February 7, 2022

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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** declined for the second straight week last week. Claims are retreating from an Omicron induced spike in the middle of January, consistent with the curve of Omicron cases that also peaked in mid-January. Claims in regular state programs decreased 23,000 to 238,000 for the week ending January 29th, after reporting 261,000 initial claims the prior week. The four-week moving average climbed to 255,000 from 247,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 44,000 to 1.628 million for the week ending January 22nd.
- The Commerce Department reported that **construction spending** rose 0.2% in December as spending fell on nonresidential projects. Spending on residential rose 1.1% in December while non-residential spending declined 0.7%. Government spending decreased 1.6% and private spending rose 0.7%.
- The **Institute for Supply Management** reported its **manufacturing index** retreated to its lowest level since November 2020. While the report shows solid outright levels of activity in the manufacturing sector, the rate of growth is slowing. The data suggests marginal progress in the fight to rebuild inventories. Overall, the survey shows further reduction of supply chain stress, but indicators of demand such as new orders and backlogs receded. The manufacturing index recorded a 57.6 in January from a 58.8 reading in December. The new orders part of the index declined to 57.9 from 61.0 in December and production recorded a 57.8 from the prior months 59.4. A reading above 50 indicates expansion in the manufacturing sector.
- The Labor Department reported that **job openings** unexpectedly rose in December while quits declined slightly from all-time highs. Job openings increased by 150,000 in December to 10.925 million, from an upwardly revised 10.775 million in November. There are 0.62 unemployed job seekers for each available job. The quits rate was little changed at 2.9% from a record 3.0% in the prior month, pointing to a high degree of churn in the labor market.
- **ADP Employer Services** reported that employment at companies declined in January as the Omicron variant registered a swift yet likely temporary blow to the labor market. Companies reduced payrolls by 301,000 in January, and December was downwardly revised to a gain of 776,000, previously reported as a gain of 807,000. Services employment decreased by 274,000 and manufacturing employment fell 27,000.
- Bureau of Labor Statistics reported **worker's productivity** growth surged last quarter, reflecting a sharp acceleration in economic output while labor costs growth slowed. Growth in productivity generally means the economy can produce more goods and services without a corresponding pickup in inflation. The report showed **labor productivity** growing at a 6.6% annual rate during the 4th quarter of 2021. This follows a loss of 5.0% in the 3rd quarter. Productivity is up 2.0% from a year earlier. **Unit labor costs** in nonfarm businesses rose at a 0.3% annual rate in the 4th quarter after surging 9.3% in the previous quarter.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, slowed in January due to Omicrons rapid spread, although it remains at levels indicating solid growth. The report highlighted a severe labor shortage, which may signal a growing need for automation. This gauge of service providers accounts for 90% of the economy. The services index dropped to 59.9 in January from a 62.3 reading in December and 68.4 in November. A reading more than 50 indicates expansion in the services sector.
- The Commerce Department reported that **factory orders** decreased 0.4% in December after increasing 1.8% in November. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft climbed 0.3% in December after gaining 0.2% in November. **Excluding transportation**, new orders rose 0.1% in December after increasing 0.8% the prior month.

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- The Labor Department report showed unexpected strength in January employment, even as a record number of COVID cases was reported due to the Omicron variant. The number of jobs added in January was much higher than expected and the prior two months were also revised much higher. The labor market is strong as incentives not to work are expiring. The financial incentive to work has never been greater as households' financial cushion is diminishing, the child-care tax credit expired, there are record job openings and wage growth is accelerating. The jobs report is composed of two surveys, one of employers and the other of households. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (establishment survey) climbed 467,000 in January and the previous two months were revised a whopping 709,000 higher than previously reported. The **unemployment rate** (household survey) increased to 3.979% from 3.894% the prior month. The **labor force participation rate** jumped to 62.2% in January from 61.9% the prior month. The average hourly earnings increased to $31.63 from $31.40 the prior month. Weekly hours declined to 34.5 in January from 34.7 in December.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** surged 12.0% for the week ending January 28th after decreasing 7.1% the prior week. **Refinancing** applications increased 18.4% to 2,355 from 1,989 the prior week. **Home purchase mortgage applications** rose 4.0% to 312.2. The **average contract rate** on a 30-year fixed-rate mortgage rose to 3.78% from 3.72% the prior week for a 30-year fixed rate loan.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 1.31%, 1.77%, 1.91%, and 2.21%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 46, 14, 30, and 90 basis points respectively.

Economic/Events Calendar

Monday	February 7	Dec Consumer Credit ($21.9b)	14:00 Central
Tuesday	February 8	Jan NFIB Small Business Optimism (97.5)	5:00 Central
		Dec Trade Balance (-$83.0b)	7:30 Central
Wednesday	February 9	Feb 4th MBA Mortgage Applications	6:00 Central
		Dec Wholesale Inventories (2.1%)	9:00 Central
		Dec Wholesale Trade Sales (1.3%)	9:00 Central
Thursday	February 10	Feb 5th Initial Jobless Claims (230k)	7:30 Central
		Jan Consumer Price Index (0.4%)	7:30 Central
		Jan Consumer Price Index-YOY (7.3%)	7:30 Central
		Jan CPI Ex Food & Energy (0.5%)	7:30 Central
		Jan CPI Ex Food & Energy-YOY (5.9%)	7:30 Central
		Jan Budget Statement (-$20.0b)	13:00 Central
Friday	February 11	Feb University of Michigan Sentiment (67.3)	9:00 Central

Source: Bloomberg Finance L.P.