
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

September 15, 2023

INFLATION

Consumer prices (CPI) rose 0.6% in August and are up 3.7 year-over-year. Core CPI increased 0.3% but is up 4.3% over the trailing twelve months. Producer prices rose 0.7% in August and 1.6% over the last year.

Our Take: Rising gasoline prices drove headline CPI higher, though core CPI growth did come in one-tenth higher than expected. The slightly higher CPI print is unlikely to change the minds of any Federal Open Market Committee (FOMC) voters and the markets still believe that the Fed will leave rates unchanged at their meeting next week.

EUROPEAN CENTRAL BANK (ECB)

The ECB raised their key policy rate 25 basis points to 4%. Lagarde emphasized that the rate is likely to stay at this level for an extended period of time and refused to rule out further increases if inflation does not return to the 2% target. Politicians from Italy and Portugal condemned the rate increase, and others from France and Spain encouraged the ECB to stop tightening.

Our Take: The ECB is positioning itself similarly to the Fed by trying to shift the focus from how much higher rates will go to how long rates will stay restrictive. The ECB is in a tougher position because Eurozone inflation is higher, so policy as measured by the real policy rate is not as restrictive as in the U.S. and Eurozone growth is lower. The ECB has a narrower path to a soft landing than the Fed, and the ECB is facing much more political pressure not to crimp growth.

CHINA

Chinese retail sales and industrial production both beat expectations. Home sales and prices both extended declines seen in July.

Our Take: Accelerating consumer spending and manufacturing would help support economic growth, but declines in property values and excessive leverage are still headwinds to a long term pickup in growth.

RETAIL SALES

August retail sales grew 0.6%, dramatically outpacing expectations of a 0.1% increase. Retail sales for July were revised down from previous reports.

Our Take: Revisions tempered some enthusiasm for the strong August sales report. Additionally, retail sales are not adjusted for inflation causing the headline to reflect higher inflation rather than true spending. However, the consumer is continuing to spend, and third quarter GDP is likely to be strong. If the strength continues, the hawks on the FOMC committee are likely to push for a rate hike in November.

MUNICIPALS

Moody's Investors Service revised Pennsylvania's financial outlook from stable to positive. Moody's cited the commonwealth's "improved financial position" and credited the commonwealth's budget practices and increased reserve funds as reasons for the outlook change.



Our Take: Pennsylvania has taken steps to improve its fiscal health and has been rewarded with the revised positive outlook. Pennsylvania has experienced revenue growth and has sound budget management. In addition, the commonwealth has moved money into its rainy-day fund over the last few years, including \$2.1 billion during the last budget cycle bringing the current balance to \$5.2 billion.

CONTACT

Financial Advisors

888.971.7135

Find your Regional Director on our [coverage map](#) or by visiting madisoninvestments.com/contact.

Institutional Investors and Consultants

888.971.7135

Visit us online

madisoninvestments.com

ABOUT REINHART FIXED INCOME

Quality, stability, and predictability are the hallmarks of the Reinhart Fixed Income management philosophy. We believe that successful fixed income management is a product of understanding the role bonds play in a specific client's investment strategy and developing unique portfolios to meet the objectives of the client. Reinhart Fixed Income is part of Madison Investments, an independent investment manager providing active, high-quality, and high-conviction portfolios since 1974.

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Madison Investment Holdings, Inc. acquired the fixed income management assets of Reinhart Partners, Inc. on June 11, 2021 and now employs the Investment Team that previously managed the assets at Reinhart. The Investment Team manages the assets using substantially the same strategies and objectives as at Reinhart. Performance information dated prior to the purchase reflects that of Reinhart Partners, Inc.

Quality refers to the bond ratings provided by the various third-party ratings agencies. Stability and predictability refer to the cash flow of individual securities and not to the market value or performance of portfolio holdings. There is no guarantee this strategy will lead to investment success.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond’s maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

A basis point is one hundredth of a percent.