Stephens
Fixed Income Sales & Trading

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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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Economic Review

- The Labor Department reported that **initial jobless claims** surged last week to a two-year high as the coronavirus pandemic forced employers to start laying off workers. We expect the next couple of weeks will spike as many state unemployment offices report long lines. Claims were 281,000 for the week ending March 14th after reporting 211,000 initial claims the prior week. The four-week moving average, a less volatile measure than the weekly numbers, climbed to 232,250 from 215,750 the prior week. The total number of people continuing to receive jobless benefits, a report which is lagged one week, increased 2,000 to 1.701 million for the week ending March 7th.
- The **FOMC** conducted an unscheduled meeting and issued a 100 basis point cut to the Federal Funds target rate to 0.00%-0.25%. The Fed also announced a QE of at least $700 billion, $500 billion Treasuries and $200 billion MBS securities.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, showed manufacturing plunged in March by the most on record, offering one of the first signs of the drastic toll the coronavirus will exact on producers. The index recorded a negative 21.5 in March after a positive 12.9 reading in February. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** showed a sharp deceleration in discretionary spending and a surge in online sales in February, giving us an early indication of how the coronavirus will impact the consumer. Retail sales fell 0.5% in February after increasing an upward revised 0.6% the prior month. The February data confirms the economy was quite healthy before the impact of the coronavirus. Retail sales are now running at 4.3% year-on-year. **Retail sales ex autos and gas** decreased 0.2% in February after increasing 0.7% the prior month.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, rose 0.6% in February, indicating February was a solid month for the manufacturing sector, but there is no way the momentum could possibly carry through into March. Production at factories, which make up 75.0% of output climbed 0.1% in February. Utilities rose 7.1% and mining fell 1.5%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 77.0% from 76.6% the prior month.
- The Commerce Department reported **business inventories** fell 0.1% in January after remaining unchanged in December. **Business sales** rose 0.6% in January after increasing 0.1% the prior month. The ratio of business inventories to sales declined to 1.38 in January from 1.39 in December.
- The Labor Department reported that **job openings** increased in January from a two-year low. The level of job openings remained impressive but has slipped from the recent historical highs. Job openings increased by 411,000 in January to 6.963 million from an upwardly revised 6.552 million in December. There are 0.85 unemployed job seekers for each available job.
- The **National Association of Home Builders/Wells Fargo** reported homebuilder sentiment edged lower in March as concerns about the coronavirus outweighed historically low mortgage rates. The index slipped lower to 72 in March after recording a 74 in February. The all-time high reading was 78 in December 1998.
- The Commerce Department reported that **housing starts** retreated slightly in February from January's impressive report, underscoring momentum in the industry a month before the coronavirus pandemic injected uncertainty into the economy. Housing starts fell 1.5% in February to a 1,599,000 annualized rate following the prior month's upwardly revised 1,624,000 pace. Single-family starts increased 6.7% with multi-family starts down 14.9%. **Building permits**, a gauge of future construction, decreased 5.5% in February to a 1,464,000 pace from a 1,550,000 pace the prior month.

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- The Commerce Department reported a **current-account deficit** of $109.8 billion during the fourth quarter of 2019. This is down from a deficit of $125.4 billion in the third quarter and $126.2 billion in the second quarter. The current account is considered the broadest measure of international trade, covering goods and services as well as income payments and government transfers.
- The Conference Board reported the **index of leading economic indicators** climbed 0.1% in February after a gain of 0.7% the prior month. The gain was led by a gain in the average workweek and consumer expectations. Obviously this index will be under great pressure in March. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, gained 0.3% in February after gaining 0.1% in January.
- The National Association of Realtors reported that **existing home sales** surged in February to the fastest pace in 13 years, highlighting a flurry of activity in the housing market before the impact of the coronavirus. Contract closings, which usually occur a month or two after a contract is signed rose 6.5% in February to a 5.77 million pace. The median cost of a previously owned home increased to $270,100 from $266,200 the prior month, or up 8.0% compared with February 2019.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined 8.4% for the week ending March 13th after surging 55.4% the prior week. **Refinancing applications** decreased 10.4% to 5,751 from 6,419 the prior week. **Home purchase mortgage applications** fell 0.9% to 278.1. The **average contract rate** on a 30-year fixed-rate mortgage increased to 3.74% from 3.47% the previous week.

NEWS FROM THE FED

The Fed made a lot of changes on Monday, March 23rd. Policymakers are making an all-out effort to get markets to function properly and open credit lines to boost the economy. With the Monday announcements the Federal Reserve announced several new initiatives.

- The previously announced asset purchases of at least $700 billion has been replaced with "amounts needed to support smooth market functioning and effective transmission of monetary policy." The FOMC will increase its holdings of Treasury securities and its holdings of agency mortgage-backed securities as well as commercial mortgage-backed securities.
- The Fed established the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds.
- The Fed re-established the Term Asset-Backed Securities Loan Facility (TALF) to help enable the issuance of asset-backed securities backed by student loans, auto loans, credit card loans and loans guaranteed by the Small Business Administration.
- The Fed expanded the securities eligible for purchase by the Money Market Mutual Fund Liquidity Facility (MMLF) to include municipal variable rate demand notes (VRDNs) and bank CDs.
- The Fed expanded the range of issuers who can participate in the Commercial Paper Funding Facility and lowered the minimum price.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 0.31%, 0.46%, 0.85%, and 1.42%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 15, 39, 57, and 111 basis points respectively.

Economic/Events Calendar

Monday	March 23	Feb Chicago Fed Nat Activity Index (-0.35)	7:30 Central
Tuesday	March 24	Feb New Home Sales (750k)	9:00 Central
Wednesday	March 25	Mar 20th MBA Mortgage Applications	6:00 Central
		Feb Durable Goods Orders (-1.0%)	7:30 Central
		Feb Durables ex Transportation (-0.4%)	7:30 Central
		Feb Cap Goods Orders Nondef Ex Air (-0.4%)	7:30 Central
		Jan FHFA House Price Index (0.4%)	8:00 Central
Thursday	March 26	Mar 21st Initial Jobless Claims (1,500k)	7:30 Central
		Feb Goods Trade Balance (-$63.4b)	7:30 Central
		Feb Wholesale Inventories (-0.2%)	7:30 Central
		4th Qtr Gross Domestic Product (2.1%)	7:30 Central
		4th Qtr GDP Price Index (1.3%)	7:30 Central
		4th Qtr Personal Consumption (1.7%)	7:30 Central
Friday	March 27	Feb Personal Income (0.4%)	7:30 Central
		Feb Personal Spending (0.2%)	7:30 Central
		Feb PCE Deflator-YOY (1.7%)	7:30 Central
		Mar Final Univ of Michigan Sentiment (90.0)	9:00 Central

Source: Bloomberg Finance L.P.