
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

April 29, 2022

GROSS DOMESTIC PRODUCT (GDP)

GDP fell at a 1.4% annualized rate in the first quarter.

Our Take: While the headline GDP report shows a slowdown in growth, the underlying components paint a more nuanced picture. A slower increase to inventory buildup coupled with an increase in imports and decrease in exports led to the negative first quarter GDP report. Real final sales, a measure of consumption, and business investment both increased during Q1 showing the economy is likely to expand in the second quarter.

INFLATION

U.S. personal consumption expenditures (PCE) rose 0.9% in March and are up 6.6% year-over-year. Core PCE, excluding food and energy, rose 0.3% for the month and is up 5.2% over the trailing twelve months.

Our Take: Energy prices drove inflation higher in March and this report likely solidifies the Fed's desire to raise rates by 50 basis points when they meet next week. Thankfully, core prices are not rising as fast as the overall index. Barring any unforeseen shocks, year-over-year inflation should gradually come down if the slower growth of core prices continues.

PERSONAL INCOME AND CONSUMPTION

Personal income rose 0.5% in March while personal consumption rose 1.1%. Real consumption, excluding the effects from inflation, rose just 0.2%. Real disposable income fell 0.4%.

Our Take: Income is not keeping up with inflation. This means that consumers must either dip into their savings or borrow if they want to maintain consumption levels. Eventually, people will be forced to cut back. While this might help to moderate inflation, it would not be good for growth.

CHINA

The Chinese government pledged to reach its 2022 economic goals while maintaining the zero COVID policy that is severely restricting economic activity. The main way that the government intends to do this is through infrastructure and housing investment.

Our Take: While China may be able to offset a lot of the negative economic impact of zero COVID with these measures, implementing them will increase debt and housing speculation. Until the current COVID outbreaks the government was actively trying to reduce these in order to make the Chinese economy more resilient and sustainable.

EUROPE

Russia cut off gas shipments to Poland and Bulgaria after those nations prohibited buyers there from paying in rubles. Payments from German and Italian buyers are due in May, and the Kremlin has threatened more embargoes if the terms for payment in rubles are not met. The EU has stated that accepting Putin's terms of payment would be a violation of EU sanctions.



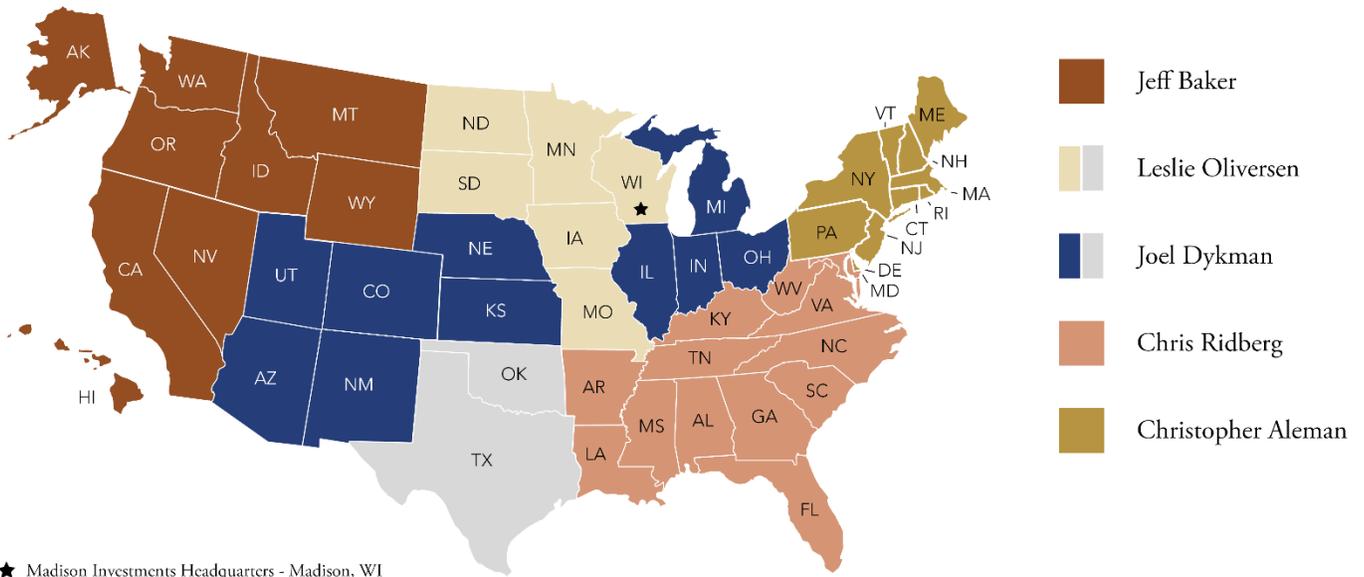
Our Take: Poland and Bulgaria are not significant buyers of Russian gas and are not as dependent on it as some other EU members. If Russia cuts off shipments to Italy or Germany it would have a much more severe economic impact on the EU, but it would also deprive Putin of his largest source of hard currency. The upcoming due dates in May will be a significant test of European unity and resolve.

MUNICIPALS

Moody's Investors Service changed its outlook on Reedy Creek Improvement District from stable to developing. Reedy Creek Improvement District, which covers 25,000 acres in Orange and Osceola Counties, is the special purpose district created in 1967 which provides municipal services to the Walt Disney World complex. Moody's cited the "uncertainty surrounding the State of Florida's recent decision to dissolve the district during a special legislative session". According to Bloomberg, Reedy Creek has about \$1 billion of outstanding debt.

Our Take: Republican Governor Ron DeSantis signed a bill into law which dissolves six of the special districts in the state in June 2023, with Reedy Creek being the largest and most well-known. Uncertainty surrounding Reedy Creek's existing debt along with questions about the future of essential services to the Walt Disney World remain. Many believe that the legislation will be challenged and changed as unwinding the Reedy Creek Improvement District would be complicated and potentially costly for the State of Florida along with Orange and Osceola Counties.

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