July 5, 2022

Financial Services Group
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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** climbed slightly higher last week, staying at a remarkably consistent level the last four weeks. Although sentiment towards the economy and the outlook have soured considerably, claims have been at a level that indicates a strong labor market. Claims in regular state programs decreased 2,000 to 231,000 for the week ending June 25th, after reporting 233,000 initial claims the prior week. The four-week moving average climbed to 231,750 from 224,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 3,000 to 1.328 million for the week ending June 18th.
- The Commerce Department reported **durable goods orders** increased at a solid rate in May with broad-based gains in both orders and shipments. The incentive for companies to invest in labor saving equipment should remain high as companies struggle to meet labor demands and labor costs climb. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 0.7% in May after increasing a downwardly revised 0.4% in April. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.5% in May after climbing 0.3% in April. **Excluding transportation**, durable orders increased 0.7% in May after growing 0.2% in April. The ratio of inventory to shipments declined to 1.80 from 1.81 in April.
- The National Association of Realtors reported the **index of pending home re-sales** unexpectedly increased in May, the first gain in seven months. The number of contracts to purchase previously owned homes climbed 0.7% in May after dropping 4.0% in April. Pending home sales are down 13.6% on a seasonally adjusted year-on-year basis in May. The NAR noted that at the median single-family home price and with a 10% down payment, the monthly mortgage payment has increased by about $800 since the start of the year. 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** narrowed in May to its smallest level this year as exports rose to a new record. Imports were little changed as aggressive lockdowns by the Chinese government to curb the spread of Covid and the Russian war on Ukraine complicated foreign trade. The deficit decreased 2.2% to $104.3 billion in May. **Exports** rose 1.2% to $176.6 billion and **imports** edged lower by 0.1% to $280.9 billion.
- The Commerce Department reported **wholesale inventories** rose 2.0% in May after gaining 2.3% the previous month. Year-on-year wholesale inventories have climbed 25.0%. **Retail inventories** increased 1.1% in May after gaining 0.7% in April and are up 17.3% year-on-year.
- The Federal Housing Finance Agency reported a gain of 1.6% in the **house price index** of purchase-only homes in April after climbing 1.6% in March. The year-on-year change in the house price index was 18.8% in April. 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 1.77% in April after gaining 2.41% in March. The report indicates demand for housing continues to be strong in April with very little inventory and rising mortgage rates. The index climbed 21.23% in April 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. The widening gap between consumers' present situation and their expectations is concerning as it raises the risk of recession. Expectations dropped to its lowest level in almost a decade, increasing the chance that fears of an economic slowdown will become self-fulfilling. The index recorded a 98.7 in June from a downwardly revised 103.2 reading in May, previously reported as 106.4. The present situation index decreased to 147.1 in June from a 147.4 reading in May. The expectations index dropped to 66.4 in June from 73.7 the prior month.

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- The third estimate by the Commerce Department of the 1st quarter **gross domestic product** showed economic growth declined for the first time since 2020. Gross domestic product contracted at a 1.6% annualized rate in the 1st quarter, after gaining 6.9% in the previous quarter. **Personal consumption,** which accounts for about 70% of the economy, was revised to a gain of 1.8% from 3.1% last month. The **GDP price index** gained 8.2% in the 1st quarter after increasing 7.1% in the 4th quarter.
- The Commerce Department reported **personal income** rose 0.5% in May and **personal spending** climbed 0.2%. These numbers are not adjusted for inflation, so real spending declined. The data indicates weaker growth in services amid a general pullback in goods spending. Coupled with downward revisions to the data from January to April would indicate less momentum for consumption going into the second half of the year. The savings rate rose to 5.4% in May from 5.2% in April. The PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.6% in May, bringing the year-on-year gain to 6.3%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.5% in May after climbing 0.5% higher in April.
- The Commerce Department reported that **construction spending** declined 0.1% in May, with spending higher for residential construction and declining for non-residential. Spending on residential rose 0.2% in May while non-residential spending fell 0.6%. Government spending decreased 0.8% and private spending remained unchanged.
- The **Institute for Supply Management** reported its **manufacturing index** decreased in June to a two-year low. Supply constraints continue to be a problem and demand is softening as consumers get increasingly concerned about an economic downturn. The manufacturing index recorded a 53.0 in June from a 56.1 reading in May. The new orders part of the index dropped to 49.2 from 55.1 in May and production recorded a 54.9 from the prior months 54.2. A reading above 50 indicates expansion in the manufacturing sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose last week for the third straight week. The index increased 0.7% for the week ending June 24th, after gaining 4.2% the previous week. **Refinancing** applications increased 1.9% to 726.1 from 712.7 the prior week. **Home purchase mortgage applications** increased 0.1% to 243.1. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 5.84% from 5.98% 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 2.83%, 2.88%, 2.88 and 3.10%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 5, 0, 22, and 27 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	July 5	May Factory Orders (0.5%)	9:00 Central
		May Factory Orders ex Transportation	9:00 Central
Wednesday	July 6	Jul 1st MBA Mortgage Applications	6:00 Central
		Jun ISM Services Index (54.0)	9:00 Central
		May JOLTS Job Openings (10,900k)	9:00 Central
		Jun 15th FOMC Meeting Minutes Released	13:00 Central
Thursday	July 7	Jul 2nd Initial Jobless Claims (230k)	7:30 Central
		May Trade Balance (-$84.9b)	7:30 Central
Friday	July 8	Jun Change in Nonfarm Payrolls (265k)	7:30 Central
		Jun Unemployment Rate (3.6%)	7:30 Central
		Jun Labor Force Participation Rate (62.4%)	7:30 Central
		Jun Avg Hourly Earnings-YOY (5.0%)	7:30 Central
		May Consumer Credit ($30.0b)	14:00 Central

Source: Bloomberg Finance L.P.