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** increased for the first time in four weeks last week. The gains were concentrated in three states with large jumps in Missouri, Ohio and Kentucky, but the overall trend is positive for the labor market. Demand for labor remains strong and job openings are plentiful. Claims in regular state programs increased 23,000 to 248,000 for the week ending February 12th, after reporting 225,000 initial claims the prior week. The four-week moving average declined to 243,250 from 253,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, fell 26,000 to 1.59 million for the week ending February 5th.

- The Labor Department reported the **producer price index** increased by 1.0% in January, the largest gain in eight months. The price gains are broad based with supply disruptions, elevated energy prices, robust demand and labor constraints pressuring prices. Inflationary pressures in the production pipeline are expected to remain intense. Goods prices, which make up 33% of the weighting rose 1.3% in January after dropping 0.1% in December. Services, which make up 67% of the index moved higher by 0.7% after increasing 0.7% the prior month. Year-on-year wholesale prices were up 9.7% in January compared to 9.8% in December. The **core PPI**, which excludes volatile food and energy prices, rose 0.8% in January after gaining 0.6% the previous month, with a year-on-year gain of 8.3%. **PPI ex food, energy and trade** gained 0.9%.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, climbed slightly in February after contracting in January. The measure of prices paid and received suggest costs will continue to rise and put upside pressure on inflation. The index recorded a positive 3.1 in February after a negative 0.7 in January. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.

- The Commerce Department reported that **retail sales** was unambiguously strong in January with sales having their biggest increase since March 2021 when the government sent out the last round of stimulus checks. The gains were led by online sales, auto sales, furniture sales and building material sales. The previous month's poor data was revised downward suggesting consumers were impacted more than previously estimated by the Omicron wave. Retail sales surged 3.8% in January after a downwardly revised decline of 2.5% in December. January retail sales are up 13.0% year-on-year. **Retail sales ex autos and gas** increased 3.8% in January after falling 3.2% in December.

- The Labor Department reported the **import price index** surged 2.0% in January after declining 0.4% in December. Global supply bottlenecks continue to exert pricing pressures even as the dollar strengthens. Import prices are up 10.8% year-on-year. **Import prices ex petroleum** climbed 1.4% in January after increasing 0.4% the prior month.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, improved in January with a spike in utility production exaggerating the factory sector's progress to start the year. Industrial production rose 1.4% in January after decreasing 0.1% in December. Production at factories, which make up 76.0% of output, increased 0.2% in January after falling 0.1% the previous month. Utilities surged 9.9% and mining gained 1.0%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 77.6% in January from 76.6% the prior month.

- The Commerce Department reported **business inventories** increased 2.1% in December after gaining 1.5% in November. **Business sales** fell 0.7% in December after gaining 1.1% the prior month. The ratio of business inventories to sales climbed to 1.29 in December from 1.25 the prior month.

- The **National Association of Home Builders/Wells Fargo** reported housing sentiment pulled back to 82 in February from 83 in January, a four month low. While buyer demand is still solid, rising interest rates and increasing labor and materials costs are hurting housing affordability.

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- The **FOMC Minutes** for the January 25-26th meeting are dovish compared with market expectations, but this meeting took place before the January employment and CPI data. The minutes did not provide much new detail, but seemed to be trying to remind the market about their caution and patience in approaching the removal of policy accommodation while also trying to revise the market's recent shift towards an expectation of aggressive tightening.
- The Commerce Department reported that **housing starts** declined in January for the first time in four months. Supply bottlenecks, winter weather and difficulty attracting skilled labor plagued homebuilders at the start of the year. While demand continues to outpace supply, builders did make progress on their backlog of homes. The data also shows an increase in building permits and a pickup in the number of homes authorized but not yet started, suggesting residential construction will remain healthy. Housing starts fell 4.1% in January to a 1,638,000 annualized rate following December's 1,708,000 pace. Single-family starts fell 5.6% in January with multi-family starts down 0.8%. **Building permits**, a gauge of future construction, increased 0.7% in January to a 1,899,000 pace.
- The National Association of Realtors reported that **existing home sales** unexpectedly increased in January to a 12-month high. It appears buyers are rushing ahead to lock in a mortgage rate in anticipation of further mortgage rate increases. Contract closing, which usually occur a month or two after a contract is signed increased 6.7% in January to a 6.50 million pace after falling 3.8% in December. The median selling price decreased to $350,300 from $354,600 in December.
- The Conference Board reported the **index of leading economic indicators** fell 0.3% in January, the first decline in eleven months. The loss was led by an increase in jobless claims, falling consumer confidence and declining 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 0.5% in January after edging 0.2% higher in December.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** dropped 5.4% for the week ending February 11th after decreasing 8.1% the prior week. **Refinancing** applications decreased 8.9% to 1,989 from 2,184 the prior week. **Home purchase mortgage applications** fell 1.2% to 279.0. The **average contract rate** on a 30-year fixed-rate mortgage rose to 4.05% from 3.83% 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 1.47%, 1.82%, 1.93%, and 2.24%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 35, 11, 31, and 77 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	February 22	4th Qtr House Price Purchase Index	8:00 Central
		Dec FHFA House Price Index (1.0%)	8:00 Central
		Dec S&P CoreLogic CS 20-City Index (1.10%)	8:00 Central
		Feb Conf Board Consumer Confidence (110.0)	9:00 Central
Wednesday	February 23	Feb 18th MBA Mortgage Applications	6:00 Central
Thursday	February 24	Feb 19th Initial Jobless Claims (235k)	7:30 Central
		Jan Chicago Fed Nat Activity Index (0.15)	7:30 Central
		4th Qtr Gross Domestic Product (7.0%)	7:30 Central
		4th Qtr GDP Price Index (6.9%)	7:30 Central
		4th Qtr Personal Consumption (3.4%)	7:30 Central
		Jan New Homes Sales (800k)	9:00 Central
Friday	February 25	Jan Personal Income (-0.4%)	7:30 Central
		Jan Personal Spending (1.5%)	7:30 Central
		Jan PCE Deflator-YOY (6.0%)	7:30 Central
		Jan Durable Goods Orders (0.8%)	7:30 Central
		Jan Durables Ex Transportation (0.3%)	7:30 Central
		Jan Cap Goods Orders Nondef Ex Air (0.7%)	7:30 Central
		Jan Pending Home Sales (1.5%)	9:00 Central
		Feb Univ of Michigan Sentiment (61.7)	9:00 Central

Source: Bloomberg Finance L.P.