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

July 22, 2022

### EUROPEAN CENTRAL BANK (ECB)

The ECB raised rates for the first time in over a decade by a surprise 50bps to bring the benchmark rate to 0%. Christine Lagarde later stated that the larger move was intended to front load tightening and that it nullified previous guidance for another rate increase in September. Lagarde also laid out plans for the Transmission Protection Instrument that will aim to keep rates in peripheral nations from rising too much relative to those in core nations. The TPI does have conditions attached to it that aim to prevent monetary financing of deficits, but these conditions are vague and subjective. The euro briefly rallied but then fell again on Lagarde's remarks.

**Our Take:** The ECB has finally begun to address the growing inflation problem in the Eurozone but is moving very tentatively. The TPI seems likely to set up a future conflict between the core and Italy over compliance with fiscal conditions.

### ITALY

Draghi resigned as Prime Minister after multiple members of the governing coalition withdrew their support of his government. Italy will now hold elections this fall, and the most likely outcome is currently for a right-wing coalition to take power.

**Our Take:** The loss of a technocratic Prime Minister with lots of credibility in Brussels and the likely takeover by a combative and nationalistic regime will complicate EU and ECB efforts to hold the euro together while enforcing fiscal standard on Italy.

### RUSSIA & UKRAINE

Russia resumed deliveries of gas through the Nord Stream pipeline following completion of maintenance work. However, deliveries are at a fraction of total capacity, and Russia stated that another compressor will need to be taken down for maintenance soon, which will restrict capacity. Gazprom has declared *force majeure* on multiple gas contracts in Germany. Russia and Ukraine reached a deal to allow grain shipments from Ukrainian Black Sea ports and Russian fertilizer shipments.

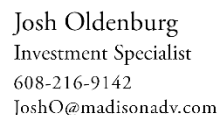
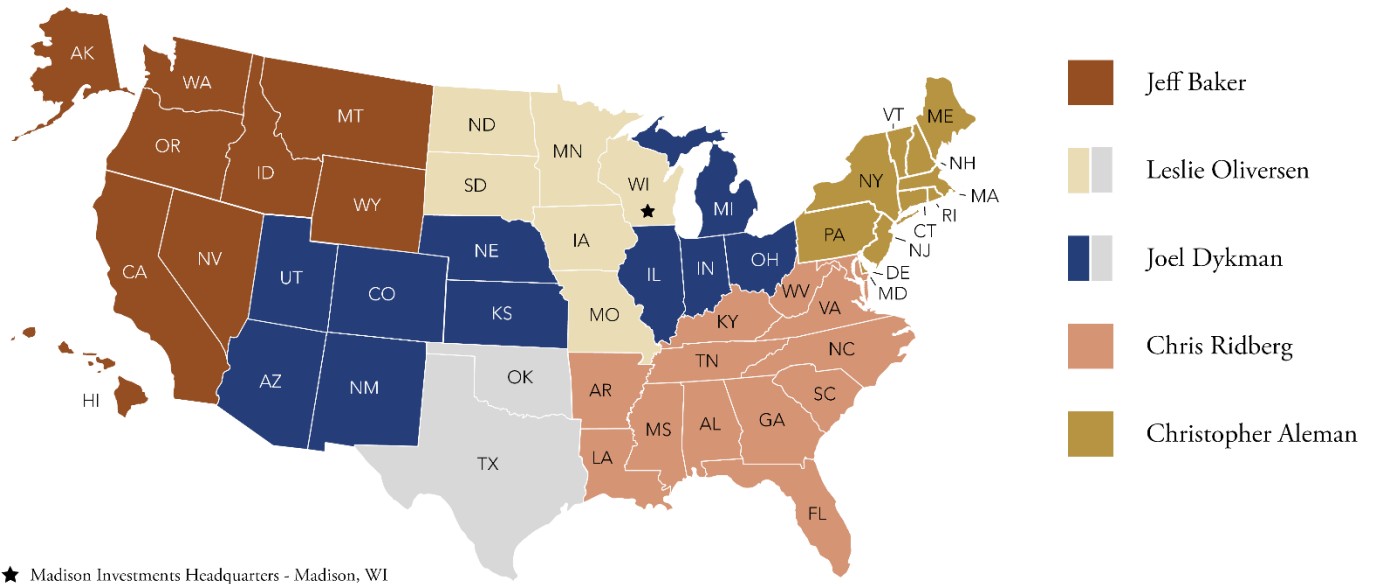
**Our Take:** Russia is restricting gas deliveries to Europe in order to prevent inventory builds ahead of the winter. Putin is likely allowing some gas deliveries to continue in order to retain the threat of a total cutoff once heating season arrives. The grain and fertilizer deal is a positive development for food price inflation, but several obstacles remain to be cleared before there are sizable shipments from the Black Sea. This could just be a way for Putin to shield himself from blame for food inflation and shortages.

### MUNICIPALS

New Jersey state officials ordered the city of Trenton to cover a \$14 million bond payment. City leaders had been blocking the payments as the city council and Mayor Reed Gusciora continue to battle over the city budget. The city has been without a budget since the end of April.



**Our Take:** State officials did what was necessary in order to force Trenton to make the debt payment, avoiding a default. Political infighting and a council member's resignation have stalled Trenton budget talks. The Trenton city council and Mayor Gusciora must work diligently to pass the overdue budget and avoid a state takeover.



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