Stephens

February 20, 2024
Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined last week for the second straight week, suggesting employers are still largely holding on to their workers. First time claims in regular state programs fell 8,000 to 212,000 from the prior week's upwardly revised 220,000 for the week ending February 10th. The four-week moving average climbed to 218,500 from 212,750 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, rose 30,000 to 1.895 million for the week ending February 3rd. As a result, the insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, when up to 1.3% from 1.2% prior.

- The Treasury Department reported a **budget deficit** of $21.93 billion for the month of January with the government collecting $477.32 billion and spending $499.25 billion. This compares to a deficit of $38.8 billion a year earlier. The year-to-date deficit is $531.9 billion, which compares to a year-to-date deficit of $460.2 billion last year. January is the fourth month in the government's fiscal year.

- The **National Federation of Independent Business** reported sentiment among small businesses suffered the biggest drop in over a year. A greater share of small-business owners reported lower earnings over the last three months and planning to boost employment dropped to the lowest level since May 2020. The index declined to 89.9 in January from a 91.9 reading in December.

- The Labor Department reported the **consumer price index** rose above expectations in January, with a surprisingly strong core CPI print. The report highlighted the road to durably return to the 2% target will be bumpy. Consumer prices increased 0.3% in January with the year-on-year change declining to 3.1% from last month's 3.4%. Service prices, which make up 64% of the index, gained 0.7% in January after gaining 0.4% in December. Prices of commodity based manufactured goods dropped 0.3% in January after no change the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.4% in January after increasing 0.3% the prior month. The year-on-year change in core CPI is 3.9%, still about twice as high as the Fed's target rate of 2.0%. Non-housing sectors accounted for much of the rise in core services inflation with core services excluding housing rents, the so called "supercore" categories, rising 0.8%. Notably airfare and vehicle insurance and repairs drove the increase, with medical care services also surprising to the upside.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, rebounded sharply in February from very weak levels the prior month, but still reporting contraction for the third straight month. The index recorded a negative 2.4 in February after a negative 43.7 reading in January. New orders recorded a negative 6.3 in February after a negative 49.4 reading in January while shipments increased to positive 2.8 after a negative 31.3 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.

- The Commerce Department reported that **retail sales** finally showed some weakness in January after strong growth in the second half of 2023. Retail sales decreased 0.8% in January after gaining a downwardly revised 0.4% the prior month. Consumers spent more on outings to eating and drinking establishments, as well as department and furniture stores, but spending on every other category of goods was weaker. This retail sales report shows what might be the first sign of more sustained weakness. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** declined 0.5% in January. The numbers in this report are not adjusted for inflation.

- The Labor Department reported the **import price index** rose 0.8% in January after declining 0.7% the prior month. This is the first increase in Import prices in four months, adding to concerns that the fight against inflation still has a way to go. The price gains were broad based with increases in prices of industrial supplies, food and beverages and petroleum. The cost of petroleum rose 2.3% in January after decreasing 8.1% the prior month. Import prices are down 1.3% year-on-year. **Import prices ex petroleum** rose 0.6% in January and declined 1.4% year-on-year.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, declined 0.1% in January after remaining unchanged in December, which was revised down from a reported 0.1% gain last month. The drop reflects declines in the output of motor vehicles, machinery and metals. Production at factories, which make up 74.3% of output, fell 0.5% in January after climbing 0.1% the previous month. Utilities rose 6.0% in January after dropping 1.7% in December while mining fell 2.3% in January after climbing 0.9% the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, unexpectedly dropped to 78.5% from an upwardly revised 78.7% in December.
- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment jumped higher in February to its highest level since August 2023 as buyers continued to take advantage of mortgage rates that have fallen from their October peaks. The index of builder sentiment increased four points to 48 in February from 44 in January. The index recorded an 84 in December of 2021.
- The Commerce Department reported **business inventories** rose 0.4% in December after declining 0.1% in November. **Business sales** also increased 0.4% in December after remaining unchanged the prior month. The ratio of business inventories to sales remained unchanged at 1.37.
- The Commerce Department reported that **housing starts** plunged in January after a couple of solid months. Upward revisions to the December data and an unseasonably cold January help explain the dramatic decline in housing starts to start the year. Though mortgage rates have stabilized, and even started rising again in February, homebuilders are increasingly optimistic and report growing buyer traffic. Housing starts fell 14.8% in January to a 1,331,000 annualized rate following December's upwardly revised 1,562,000 pace. Single-family starts decreased 4.7% in January with multi-family starts down 35.6%. **Building permits**, a gauge of future construction, decreased 1.5% in January to a 1,470,000 pace.
- The Labor Department reported the **producer price index** rose in January by more than expected, fueled by a sizable jump in costs of services and highlighting the sticky nature of inflation. Wholesale prices rose 0.3% in January after declining 0.1% in December. Year-on-year wholesale prices were up 0.9% in January. The report signals that inflationary pressures at the wholesale level may be resisting more than expected. Goods prices, which make up 30% of the weighting, declined 0.2% in January after falling 0.3% in December. Services, which make up 67% of the index, jumped 0.6% in January after declining 0.1% in December. The **core PPI**, which excludes volatile food and energy prices, jumped 0.5% in January after edging 0.1% lower in December, with a year-on-year gain of 2.0%. **PPI ex food, energy and trade** climbed 0.6% in January.
- The **University of Michigan's preliminary index of consumer sentiment** improved for the third straight month in February as consumers grew more optimistic about the outlook for the economy and inflation. The gauge of consumer confidence increased to 79.6 in February from 79.0 in January. The **index of current conditions** slipped to 81.5 from 81.9 the prior month while the **index of expectations** rose to 78.4 from 77.1 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained at 2.9% in February. One year inflation expectations rose to 3.0% from 2.9%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week as mortgage rates climbed to their highest level in nine weeks. The index fell 2.3% for the week ending February 9th after climbing 3.7% the prior week. **Refinancing** applications declined 2.1% to 489.6 from 500.2 the prior week. **Home purchase mortgage applications** declined 2.5% to 149.6. Refinancing made up 34.2% of applications with an average loan size of $267,600, while purchases average loan size was $441,300. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.87% from 6.80% the prior week.

BOND MARKET REVIEW

Rates climbed last week in a choppy market that focused on the surprising gain in inflation. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.64%, 4.27%, 4.28% and 4.44%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -37, 1, 16, and -20 basis points respectively.

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Economic/Events Calendar

Tuesday	February 20	Jan Leading Index (-0.3%)	9:00 Central
Wednesday	February 21	Feb 16th MBA Mortgage Applications	6:00 Central
		Jan 31st FOMC Meeting Minutes	13:00 Central
Thursday	February 22	Feb 17th Initial Jobless Claims (216k)	7:30 Central
		Jan Chicago Fed Nat Activity Index	7:30 Central
		Jan Existing Home Sales (3.97m)	9:00 Central

Source: Bloomberg Finance L.P.