Stephens
Fixed Income Sales & Trading

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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** unexpectedly increased last week, indicating the labor market continues to deteriorate. A sharp rise in virus cases and the subsequent business restrictions continue to depress employment conditions. Claims were 885,000 for the week ending December 12th after reporting an upwardly revised 862,000 initial claims the prior week. The four-week moving average climbed to 812,500 from 778,250 the prior week. The total number of people continuing to receive jobless benefits, a report which is lagged one week, decreased 273,000 to 5,508 million for the week ending December 5th.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, expanded at a slower rate in December, with weaker growth in orders. Business disruption is greater in this region due to the COVID restrictions, so factory performance lags other regions. The index recorded a positive 4.9 in December after a positive 6.3 reading in November. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Labor Department reported the **import price index** climbed 0.1% in November after decreasing 0.1% in October. Import prices are down 1.0% year-on-year. **Import prices ex petroleum** remained unchanged after decreasing 0.1% the prior month. Year-on-year import prices ex petroleum is 1.6%.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, improved more than expected in November, due primarily to gains in auto production. Industrial production gained 0.4% in November after increasing 0.9% in October. Manufacturing has been on a steady path to recovery since the pandemic's damage in March and April. Production at factories, which make up 75.0% of output rose 0.8% in November after gaining 1.1% the previous month. Utilities declined 4.3% and mining rose 2.3%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 73.3% in November from an upwardly revised 73.0% the prior month.
- The Commerce Department reported that **retail sales** fell more than expected in November and the previous month was revised to a decline as a resurgence in COVID cases restricts economic activity. Retail sales decreased 1.1% in November after falling 0.1% in October. Retail sales are up 2.5% year-on-year. **Retail sales ex autos and gas** decreased 0.9% in November after declining 0.1% in October.
- The Commerce Department reported **business inventories** climbed 0.7% in October after increasing 0.8% in September. **Business sales** rose 0.9% in October after gaining 0.9% the prior month. The ratio of business inventories to sales fell to 1.31 in October from 1.32 in September.
- The **National Association of Home Builders/Wells Fargo** reported housing activity pulled back from historic high levels in December as housing remains a bright spot for a recovering economy. Historically low mortgage rates, favorable demographics and an ongoing suburban shift for home buyer preferences has increased housing demand, though it is becoming increasingly challenging to build affordable homes as shortages of lots, labor, lumber and other building materials increase costs and wait times. The index fell to 86 in December from 90 in November. The index fell as low as 30 in April.
- The **FOMC** met on Wednesday and held the fed funds target rate at 0.00% to 0.25%. The FOMC statement promised to maintain the current pace of purchases until the Fed sees "substantial progress" toward maximum employment and 2% inflation. Powell promised to tell us "well in advance" of reaching that goal and considering gradually tapering asset purchases at that time.
- The Commerce Department reported that **housing starts** rose more than expected in November to the fastest pace since February. Record low mortgage rates and a surge in relocations to the suburbs that double as new workplaces during the pandemic have depleted housing inventory. Housing starts rose 1.2% in November to a 1,547,000 annualized rate following the prior month's

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downwardly revised 1,528,000 pace. Single-family starts increased 0.4% with multi-family starts climbing 4.0%. **Building permits**, a gauge of future construction, rose 6.2% in November to a 1,639,000 pace.

- The Commerce Department reported a **current-account deficit** of $178.5 billion during the third quarter of 2020. This is a higher deficit than $161.4 billion in the second quarter and $111.5 billion in the first quarter. The current account is considered the broadest measure of international trade, covering goods and services as well as income payments and government transfers.
- The Conference Board reported the **index of leading economic indicators** climbed 0.6% in November after gaining 0.8% in October. The gain is led by an improvement in ISM new orders, building permits and stock prices. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, climbed 0.2% in November after gaining 0.6% in October.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased by 1.1% for the week ending December 11th after falling 1.2% the prior week. **Refinancing applications** increased 1.4% to 4,015 from 3,959 the prior week. **Home purchase mortgage applications** rose 1.8% to 331.6. The **average contract rate** on a 30-year fixed-rate mortgage dropped to 2.85% from 2.90% the prior week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 0.12%, 0.38%, 0.95%, and 1.69%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 26, 57, 74, and 157 basis points respectively.

Economic/Events Calendar

Monday	December 21	Nov Chicago Fed Nat Activity Index	7:30 Central
Tuesday	December 22	3rd Qtr Gross Domestic Policy (33.1%)	7:30 Central
		3rd Qtr GDP Price Index (3.6%)	7:30 Central
		3rd Qtr Personal Consumption (40.6%	7:30 Central
		Dec Conf Board Consumer Confidence (97.0)	9:00 Central
		Nov Existing Home Sales (6.70m)	9:00 Central
Wednesday	December 23	MBA Mortgage Applications	6:00 Central
		Dec 19th Initial Jobless Claims (875k)	7:30 Central
		Nov Durable Goods Orders (0.6%)	7:30 Central
		Nov Durables Ex Transportation (0.5%)	7:30 Central
		Nov Cap Goods Orders Nondef Ex Air (0.5%)	7:30 Central
		Nov Personal Income (-0.2%)	7:30 Central
		Nov Personal Spending (-0.2%)	7:30 Central
		Nov PCE Deflator-YOY (1.2%)	7:30 Central
		Oct FHFA House Price Index (0.6%)	8:00 Central
		Dec University of Michigan Sentiment (81.0)	9:00 Central
		Nov New Home Sales (990k)	9:00 Central

Source: Bloomberg Finance L.P.