WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

October 28, 2022

US GDP

US real GDP grew at a 2.6% annualized rate during the third quarter. Net exports had the largest effect on GDP as imports fell 6.9% while exports rose 14.4%. Consumer spending rose 1.4% due to increased services consumption. Business fixed investment rose 3.7% while residential investment fell 26.4%. Government spending rose 2.4%

Our Take: After two negative quarters, growth is Q3 was a welcome reprieve. However, there are signs that the reprieve may be short-lived. Consumer spending grew at a slower rate than in Q2 and could continue to decline as ongoing inflation erodes purchasing power. Interest rate sensitive sectors, like housing, are declining dramatically. Large net export gains, whose contribution to GDP this quarter exceeded the total GDP gain, are unlikely to continue as the global economy weakens. The economy continues to teeter on the edge of recession.

CHINA

At the National People's Congress Xi Jinping was confirmed as the leader of the Chinese Communist Party and the nation for a third five year term. A third term breaks a precedent set by all leaders since Mao, and all senior leadership positions were filled with Xi loyalists. This outcome concentrates political power in China in Xi personally to an extent not seen since Mao. Chinese equities crashed as foreign investors moved away from China.

Our Take: Xi's consolidation of power likely means a move towards more state control of the economy, less emphasis on foreign investment and trade and a more geopolitically assertive China that seeks to shift the world order away from its current state. All of this is likely to lead to less growth in China, less of the disinflationary benefit of integrating China into the world economy and more potential for conflicts between China and the U.S. and its allies.

MUNICIPALS

Fitch Ratings upgraded the City of Chicago's General Obligation bonds from BBB- to BBB with a positive outlook. This marks the first upgrade by Fitch due to an improved financial position in 24 years. The 2010 upgrade by Fitch was due to a methodology change. Fitch cited the city's "improving pension funding practices" along with the city's "ability to institute structural budget measures that improve its capacity to respond to future cyclical challenges" as reasons for the upgrade.

Our Take: Chicago has taken steps to improve its fiscal health. Chicago has increased the funded ratio on its pension funds and is working to reduce debt. Chicago's 2023 budget is expected to have the lowest budget gap in 16 years. The Fitch upgrade is good news for bondholders and may lead to decreased borrowing costs in the future.

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