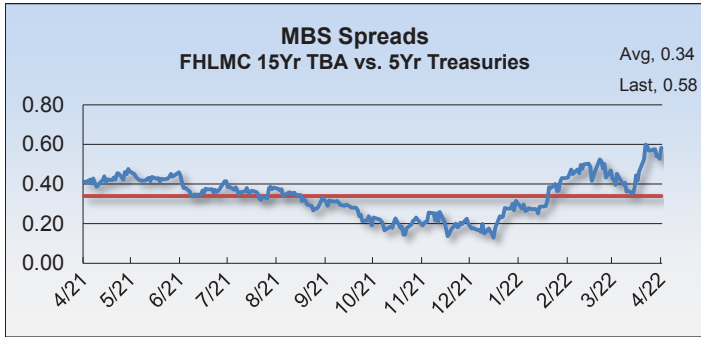
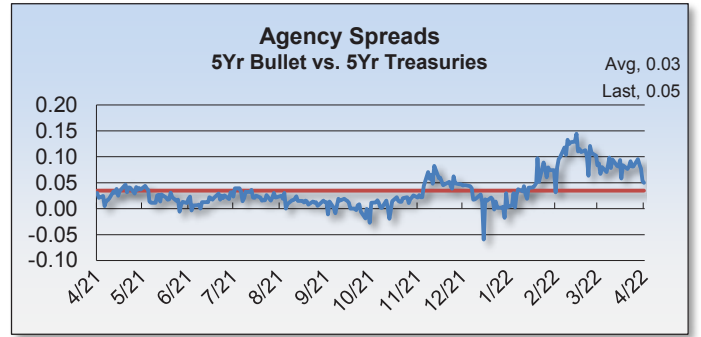
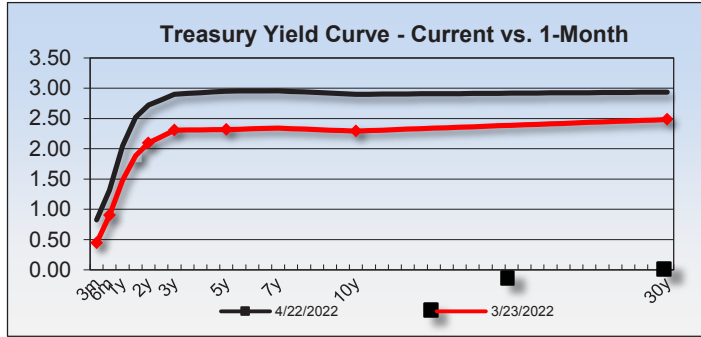
Another point of focus for the Fed right now is the very tight US labor market. At 3.6%, the unemployment rate is near a 50-year low, and worker shortages in key sectors are putting upward pressure on wage inflation. Average hourly earnings YOY through March are clipping along at a pace of 6.7%, feeding concerns about a wage-price spiral and the risk that expectations of high and rising inflation could become embedded into decision-making of businesses and households. In his remarks, Powell referenced Paul Volker, his predecessor who squashed the double-digit inflation of the late-1970s with aggressive rate hikes and clarity in communication to the market, saying that Volker understood the critical importance of “dismantling the public’s belief that elevated inflation was an unfortunate, but immutable, fact of life.” The risk, as is well-known, is that this cure for the inflation problem involves some painful economic weakness. It’s a difficult balancing act indeed, but the Fed has no choice. The massive and unprecedented fiscal and monetary stimulus that was injected into the economy over the last two years, coupled with continuing supply chain sclerosis, has now caused a massive imbalance between aggregate supply and demand. And the Fed runs the greater risk of moving to slowly and allowing inflation to continue erosion of real wages, earnings, and returns on investment.

The economic data released this week included monthly numbers on housing starts and building permits, as well as existing home sales. All of these numbers came in stronger than expected (or less-weak than expected in the case of existing home sales). The “Philly Fed” manufacturing index was reported to be a touch lower than estimated, and Leading Economic Indicators was right on the screws at +0.3%, or 6.9% YOY, continuing a year-long downtrend. Next week we can look for fresh data on capital expenditures, consumer sentiment, and new home sales among other things.

### US Federal Funds Futures Projections



Source: Bloomberg Finance, 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.83	0.05	0.50	0.06	0.02	2yr	2.74	3.01	3.08	3.28	2.95	2Yr	2.74	2.74	2.74	-
6mo	1.32	0.09	0.95	0.06	0.03	3yr	2.94	3.09	3.22	3.43	3.11	3Yr	2.93	2.93	2.90	2.92
1yr	2.05	0.32	1.33	0.12	0.06	5yr	3.00	3.01	3.35	3.56	3.43	5Yr	3.06	3.06	3.05	2.99
2yr	2.72	0.26	2.17	0.46	0.15	7yr	3.12	2.96	3.51	3.74	3.52	7Yr	3.05	3.07	3.06	2.99
3yr	2.90	0.22	2.38	0.77	0.36	10yr	3.23	2.93	3.72	3.96	3.63	10Yr	3.03	3.09	3.08	3.01
5yr	2.95	0.16	2.40	1.20	0.79	15yr	3.34	2.91	3.92	4.17	3.88	May TBA MBS				
7yr	2.96	0.11	2.43	1.47	1.22	20yr	3.45	2.87	4.03	4.29	3.69	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.90	0.07	2.38	1.63	1.54	25yr	3.57	2.78	4.12	4.39	3.75	2.00	3.29	5.8y	3.53	
30yr	2.94	0.02	2.60	2.07	2.22	30yr		2.68	4.21	4.48	3.80	2.50	3.40	5.6y		
												3.00	3.59	3.9y	3.80 9.7y	
												3.50	3.49	3.8y	3.96 8.8y	
												4.00			4.11 5.9y	
												4.50			4.08 5.1y	

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.50	--	0.50	0.25	0.25
Primary Discount	0.50	--	0.50	0.25	0.25
2ndary Discount	1.00	--	1.00	0.75	0.75
Prime Rate	3.50	--	3.50	3.25	3.25
Sec. O.N. Finance	0.26	(0.03)	0.29	0.03	--
1 Month LIBOR	0.63	0.08	0.45	0.09	0.11
3 Month LIBOR	1.14	0.09	0.93	0.13	0.18
6 Month LIBOR	1.67	0.12	1.29	0.17	0.22
1 Year LIBOR	2.37	0.12	1.79	0.30	0.29
6 Month CD	1.82	0.25	1.45	0.27	0.14
1 Year CMT	2.01	0.17	1.40	0.12	0.07
REPO O/N	0.27	(0.04)	0.27	0.01	0.01
REPO 1Wk	0.41	0.04	0.34	0.14	0.08
CoF Federal	0.870	--	0.791	0.752	0.845
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	1.05	1.11	1.09
6mo	1.53	1.62	1.51
1yr	2.30	2.36	2.19
2yr	2.98	3.05	2.88
3yr	3.16	3.23	3.10
4yr	3.22	3.31	3.16
5yr	3.21	3.30	3.17
7yr	3.31	3.41	3.29
10yr	3.46	3.58	3.46
5yr Am	3.11		3.08
10yr Am	3.34		3.31

Fed Fund Futures		
Maturity	Rate	
Apr-22	0.330	
May-22	0.790	
Jun-22	1.155	
Jul-22	1.500	
Aug-22	1.925	
Sep-22	2.045	
Oct-22	2.310	
Nov-22	2.570	
Dec-22	2.715	
Jan-23	2.820	
Feb-23	2.985	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
4/18	NAHB Housing Market Index	Apr	77.0	77.0	79.0	--
4/19	Housing Starts	Mar	1740k	1793k	1769k	1788k
4/19	Building Permits	Mar	1820k	1873k	1859k	1865k
4/20	MBA Mortgage Applications	4/15	--	-5.0%	-1.3%	--
4/20	Existing Home Sales	Mar	5.77m	5.77m	6.02m	5.93m
4/21	Philadelphia Fed Business Outlook	Apr	21.4	17.6	27.4	--
4/21	Initial Jobless Claims	4/16	180k	184k	185k	186k
4/21	Continuing Claims	4/9	1459k	1417k	1475k	--
4/21	Leading Index	Mar	0.3%	0.3%	0.3%	0.6%
4/22	S&P Global US Manufacturing PMI	Apr P	58.0	59.7	58.8	--
4/22	S&P Global US Services PMI	Apr P	58.0	54.7	58.0	--
4/22	S&P Global US Composite PMI	Apr P	57.9	55.1	57.7	--
4/25	Chicago Fed Nat Activity Index	Mar	--	--	0.51	--
4/25	Dallas Fed Manf. Activity	Apr	4.5	--	8.7	--
4/26	Durable Goods Orders	Mar P	1.00%	--	-2.10%	--
4/26	Durables Ex Transportation	Mar P	0.50%	--	-0.60%	--
4/26	Cap Goods Orders Nondef Ex Air	Mar P	0.50%	--	-0.20%	--
4/26	Cap Goods Ship Nondef Ex Air	Mar P	0.50%	--	0.30%	--
4/26	S&P CoreLogic CS 20-City YoY NSA	Feb	19.20%	--	19.10%	--
4/26	S&P CoreLogic CS US HPI YoY NSA	Feb	--	--	19.17%	--
4/26	Conf. Board Consumer Confidence	Apr	108.0	--	107.2	--
4/26	Conf. Board Present Situation	Apr	--	--	153.0	--
4/26	Conf. Board Expectations	Apr	--	--	76.6	--
4/26	Richmond Fed Manufact. Index	Apr	8.0	--	13.0	--
4/26	New Home Sales	Mar	775k	--	772k	--
4/26	New Home Sales MoM	Mar	0.4%	--	-2.0%	--
4/27	Advance Goods Trade Balance	Mar	-\$105.0b	--	-\$106.6b	-\$106.3b
4/27	Pending Home Sales NSA YoY	Mar	--	--	-5.4%	--
4/28	GDP Annualized QoQ	1Q A	1.0%	--	6.9%	--
4/28	Personal Consumption	1Q A	3.4%	--	2.5%	--
4/28	GDP Price Index	1Q A	7.2%	--	7.1%	--
4/28	Core PCE QoQ	1Q A	5.6%	--	5.0%	--
4/28	Initial Jobless Claims	4/23	180k	--	184k	--
4/28	Continuing Claims	4/16	1393k	--	1417k	--
4/28	Kansas City Fed Manf. Activity	Apr	35.0	--	37.0	--
4/29	Employment Cost Index	1Q	1.1%	--	1.0%	--
4/29	Personal Income	Mar	0.4%	--	0.5%	--
4/29	Personal Spending	Mar	0.6%	--	0.2%	--
4/29	Real Personal Spending	Mar	0.0%	--	-0.4%	--
4/29	PCE Deflator YoY	Mar	6.7%	--	6.4%	--
4/29	PCE Core Deflator YoY	Mar	5.3%	--	5.4%	--
4/29	MNI Chicago PMI	Apr	61.0	--	62.9	--
4/29	U. of Mich. Sentiment	Apr F	65.7	--	65.7	--
4/29	U. of Mich. Current Conditions	Apr F	--	--	68.1	--
4/29	U. of Mich. Expectations	Apr F	--	--	64.1	--
4/29	U. of Mich. 1 Yr Inflation	Apr F	--	--	5.4%	--
4/29	U. of Mich. 5-10 Yr Inflation	Apr F	--	--	3.0%	--

MBS Prepayments <sup>4</sup>						
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	14.8	16.4	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	22.2

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.9	16.0	17.1	17.1	17.7	18.0
FH/FN 15y	9.4	8.9	11.1	12.4	16.5	19.9
GN 15y	10.6	10.4	11.1	11.7	11.8	12.1
FH/FN 20y	52.8	7.5	9.2	10.1	10.8	11.2
FH/FN 30y	6.8	6.4	7.5	8.3	13.0	15.7
GN 30y	6.0	7.5	9.9	10.3	11.0	11.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	128.24	1.78	120.80	113.50	107.97
Euro	1.08	(0.00)	1.10	1.16	1.20
Dollar Index	100.96	0.64	98.49	93.64	91.33
<b>Major Stock Indices</b>					
Dow Jones	34,388	(63)	34,807	35,677	33,816
S&P 500	4,357.6	(34.9)	4,511.6	4,544.9	4,135.0
NASDAQ	13,110.2	(241)	14,108.8	15,090.2	13,818.4
<b>Commodities</b>					
Gold	1,944.2	(30.7)	1,921.5	1,796.3	1,782.0
Crude Oil	102.33	(4.62)	111.76	83.76	61.43
Natural Gas	6.86	(0.44)	5.19	5.28	2.75
Wheat	1,061.3	-35.3	1,118.3	756.0	710.3
Corn	786.3	-4.0	753.0	538.0	650.5

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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