Stephens

August 1, 2022
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** edged lower last week, the first decline in four weeks, holding near the highest level since November. Still, Fed Chair Jerome Powell said the labor market remains "extremely tight," referencing a near-record number of job openings and historically low unemployment. Claims in regular state programs decreased 5,000 to 256,000 for the week ending July 23rd, after reporting 261,000 initial claims the prior week. The four-week moving average climbed to 249,250 from 243,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 25,000 to 1.359 million for the week ending July 16th.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity did not change in June, with below-trend-growth in the national economy for the second straight month. The **Chicago Fed National index**, which draws on 85 economic indicators, was negative 0.19 in June after reporting a negative 0.19 in May. A reading below zero indicates below-trend-growth in the national economy.
- The Federal Housing Finance Agency reported a gain of 1.4% in the **house price index** of purchase-only homes in May after climbing 1.5% in April. The year-on-year change in the house price index was 18.3% in May. 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 1.32% in May after gaining 1.71% in April. The report indicates demand for housing is slowing in May as higher mortgage rates and affordability pressure new homebuyers. The index climbed 20.50% in May 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 in June to its lowest level since February 2021. Weaker perceptions of current economic conditions drove the decline. A mix of inflation concerns, deteriorating sentiment, a weak equity market and rising jobless claims drove the decline. The index recorded a 95.7 in July from a downwardly revised 98.4 reading in June, previously reported as 98.7. The present situation index decreased to 141.3 in July from a 147.2 reading in June. The expectations index dropped to 65.3 in July from 65.8 the prior month.
- The Commerce Department reported sales of new homes fell in June to a two-year low, the fifth decline this year. A mix of rising mortgage rates and high home prices is keeping many potential buyers from buying home. **New home sales** fell 8.1% to a 590,000 annualized pace in June after reporting a downwardly revised 642,000 pace the prior month. New home sales, which account for about 10% of the residential market, are accounted for when contracts are signed, which makes this data a more timely indicator than existing home transactions.
- The Commerce Department reported the **goods trade deficit** narrowed in June to its smallest level this year as exports rose to a new record and imports fell. The deficit decreased 5.6% to $98.2 billion in June. **Exports** rose 2.5% to $181.5 billion and **imports** dropped 0.5% to $279.7 billion.
- The Commerce Department reported **wholesale inventories** rose 1.9% in June after gaining 1.9% the previous month. Year-on-year wholesale inventories have climbed 25.6%. **Retail inventories** increased 2.0% in June after gaining 1.6% in May and are up 19.9% year-on-year.
- The Commerce Department reported **durable goods orders** were materially stronger than expected, driven by an 81% surge in defense aircraft orders. Military spending has been ramped up during Russia's invasion of Ukraine. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 1.9% in June after increasing 0.8% in May. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.5% in June after climbing

0.5% in May. **Excluding transportation**, durable orders increased 0.3% in June after growing 0.5% in May. The ratio of inventory to shipments remained unchanged at 1.80 in May.

- The National Association of Realtors reported the **index of pending home re-sales** decreased in June to its lowest level since the pandemic began as mortgage rates have nearly doubled since the start of the year. The number of contracts to purchase previously owned homes fell 8.6% in June after climbing 0.4% in May. Pending home sales are down 20.0% on a seasonally adjusted year-on-year basis in June. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 75 basis points. The targeted Federal Funds Rate is now between 225 basis points and 250 basis points. Chairman Powell seemed more relaxed and balanced having reached the neutral rate "expeditiously," and having re-anchored long-term inflation expectations. While Powell hinted that another 75bp hike "could be appropriate," the SEP implies a 50bp increase in September and another 50bp in November. The interest on reserve balances was increased to 240 basis points from 165 basis points.
- The initial estimate by the Commerce Department of the 2nd quarter **gross domestic product** showed economic growth declined for the second straight month. Although the two negative prints look like a textbook recession, the NBER does not base its call on GDP data. Instead, they look at six monthly indicators of activity, none of which are yet in contraction territory. Nominal GDP increased by 7.9% but the GDP deflator rose by 8.9%. Gross domestic product contracted at a 0.9% annualized rate in the 2nd quarter, after falling 1.6% in the previous quarter. **Personal consumption,** which accounts for about 70% of the economy, gained 1.0% in the quarter after gaining 1.8% in the previous quarter. The **GDP price index** gained 8.7% in the 2nd quarter after increasing 8.2% in the 1st quarter.
- The Labor Department reported the **Employment Cost Index** for the 2nd quarter rose at a strong pace. Employers, with a near-record number of open positions, are trying to attract and retain workers with higher pay and other perks. The employment cost index is a broad gauge of wages and benefits. The index climbed 1.3% in the 2nd quarter after a gain of 1.4% in the prior quarter. Wages and salaries increased 1.4% and benefits rose 1.2%.
- The Commerce Department reported **personal income** rose 0.6% in June and **personal spending** climbed 1.1%. These numbers are not adjusted for inflation, so real spending edged higher by 0.1% and after-tax real income fell by 0.3%. The savings rate fell to 5.1% in June from 5.5% in May. The PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 1.0% in June, bringing the year-on-year gain to 6.8%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.7% in June after climbing 0.6% higher in May.
- The **University of Michigan's final index of consumer sentiment** edged higher in July, climbing from its lowest level on record in June. The index provided some good news to the Fed as longer-term inflation expectations in the index have declined from two months ago. The gauge of consumer confidence increased to 51.5 in July from an earlier estimate of 51.1. This is an increase from the 50.0 reading in June. The **index of current conditions** rose to 58.1 from 53.8 the prior month while the **index of expectations** dropped to 47.3 from 47.5 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week for the fourth consecutive week and to its lowest level since February of 2020. The index decreased 1.8% for the week ending July 22nd, after dropping 6.3% the previous week. **Refinancing** applications decreased 3.7% to 631.4 from 655.7 the prior week. **Home purchase mortgage applications** decreased 0.8% to 206.4. Refinancing made up 30.7% of applications with an average

loan size of $269,400, while purchases average loan size was $410,400. The **average contract rate** on a 30-year fixed-rate mortgage declined to 5.74% from 5.82% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 2.88%, 2.68%, 2.65% and 3.01%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -20, -3, 36, and 13 basis points respectively.

Economic/Events Calendar

Monday	August 1	Jun Construction Spending (0.1%)	9:00 Central
		Jul ISM Manufacturing (52.0)	9:00 Central
Tuesday	August 2	Jun JOLTS Job Openings (11,000k)	9:00 Central
Wednesday	August 3	Jul 29th MBA Mortgage Applications	6:00 Central
		Jun Factory Orders (1.2%)	9:00 Central
		Jun Factory Orders ex Transportation	9:00 Central
		Jul ISM Services Index (53.5)	9:00 Central
Thursday	August 4	Jul 30th Initial Jobless Claims (260k)	7:30 Central
		Jun Trade Balance (-$80.0b)	7:30 Central
Friday	August 5	Jul Change in Nonfarm Payrolls (250k)	7:30 Central
		Jul Unemployment Rate (3.6%)	7:30 Central
		Jul Avg Hourly Earnings-YOY (4.9%)	7:30 Central
		Jul Labor Force Participation Rate (62.2%)	7:30 Central
		Jun Consumer Credit ($26.0b)	14:00 Central

Source: Bloomberg Finance L.P.