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## WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

April 8, 2022

### THE FED

Minutes from the March 15-16 FOMC (Federal Open Market Committee) meeting indicated that the Fed plans to start shrinking its balance sheet by \$95 billion per month, likely beginning in May. The minutes also noted that future rate hikes may be in larger increments. “Many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remain elevated or intensified.” Later in the week, St. Louis Fed President James Bullard indicated that he believes the Fed is behind the curve in fighting inflation and that rates need to rise at least 300 basis points this year to catch up.

**Our Take:** The Fed is serious in its desire to fight inflation, but it remains to be seen if they are doing enough. Market volatility is heightened as a result, as evidenced by this week’s higher rates. Expect volatile markets to continue until there is a better picture of future inflation.

### CHINA

Chinese authorities have implemented lockdowns or severe movement restrictions in multiple major cities in response to rising COVID-19 case numbers, even though a large percentage of cases are asymptomatic. These cities include several financial, tech and industrial hubs.

**Our Take:** Unless these restrictions are lifted soon, they are likely to be a significant headwind to growth both in China and globally, and they are likely to add further supply chain driven inflationary pressures to the global economy.

### UKRAINE

As Ukrainian forces retook territory near Kyiv, they uncovered what appear to be extensive atrocities perpetrated by Russian forces against Ukrainian civilians. German intelligence also reported to the Bundestag that they had intercepted radio traffic discussing similar actions by Russian forces. These new developments prompted calls to remove the Russian energy sector’s exemptions from the sanctions regime. The EU agreed to boycott Russian coal, and pressure is building to boycott oil and gas as well.

**Our Take:** For sanctions to really be effective in degrading the ability of Putin’s regime to press its attack on Ukraine, they will have to include an expansive boycott of Russian energy exports. It will be extremely damaging to the European economy to implement such a boycott, especially if it is implemented before the buildout of infrastructure to support the use of other energy sources.

### MUNICIPALS

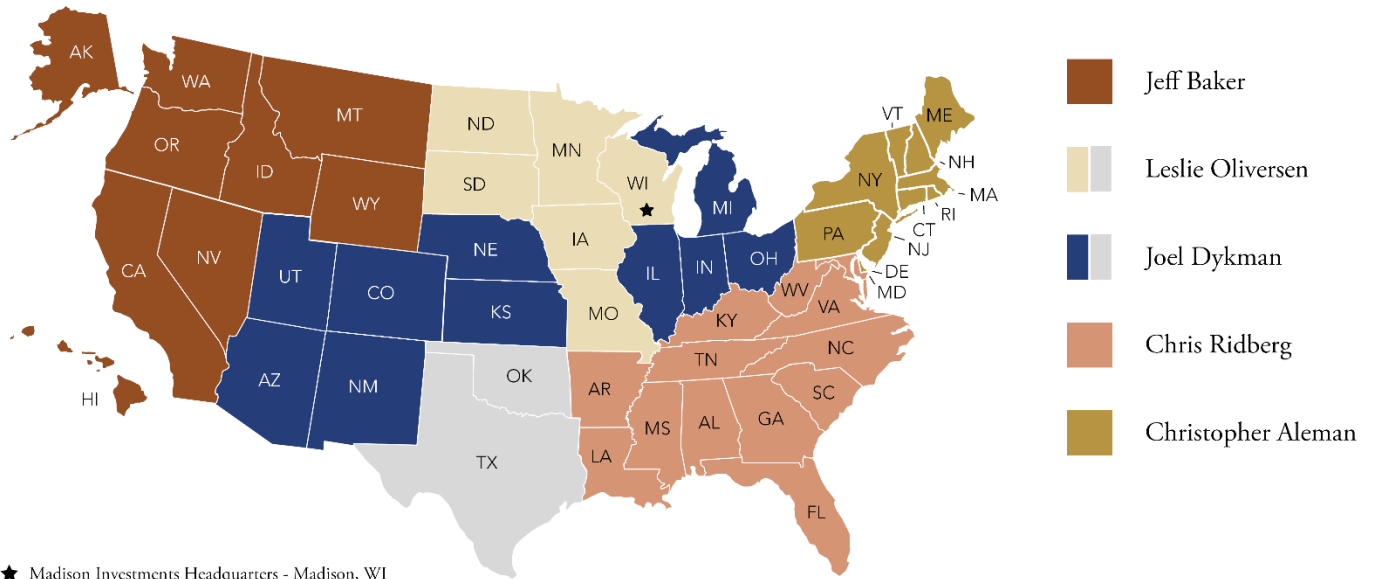
The New York Senate and Assembly reached an agreement on the state budget this week. Governor Kathy Hochul indicated that she would sign off on the budget. The \$220 billion budget includes a six-month suspension in the gas sales tax, a homeowner tax rebate, a subsidy for the new Buffalo Bills stadium and expanded childcare funding, among other initiatives. The budget, originally due on April 1, was delayed as lawmakers continued to negotiate items including changes to bail laws.



**Our Take:** New York's election year budget is 3 percent larger than last year's budget. Due to higher-than-expected tax collections along with federal pandemic aid, no tax increases or major spending cuts were included. A balanced and almost-on-time budget is good news for the state.

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