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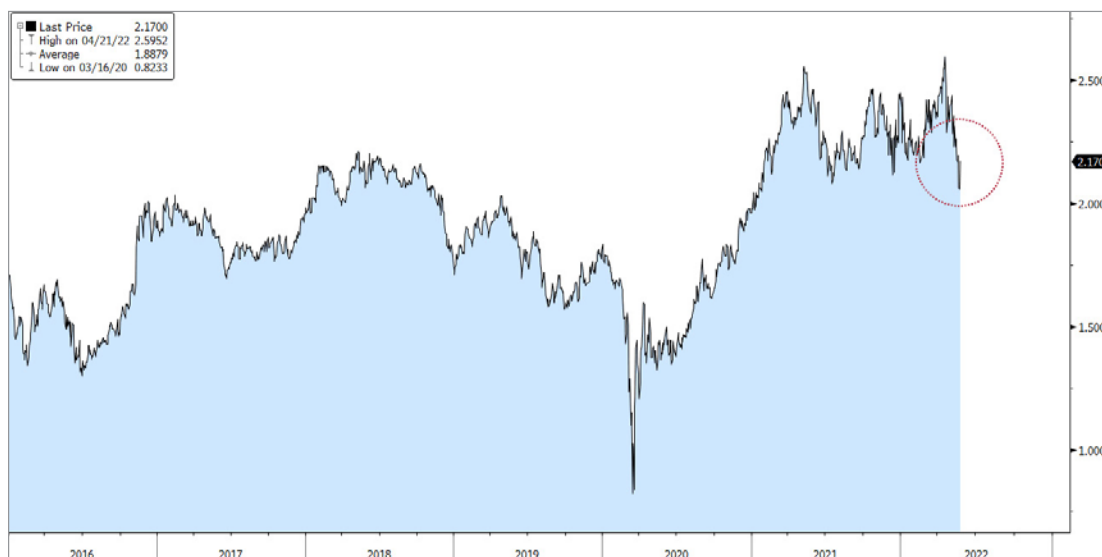
As the first week of summer began, Federal Reserve Vice-Chair Lael Brainard stuck to the script on aggressive monetary policy by clarifying her support for raising rates in 50bps chunks at the next two FOMC meetings, and tamping down speculation that there will be some sort of “pause” in September. That echoes Chairman Powell who said there will be no “looking around” for “nuanced readings of inflation”. The plan, it seems, is to tighten until inflation is coming down in a “clear and convincing way.” Otherwise, they’ll keep going. Markets have taken note, but now policymakers must follow-through.

The Fed’s reiteration of aggressive and unambiguous policy is welcome and necessary to weed out any inflationary psychology that’s becoming embedded in the decision-making of households or firms. The cost of that policy, as is well understood, is demand destruction and a likely recession beginning sometime in the next year. The Fed’s weaponry now includes steady reduction of their balance sheet (Quantitative Tightening) as this week saw the beginning of their process to shrink the \$8.9 trillion asset portfolio. The plan for steadfast monetary tightening is designed to reverse the excess stimulus that was produced in response to the pandemic in 2020-21, and hopefully unwind the inflationary impulse that it created. The excess stimulus led to spending rather than production, and speculation rather than investment. If the Fed stays on task, the resulting recession will likely be painful in order to squash inflation, and it may be exacerbated by the collapse of price bubbles in speculative assets that resulted from the over-stimulus. Strong but necessary medicine.

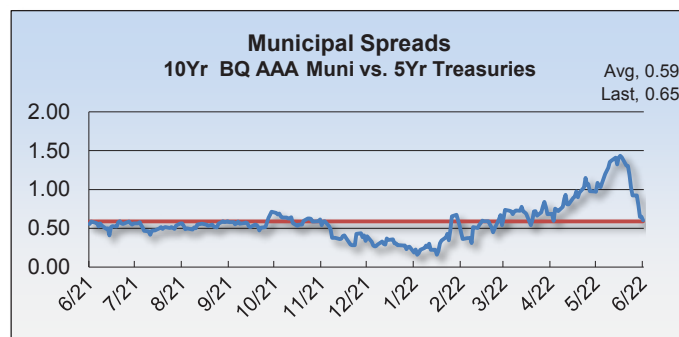
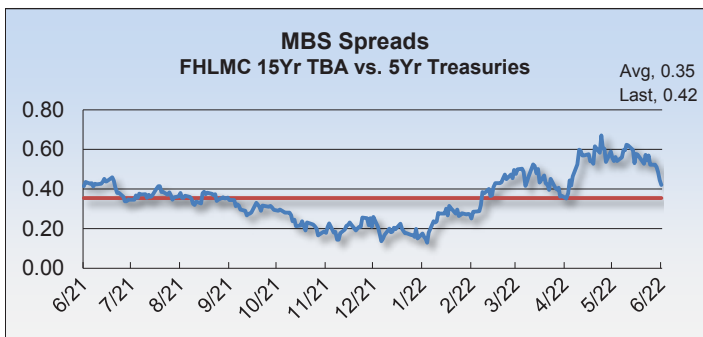
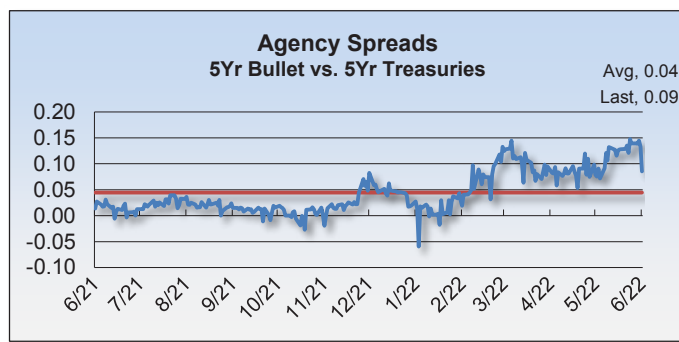
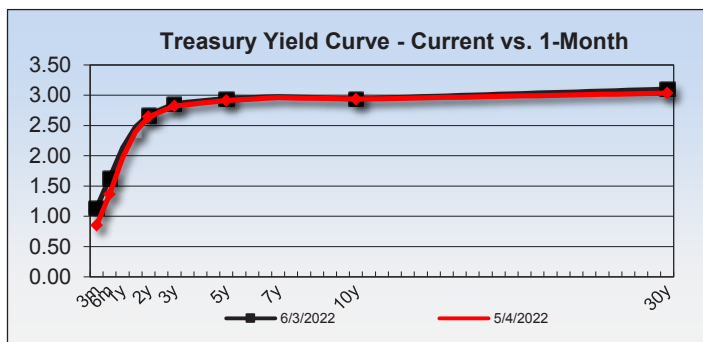
The week’s economic data releases showed still-strong home price appreciation, and still-solid job creation, but the sky seems to be getting a bit darker for the economy in subtle but important ways. Productivity growth (output per worker) for the month of May fell by a stunning 7.1%, the lowest in fifty years at least. Corporate profits in the first quarter declined as firms continued to higher workers despite negative output. Also, part time employment for economic reasons jumped last month, pushing the “underemployment” rate up for a second consecutive month to 7.1%. We saw that the ISM employment index fell below 50%, an indication of contraction in the manufacturing sector. That was reinforced by the fact that payrolls creation for manufacturing jobs was just 18K, far short of the estimates and well below the prior month’s 55K.

The 10yr US T-Note yield traded in a 25bps range from 2.75% to 3%, and the futures market was priced for a 3% fed funds rate by early next year. The slope of the yield curve (2s / 10s spread) has been stuck around 25-30bps for several weeks. Some good news... the Fed’s favorite measure of inflation expectations fell this week to the lowest level in well over a year, lower even than the average for all of 2018. Maybe the inflation psychology is breaking. Time will tell.

Fed’s Five Year Forward Breakeven Inflation: 2015 – Today



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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.14	0.09	0.91	0.05	0.02	2yr	2.68	3.05	2.48	2.64	3.02	2Yr	2.67	2.67	2.67	-
6mo	1.63	0.12	1.43	0.09	0.03	3yr	2.95	3.05	2.67	2.85	3.16	3Yr	2.87	2.87	2.80	2.87
1yr	2.13	0.15	2.11	0.25	0.04	5yr	3.07	3.00	2.84	3.02	3.45	5Yr	3.03	3.03	3.02	2.96
2yr	2.67	0.19	2.78	0.59	0.16	7yr	3.18	3.00	3.18	3.38	3.69	7Yr	3.07	3.09	3.08	3.01
3yr	2.86	0.23	2.97	0.85	0.39	10yr	3.32	3.04	3.40	3.62	3.88	10Yr	3.08	3.14	3.13	3.06
5yr	2.95	0.23	3.02	1.13	0.84	15yr	3.45	3.10	3.58	3.81	4.05	July TBA MBS				
7yr	2.98	0.21	3.04	1.30	1.30	20yr	3.59	3.08	3.71	3.95	4.11	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.94	0.20	2.98	1.35	1.63	25yr	3.79	3.00	3.80	4.05	4.17	2.00	3.24	5.8y	3.55	
30yr	3.10	0.13	3.01	1.67	2.30	30yr	3.91	2.91	3.89	4.14	4.23	2.50	3.39	5.5y		
												3.00	3.43	5.4y	3.75 9.4y	
												3.50	3.28	3.8y	3.86 8.5y	
												4.00			4.01 7.1y	
												4.50			4.07 4.8y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.00	--	0.50	0.25	0.25
Primary Discount	1.00	--	0.50	0.25	0.25
2ndary Discount	1.50	--	1.00	0.75	0.75
Prime Rate	4.00	--	3.50	3.25	3.25
Sec. O.N. Finance	0.79	0.01	0.30	0.05	--
1 Month LIBOR	1.12	0.10	0.80	0.10	0.09
3 Month LIBOR	1.63	0.07	1.33	0.17	0.13
6 Month LIBOR	2.11	0.06	1.91	0.27	0.17
1 Year LIBOR	2.78	0.09	2.63	0.46	0.25
6 Month CD	2.24	0.12	2.01	0.32	0.09
1 Year CMT	2.15	0.16	2.10	0.27	0.05
REPO O/N	0.80	0.02	0.27	0.07	-0.02
REPO 1Wk	0.85	--	0.92	0.12	0.08
CoF Federal	0.963	--	0.870	0.749	0.823
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	1.41	1.43	1.44
6mo	1.83	1.89	1.85
1yr	2.43	2.46	2.46
2yr	2.83	2.91	2.91
3yr	3.03	3.11	3.11
4yr	3.11	3.16	3.16
5yr	3.13	3.21	3.19
7yr	3.35	3.46	3.40
10yr	3.50	3.63	3.55
5yr Am	3.02		3.10
10yr Am	3.34		3.38

Fed Fund Futures	
Maturity	Rate
Jun-22	1.085
Jul-22	1.405
Aug-22	1.845
Sep-22	1.965
Oct-22	2.255
Nov-22	2.540
Dec-22	2.700
Jan-23	2.815
Feb-23	2.980
Mar-23	3.060
Apr-23	3.140

Baker Market Update

Week in Review

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
5/31	House Price Purchase Index QoQ	1Q	--	4.6%	3.3%	3.6%
5/31	S&P CoreLogic CS 20-City YoY NSA	Mar	20.00%	21.17%	20.20%	20.26%
5/31	S&P CoreLogic CS US HPI YoY NSA	Mar	--	20.55%	19.80%	20.01%
5/31	MNI Chicago PMI	May	55.0	60.3	56.4	--
5/31	Conf. Board Consumer Confidence	May	103.6	106.4	107.3	108.6
5/31	Conf. Board Present Situation	May	--	149.6	152.6	152.9
5/31	Conf. Board Expectations	May	--	77.5	77.2	79.0
6/1	MBA Mortgage Applications	5/27	--	-2.3%	-1.2%	--
6/1	S&P Global US Manufacturing PMI	May F	57.5	57.0	57.5	--
6/1	ISM Manufacturing	May	54.5	56.1	55.4	--
6/1	ISM Prices Paid	May	81.0	82.2	84.6	--
6/1	ISM New Orders	May	52.9	55.1	53.5	--
6/1	ISM Employment	May	52.0	49.6	50.9	--
6/1	JOLTS Job Openings	Apr	11350k	11400k	11549k	11855k
6/2	Challenger Job Cuts YoY	May	--	-15.8%	6.0%	--
6/2	ADP Employment Change	May	300k	128k	247k	202k
6/2	Nonfarm Productivity	1Q F	-7.5%	-7.3%	-7.5%	--
6/2	Unit Labor Costs	1Q F	11.6%	12.6%	11.6%	--
6/2	Initial Jobless Claims	5/28	210k	200k	210k	211k
6/2	Continuing Claims	5/21	1340k	1309k	1346k	1343k
6/2	Factory Orders Ex Trans	Apr	--	0.3%	2.5%	2.2%
6/2	Durables Ex Transportation	Apr F	0.3%	0.4%	0.3%	--
6/2	Cap Goods Orders Nondef Ex Air	Apr F	0.4%	0.4%	0.3%	--
6/2	Cap Goods Ship Nondef Ex Air	Apr F	--	0.8%	0.8%	--
6/3	Two-Month Payroll Net Revision	May	--	-22k	--	--
6/3	Change in Nonfarm Payrolls	May	318k	390k	428k	436k
6/3	Change in Private Payrolls	May	301k	333k	406k	405k
6/3	Change in Manufact. Payrolls	May	39k	18k	55k	61k
6/3	Unemployment Rate	May	3.5%	3.6%	3.6%	--
6/3	Average Hourly Earnings YoY	May	5.2%	5.2%	5.5%	--
6/3	Average Hourly Earnings MoM	May	0.4%	0.3%	0.3%	--
6/3	Average Weekly Hours All Employees	May	34.6	34.6	34.6	--
6/3	Labor Force Participation Rate	May	62.3%	62.3%	62.2%	--
6/3	Underemployment Rate	May	--	7.1%	7.0%	--
6/3	S&P Global US Services PMI	May F	53.5	53.4	53.5	--
6/3	S&P Global US Composite PMI	May F	53.8	53.6	53.8	--
6/3	ISM Services Index	May	56.5	55.9	57.1	--
6/7	Consumer Credit	Apr	\$34.000b	--	\$52.435b	--
6/9	Household Change in Net Worth	1Q	--	--	\$5297b	--
6/10	CPI YoY	May	8.2%	--	8.3%	--
6/10	CPI Ex Food and Energy YoY	May	5.9%	--	6.2%	--
6/10	CPI Core Index SA	May	292.04	--	290.46	--
6/10	Real Avg Hourly Earning YoY	May	--	--	-2.6%	--
6/10	Real Avg Weekly Earnings YoY	May	--	--	-3.4%	--
6/10	U. of Mich. Sentiment	Jun P	58.8	--	58.4	--
6/10	U. of Mich. Current Conditions	Jun P	62.0	--	63.3	--
6/10	U. of Mich. 1 Yr Inflation	Jun P	--	--	5.3%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.3	19.1	22.0	22.8	20.1	33.5
FH/FN 15y	8.8	9.6	12.3	27.5	26.7	24.3
GN 15y	11.7	17.2	19.5	18.5	21.2	20.8
FH/FN 20y	53.2	11.8	15.9	18.8	20.6	20.2
FH/FN 30y	12.1	9.0	15.8	15.2	19.5	45.5
GN 30y	4.8	10.2	19.0	19.8	21.2	21.6

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	9.9	10.2	10.8	12.8	14.0	14.8
FH/FN 15y	8.1	8.3	9.4	12.5	17.0	19.7
GN 15y	11.1	10.5	11.3	14.6	14.9	15.6
FH/FN 20y	6.2	6.9	7.7	8.9	11.2	11.8
FH/FN 30y	6.0	6.4	7.5	8.8	11.5	16.4
GN 30y	7.0	7.1	8.5	10.4	12.5	12.6

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	130.52	3.41	130.14	112.80	110.29
Euro	1.07	0.00	1.05	1.13	1.21
Dollar Index	101.85	0.03	103.47	96.12	90.51
Major Stock Indices					
Dow Jones	33,089	452	33,129	34,580	34,577
S&P 500	4,124.2	66.3	4,175.5	4,538.4	4,192.9
NASDAQ	12,142.1	401	12,563.8	15,085.5	13,614.5
Commodities					
Gold	1,856.2	8.6	1,870.6	1,782.0	1,871.2
Crude Oil	117.75	3.66	102.41	66.26	68.81
Natural Gas	8.43	(0.48)	7.95	4.13	3.04
Wheat	1,053.0	-90.3	1,033.8	794.5	676.3
Corn	733.5	-31.5	800.8	586.0	662.0

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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