ISM Service Survey Shows Unexpected Softening

Earlier this week, the release of the ISM manufacturing survey had signaled the U.S. factory sector might be gaining strength. Since a stronger economy would theoretically keep the Fed sidelined longer, yields rose in response. This morning, the ISM *service sector* indicated weakening. The ISM composite service index, expected to increase slightly, actually fell from 52.6 to 51.4. Although this (much larger) sector of the economy has now indicated expansion (above 50.0) in 45 of the last 46 months, it was the fifth lowest service reading since the summer of 2020.

Twelve of 16 industry groups reported growth in March. Among the groups reporting contraction were real estate, and rental and leasing. Both sectors have been primary contributors to unexpectedly warm inflation readings in recent months.

The business activity index rose slightly from 57.2 to 57.4, while the forward-looking *new orders index* slipped from 56.1 to 54.4. The employment index edged higher from 48 to 48.5, but continued to signal contraction indicating companies expect to hire fewer workers in the coming months.

The closely watched *prices paid index* dropped from 58.6 to a four-year low of 53.4. Just two months earlier, this service inflation indicator registered a *much too hot* reading of 64.0. The sharp drop in reported prices by purchasing managers, along with the lack of growth in real estate and rentals hints at lower overall inflation down the line.

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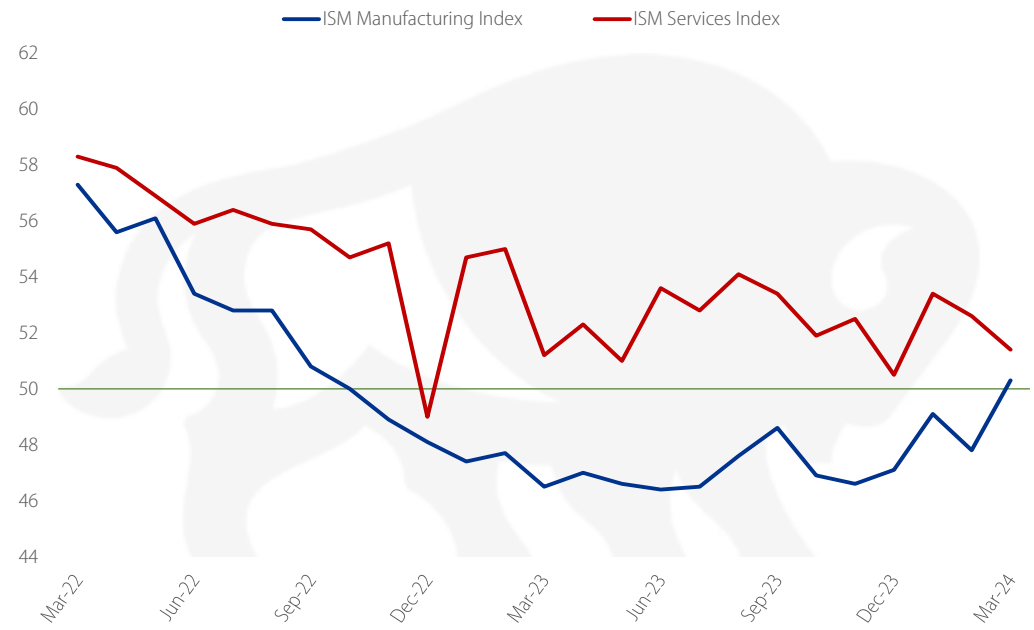
ISM Purchasing Managers Index



Source: Institute for Supply Management

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Please see disclosure starting on page 2

The supplier deliveries index dropped from 48.9 to 45.4, contracting for the second straight month, pointing to faster delivery times. Faster delivery is consistent with lesser demand. Bad is good in the sense that signs of economic weakness support rate cuts.

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Stocks are up, but bonds have sold off in early trading, which seems counterintuitive. One reason may be that this morning's stronger-than-expected ADP employment data has signaled upside risk to Friday's release of the March BLS labor report. The bond market's odd reaction may also reflect nervousness as Fed Chairman Powell is scheduled to speak later this morning.

Market Indications as of 9:56 A.M. Central Time

DOW	Up 97 to 39,268 (HIGH: 39,807)
NASDAQ	Up 78 to 16,318 (HIGH: 16,429)
S&P 500	Up 18 to 5,223 (HIGH: 5,254)
1-Yr T-bill	current yield 5.06%; opening yield 5.02%
2-Yr T-note	current yield 4.71%; opening yield 4.69%
3-Yr T-note	current yield 4.53%; opening yield 4.51%
5-Yr T-note	current yield 4.38%; opening yield 4.34%
10-Yr T-note	current yield 4.39%; opening yield 4.35%
30-Yr T-bond	current yield 4.53%; opening yield 4.50%