Stephens

July 31, 2023
Financial Services Group

Author:

Troy Clark, CFA

Senior VP

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.

tclark@stephens.com

Stephens Inc.
111 Center Street
Little Rock, AR 72201

501.377.6314
800.809.2016

www.stephens.com

Member NYSE, SIPC

Economic Review

- The Labor Department reported that **initial jobless claims** dropped to their lowest level since February. The lack of supply of available labor makes it increasingly difficult to fill open positions. Claims in regular state programs fell 7,000 to 221,000 from the prior week's reported 228,000 for the week ending July 22nd. The four-week moving average fell to 233,750 from 237,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, declined 59,000 to 1.690 million for the week ending July 15th.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity fell in June for the second straight month. The **Chicago Fed National index**, which draws on 85 economic indicators, was negative 0.32 in June after reporting a negative 0.28 in May. Production-related indicators recorded a negative 0.27 and employment-related indicators contributed positive 0.03. A reading below zero indicates below-trend-growth in the national economy.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.7% in May after gaining 0.7% in April. The year-on-year change in the house price index was 2.8% in May. 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** rose a better than expected 0.99% in May after gaining 0.85% in April. This is the fourth straight increase, reflecting growing buyer demand amid a tight supply of listings. The index declined 0.46% in May from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** increased to its highest level in two years in July. A strong labor market and easing inflation have allowed wages to finally keep up with the pace of inflation, encouraging consumers that we may avoid a recession. The index recorded a 117.0 in July from an upwardly revised 110.1 reading in June, previously reported as 109.7. The present situation index increased to 160.0 in July from a 155.3 reading in June. The expectations index climbed to 88.3 in July from 80.0 the prior month.
- The Commerce Department reported sales of new homes pulled back in June, the first decline in four months. Even with the decline, sales have rebounded over the past year due to limited inventory of existing homes, even as high borrowing costs and elevated prices continue to pose affordability challenges. **New home sales** fell 2.5% to a 697,000 annualized pace in June after reporting a downwardly revised 715,000 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** met on Wednesday and the committee hiked rates another 25 basis points as expected. This is the 11th increase in 16 months to a range of 5.25% to 5.50%. This is the highest the fed funds target has been since January of 2001. The policy statement was virtually unchanged from June. Powell was appropriately vague in the press conference about future rate hikes, and reiterated the data dependent nature of the outlook. Powell highlighted the upcoming CPI and employment reports that will be out in between now and the September meeting as what will influence their next rate decision.
- The initial estimate by the Commerce Department of the 2nd quarter **gross domestic product** showed economic growth unexpectedly picked up steam in the second quarter. Consumption was stronger, inflation was lower, investment was stronger and net exports were all better than expected. **Gross domestic product** expanded at a 2.4% annualized rate in the 2nd quarter, after increasing 2.0% in the previous quarter. **Personal consumption,** which accounts for about 70% of the

economy, slowed sharply to 1.6% versus 4.2% in the first quarter. The core PCE deflator, which is closely watched by the Fed rose 3.8%, modestly slower than the 4.0% expected. The **GDP price index** gained 2.2% in the 2nd quarter, suggesting efforts to contain inflation are improving.

- The Commerce Department reported **durable goods orders** surged in June, with a jump in orders for aircraft and parts. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 4.7% in June after gaining 2.0% in May. While the headline number is impressive with the surge in airplane orders, the rise in orders for machinery, electronics and other equipment was far more modest. The non-military capital goods orders excluding aircraft, a proxy for business investment, gained 0.2% in June after climbing 0.5% in May. **Excluding transportation**, durable orders rose 0.6% in June after gaining 0.7% in May. The ratio of inventory to shipments remained unchanged at 1.84 in June.

- The Commerce Department reported the **goods trade deficit** narrowed in June as imports declined and exports edged higher. The deficit decreased 4.4% to $87.8 billion in June. **Exports** climbed 0.2% to $162.5 billion and **imports** declined 1.4% to $250.3 billion.

- The Commerce Department reported **wholesale inventories** decreased 0.3% in June after falling 0.3% the previous month. Year-on-year wholesale inventories are up 1.7%. **Retail inventories** increased 0.7% in June after gaining 0.7% in May and are up 5.4% year-on-year.

- The National Association of Realtors reported the **index of pending home re-sales** unexpectedly rose in June for the first time in four months. Sales gained 0.3% in June after dropping 2.5% in May, the lowest level this year. Mortgage rates are high and the lack of housing inventory continues to be a major constraint to rising sales. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as pending when a seller accepts a sales contract on a property. 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 2nd quarter was slower than expected, a welcome indication for the Fed that employment cost increases are slowing. The Employment Cost Index is the Fed's preferred measure of wages. The index climbed 1.0% in the 2nd quarter after a gain of 1.2% in the 1st quarter. Wages and salaries increased 1.0% and benefits rose 0.9%. The significant cooling in labor costs adds to growing optimism that the economy may be able to avoid a recession.

- The Commerce Department reported **personal income** rose 0.3% in June and **personal spending** increased 0.5%. This is a solid report that shows strong income and spending and fading inflation. Household spending is supported by a robust labor market. The savings rate dropped to 4.3% in June from 4.6% in May. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in June, bringing the year-on-year gain to 3.0%, closing in on the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.3% in June after climbing 0.5% in May.

- The **University of Michigan's final index of consumer sentiment** rose in July to the highest since October of 2021 as inflation continues to ease. The gauge of consumer confidence increased to 71.6 in July, which is lower than the earlier estimate of 72.6. This is better than the 64.4 reading in June. The **index of current conditions** climbed to 76.6 from 69.0 the prior month while the **index of expectations** rose to 68.3 from 61.5 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained unchanged at 3.0% in July. One year inflation expectations rose to 3.4% from 3.3%.

Source: Bloomberg Finance L.P.

Stephens

July 31, 2023
Financial Services Group

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week amid high mortgage rates. The index fell 1.8% for the week ending July 21st. **Refinancing** applications fell 0.4% to 444.5 from 446.4 the prior week. **Home purchase mortgage applications** decreased 2.5% to 159.2. Refinancing made up 28.7% of applications with an average loan size of $260,200, while purchases average loan size was $432,700. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 6.87%.

BOND MARKET REVIEW

Rates climbed last week and the yield curve steepened after the Fed raised rates another 25 basis points. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.87%, 4.18%, 3.95% and 4.01%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -69, -23, 6, and -86 basis points respectively.

Economic/Events Calendar

Tuesday	August 1	Jun Construction Spending (0.6%)	9:00 Central
		Jun JOLTS Job Openings (9,600k)	9:00 Central
		Jul ISM Manufacturing (46.9)	9:00 Central
Wednesday	August 2	Jul 28th MBA Mortgage Applications	6:00 Central
		Jul ADP Employment Change (183k)	7:15 Central
Thursday	August 3	Jul 29th Initial Jobless Claims (227k)	7:30 Central
		2nd Qtr Nonfarm Productivity (2.2%)	7:30 Central
		2nd Qtr Unit Labor Costs (2.5%)	7:30 Central
		Jun Factory Orders (2.1%)	9:00 Central
		Jun Factory Orders ex Transportation	9:00 Central
		Jul ISM Services Index (53.0)	9:00 Central
Friday	August 4	Jul Change in Nonfarm Payroll (200k)	7:30 Central
		Jul Unemployment Rate (3.6%)	7:30 Central
		Jul Avg Hourly Earnings-YOY (4.2%)	7:30 Central
		Jul Labor Force Participation Rate (62.6%)	7:30 Central

Source: Bloomberg Finance L.P.