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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** edged higher from very low levels last week. With layoff activity at such low levels, it seems to be the case that workers who are laid off are finding new work opportunities with relative ease, or realized layoff activity is far less than what is announced by large businesses. Jobless claims are set to accelerate in coming weeks after the United Auto Workers union expanded its strike to 38 locations and 20 states. Claims in regular state programs climbed 2,000 to 204,000 from the prior week's upwardly revised 202,000 for the week ending September 23rd. The four-week moving average declined to 211,000 from 217,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 12,000 to 1.670 million for the week ending September 16th.

- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity unexpectedly declined in August. The **Chicago Fed National index**, which draws on 85 economic indicators, was negative 0.16 in August after reporting a positive 0.07 in July. Production-related indicators recorded a negative 0.02 and personal consumption and housing moved down to negative 0.08. 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 0.8% in July after gaining 0.4% in June. The year-on-year change in the house price index was 4.6% in July. 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 0.87% in July after gaining 0.91% in June. This is the sixth straight increase, reflecting growing buyer demand amid a tight supply of listings. The index declined 0.36% in July from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Commerce Department reported sales of new homes declined in August to a five-month low. Elevated mortgage rates and high prices have driven home affordability beyond many prospective homebuyers ability to buy. **New home sales** decreased 8.7% to a 675,000 annualized pace in August after reporting an upwardly revised 739,000 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 Conference Board's **consumer confidence index** plunged in September to its lowest level in four months. High gasoline prices, depleted savings, climbing credit card debt and a resumption of student loan repayments are weighing on consumers. Confidence deteriorated across most income levels, with the biggest dent seen in the highest income brackets. The index recorded a 103.0 in September from an upwardly revised 108.7 reading in August, previously reported as 106.1. The present situation index increased to 147.1 in September from a 146.7 reading in August. The expectations index dropped to 73.7 in September from 83.3 the prior month.

- The Commerce Department reported **durable goods orders** rebounded in August indicating investment is resilient for longer lasting goods. The report reflects gains in orders for military aircraft, computers, electrical equipment and machinery. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 0.2% in August after declining 5.6% in July. **Excluding transportation**, durable orders rose 0.4% in August after gaining 0.1% in July. The non-military capital goods orders excluding aircraft, a proxy for business investment, gained 0.9% in August after declining 0.4% in July. The ratio of inventory to shipments remained unchanged at 1.84 in August.

- The third estimate by the Commerce Department of the 2nd quarter **gross domestic product** did not change the level of economic activity, but a downward revision of consumer spending was offset by stronger business fixed investment. Net exports and inventories were also revised higher, no longer acting as a drag on growth. **Gross domestic product** expanded at a 2.1% annualized rate in the 2nd quarter. **Personal consumption,** which accounts for about 70% of the economy, was revised lower to 0.8%, reported last month at 1.7%. The core PCE deflator, which is closely watched by the Fed rose 3.7%. The **GDP price index** gained 1.7% in the 2nd quarter, suggesting efforts to contain inflation are improving.

- The National Association of Realtors reported the **index of pending home re-sales** dropped to its lowest level since April 2020, indicating higher mortgage rates are hurting the housing market. Sales fell 7.1% in August after gaining 0.5% in July. 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 Commerce Department reported the **goods trade deficit** narrowed in August as exports increased and imports declined. The deficit decreased 7.3% to $84.3 billion in August. **Exports** climbed 2.2% to $168.9 billion and **imports** fell 1.2% to $253.1 billion.

- The Commerce Department reported **personal income** rose a solid 0.4% in August and **personal spending** increased 0.4%. Personal income gains were supported by an increase in the pace of hiring and an uptick in average weekly hours worked. Spending gains were led by an increase in gasoline costs. Revisions to previous data showed that inflation has been running hotter than believed for the past year and spending was not as resilient. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.1% in August, bringing the year-on-year gain to a revised 3.5%. Disposable income, or the money left over after taxes, rose 0.2% in August.

- The Commerce Department reported **wholesale inventories** decreased 0.1% in August after falling 0.2% the previous month. Year-on-year wholesale inventories are down 0.9%. **Retail inventories** increased 1.1% in August after gaining 0.5% in July and are up 4.5% year-on-year.

- The **University of Michigan's final index of consumer sentiment** declined in September to its lowest level since early 2021. Concerns about lingering inflation, high financing costs, a cooling labor market and the resumption of student loan payments is taking a toll on sentiment. The gauge of consumer confidence decreased to 68.1 in September, which is higher than the earlier estimate of 67.7. This is lower than the 69.5 reading in August. The **index of current conditions** declined to 71.4 from 75.7 the prior month while the **index of expectations** climbed to 66.0 from 65.5 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, declined to 2.8% in September. One year inflation expectations fell to 3.2% from 3.5%.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week from an already very low level as mortgage rates climbed to the highest level since 2000. The index decreased 1.3% for the week ending September 22nd. **Refinancing** applications fell 0.9% to 411.7 from 415.4 the prior week. **Home purchase mortgage applications** decreased 1.5% to 144.8. Refinancing made up 31.9% of applications with an average loan size of $255,100, while purchases average loan size was $416,300. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.41% from 7.31% the prior week.

Source: Bloomberg Finance L.P.

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October 2, 2023
Financial Services Group

BOND MARKET REVIEW

Rates continued to climb after the FOMC meeting last week as committee members indicated rates would be higher for longer. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 5.04%, 4.61%, 4.57% and 4.70%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -43, -4, 13, and -34 basis points respectively.

Economic/Events Calendar

Monday	October 2	Aug Construction Spending (0.5%)	9:00 Central
		Sep ISM Manufacturing (47.9)	9:00 Central
Tuesday	October 3	Aug JOLTS Job Openings (8,808k)	9:00 Central
Wednesday	October 4	Sep 29th MBA Mortgage Applications	6:00 Central
		Sep ADP Employment Change (150k)	7:15 Central
		Aug Factory Orders (0.3%)	9:00 Central
		Aug Factory Orders ex Transportation (0.2%)	9:00 Central
		Sep ISM Services Index (53.5)	9:00 Central
Thursday	October 5	Sep 30th Initial Jobless Claims (210k)	7:30 Central
		Aug Trade Balance (-$59.7b)	7:30 Central
Friday	October 6	Sep Change in Nonfarm Payrolls (168k)	7:30 Central
		Sep Unemployment Rate (3.7%)	7:30 Central
		Sep Average Hourly Earnings-YOY (4.3%)	7:30 Central
		Sep Labor Force Participation Rate (62.8%)	7:30 Central
		Aug Consumer Credit ($11.7b)	14:00 Central

Source: Bloomberg Finance L.P.