WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

September 16, 2022

INFLATION

The consumer price index (CPI) rose 0.1% in August defying expectations of a decline in prices. Core prices, excluding food and energy, rose 0.6%. Year-over-year, consumer prices have risen 8.3%. August producer prices fell 0.1%, as expected, and are up 8.7% over the last twelve months.

Our Take: There was hope after last month's inflation report that prices were starting to moderate. These hopes were somewhat dashed this month as core prices increased at double their expected pace. The CPI report immediately sparked talk of a 100 basis point hike by the Fed after their meeting next week. Regardless of the actual size of the rate increase, there is little doubt that the Fed still has substantial work to do before inflation is tamed.

RETAIL SALES

Retail sales rose 0.3% in August. July sales were revised lower, from 0.0% to -0.4%. The retail sales control group, a figure used in GDP calculations, was flat, substantially lower than economist expectations of a 0.5% increase.

Our Take: Retail sales were relatively weak in August, reflecting a slowing economy. This report is unlikely to affect the Fed's upcoming rate decision.

RAIL STRIKE AVERTED

A strike by railroad workers was narrowly averted this week as the unions representing approximately 125,000 rail employees tentatively agreed to a new contract. The unions were prepared to strike at 12:01 am on Friday prior to reaching the agreement on Thursday morning.

Our Take: Nearly one-third of all U.S. freight moves via rail and estimates indicated that a strike would have cost the economy $2 billion per day. In addition, a strike would have likely further impacted supply chains, potentially driving up prices at a time when the economy is already facing high inflation.

MUNICIPALS

Fitch Ratings upgraded New Jersey's Issuer Default Rating (IDR) from A- to A with a positive outlook. This affects $5.5 billion of New Jersey general obligation bonds which are linked to the state's IDR. The upgrade marks the first time Fitch has upgraded New Jersey since the ratings agency started rating the state in 1992. Fitch cited New Jersey's "strong fiscal momentum of recent years and consistent policy actions to confront its long-term fiscal and liability challenges" as reasons for the upgrade.

Our Take: New Jersey has struggled with high debt levels and pension liabilities compared to other states. However, New Jersey has taken steps to improve its fiscal health by making full pension payments and building its reserves as revenue collections increased. This week's upgrade reflects New Jersey's improving fiscal situation but still leaves them as one of the lowest rated states.

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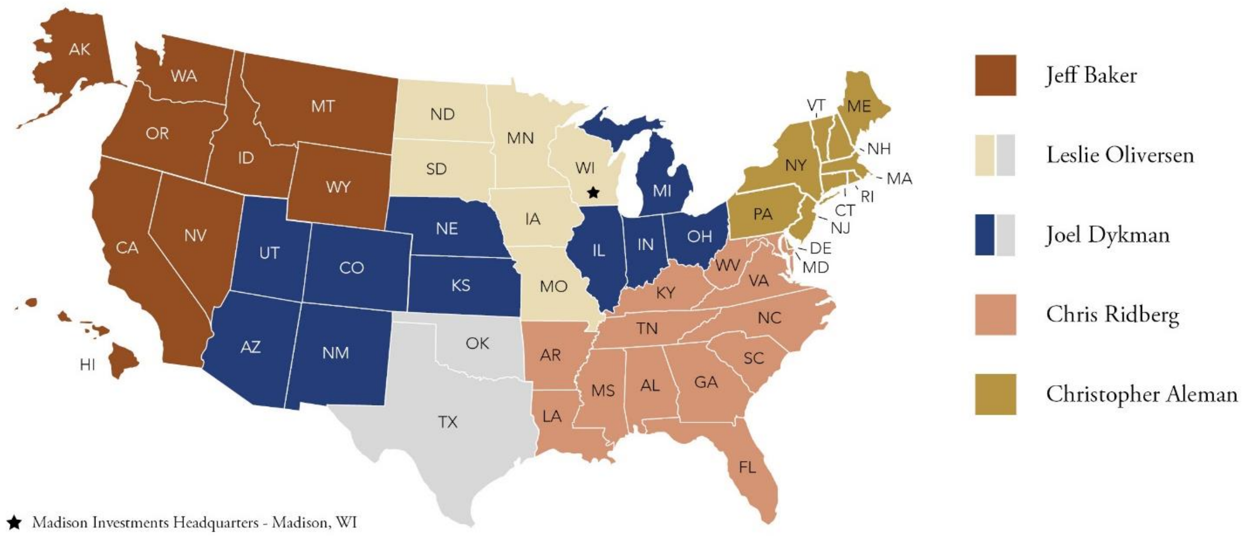

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