

# October 11, 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** jumped last week, signaling a significant cooling in labor demand. The increase came even as jobless claims dropped in Florida, where it is still too early to assess the damage from Hurricane Ian. Claims are expected to climb in Florida once offices are reopened in flood impacted areas. Claims in regular state programs increased 29,000 to 219,000 for the week ending October 1<sup>st</sup>, after reporting a downwardly revised 190,000 initial claims the prior week. The four-week moving average edged higher to 206,500 from 206,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 15,000 to 1.361 million for the week ending September 24<sup>th</sup>.
- The Commerce Department reported that **construction spending** declined 0.7% in August, with spending down for both residential and non-residential. Spending on residential fell 1.0% in August while non-residential spending fell 0.4%. Government spending, which makes up 19.9% of construction spending, decreased 0.8% and private spending declined 0.6%.
- The **Institute for Supply Management** reported its **manufacturing index** dropped to its lowest level since May 2020, with new orders and export orders falling sharply. The press release characterized the manufacturing environment as continuing to expand, but at the slowest pace since the recovery began. The manufacturing index recorded a 50.9 in September after a 52.8 reading in August. The index reached a high of 63.7 in March of 2021. The new orders part of the index declined to 47.1 from 51.3 in August and production climbed to 50.6 in September from 50.4 the prior month. A reading above 50 indicates expansion in the manufacturing sector.
- The Commerce Department reported that **factory orders** remained unchanged in August after declining 1.0% in July. **Factory orders ex transportation** rose 0.2% after falling 1.1% in July. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 1.4% in August after gaining 1.3% in July.
- The Labor Department reported that **job openings** declined in August to its lowest level since June of 2021 signaling the supply-demand gap in the labor market has narrowed. While a welcome development, the gap remains very wide relative to a normal cycle. Job openings decreased by 1,117,000 in August to 10.053 million, from a downwardly revised 11.170 million in July. There are about 1.7 jobs for every unemployed person in August. The job openings rate fell to 6.2% from 6.8% in July, well above the average of 4.5% in the fourth quarter of 2019. The quits rate remained unchanged at 2.7% in August.
- **ADP Employer Services** reported that employment at companies increased at a solid pace in September, indicating demand for workers remains strong even as concerns increase about economic growth. The gains were driven by a surge in employment in trade, transportation and utilities. Companies increased payrolls by 208,000 in September after a gain of 185,000 August. Services employment increased by 237,000 and manufacturing employment fell 29,000.
- The Commerce Department reported the **trade deficit** narrowed in August for the fifth straight month. The deficit decreased to \$67.40 billion in August from a deficit of \$70.46 billion in July. **Exports** fell 0.3% to \$258.9 billion and **imports** declined 1.1% to \$326.3 billion.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, edged lower in September but exceeded expectations suggesting the service sector continues to chug along without any real loss in momentum. The index showed the services sector expanded in September at a solid clip with demand-side indicators softening slightly along with price pressures. The service ISM edged lower in September to 56.7 from 56.9 the prior month. The business activity pulled back to 59.1 from 60.9. New orders fell to 60.6 from 61.8. The employment index improved to 53.0 from 50.2. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.

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- The Labor Department report was in line with expectations as employers hired at a slower pace in September, but still too hot for the Fed. The jobs report is composed of two surveys, one of employers and the other of households. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (employer survey) climbed 263,000 in September after gaining 315,000 the prior month. The **unemployment rate** (household survey) dropped to 3.493% from 3.650% in August. The **labor force participation rate** fell 0.1% to 62.3% in September as the labor force decreased by 57,000. The average hourly earnings increased to \$32.46 from \$32.36 the prior month. Weekly hours remained unchanged at 34.5 in September.
- The Commerce Department reported **wholesale inventories** rose 1.3% in August to \$895.4 billion after gaining 0.6% in July. Year-on-year wholesale inventories have gained 25.0%. **Wholesale trade sales** increased 0.1% in August after falling 1.5% in July, with year-on-year sales up 16.1%. The ratio of inventory to sales rose to 1.31 in August from 1.29 in July.
- The Federal Reserve reported **consumer credit** increased more than expected in August. Consumer credit increased \$32.2 billion after gaining an upwardly revised \$26.1 billion in July. Credit card debt increased \$17.2 billion to \$1.154 trillion with auto and student loan debt increasing by \$15.1 billion to \$3.526 trillion. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** plunged last week, the seventh decline in eight weeks. The index decreased 14.2% for the week ending September 30<sup>th</sup>, after falling 3.7% the previous week. **Refinancing** applications fell 17.8% to 430.9 from 524.1 the prior week. **Home purchase mortgage applications** decreased 12.6% to 174.1. Refinancing made up 29.0% of applications with an average loan size of \$263,300, while purchases average loan size was \$406,200. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.75% from 6.52% last week.

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 4.31%, 4.14%, 3.88% and 3.84%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -17, -26, -4, and -47 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Tuesday	October 11	Sep NFIB Small Business Optimism (91.6)	5:00 Central
Wednesday	October 12	Oct 7 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Sep Producer Price Index (0.2%)	7:30 Central
		Sep Producer Price Index-YOY (8.4%)	7:30 Central
		Sep PPI Ex Food & Energy (0.3%)	7:30 Central
		Sep PPI Ex Food & Energy-YOY (7.3%)	7:30 Central
		Sep 21 <sup>st</sup> FOMC Meeting Minutes	9:00 Central
Thursday	October 13	Oct 8 <sup>th</sup> Initial Jobless Claims (225k)	7:30 Central
		Sep Consumer Price Index (0.2%)	7:30 Central
		Sep Consumer Price Index-YOY (8.1%)	7:30 Central
		Sep CPI Ex Food & Energy (0.4%)	7:30 Central
		Sep CPI Ex Food & Energy-YOY (6.5%)	7:30 Central
Friday	October 14	Sep Retail Sales (0.2%)	7:30 Central
		Sep Retail Sales Ex Auto & Gas (0.2%)	7:30 Central
		Sep Import Price Index (-1.1%)	7:30 Central
		Sep Import Price Index-YOY (6.2%)	7:30 Central
		Sep Import Price Index ex Petroleum (-0.4%)	7:30 Central
		Aug Business Inventories (0.9%)	9:00 Central
		Oct University of Michigan Sentiment (58.8)	9:00 Central

Source: Bloomberg Finance L.P.

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