Stephens

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Financial Services Group

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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** edged lower last week reflecting a continued strong demand for labor. The low level of claims is closely watched by the Fed, which is looking for the job market to approach equilibrium. Currently the demand for workers far exceeds supply. Claims in regular state programs decreased 1,000 to 217,000 for the week ending October 29th, after reporting 218,000 initial claims the prior week. The four-week moving average declined to 218,750 from 219,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 47,000 to 1.485 million for the week ending October 22nd.
- The Labor Department reported that **job openings** increased in September, reflecting a very hot labor market and signaled the supply-demand gap in the labor market continues. The vast majority of openings are coming from the small business sector. Job openings increased by 437,000 in September to 10.717 million, from an upwardly revised 10.280 million in August. There are about 1.9 jobs for every unemployed person in September. The job openings rate climbed to 6.5% from 6.3% in August, well above the average of 4.5% in the fourth quarter of 2019. The quits rate remained unchanged at 2.7% in September.
- The Commerce Department reported that **construction spending** unexpectedly increased 0.2% in September, with spending higher for non-residential. Spending on residential remained unchanged in September while non-residential spending rose 0.5%. Government spending, which makes up 19.9% of construction spending, decreased 0.4% and private spending climbed 0.4%.
- The **Institute for Supply Management** reported its **manufacturing index** dropped to its lowest level since May 2020, as new orders and export orders were in contraction once again, partly due to the strength of the dollar. The manufacturing environment continues to expand, but at the slowest pace since the recovery began. The manufacturing index recorded a 50.2 in October after a 50.9 reading in September. The index reached a high of 63.7 in March of 2021. The new orders part of the index climbed to 49.2 from 47.1 in September and production climbed to 52.3 in October from 50.6 the prior month. A reading above 50 indicates expansion in the manufacturing sector.
- **ADP Employer Services** reported that employment at companies increased at a solid and better than expected pace in October, indicating demand for workers remains strong even as concerns increase about economic growth. The gain was driven by a surge in medium and small companies. Companies increased payrolls by 239,000 in October after a gain of 192,000 in September. Services employment increased by 247,000 and manufacturing employment fell 8,000.
- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 75 basis points. The targeted Federal Funds Rate is now between 325 basis points and 400 basis points. Chair Powell's message was again unambiguously hawkish, pointing out the FOMC is resolved to bring inflation down. Powell refused to signal a December downshift in the pace of hikes and downplayed any eventual downshift. Powell also indicated a higher terminal rate than the September SEP. The interest on reserve balances was increased to 390 basis points from 315 basis points.
- The Commerce Department reported the **trade deficit** widened in September for the first time in six months. The deficit increased to $73.3 billion in September from a deficit of $65.7 billion in August. **Exports** fell 1.1% to $258.0 billion and **imports** climbed 1.1% to $331.3 billion.
- Bureau of Labor Statistics reported **worker's productivity** edged higher in the third quarter after steep declines in the first half of the year, though the gains were not enough to slow the pace of labor cost growth. Productivity gained 0.3% in the third quarter after dropping 4.1% in the second quarter and plunging 5.9% in the first. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. The decline in productivity reflects a weakening economy while labor costs climb. Productivity is down 1.4% from a year earlier. **Unit labor costs** in nonfarm businesses rose at a 3.5% annual rate in the 3rd quarter after surging 8.9% in the previous quarter.

- The Commerce Department reported that **factory orders** climbed 0.3% in September after increasing 0.2% in August. **Factory orders ex transportation** fell 0.1% after edging 0.1% higher in August. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft decreased 0.4% in September after gaining 0.9% in August.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, declined in October, indicating service activity is slowing, but only at a gradual rate for now. The index showed the services sector expanded in October, but at its slowest pace since May 2020. The service ISM declined in October to 54.4 from 56.7 the prior month. The business activity pulled back to 55.7 from 59.1. New orders fell to 56.5 from 60.6. The employment index dropped to 49.1 from 53.0. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.
- The Labor Department report was mixed with clear signs of slowing in some sectors while others continue to show strong job growth. The labor market is still a long way from a level consistent with non-accelerating inflation. The jobs report is composed of two surveys, one of employers and the other of households. The employment survey showed strength in the labor market while the household survey painted a very different picture. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (employer survey) climbed 261,000 in October after gaining 315,000 the prior month. The **unemployment rate** (household survey) climbed to 3.680% from 3.493% in September. The **labor force participation rate** fell 0.1% to 62.2% in October as the labor force decreased by 22,000. The average hourly earnings increased to $32.58 from $32.46 the prior month. Weekly hours remained unchanged at 34.5 in September.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** continued to fall last week, the eleventh decline in twelve weeks. The index decreased 0.5% for the week ending October 28th, after falling 1.7% the previous week. **Refinancing** applications climbed 0.2% to 386.7 last week from 386.1. **Home purchase mortgage applications** decreased 0.8% to 160.5. Refinancing made up 28.6% of applications with an average loan size of $262,800, while purchases average loan size was $395,900. The **average contract rate** on a 30-year fixed-rate mortgage fell to 7.06% from 7.16% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.66%, 4.33%, 4.16% and 4.25%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -33, -17, 9, and -41 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	November 7	Sep Consumer Credit ($30.0b)	14:00 Central
Tuesday	November 8	Oct NFIB Small Business Optimism (91.4)	5:00 Central
Wednesday	November 9	Nov 4th MBA Mortgage Applications	6:00 Central
		Sep Wholesale Trade Sales (0.5%)	9:00 Central
		Sep Wholesale Inventories (0.8%)	9:00 Central
Thursday	November 10	Nov 5th Initial Jobless Claims (220k)	7:30 Central
		Oct Consumer Price Index (0.6%)	7:30 Central
		Oct Consumer Price Index-YOY (7.9%)	7:30 Central
		Oct CPI Ex Food & Energy (0.5%)	7:30 Central
		Oct CPI Ex Food & Energy-YOY (6.5%)	7:30 Central
		Oct Budget Statement (-$92.5b)	13:00 Central
Friday	November 11	Nov Univ of Michigan Sentiment (59.5)	9:00 Central

Source: Bloomberg Finance L.P.