



January 10, 2022

Financial Services Group
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Economic Review

Mr. Clark has been in investment banking since 1983. He is a Chartered Financial Analyst. He has been a fixed income strategist at Stephens Inc. since 1996, developing investment strategies, policies and procedures for institutions consistent with overall asset/liability management. Mr. Clark is the risk manager for Fixed Income Sales and Trading, monitoring inventories, product, transactions and counterparty risk. He is also a member of Stephens Fixed Income Management, providing discretionary management services for institutional customers. He is a member of the American Institute of Certified Public Accountants and the CFA Institute.

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- The Labor Department reported that **initial jobless claims** edged higher last week from near historical low levels as labor shortages continue to make businesses reluctant to reduce staffing. Claims in regular state programs climbed 7,000 to 207,000 for the week ending January 1st, after reporting 200,000 initial claims the prior week. The four-week moving average climbed to 204,500 from 199,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 36,000 to 1.754 million for the week ending December 25th.
- The Commerce Department reported that **construction spending** rose 0.4% in November as solid demand continues to be restrained by supply and labor shortages. Spending on residential rose 0.9% in November while non-residential spending remained unchanged. Government spending decreased 0.2% and private spending rose 0.6%.
- The **Institute for Supply Management** reported its **manufacturing index** pulled back to its lowest level in almost a year in December. The decline was driven by lower prices and delivery times, which normally indicate softer demand, but in this case may suggest capacity constraints are beginning to loosen. The components of the index that indicate demand remained firm. The manufacturing index recorded a 58.7 in December from a 61.1 reading in November. The new orders part of the index declined to 60.4 from 61.5 in November and production recorded a 59.2 from the prior months 61.5. A reading above 50 indicates expansion in the manufacturing sector.
- The Labor Department reported that **job openings** pulled back in November but remained at an elevated level as a record number of workers quit their jobs. The quits rate rose to 3.0% in November with 4.500 million workers quitting their jobs. Job openings decreased by 529,000 in November to 10.562 million, from an upwardly revised 11.091 million in October.
- **ADP Employer Services** reported that companies added the most jobs in seven months in December, suggesting more workers are returning to the labor force and helping employers fill a near-record number of open positions. Companies hired 807,000 in December, while November was downwardly revised to a gain of 505,000, previously reported as a gain of 534,000. Services employment increased by 669,000 and manufacturing employment rose 138,000.
- The **FOMC Minutes** for the December 14-15th meeting indicate the Committee is concerned about inflation and recognized that emergency stimulative policies are no longer necessary. The policymakers discussed earlier and faster rate hikes, faster tapering and sooner balance sheet normalization than anticipated. The acceleration in the pace of tapering will lead to the end of QE purchases in mid-March.
- The Commerce Department reported the **trade deficit** widened in November, with imports surging as retailers made a final push to stock shelves in front of the holidays. Both imports and exports reached record levels. The deficit decreased 19.4% to \$80.2 billion in November. **Exports** rose 0.2% to \$224.2 billion and **imports** jumped 4.6% to \$304.4 billion.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, plunged in December as the omicron variant pressured new orders and business activity. Even with the pullback, the rate of growth remains strong for the services sector. This gauge of service providers accounts for 90% of the economy. The services index dropped to 62.0 in December from a 69.1 reading in November. A reading more than 50 indicates expansion in the services sector.
- The Commerce Department reported that **factory orders** increased 1.6% in November after increasing 1.2% in October. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft remained unchanged in November after gaining 0.8% in October. **Excluding transportation**, new orders rose 0.8% in November after increasing 1.5% the prior month.



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- The Labor Department report showed December payrolls increased at a much lower rate than expected, but also reported an unemployment rate that is lower than the FOMC's estimate of the long-run neutral rate. The report also showed sharply rising wages. The jobs report is composed of two surveys, one of employers and the other of households. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (establishment survey) climbed 199,000 in December and the previous two months were revised 141,000 higher than previously reported. The **unemployment rate** (household survey) decreased to 3.894% from 4.196% the prior month. The **labor force participation rate** remained unchanged at 61.9% in December from an upwardly revised 61.9% the prior month. The average hourly earnings increased to \$31.31 from \$31.12 the prior month. Weekly hours remained unchanged at 34.7 in December.
- The Federal Reserve reported **consumer credit** surged by the most on record in November, pushed by a jump in credit card purchases. Consumer credit increased \$40.0 billion after gaining a downwardly revised \$16.0 billion in October. Credit card debt climbed \$19.8 billion to \$1.037 trillion with auto and student loan debt increasing by \$20.2 billion to \$3.377 trillion.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased 5.6% for the week ending December 31st after increasing 3.2% the prior week. **Refinancing applications** decreased 2.5% to 2,351 from 2,411 the prior week. **Home purchase mortgage applications** fell 10.2% to 277.3. The **average contract rate** on a 30-year fixed-rate mortgage rose to 3.33% from 3.31% the prior week for a 30-year fixed rate loan.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 0.86%, 1.50%, 1.76%, and 2.12%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 64, 26, 36, and 126 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	January 10	Nov Wholesale Inventories (1.2%)	9:00 Central
		Nov Wholesale Sales (1.0%)	9:00 Central
Tuesday	January 11	Dec NFIB Small Business Optimism (98.7)	5:00 Central
Wednesday	January 12	Jan 7 th MBA Mortgage Applications	6:00 Central
		Dec Consumer Price Index (0.4%)	7:30 Central
		Dec Consumer Price Index-YOY (7.1%)	7:30 Central
		Dec CPI Ex Food & Energy (0.5%)	7:30 Central
		Dec CPI Ex Food & Energy-YOY (5.4%)	7:30 Central
		Dec Budget Statement (-\$2.5b)	13:00 Central
Thursday	January 13	US Federal Reserve Releases Beige Book	13:00 Central
		Jan 8 th Initial Jobless Claims (200k)	7:30 Central
		Dec Producer Price Index (0.4%)	7:30 Central
		Dec Producer Price Index-YOY (9.8%)	7:30 Central
		Dec PPI Ex Food & Energy (0.5%)	7:30 Central
		Dec PPI Ex Food & Energy-YOY (8.0%)	9:00 Central
Friday	January 14	Dec Retail Sales (0.0%)	7:30 Central
		Dec Retail Sales Ex Auto & Gas (-0.2%)	7:30 Central
		Dec Import Price Index (0.2%)	7:30 Central
		Dec Import Price Index-YOY (10.8%)	7:30 Central
		Dec Import Price Index ex Petroleum (0.6%)	7:30 Central
		Dec Industrial Production (0.2%)	8:15 Central
		Dec Capacity Utilization (77.0%)	8:15 Central
		Nov Business Inventories (1.3%)	9:00 Central
Jan University of Michigan Sentiment (70.0)	9:00 Central		

Source: Bloomberg Finance L.P.

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