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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** fell last week, even as announcements picked up in March. It has been expected that layoffs will increase as a consequence of a pullback due to inflation fatigued consumers. It is becoming evident that businesses are not laying off employees, but preserving margin through increases in productivity and reducing labor costs through shorter hours and part-time employment to mitigate slack. First time claims in regular state programs recorded 211,000 for the week ending April 7th after the prior week's report of 222,000. The four-week moving average edged down to 214,250 from 214,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 28,000 to 1.817 million for the week ending March 30th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.

- The **National Federation of Independent Business** reported sentiment among small businesses declined to an eleven-year low in March. The index declined to 88.5 in March from an 89.4 reading in February. Small business owners are concerned about slumping sales and inflationary pressures as well as policies related to taxes and regulations.

- The Labor Department reported the **consumer price index** rose above expectations for the third straight month in March, with a surprisingly strong core CPI print. The report adds to evidence that inflation is proving stubborn and will make it more difficult for the Fed to lower rates. Consumer prices increased 0.4% in March with the year-on-year change climbing to 3.5% from last month's 3.2%. Service prices, which make up 64% of the index, gained 0.5% in March after gaining 0.5% in February. Prices of commodity based manufactured goods rose 0.1% in March after climbing 0.4% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.4% in March after increasing 0.4% the prior month. The year-on-year change in core CPI is 3.8%, still about twice as high as the Fed's target rate of 2.0%.

- The Commerce Department reported **wholesale inventories** climbed 0.5% in February to $901.1 billion. Year-on-year wholesale inventories have declined 1.5%. **Wholesale trade sales** surged 2.3% in February after declining 1.4% in January, with year-on-year sales up 0.8%. The ratio of inventory to sales dropped to 1.34 from 1.36 in January.

- The **FOMC Minutes** for the March 19th-20st meeting indicated policymakers are willing to cut rates this year despite upside inflation surprises. They attribute much of the economy's resilience to favorable supply-side factors, see AI boosting productivity and higher immigration boosting labor supply and containing wage pressure. Almost all of the participants thought it would be appropriate to cut rates at some point this year if the economy evolves broadly. The vast majority of the participants favored slowing the pace of runoff fairly soon by reducing the runoff pace for Treasury securities by about half while keeping the pace for agency debt and agency MBS constant.

- The Treasury Department reported a **budget deficit** of $236.4 billion for the month of March with the government collecting $332.1 billion and spending $568.5 billion. This compares to a deficit of $378.4 billion a year earlier. The year-to-date deficit is $1,065 billion, which compares to a year-to-date deficit of $1,101 billion last year. March is the sixth month in the government's fiscal year.

- The Labor Department reported the **producer price index** increased in March from a year earlier by the most in eleven months. The price gain was driven by higher prices for food. Wholesale prices rose 0.2% in March after climbing 0.6% in February. Year-on-year wholesale prices were up 2.1% in March. Goods prices, which make up 30% of the weighting, declined 0.1% in March after surging 1.2% in February. Services, which make up 67% of the index, climbed 0.3% in March after increasing 0.3% in February. The **core PPI**, which excludes volatile food and energy prices, rose 0.2% in March after climbing 0.3% in February, with a year-on-year gain of 2.4%. **PPI ex food, energy and trade** climbed 0.2% in March.

- The Labor Department reported the **import price index** rose 0.4% in March after climbing 0.3% the prior month. The gain was driven by a jump in prices for petroleum, food and industrial supplies. The cost of petroleum rose 6.0% in March after increasing 1.9% the prior month. Import prices are 0.4% higher year-on-year. **Import prices ex petroleum** remained unchanged in March and are down 0.2% year-on-year.
- The **University of Michigan's preliminary index of consumer sentiment** declined in April on inflation concerns and worries the Fed may not begin to lower rates. Consumers' living standards are deteriorating suggesting they may be running out of savings. The gauge of consumer confidence decreased to 77.9 in April from a 79.4 in March. The **index of current conditions** dropped to 79.3 from 82.5 the prior month while the **index of expectations** declined to 77.0 from 77.4 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, climbed to 3.0% in April from 2.8% in March. One-year inflation expectations increased to 3.1% from 2.9% the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** edged higher for the first time in four weeks last week. The index rose 0.1% for the week ending April 5th after dropping 0.6% the prior week. **Refinancing** applications rose 9.9% to 498.3 from 453.5 the prior week. **Home purchase mortgage applications** decreased 4.7% to 138.7. Refinancing made up 33.3% of applications with an average loan size of $265,300, while purchases average loan size was $449,400. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.01% from 6.91% the prior week.

BOND MARKET REVIEW

Rates moved higher again last week on inflationary data that followed a stronger than expected employment report making it less likely the Fed will begin to cut rates soon. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.90%, 4.56%, 4.52% and 4.63%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -34, -4, 11, and -27 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	April 15	Apr Empire Manufacturing (-5.2)	7:30 Central
		Mar Retail Sales (0.4%)	7:30 Central
		Mar Retail Sales Ex Auto & Gas (0.3%)	7:30 Central
		Feb Business Inventories (0.4%)	9:00 Central
		Apr NAHB Housing Market Index (51)	9:00 Central
Tuesday	April 16	Mar Housing Starts (1,485k)	7:30 Central
		Mar Building Permits (1,510k)	7:30 Central
		Mar Industrial Production (0.4%)	8:15 Central
		Mar Capacity Utilization (78.5%)	8:15 Central
Wednesday	April 17	Apr 12th MBA Mortgage Applications	6:00 Central
		Federal Reserve Releases Beige Book	13:00 Central
Thursday	April 18	Apr 13th Initial Jobless Claims (215k)	7:30 Central
		Mar Leading Index (-0.1%)	9:00 Central
		Mar Existing Home Sales (4.20m)	9:00 Central

Source: Bloomberg Finance L.P.

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