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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

Economic Review

- The Labor Department reported that **initial jobless claims** climbed slightly last week but remain at a very low level. The labor market remains strong as employers try to hold on to their existing employees. Claims in regular state programs increased 1,000 to 203,000 for the week ending May 7th, after reporting 202,000 initial claims the prior week. The four-week moving average rose to 192,750 from 188,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 44,000 to 1.343 million for the week ending April 30th.
- The Commerce Department reported **wholesale inventories** rose 2.3% in March to \$840.3 billion after gaining 2.8% in February. Year-on-year wholesale inventories have gained 22.0%. **Wholesale sales** increased 1.7% in March after gaining 1.5% in February, with year-on-year sales up 22.1%. The ratio of inventory to sales remained unchanged at 1.22.
- The **National Federation of Independent Business** reported sentiment among small businesses remained unchanged at the lowest level in two years. Companies are concerned about slowing economic growth and inflation. Owners expecting better business conditions slipped to a record low. The index remained unchanged at 93.2 reading in April.
- The Labor Department reported the **consumer price index** climbed higher than expected in April. The report indicated inflation has peaked, with year-on-year inflation pulling back, but this is only due to base effects. There is no sign of a sequential slowdown in underlying price pressures. The temporary weakness in energy prices helped to contain overall inflation, but that will reverse next month given the rebound in gas prices at the pump. Inflation in core goods should continue to subside given the buildup of retail inventories, but service inflation will remain very sticky given the upward pressure on wages. The index gained 0.3% in April after gaining 1.2% the prior month. The year-on-year change in consumer prices is 8.3% in April. Service prices gained 0.8% in April after climbing 0.7% in March. Prices of commodity based manufactured goods declined 0.3% in April after gaining 2.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.6% in April after climbing 0.3% the prior month. The year-on-year change in core CPI is 6.2%.
- The Treasury Department reported a **budget surplus** of \$308.2 billion for the month of April with the government collecting \$863.6 billion and spending \$555.4 billion. This compares to a deficit of \$225.6 billion a year earlier. The current year-to-date deficit as of April is \$360.0 billion versus \$1,931.8 billion last year.
- The Labor Department reported the **producer price index** increased by 0.5% in April compared to the 1.6% gain in March. Producer price gains are slowing, indicating inflation may have reached its peak. Slower economic growth in China and slowing demand for goods in the United States should help alleviate the stubbornly high pricing pressures. The price pressures reflect a supply/demand imbalance, supply chain disruptions, and a labor shortage that has been amplified by Russia's invasion of Ukraine. Goods prices, which make up 33% of the weighting rose 1.3% in April after gaining 2.4% in March. Services, which make up 65% of the index remained unchanged in April after gaining 1.2% the prior month. Year-on-year wholesale prices were up 11.0% in April compared to 11.5% in March. The **core PPI**, which excludes volatile food and energy prices, rose 0.4% in April after gaining 1.2% the previous month, with a year-on-year gain of 8.8%. **PPI ex food, energy and trade** gained 0.6%.

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- The Labor Department reported the **import price index** slowed in April as both imports and exports pulled back from record levels and the cost of fuel declined temporarily. Import prices remained unchanged in April after gaining 2.9% in March. The cost of petroleum declined 2.9% in April after surging 19.4% the prior month. Import prices are up 12.0% year-on-year. **Import prices ex petroleum** climbed 0.4% in April after increasing 1.2% the prior month.
- The **University of Michigan's preliminary index of consumer sentiment** dropped to its lowest level in more than ten years, reflecting consumers concern about surging gasoline prices and overall inflation. Consumers are beginning to pull back on discretionary purchases as they become more reliant on credit cards. The index decreased to 51.9 in May from a 65.2 reading in April. The **index of current conditions** decreased to 63.6 from 69.4 the prior month while the **index of expectations** dropped to 56.3 from 62.5.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose for the second straight week. The index increased 2.0% for the week ending May 6th after climbing 2.5% the previous week. **Refinancing applications** decreased 2.0% to 913.6 from 932.3 the prior week. **Home purchase mortgage applications** increased 4.5% to 255.4. The **average contract rate** on a 30-year fixed-rate mortgage increased to 5.53% from 5.36% the prior week for a 30-year fixed rate loan.

Bond Market Review

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 2.58%, 2.87%, 2.92%, and 3.08%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 29, 5, 16, and 50 basis points respectively.

Economic/Events Calendar

Monday	May 16	May Empire Manufacturing (15.0)	7:30 Central
Tuesday	May 17	Apr Retail Sales (0.9%)	7:30 Central
		Apr Retail Sales ex Auto and Gas (0.7%)	7:30 Central
		Apr Industrial Production(0.5%)	8:15 Central
		Apr Capacity Utilization(78.6%)	8:15 Central
		Mar Business Inventories(1.9%)	9:00 Central
		May NAHB Housing Market Index (75)	9:00 Central
Wednesday	May 18	May 13th MBA Mortgage Applications	6:00 Central
		Apr Housing Starts(1,760k)	7:30 Central
		Apr Building Permits(1,820k)	7:30 Central
Thursday	May 19	May 14th Initial Jobless Claims (200k)	7:30 Central
		Apr Existing Home Sales (5.64m)	9:00 Central

Source: Bloomberg Finance L.P.

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