



May 3, 2021

**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** continued to fall last week. There was a big downward shift in claims at the beginning of April as the economy reopened. Since the big drop during the week of April 10<sup>th</sup>, claims have been grinding lower. Claims in regular state programs dropped 13,000 to 553,000 for the week ending April 24<sup>th</sup> after reporting an upwardly revised 566,000 initial claims the prior week. The four-week moving average dropped to 611,750 from 655,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, climbed 9,000 to 3.651 million for the week ending April 17<sup>th</sup>.
- The Commerce Department reported **durable goods orders** enjoyed a mild gain in March, even with supply chain disruptions and an outsized drag from aircraft. Shipments rose strongly, while orders growth slowed, but remain at a high level. Durable goods, which are bookings for goods and materials meant to last at least three years, gained 0.5% in March after declining an upwardly revised 0.9% in February. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.9% in March after decreasing an upwardly revised 0.8% in February. **Excluding transportation**, durable orders jumped 1.6% in March after falling 0.3% in February. The ratio of inventory to shipments fell to 1.68 months from 1.71 months the prior month.
- The Federal Housing Finance Agency reported a gain of 0.9% in the **house price index** of purchase-only homes in February after climbing 1.0% in January. The year-on-year change in the house price index was 12.2% in February. The HPI is estimated using repeated observations of housing values for single-family homes on which at least two mortgages were originated and subsequently sold to Freddie Mac or Fannie Mae. The use of repeat transactions on the same unit helps to control for differences in the quality of the houses.
- The **S&P CoreLogic CaseShiller home price index** increased 1.17% in February after gaining 1.25% in January. The gain is consistent with the strong housing market. The index climbed 11.94% in February from the same month in 2020. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** surged in April to its highest level since February 2020, as the latest injection of stimulus boosted current conditions and expectations improved because of the continued rollout of vaccines and normalization of social policies. The index recorded a 121.7 in April from a downwardly revised 109.0 reading in March. The present situation index increased to 139.6 in April from 110.1 in March. The expectations index increased to 109.8 in April from 108.3 the prior month.
- The Commerce Department reported the **goods trade deficit** widened in March with strong gains in both imports and exports. The deficit increased 4.0% to \$90.6 billion in March. **Exports** surged 8.7% to \$142.0 billion and **imports** increased 6.8% to \$232.6 billion.
- The Commerce Department reported **wholesale inventories** rose 1.4% in March after climbing 0.9% the previous month. Year-on-year wholesale inventories have climbed 4.5%. **Retail inventories** declined 1.4% in March after gaining 0.1% in February and are down 7.4% year-on-year.
- The **FOMC** met on Wednesday and held the fed funds target rate at 0.00% to 0.25%. The FOMC's statement was moderately more hawkish, but Powell more than compensated for that during the press conference. Powell acknowledged the recent improvements, but downplayed them as either insufficient or transitory. Powell stated the test for tapering has not been met and it is too early to start talking about tapering.
- The initial estimate by the Commerce Department of the 1<sup>st</sup> quarter **gross domestic product** showed economic growth accelerated as a surge in consumer spending reflected rising vaccinations, faster job growth and two rounds of federal stimulus payments. Gross domestic product expanded at a 6.4% annualized rate in the 1<sup>st</sup> quarter, after gaining 4.3% in the 4<sup>th</sup> quarter. **Personal consumption**, which accounts for about 70% of the economy, surged 10.7% in the quarter after gaining 2.3% in the



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previous quarter. The **GDP price index** gained 4.1% in the 1<sup>st</sup> quarter after increasing 2.0% in the 4<sup>th</sup> quarter.

- The National Association of Realtors reported the **index of pending home re-sales** climbed less than expected in March as a lack of available houses is keeping some buyers sidelined even as demand for homes remains strong. The number of contracts to purchase previously owned homes increased 1.9% in March after dropping 11.5% in February. Pending home sales are up 23.3% on a seasonally adjusted year-on-year basis in March. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The Labor Department reported the **Employment Cost Index** for the 1<sup>st</sup> quarter showed a continued gradual uptrend in labor costs. The index revealed a steady gain in both wage growth and benefits. The index climbed 0.9% in the 1<sup>st</sup> quarter after a gain of 0.7% in the prior quarter. Wages and salaries increased 1.0% and benefits rose 0.6%.
- The Commerce Department reported personal income soared in March by the most in monthly records dating back to 1946 as a third round of stimulus checks and a sharp increase in spending powered the gains. The stimulus payments and the reopening of the economy, along with elevated levels of savings will support growth acceleration in the coming months. **Personal income** jumped 21.1% in March after decreasing 7.0% in February. **Personal spending** increased 4.2% in March after declining 1.0% in February. The **PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.5% in March, bringing the year-on-year gain to 2.3%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, surged 23.6% in March. The savings rate increased to 27.6% in March.
- The **University of Michigan's final index of consumer sentiment** increased in April to its highest level since March 2020. The gauge of consumer confidence rose to 88.3 in April after an earlier estimate of 86.5. This is an increase from the 84.9 reading in March. The **index of current conditions** increased to 97.2 from 93.0 the prior month while the **index of expectations** increased to 82.7 from 79.7 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased by 2.5% for the week ending April 23<sup>rd</sup> after gaining 8.6% the prior week. **Refinancing applications** decreased 1.1% to 3,185 from 3,220 the prior week. **Home purchase mortgage applications** fell 4.8% to 281.4. The **average contract rate** on a 30-year fixed-rate mortgage fell to 3.17% from 3.20% the prior week.

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 0.16%, 0.85%, 1.63%, and 2.30%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 69, 78, 67, and 214 basis points respectively.

Source: Bloomberg Finance L.P.

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## Economic/Events Calendar

Monday	May 3	Mar Construction Spending (1.6%)	9:00 Central
		Apr ISM Manufacturing (65.0)	9:00 Central
Tuesday	May 4	Mar Trade Balance (-\$74.4b)	7:30 Central
		Mar Factory Orders (1.3%)	9:00 Central
		Mar Factory Orders Ex Transportation (1.8%)	9:00 Central
Wednesday	May 5	Apr 30 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Apr ADP Employment Change (863k)	7:15 Central
		Apr ISM Services Index (64.2)	9:00 Central
Thursday	May 6	Mar 1 <sup>st</sup> Initial Jobless Claims (540k)	7:30 Central
		1 <sup>st</sup> Qtr Nonfarm Productivity (4.4%)	7:30 Central
		1 <sup>st</sup> Qtr Unit Labor Costs (-1.0%)	7:30 Central
Friday	May 7	Apr Change in Nonfarm Payrolls (993k)	7:30 Central
		Apr Unemployment Rate (5.7%)	7:30 Central
		Apr Avg Hourly Earnings-YOY (-0.4%)	7:30 Central
		Apr Labor Force Participation Rate (61.6%)	7:30 Central
		Mar Wholesale Inventories (1.4%)	9:00 Central
		Mar Wholesale Trade Sales (1.0%)	9:00 Central
Mar Consumer Credit (\$20.0b)	14:00 Central		

Source: Bloomberg Finance L.P.

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