

May 22, 2023

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined last week, driven mostly by a decline in Massachusetts where fraudulent applications are skewing the numbers. Aside from Massachusetts, an increase in unemployment claims suggests a gradual easing of labor-market conditions. Claims in regular state programs fell 22,000 to 242,000 for the week ending May 13th. The four-week moving average edged lower to 244,250 from 245,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, fell 8,000 to 1.799 million for the week ending May 6th.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, dropped by the most in three years as orders and shipments plunged. Almost half of the respondents reported that conditions had worsened. The index recorded a negative 31.8 in May after a positive 10.8 reading in April. New orders recorded a negative 28.0 in May after a positive 25.1 reading in April and shipments fell to -16.4 after a 23.9 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** saw a modest rebound in April, with spending at restaurants and bars signaling consumers are still willing to spend. The weakness was in gasoline station sales, furniture, recreational goods, electronics and grocery stores. Retail sales climbed 0.4% in April after declining 0.7% the prior two months. April retail sales are up 1.6% year-on-year. **Retail sales ex autos and gas** climbed 0.6% in April. The numbers in this report are not adjusted for inflation.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, climbed in April after remaining unchanged the previous two months. Durable goods manufacturing was the key driver, with nearly all the headline growth due to production of autos and parts. Production at factories, which make up 74.3% of output, climbed 1.0% in April after decreasing 0.8% the previous month. Utilities dropped 3.1% in April after surging 8.4% in March and mining climbed 0.6% in April after falling 1.3% in March. **Capacity utilization**, which measures the amount of a plant that is in use, climbed to 79.7% in April from 79.4% in March.
- The Commerce Department reported **business inventories** decreased 0.1% in March after remaining unchanged in February and falling 0.1% in January. **Business sales** dropped 1.1% in March after falling 0.3% the prior month. The ratio of business inventories to sales climbed to 1.39 in March from 1.38 in February.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment unexpectedly climbed in May for the fifth straight month. A very limited supply of houses continued to drive buyers toward new construction. The improvement so far in 2023 comes after a year-long rout in 2022. The index of builder sentiment climbed to 50 in May from 45 in April. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** increased in April signaling residential real estate is gradually recovering after a yearlong slump. While elevated mortgage rates and affordability concerns remain headwinds for housing, a lack of inventories could support building activity over time. Housing starts rose 2.2% in April to a 1,401,000 annualized rate following March's 1,371,000 pace. Single-family starts increased 1.6% in April with multi-family starts up 3.2%. **Building permits**, a gauge of future construction, declined 1.5% in April to a 1,416,000 pace.
- The National Association of Realtors reported that **existing home sales** decreased in April for the fourteenth time in fifteen months. Residential real estate remains constrained by the Federal Reserve's aggressive policy tightening campaign that sent mortgage rates soaring last year. Higher mortgage rates, tightening credit standards and very low inventory will keep house transactions down

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for the foreseeable future. Contract closings, which usually occur a month or two after a contract is signed decreased 3.4% in April to a 4.28 million pace after declining 2.6% in March. The median selling price increased to \$388,800 from \$375,400 in April.

- The Conference Board reported the **index of leading economic indicators** declined 0.6% in April, the fourteenth straight drop. The loss was led by a decline in consumer expectations, ISM New Orders, and the interest rate spread. The biggest positive contributor to the leading index was 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 0.3% in April after gaining 0.2% in March.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week as borrowing costs reached a two-month high. The index declined 5.7% for the week ending May 12th. **Refinancing** applications fell 7.7% to 468.2 from 507.1 the prior week. **Home purchase mortgage applications** declined 4.8% to 165.4. Refinancing made up 27.4% of applications with an average loan size of \$261,300, while purchases average loan size was \$440,400. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.57% from 6.48% last week. The average contract rate was as high as 7.16% in October of last year.

BOND MARKET REVIEW

Rates climbed higher last week. Short-term rates continue to be elevated as the Federal debt ceiling nears and Congress negotiates an increase with the White House. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.27%, 3.75%, 3.69% and 3.93%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -54, -6, 26, and -34 basis points respectively.

Source: Bloomberg Finance L.P.

This report has been prepared solely for informative purposes as of its stated date and is not a solicitation, or an offer, to buy or sell any security. All expressions of opinion reflect the judgment of the individual expressing the opinion and are subject to change. This report does not purport to be a complete description of the markets or developments referred to in the material. Information included in the report was obtained from internal and external sources which we consider reliable, but we have not independently verified such information and do not guarantee that it is accurate or complete. Prices, yields, and availability are subject to change with the market. There is no assurance any forward looking statements will be realized or any of the trends mentioned will continue. Nothing in this report is intended, or should be construed, as legal, accounting, regulatory or tax advice. Additional information available upon request.

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Economic/Events Calendar

Tuesday	May 23	Apr New Home Sales (665k)	9:00 Central
Wednesday	May 24	May 19 th MBA Mortgage Applications	6:00 Central
		May 3 rd FOMC Meeting Minutes	13:00 Central
Thursday	May 25	May 20 th Initial Jobless Claims (245k)	7:30 Central
		Apr Chicago Fed Nat Activity Index (-0.20)	7:30 Central
		1 st Qtr Gross Domestic Product (1.1%)	7:30 Central
		1 st Qtr GDP Price Index (4.0%)	7:30 Central
		1 st Qtr Personal Consumption (3.7%)	7:30 Central
		Apr Pending Home Sales (-1.0%)	9:00 Central
Friday	May 26	Apr Personal Income (0.4%)	7:30 Central
		Apr Personal Spending (0.4%)	7:30 Central
		Apr PCE Deflator-YOY (4.3%)	7:30 Central
		Apr Goods Trade Balance (-\$85.7b)	7:30 Central
		Apr Wholesale Inventories (0.0%)	7:30 Central
		Apr Retail Inventories (0.2%)	7:30 Central
		Apr Durable Goods Orders (-1.0%)	7:30 Central
		Apr Durables Ex Transportation (-0.1%)	7:30 Central
		Apr Cap Goods Orders Nondef Ex Air (-0.1%)	7:30 Central
		May University of Michigan Sentiment (58.0)	9:00 Central

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