Stephens

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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** remained at historically low levels last week, edging higher from the prior week. The small rise in jobless claims suggest layoffs remain low, but this could change the longer the United Auto Workers strike persists. Claims in regular state programs climbed 2,000 to 207,000 from the prior week's upwardly revised 205,000 for the week ending September 30th. The four-week moving average declined to 208,750 from 211,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, decreased 1,000 to 1.664 million for the week ending September 23rd.
- The Commerce Department reported that **construction spending** increased 0.5% in August. Spending on residential construction increased 0.6% while non-residential construction climbed 0.4%. Government spending, which made up 21.8% of construction spending, increased 0.6% and private spending gained 0.5%.
- The **Institute for Supply Management** reported its **manufacturing index** contracted in September at the slowest pace in almost a year. Broadly, the data show that the manufacturing sector is stabilizing. The environment for capex investment remains very challenging due to high rates and uncertainty about the economy. Consumers continue to lower their spending on merchandise as they rotate to services and experiences. The manufacturing index recorded a 49.0 in September after a 47.6 reading in August. The new orders part of the index increased to 49.2 in September from 46.8 in August and production climbed to 52.5 in September from 50.0 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Labor Department reported that **job openings** unexpectedly increased in August by 690,000 to 9.610 million. The gain was fueled by a surge in postings in professional and business services, finance and insurance, and state and local government education. The quits rate, which measures voluntary job leavers as a share of total employment held at 2.3%, matching the lowest since 2020. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, edged lower to 1.51 in August from 1.53 in July. The job openings rate rose to 5.8% in August, from 5.4% in July.
- **ADP Employer Services** reported that payrolls at U.S. companies increased in September at the slowest rate since early 2021 and pay growth slowed, signaling weakness in labor demand. Companies increased payrolls by 89,000 in September after an upwardly revised gain of 180,000 in August. Services employment increased by 81,000 and manufacturing employment increased by 8,000.
- The Commerce Department reported that **factory orders** increased 1.2% in August after falling 2.1% in July. The gain was driven by an 18.6% increase in defense spending. Nondefense capital goods orders climbed 0.8% in August after declining 2.2% in July. **Factory orders ex transportation** climbed 1.4% in August after gaining 0.9% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.9% in August after declining 0.4% in July.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, moderated in September as a measure of new orders fell to the lowest level this year. Activity is expected to pull back as consumers face high gasoline and food prices and student loan repayments resume. The index recorded a 53.6 from 54.5 in August. The pullback in new orders was significantly larger than the small uptick in production, implying the current rate of business activity will not last. New orders dropped to 51.8, down from 57.5 in July, business activity climbed to 58.8 in August from 57.3 the prior month, the employment index decreased to 53.4 from 54.7, and prices paid remained unchanged at 58.9. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.
- The Commerce Department reported the **trade deficit** decreased in August as the value of imported goods fell and exports expanded. The deficit decreased to $58.3 billion in August from a deficit of

$64.7 billion in July. **Exports** climbed 1.6% to $256.0 billion and **imports** decreased 0.7% to $314.3 billion.

- The Labor Department reported that payroll growth was much higher than expected in September and the previous two months gains was adjusted significantly higher. The gains suggest companies are confident about their sales prospects and the resilience provides a key source of strength for household spending. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. **Nonfarm payrolls** (employer survey) climbed a higher than expected 336,000 in September after gaining an upwardly revised 227,000 the prior month. The **unemployment rate** (household survey) remained unchanged at 3.787% in September. The **labor force participation rate** also remained unchanged at 62.8% in September. The average hourly earnings increased to $33.88 from $33.81 the prior month. Weekly hours remained unchanged at 34.4.
- The Federal Reserve reported **consumer credit** unexpectedly decreased $15.6 billion in August after gaining an upwardly revised $11.0 billion in July. The loss reflects a record drop in non-revolving credit tied to student loan forgiveness by the Biden administration. Credit card debt increased $14.7 billion to $1.285 trillion after climbing $9.6 billion the previous month. Auto and student loan debt decreased $30.3 billion. Total non-revolving credit dropped to $3.684 trillion. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week after mortgage rates reached 7.5% for the first time since 2000. The index decreased 6.0% for the week ending September 29th. **Refinancing** applications fell 6.6% to 384.6 from 411.7 the prior week. **Home purchase mortgage applications** decreased 5.7% to 136.6. Refinancing made up 31.7% of applications with an average loan size of $253,200, while purchases average loan size was $416,200. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.53% from 7.41% the prior week.

BOND MARKET REVIEW

Rates continued to climb after the strong employment report and turmoil at the U.S. House of Representatives last week. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 5.09%, 4.76%, 4.81% and 4.98%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -33, 4, 17, and -11 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	October 10	Sep NFIB Small Business Optimism (91.0)	5:00 Central
		Aug Wholesale Trade Sales (0.4%)	9:00 Central
		Aug Wholesale Inventories (-0.1%)	9:00 Central
Wednesday	October 11	Oct 6th MBA Mortgage Applications	6:00 Central
		Sep Producer Price Index (0.3%)	7:30 Central
		Sep Producer Price Index-YOY (1.6%)	7:30 Central
		Sep PPI Ex Food & Energy (0.2%)	7:30 Central
		Sep PPI Ex Food & Energy-YOY (2.3%)	7:30 Central
		FOMC Meeting Minutes for Sep 20th	13:00 Central
Thursday	October 12	Oct 7th Initial Jobless Claims (210k)	7:30 Central
		Sep Consumer Price Index (0.3%)	7:30 Central
		Sep Consumer Price Index-YOY (3.6%)	7:30 Central
		Sep CPI Ex Food & Energy (0.3%)	7:30 Central
		Sep CPI Ex Food & Energy-YOY (4.1%)	7:30 Central
		Sep Budget Statement (-$141.0b)	13:00 Central
Friday	October 13	Sep Import Price Index (0.5%)	7:30 Central
		Sep Import Price Index-YOY (-1.4%)	7:30 Central
		Sep Import Price Index ex Petroleum (0.0%)	7:30 Central
		Oct University of Michigan Sentiment (67.2)	9:00 Central

Source: Bloomberg Finance L.P.