



October 7, 2019

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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 and remain near historically low levels that reflect a very solid labor market. Claims were 219,000 for the week ending September 28th. The GM strike, which began September 15th may have caused a number of auto-related businesses to announce temporary layoffs. The four-week moving average, a less volatile measure than the weekly numbers, remained unchanged at 212,500. The total number of people continuing to receive jobless benefits, a report which is lagged one week, decreased 5,000 to 1.651 million for the week ending September 21st.
- The **Institute for Supply Management** reported its **manufacturing index** contracted for the second straight month. Although manufacturing only makes up about 11% of the economy, there are concerns that factory weakness could filter through to the rest of the economy and endanger the record long expansion. The ongoing trade war escalation is creating uncertainty with manufacturers becoming increasingly defensive. The manufacturing index recorded a 47.8 in September after a 49.1 reading in August. The new orders part of the index edged higher to 47.3 September from 47.2 and production recorded a 47.3, down from 49.5. A reading below 50 indicates contraction in the manufacturing sector.
- The Commerce Department reported that **construction spending** edged higher in August after three straight months of no gains. Construction spending increased 0.1% in August after remaining unchanged in July. Spending on residential gained 0.9% in August and non-residential fell 0.4%. Government spending increased 0.4% in August, while private spending remained unchanged.
- **ADP Employer Services** reported that September ADP payrolls rose 135,000 after increasing a downwardly revised 157,000 in August. This is slightly below what was expected. Service provider's added 127,000 jobs in September, construction rose 9,000 and factories increased 2,000 jobs.
- The **Institute for Supply Management** reported its **non-manufacturing** index, which covers services and construction, slipped more than expected in September, supporting worries that pressure from the trade war is having an impact on the service sector. This gauge of service providers accounts for 90% of the economy. The non-manufacturing index fell to 52.6 in September from a 56.4 reading in August. A reading greater than 50 indicates expansion in the services sector.
- The Commerce Department reported that **factory orders** fell slightly in August. The index dropped 0.1% in August after gaining 1.4% the prior month. The much followed forward looking demand from businesses for nondefense capital goods, excluding aircraft declined 0.4% in August after remaining unchanged in July. **Excluding transportation**, new orders remained unchanged in August after gaining 0.2% the prior month.
- The Commerce Department reported the **trade deficit** widened in August as exports climbed less than imports. The trade gap with China narrowed in August as exports rose to a five-month high, a possible sign of goodwill to try to resolve the trade war. The deficit increased 1.6% to \$54.9 billion in August. **Exports** rose 0.2% to \$207.9 billion and **imports** climbed 0.5% to \$262.8 billion.
- The Labor Department reported that payroll growth increased at a slower pace in September and prior months were upwardly revised. The data tells a mixed story about the state of the labor market, with the establishment survey reflecting payroll growth that has clearly downshifted to a more moderate trend since the spring. In contrast, the household survey reflects a labor market that is doing very well. **Nonfarm payrolls** (establishment survey) rose by 136,000 in September after an upwardly revised 168,000 gain the prior month. The **unemployment rate** declined to 3.517% versus 3.687% in August, the lowest level in 50 years. The **labor force participation rate** remained unchanged at 63.2% in September. The average hourly earnings declined to \$28.09 from \$28.10 the prior month and weekly hours remained unchanged at 34.4 in September.



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- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased 8.1% to 553.8 for the week ending September 27th after decreasing 10.1% the prior week. **Refinancing applications** increased 14.2% to 2,203 from 1,928 the prior week. **Home purchase mortgage applications** rose 0.9% to 263.8. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 3.99% from 4.02% the prior week..

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 1.40%, 1.35%, 1.53%, and 2.02%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -5, 18, 49, and 62 basis points respectively.

Economic/Events Calendar

Monday	October 7	Aug Consumer Credit (\$15.0b)	14:00 Central
Tuesday	October 8	Sep NFIB Small Business Optimism (102.0)	5:00 Central
		Sep Producer Price Index (0.1%)	7:30 Central
		Sep Producer Price Index-YOY (1.8%)	7:30 Central
		Sep PPI Ex Food & Energy (0.2%)	7:30 Central
		Sep PPI Ex Food & Energy-YOY (2.3%)	7:30 Central
Wednesday	October 9	Oct 4 th MBA Mortgage Applications	6:00 Central
		Aug JOLTS Job Openings (7,250k)	9:00 Central
		Aug Wholesale Inventories (0.4%)	9:00 Central
		Aug Wholesale Trade Sales	9:00 Central
		FOMC Meeting Minutes for Sep 18 th Meeting	13:00 Central
Thursday	October 10	Oct 5 th Initial Jobless Claims (220k)	7:30 Central
		Sep Consumer Price Index (0.1%)	7:30 Central
		Sep Consumer Price Index-YOY (1.8%)	7:30 Central
		Sep CPI Ex Food & Energy (0.2%)	7:30 Central
		Sep CPI Ex Food & Energy-YOY (2.4%)	7:30 Central
Friday	October 11	Sep Import Price Index (0.0%)	7:30 Central
		Sep Import Price Index-YOY (-2.1%)	7:30 Central
		Sep Import Price Index Ex Petroleum (-0.1%)	7:30 Central
		Sep Univ of Michigan Sentiment (92.0)	9:00 Central

Source: Bloomberg Finance L.P.

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