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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** fell by the most in five weeks, suggesting employers continue to be reluctant to reduce payrolls. While scattered layoffs and hiring freezes have occurred, the data do not show any real evidence of a pickup in layoff activity. The lack of supply of available labor makes it increasingly difficult to fill open positions. Claims in regular state programs declined 11,000 to 239,000 from the prior week's reported 250,000 for the week ending August 12th. The four-week moving average rose to 234,250 from 231,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, rose 32,000 to 1.716 million for the week ending August 5th.

- The Commerce Department reported that **retail sales** surged in July, as Amazon Prime Day helped to boost sales at "non-store retailers" and with broad based strength in other categories as well. Retail sales increased 0.7% in July after gaining an upwardly revised 0.3% the prior month. Momentum in the economy, especially from consumers, has been more persistent than expected at the start of the year. Real wage gains have allowed for both increased household savings and continued strong consumption for now, but this dynamic will eat further into corporate profit margins in the months ahead and eventually translate into labor market and consumer spending weakness. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** climbed 1.0% in July. The numbers in this report are not adjusted for inflation.

- The Labor Department reported the **import price index** increased 0.4% in July after dropping an upwardly revised 0.1% in June. The gain was entirely due to an increase in fuel prices. The cost of petroleum rose 3.5% in July after increasing 2.1% the prior month. Import prices are down 4.4% year-on-year. **Import prices ex petroleum** remained unchanged in July after falling 0.3% the prior month.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, dropped more than expected in August. The index reported that orders plunged and inflationary pressures picked up. The index recorded a negative 19.0 in August after a positive 1.1 reading in July. New orders recorded a negative 19.9 in August after a positive 3.3 reading in July and shipments declined to negative 12.3 after a positive 13.4 reading last month. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.

- The Commerce Department reported **business inventories** remained unchanged for the second straight month in June. **Business sales** declined 0.1% in June after climbing 0.1% the prior month. The ratio of business inventories to sales remained unchanged at 1.40 in June.

- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment declined in August as mortgage rates climbed to new highs, construction costs remain elevated and a lack of buildable lots. But while this latest confidence reading reflects housing affordability challenges, demand for new construction continues to be supported by a lack of resale inventory. The index of builder sentiment declined to 50 in August from 56 in July. The index recorded an 84 in December of 2021.

- The Commerce Department reported that **housing starts** edged higher in July, reflecting a pent-up demand for housing that is constrained by high mortgage rates, tightening credit conditions and a slowing labor market. Housing starts climbed 3.9% in July to a 1,452,000 annualized rate following June's downwardly revised 1,398,000 pace. Single-family starts rose 6.7% in July with multi-family starts down 1.7%. **Building permits**, a gauge of future construction, edged higher by 0.1% July to a 1,442,000 pace.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, increased by 1.0% in July after two months of declines. The gains came primarily from a surge in motor vehicle output that helped manufacturing to stabilize. Production at factories, which make up 74.3% of output, climbed 0.5% in July after decreasing 0.5% the previous month. Utilities surged 5.4% in July after falling 3.0% in June and mining climbed 0.5% in July after falling 0.9% in June. **Capacity utilization**, which measures the amount of a plant that is in use, rose to 79.3% from a downwardly revised 78.6% in June.
- The **FOMC Minutes** for the July 25-26 meeting show policymakers remain concerned that inflation would fail to recede and suggested they may continue raising rates. During the meeting, they raised the target range for their benchmark rate by a quarter point from 5.25% to 5.50%. That marked a resumption of increases after they left rates unchanged at the previous gathering. Powell stated that "we intend again to keep policy restrictive until we're confident that inflation is coming down sustainably to our 2% target, and we're prepared to further tighten if that is appropriate." Some participants commented that even though economic activity had been resilient and the labor market had remained strong, there continued to be downside risks to economic activity and upside risks to the unemployment rate, indicating the strong degree of consensus may be starting to fray.
- The Conference Board reported the **index of leading economic indicators** declined 0.4% in July, the seventeenth straight drop. The loss was led by a decline in consumer expectations, ISM New Orders, the interest rate spread. The biggest positive contributor to the leading index was stock prices and jobless claims. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, climbed 0.4% in July after remaining unchanged in June.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week for the fifth-straight week to the second-lowest level since 1995. Mortgage rates climbed to their highest level since 2001, pressuring both sales and refinancing activity. The index fell 0.8% for the week ending August 11th. **Refinancing** applications fell 1.9% to 408.4 from 416.1 the prior week. **Home purchase mortgage applications** decreased 0.3% to 149.5. Refinancing made up 28.6% of applications with an average loan size of $251,900, while purchases average loan size was $417,200. The **average contract rate** on a 30-year fixed-rate mortgage rose 7 basis points to 7.16% from 7.09% last week.

BOND MARKET REVIEW

Rates climbed ad the yield curve steepened last week after the FOMC meeting minutes indicated the Fed was not ready to end its fight against inflation. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.94%, 4.39%, 4.25% and 4.38%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -55, -14, 13, and -56 basis points respectively.

Source: Bloomberg Finance L.P.

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August 21, 2023
Financial Services Group

Economic/Events Calendar

Tuesday	August 22	Jul Existing Home Sales (4.15m)	9:00 Central
Wednesday	August 23	Aug 18th MBA Mortgage Applications	6:00 Central
		Jul New Home Sales (704k)	9:00 Central
Thursday	August 24	Aug 19th Initial Jobless Claims (240k)	7:30 Central
		Jul Chicago Fed Nat Activity Index (-0.22)	7:30 Central
		Jul Durable Goods Orders (-4.0%)	7:30 Central
		Jul Durables Ex Transportation (0.2%)	7:30 Central
		Jul Cap Goods Orders Nondef Ex Air (0.1%)	7:30 Central
Friday	August 25	Aug University of Michigan Sentiment (71.2)	9:00 Central

Source: Bloomberg Finance L.P.