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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** held at a two-month high last week, possibly reflecting the late timing of this year's Easter holiday and spring vacations. Claims remained unchanged at 230,000 for the week ending April 27th. The four-week moving average, a less volatile measure than the weekly numbers, increased 6,500 to 212,500. The total number of people continuing to receive jobless benefits, a report which is lagged one week, increased 17,000 to 1.671 million for the week ending April 20th.
- The Commerce Department reported consumer spending rebounded in March with the best gain in almost a decade, while personal income rose less than expected. **Personal spending** gained 0.9% in March after gaining 0.1% the prior month. **Personal income** rose 0.1% in March after gaining 0.2% in February. The **PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in March after gaining 0.1% in February, bringing the year-on-year gain to 1.5%, below the central bank's target of 2.0%. Disposable income, or the money left over after taxes, remained unchanged in March after climbing 0.1% in February. The savings rate fell to 6.5% in March from 7.3% in February.
- The Labor Department reported the **Employment Cost Index** for the first quarter showed a continued gradual uptrend, consistent with a tightening labor market. The index climbed 0.7% in the first quarter after a similar gain of 0.7% in the prior quarter.
- The **S&P CoreLogic CaseShiller home price index** indicated property values climbed 0.20% in February after gaining 0.09% the previous month. Since mid-year 2018, the rise in home prices has gradually decelerated. The index climbed 3.51% in February from the same month in 2018. The index tracks changes in the value of homes in 20 metropolitan regions.
- The National Association of Realtors reported the **index of pending home re-sales** rebounded in March after slumping the previous month. The number of contracts to purchase previously owned homes increased 3.8% in March after declining 1.0% in February. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The Conference Board's **consumer confidence index** rose more than expected in April as consumers felt more optimistic about present and future economic conditions, underscoring the tight labor market and higher wages. The index recorded a 129.2 in April from a 124.2 reading in March. The expectations index increased to 103.0 from 98.3 the prior month while the present situation index rose to 168.3 in April from 163.0 in March.
- **ADP Employer Services** reported that more workers than expected were added to payrolls in April and the previous month was revised higher. Much of the gain was at small firms which is significant because small firms tend to be the driving force behind job growth. April ADP payrolls rose 275,000 after increasing an upwardly revised 151,000 in March. Service provider's added 223,000 jobs in April, construction gained 49,000 and factories increased 5,000 jobs.
- The **Institute for Supply Management** reported its **manufacturing index** fell in April to the weakest level in more than two years, indicating trade uncertainties are impacting companies. The manufacturing index recorded a 52.8 in April after a 55.3 reading in March. The new orders part of the index slumped to 51.7 in April from 57.4 and production recorded a 52.3. A reading above 50 indicates expansion in the manufacturing sector.
- The Commerce Department reported that **construction spending** fell in March after two solid months of gains. Total construction spending fell 0.9% in March after climbing 0.7% the prior two months. Spending on residential dropped 1.8% in March and non-residential fell 0.3%. Government spending declined 1.3% in March, while private spending fell 0.7%.

- The **FOMC** decided to leave the federal funds rate at 225 bps to 250 bps range. The policy statement was more optimistic about the economy and less optimistic about inflation. The Fed continues to emphatically embrace the theme of patience at this point in time.
- The U.S. Bureau of Labor Statistics reported **worker's productivity** posted a better than expected gain in the first quarter, with a surge in nonfarm business output and a much more moderate gain in employee hours. The gain in productivity indicates inflation can be contained even with gains in economic growth and a tightening labor market. The latest estimate showed **labor productivity** rose to a 3.6% annual rate during the 1st quarter of 2019 after gaining 1.3% in the prior quarter. Productivity is up 2.4% from a year earlier. **Unit labor costs** in nonfarm businesses fell 0.9% in the 1st quarter, after gaining 2.5% the prior quarter.
- The Commerce Department reported the **goods trade deficit** widened in March as imports and exports both increased. The deficit widened to \$71.4 billion in March from \$70.9 billion in February. **Exports** rose 1.0% to \$140.3 billion and **imports** gained 0.9% to 211.7 billion.
- The Commerce Department reported **wholesale inventories** fell slightly in March after gaining 0.1% the prior month. Nondurable goods dropped 0.6% in March and durable goods increased by 0.3%.
- The Labor Department reported that payroll growth was surprisingly strong in April, pushing the unemployment rate to a fresh 49-year low. During April, there was a better than expected gain in payrolls while the size of the labor force fell, dragging down the labor participation rate. **Nonfarm payrolls** rose by 263,000 in April after a downwardly revised 189,000 gain the prior month. The **unemployment rate** fell to 3.6%. The **labor force participation rate** fell to 62.8% in April from 63.0% the prior month. Private payrolls were up 236,000 and government payrolls increased 27,000. The closely watched **average hourly earnings** increased to \$27.77 in April from \$27.71 in March. The average workweek declined to 34.4 hours per week from 34.5 hours per week the prior month.
- The **Institute for Supply Management** reported its **non-manufacturing** index, which covers services and construction, fell in April for the second month, slipping to the lowest level since August 2017. This index has been chopping around in recent months, having hit the post-recession highs in late 2018, then weakening since the government shutdown. This gauge of service providers accounts for 90% of the economy. The non-manufacturing index fell to 55.5 in April from a 56.1 reading in March. A reading greater than 50 indicates expansion in the services sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell 4.3% to 407.2 from 425.6 for the week ended April 26th. **Refinancing applications** decreased 5.5% to 1,228 from 1,293 the prior week. **Home purchase mortgage applications** fell 3.7% to 259.4. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 4.42% from 4.46% the prior week.

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 2.33%, 2.32%, 2.53%, and 2.92%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -1, 21, 39, and 59 basis points respectively.

Economic/Events Calendar

Tuesday	May 7	Mar JOLTS Job Openings (7,350k)	9:00 Central
		Mar Consumer Credit (\$16.0b)	14:00 Central
Wednesday	May 8	May 3 rd MBA Mortgage Applications	6:00 Central
Thursday	May 9	May 4 th Initial Jobless Claims (220k)	7:30 Central
		Apr Producer Price Index (0.3%)	7:30 Central
		Apr Producer Price Index-YOY (2.3%)	7:30 Central
		Apr PPI Ex Food & Energy (0.2%)	7:30 Central
		Apr PPI Ex Food 7 Energy-YOY (2.5%)	7:30 Central
		Mar Trade Balance (-\$50.2b)	7:30 Central
		Mar Wholesale Trade Sales (0.6%)	9:00 Central
		Mar Wholesale Inventories (0.0%)	9:00 Central
Friday	May 10	Apr Consumer Price Index (0.4%)	7:30 Central
		Apr Consumer Price Index-YOY (2.1%)	7:30 Central
		Apr CPI Ex Food & Energy (0.2%)	7:30 Central
		Apr CPI Ex Food 7 Energy-YOY (2.1%)	7:30 Central
		Apr Budget Statement (\$160.0b)	13:00 Central

Source: Bloomberg Finance L.P.

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