November 4, 2024
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** unexpectedly fell last week to their lowest since May as southeastern states continued to recover from the impact of two hurricanes. The low number of layoffs signals that layoffs remain low even with an ongoing strike at Boeing & Company. First time claims in regular state programs recorded 216,000 for the week ending October 26th after the prior week's report of 228,000. The four-week moving average dropped to 236,500 from 238,750 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, decreased 26,000 to 1,862,000 for the week ending October 19th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained unchanged at 1.2%.
- The Commerce Department reported the **goods trade deficit** widened in September as imports jumped higher and exports declined. The deficit increased 14.9% to $108.2 billion in September from $94.2 billion the prior month. **Exports** decreased 2.0% in September to $174.2 billion and **imports** increased 3.8% to $282.4 billion.
- The Commerce Department reported **wholesale inventories** declined 0.1% in September to $905.0 billion. Year-on-year wholesale inventories have climbed 0.5%. **Retail inventories** climbed 0.8% in September to $824.3 billion after climbing 0.7% in August, with year-on-year inventories up 6.5%.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes climbed 0.3% in August after increasing 0.2% in July. The year-on-year change in the house price index was 4.2% in August. 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 0.35% in August after gaining 0.25% in July. The index increased 4.81% from the same month in 2023. This is the eighteenth straight increase in prices. This index includes homes of all prices, while the sample for the FHFA index is based only on confirming mortgages, which leaves out much of the upper end of the housing market. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Labor Department reported that **job openings** declined in September to the lowest since early 2021, suggesting the labor market is cooling as vacancies fall. Available positions decreased by 418,000 to 7.443 million, from a downwardly revised 7.861 million in the prior month. Job openings declined most in health care and social assistance, accommodation and food services, and state and local government. The quits rate, which measures voluntary job leavers as a share of total employment remained at 1.9 in September. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, fell to 1.09 in September from a downwardly revised 1.10 in August.
- The Conference Board's **consumer confidence index** rebounded in October as the proportion of consumers anticipating a recession over the next 12 months dropped to its lowest level since the question was added in July 2022 and consumer pessimism about labor market conditions eased. The index recorded a 108.7 in October from an upwardly revised 99.2 reading in September, previously reported as 98.7. The measure of expectations for the next six months rose to 89.1 in October from 82.8 in September. The present situation index increased to 138.0 in October from 123.8 the previous month.
- **ADP Employer Services** reported that hiring at companies accelerated by the most in more than a year in October. The surprising report indicates a surprisingly solid demand for workers. Companies increased payrolls by 233,000 in October after an upwardly revised gain of 159,000 in September. Services employment increased by 211,000 and manufacturing employment climbed by 22,000. The stronger hiring did not require stronger pay growth as earnings rose 6.2% from a year earlier for workers who changed jobs, the slowest since April 2021. Pay gains for those who stayed in their current position eased slightly to 4.6%.

- The initial estimate by the Commerce Department of the 3rd quarter **gross domestic product** indicated the economy expanded at a robust pace as household purchases accelerated and the federal government ramped up defense spending. The acceleration was led by broad increases across goods, including autos, household furnishings and recreational items. **Gross domestic product** expanded at a 2.8% annualized rate in the 3rd quarter, following a solid 2nd quarter gain of 3.0%. **Personal consumption,** which accounts for about 70% of the economy, rose to a 3.7% annualized pace compared to 2.8% in the second quarter. The core PCE deflator, which is closely watched by the Fed, was 2.2% after a 2.8% reading in the 2nd quarter. The **GDP price index** gained 1.8% in the 3rd quarter after a 2.5% gain in the 2nd quarter, suggesting inflation is cooling.

- The National Association of Realtors reported the **index of pending home re-sales** jumped higher in September, with sales getting a boost from falling mortgage rates and more selection on the market. Despite the increase, the index level remains historically low going back more than two decades. The number of contract signings increased 7.4% in September after climbing 0.6% in August. Mortgage rates during this reporting period dropped to a two-year low of 6.13%, however rates have since risen to 6.73% after a strong employment and inflation reading prompted bets the Fed will cut rates more slowly in coming months. 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** slowed in the 3rd quarter, supporting a trend of gradually easing inflationary pressures. The Employment Cost Index is the Fed's preferred measure of wages. The index climbed 0.8% in the 3rd quarter after a gain of 0.9% in the 2nd quarter and 1.2% in the 1st quarter. The year-on-year gain is 3.9%. Wages and salaries increased 0.8% and benefits rose 0.8%. Wages in the government workers sector grew 1.0% compared to 0.8% in the private sector.

- The Commerce Department reported **personal income** climbed 0.3% in September after gaining 0.2% the prior month. **Personal spending** increased 0.5% in September after gaining 0.3% the prior month. Income growth is cooling and consumers are getting more discerning in their spending habits. Monthly **PCE inflation** climbed 0.2% in September after rising 0.1% in August and year-on-year PCE dropped to 2.1% from 2.3% in August. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.3% in September, bringing the year-on-year gain to 2.7%. **Disposable income**, or the money left over after taxes, increased 0.3% in September.

- The Labor Department reported that payroll growth advanced at the slowest pace since 2020. Much of the weakness is attributable to disruptions from Hurricanes Helene and Milton as well as strikes at Boeing Co., and layoffs at automakers and other manufacturers. Hiring increased in health care and government, but employment in other industries was largely flat or negative. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and the labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. The **Nonfarm payrolls** (employer survey) climbed a mere 12,000 in October after a downwardly revised gain of 223,000 in September. The **unemployment rate** (household survey) increased to 4.145% in October from 4.051% in September. The **labor force participation rate** declined to 62.6% from 62.7% the prior month. The average hourly earnings increased to $35.46 in October from $35.33 the prior month. Weekly hours remained unchanged at 34.3.

- The Commerce Department reported that **construction spending** increased 0.1% in September after climbing an upwardly revised 0.1% in August. Spending on residential construction rose 0.2%

Source: Bloomberg Finance L.P.

while non-residential construction climbed 0.1%. Government spending, which made up 23.0% of construction spending, increased 0.5% and private spending remained unchanged.

- The **Institute for Supply Management** reported its **manufacturing index** declined at a more rapid pace in October as producers are positioning to avoid accumulating inventories. The rates of decline in orders eased up from September, but remained in contraction territory. Demand remains subdued as companies show an unwillingness to invest in capital and inventory. The manufacturing index recorded a 46.5 in October after a 47.2 reading in September. The new orders part of the index increased to 47.1 in October from 46.1 in September and production fell to 46.2 in October from 49.8 the prior month. The employment sub-index edged higher to 44.4 in October from 43.9 the prior month, indicating manufacturing employment is in decline. A reading below 50 indicates contraction in the manufacturing sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined 0.1% last week as mortgage rates continued to climb. **Refinancing** applications declined 6.3% to 630.0 from 672.6 the prior week. H**ome purchase mortgage applications** increased 5.0% to 137.8. Refinancing made up 43.1% of applications with an average loan size of $304,200, while purchases average loan size is $447,200. The **average contract rate** on a 30-year fixed-rate mortgage rose to 6.73% from 6.52% the prior week.

BOND MARKET REVIEW

Rates continued to move higher as the coming election puts renewed focus on the surging national debt. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.21%, 4.22%, 4.38% and 4.58%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 1, 16, 20, and 37 basis points respectively.

Source: Bloomberg Finance L.P.

Stephens

November 4, 2024
Financial Services Group

Economic/Events Calendar

Monday	November 4	Sep Factory Orders (-0.4%)	9:00 Central
		Sep Factory Orders Ex Transportation	9:00 Central
Tuesday	November 5	Sep Trade Balance (-$74.5b)	7:30 Central
		Oct ISM Services Index (53.5)	9:00 Central
Wednesday	November 6	Nov 1st MBA Mortgage Applications	6:00 Central
Thursday	November 7	Nov 2nd Initial Jobless Claims (230k)	7:30 Central
		3rd Qtr Nonfarm Productivity (2.3%)	7:30 Central
		3rd Qtr Unit Labor Costs (0.8%)	7:30 Central
		FOMC Rate Decision (4.50% - 4.75%)	13:00 Central
		Fed Interest on Reserve Balances	13:00 Central
		Sep Consumer Credit ($14.5b)	14:00 Central
Friday	November 8	Nov University of Michigan Sentiment (70.6)	9:00 Central
		Nov Univ of Michigan 1-Year Inflation (2.7%)	9:00 Central
		Nov Univ of Michigan 5-10 Yr Inflation (3.0%)	9:00 Central

Source: Bloomberg Finance L.P.