Stephens

# March 6, 2023
# Financial Services Group

Author:

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

## Economic Review

- The Labor Department reported that **initial jobless claims** declined again last week, posting its seventh straight week with fewer than 200,000 claims. The low number of jobless claims highlight a tight job market that is contributing to inflationary pressures. Layoffs across the economy remain at historically low levels. Claims data is being closely watched by market watchers for any sign the labor market is starting to crack under the weight of higher interest rates, high labor costs and rapid inflation. Claims in regular state programs decreased 2,000 to 190,000 for the week ending February 25th, after reporting 192,000 initial claims the prior week. The four-week moving average climbed to 193,000 from 191,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased by 5,000 to 1.655 million for the week ending February 18th.
- The Commerce Department reported **durable goods orders** fell in January, led by an expected steep decline in orders at Boeing. Durable goods, which are bookings for goods and materials meant to last at least three years, fell 4.5% in January after gaining 5.1% in December. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.8% in January after declining 0.3% in December. Employers are seeking ways to make their workers more productive amid an historic tight labor market. **Excluding transportation**, durable orders increased 0.7% in January after declining 0.4% in December. The ratio of inventory to shipments remained unchanged at 1.78 in January.
- The National Association of Realtors reported the **index of pending home re-sales** increased more than expected in January as lower mortgage rates helped prop up demand. 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. The number of contracts to purchase previously owned homes rose 8.1% in January after climbing 1.1% in December. 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 the **goods trade deficit** widened in January as both imports and exports increased. The deficit increased 2.0% to $91.5 billion in January. **Exports** rose 4.2% to $173.8 billion and **imports** climbed 3.4% to $265.3 billion.
- The Commerce Department reported **wholesale inventories** fell 0.4% in January after gaining 0.1% the previous month. Year-on-year wholesale inventories have climbed 15.9%. **Retail inventories** increased 0.3% in January after gaining 0.4% in December and are up 12.0% year-on-year.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes declined 0.1% in December after falling 0.1% 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** decreased 0.51% in December after falling 0.52% in November, the sixth straight decline in home prices. The report indicates demand for housing continues to slow in December, even as mortgage rates and affordability pull back from their highs. The index climbed 4.65% 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** unexpectedly fell in February to its lowest reading since November. The decline was driven entirely by lowered expectations. Confidence deteriorated over the summer in response to record high gas prices, but improved over the second half of last year as inflation cooled off. Now, the combination of stalling disinflation and expectations

for a recession are darkening the outlook once again. The index recorded a 102.9 in February from a downwardly revised 106.0 reading in January, previously reported as 107.1. The present situation index increased to 152.8 in February from a 151.1 reading in January. The expectations index plunged to 69.7 in February from 76.0 the prior month.

- The Commerce Department reported that **construction spending** declined 0.1% in January, with lowered residential spending more than offsetting a climb in nonresidential spending. Spending on residential construction fell 0.6% while non-residential construction climbed 0.3%. Government spending, which makes up 21.1% of construction spending, decreased 0.6% and private spending remained unchanged.

- The **Institute for Supply Management** reported its **manufacturing index** improved in February, but remained in contractionary territory for the fourth straight month. New orders improved from a very low reading in January, delivery times continue to improve and firms are carefully managing their inventory levels. The manufacturing index recorded a 47.7 in February after a 47.4 reading in January. The index reached a high of 63.7 in March of 2021. The new orders part of the index increased to 47.0 from 42.5 in January and production fell to 47.3 in February from 48.0 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- Bureau of Labor Statistics reported **worker's productivity** was revised for the fourth quarter by roughly half as much as initially reported and labor costs were revised significantly higher. The report incorporated revised source data that resulted in a substantial increase in hours worked, which hampered productivity growth. Productivity gained 1.7% in the fourth quarter, reported earlier as a gain of 3.0%. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Productivity for all of 2022 is down 1.8%, the biggest decline since 1974. The decline in productivity reflects a weakening economy while labor costs climb. **Unit labor costs** in nonfarm businesses rose at a 3.2% annual rate in the 4$^{th}$ quarter, reported last month to be an increase of 1.1%. The gain in unit labor costs for 2022 was 6.3%.

- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, indicated continued expansion in the service sector. Momentum has shown no signs of decline in the service sector, in contrast to what we have seen in manufacturing. The steady rotation away from spending on goods and spending on services continues, while rising credit card debt, persistent inflation and higher interest rates are potential hurdles for households. The service ISM edged lower in February to 55.1 from 55.2 the prior month. The business activity fell to 56.3 from 60.4. New orders climbed to 62.6 from 60.4. The employment index rose to 54.0 from 50.0. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** dropped again last week as mortgage rates continued to climb. The index fell 5.7% for the week ending February 24$^{th}$. **Refinancing** applications dropped 5.5% to 444.0 from 469.9 the prior week. **Home purchase mortgage applications** fell 5.6% to 138.8. Refinancing made up 31.8% of applications with an average loan size of $263,900, while purchases average loan size was $428,400. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.71% from 6.62% last week. The average contract rate was as high as 7.16% in October of last year.

Source: Bloomberg Finance L.P.

Stephens

# March 6, 2023
# Financial Services Group

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.86%, 4.25%, 3.95% and 3.88%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -61, -30, -7, and -98 basis points respectively.

## Economic/Events Calendar

| | | | |
|---|---|---|---|
| Monday | March 6 | Jan Factory Orders (-1.8%) | 9:00 Central |
| | | Jan Factory Orders Ex Transportation (1.0%) | 9:00 Central |
| Tuesday | March 7 | Jan Wholesale Trade Sales (-0.5%) | 9:00 Central |
| | | Jan Wholesale Inventories (-0.4%) | 9:00 Central |
| | | Jan Consumer Credit ($25.3b) | 14:00 Central |
| Wednesday | March 8 | Mar 3rd MBA Mortgage Applications | 6:00 Central |
| | | Feb ADP Employment Change (200k) | 7:15 Central |
| | | Jan Trade Balance (-$68.7b) | 7:30 Central |
| | | Jan JOLTS Job Openings (10,584k) | 9:00 Central |
| Thursday | March 9 | Mar 4th Initial Jobless Claims (195k) | 7:30 Central |
| Friday | March 10 | Feb Change in Nonfarm Payrolls (215k) | 7:30 Central |
| | | Feb Unemployment Rate (3.4%) | 7:30 Central |
| | | Feb Avg Hourly Earnings-YOY (4.7%) | 7:30 Central |
| | | Feb Labor Force Participation Rate (62.4%) | 7:30 Central |
| | | Feb Budget Statement (-$256.0b) | 13:00 Central |

Source: Bloomberg Finance L.P.