
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

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THE FED

Speaking at the National Association of Business Economics Policy Conference this week, Federal Reserve Chairman Jerome Powell noted the Fed is ready to take more aggressive steps to get inflation under control. These steps include raising rates both at a faster pace (including 50 basis point moves) and to a level high enough to slow the economy. Given that the labor market is strong, and inflation is “much too high,” Powell said there is “an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level.” Throughout the week, several other Fed members echoed the Chairman’s view toward a more aggressive path on policy adjustments.

Our Take: Chairman Powell’s comments struck a decisively tougher tone than he had following last week’s Fed meeting. The Fed appears ready to follow the lead of its more hawkish members and is signaling its willingness to push rates higher in order to tame inflation, despite the risks of tipping the economy toward recession.

DURABLE GOODS

Durable goods orders fell 2.2% in February, well below the consensus estimate of a 0.6% decrease and a sharp turnaround from the 1.6% increase reported in January.

Our Take: Durable goods orders are viewed as one of the better leading indicators of economic activity. With overall orders still at elevated levels, this one-month decline in orders is not necessarily a sign of slowing business investment, but continued weakness would be cause for concern.

MUNICIPALS

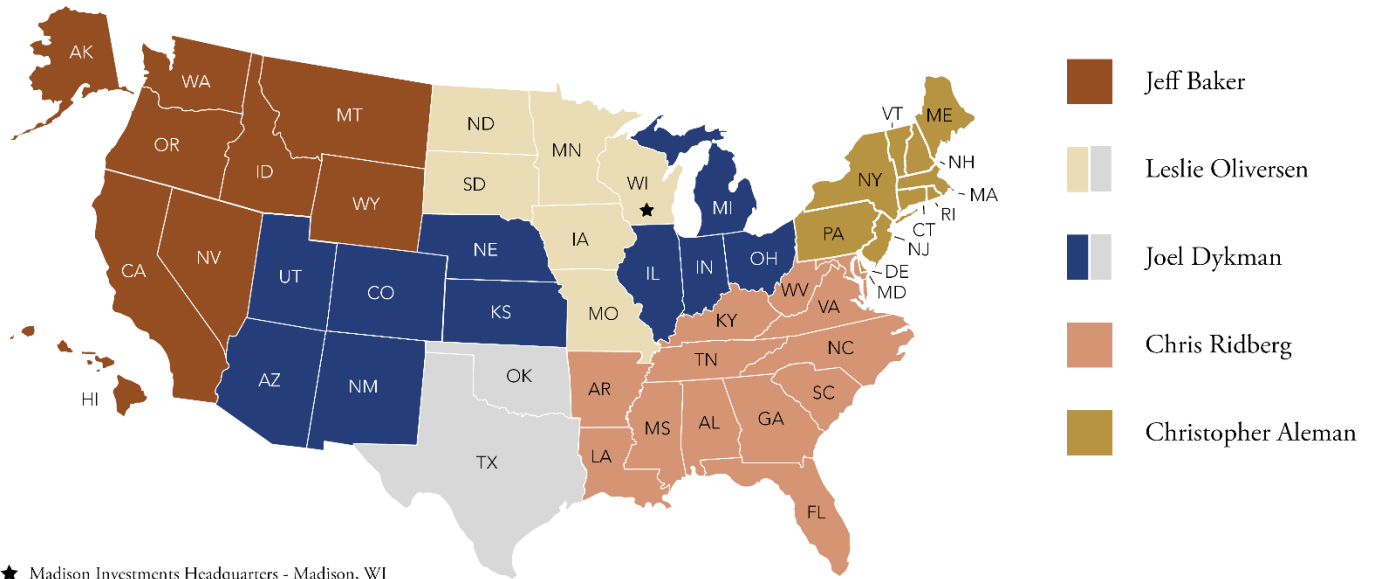
In an effort to combat the impact of rising gas prices, California Governor Gavin Newsom proposed an \$11 billion relief package, which would include a \$400 direct payment to registered car owners in the state. Several other states are introducing their own relief measures, including a temporary suspension of the gas tax.

Our Take: While these relief measures might be a short-term solution to the impact of rising gas prices, they will leave states with less money to spend on other transit-related costs, such as highway repairs and mass transit, unless offset in some other way. The long-term impact on states’ budgets remains to be seen.



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