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** climbed last week to their highest level since November 13, 2021. Claims are well off the lows from the Spring, but the persistent low levels of continuing claims and the high level of job openings indicate the labor market is still healthy. Claims in regular state programs increased 9,000 to 244,000 for the week ending July 9th, after reporting 235,000 initial claims the prior week. The four-week moving average climbed to 235,750 from 232,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 41,000 to 1.331 million for the week ending July 2nd.

- The **National Federation of Independent Business** reported sentiment among small businesses declined in June to its lowest level in almost a decade. Inflation and the labor shortage continue to dominate business decisions with all ten components of the index dropping. The index declined to 89.5 in June from a 93.1 reading in May. The index was 102.5 in June of 2021.

- The Labor Department reported the **consumer price index** surged again in June at a higher rate than expected. The report is concerning as it showed we have not yet reached a peak in inflation. The Fed is looking for clear and convincing signs that inflation is decelerating before slowing its rate hike pace, and this report will not give the Fed any comfort. The inflation pressures are being driven by rapid services inflation and a broad-based increased in core goods prices. The index gained 1.3% in June after gaining 1.0% the prior month. The year-on-year change in consumer prices is 9.1% in June. Service prices gained 0.9% in June after climbing 0.8% in May. Prices of commodity based manufactured goods gained 2.1% in June after climbing 1.3% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.7% in June after climbing 0.6% the prior month. The year-on-year change in core CPI is 5.9%.

- The Treasury Department reported a **budget deficit** of $88.8 billion for the month of June with the government collecting $460.8 billion and spending $549.6 billion. This compares to a deficit of $174.2 billion a year earlier. The current year-to-date deficit as of June is $515.0 billion versus $2,238 billion last year. The federal government's fiscal year goes from October to September.

- The Fed released the latest rendition of the **Beige Book,** which is based on information collected through July 13, 2022. This report is published eight times each year. The tone of the report indicates recession fears are growing, with five Districts expressing concern about a potential downturn, even as they described economic activity as still expanding modestly since mid-May. Most Districts reported that consumer spending moderated as higher food and gas prices diminished households' discretionary income. Housing demand weakened noticeably with growing concerns about affordability. While demand for energy products was robust and oil and gas drilling activity picked up, production remained constrained by labor availability and supply chain bottlenecks for critical components.

- The Labor Department reported the **producer price index** increased by 1.1% in June after climbing 0.9% in May. Surging energy prices drove the June headline and are retreating in July. More than half of the June increase is attributable to gasoline prices, which jumped 18.5% from the month earlier. Other indicators of relative demand and supply imbalances, like order backlogs and supplier delivery delays, have also peaked. Goods prices, which make up 33% of the weighting rose 2.4% in June after gaining 1.4% in May. Services, which make up 65% of the index rose 0.4% in June after gaining 0.6% in May. Year-on-year wholesale prices were up 11.3% in June compared to 10.9% in May. The **core PPI**, which excludes volatile food and energy prices, rose 0.4% in June after gaining 0.6% the previous month, with a year-on-year gain of 8.2%. **PPI ex food, energy and trade** gained 0.3%.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, unexpectedly expanded in July. The index recorded a positive 11.1 in July after a negative 1.2 reading in June. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.

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- The Commerce Department reported that **retail sales** increased in nominal terms, but fell after taking into account the surge in inflation. Consumers are changing their behavior and adjusting their spending patterns. Consumers cut back on driving and spent more online. They also spent more on hobbies and sporting goods, furniture and electronics and appliances. Retail sales increased 1.0% in June after an upwardly revised decline of 0.1% in May. June retail sales are up 8.9% year-on-year. **Retail sales ex autos and gas** climbed 0.7% in June after decreasing 0.1% in May.
- The Labor Department reported the **import price index** increased in June, but at a slower rate. Prices for petroleum surged, but was offset by declines in prices for other goods. Import prices increased 0.2% in June after gaining 0.5% in May. The cost of petroleum surged 5.0% in June after jumping 5.8% the prior month. Import prices are up 10.7% year-on-year. **Import prices ex petroleum** fell 0.4% in June after decreasing 0.2% the prior month.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, declined in June. It is clear the spike in energy prices in late spring and early summer impacted manufacturing activity as work hours tumbled. The weakness was broad based with auto production, machinery, appliances and furniture leading the drop. Industrial production fell 0.2% in June after remaining unchanged in May. Production at factories, which make up 75.9% of output, fell 0.5% in June after declining 0.5% the previous month. Utilities declined 1.4% after gaining 1.9% in May and mining gained 1.7%. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 80.0% in June from 80.3% the prior month.
- The Commerce Department reported **business inventories** increased 1.4% in May after gaining 1.3% in April. **Business sales** increased 0.7% in May after climbing 0.6% the prior month. The ratio of business inventories to sales increased to 1.30 from 1.29 in April. The ratio was 1.27 a year ago.
- The **University of Michigan's preliminary index of consumer sentiment** hovered near its all-time lows in July amid concerns about inflation and personal finances. While consumer sentiment is down, consumer demand largely has held up which allows the Fed to act strongly to control inflation. The long-run inflation expectations index fell to 2.8% in July from 3.1% in June, a positive trend that the Fed is monitoring closely. The index increased to 51.1 in July from a 50.0 all-time low reading in June. The **index of current conditions** increased to 57.1 from 53.8 the prior month while the **index of expectations** dropped to 47.3 from 47.5.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week for the second consecutive week. The index decreased 1.7% for the week ending July 8th, after dropping 5.4% the previous week. **Refinancing** applications increased 2.2% to 685.3 from 670.3 the prior week. **Home purchase mortgage applications** decreased 3.6% to 224.3. Refinancing made up 30.8% of applications with an average loan size of $277,300, while purchases average loan size was $415,200. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 5.74% for a 30-year fixed rate loan.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.12%, 3.03%, 2.92% and 3.08%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -9, -11, 16, and -4 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	July 18	Jul NAHB Housing Market Index (65)	9:00 Central
Tuesday	July 19	Jun Housing Starts (1,580k)	7:30 Central
		Jun Building Permits (1,650k)	7:30 Central
Wednesday	July 20	Jul 15th MBA Mortgage Applications	6:00 Central
		Jun Existing Home Sales (5.36m)	9:00 Central
Thursday	July 21	Jul 16th Initial Jobless Claims (240k)	7:30 Central
		Jun Leading Index (-0.6%)	9:00 Central

Source: Bloomberg Finance L.P.