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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** declined for the first time in three weeks, signaling that companies continue to retain workers. While the labor market is solid, firms are getting more successful in hiring and retaining workers and under less pressure to raise wages. Claims in regular state programs decreased 2,000 to 250,000 for the week ending August 13th, after reporting a downwardly revised 252,000 initial claims the prior week. The four-week moving average fell to 246,750 from 249,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 7,000 to 1.437 million for the week ending August 6th.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, plunged to near the lowest level on record in August. New orders, an indicator of future demand, and shipments tumbled. The index recorded a negative 31.3 in August after a positive 11.1 reading in July. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.

- The **National Association of Home Builders/Wells Fargo** reported housing sentiment declined for the eighth straight month. The loss in builder confidence reflects a drop in new construction activity as high mortgage rates, costs of materials and labor and elevated home affordability challenge the housing market. The index of builder sentiment fell to 49 in August from 55 last month.

- The Commerce Department reported that **housing starts** continued to decline in July, falling to its lowest level since early 2021. The combination of high mortgage rates, a weakening economy and high inflation has pushed many potential homebuyers out of the market, leaving builders with a growing number of unsold properties. Housing starts fell 9.6% in July to a 1,446,000 annualized rate following June's 1,599,000 pace. Single-family starts retreated 10.1% in July with multi-family starts decreasing 8.6%. **Building permits**, a gauge of future construction, fell 1.3% in July to a 1,674,000 pace.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, rose in July. The biggest driver of strength in manufacturing was an increase in auto production. Auto production has been volatile due to semiconductor shortages. Industrial production jumped 0.6% in July after remaining unchanged in June. Production at factories, which make up 74.3% of output, rose 0.7% in July after declining 0.4% the previous month. Utilities declined 0.8% after falling 0.3% in June and mining gained 0.7%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 80.3% in July from 79.9% the prior month.

- The Commerce Department reported that **retail sales** were unchanged in July, but a quick dig in the details shows retail spending is solid. The sharp decline in gasoline prices and a decline in auto sales offset gains in online shopping and a shift in spending towards services. The data showed department stores were starting to discount prices to shed bloated inventories. While consumer sentiment is now firmly in recession territory, consumers are not following through on their feelings. They are spending based on their finances, which are still very healthy. Retail sales remained unchanged in July after a downwardly revised gain of 0.8% in June. July retail sales are up 8.6% year-on-year. **Retail sales ex autos and gas** climbed 0.7% in July after increasing 0.7% in June.

- The Commerce Department reported **business inventories** increased 1.4% in June after gaining 1.6% in May. **Business sales** increased 1.3% in June after climbing 1.0% the prior month. The ratio of business inventories to sales remained unchanged at 1.30 in June.

- The **FOMC Minutes** for the July 26-27th meeting showed inflation concerns remain the primary concern to the Fed. As for the economy, the members noted that spending and production had softened, but that employment continues to be robust. The minutes stated that inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices and broader prices pressures. The FOMC report also stated that inflation remains unacceptably high and was well above the committee's long run goal of 2.00%.

- The National Association of Realtors reported that **existing home sales** fell in July for the sixth straight month, a new cycle low. Sales are now 26% below the cycle peak set in January. Fed policy tightening is clearly having an impact on the housing sector. Housing inventories are rising slowly and housing price inflation is cooling, but homes are still selling in record time. Contract closings, which usually occur a month or two after a contract is signed, decreased 5.9% in July to a 4.81 million pace after dropping 5.5% in June. The median selling price decreased to $403,800 from $413,800 in June.
- The Conference Board reported the **index of leading economic indicators** declined 0.4% in July, the fifth straight drop. The loss was led by a decline in consumer expectations, a drop in new orders and increasing 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 gaining 0.7% in June.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week after two weeks of gains. The index decreased 2.3% for the week ending August 12th, after climbing 0.2% the previous week. **Refinancing** applications decreased 5.4% to 627.1 from 662.9 the prior week. **Home purchase mortgage applications** decreased 0.8% to 203.8. Refinancing made up 31.2% of applications with an average loan size of $271,600, while purchases average loan size was $410,900. The **average contract rate** on a 30-year fixed-rate mortgage edged lower to 5.45% from 5.47% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.23%, 3.09%, 2.97% and 3.21%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -14, -12, 24, and -2 basis points respectively.

Source: Bloomberg Finance L.P.

Economic/Events Calendar

Monday	August 22	Jul Chicago Fed Nat Activity Index (-0.25)	7:30 Central
Tuesday	August 23	Jul New Home Sales (575k)	7:30 Central
Wednesday	August 24	Aug 19th MBA Mortgage Applications	6:00 Central
		Jul Durable Goods Orders (0.8%)	7:30 Central
		Jul Durables Ex Transportation (0.2%)	7:30 Central
		Jul Cap Goods Orders Nondef Ex Air (0.3%)	7:30 Central
		Jul Pending Home Sales (-2.5%)	9:00 Central
Thursday	August 25	Aug 20th Initial Jobless Claims (252k)	7:30 Central
		2nd Qtr GDP-2nd Est (-0.7%)	7:30 Central
		2nd Qtr GDP Price Index-2nd Est (8.7%)	7:30 Central
		2nd Qtr Personal Consumption-2nd Est (1.5%)	7:30 Central
Friday	August 26	Jul Goods Trade Balance (-$98.5b)	7:30 Central
		Jul Personal Income (0.6%)	7:30 Central
		Jul Personal Spending (0.4%)	7:30 Central
		Jul PCE Deflator-YOY (6.4%)	7:30 Central
		Jul Wholesale Inventories (1.3%)	7:30 Central
		Jul Retail Inventories (1.3%)	7:30 Central
		Aug University of Michigan Sentiment (55.3)	9:00 Central

Source: Bloomberg Finance L.P.