
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

April 22, 2022

THE FED

This week was the last chance for Fed members to make public comments before entering the quiet period ahead of the May meeting. Several Fed members came out this week in support of a more aggressive start to rate increases. Among the comments, St. Louis Fed President James Bullard said he would not “rule out” a 75 basis point (bps) increase, although that is not his base case. He added that the fed funds rate should be at 3.5% at the end of the year, 160 basis points above Fed consensus in March. Chicago Fed President Charles Evans, one of the more dovish voices on the committee, advocated for a “quick start” with a 50bps increase in May and June. Importantly, Chairman Powell endorsed the idea of a 50bps hike at the May meeting citing that inflation is “too hot.” Powell reiterated that the Fed “really [is] committed to using our tools to get 2% inflation back.”

Our Take: To its credit, the Fed has been increasingly transparent in its commitment to rein in inflation. The markets had already priced in a 50bps move at the May meeting and this week’s comments from Fed members make that move a near certainty.

CHINA

Numerous high-frequency data points are indicating that China’s economy is slowing sharply as a result of the nation’s response to COVID outbreaks in most major cities and industrial areas. The government and the PBOC announced several targeted stimulus measures and leaned on banks and institutional investors to support asset prices and economic activity. However, the PBOC stopped short of significant rate cuts or other monetary stimulus. Capital markets in China resumed their decline and have erased the gains of the past month following pledges of support from PBOC and government officials.

Our Take: The numerous lockdowns in China are having a severe economic impact that is being reflected in asset prices. While authorities want to try to offset the impact of their policies, they are limited by the current monetary tightening moves in the U.S. and Europe. Allowing rates in the U.S. and Europe to be too much higher than in China would pressure the yuan and drive inflation in China.

MUNICIPALS

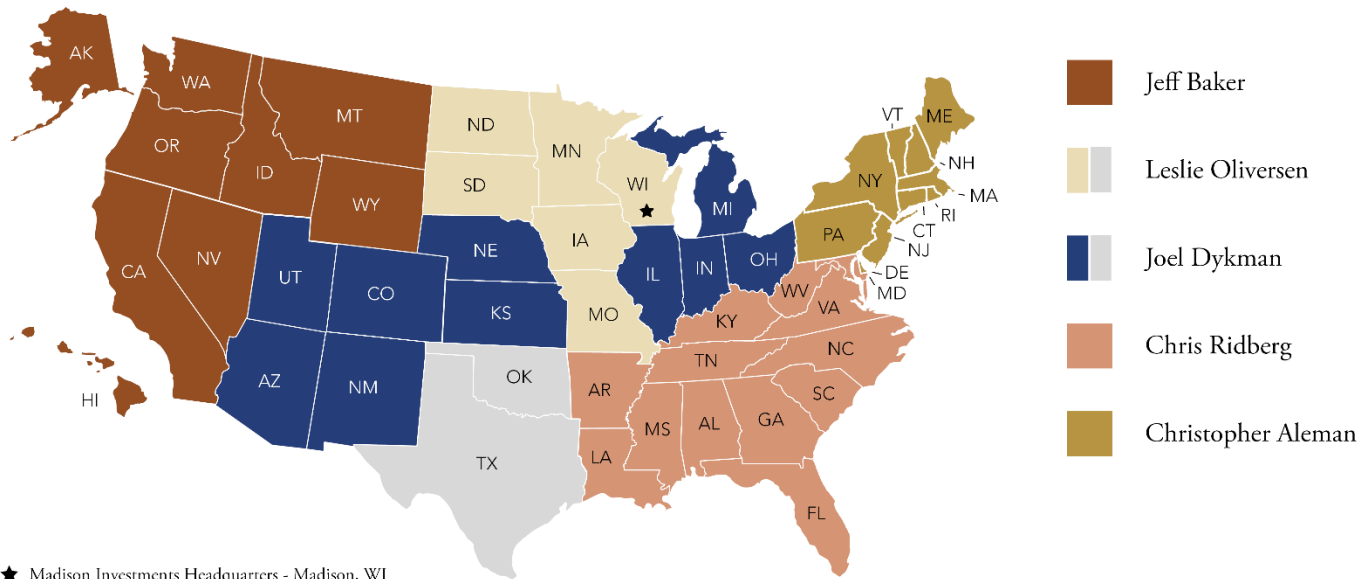
Moody’s Investors Service upgraded New York’s general obligation, personal income tax and sales tax revenue bonds from Aa2 to Aa1. Moody’s cited “agile financial management” as reason for the upgrade. In response to the upgrade, Governor Kathy Hochul touted the strength of the state’s finances along with “negotiating a fiscally responsible budget.”

Our Take: New York currently finds itself in a healthy fiscal position. The state has experienced higher-than-expected tax collections along with federal pandemic aid. Looking ahead, New York is projected to have balanced budgets over the next five years. The credit upgrade will likely lead to decreased borrowing costs for the state and is good news for bondholders.



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