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Financial Services Group

Author:

Economic Review



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

- The Labor Department reported that **initial jobless claims** remained low for another week as the labor market appears to be stabilizing, with both hiring and firings at low levels. The period included Martin Luther King Jr. Day and was marked by severe winter storms across many parts of the country. First time claims in regular state programs recorded 209,000 for the week ending January 24th, after the prior week's report of 210,000. The four-week moving average rose to 206,250 from 204,000 the prior week. Continuing claims, a proxy for people who are already receiving benefits and still cannot find a job, fell 38,000 to 1,827,000 for the week ending January 17th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity continued to be below trend territory in November but improved over the prior month. The **Chicago Fed National index**, which draws on 85 economic indicators, was negative 0.04 in November after reporting negative 0.42 in October. Forty of the indicators affected the index positively and forty-five made negative contributions. A reading below zero indicates below-trend-growth in the national economy.
- The Commerce Department reported **durable goods orders**, which are bookings for goods and materials meant to last at least three years, jumped higher in November, with aircraft orders providing a significant boost to headline orders. Core orders of durable goods also surprised to the upside. Passage of the One Big Beautiful Bill Act last July, which permanently restored bonus depreciation as a tax incentive, has likely supported capex, more than offsetting uncertainty related to the government shutdown. Orders increased 5.3% in November after dropping 2.1% in October. **Excluding transportation**, durable orders gained 0.5% in November after gaining 0.1% in October. The non-military capital goods orders excluding aircraft, a proxy for business investment, increased 0.7% in November after climbing 0.3% in October. The ratio of inventory to shipments climbed to 1.92 from 1.91 the prior month.
- The Federal Housing Finance Agency reported that the **house price index** of purchase-only homes increased 0.6% in November after gaining 0.4% the previous month. The year-on-year change in the house price index was 1.9% in November. 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 0.40% in November after gaining 0.42% in October. The index increased 1.20% from the same month in 2024. This index includes homes of all prices, while the sample for the FHFA index is based only on conforming 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 Conference Board's **consumer confidence index** plunged at the start of the new year with survey respondents citing conflicts in Greenland, Iran, and Venezuela as key concerns. Still, spending has been resilient and upcoming tax refunds should further support household spending power. The index recorded an 84.5 in January from an upwardly revised 94.2 reading in December, previously reported as 89.1. The measure of expectations for the next six months declined to 65.1 from 74.6 in December. The present situation index decreased to 113.7 in January from 123.6 the previous month.
- The **FOMC** met on Wednesday and left the Federal Funds target range at 3.50% to 3.75%. The rate paid on bank reserve balances was also unchanged at 3.65%. The FOMC statement said economic activity has been expanding at a solid pace. Job gains have remained low and the unemployment rate has shown some signs of stabilization. Inflation remains somewhat elevated. The Committee seeks to achieve maximum employment and inflation at a rate of two percent over the long run. Uncertainty about the economic outlook remains elevated. President Trump announced the selection of former Fed Governor Kevin Warsh as the next Fed chair to replace Jerome Powell. Warsh's

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recent public statements indicate his economic views are consistent with loosening policy, at least in the short term, while these comments are not consistent with his hawkish streak displayed previously as a Fed governor.

- Bureau of Labor Statistics reported **labor productivity** posted its highest level in two years for the third quarter, resuming a trend of efficiency gains that are helping keep a lid on wage related inflationary pressures. Labor productivity increased at an annualized rate of 4.9% in the third quarter, resulting from a 5.4% output gain and a 0.5% increase in hours worked. This follows a 4.1% gain in the second quarter. **Unit labor costs** for the third quarter decreased at a 1.9% rate, reflecting higher productivity and hourly compensation growth of 2.9%, up from 1.1%. On a year-over-year basis, unit labor costs were up 1.3%.
- The Commerce Department reported the **trade deficit** widened in November from its lowest level since 2009 as imports rebounded and exports fell. The volatility reflects monthly swings in response to vacillations on tariffs. The deficit increased in November to \$56.8 billion from \$29.2 billion in October. **Imports** rose 5.0% to \$348.9 billion, and **exports** decreased 3.6% to \$292.1 billion.
- The Commerce Department reported that **factory orders** increased 2.7% in November after decreasing 1.2% in October. **Factory orders ex transportation** climbed 0.2% in November after dropping 0.1% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft, increased 0.4% in November after climbing 0.5% in October.
- The Commerce Department reported **wholesale inventories** increased 0.2% in November to \$915.0 billion. Year-on-year wholesale inventories have climbed 1.8%. **Wholesale trade sales** climbed 1.3% in November after falling 0.4% in October, with year-on-year sales up 5.2%. The ratio of inventory to sales declined to 1.28 from 1.30 in October.
- The Labor Department reported the **producer price index** rose more than expected in December, suggesting companies are increasingly passing on tariff costs. Prices at the wholesale level jumped 0.5% in December after gaining 0.2% in November. Prices have climbed 3.0% year-on-year. Goods prices, which make up 29.7% of the weighting, remained unchanged in December after gaining 0.8% in November. Services, which make up 67.7% of the index, surged 0.7% in December after remaining unchanged in November. The **core PPI**, which excludes volatile food and energy prices, increased 0.4% in December, with a year-on-year gain of 3.7%. **PPI ex food, energy and trade** climbed 0.4% in December.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** retreated 8.5% last week after surging the prior two weeks, as mortgage rates climbed for the first time in four weeks. **Refinancing** applications decreased 15.7% to 1,332 after the prior week's increase of 20.4%. **Home purchase mortgage applications** fell 0.4% to 193.3. Refinancing made up 56.2% of applications with an average loan size of \$374,200, while purchases average loan size is \$440,600. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.24% from 6.16% the previous week.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Rates climbed last week and the yield curve flattened. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities closed at 3.52%, 3.79%, 4.24% and 4.87%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 27, 45, 63, and 135 basis points respectively.

Economic/Events Calendar

Monday	February 2	Jan ISM Manufacturing (48.5)	9:00 Central
Tuesday	February 3	Dec JOLTS Job Openings (7,250k)	9:00 Central
Wednesday	February 4	Jan 30 th MBA Mortgage Applications	6:00 Central
		Jan ADP Employment Change (45k)	7:15 Central
		Jan ISM Services Index (53.5)	9:00 Central
Thursday	February 5	Jan 31 st Initial Jobless Claims (212k)	7:30 Central
Friday	February 6	Jan Change in Nonfarm Payrolls (70k)	7:30 Central
		Jan Unemployment Rate (4.4%)	7:30 Central
		Jan Labor Force Participation Rate (62.4%)	7:30 Central
		Jan Average Hourly Earnings-YOY (3.6%)	7:30 Central
		Feb Univ of Michigan Sentiment (55.0)	9:00 Central
		Feb Univ of Michigan 1-Year Inflation (4.0%)	9:00 Central
		Feb Univ of Michigan 5-10 Yr Inflation (3.2%)	9:00 Central
		Dec Consumer Credit (\$8.0b)	14:00 Central

Source: Bloomberg Finance L.P.

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