



The New Fed Roster, and the Bond Market's Expectations

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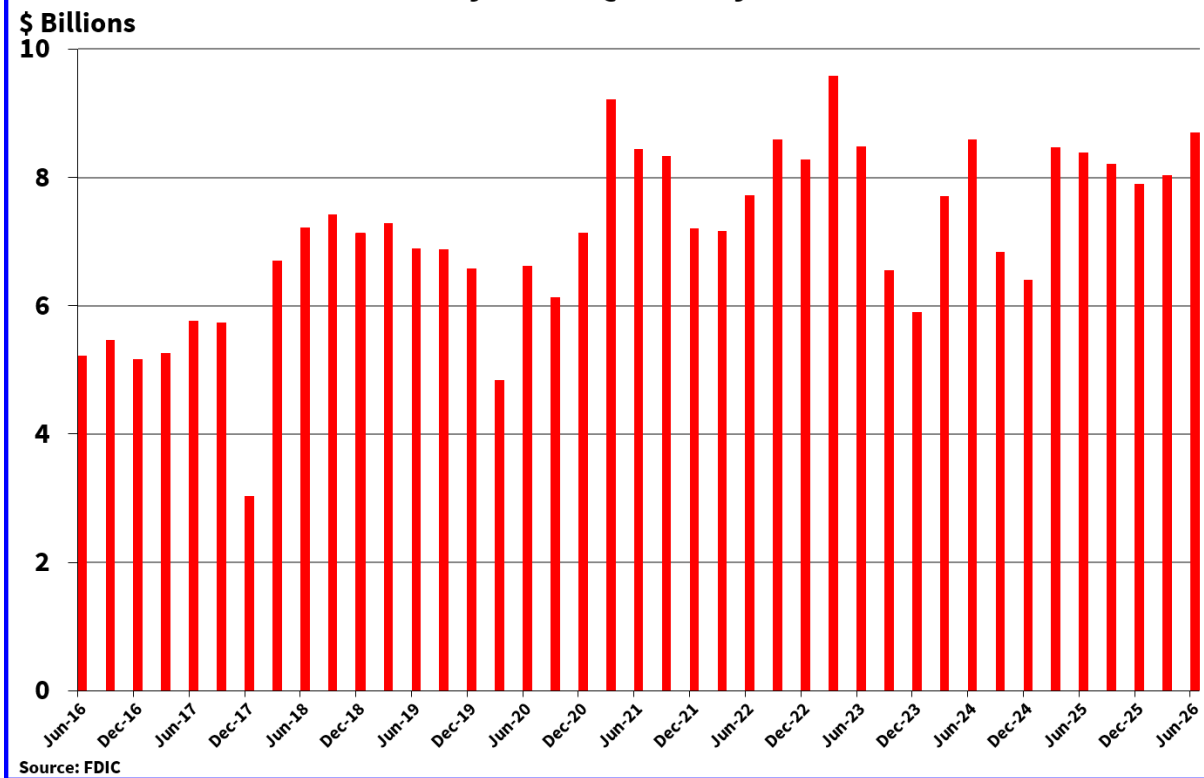
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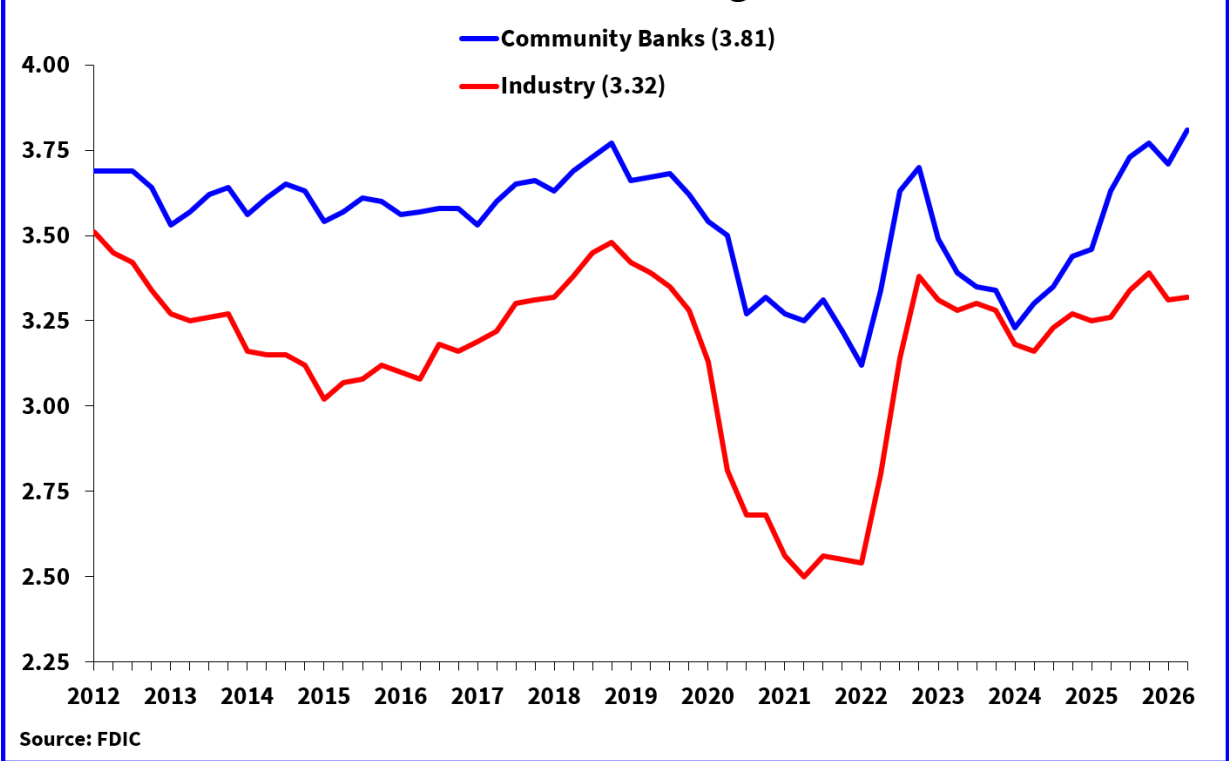
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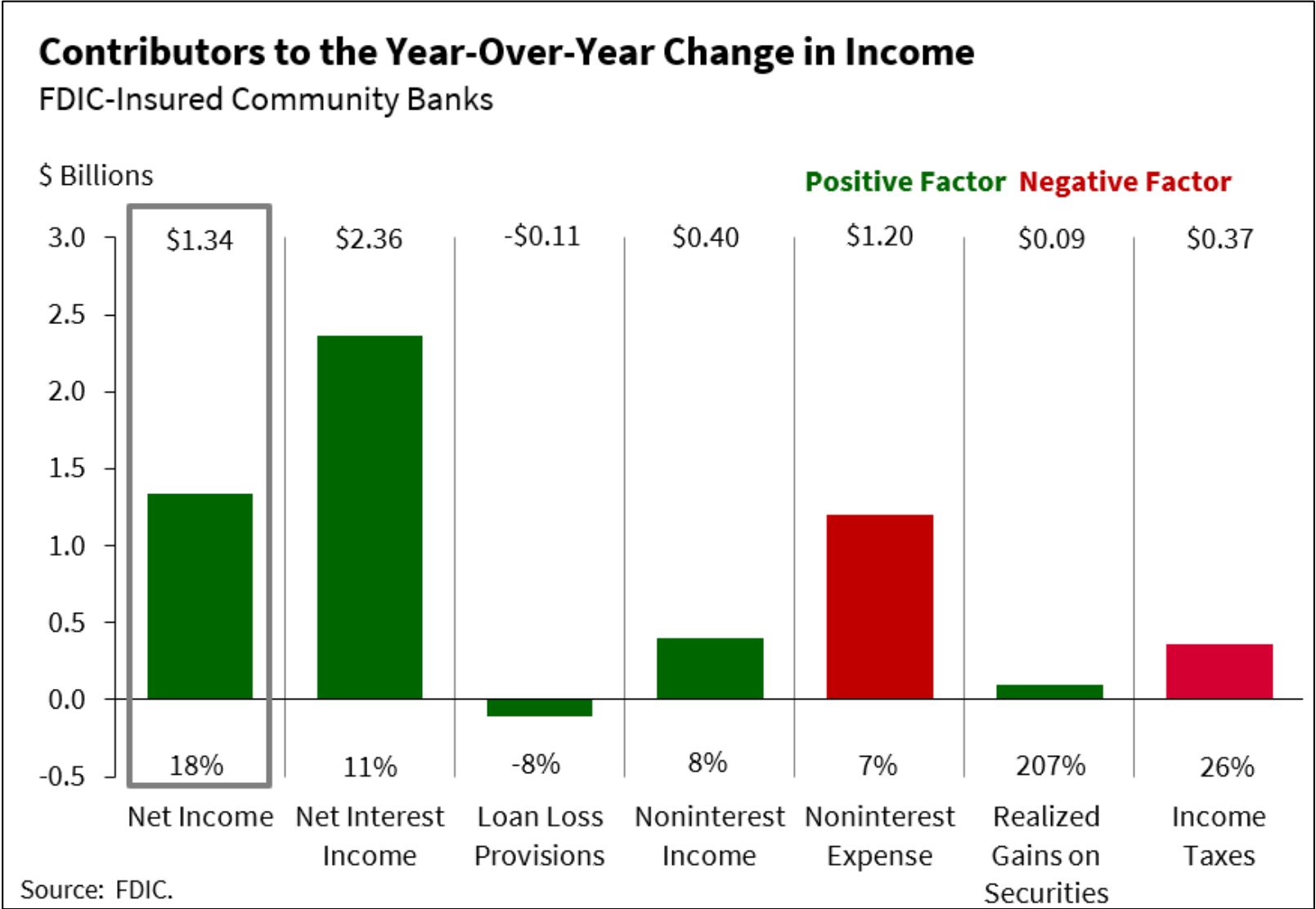
Good News: Industry is Doing Well

Community Bank Quarterly Net Income



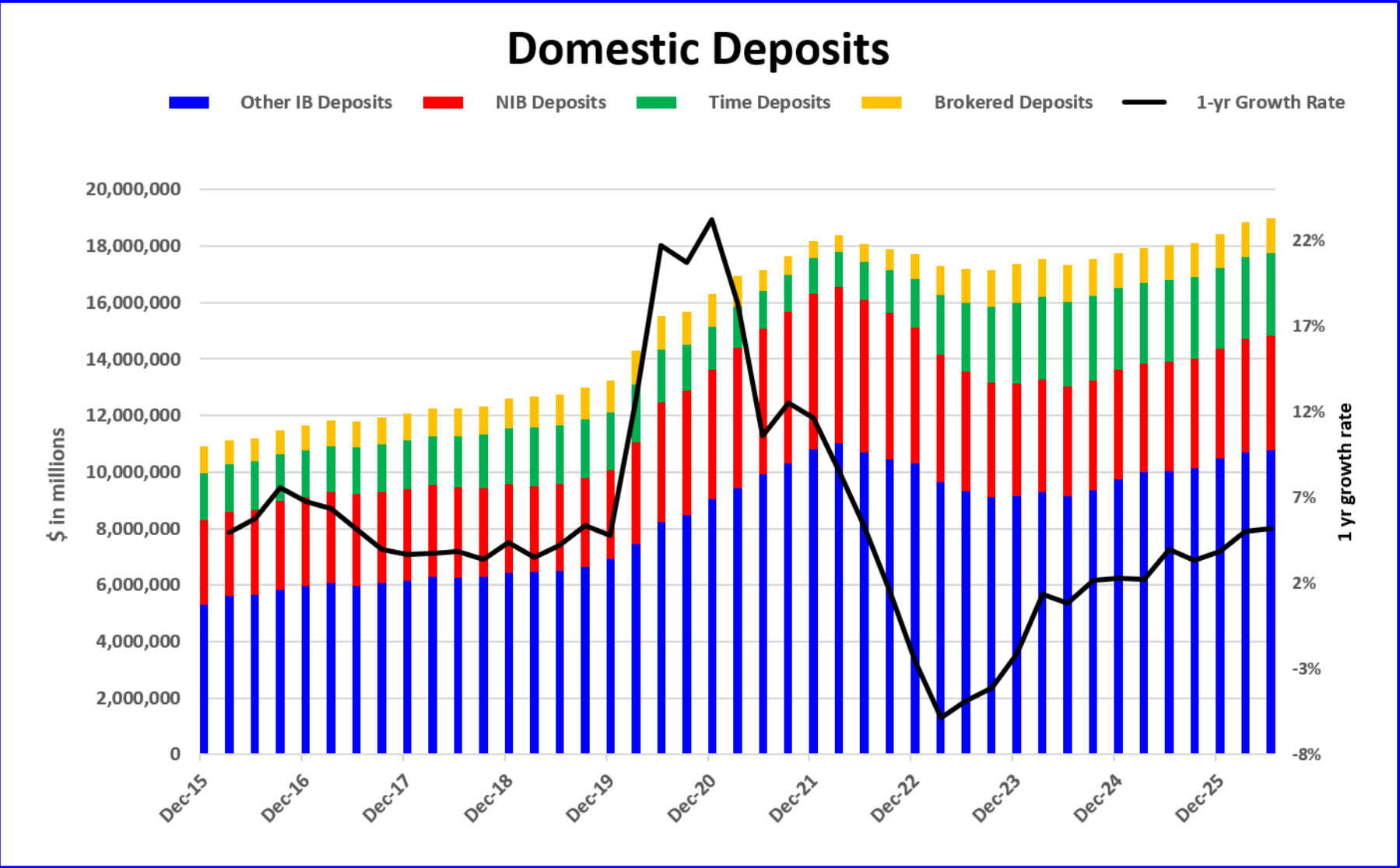
Net Interest Margin





Traditional Deposits Have Stabilized

Community bank YOY deposit growth +4.6% through Q2 2026



Source: Source: FDIC



IRR Exposures Remain Within Policy Limits

Earnings at Risk

Statistics based on 633 banks.

Scenario	Largest loss	25th percentile	Median	75th percentile	Largest gain
-300	-16%	-4%	-2%	0%	9%
-200	-11%	-3%	-1%	0%	5%
-100	-6%	-2%	-1%	0%	3%
+100	-3%	0%	0%	1%	6%
+200	-7%	-1%	1%	2%	11%
+300	-9%	-2%	1%	3%	16%

Policy Risk Limits for Parallel Shocks

	12-month, net interest income (policy limit)			Economic value of equity (policy limit)		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
-300	-20%	-20%	-20%	-40%	-35%	-30%
-200	-15%	-15%	-15%	-30%	-30%	-20%
-100	-12%	-12%	-10%	-20%	-20%	-10%
+100	-12%	-12%	-10%	-20%	-20%	-10%
+200	-15%	-15%	-15%	-30%	-30%	-20%
+300	-20%	-20%	-20%	-40%	-35%	-30%

IRR Exposures Remain Within Policy Limits



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Economic Value of Equity

Statistics based on 633 banks.

Scenario	Largest loss	25th percentile	Median	75th percentile	Largest gain
-300	-38%	-13%	-5%	3%	37%
-200	-22%	-6%	-1%	5%	30%
-100	-10%	-2%	1%	4%	18%
+100	-21%	-6%	-3%	-1%	7%
+200	-43%	-14%	-8%	-3%	11%
+300	-65%	-21%	-13%	-6%	14%

Policy Risk Limits for Parallel Shocks

	12-month, net interest income (policy limit)			Economic value of equity (policy limit)		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
-300	-20%	-20%	-20%	-40%	-35%	-30%
-200	-15%	-15%	-15%	-30%	-30%	-20%
-100	-12%	-12%	-10%	-20%	-20%	-10%
+100	-12%	-12%	-10%	-20%	-20%	-10%
+200	-15%	-15%	-15%	-30%	-30%	-20%
+300	-20%	-20%	-20%	-40%	-35%	-30%



Source: Source: Baker Group

- Created by Congress in **1913**
- Came out of a meeting with six men in Jekyll Island, GA in 1910
- Followed a series of financial panics, runs on banks, and bank failures





Lender of last resort

The Fed can provide liquidity to any number of institutions to ensure that credit flows, debts are repaid on schedule, and financial stability is maintained.



Regulator

The Fed is the chief regulator of Bank Holding Companies (BHCs), which in turn own the stock of underlying banks. About 84% of banks are owned by BHCs.



Conductor of monetary policy

The Fed has been granted broad powers to maintain stable prices and maximize employment. It's the most visible activity to the consumer.

“Lender of Last Resort”

2020

Muni Bond Fund Inflows/Outflows

Muni Bond Yields



Source: Bloomberg

Federal Reserve Board of Governors, 2026



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Kevin Warsh
(Began in May)



Michael Barr



Christopher Waller



Phillip Jefferson



Lisa Cook



...and not least
Jay Powell
(until 2028?)



Michelle Bowman

Other FOMC Voters, 2026



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John Williams
New York



Beth Hammack
Cleveland



Neel Kashkari
Minneapolis



Lorie Logan
Dallas



Anna Paulson
Philadelphia

Summary of Economic Projections, 9-16-26



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Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2026

Percent

Variable	Median ¹					Central Tendency ²					Range ³				
	2026	2027	2028	2029	Longer run	2026	2027	2028	2029	Longer run	2026	2027	2028	2029	Longer run
Change in real GDP	2.3	2.4	2.2	2.1	2.0	2.2–2.4	2.2–2.6	2.1–2.3	2.0–2.2	2.0–2.2	2.1–2.6	2.0–2.9	1.8–2.6	1.8–2.4	1.7–2.5
June projection	2.2	2.3	2.2		2.0	2.0–2.3	2.0–2.4	2.0–2.3		1.8–2.0	1.8–2.6	1.9–2.9	1.8–2.6		1.7–2.5
Unemployment rate	4.1	4.1	4.1	4.1	4.2	4.1–4.2	4.0–4.2	4.0–4.2	4.0–4.3	4.0–4.3	4.0–4.3	4.0–4.5	3.9–4.4	3.8–4.4	3.8–4.4
June projection	4.3	4.3	4.2		4.2	4.3–4.4	4.2–4.5	4.1–4.3		4.0–4.3	4.3–4.6	4.0–4.6	4.0–4.4		3.8–4.5
PCE inflation	3.7	2.3	2.1	2.0	2.0	3.5–3.7	2.2–2.5	2.0–2.2	2.0	2.0	2.9–3.8	2.0–2.6	2.0–2.2	2.0	2.0
June projection	3.6	2.3	2.0		2.0	3.5–3.7	2.2–2.5	2.0–2.1		2.0	2.7–4.1	1.9–2.8	2.0–2.3		2.0
Core PCE inflation ⁴	3.4	2.5	2.2	2.0		3.3–3.4	2.3–2.6	2.0–2.2	2.0		2.8–3.5	2.1–2.7	2.0–2.3	2.0–2.1	
June projection	3.3	2.5	2.1			3.2–3.5	2.3–2.6	2.0–2.2			2.6–3.5	2.0–3.0	2.0–2.4		
Memo: Projected appropriate policy path															
Federal funds rate	4.1	4.1	3.9	3.6	3.2	4.1–4.4	3.6–4.4	3.1–4.1	3.1–3.6	3.0–3.6	3.9–4.4	3.1–4.4	3.1–4.1	2.9–3.9	2.9–3.9
June projection	3.8	3.6	3.4		3.1	3.6–4.1	3.1–3.9	3.1–3.6		3.0–3.5	3.4–4.4	2.9–4.4	2.9–3.9		2.9–3.9

Dissenting Votes on FOMC

2021-2026

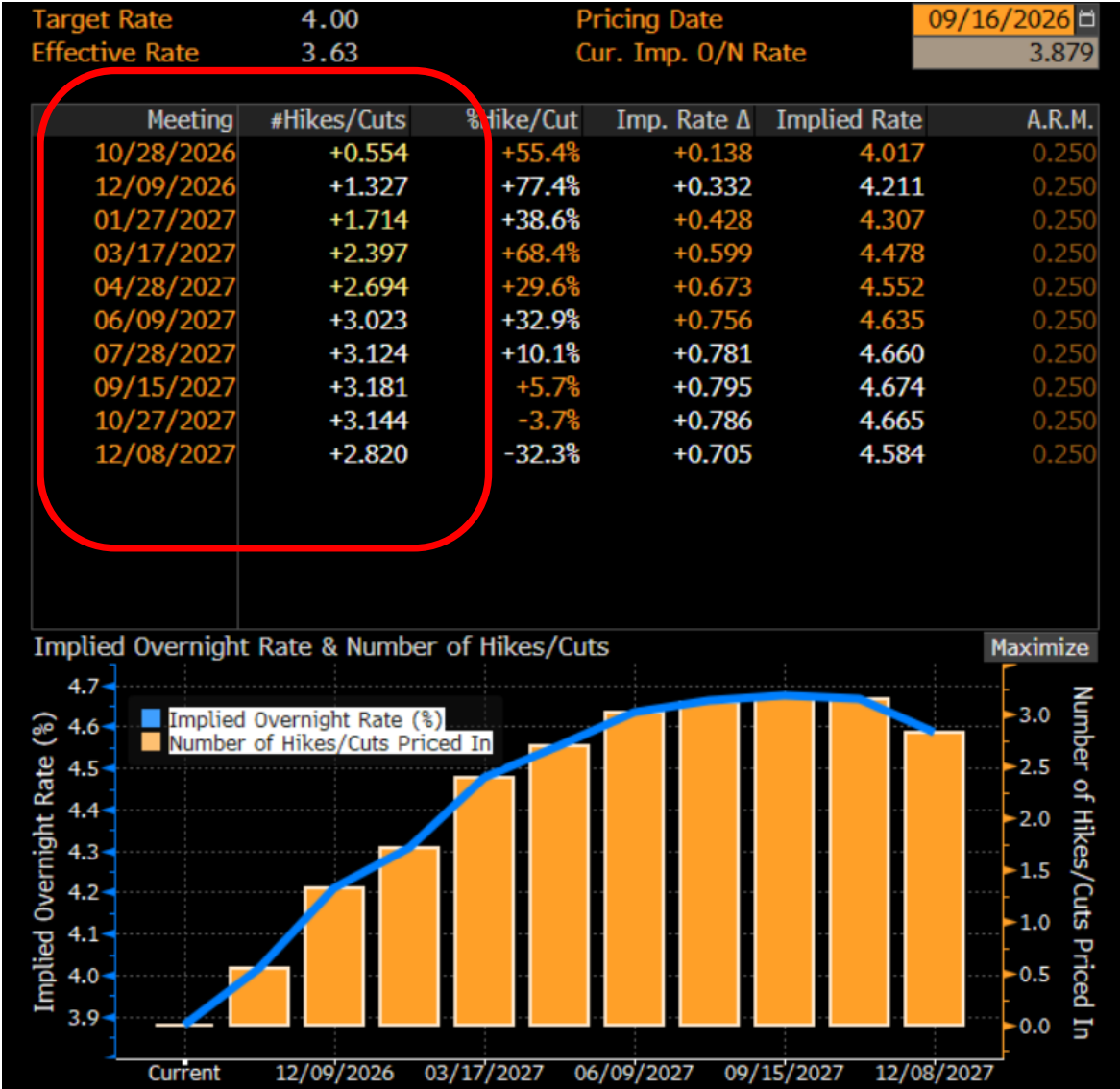
2021:	0
2022:	2
2023:	0
2024:	2
2025:	9
2026 (thru Sept):	10



Source: Federal Reserve

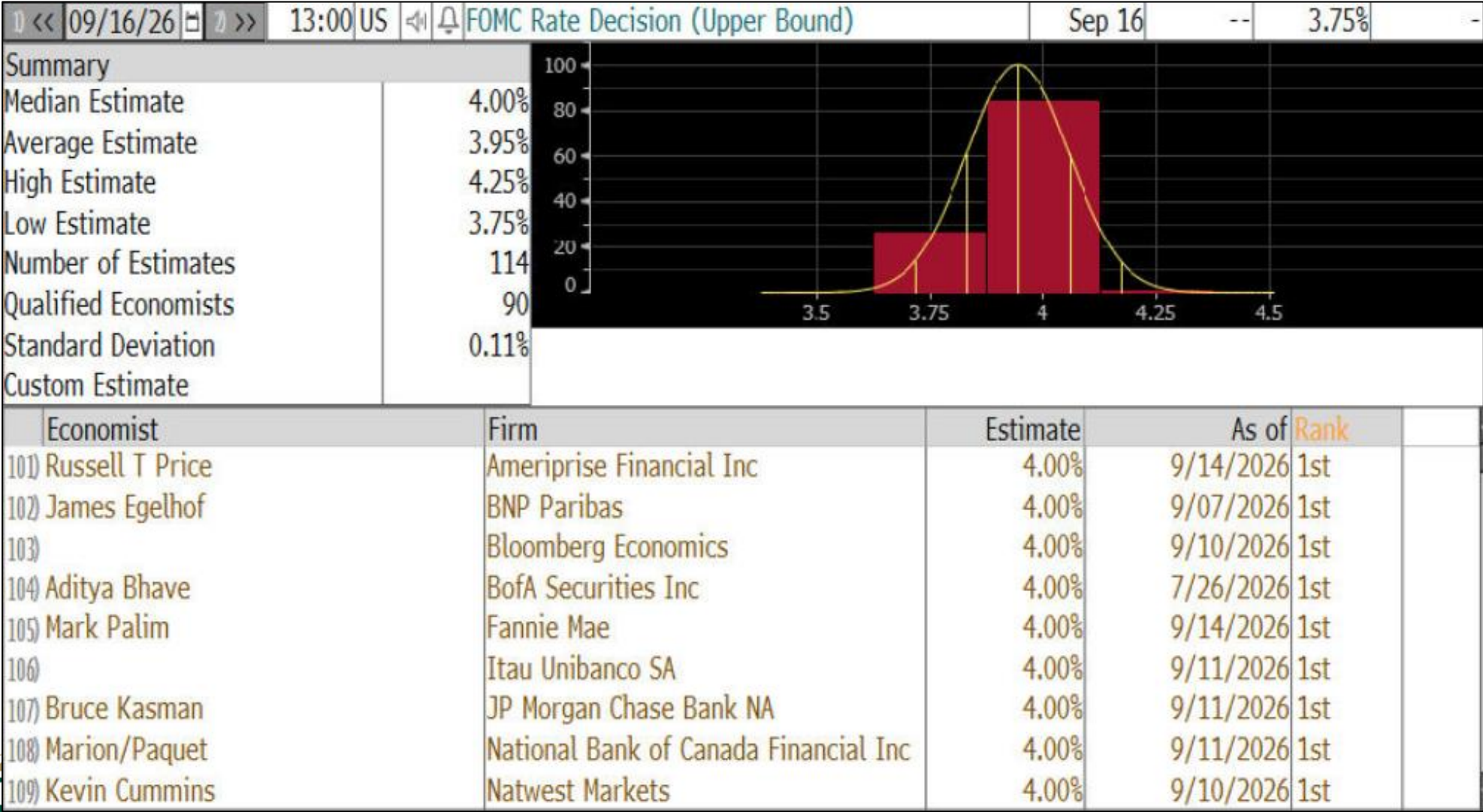
Market Still Expects Fed Funds Hikes

Sept. 16, 2026, post announcement



Source: Bloomberg

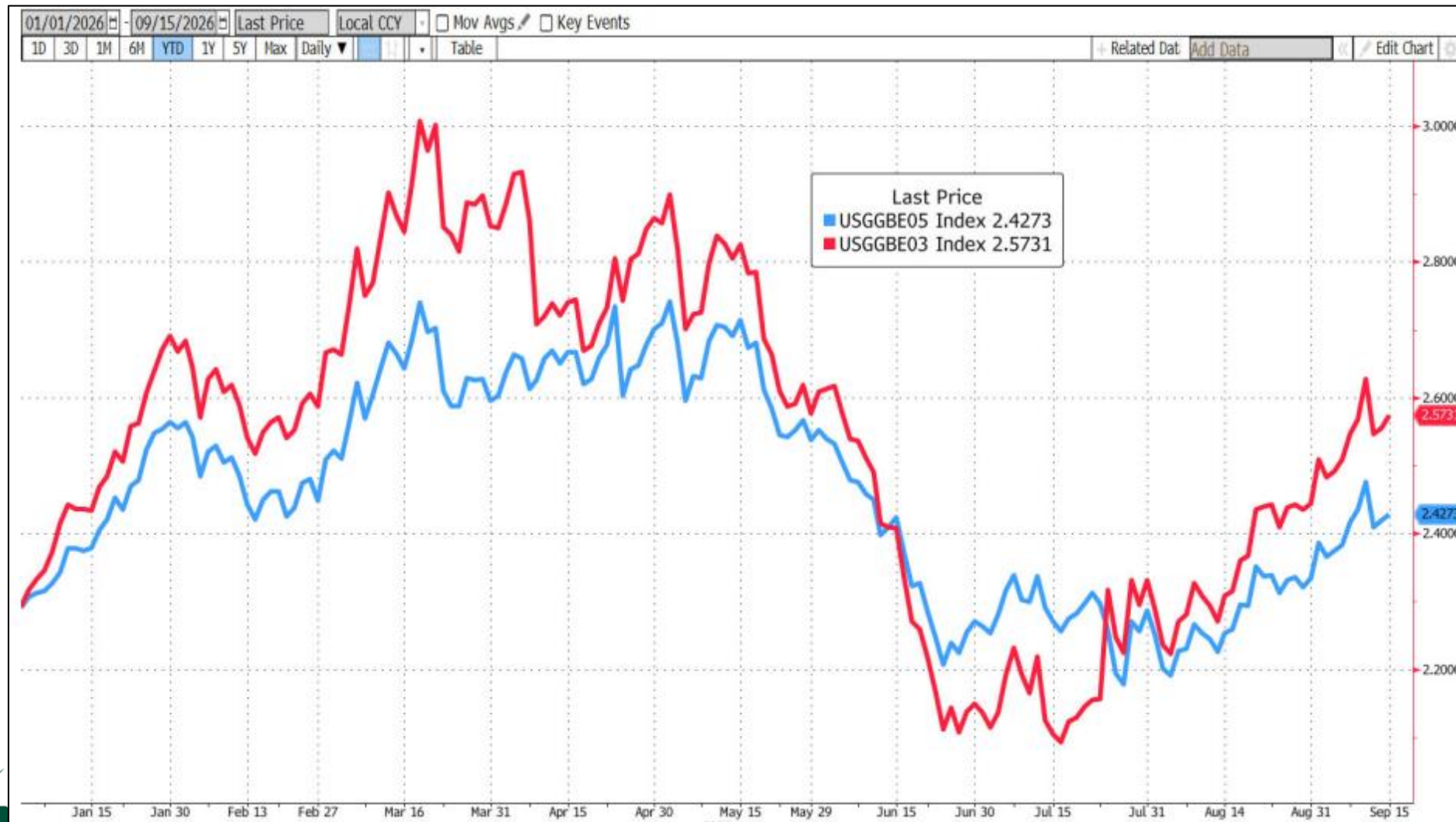
Sept. 16, 2026, preannouncement



Inflation Expectations Moving Higher...

■ 5 yr Expectations

■ 3 yr Expectations



Source: Bloomberg

...And Real Yields Are Increasing



Fed Funds Since 1995



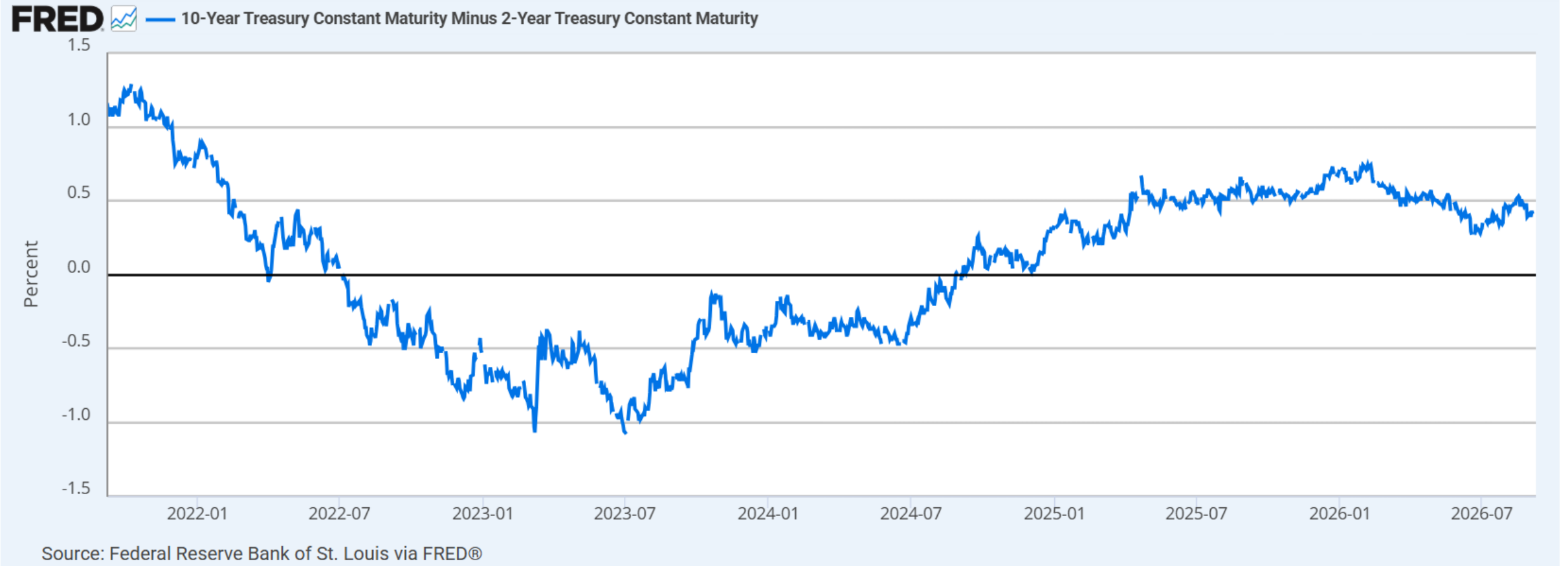
Yield Curve Has Tried To Get Right



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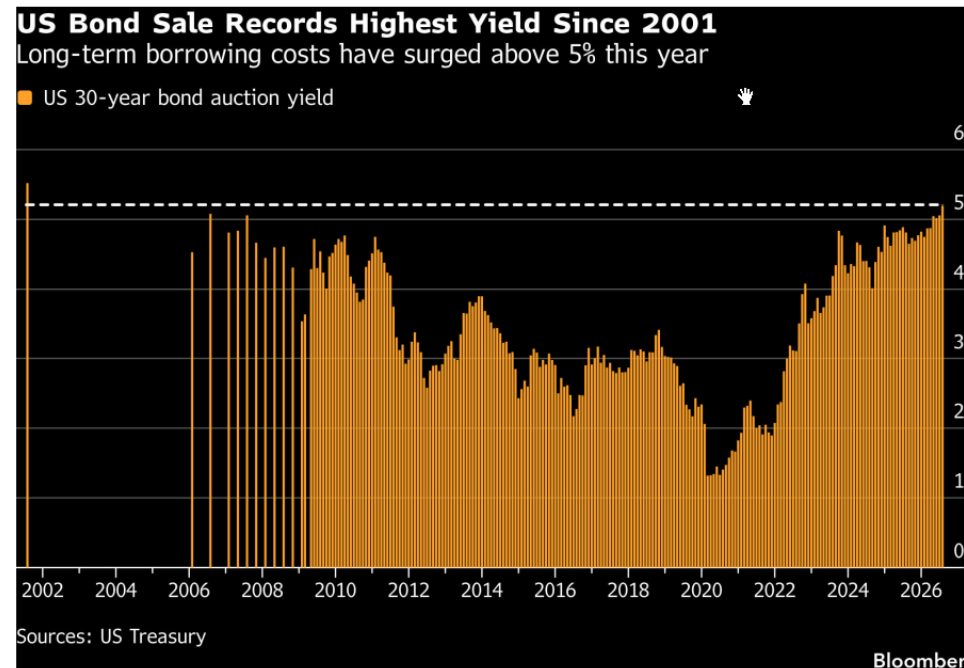


Costliest US Bond Sale Since '01 Is Investor Warning to Bessent

By Greg Ritchie

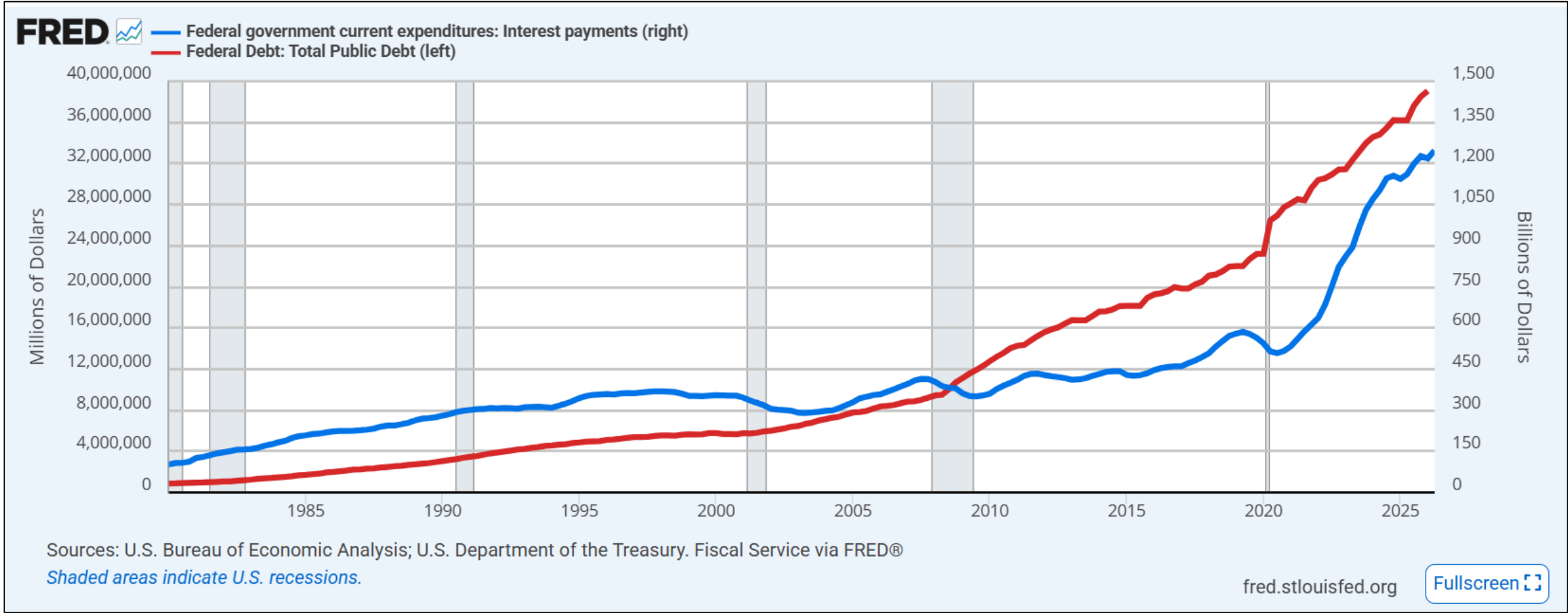
(Bloomberg) -- The US government sold 30-year bonds at the highest interest rate in a quarter of a century, a testament to investors' demand for compensation to finance the nation's growing deficit.

The yield at the \$25 billion sale Thursday came in at 5.216%, the most since 2001, even as a drop in oil prices supported US debt in secondary-market trading. The sale, which was met with decent demand, follows the Treasury Department's 10-year auction a day earlier that drew the highest financing cost at that tenor since 2007.



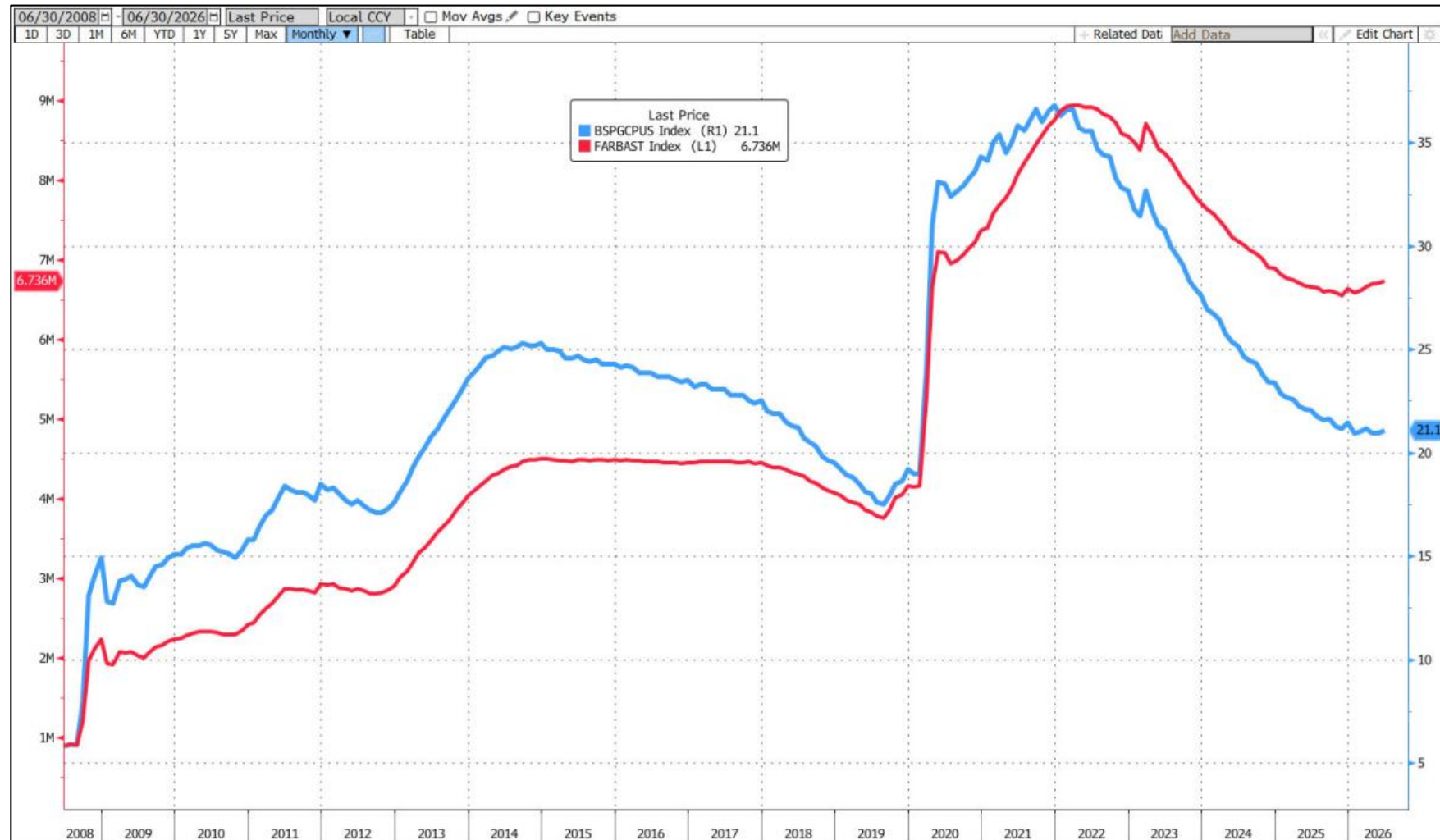
Bloomberg News, 8-13-26

Bond Vigilantes Being Heard?

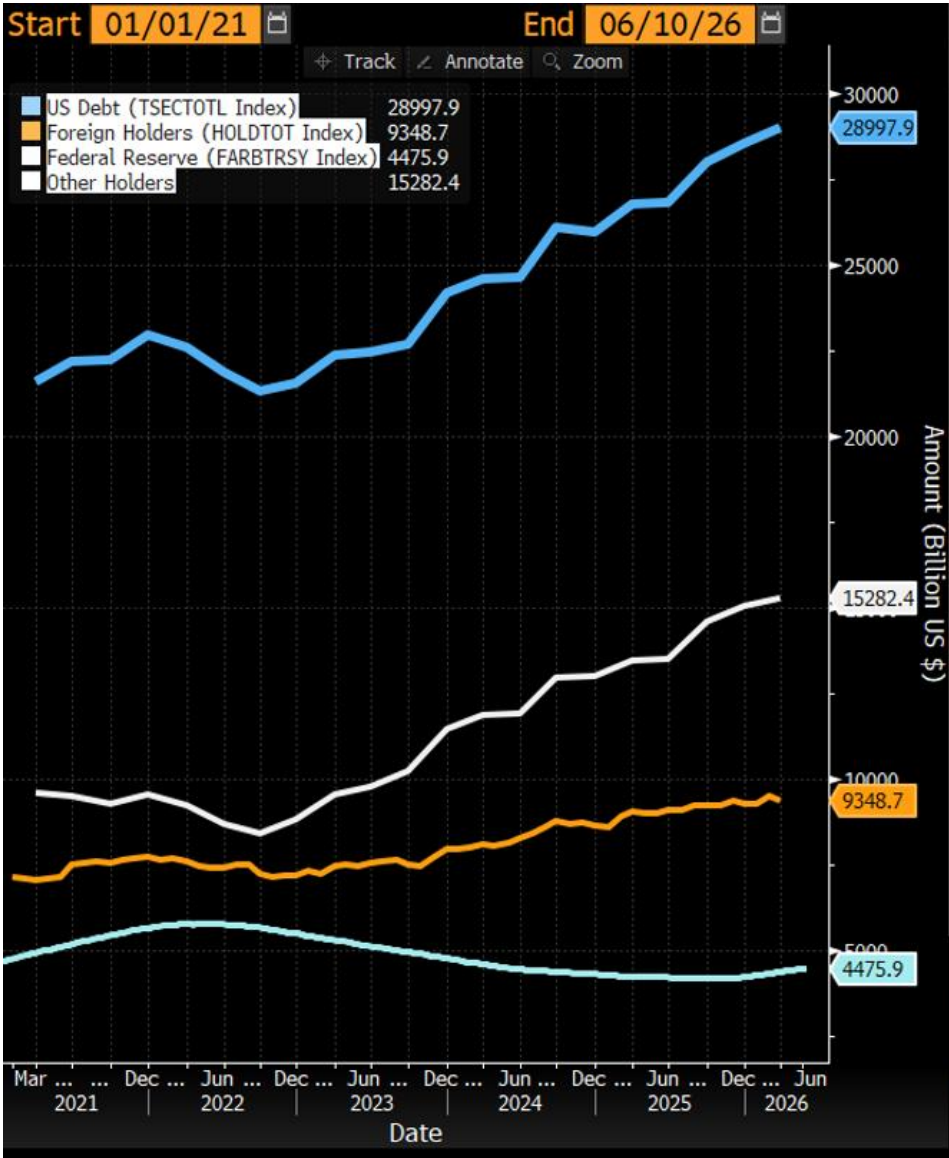


Fed Balance Sheet

■ As a % of GDP ■ \$ in Trillions



Who Owns Our Debt?



		01/2021*	06/2026#	Change	
		Amount	Amount↓	Amount	%
1) US Debt	☒	21584.2	28997.9	7413.7	34.3
2) Other Holders	☒	9611.4	15282.4	5671.0	59.0
3) Foreign Holders	☒	7128.0	9348.7	2220.6	31.2
4) Federal Reserve	☒	4691.7	4475.9	-215.8	-4.6

*US Debt data is as of 03/31/2021.

Foreign Holders data is as of 01/31/2021.

#US Debt data is as of 03/31/2026.

Foreign Holders data is as of 03/31/2026.

Who Owns Our Debt?



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● Investment Managers ● Beneficiaries		Total Amt Held	10.99MMMM \$
		Total Amt Out	32.45MMMM \$
Beneficiary Name	Held Amount (M)↓	% of Tot	
1) FEDERAL RESERVE BANK OF NEW YORK	4,427,388,373.90	40.29	
2) JPMORGAN 100% US TREASURY SECURITIES MONEY ...	283,847,507.40	2.58	
3) Vanguard Total Bond Market Index Fund	209,311,402.60	1.90	
4) Vanguard Total Bond Market II Index Fund	205,828,609.00	1.87	
5) Fidelity Government Money Market Fund	164,784,779.20	1.50	
6) BLACKROCK LIQUIDITY TREASURY TRUST PORTFOLIO	152,202,800.52	1.39	
7) Fidelity Treasury Only Portfolio	128,190,763.30	1.17	
8) iShares 0-3 Month Treasury Bond ETF	108,599,050.00	.99	
9) Schwab US Treasury Money Fund	103,116,855.10	.94	
10) Fidelity Government Portfolio	89,528,996.08	.81	
11) GOLDMAN SACHS FIN SQUARE TREASURY INSTRUMEN...	87,662,144.00	.80	
12) Vanguard Total Bond Market ETF	84,886,275.47	.77	
13) VANGUARD TREASURY MONEY MARKET FUND	83,166,749.10	.76	
14) FIDELITY GOVERNMENT CASH RESERVES	82,295,761.46	.75	
15) JPMORGAN US GOVERNMENT MONEY MARKET FUND	71,702,381.59	.65	
16) iShares Core U.S. Aggregate Bond ETF	69,779,063.60	.64	
17) VANGUARD FEDERAL MONEY MARKET FUND	67,911,668.00	.62	
18) Goldman Sachs Financial Square Government Fund	67,649,267.10	.62	
19) iShares 20+ Year Treasury Bond ETF	63,871,477.60	.58	
20) Federated Hermes US Treasury Cash Reserves	62,828,242.50	.57	
21) MSILF Treasury Securities Portfolio	57,396,881.50	.52	
22) BlackRock Liquidity FedFund	54,832,303.07	.50	
23) Northern Institutional Funds -Treasury Portfolio	52,467,635.00	.48	
24) MSILF Government Portfolio	50,412,820.30	.46	
25) State Street SPDR Bloomberg 1-3 Month T-Bill ETF	47,109,260.00	.43	



Source: Federal Reserve, Bloomberg

Yields Are Near an 18-Year High

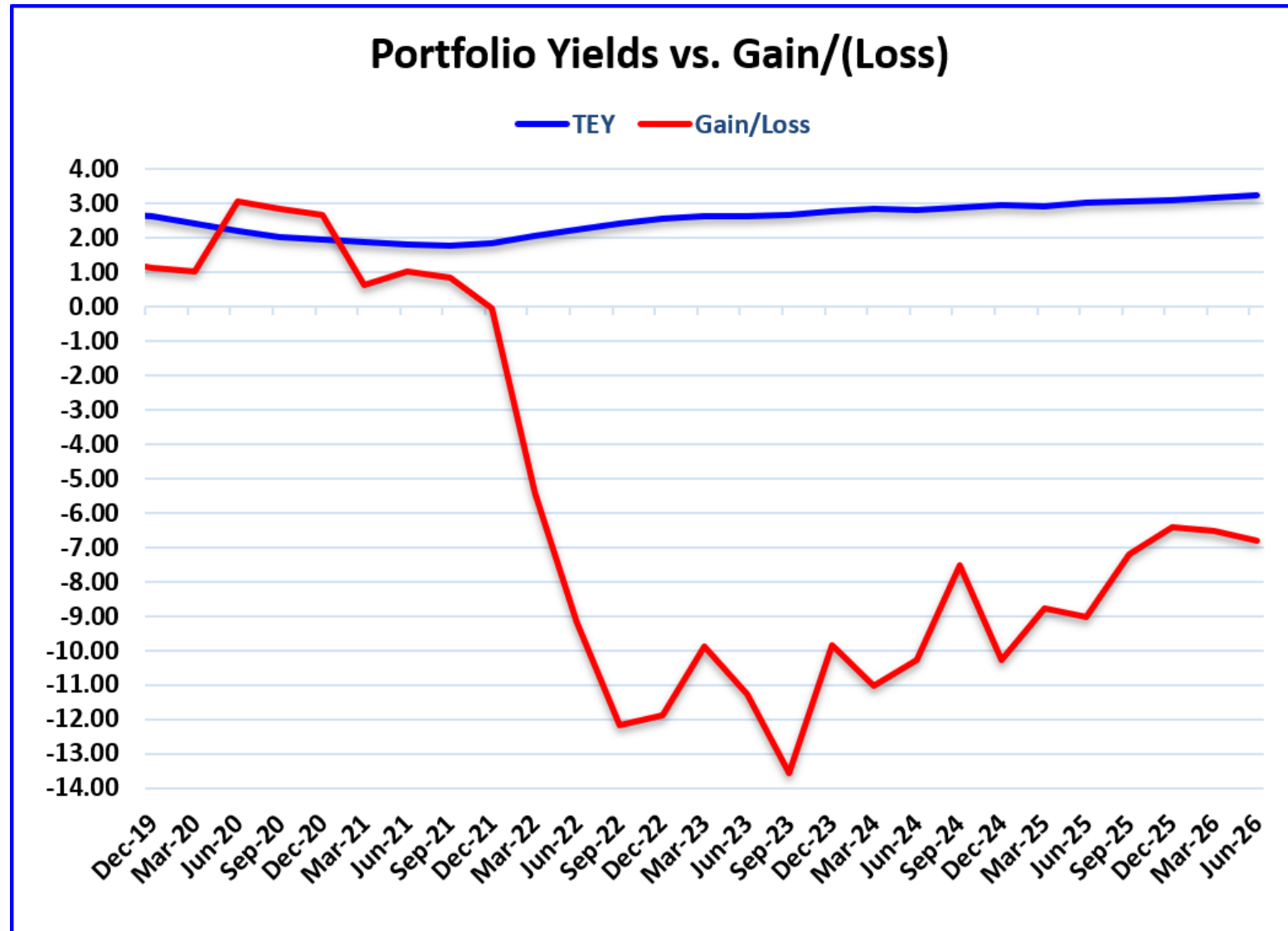


...So Unrealized Losses Persist



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Source: Bloomberg

Upcoming Education Opportunities



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Baker Seminars:

San Antonio, TX

- JW Marriott, May 7

West Des Moines, IA

- Glen Oaks Country Club, June 15

Springfield, IL

- Illini Golf and Country Club, August 3

Dallas, TX

- The Westin Dallas Stonebriar, August 28

Oklahoma City, Oklahoma

- Omni Hotel, October 14-16

Baker In-Person Schools:

Baker Asset/Liability Management School

- April 23-24 in Oklahoma City, OK

Baker Bond School

- November 5-6 in Oklahoma City, OK

Baker Quarterly Bank Investment Strategy Webinars:

1st Quarter – January 14 at 10:30am CT

2nd Quarter – April 8 at 10:30am CT

3rd Quarter – July 8 at 10:30am CT

4th Quarter – October 7 at 10:30am CT

Baker Quarterly Bank Trends Webinars:

4th Quarter – February 11 at 10:30am CT

1st Quarter – May 13 at 10:30am CT

2nd Quarter – August 12 at 10:30am CT

3rd Quarter – November 10 at 10:30am CT

Baker Quarterly Interest Rate Risk Management Webinars:

1st Quarter – March 11 at 10:30am CT

2nd Quarter – June 10 at 10:30am CT

3rd Quarter – September 9 at 10:30am CT

4th Quarter – December 9 at 10:30am CT

For a complete list of Baker events and to register, please visit our website at www.GoBaker.com.



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Member: FINRA and SIPC

- Most of the traditional bank earnings elements are in place
 - Decent loan demand
 - Solid credit quality metrics
 - Positively sloped yield curve
- Wild cards:
 - Growing debt and interest payments could keep rates elevated
 - New Fed Chair Warsh has yet to put his stamp on the FOMC
- Some challenges remain
 - Lingering (and growing) unrealized bond losses
 - Yield curve, while positively sloped, will likely remain relatively flat
 - Traditional deposit gathering is not robust

Thank You!



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