WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

November 4, 2022

THE FED

In a largely anticipated move, the Fed raised interest rates by 75 basis points to a target range of 3.75% - 4.0%. This is the fourth 75 basis point increase in as many meetings. The markets reacted positively to the FOMC statement that it will "take into account…the lags with which monetary policy affects economic activity and inflation" in the hope it signals Fed tightening is getting near its end. That hope lasted until the start of Chairman Powell's post-meeting press conference where he stated there is "a ways to go" before interest rates are at "sufficiently restrictive" levels. He added that incoming data since the last meeting suggests the terminal fed funds rate will be higher than previously expected. Powell noted that what's "far more important now" is how long rates will remain high and reiterated the Fed will "stay the course until the job is done."

Our Take: The markets were intently looking for signs of a pivot to a less restrictive policy. Any ambiguity found in the Fed statement was cleared up by Powell during the press conference. The Fed views the risks as asymmetric, where the risk of tightening too much is outweighed by the risk of doing too little. The Fed remains committed to its fight against inflation. Rates are going higher and will remain higher until that battle is won.

EMPLOYMENT

Nonfarm payrolls rose by 261,000 jobs in October, exceeding economists' expectations. Revisions to the last two months' reports added an additional 29,000 jobs. The unemployment rate rose from 3.5% to 3.7%. Average hourly earnings rose 0.4% and are up 4.7% year-over-year. The labor force participation rate declined from 62.3% to 62.2%.

Our Take: The jobs market continues to hum along, much to the chagrin of the Fed. The Fed is hoping to slowly increase unemployment to aid their efforts to contain inflation. So far, that is not happening.

EUROPE

October Eurozone inflation was up 10.7% from a year earlier while GDP slowed to 0.2% growth in the third quarter.

Our Take: As difficult as it will be for the Fed to reduce inflation in the U.S. without causing a recession, the European Central Bank's path to a soft landing is even narrower.

MUNICIPALS

Municipal issuance in September and October declined by 40% compared to the same time period last year. In addition, a recent Ramirez & Co. report estimated that 2022 issuance will reach $370 billion, which is 20% lower than last year. Current year issuance has reached $321 billion according to Bloomberg.

Our Take: September and October have historically been strong months for new issuance. However, municipalities may be delaying or postponing new issuance, as it may not make sense to issue new debt or refinance existing debt amid rising rates and volatility in the current market environment.

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