Stephens

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Financial Services Group

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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** were little changed last week, hovering around pre-Covid levels that indicate solid demand for workers. Market watchers are looking for early signs of the impact of the Trump administration's firings across the federal workforce, however it's unclear how many government workers are eligible for unemployment benefits. First time claims in regular state programs recorded 219,000 for the week ending February 15th, after the prior week's report of 214,000. The four-week moving average decreased to 215,250 from 216,250 the prior week. Continuing claims, a proxy for people who are already receiving benefits and still can't find a job, climbed 24,000 to 1,869,000 for the week ending February 8th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, improved in February. The index recorded a positive 5.7 in February after a negative 12.6 in January. New orders and shipments both grew moderately, while firms grew less optimistic on the outlook amid uncertainty about tariffs and their impact on prices and availability of supplies. New orders recorded a positive 11.4 in February after a negative 8.6 reading in January while shipments reported a positive 14.2 after a negative 1.7 reading last month. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The **National Association of Home Builders/Wells Fargo** reported builder confidence declined in February to the lowest level since President Trump took office as high mortgage rates and concern of tariffs pressure the original optimism. The gauge of the housing market conditions dropped to 42 in February after posting a 47 in January. The outlook for homebuilders for the next six months dropped 13 points to 46 as mortgage rates linger near the 7.00% level. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** plunged in January after December's surge. Exceptionally cold weather delayed projects. With permit issuance stabilizing, new home completions accelerating and inventories of new single-family homes for sale mounting, construction activity is expected to remain on a slowing trajectory. Housing starts fell 9.8% in January to a 1,366,000 annualized rate after climbing 16.1% in December to a 1,515,000 annualized rate. Single-family starts decreased 8.4% in January with multifamily starts declining 13.5%. **Building permits**, a gauge of future construction, edged higher by 0.1% in January to a 1,483,000 annual pace.
- The **FOMC Minutes** for the January 28th-29th meeting revealed policymakers debated whether interest rates are significantly above the neutral rate. They considered the inflation consequences of trade and immigration policy, the consequences of the debt-ceiling negotiations and the implications for balance sheet normalization. The vast majority of the FOMC members judged that risks to the dual mandate were roughly in balance, with a couple concerned that upside inflation risks are swamping unemployment risks. Participants cited easing nominal wage growth, well anchored long-term inflation expectations, waning pricing power among businesses and restrictive monetary policy as reasons to expect further disinflation towards the 2.0% goal.
- The Conference Board reported the **index of leading economic indicators** declined 0.3% in January after posting a gain of 0.1% the prior month. The drop was led by a decline in the average workweek and decline in consumer expectations. 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, gained 0.3% in January after climbing 0.3% in the previous month.
- The **University of Michigan's final index of consumer sentiment** declined for the second straight month with worries intensifying over inflation. The deterioration in sentiment was led by a 19% plunge in buying conditions for durable goods, amid concern of how tariffs will affect prices. The final sentiment index for the month declined to 64.7 in February from 71.7 in January. The long-term inflation expectations climbed to 3.5% from 3.2% the prior month. The one-year-ahead inflation expectations jumped to 4.3% in February from 3.3% in January. The **index of current conditions**

decreased to 65.7 from 75.1 the prior month while the **index of expectations** dropped to 64.0 from 69.5.

- The National Association of Realtors reported that **existing home sales** declined in January, the first drop since September. Home sellers see prices as favorable, but elevated interest rates and economic uncertainty are keeping many from listing their homes. Contract closings decreased 4.9% in January to an annualized selling rate of 4.08 million units. There is a 3.5 month supply in January compared to a 3.3 month supply in December. The median price declined to $396,900, 4.8% higher than a year ago.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased 6.6% last week after climbing 2.3% the prior week. **Refinancing** applications decreased 7.3% to 593.6 from 640.6 the prior week. H**ome purchase mortgage applications** declined 5.9% to 144.0. Refinancing made up 38.7% of applications with an average loan size of $291,300, while purchases average loan size is $439,300. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.93% from 6.95% the previous week.

BOND MARKET REVIEW

Rates fell slightly last week, surging higher on Wednesday on the CPI report and pulling back after the poor retail sales report. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.20%, 4.27%, 4.43% and 4.68%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 7, 16, 25, and 48 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	February 24	Jan Chicago Fed Nat Activity Index (-0.05)	7:30 Central
Tuesday	February 25	Dec FHFA House Price Index	8:00 Central
		4th Qtr House Price Purchase Index (0.3%)	8:00 Central
		Dec S&P CoreLogic CS 20-City Index (0.40%)	8:00 Central
		Feb Conf Board Consumer Confidence (102.5)	9:00 Central
Wednesday	February 26	Feb 21st MBA Mortgage Applications	6:00 Central
		Jan New Home Sales (680k)	9:00 Central
Thursday	February 27	Feb 22nd Initial Jobless Claims (221K)	7:30 Central
		4th Qtr Gross Domestic Product-2nd Est (2.3%)	7:30 Central
		4th Qtr GDP Price Index-2nd Est (2.2%)	7:30 Central
		4th Qtr Personal Consumption-2nd Est (4.1%)	7:30 Central
		Jan Durable Goods Orders (2.0%)	7:30 Central
		Jan Durables ex Transportation (0.3%)	7:30 Central
		Jan Cap Goods Orders Nondef Ex Air (0.3%)	7:30 Central
		Jan Pending Home Sales (-0.9%)	9:00 Central
Friday	February 28	Jan Personal Income (0.4%)	7:30 Central
		Jan Personal Spending (0.2%)	7:30 Central
		Jan Goods Trade Balance (-$116.6b)	7:30 Central
		Jan Retail Inventories (0.2%)	7:30 Central
		Jan Wholesale Inventories (0.1%)	7:30 Central
		Jan PCE Price Index (0.3%)	7:30 Central
		Jan PCE Price Index-YOY (2.5%)	7:30 Central

Source: Bloomberg Finance L.P.