Stephens
Fixed Income Sales & Trading

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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** declined last week with claims holding at historically low levels. Not much has really changed in the labor market. Demand for labor is strong, layoff activity is low and conditions are tight. Claims in regular state programs decreased 11,000 to 200,000 for the week ending May 28th, after reporting 211,000 initial claims the prior week. The four-week moving average edged lower to 206,500 from 207,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 34,000 to 1.309 million for the week ending May 21st.

- The Federal Housing Finance Agency reported a gain of 1.5% in the **house price index** of purchase-only homes in March after climbing 1.9% in February. The year-on-year change in the house price index was 19.0% in March. 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** increased 2.42% in March after gaining 2.39% in February. The report indicates demand for housing was strong in March with very little inventory and rising mortgage rates. The index climbed 21.17% in March from the same month in 2021. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board’s **consumer confidence index** declined again in May as consumers continued to be concerned about high inflation. Inflation expectations remain extremely elevated, but have edged lower from recent highs. The concern towards inflation is assuaged somewhat by strong income expectations from a healthy labor market. The index recorded a 106.4 in May from an upwardly revised 108.6 reading in April, previously reported as 107.3. The present situation index decreased to 149.6 in May from a 152.9 reading in April. The expectations index dropped to 77.5 in May from 79.0 the prior month.

- The Commerce Department reported that **construction spending** rose 0.2% in April as spending climbed for residential construction and declined for non-residential. Spending on residential rose 0.9% in April while non-residential spending fell 0.4%. Government spending decreased 0.7% and private spending rose 0.5%.

- The **Institute for Supply Management** reported its **manufacturing index** increased in May as demand side indicators improved. The press release characterized the manufacturing environment as “demand-driven and supply chain-constrained,” with part and labor shortages holding back the index from further improvement. The report also points to lingering capacity constraints related to labor, shipping delays and materials shortages. The manufacturing index recorded a 56.1 in May from a 55.4 reading in April. The new orders part of the index climbed to 55.1 from 53.5 in April and production recorded a 54.2 from the prior months 53.6. A reading above 50 indicates expansion in the manufacturing sector.

- The Labor Department reported that **job openings** pulled back in April from a record level of job openings in March. Open positions are cooling in the goods sector, while the number of open positions continued to rise in the service sector. Job openings decreased by 455,000 in April to 11.400 million, from an upwardly revised 11.855 million in March. There are 0.52 unemployed job seekers for each available job. The quits rate fell to 2.9% from 3.0% in the prior month, still a high degree of churn in the labor market.

- The Fed released the latest rendition of the **Beige Book,** which is based on information collected through May 23, 2022. This report is published eight times each year. The tone of the report shows that economic activity grew at a slight or modest pace since mid-April. Most Districts reported that employment rose modestly or moderately in a labor market that all districts described as tight. Most Districts noted their contacts reported strong or robust price increases. The contacts tended to cite labor market difficulties as their greatest challenge, followed by supply chain disruptions and inflation.

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- **ADP Employer Services** reported that companies added the fewest jobs in May since the pandemic recovery began, suggesting employers struggled to recruit workers. Competition for employees is intense and employers are offering higher pay to attract workers. Companies increased payrolls by 128,000 in May, and April was downwardly revised to a gain of 202,000, previously reported as a gain of 247,000. Services employment increased by 104,000 and manufacturing employment rose 24,000.
- Bureau of Labor Statistics reported **worker's productivity** growth plummeted last quarter, reflecting a sharp acceleration in labor costs while output growth slowed. A decline in productivity generally puts pressure on inflation as fewer goods are produced for each unit of labor. The report showed **labor productivity** falling at a 7.3% annual rate during the 1^{sth} quarter of 2022. This follows a gain of 6.3% in the 4^{th} quarter. Productivity is down 0.6% from a year earlier. **Unit labor costs** in nonfarm businesses rose at a 12.6% annual rate in the 1^{st} quarter after climbing 3.9% in the previous quarter.
- The Commerce Department reported that **factory orders** increased 0.3% in April after surging 1.8% in March. **Factory orders ex transportation** increased 0.3% after gaining 2.2% in March. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.4% in April after gaining 1.1% in March.
- The Labor Department report indicated that employers hired at a pace that exceeded expectations in May. Hiring was broad based and led by leisure and hospitality. The jobs report is composed of two surveys, one of employers and the other of households. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (employer survey) climbed 390,000 in May and the previous month was revised 8,000 higher than previously reported. The **unemployment rate** (household survey) remained unchanged at 3.62%. The **labor force participation rate** advanced to 62.3% in May from 62.2% in April. The average hourly earnings increased to $31.95 from $31.85 the prior month. Weekly hours remained unchanged at 34.6 in May.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, declined in May to a two-year low. The report suggests that service firms continue to be hampered by supply constraints and a moderation of demand. This gauge of service providers accounts for 90% of the economy. The services index fell to 55.9 in May from 57.1 in April. A reading more than 50 indicates expansion in the services sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined again last week. The index decreased 2.3% for the week ending May 27^{th} after dropping 1.2% the previous week. **Refinancing** applications decreased 5.4% to 751.6 from 794.9 the prior week. **Home purchase mortgage applications** decreased 0.6% to 224.1. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 5.33% from 5.46% the prior week for a 30-year fixed rate loan.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 2.65%, 2.93%, 2.93%, and 3.09%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 28, 0, 16, and 44 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	June 7	Apr Trade Balance (-$89.5b)	7.30 Central
		Apr Consumer Credit ($35.0b)	14:00 Central
Wednesday	June 8	Jun 3rd MBA Mortgage Applications	6:00 Central
		Apr Wholesale Trade Sales	9:00 Central
		Apr Wholesale Inventories (2.1%)	9:00 Central
Thursday	June 9	Jun 4th Initial Jobless Claims (208k)	7:30 Central
Friday	June 10	May Consumer Price Index (0.7%)	7:30 Central
		May Consumer Price Index-YOY (8.2%)	7:30 Central
		May CPI Ex Food & Energy (0.5%)	7:30 Central
		May CPI Ex Food & Energy-YOY (5.9%)	7:30 Central
		Jun University of Michigan Sentiment (58.2)	9:00 Central
		May Budget Statement (-$147.5b)	13:00 Central

Source: Bloomberg Finance L.P.