WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

June 17, 2022

THE FED

This week, the Federal Reserve increased its benchmark interest rate by 75 basis points to a range of 1.5% - 1.75%. This is the biggest single increase in rates since 1994 and came as a bit of a surprise to some as prior to the meeting, the Fed had clearly indicated it expected a 50 basis point increase to be appropriate. However, the committee decided to be more aggressive since inflation once again surprised on the high side of expectations as seen in last week's CPI numbers. During his post meeting statement, Chairman Powell noted that a rate increase of 50-75 basis points at the next meeting may be appropriate, as well. The Summary of Economic Projections (SEP) and the "dot plot" reflect the Fed's more aggressive stance on rates as well as its view that inflation is likely to be higher in 2022 than previous expectations. The Fed is now projecting the target range for the fed funds rate in 2022 to be 3.25% - 3.5%, up from the 1.75%-2.0% range projected in March. The median PCE inflation projection is 5.2% versus 4.3%.

Our Take: The Fed is taking a more hawkish stance in the face of inflationary pressures that have proved to be more persistent than transitory. Is the Fed late to the party? Consider, at its December meeting, the Fed's median expectation for the fed funds rate at the end of 2022 was just 0.9%. Today, the expectation is 3.4%. That is a big change in predictions in only six months and does not necessarily inspire confidence in the predictors. To its credit, the Fed says it is willing to do "whatever it takes" to get inflation under control. It remains to be seen if the Fed can act swiftly enough to temper inflation yet not so brutally as to cause a recession or worse.

EUROPEAN CENTRAL BANK (ECB)

The ECB held emergency meetings to address the issue of "fragmentation" after Italian government bond spreads relative to Bunds widened sharply following last week's announcement of imminent monetary tightening in the Eurozone. The ECB initially indicated that it would move reinvestments of maturing assets purchased under its emergency pandemic program towards the debt of peripheral nations seeing rapid increases in borrowing costs. Following this, Christine Lagarde briefed Eurozone finance ministers that the ECB is accelerating the development of an anti-fragmentation mechanism to keep peripheral nations' borrowing costs from spiking relative to those of core nations. The Euro recovered slightly from an earlier significant drop relative to the dollar.

Our Take: Rising Eurozone inflation has forced the ECB to tighten, and this has once again exposed the vulnerabilities of the Euro. As investors become more concerned about the fiscal situation of peripheral nations in a higher interest rate environment, the ECB is looking for a way to have core nations' central banks partially monetize peripheral nations' debt. Core nations, especially Germany, are unlikely to agree to this and may take legal action to block the implementation of the anti-fragmentation mechanism.

RETAIL SALES

Retail sales fell 0.3% in May. April sales were revised lower, from 0.9% to 0.7%.

Our Take: A drop in auto sales accounted for the May decline as sales excluding autos rose 0.5%. However, real retail sales are below their pre-pandemic trend. It is possible that consumers are pulling back or potentially shifting spending from goods to services. Regardless, this report points to a slowing economy.

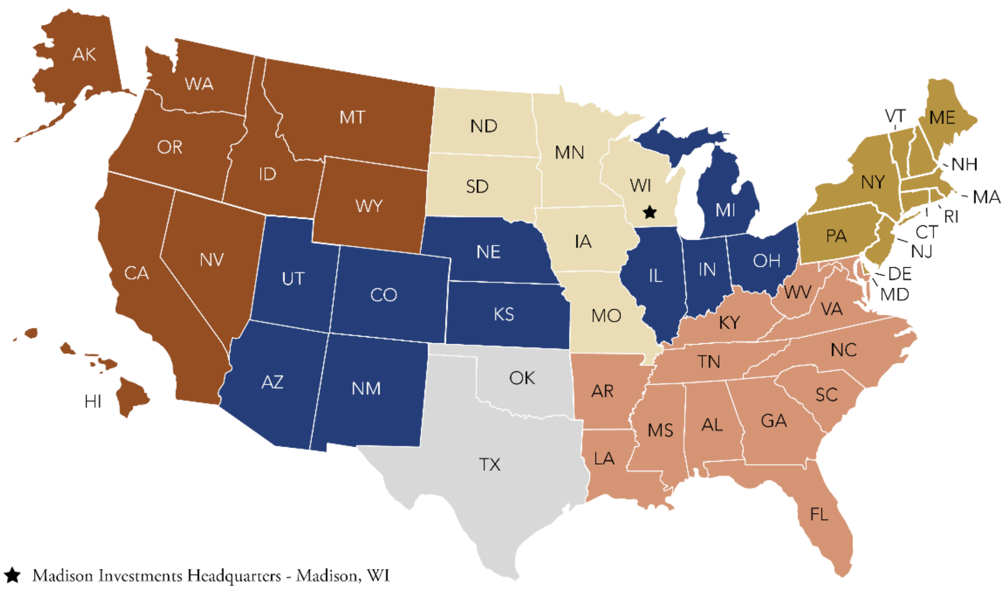
MUNICIPALS

Bank of America revised its 2022 state and local debt issuance estimate down $50 billion to $500 billion. So far this year, state and local governments have issued nearly $178 billion of debt, which is 9% less than last year. In addition, at least three municipal bond deals due to come to market this week have been postponed.

Our Take: The slowdown and postponement of new issuance should not come as a surprise given the recent volatility and rise in rates. By postponing new issuance, municipalities have a chance to reevaluate and determine if issuing new debt is still appropriate given the current market conditions. It might not make sense for municipalities to issue new debt, especially municipalities looking to refinance existing debt.

MADISON INVESTMENTS CONSULTANT & ADVISOR SERVICES TEAM

Consultant and Advisor Services Desk: 888.971.7135



- Jeff Baker
- Leslie Oliversen
- Joel Dykman
- Chris Ridberg
- Christopher Aleman

★ Madison Investments Headquarters - Madison, WI

Steve Carl
Principal, Chief Distribution Officer
608-216-9174
SteveC@madisonadv.com

Jeff Baker
Regional Director
510-237-8832
JeffB@madisonadv.com

Leslie Oliversen
Regional Director
608-216-9188
LeslieO@madisonadv.com

Joel Dykman
Regional Director
608-609-4141
JoelD@madisonadv.com

Chris Ridberg
Regional Director
704-315-8710
ChrisR@madisonadv.com

Christopher Aleman
Regional Director
210-842-2184
ChristopherA@madisonadv.com

Mark Lutz
Investment Specialist
608-216-9141
MarkL@madisonadv.com

Josh Oldenburg
Investment Specialist
608-216-9142
JoshO@madisonadv.com

Mindi Endres
Client Service
608-216-9143
MindiE@madisonadv.com

DISCLOSURES

"Madison" and/or "Madison Investments" is the unifying tradename of Madison Investment Holdings, Inc., Madison Asset Management, LLC ("MAM"), and Madison Investment Advisors, LLC ("MIA"), which also includes the Madison Scottsdale office. MAM and MIA are registered as investment advisers with the U.S. Securities and Exchange Commission. Madison Funds are distributed by MFD Distributor, LLC. MFD Distributor, LLC is registered with the U.S. Securities and Exchange Commission as a broker-dealer and is a member firm of the Financial Industry Regulatory Authority. The home office for each firm listed above is 550 Science Drive, Madison, WI 53711. Madison's toll-free number is 800-767-0300.

Any performance data shown represents past performance. Past performance is no guarantee of future results.

Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

A bund is a sovereign debt instrument issued by Germany's federal government to finance outgoing expenditures.