

October 24, 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** decreased last week to a three-week low, indicating demand for labor continues to show strength despite concerns about the economy. Claims in regular state programs decreased 12,000 to 214,000 for the week ending October 15th, after reporting 226,000 initial claims the prior week. The four-week moving average climbed to 212,250 from 211,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 21,000 to 1.385 million for the week ending October 28th.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, declined for a third straight week in October. The decline was led by a drop of 20 points in the shipment index and an index of future business conditions dropping to the second weakest level since 2009. The index recorded a negative 9.1 in October after a negative 1.5 reading in September. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, increased in September. The gain helps the case that inflation is slowing in core goods going into the year-end as supply of goods rises while demand is softening. This is not much comfort though as services prices account for the bulk of inflation. Industrial production rose 0.4% in September after dropping 0.1% in August. Production at factories, which make up 74.3% of output, rose 0.4% in September after gaining 0.4% the previous month. Utilities declined 0.3% after falling 3.3% in August and mining gained 0.6%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 80.3% in September from 80.1% the prior month.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment declined in October for the tenth straight month to its lowest level since early 2020. The loss in builder confidence reflects a surge in mortgage rates to levels near 7% as well as elevated construction costs. The index of builder sentiment fell to 38 in October from 46 last month. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** fell in September after jumping higher in August. The decline in starts brings the pace of starts more in line with the downward trend that had prevailed prior to August. Mortgage rates continue to depress housing activity and there is more weakness ahead. Housing starts fell 8.1% in September to a 1,439,000 annualized rate following August's 1,566,000 pace. Single-family starts declined 4.7% in September with multi-family starts plunging 13.2%. **Building permits**, a gauge of future construction, climbed 1.4% in September to a 1,564,000 pace.
- The Fed released the latest rendition of the **Beige Book**, which is based on information collected through October 7, 2022. This report is published eight times each year. The report showed economic activity expanded modestly with slowing or weak demand attributed to higher interest rates, inflation and supply disruptions. Retail spending was relatively flat, reflecting lower discretionary spending. Travel and tourist activity rose strongly. Manufacturing activity held steady or expanded in many Districts due in part to easing in supply chain disruptions. Demand for nonfinancial services rose. Rising mortgage rates and elevated house prices further weakened single-family starts and sales, but helped buoy apartment leasing and rents. Outlooks grew more pessimistic amidst growing concerns about weakening demand.
- The National Association of Realtors reported that **existing home sales** fell in September for the seventh straight month, the longest streak since 2007. The details of the report indicate the housing market is going to take a long time to fully cool, even with mortgage rates over 7%. Limited inventories continue to prop up housing prices even as mortgage rates hurt demand. Contract closings, which usually occur a month or two after a contract is signed, decreased 1.5% in September

October 24, 2022

Financial Services Group

to a 4.71 million pace after dropping 0.8% in August. The median selling price decreased to \$384,800 from \$391,700 in August.

- The Conference Board reported the **index of leading economic indicators** declined 0.4% in September, the seventh straight drop. The loss was led by a decline in stock prices, consumer expectations and a drop in new orders. 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 0.2% in September after gaining 0.1% in August.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** continued to fall last week, the ninth decline in ten weeks. The index decreased 4.5% for the week ending October 14th, after falling 2.0% the previous week. **Refinancing** applications fell 6.8% to 394.6 from 423.2 the prior week. **Home purchase mortgage applications** decreased 3.7% to 164.2. Refinancing made up 28.3% of applications with an average loan size of \$275,200, while purchases average loan size was \$402,600. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.94% from 6.81% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.47%, 4.34%, 4.22% and 4.33%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -13, -12, 11, and -14 basis points respectively.

Source: Bloomberg Finance L.P.

This report has been prepared solely for informative purposes as of its stated date and is not a solicitation, or an offer, to buy or sell any security. All expressions of opinion reflect the judgment of the individual expressing the opinion and are subject to change. This report does not purport to be a complete description of the markets or developments referred to in the material. Information included in the report was obtained from internal and external sources which we consider reliable, but we have not independently verified such information and do not guarantee that it is accurate or complete. Prices, yields, and availability are subject to change with the market. There is no assurance any forward looking statements will be realized or any of the trends mentioned will continue. Nothing in this report is intended, or should be construed, as legal, accounting, regulatory or tax advice. Additional information available upon request.

October 24, 2022

Financial Services Group

Economic/Events Calendar

Monday	October 24	Sep Chicago Fed nat Activity Index (-0.10)	7:30 Central
Tuesday	October 25	Aug FHFA House Price Index (-0.6%)	8:00 Central
		Aug S&P CoreLogic CS 20-City Index (-0.80%)	8:00 Central
		Oct Conf Board Consumer Confidence (106.0)	9:00 Central
Wednesday	October 26	Oct 21 st MBA Mortgage Applications	6:00 Central
		Sep Goods Trade Balance (-\$87.5b)	7:30 Central
		Sep Wholesale Inventories (1.0%)	7:30 Central
		Sep Retail Inventories (1.2%)	7:30 Central
		Sep New Home Sales (580k)	9:00 Central
Thursday	October 27	Oct 22 nd Initial Jobless Claims (220k)	7:30 Central
		3 rd Qtr Gross Domestic Product (2.3%)	7:30 Central
		3 rd Qtr GDP Price Index (5.3%)	7:30 Central
		3 rd Qtr Personal Consumption (1.0%)	7:30 Central
		Sep Durable Goods Orders (0.6%)	7:30 Central
		Sep Durables Ex Transportation (0.2%)	7:30 Central
		Sep Cap Goods Orders Nondef Ex Air (0.4%)	7:30 Central
Friday	October 28	3 rd Qtr Employment Cost Index (1.2%)	7:30 Central
		Sep Personal Income (0.4%)	7:30 Central
		Sep Personal Spending (0.4%)	7:30 Central
		Sep PCE Deflator-YOY (5.2%)	7:30 Central
		Sep Pending Home Sales (-4.5%)	9:00 Central
		Oct University of Michigan Sentiment (59.6)	9:00 Central

Source: Bloomberg Finance L.P.

This report has been prepared solely for informative purposes as of its stated date and is not a solicitation, or an offer, to buy or sell any security. All expressions of opinion reflect the judgment of the individual expressing the opinion and are subject to change. This report does not purport to be a complete description of the markets or developments referred to in the material. Information included in the report was obtained from internal and external sources which we consider reliable, but we have not independently verified such information and do not guarantee that it is accurate or complete. Prices, yields, and availability are subject to change with the market. There is no assurance any forward looking statements will be realized or any of the trends mentioned will continue. Nothing in this report is intended, or should be construed, as legal, accounting, regulatory or tax advice. Additional information available upon request.