Stephens
Fixed Income Sales & Trading

July 19, 2021

Financial Services Group

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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** dropped last week to a new pandemic low. There was a noticeable reversal of progress in the claims data in mid-June, but the data of the last three weeks suggest the recovery is back on track. Claims in regular state programs fell 26,000 to 360,000 for the week ending July 10th, after reporting 386,000 initial claims the prior week. The four-week moving average declined to 382,500 from 397,00 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 126,000 to 3.241 million for the week ending July 3rd.
- The **National Federation of Independent Business** reported sentiment among small businesses moved above 100 for the first time since November. The gain was driven by small businesses ability to raise selling prices to the highest level since January 1981. The index climbed 2.9% to a 102.5 reading in June from 99.6 the prior month.
- The Labor Department reported the **consumer price index** jumped 0.9% in June after gaining 0.6% the prior month. The majority of the gains again came from used autos, rental cars, lodging, airfares and restaurants. The composition of the gains lends some support to the Fed's thesis that inflation is transitory. The year-on-year change in consumer prices is 5.4% in June, reflecting the growing significance of base effects, as last year prices were crumbling due to the pandemic. Service prices gained 0.4% in June after climbing 0.4% in May. Prices of commodity based manufactured goods gained 1.7% in June after gaining 1.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.9% in June after climbing 0.7% the prior month. The year-on-year change in core CPI is 4.5%.
- The Treasury Department reported a **budget deficit** of $174.2 billion for the month of June with the government collecting $449.2 billion and spending $623.4 billion. This compares to a deficit of $864.1 billion a year earlier. The current fiscal YTD deficit is $2,238 billion compared to $2,744 billion the prior year.
- The Labor Department reported the **producer price index** increased by 1.0% in June. Goods prices, which make up 33% of the weighting rose 1.2% in June after climbing 1.5% in May. Services, which make up 66% of the index moved higher by 0.8% after increasing 0.6% the prior month. Year-on-year wholesale prices were up 7.3% in June compared to 6.6% in May. The **core PPI**, which excludes volatile food and energy prices, rose 1.0% in June after gaining 0.7% the previous month, with a year-on-year gain of 5.6%. **PPI ex food, energy and trade** gained 0.5%.
- The Fed released the latest rendition of the **Beige Book,** which is based on information collected through July 2, 2021. This report is published eight times each year. The tone of the report shows that economic activity accelerated and hit a higher gear in the late-Spring and early-Summer. The description of employment suggests that payroll growth would be much stronger were it not for the lack of available workers in a number of sectors. Inflation pressures reported by businesses indicated they are the firmest in recent memory.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, moved to a record high. Orders and shipments recorded their best levels in 17 years and a measure of selling prices advanced to a new high. The index recorded a positive 43.0 in July after a positive 17.4 reading in June. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Labor Department reported the **import price index** climbed 1.0% in June after surging 1.4% in May, led by gains in the price of energy and industrial supplies. Import prices are up 11.2% year-on-year. **Import prices ex petroleum** increased 0.7% in June after rising 0.9% the prior month.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, improved in June despite supply shortages and labor difficulties. Problems with availability of

semiconductors meant the drop in manufacturing output was mainly in the auto sector. Industrial production rose 0.4% in June after increasing 0.7% in May. Production at factories, which make up 75.0% of output decreased 0.1% in June after gaining 0.9% the previous month. Utilities rose 2.7% and mining gained 1.4%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 75.4% in June from 75.1% the prior month.

- The Commerce Department reported that **retail sales** rebounded in June, but the gain was tarnished a bit by downward revisions to May. The June report showed weakness in durable categories such as autos, furniture and building materials, but these declines were more than offset by non-durable strength such as apparel, department stores and online sales. Consumption is clearly rotating out of durable goods and into nondurables and services. Retail sales climbed 0.6% in June after a downwardly revised loss of 1.7% in May. June retail sales are up 18.5% year-on-year. **Retail sales ex autos and gas** increased 1.1% in June after decreasing 1.0% in May.
- The Commerce Department reported **business inventories** increased 0.5% in May after increasing 0.1% in April. **Business sales** decreased 0.3% in May after climbing 0.6% the prior month. The ratio of business inventories to sales increased to 1.26 from 1.25 in April.
- The **University of Michigan's preliminary index of consumer sentiment** unexpectedly fell in July with buyers focus turning to increasing prices. The index declined to 80.8 in July from a 85.5 reading in June. The **index of current conditions** decreased to 84.5 from 88.6 the prior month while the **index of expectations** decreased to 78.4 from 83.5.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** surged by 16.0% for the week ending July 9th after decreasing 1.8% the prior week. **Refinancing applications in**creased 20.4% to 3,362 from 2,791 the prior week. **Home purchase mortgage applications** increased 8.3% to 273.3. The **average contract rate** on a 30-year fixed-rate mortgage declined to 3.09% for a 30-year fixed rate loan from 3.15% the prior week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 0.22%, 0.77%, 1.29%, and 1.92%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 55, 52, 63, and 170 basis points respectively.

Economic/Events Calendar

Monday	July 19	Jul NAHB Housing Market Index (82)	9:00 Central
Tuesday	July 20	Jun Housing Starts (1,590k)	7:30 Central
		Jun Building Permits (1,700k)	7:30 Central
Wednesday	July 21	Jul 16th MBA Mortgage Applications	6:00 Central
Thursday	July 22	Jul 17th Initial Jobless Claims (350k)	7:30 Central
		Jun Chicago Fed Nat Activity Index (0.30)	7:30 Central
		Jun Leading Index (0.9%)	9:00 Central
		Jun Existing Home Sales (5.90m)	9:00 Central

Source: Bloomberg Finance L.P.