Stephens

August 5, 2024
Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** jumped to the highest level in almost a year. Claims have been displaying typical summer seasonality within a clear upward trend. First time claims in regular state programs recorded 249,000 for the week ending July 27th after the prior week's report of 235,000. The four-week moving average climbed to 238,000 from 235,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, rose 33,000 to 1,877,000 for the week ending July 20th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.

- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes remained unchanged in May after climbing 0.3% in April. The year-on-year change in the house price index was 5.7% 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** rose 0.34% in May after gaining 0.39% in April. The index increased 6.81% from the same month in 2023. This is the fifteenth straight increase in prices. This index includes homes of all prices, while the sample for the FHFA index is based only on confirming mortgages, which leaves out much of the upper end of the housing market. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Labor Department reported that **job openings** fell less than expected in June and May was revised higher. The report shows there is solid demand for workers even though employers have pulled back on hiring and wage growth has slowed. Available positions decreased to 8.184 million from an upwardly revised 8.230 million in the prior month. The quits rate, which measures voluntary job leavers as a share of total employment held steady at 2.1% in June. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, declined to 1.20 in June from an upwardly revised 1.24 in May, similar to the ratio in the 18 months before the pandemic began.

- The Conference Board's **consumer confidence index** increased in July as consumer expectations improved for the economy and the labor market. The index recorded a 100.3 in July from a downwardly revised 97.8 reading in June, previously reported as 100.4. The measure of expectations for the next six months climbed to 78.2 in July, the highest since January. The present situation index decreased to 133.6 in July, the lowest level in more than three years.

- **ADP Employer Services** reported that companies hired workers at the slowest pace since the start of the year in July. Companies increased payrolls by 122,000 in July after an upwardly revised gain of 155,000 in June. Services employment increased by 85,000 and manufacturing employment climbed by 37,000. Wage growth slowed for people who changed jobs with a 7.2% gain year-on-year and advanced at the slowest pace since August 2021 for workers who stayed in their job, with a 4.8% gain year-on-year.

- The Labor Department reported the **Employment Cost Index** slowed in the 2nd quarter, supporting a trend of gradually easing inflationary pressures. The Employment Cost Index is the Fed's preferred measure of wages. The index climbed 0.9% in the 2nd quarter after a gain of 1.2% in the 1st quarter. The year-on-year gain is 4.1%. Wages and salaries increased 0.9% and benefits rose 1.0%. Wages in the government workers sector grew 1.2% compared to 0.9% in the private sector.

- The National Association of Realtors reported the **index of pending home re-sales** rose in June for the first time in three months. Buyers who are looking to relocate or upgrade their houses even in the face of elevated prices and borrowing costs. This gauge is coming off a record low in data back to 2001 as the housing market tries to break out of a protracted slump. The number of contract signings increased 4.8% in June after falling 1.9% in May. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as pending when a seller accepts a sales contract on a property. 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 held the targeted federal funds rate as expected to a range of 5.25% to 5.50% for the eighth straight meeting. The pace of the balance sheet runoff was also unchanged at $25 billion per month for Treasuries and $35 billion per month for MBS. The policy statement underwent modest editing that signals a small but growing concern about the labor market and a continued lack of confidence on the likelihood of achieving the inflation side of the dual mandate. This is marginally more dovish than the last statement. Chair Powell was more forthright than usual in his press conference, expressing more optimism about the recent inflation data and going so far as to say that a September rate cut could be on the table.

- Bureau of Labor Statistics reported **worker's productivity** increased in the 2nd quarter as **unit labor costs** declined. The cooling in unit labor costs, which is closely watched by the Fed, had its smallest increase since before the pandemic. Productivity climbed at an annualized pace of 2.3% in the second quarter after rising 0.4% in the first quarter. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Year-on-year productivity is up 2.7%. **Unit labor costs** in nonfarm businesses rose at a 0.9% annual rate in the 2nd quarter and climbed 0.5% year-on-year.

- The Commerce Department reported that **construction spending** decreased 0.3% in June after declining 0.4% in May. Spending on residential construction fell 0.4% while non-residential construction declined 0.2%. Government spending, which made up 22.5% of construction spending, decreased 0.4% and private spending fell 0.3%.

- The **Institute for Supply Management** reported its **manufacturing index** fell in July by the most in eight months as faster declines in orders and production prompted the biggest employment cutback in four years. Demand is contracting so producers are hesitant to accumulate inventories and the order backlog is shrinking. With firms largely working through inventory backlogs, production activity has hinged on demand, which continued to decline in July. The manufacturing index recorded a 46.8 in July after a 48.5 reading in June. The new orders part of the index decreased to 47.4 in July from 49.3 in June and production lowered to 45.9 in July from 48.5 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The Labor Department reported that payroll growth was softer than expected, consistent with a labor market that continues to cool gradually, just a Chair Powell described following the FOMC meeting. Education and healthcare continue to lead job growth, while leisure and hospitality and construction jobs contributed somewhat as well. Government payrolls continued to rise, but at a slower pace. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and the labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. The **Nonfarm payrolls** (employer survey) climbed at a lower than expected 114,000 in July after a downwardly revised gain of 179,000 in June. The **unemployment rate** (household survey) increased to 4.253% in July from 4.054% in June. The **labor force participation rate** climbed to 62.7% in July from 62.6%. The average hourly earnings increased to $35.07 from $34.99 the prior month. Weekly hours fell to 34.2 in July from 34.3 the prior month.

- The Commerce Department reported that **factory orders** fell 3.3% in June after declining 0.5% in May. The decline was led by a 20.6% drop in transportation spending. **Factory orders ex transportation** increased 0.1% in June after falling 0.7% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft climbed 0.9% in June after falling 0.9% in May.

Source: Bloomberg Finance L.P.

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- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined 3.9% for the week ending July 26th after falling 2.2% the prior week. **Refinancing** applications fell 7.2% to 570.7 last week and **home purchase mortgage applications** decreased 1.5% to 132.8. Refinancing made up 38.2% of applications with an average loan size of $273,000, while purchases average loan size at $425,800. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 6.87%.

BOND MARKET REVIEW

Rates plunged last week as the market adjusted expectations for rate cuts after Chair Powell's comments following the FOMC meeting and a weaker than expected employment report. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 3.88%, 3.62%, 3.79% and 4.11%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -26, 17, 32, and 23 basis points respectively.

Economic/Events Calendar

Monday	August 5	Jul ISM Services Index (51.0)	9:00 Central
Tuesday	August 6	Jun Trade Balance (-$72.5b)	7:30 Central
Wednesday	August 7	Aug 2nd MBA Mortgage Applications	6:00 Central
		Jun Consumer Credit ($10.0b)	14:00 Central
Thursday	August 8	Aug 3rd Initial Jobless Claims (243k)	7:30 Central
		Jun Wholesale Trade Sales	9:00 Central
		Jun Wholesale Inventories (0.2%)	9:00 Central

Source: Bloomberg Finance L.P.