

March 4, 2024

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** increased last week. The gains are likely to continue given recent layoff announcements. First time claims in regular state programs rose 13,000 to 215,000 from the prior week's upwardly revised 202,000 for the week ending February 24th. The four-week moving average fell to 212,500 from 215,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, rose 45,000 to 1.905 million for the week ending February 17th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, climbed back to 1.3% from 1.2% the prior week.
- The Commerce Department reported sales of new homes edged higher in January as buyers moved into the market on lower mortgage rates at the beginning of the year. However, the Federal Reserve has since convinced the market that it is in no rush to lower borrowing costs and mortgage rates have climbed again. New housing inventory increased in January to 456,000 units, the most in more than a year. **New home sales** climbed 1.5% to a 661,000 annualized pace in January after reporting a downwardly revised 651,000 pace the prior month. New home sales, which account for about 10% of the residential market, are accounted for when contracts are signed, which makes this data a more timely indicator than existing home transactions.
- The Commerce Department reported **durable goods orders**, which are bookings for goods and materials meant to last at least three years, fell 6.1% in January after declining 0.3% the prior month. Boeing received only three orders in January, down from 371 orders in December. **Excluding transportation**, durable orders fell 0.3% in January after dropping 0.1% in December. The non-military capital goods orders excluding aircraft, a proxy for business investment, increased 0.1% in January after falling 0.6% in December. The ratio of inventory to shipments climbed to 1.89 in January from 1.87 the prior month.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.1% in December after gaining 0.4% in November. The year-on-year change in the house price index was 6.6% in December. 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 0.212% in December after gaining 0.24% in November. This is the tenth straight increase in prices, reflecting continuing buyer demand amid a still tight supply of listings. The index increased 6.13% in December from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** plunged in February based on a weaker assessment of the labor market and concerns about the pace of future interest rate cuts. The index recorded a 106.7 in February from a downwardly revised 110.9 reading in January, previously reported as 114.8. The present situation index decreased to 147.2 in February from 154.9 in January. The expectations index fell to 79.8 in February from 81.5 the prior month.
- The second estimate by the Commerce Department of the 4th quarter **gross domestic product** showed the economy expanded at a slightly slower pace at the end of last year than first reported. A downward revision to inventories masked stronger household spending and investment. The fourth quarter gain caps a surprisingly strong year that defied recession calls. **Gross domestic product** expanded at a 3.2% annualized rate in the 4th quarter, down from the initial estimate of 3.3%. **Personal consumption**, which accounts for about 70% of the economy, increased at a strong 3.0% annualized pace, up from the 2.8% initial estimate. Excluding food and energy, the gauge which is closely watched by the Fed rose 2.1%, higher than the 2.0% initial report. The **GDP price index** gained 1.6% in the 4th quarter, suggesting inflation is dropping to acceptable levels.

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- The Commerce Department reported the **goods trade deficit** widened in January as imports climbed at a faster pace than exports. The deficit increased 2.6% to \$90.2 billion in January. **Exports** climbed 0.2% to \$170.4 billion and **imports** increased 1.1% to \$260.6 billion.
- The Commerce Department reported **wholesale inventories** decreased 0.1% in January after climbing 0.4% in December. Year-on-year wholesale inventories are down 2.3%. **Retail inventories** increased 0.5% in January after climbing 0.6% in December and are up 5.1% year-on-year.
- The Commerce Department reported **personal income** jumped 1.0% in January after gaining 0.3% the prior month. **Personal spending** climbed a weak 0.2% after gaining 0.7% the prior month. Spending weakness caused the savings rate to climb to 3.8% in January from 3.7% the prior month, well below the average pre-pandemic saving rate of about 6.3%. The strong income can be explained by January cost-of-living adjustments and the cold weather slowed spending. Monthly **PCE inflation** rose 0.3% in January after climbing 0.1% in December and year-on-year PCE dropped to 2.4%. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.4% in January, bringing the year-on-year gain to 2.8%. **Disposable income**, or the money left over after taxes, increased 0.3% in January.
- The National Association of Realtors reported the **index of pending home re-sales** declined in January by the most in five months as elevated mortgage rates and cold weather slowed housing demand. The number of contract signings decreased 4.9% in January after jumping 5.7% in December. Homebuyers are showing extra sensitivity to changes in mortgage rates in the current cycle. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as pending when a seller accepts a sales contract on a property. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The Commerce Department reported that **construction spending** decreased 0.2% in January. Spending on residential construction increased 0.2% while non-residential construction fell 0.4%. Government spending, which made up 22.8% of construction spending, decreased 0.9% and private spending gained 0.1%.
- The **University of Michigan's preliminary index of consumer sentiment** declined in February for the first time in three months as views about the economy deteriorated. The final sentiment index for the month dropped to 76.9 from 79.0 in January. The long-term inflation expectations remained unchanged at 2.9%. The one-year-ahead inflation expectations rose to 3.0% from 2.9% in January. The **index of current conditions** dropped to 79.4 from 81.9 the prior month while the **index of expectations** decreased to 75.2 from 77.1.
- The **Institute for Supply Management** reported its **manufacturing index** shrank at a faster pace in February as orders, production and employment contracted. The manufacturing index recorded a 47.8 in February after a 49.1 reading in January. The new orders part of the index decreased to 49.2 in February from 52.5 in January and production fell to 48.4 in February from 50.4 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week for the third straight week as mortgage rates held above 7.00%. The index fell 5.6% for the week ending February 23rd after falling 10.6% the prior week. **Refinancing** applications declined 7.3% to 395.9 from 427.0 the prior week. **Home purchase mortgage applications** declined 4.5% to 127.6. Refinancing made up 31.2% of applications with an average loan size of \$249,200, while purchases average loan size was \$430,000. The **average contract rate** on a 30-year fixed-rate mortgage edged down to 7.04% from 7.06% the prior week.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Rates dropped last week on weak economic data and the yield curve flattened. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.53%, 4.16%, 4.18% and 4.33%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -37, 2, 15, and -20 basis points respectively.

Economic/Events Calendar

| | | | |
|-----------|---------|---|---------------|
| Tuesday | March 5 | Jan Factory Orders (-3.0%) | 9:00 Central |
| | | Jan Factory Orders Ex Transportation (-0.1%) | 9:00 Central |
| | | Jan Cap Goods Orders Nondef Ex Air (0.1%) | 9:00 Central |
| | | Feb ISM Services Index (53.0) | 9:00 Central |
| Wednesday | March 6 | Mar 1 st MBA Mortgage Applications | 6:00 Central |
| | | Feb ADP Employment Change (150k) | 7:15 Central |
| | | Jan JOLTS Job Openings (8,850k) | 9:00 Central |
| | | Jan Wholesale Inventories (-0.1%) | 9:00 Central |
| | | Jan Wholesale Trade Sales (0.2%) | 9:00 Central |
| | | Federal Reserve Releases Beige Book | 13:00 Central |
| Thursday | March 7 | Mar 2 nd Initial Jobless Claims (217k) | 7:30 Central |
| | | Jan Trade Balance (-\$63.5b) | 7:30 Central |
| | | 4 th Qtr Nonfarm Productivity (3.1%) | 7:30 Central |
| | | 4 th Qtr Unit Labor Costs (0.7%) | 7:30 Central |
| | | Jan Consumer Credit (\$10.0b) | 9:00 Central |
| Friday | March 8 | Feb Change in Nonfarm Payrolls (200k) | 7:30 Central |
| | | Feb Unemployment Rate (3.7%) | 7:30 Central |
| | | Feb Average Hourly Earnings-YOY (4.3%) | 7:30 Central |
| | | Feb Labor Force Participation Rate (62.6%) | 7:30 Central |

Source: Bloomberg Finance L.P.

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