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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** came in much lower than expected. Claims in regular state programs fell 71,000 to 199,000 for the week ending November 20<sup>th</sup>, after reporting 270,000 initial claims the prior week. This is the lowest report since November 1969. The number reflects a seasonal adjustment process that was changed by the Department of Labor to deal better with the larger numbers during the pandemic. It appears the seasonal factors are starting to over correct. The four-week moving average declined to 252,250 from 273,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, declined 60,000 to 2.049 million for the week ending November 13<sup>th</sup>. For reference, continuing claims were 1.770 million the week ended March 14, 2020 and topped out at 23.128 million in May 2020.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity improved in October. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.76 in October after reporting a negative 0.18 in September. A reading above zero indicates above-trend-growth in the national economy.
- The National Association of Realtors reported that **existing home sales** unexpectedly increased in October from an elevated level in September. The gain brings sales to its highest level this year as buyers take advantage of an improving labor market and low mortgage rates. Contract closing, which usually occur a month or two after a contract is signed increased 0.8% in October to a 6.34 million pace after gaining 7.0% in September. The median selling price increased to \$353,900 from \$351,200 in September.
- The Commerce Department reported the **goods trade deficit** narrowed in October as exports surged higher at a faster pace than imports. The deficit decreased 14.6% to \$82.9 billion in October. **Exports** gained 10.7% to \$157.4 billion and **imports** increased 0.5% to \$240.3 billion.
- The Commerce Department reported **wholesale inventories** rose 2.2% in October after climbing 1.4% the previous month. Year-on-year wholesale inventories have climbed 14.3%. **Retail inventories** climbed 0.1% in October after declining 0.2% in September and are down 0.7% year-on-year.
- The second estimate by the Commerce Department of the 3<sup>rd</sup> quarter **gross domestic product** showed economic growth slowed as supply chain disruptions, rising prices and the delta variant of the coronavirus pressured spending on both goods and services. Materials shortages and shipping delays led to outsized drawdowns in inventories as companies scrambled to meet demand. Gross domestic product expanded at a 2.1% annualized rate in the 3<sup>rd</sup> quarter, after gaining 6.7% in the 2<sup>nd</sup> quarter. **Personal consumption**, which accounts for about 70% of the economy, gained 1.7% in the quarter after gaining 12.0% in the previous quarter. The **GDP price index** gained 5.9% in the 3<sup>rd</sup> quarter after increasing 6.2% in the 2<sup>nd</sup> quarter.
- The Commerce Department reported **durable goods orders** fell in October for the second straight month due primarily to a drop in commercial aircraft orders. The report showed a continuing improvement in business investment, led by a rebound in demand on the consumer side with evidence of substantial backlogs. Durable goods, which are bookings for goods and materials meant to last at least three years, decreased 0.5% in October after falling 0.4% in September. The non-military capital goods orders excluding aircraft, a proxy for business investment, climbed 0.6% in October after gaining 1.3% in September. **Excluding transportation**, durable orders rose 0.5% in October after gaining 0.7% in September. The ratio of inventory to shipments decreased to 1.78 months from 1.80 months in September.
- The Commerce Department reported personal income and personal spending were higher than expected in October. The report indicates that households are resilient even as inflation runs hot. The inflation gains were broad-based with energy and used cars accounting for a little over half of the



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increase. **Personal income** increased 0.5% in October after declining 1.0% in September. **Personal spending** increased by 1.3% in October after gaining 0.6% in September. The **PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.6% in October, bringing the year-on-year gain to 5.0%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.3% in October after dropping 1.3% higher in September. The savings rate decreased to 7.3% in October from 8.2% the prior month.

- The **University of Michigan's final index of consumer sentiment** declined in November from a month earlier to a decade low as consumers continue to be concerned about the delta variant and inflation. The gauge of consumer confidence edged higher to 67.4 from an earlier estimate of 66.8. This is a decrease from the 71.7 reading in October. The **index of current conditions** decreased to 73.6 from 77.7 the prior month while the **index of expectations** dropped to 63.5 from 67.9 the prior month.
- The Commerce Department reported sales of new homes edged higher in October indicating demand is stabilizing as builders continue to deal with supply-chain disruptions and higher prices. **New home sales** rose 0.4% to a 745,000 annualized pace in October after reporting a downwardly revised 742,000 pace the prior month. New home sales, which account for about 10% of the residential market, are accounted for when contracts are signed, which makes this data a more timely indicator than existing home transactions.
- The **FOMC Minutes** for the November 2-3<sup>rd</sup> meeting indicated that participants are getting increasingly concerned that inflation could prove to be more persistent than previously believed. Some participants suggested that reducing the pace of net asset purchases could be warranted. The Fed has implemented its taper of a current \$70 billion in Treasury purchases and \$35 billion in MBS purchases per month by \$10 billion and \$5 billion respectively. That would bring purchases to a complete halt by mid-2022.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased 1.8% for the week ending November 19<sup>th</sup> after decreasing 2.8% the prior week. **Refinancing applications** increased 0.4% to 2,706 from 2,695 the prior week. **Home purchase mortgage applications** rose 4.7% to 295.7. The **average contract rate** on a 30-year fixed-rate mortgage rose to 3.24% from 3.20% the prior week for a 30-year fixed rate loan.

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 0.50%, 1.16%, 1.47%, and 1.82%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 66, 31, 35, and 132 basis points respectively.

Source: Bloomberg Finance L.P.

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## Economic/Events Calendar

Monday	November 29	Oct Pending Home Sales (1.0%)	9:00 Central
Tuesday	November 30	Sep FHFA House Price Index (1.2%)	8:00 Central
		Sep S&P CoreLogic CS 20-City Index (1.15%)	8:00 Central
		Nov Conf Bd Consumer Confidence (110.8)	9:00 Central
Wednesday	December 1	Nov 26 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Nov ADP Employment Change (525k)	7:30 Central
		Oct Construction Spending (0.4%)	9:00 Central
		Nov ISM Manufacturing (61.2)	9:00 Central
		U.S. Federal Reserve Releases Beige Book	13:00 Central
Thursday	December 2	Nov 27 <sup>th</sup> Initial Jobless Claims (240k)	7:30 Central
Friday	December 3	Nov Changed in Nonfarm Payrolls (550k)	7:30 Central
		Nov Unemployment Rate (4.5%)	7:30 Central
		Nov Average Hourly Earnings-YOY (5.0%)	7:30 Central
		Nov Labor Force Participation Rate (61.7%)	7:30 Central
		Nov ISM Services Index (65.0)	9:00 Central
		Oct Factory Orders (0.5%)	9:00 Central
		Oct Factory Orders Ex Transportation	9:00 Central

Source: Bloomberg Finance L.P.

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